DAMIANI

2009/2010 Annual Report

DAMIANI

2009/2010 Annual Report


DAMIANI
DAMIANI
DAMIANI

Guido Grassi Damiani,
Chairman & CEO

Chairman's Letter to Shareholders

Dear Shareholders,

As you know, the crisis that began in the second half of 2007 and extended through 2009 is considered by many as the worst since 1929. The luxury goods sector and especially the jewelry market also experienced a significant drop in sales, while the world's leading diamond mining company decreased its turnover by over 45% as compared to 2008. Such a scenario has clearly had important consequences on the Damiani Group, which has had to operate in an unexpected and unpredictable context.

Our Group faced and is still confronting the crisis by acting quickly, with the objective to remain strong and ready for new growth. We have worked to streamline operations in an altered context, controlling our level of debt, which has remained virtually unchanged in respect to March 31, 2009, while implementing debt restructuring actions developed in order to sustain it and limiting the risk associated with interest rate fluctuation.

We have worked to reduce our operating costs, without compromising the quality of our products, and to protect our brand equity, all the while remaining focussed on the future.
In fact, we have opened new markets and stores, as the Damiani boutique on popular Old Bond Street in London and the Bliss store in Mumbai.
We have further implemented our mono-brand boutiques network, which is visible today on the most prestigious luxury goods streets across the world. It's important to remember that, even in a context of volatility in world consumption, our direct stores have continued to satisfy economically, performing much better than the wholesale channel and receiving customer appreciation.

The continued integration of Rocca, acquired in September, 2008, has allowed and will enable us to strengthen our retail brand sales, including those licensed in Italy and, in the future, abroad. We are again exhibiting at the fair in Basel, the most important venue for the watch and jewelry industry worldwide, and have a new stand in a prestigious location there, where, among other things, we presented the new line of Damiani jewelled watches inspired by our most loved brand collections.

The Group has also signed licensing agreements with leading international brands for the design, creation and distribution of lines of jewelry. Besides being collaborations that will yield profits for the Group in the near future, we consider these agreements a true reflection of our role, our professionalism and our expertise, all of which are hard to equal and make our company the ideal partner with which to start initiatives in the jewelry sector.

Our group, which has always been attentive to societal causes, in 2009 launched "The Clean Water Project, an international humanitarian project for the benefit of African peoples, created together with Sharon Stone and presented in Tokyo in November. With the American actress, we have designed a collection of jewels, some profits from which will be donated to humanitarian organizations involved in digging wells to extract fresh water for African villages.
While taking great care how we manage staff, we are hiring strategic managerial figures of proven experience to strengthen our Group and promote growth in return.
Finally, in an overall macroeconomic situation that remains uncertain and with demand still very volatile, we have preferred to plan the 2009/2010 budget in a context of increased caution and have evaluated significantly adjusting asset funds (inventory and receivables).


82

In conclusion, I believe that the depth of this downturn has left the global economy hit hard and that it will take time for growth and employment return to levels before the crisis. However, it's worth noting that we are seeing a repositioning of purchasing habits of consumers who place an increasing emphasis on "value for money ": the consumer asks for luxury products with improved quality, craftsmanship and creativity and especially durability. I believe that this new consumer attitude, looking for products with intrinsic value and durability, can be positive for the jewelry sector in general and for the Damiani Group in particular. Therefore, our ability to create unique jewelry of the highest quality, our leadership position in the Italian market, the strong determination with which our entire operation works, make me firmly believe our Group will know how best to benefit from the recovery in world consumption. Additionally, we will be ready to seize every opportunity to increase market share and open ourselves to new challenges with the same enthusiasm and innovative spirit that has made us special for almost a century.

Guido Grassi Damiani

1924 The Group is established

1976 The Group wins the first of eighteen Diamonds International Awards

1986 The product portfolio expands with the creation of the Salvini brand

1996 Control of the company passes to the third generation of the Damiani family

1997 The internalization process starts with the construction of foreign subsidiaries

1998 Acquisition of Alfieri & St. John S.p.A.

2000 Creation of the Bliss brand

2001 Voluntary auditing of annual reports. ERP/SAP implementation

2006 The brand portfolio extends further with the acquisition of the Calderoni brand

2007 Damiani at the Milan Stock Exchange

2008 Acquisition of Rocca 1794, the high-end jewellery and watch retail chain leader in Italy

2009 Commercial and Licensing agreements with prestigious international brands of luxury and fashion made in Italy

2009 Commercial agreement with Birks & Mayors

Our History

Our Beginnings

The Damiani Group was founded in 1924, in Valenza, Italy, in the heart of the goldsmith district, world-renowned for its jewelry production. Founder and master goldsmith Enrico Damiani quickly became the jeweller to the most important families both within and outside Italy, creating one-of-a-kind pieces and masterworks of highly refined craftsmanship.

The 60's-90's

In the 60s, Damiano, Enrico's son, started the process of industrial growth and commercial expansion through the promotion of design research and technical innovation, two elements that would have a strong effect on future collections. Thanks to this activity, the Damiani brand products became more known in the high-range jewelry market in Italy and abroad. They were an ideal combination of tradition and innovation, characterized by both the esthetic quality of the jewels and their production, wholly Italian.

The 1980's

Between the end of the 1980s and the 1990s, the Damiani Group successfully started a new style of communication, which associated the Group's product image to well-known personalities. Damiani became one of the first jewelry companies in the world to use celebrity endorsements. With portraits done by photographers of worldwide renown, the movie stars hand-picked by Damiani gave life to advertising campaigns that had a great impact, winning prizes and recognition for their innovative style of communication.

From a Family Business to a Managerial Entity

Starting from the end of the 1990s the Damiani Group accelerated its transformation from a family-run company to an organized entrepreneurial reality thanks to the insertion of managerial figures of high standing in key directional roles. In 2001, with the goal of maximizing business processes to sustain the development of the Group, the informational system ERP SAP was put into place. This same year the Group also began voluntary auditing of its annual reports.

International recognition

In 1976 the Group received its first Diamonds International Award, the most prestigious prize in the sector, recognizing best design and the best creation of jewels with diamonds. Over the years, Damiani won the prize another 17 times, along with 4 world Oscars won by Calderoni. The Group received few italian and international awards both for product design and communication, among these, the prestigious "Key Awards" for the most original advertising and business awards for the excellence achieved by the Group in every business field.

Our Brands

Over the years, other prestigious brands were added to Damiani: Salvini in 1986, and in 1998, Alfieri & St. John, a brand dating back in Italy from 1977. 2000 saw the creation of Bliss, promoted through an ad hoc company, New Mood S.p.A., controlled by Damiani Group. In 2006 the Group acquired Calderoni, a historical brand of high-end, fine jewelry.

International Expansion

At the end of the 1990s Damiani Group opened its first international subsidiaries in Switzerland, the United States, and Japan with the goals of starting distribution in the main foreign markets, safeguarding its territory and establishing profitable relationships for business development. In 1997 Damiani International BV was set up with headquarters in Amsterdam, as well as an operative branch in Switzerland with control over Damiani Japan K.K. in Tokyo, which was then started in 1998. Damiani USA Corp. was established in New York two years later. Today each subsidiary represents a real and true operative headquarters with the typical workings of a structured Group with a worldwide presence.

The Sales Network

Besides the outlets present in foreign markets, the Group has numerous points of sale characterized by a concept in line with the style of communication and the image of individual brands. The Group has 82 points of sale throughout the world and many brands on the main Italian and international fashion streets and 2500 wholesale customers.

November 2007: Listing on the Italian Stock Exchange

2007 brought a new challenge for the Group-being listed on the Italian Stock Exchange, an important step in our growth process and an affirmation of Damiani as one of the main operators in the international jewelry market.. Today Damiani is one of the very few high-end jewelry companies in the world to have reached this ambitious milestone.

The purchase of Rocca

In September, 2008 the Group purchased full control of Rocca, the high-end jewelry and watch chain leader in Italy and one of the few in the world which is the first distribution brand of the Group and sells all the Damiani Group brands. Rocca is present in Italy with boutiques in the most important fashion streets in the main italian cities.

Commercial and licensing agreements

During 2009 the Group signed commercial and licensing agreements with prestigious brands in the luxury and fashion sector, Ferrari, Ferré, Jil Sander, Maserati, Maison Martin Margiela, for the design, creation and distribution of jewellery lines.

Guido Grassi Damiani,
Chairman & CEO

Silvia Grassi Damiani,
Vice President

Giorgio Grassi Damiani,
Vice President

The Third Generation

Gabriella Grassi Damiani,
Honorary President

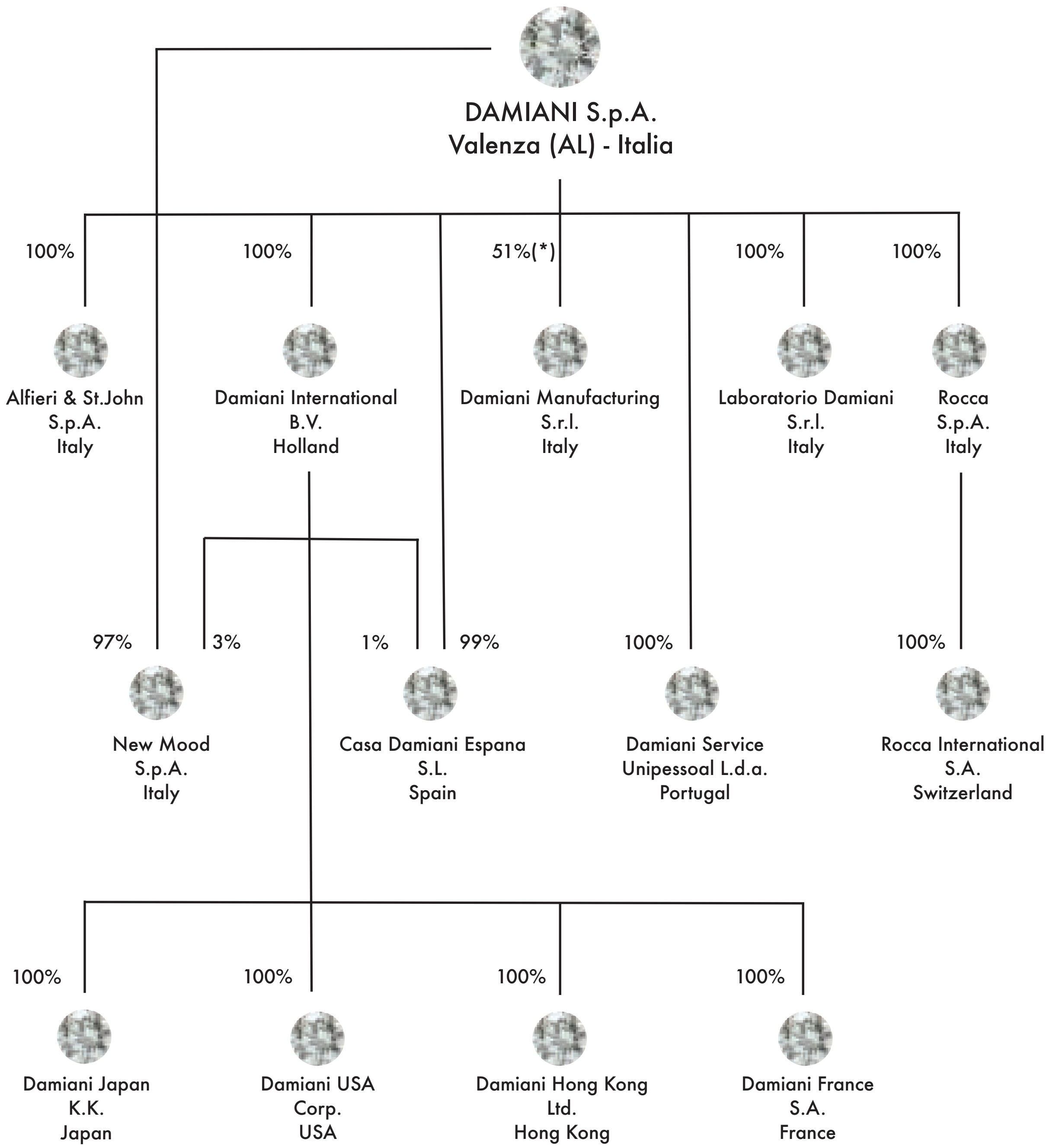
Creativity, design, and entrepreneurship are the elements which make up the professional DNA of the Damiani family, together with a great passion for the work they do, which has been passed down the generations and which still today characterizes the third generation of the family, currently at the helm of the Group.

Guido Damiani is the President and C.E.O., while his brother Giorgio and sister Silvia are both Vice Presidents. Honorary President of the Group is their mother, Gabriella, a solid link between the second and third generation not to mention a person of great charisma.

Having literally grown up amongst jewels and work tools, which sometimes replaced toys for them, the Damiani brothers were in their grandfather's company from a very early age. Over the years they acquired experience in the craftsmanship of jewelry as well as in the purchase of gold, diamonds, and pearls.

After the premature death of their father in 1996, the three siblings went ahead to run the company covering various responsibilities in a harmonious and synergetic way, placing their trust in the guidance of the current President and C.E.O.

The third generation continues the tradition of development and entrepreneurial spirit, which characterizes the company in the design of collections and production techniques, as well as in distribution and communication strategy.



(*) Il 49% is held by Christian and Simone Rizzetto, both currently Damiani Manufacturing S.r.l. directors, with control over production, administration and finance.

Damiani Group

Damiani S.p.A., the head company of the Damiani group, is a historic leading company in the Italian market of the production and commercialization of high-end designer jewelry, with brands of absolute prestige-Damiani, Salvini, Alfieri & St. John, Bliss, Calderoni and Rocca, the high-end jewelry and watch chain, purchased in September, 2008.

Today the Damiani Group is present in Italy and in the most important countries in the world through a wide distribution network, organized through controlled companies which preside over the European, Middle-east, American, and Asian markets: Damiani International BV, Damiani USA Corp. and Damiani Japan K.K.

Damiani Group has a production structure located in two establishments situated in Valenza, Italy and production in outsourcing mainly in the Valenza district.

The distinctive characteristics of the Damiani Group are:

• An almost century-old tradition in jewelry making, developed in the heart of the gold district of Valenza with which the Damiani Group has always maintained an extremely strong bond.

• The very well known Damiani brand, present in the most exclusive and important main streets in the world, through a network of monobrand stores.

• The strong complementary mix of the brands in our portfoli - Calderoni, Damiani, Salvini, Alfieri & St. John, Bliss and Rocca - which allow us to be present in most market segments, thus satisfying the demands of different kinds of consumers.

• The recognized quality of products and raw materials used - quality which has historical origins in the world of jewelry.

• The recognizable and exclusive design of our collections.

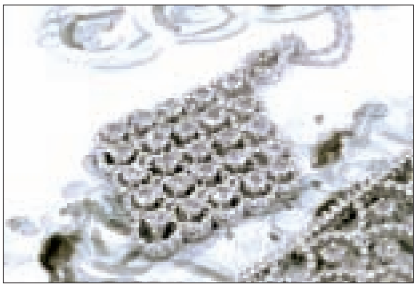
• The innovative strategy of marketing and communication.

• The proven experience of our management.

The Group's offerings are focused on jewelry and cover most market segments, in order to provide our clientele with an ever-more complete range of jewelry at various price levels.

Since 2008, the Group has also owned Rocca, the high-end jewelry and watch chain, unique in Italy for distributing prestigious, high-quality watches and jewelry. It is a historically-known brand that reflects a precious world of exclusivity where the value of each creation stems from passion, dedication and know-how.
Founded in 1794 with over 200 years of experience in high-end watchmaking and jewelry, Rocca once was the official supplier of the House of Savoia and is proud of its current presence in major Italian cities on the most prestigious fashion streets.
Rocca's history has always been characterized by the "culture of what's precious, " meaning a blend of technical mastery, innovation and passion for the world of watch-making to skilfully satisfy the desires of each client. Towards this end, Rocca closely monitors market trends and other product lines of jewelry and watches made by major global brands.
Rocca has also tried and will continue to try to strengthen its Group retail brand sales, as well as those licensed in Italy and, in the future, abroad.

Values



Tradition

Each Damiani creation represents the highest expression of Italian tradition in high-end jewelry. Made completely by hand with great attention to detail, Damiani jewels interpret tradition with a spirit essential to Group identity.

Quality

Damiani is always synonymous with the high-end tradition and Made in Italy. It's classic look, always contemporary, is based on the quality of its gems and on the precision and refinement of its manufacturing. Damiani expresses a balance that makes all their collections eternal.

Know-how

Master Italian goldsmiths since 1924. Each piece of Damiani jewelry, even the most seemingly simple one, springs from the deeply passionate work of artisans with precious know-how, who are masters in maximizing the quality of gems, the purity of the line and the uniqueness of precious jewels, transforming them into eternal objects, capable of transmitting the emotion, history, and passion which animate each and every piece.

Design

The high level of design that characterizes each piece of Damiani jewelry is the result of the work of the creative team of the Group, which expertly puts together the masterly technique of the artisan, innovation and the esthetic taste that renders each creation unique.

Ethics

All suppliers chosen by Damiani Group belong to a strict nucleus of accredited companies. In particular the diamonds suppliers in compliance with the Kimberly Process, respect UN resolutions for the certification of the provenance of diamonds exclusively from legitimate sources which are not involved in the financing of conflicts, and answer to indisputable conditions of respect and ethical observance regarding work, the market and, first and foremost, people.


DAMIANI
MONTE NAPOLEONE
SANT' ANDREA

DAMIANI

Started in 1924, it has made its mark on the Italian and international markets with a brand which is synonymous with the high tradition of Made in Italy.

Each piece of Damiani jewelry is the result of deeply creative work, exclusive design, and careful attention paid to form, the quality of the gems used and the precision of the workmanship. This is jewelry known for its high level of finish and exceptional attention to detail, due to a quality control process which assures that all the jewelry is made according to the very highest standards. During Baselworld, one of the largest and most important events of the watch and jewellery industry, which has been in march 2010 in Switzerland, we presented the new line of Damiani jewellery watches, inspired by the most renowned collections of the brand, created with a unique personality and with innovative elements in gold, diamonds, rubies and sapphires and in particular the new collection Belle Epoque. In perfect balance between design and elegance, made even more precious with unusual technical and esthetic details that make them real masterpieces of goldsmith and watch-making, the Belle Epoque collection is designed for a refined woman who is able to extend herself beyond limits in search of the true essence of luxury.

The Salvini brand was founded in 1986 to exploit business opportunities, covered a domestic distribution range complementary to Damiani's and soon had a distinct product and communications identity.
It represents classic jewelry for the modern woman, with Italian style and taste in a world of jewelry defined by tradition, the quality of materials used and jewelry manufacturing.
History, classicism and tradition are here re-visited in a modern key for the refined and elegant woman who has found a new dimension in simplicity to compliment her view of everyday living.

The brand Alfieri & St. John, launched in 1977 thanks to the intuition of Carlo Ciarli (the creative and advertising man and founder of Giò Caroli) was acquired by the Damiani Group in 1998 with the goal of enlarging the brand portfolio.

In recent years Alfieri & St. John has followed a strategy of completion of the range, putting the more classic range of products next to models of design, while maintaining the recognizability and the style which makes the brand stand out.

With its mission to offer a wider range and diversify its product line strategically, today Alfieri & St. John is a versatile brand that stands apart from the rest of the market.

The Bliss brand, launched by the Group in 2000, is meant for a mostly younger target, proposing modern and elegant jewelry which interpret current trends and design with particular attention paid to men's collections.

The jewelry, realized with not only precious materials but also steel and other innovative materials, is distinguished by forms which respond to current trends.

Bliss products have two complementary "souls"- one modern line, for which steel and innovative materials (for example, carbon and ebony) are used together with diamonds, and another more precious line, which uses gold, diamonds, and other stones, with the objective of reaching a diverse and highly-sought-after group of consumers.

CALDERONI
MILANO 1840

ROCCA
1794

Calderoni Gioielli was founded in 1840 in the heart of Milan. The store, founded by Adone Calderoni under the arches of Duomo Square, was for decades the only real jewellery shop in Milan and supplied the British Royal Family, nobility, maharagas, sultans and high society. Since 1943 it has been located in Via Montenapoleone, the internationally prestigious fashion area.

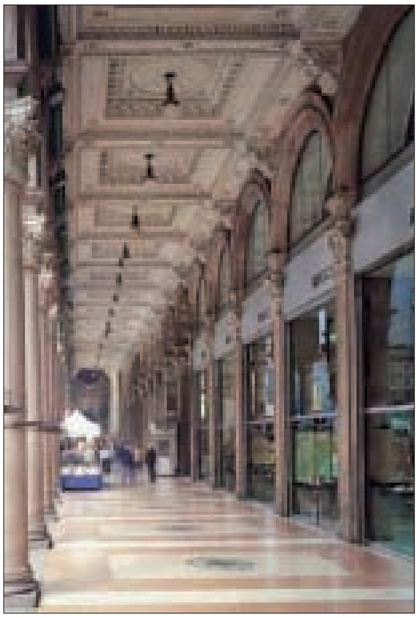
Calderoni creations are special for their impeccable balance between novelty and tradition, classic and modern, experimental touches and the exaltation of more consolidated values.

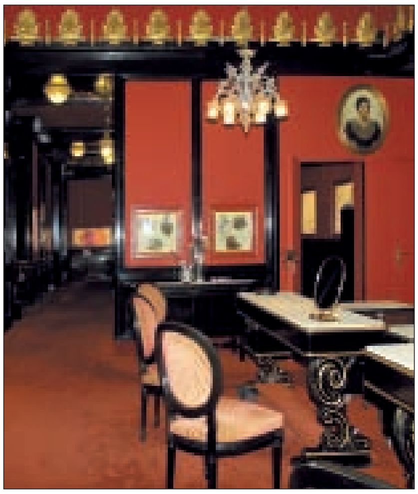
In 2006 the Damiani Group purchased the brand aiming to re-launch it, using its great tradition and taking advantage of the experience gained in the re-launch of the Alfieri & St. John brand. Calderoni continues to interpret the role of refined jewels, strong in tradition with renowned craftsmanship, positioned on the high end of the market, where a classical sense of definition understands how to be surprisingly actual.

The Rocca family began its master craftsman tradition of watch-making long ago in 1794, later becoming the official supplier of the Royal palace. It is among the most important Italian importers of Swiss watches and over the years has included among its boutique clients historical figures like Cavour, Garibaldi, D’Annunzio, Verdi and Pirandello.
Rocca is actually a leading high end retail chain in Italy and one of the few in the world.

All the Rocca points of sale are located on the most prestigious streets, synonymous with luxury and elegance. It has antique jewelry shops that have a fascinating feel of long gone times, in squares and historical centers or in contemporary style boutiques. For Rocca, the relationship with the client does not end with a sale.

Rocca offers its clients only the very best and known brands of jewelry and watch making in the world. Among these, naturally, is the Group Damiani brand, which, after purchasing the Rocca chain in September 2008, has been able to considerably increase its sales network and increase its single brand market penetration.





Licensing and commercial agreements

Ferrari

A licensing agreement for a line of jewelry and luxury items sponsored by Ferrari, the italian brand most famous in the world and ambassador of high-end Made in Italy.
Damiani is partners with the prestigious house represented by the Prancing Horse to produce and market a special line of jewelry, pen and precious objects. Sales will be in the Rocca multi-brand chain, in selected stores and in Ferrari Stores worldwide.

Gianfranco FERRÉ

A partnership agreement to produce a new line of jewelry sponsored by Gianfranco Ferré. The collection, designed in collaboration with designers responsible for product development at Damiani, was presented to an international audience last September at the Women Gianfranco Ferré Spring/Summer 2010 fashion show.

Gianfranco Ferré Jewellery Collection, mainly dedicated to women, is available at Gianfranco Ferre mono-brand boutiques and franchises worldwide.
The agreement also provides for distribution in Rocca stores (owned by the Damiani Group) and in the best jewelers.

The collection, available in gold or silver combined with diamonds and colored stones, is aimed at a sophisticated audience.

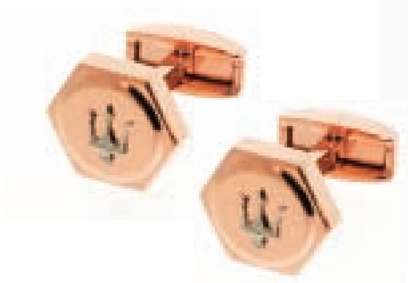
JIL SANDER

A strategic licensing agreement with the Damiani Group to create a line of jewelry and watches sponsored by Jil Sander, which were presented last Fall / Winter 2009. Under the agreement, the Damiani Group, one of the biggest names in Made in Italy jewelry, is the exclusive licensee for the design, production and worldwide distribution of collections of Jil Sander jewelry and watches. The collections are sold worldwide in Jil Sander jewelry boutiques, in Rocca jewelry stores owned by the Damiani Group and in selected jewelry shops.

MASERATI

A license agreement for the first line of jewels from the prestigious car makers of Modena.
Damiani will design, produce and market a special line for Maserati jewelry inspired by the world and style of Maserati.
The marketing will take place at selected multibrand jewelers in the commercial network of the Damiani Group and at Maserati dealerships worldwide.

In addition to collaborating with jewelry, Damiani and Maserati have already identified and created synergies to have the two brands work in partnership, including marketing and communications. This partnership is particularly interesting for two companies based on Made in Italy style, who have built a solid base of recognition and appreciation worldwide based on the quality and history of their respective brands and values.



Maison Martin Margiela PARIS

Based on a commercial agreement Damiani designed, produced and sold two collections for Maison Martin Margiela, whose brand is part of the Only the Brave Group of Renzo Rosso, was presented.
The collection, identified with the number 12, has been available since last autumn exclusively in Martin Margiela boutiques and a select number of resellers.

DUCATI

A license agreement for the first line of jewelry from the best known Italian motorcycle company.
Based on a collaboration Damiani Group, has created a special line of jewelry, inspired by the world, mood and fame of two wheel movement, for Ducati, one of the most famous motorcycle companies in the world. Sales will take place in selected multibrand jewelry stores, through the Damiani Group sales network of dealers and Ducati resellers Group worldwide.

The organizational model

Damiani Group products are conceived, realized, and commercialized according to an organizational model common to all Group companies characterized in line with the big companies operating in the luxury goods sector by a rigorous control of the value chain. For each brand the organizational model can be subdivided in the following phases:

Market Analysis and Product Creation

Market analysis is the preliminary activity carried out by the Group to identify product needs; on the basis of what emerges from such research the creation and development of given pieces begin. With this phase, which is carried out with the help of our Marketing Department, the creative activity becomes concrete in the realization of designs which are then transformed in prototypes.

After careful selection and revision the CEO is called upon to approve the prototypes which, if they are approved, are then put into production and into the market, At this point, the Marketing function then works to define the sales price and the definitive prototype, complete with technical and cost parameters, is then given over to production and logistics for its passage to the productive cycle.

To support these activities the company has created software which allows for the management and monitoring of all phases, from the prototype to its introduction to the collection.

Purchasing raw materials

The Damiani Group is proud of its history of selecting raw materials, which are mostly precious stones (mainly diamonds), gold and pearls.

Precious stones
The Group purchases rubies, emeralds, sapphires and mostly diamonds only “conflict free”.

Gold
The purchase of precious metals is mostly in gold through banking institutions, which cover approximately 90% of the Group’s needs; the remaining 10% is handled through the so-called “metal banks.”

Pearls
The main markets that produce pearls are in Australia, Japan and Polynesia. The Damiani Group buys mainly from Japanese suppliers who cultivate them and with whom there has been a business relationship spanning decades.

Production

The Group uses both foreign production entities and its own plants in Valenza.
For jewels with the Damiani, Salvini and Alfieri & St. John brands, the production is domestic in the goldsmith
district of Valenza, while for Bliss, a part of the jewelry and steel is produced in Asia.

Quality control

The Damiani Group pays particular attention to the quality of its jewels during the entire production cycle thanks to the work of a specialized team that continuously checks to guaranty a uniform standard of quality on all the product lines.

Distribution

The Damiani Group distributes its products mainly through two channels: retail, represented by 35 mono and multi brand points of sale managed directly by the Group; wholesale, which includes 47 among monobrand stores, franchises, multibrand indipendent, chains and distributors. The Group distributes its products worldwide through over 2,500 re-sellers.






The communication

Pioneers and innovators

The Damiani Group has been a pioneer in the jewelry sector in pursuing among the first jewelers in the world, with a brand policy that employs innovative marketing and communication tools that over time have contributed to its fame.
Starting at the end of the 1980s, a communication style was researched and implemented with the use of famous personalities.
These endorsements were photographed by the best photographers and associated with Damiani Group products.
Most endorsements came from the world of cinema and entertainment in general, which is consistent with the strategic vision of the Group and respects the affinity certain stars have with the brand.
Among those endorsing the brand are personalities such as Isabella Rossellini, Brad Pitt, Nastassja Kinski, Milla Jovovich, Gwyneth Paltrow, Francesca Neri, Sharon Stone, Raoul Bova, Alessandro Del Piero e paris Hilton.
As a consequence of the innovative style of Group communication, the quality and appeal of products and personal relationships the Damiani family maintains with famous people, the jewels are frequently worn at public events by endorsers in the international star system.


DAMIANI
HANDMADE IN ITALY SINCE 1924
METROPOLITAN DREAM COLLECTION
RINGS IN FOUR DIFFERENT COLORS OF GOLD: PINK, YELLOW AND THE NEW BROWN AND BLACK.

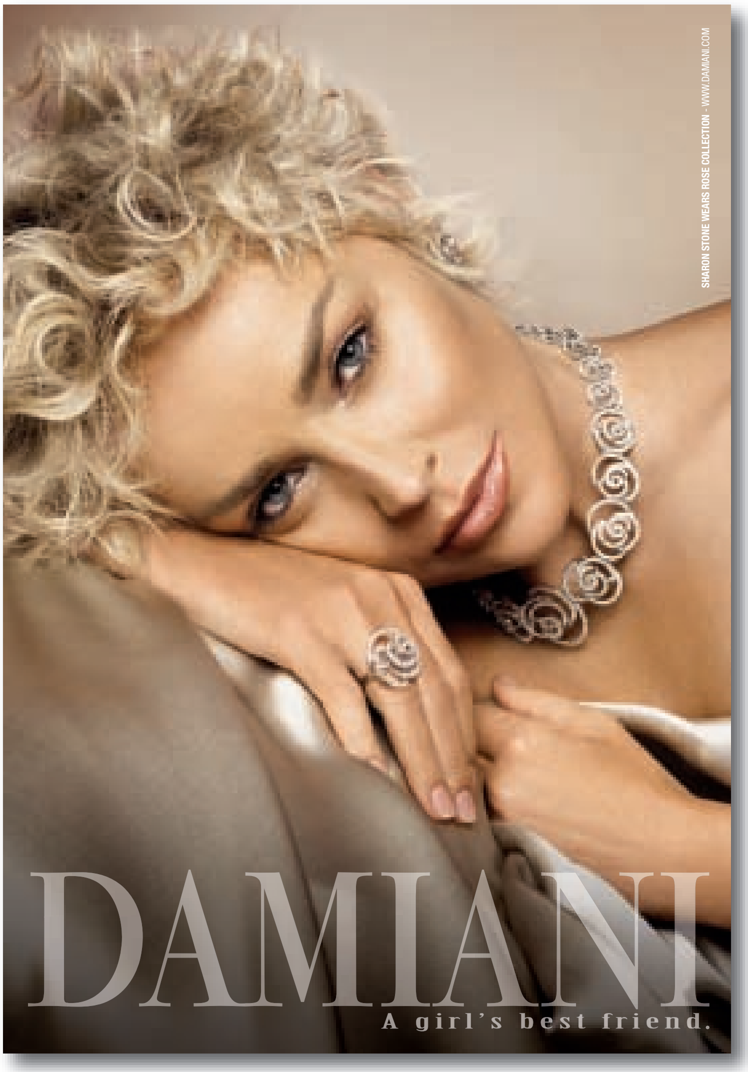
In 2009 Sharon Stone, new face of the Group since 2008, interpreted, proud and seductive, a feminine icon who enlivened an advertising compaign with genuine impact. The effect was one of synthesis, modernity and colors that trace the profile of a woman aware of her natural and timeless beauty. It was similar to the nature of Damiani jewels, which reinterpret the classic and re-energize it.

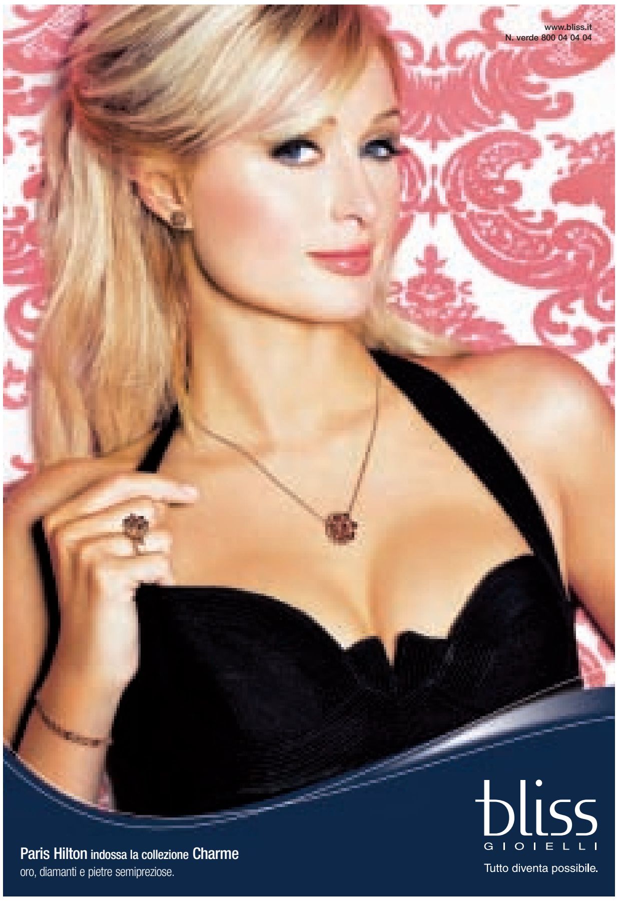
On the facing page is the campaign for the Metropolitan collection: creativity as clear impact expressing the strong ties between urban style and jewels. It speaks to city women and their urban style.

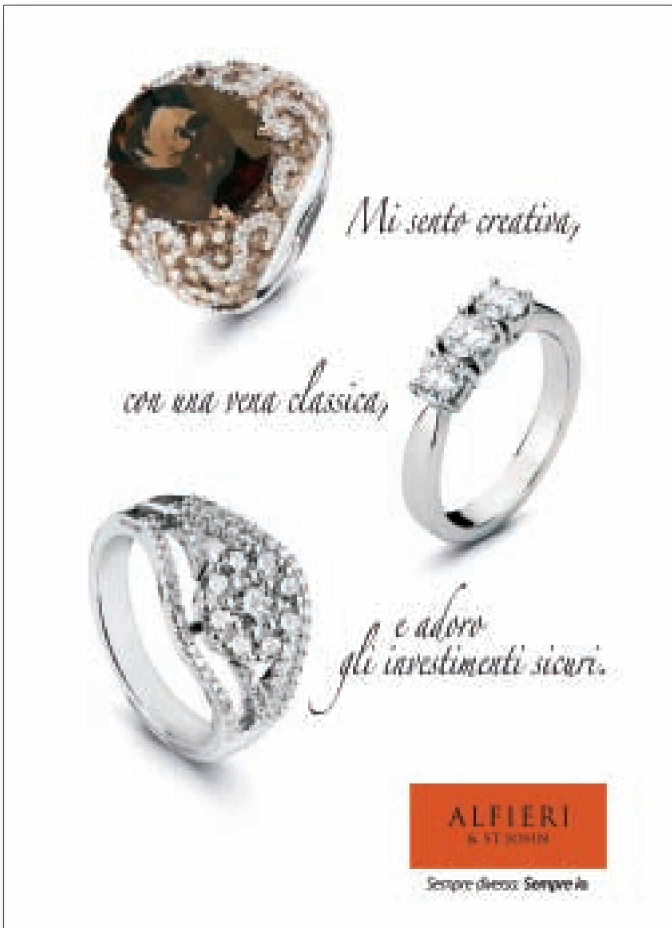
Salvini and Bliss have also continued their publicity activities with campaigns that have enriched the pages of major Italian and international magazines, once again helping to spread brand awareness in all the countries where the Group is active.

The Bliss brand, in particular, has been key in a publicity campaign last Fall in cinema and on television. Two spots, two different situations, characterized by a single innovative claim: "Every day is precious," to emphasize that every day is like a precious Bliss jewel.
The first TV commercial features a young couple during a moment of daily life: he surprises her by romantically giving her a precious Bliss jewel to show that his love grows day by day.

The second spot highlights a woman looking in the mirror and admiring a Bliss ring she's just purchased from the PAPER collection, since buying a Bli9ss jewel is a spontaneous and natural gesture, like an everyday activity.







Advertising campaigns 2009 of Salvini, Rocca, Bliss and Alfieri St. John

Damiani creates the Harlequin Fantasy Bra

Italian jewelry house Damiani has been chosen by Victoria's Secret to create the brand's annual diamond Fantasy Bra. The $3 Million Harlequin Fantasy Bra debut in the Victoria's Secret Christmas Dreams & Fantasies Catalogue on October 21st.

The Harlequin Fantasy Bra designed by Damiani for Victoria's Secret is a masterpiece that exemplifies perfectly, the exquisite design and craftsmanship for which the 85 year-old Italian jewelry house is known around the world. In order to manufacture this creation a team of fifteen highly skilled and experienced artisans worked for over 800 hours in the Damiani workshop in Valenza –a city in the Northwest of Italy where the company was founded in 1924, and is known for its centuries-old jewelry manufacturing tradition.

More than an exquisite piece of jewelry, the Harlequin Fantasy Bra can be deemed an extraordinary feat of engineering. The base of the diamond bra is the Victoria's Secret Very Sexy ® Convertible bra which can be worn five ways. Each link of the intertwining 18 Kt. gold harlequin patterned net that is affixed to the bra was mounted individually and moves independently, perfectly adjusting itself to the body, while staying in place.

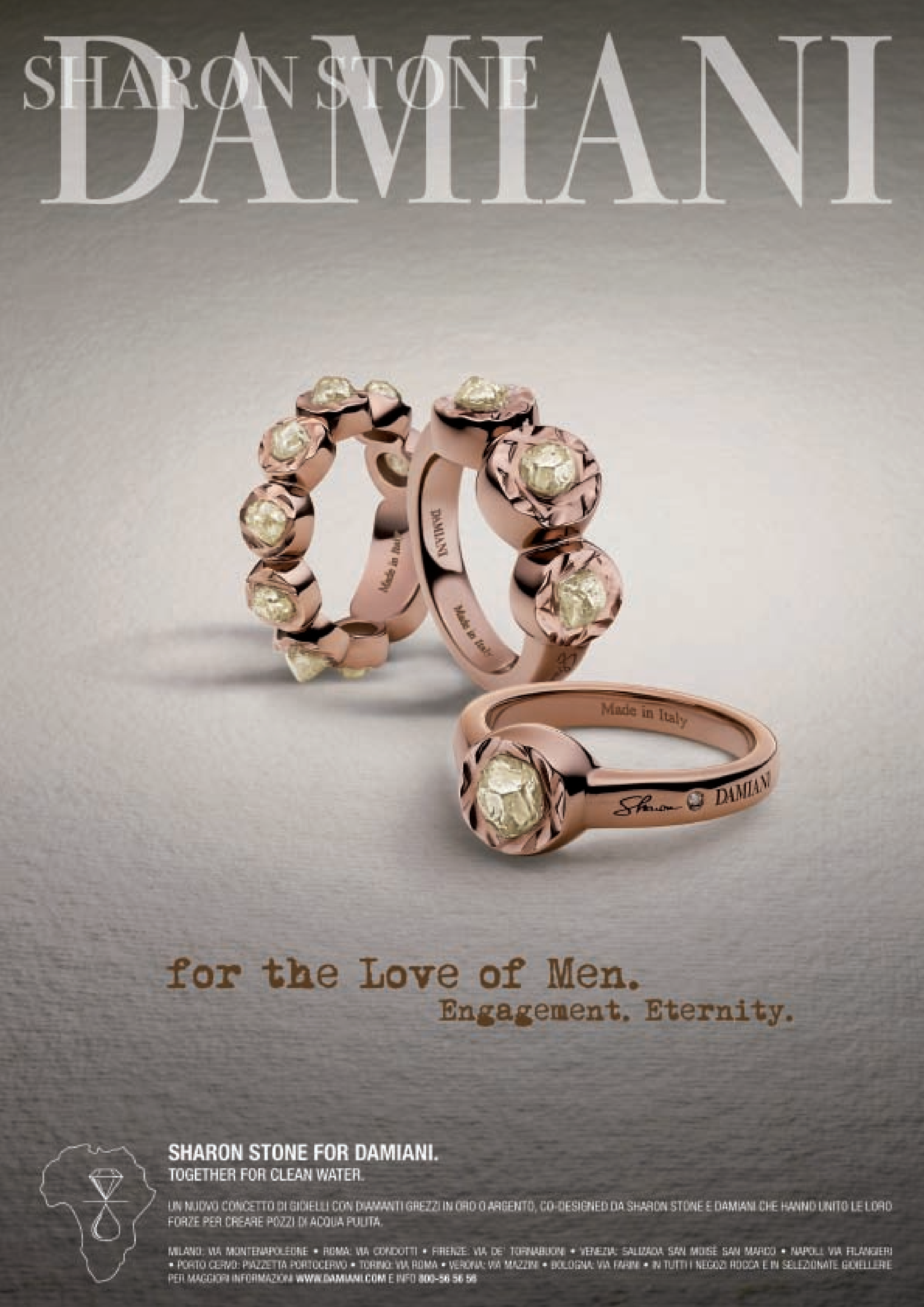
Once the frame of the bra was assembled, it was then embellished with 2,355 white and cognac diamonds –set by hand, each one at a time, for a total of nearly 150 carats. The spectacular accent of the piece is a rare 16 carat heart-shaped diamond, in a rather unique champagne color. The finishing touch in this exquisite piece of wearable jewelry was the burnishing of the gold. It was done through a painstaking process of covering each one of the stones with an enamel solution –to protect and preserve the light and sparkle of the diamonds. Once the stones were protected, the piece was submerged in a rhodium bath to create the unique burnishing effect. The solution was then removed and the final result is the striking contrast and beauty of the diamonds against the darkened gold.

The same process was used to treat the feather-like gold elements that line the bra. Each feather was mounted and sewn by hand, one at a time and treated in the same way to simulate a unique natural color pattern.

An interesting fact is that if all the feathers were lined up together, they would cover a distance of over three feet. The careful hand-crafted detailing of Damiani's artisans allows for the piece to be very comfortable on the model and to adjust to her body shape.

Once the piece was finished, it was polished using ultra-sound. The black satin under piece that lines the bra can be removed, thus allowing it to be mounted onto another type of bustier or on an evening gown. The magnificent result is a new masterpiece, the Harlequin Fantasy Bra, valued at $3million.

Victoria's Secret Angel Marisa Miller wore the Harlequin Fantasy Bra at the Victoria's Secret Fashion show, which aired Tuesday, on the CBS Television Network. The event has been broadcasted all around the world and obtained a great media success.

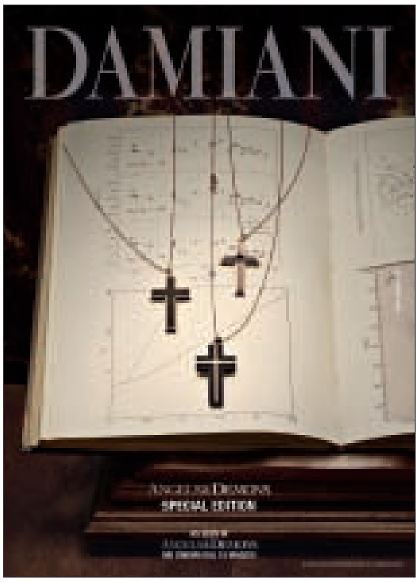

SHARON STONE
DAMIANI
DAMIANI
Made in Italy
Made in Italy
Made in Italy
DAMIANI
for the Love of Men.
Engagement. Eternity.
SHARON STONE FOR DAMIANI.
TOGETHER FOR CLEAN WATER.
UN NUOVO CONCETTO DI GIOIELLI CON DIAMANTI GREZZI IN ORO O ARGENTO, CO-DESIGNED DA SHARON STONE E DAMIANI CHE HANNO UNITO LE LORO FORZE PER CREARE POZZI DI ACQUA PULITA.
MILANO: VIA MONTENAPOLEONE • ROMA: VIA CONDOTTI • FIRENZE: VIA DE' TORNABUONI • VENEZIA: SALIZADA SAN MOISÈ SAN MARCO • NAPOLI: VIA FILANGIERI • PORTO CERVO: PIAZZETTA PORTOCERVO • TORINO: VIA ROMA • VERONA: VIA MAZZINI • BOLOGNA: VIA FARINI • IN TUTTI I NEGOZI ROCCA E IN SELEZIONATE GIOIELLERIE
PER MAGGIORI INFORMAZIONI WWW.DAMIANI.COM E INFO 800-56 56 56

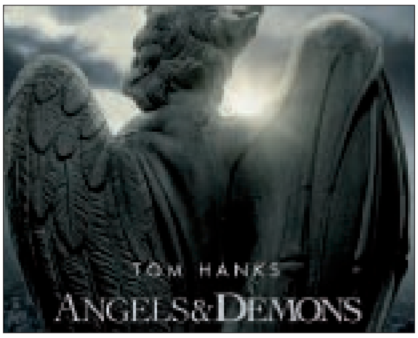
Damiani and Sharon Stone Together for an important humanitarian project

Damiani and Sharon Stone: a bond that has often brought the home of fine jewelry and the beautiful American actress together has now united them to announce a major humanitarian project.

Always attentive to social issues, Sharon Stone, a star seriously involved in and sensitive to the difficulties of the planet's people most in need,

has requested that Damiani be at her side to launch a Damiani international project for aid to people in Africa.
The project revolves around the decision by the Damiani family and by Sharon Stone to build wells for extracting clean water in African villages and where it is necessary thus contributing to reducing the very high rate of mortality, especially amongst children.
To achieve this important and ambitious objective, Damiani worked with Sharon Stone to design the jewellery line "Sharon Stone for Damiani", that includes several collections and that it is characterized by a new jewellery concept based on the use of rough diamonds. The first collection was presented in Tokyo.
Part of the proceeds from sales will be donated to non-government and no-profit humanitarian associations that raise funds to build wells. The Damiani Group has had a special relationship with the actress Sharon Stone, who, together with Giorgio Damiani, the Group's vice president, traveled extensively in Africa to assist people there living the dramatic reality of having difficulty finding fresh water. Damiani and Sharon Stone are making an active and noble effort to help these people living in dire conditions.



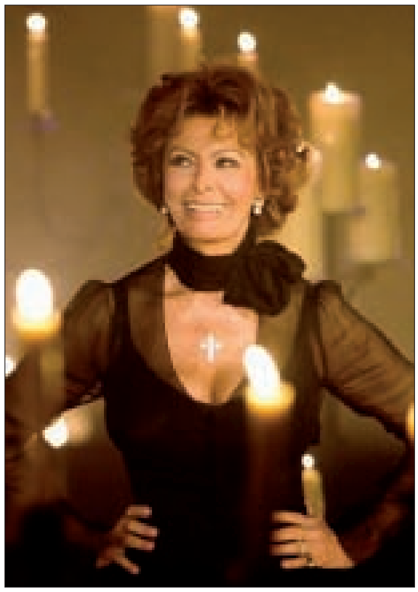


Angels & Demons

Damiani was chosen by Sony Pictures to participate in a project to create a partnership which gave rise to the exclusive jewelry worn by the cast of the film "Angels & Demons," based on the best-selling novel by Dan Brown. Mystery, enigma, suspense and emotion have inspired Silvia Damiani, who worked with the famous American stylist, Daniel Orlandi, on creative and stylistic research. Representing a dip into the past, into history and legend, this precious jewelry unveils a cryptic message in its skilful and accurate processing of gold, careful and precise finishing and its search for absolute perfection. Silvia Damiani and Daniel Orlandi have spent months consulting archives and historical documents to research symbols like the tradition of the cross, enriching and enlivening them with meaning expressed as a new style. The actors in the film's cast wore jewelry in gold and precious stones made especially for the shooting.
From jewels created for the film, Damiani was inspired to create the collection "Angels & Demons."

Sophia Loren sparkles in Damiani for "Nine"

Sophia Loren, the most famous Italian Diva, wore Damiani jewels in Nine's film and during the première in Rome.
Damiani jewels played a lead role in the Rob Marshall's musical, inspired to the "Otto $^{1}/_{2}$", Federico Fellini's film: Sophia Loren wore Damiani must collections and the "Sophia Loren" Collection - inspired by herself - throughout the film.
In the context of sponsorship relationships the Damiani family has maintained with international stars over the years, which underlie the unique communication strategy the Group utilized before others adopted it, there are many celebrities who choose to wear our jewelry simply because they love it.



Tilda Swinton wears Damiani in the movie "I am love."

Tilda Swinton - Oscar winner in 2008 - wore Damiani jewelry in the film "I Am Love" by Luca Guadagnino, presented in September 2009 at the 66th International Film Festival in Venice.

Damiani Jewels for the G8

Damiani was chosen as the pre-eminent ambassador of the “Made in Italy” to enrich the recent G8 summit of July 2009, with jewels chosen by the Prime Minister of the Italy to pay homage the Heads of State and leaders of international politics who participated to the meeting.
Starting from great, award-winning actresses, famous faces in media and entertainment, as well as leaders at the G8 global political summit.

Vogue Joyas Award for the Valencienne bracelet

During the month of June 2009 the Damiani Group was awarded the Vogue Joyas prize with the Valencienne bracelet, a masterpiece of diamonds mounted on white gold with details of bronzed gold. The contest, organized by the prestigious Spanish edition of Vogue, has reached the sixth edition and awards the best jewellery creations for creativity and realization.
The jury, made up of famous figures in the worlds of fashion and design, has named the Damiani bracelet, Valencienne, as the best in the "Joya Internacional" show.

Bocca di squalo, bracelet

International awards

Over the years, the Group has won prestigious Italian and international awards in product design, communication and entrepreneurship, including the prestigious "Key Award" for the most original advertising, and awards for business, including the 1999 award "Entrepreneur of the Year" and the “City of Milan” award in 2004, a recognition made by citizens dedicated to the reputation Milan enjoys in the world as well as, most recently, an award for “Made in Italy” entrepreneurship.

In particular, as regards product design, Mouth Shark, a bracelet designed by Gabriella Damiani, won in 1976 the first Diamonds International Awards, considered the most important prize in the jewelry sector.

The same prize was also won by the Group another seventeen times in the past. Added to these are the four Diamonds International Awards conferred in the past to the Calderoni brand, acquired by the Group in 2006.

Eden, bracelet

The Wheel, bracelet

Hong Kong Lights, necklace

Bloody Mary, necklace

Sahara, bracelet

Blue Moon, earrings

Damiani Worldwide

The distribution network

The Damiani Group distributes its products mainly through two distribution channels:
- the retail channel made up of 35 mono and multi brand points of sale managed directly by the Group.
The Group, so as to raise and consolidate its brand image started to create an international network of flagship stores and mono-brand points of sale known for stylistic aspects precisely coherent with the brands and communication style of the Group. The actual concept applied to implement the Damiani points of sale was conceived by an architect and designer of international fame, Antonio Citterio.

- the wholesale channel: includes 47 mono-brand franchises, distributors, indipendent multi-brand jewelry, chains of jewelry shops and department stores.
The Group distributes its products throughout the world through over 2,500 re-sellers.

As of July 2010, the Group has 82 points of sale centered on the main fashion streets in Italy and in the world.

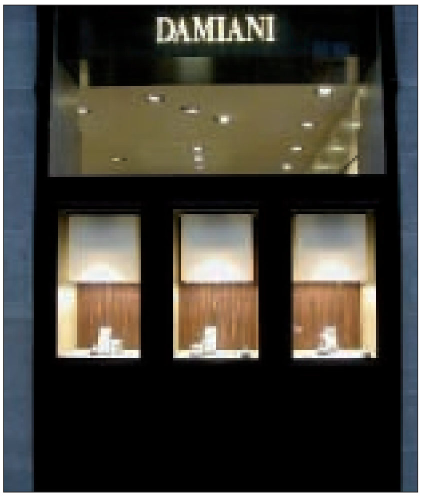
Damiani, Milan

Damiani, Tokyo

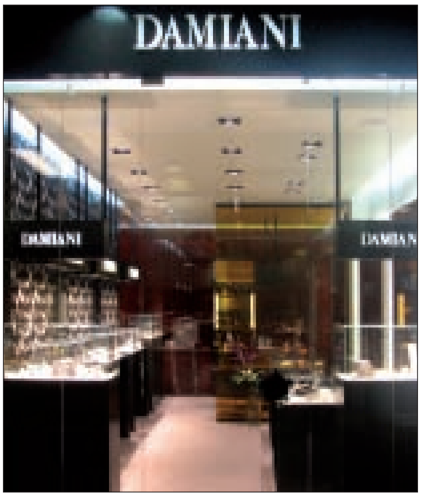
Damiani, Hong Kong

Damiani, Singapore

Damiani, Yerevan



Damiani, Paris



Damiani, Odessa

Damiani, Los Angeles

Damiani, Dubai

Damiani, Moscow

Damiani, London

Damiani, Beirut

Boutiques Damiani
Bologna
Florence
Milan
Naples
Portocervo
Rome
Turin
Venice
Verona
Almaty
Bucharest
Cipro
Istanbul
Kiev
London
Moscow
Odessa
Paris
Fukuoka
Hiroshima
Kagoshima
Matsuyama
Osaka
Tokyo
Cancun
Honolulu
Los Angeles
Monterrey
New York
Busan
Daegu
Hong Kong
Macao
Seoul
Singapore
Taipei
Yerevan
Beirut
Dubai
Kuwait City
Qatar

Boutiques Rocca
Bari
Catania
Genova
Lecce
Lugano
Mantova
Milan
Padova
Pescara
Porto Ercole
Portofino
Rome
Taormina
Turin
Venice

Boutiques Bliss
Alessandria
Turin
Tokyo
Osaka
Panama
Mumbai
Shangai

Rocca, Milan

Bliss, Shanghai

Bliss, Panama

Corporate Boards

Board of Directors	
Chairman & CEO	Guido Grassi Damiani
Vice President	Giorgio Grassi Damiani
Vice President	Silvia Grassi Damiani
Board Director	Roberta Benaglia
Board Director	Stefano Graidi
Board Director	Giancarlo Malerba
Board Director	Fabrizio Redaelli
Board of Statutory Auditors	
President	Gianluca Bolelli
Statutory Auditor	Simone Cavalli
Statutory Auditor	Fabio Massimo Micaludi
Alternate Auditor	Pietro Sportelli
Alternate Auditor	Pietro Michele Villa
External Auditors	Reconta Ernst & Young S.p.A.
Internal Control and Corporate Governance Commettee	
Chairman	Giancarlo Malerba
	Roberta Benaglia
	Fabrizio Redaelli
Remuneration Commettee	
Chairman	Giancarlo Malerba
	Roberta Benaglia
	Fabrizio Redaelli

Financial Highlights

At March 31 2010 Damiani Group reached total revenues of 145.8 millions Euro, Ebitda of -13.2 millions Euro, Operating Result (Ebit) of -19.1 millions Euro and Net Result of -18.2 millions Euro.
The EBITDA adjusted at 31 march 2010 for the provision posted to cover the risk of losses in the values of current assets for a total of 13.5 millions Euro at the consolidated level is equal to 0.3 millions Euro.

Revenues breakdown by distribution channel at March 31 2010:

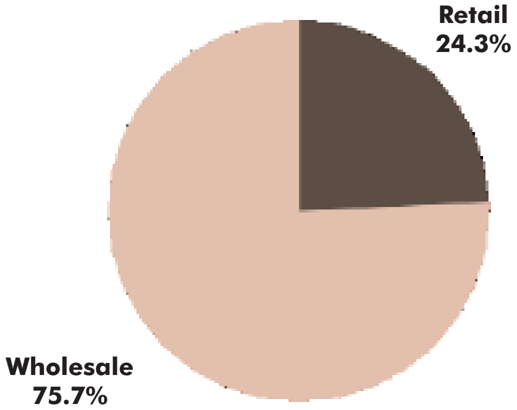
- wholesale: 75.7%
- retail: 24.3%

Revenues breakdown by regions at March 31 2010:

- Italy 77.3%
- Japan 5.8%
- Americas 3.5%
- Rest of the World 13.4%

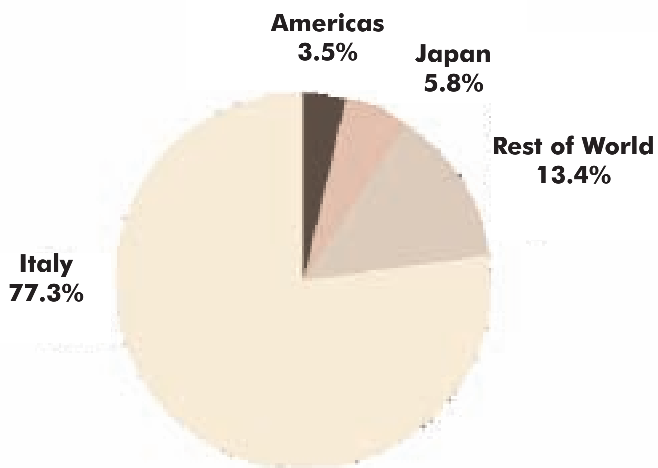
More than half of the Damiani brand revenues comes from foreign markets.

Revenues breakdown by distribution channel
FY 2009/10 at March 31, 2010



Total revenues: 145.4 mln €
Wholesale: 110.0 mln €
Retail: 35.4 mln €

Revenues breakdown by region
FY 2009/10 at March 31, 2010



Total revenues: 145.4 mln €
Italy: 112.4 mln €
Americas: 5.1 mln €
Japan: 8.5 mln €
Rest of World: 19.4 mln€

The Damiani Stock Market Trend

During the year 2009-2010, the value of Damiani shares was adversely affected by the continuing financial crisis that began in July, 2007.

The adjacent graph represents changes in the share price of Damiani SpA during the period between April 1, 2009 and March 31, 2010, as compared with the performance of major market indices (FTAllshare and FTStar).

Damiani has performed -1.8% from 1 April 2009 to March 31, 2010.

Factors that influenced changes in the value of shares

The FY 2009-2010 was characterized by the continuation of the economic crisis hitting world markets. It should be emphasized that, in the period 2009/2010, the stock market has been helped by the maintenance of monetary policies by Central banks to support the economy and contribute to a recovery. Recent indications suggest, however, a state of great uncertainty as regards general economic recovery in all worldwide markets.

As specifically regards Damiani, certain factors that have particularly affected price performance during the year to inhibit its recovery are:

- being a small capitalization company and therefore more 'subject to market changes; these factors made more difficult the investment in Damiani stocks by big international funds.

- the Italian economic context, affected by the crisis, by rising unemployment, a decrease in industrial production and stagnant consumption, with obvious negative consequences in the purchase of luxury items;

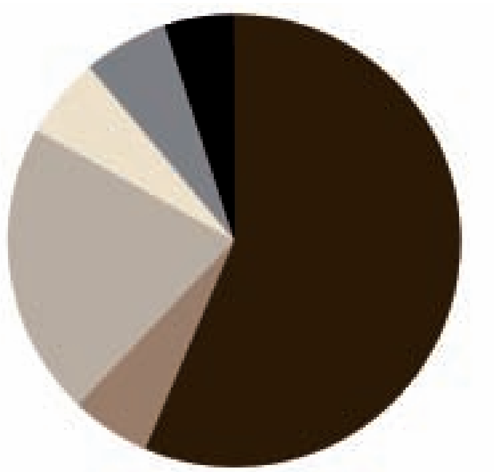
As of March 31, 2010 (the last trading day of the year with the financial year closing on the same date), Damiani shares were quoted at 0.93 Euros, with a market capitalization equal to 77 million Euros.

The following table summarizes the main share and stock market data for the year closing on 31 March 2010.

Damiani in the stock market*

Price on April 1st 2009 (euro)	*0,947*
Price on March 31, 2010 (euro)	*0,93*
Maximum price (euro)	*1.315 (on June 3 2009)*
Minimum price (euro)	*0.917 (on February 26 2010)*
Average volumes	*59,726*
Maximum volumes	*1,916,418 (on May 25 2009)*
Minimum volumes	*40 (on February 2 2010)*
N.shares Company capital	*82,600,000*
Market capitalization at March 31, 2010 (euro mln)	*77*

Shareholders**



Leading Jewels***	56.4%
Guido Damiani	5.0%
Giorgio Damiani	6.1%
Silvia Damiani	5.7%
Buyback****	6.8%
Market	20.0%

Notes:
*The table above summarizes the main shareholding data stock as of March 31, 2010
**Shareholders as of March 31, 2010
***Controlled by Guido Damiani
****Includes purchase of own shares equal to 5,619,609 shares

Consolidated Financial Statements of the Damiani Group as of March 31 2010

Prepared in accordance with
IAS/IFRS accounting standards

Report on operations of the Consolidated Financial Statements as of March 31 2010

Report on Operations[1].

Structure of the Damiani Group

Apart from directly carrying out commercial activities, Damiani S.p.A. is also a holding company that is responsible for carrying out strategic and coordination activities for the Group and for the production operations carried out by directly and indirectly controlled subsidiary companies.
The consolidated financial statements for the financial year ended March 31, 2010 include the financial statements of the parent company, Damiani S.p.A. and of those companies which it controls, either directly or indirectly, as per article 2359 of the Civil Code.
The subsidiary companies included in the consolidation area on March 31, 2010, and therefore consolidated using the line-by-line method, are listed below:

Company name	Registered office	Currency	Share Capital (local currency)	Held by	% Direct	% of the Group
Alfieri & St. John S.p.A.	*Valenza (AL), Italy*	*EURO*	*1,462,000*	*Damiani S.p.A.*	*100%*	*100%*
New Mood S.p.A.	*Valenza (AL), Italy*	*EURO*	*1,040,000*	*Damiani S.p.A.*	*97%*	*100%*
Damiani Manufacturing S.r.l	*Valenza (AL), Italy*	*EURO*	*850,000*	*Damiani S.p.A.*	*51%*	*51%*
Laboratorio Damiani S.r.l.	*Bassignana (AL), Italy*	*EURO*	*200,000*	*Damiani S.p.A.*	*100%*	*100%*
Damiani International B.V.	*Amsterdam, Netherland*	*EURO*	*193,850*	*Damiani S.p.A.*	*100%*	*100%*
Damiani Japan K.K.	*Tokio, Japan*	*JPY*	*490,000,000*	*Damiani International B.V.*	*100%*	*100%*
Damiani USA, Corp.	*New York, USA*	*USD*	*55,000*	*Damiani International B.V.*	*100%*	*100%*
Casa Damiani Espana S.L.	*Valencia, Spain*	*EURO*	*721,200*	*Damiani S.p.A.*	*99%*	*100%*
Damiani Hong Kong L.t.d.	*Hong Kong, Hong Kong*	*HKD*	*2,500,000*	*Damiani International B.V.*	*100%*	*100%*
Damiani France S.A.	*Parigi, France*	*EURO*	*38,500*	*Damiani International B.V.*	*100%*	*100%*
Damiani Service Unipessoal L.d.a.	*Madeira, Portugal*	*EURO*	*5,000*	*Damiani International B.V.*	*100%*	*100%*
Rocca S.p.A.	*Milano, Italy*	*EURO*	*4,680,000*	*Damiani S.p.A.*	*100%*	*100%*
Rocca International S.A.	*Lugano, Switzerland*	*CHF*	*600,000*	*Rocca S.p.A.*	*100%*	*100%*

During the year ended on March 31, 2010, the subsidiary Courmayeur Rocca S.r.l. was liquidated (in March 2010); the subsidiary operated a multi-brand boutique in Courmayeur, Aosta Valley, Italy, and it ceased its operations during the year.

The Group, which concentrates on producing and distributing jewellery both in Italy and abroad, offers wide coverage of the main market segments and thanks to its different brands it provides customers with a range of variously priced jewellery. The Group's portfolio is made up of five brands: Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni.
Furthermore, following the purchase of the Rocca Group (in September 2008), the Damiani Group also distributes prestigious third-party brands, particularly in the timepiece sector, via directly managed multi-brand boutiques. Lastly, from the current year the Group started marketing products in accordance with licence agreements stipulated with fashion brands (Jil Sander, Ferrè) and the automotive sector (Ferrari, Maserati and Ducati).

The Group's products are marketed both in Italy and abroad through two main distribution channels:
• the wholesale channel, consisting of independent multi-brand jewellers, department stores, franchisees and distributors;
• the retail channel, consisting of individual sales outlets run directly by the Group. As of March 31, 2010, there were nineteen directly run single-brand sales outlets: eleven in Italy and eight abroad, with fifteen trading under the Damiani name and four under the Bliss brand. The Rocca group had fourteen multi-brand sales outlets.

The parent company, Damiani S.p.A., is responsible for coordinating Group companies and offering them economic, administrative and technical assistance of a commercial and financial nature, which is based on normal market conditions.
Intra-group relations have been eliminated from the consolidated financial statement.
Values of intra-group transactions are detailed in the explanatory notes of the financial statements of the parent company.

([1]) The Damiani Group ends its financial year on March 31, therefore the consolidated financial statements at March 31, 2010 cover the period 1 April 2009 – 31 March 2010 (henceforth referred to as financial year ended on 31 March 2010 or financial year 2009/2010). For comparative purposes, the present consolidated financial statements also include the figures for the period 1 April 2008 – 31 March 2009 (henceforth financial year ended on 31 March 2009 or financial year 2008/2009).

Corporate Governance

The system of governance of Damiani S.p.A. is the so-called "Latin" or "traditional" form: the corporate bodies are the shareholders' meeting, the Board of Directors and the Board of Statutory Auditors.
The Board of Directors of the parent company was renewed on April 3, 2009 by the Shareholders' Meeting which nominated 7 members (instead of the previous 8) of which 3 non-executive and 2 independent.
The composition of the Board of Directors complies with the applicable regulations (as per article 147/4 and 148, paragraph 3 of Legislative Decree 58/98), and the principles of corporate governance contained in the Self-Regulation Code for Listed Companies.
On April 3, 2009, the Board confirmed the establishment of an Internal Auditing and Corporate Governance Committee and a Remuneration Committee in accordance with articles 5, 7 and 8 of the Code.
The three non-executive members of the Board of Directors, two of whom are also independent directors, were nominated as members of the above committees, after it had been established by the administrative body that they met the criteria contained in articles 2.C.1 (with reference to their "non-executive" status) and 3.C.1 (with reference to their "independent" status) of the Self-regulation Code. In compliance with the recommendations of the Code, the Committee also named a Lead Independent Director.
These criteria were subjected to review on June 11, 2010.
Also in accordance with the principles of self-regulation, the Board defined precise criteria for the identification of significant transactions carried out also through subsidiaries, including those carried out with related parties, which must be agreed on and/or carried out in compliance with procedural and substantial correctness criteria.
In this regard, the Group has already started the revision of its internal procedures, in light of the new regulations on transactions with related parties, approved by Consob on March 12, 2010.
With regard to internal checks, the Board recently renewed the guidelines of the internal audit system, also to update and coordinate their content with the new regulations contained in Legislative Decree 39/2010 (the "Consolidated Code on Statutory Auditing").
Damiani S.p.A. and the subsidiaries Alfieri & St. John S.p.A., New Mood S.p.A., Damiani Manufacturing S.r.l. and Laboratorio Damiani S.r.l. adopted a Code of Ethics and the organizational model prescribed by Legislative Decree 231/2001. The Code of Ethics of each company in the Group refers to the values the Damiani Group adheres to when carrying out its activities and contains the ethical principles and rules that must guide the conduct of the individuals for whom it is meant. The Code of Ethics is applicable to all directors, employees, suppliers, consultants and in general all individuals who operate on behalf of the company.
The Organizational Model approved by Damiani S.p.A. is a set of specific regulations dealing with conduct and operational procedures and it is designed to prevent unlawful conduct within those areas of business activities where there is a potential risk.
The current Control Body is composed of the internal auditors of Damiani and two external professionals, who are partners in prestigious law firms.
This structure assures that the Control Body is composed of individuals who represent all the expertise necessary to oversee the company's management and at the same time to meet the criteria of autonomy and independence required by law.
The Control Body has been assigned all the powers necessary for ensuring that the Organizational Model adopted by the company is effectively implemented and observed and that it is efficient and effective in preventing the offences currently specified in Legislative Decree 231/2001. The Control Body can also make recommendations to the Board of Directors about updating or making adjustments that may be necessary to the Organizational Model.
The Control Body of Damiani S.p.A. met 4 times during the financial year and reported on its work to the Board of Directors and to the Board of Statutory Auditors.
Further details about the system of Corporate Governance of the parent company and of the Damiani Group, together with information on the company structure per article 123-bis of Legislative Decree 58/1998, can be found in the annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relations section of the website www.damiani.com.

Compliance with title VI of the regulations of Legislative Decree 58 of February 24, 1998 concerning market discipline (Market Regulations).

Damiani S.p.A. indirectly controls two companies which are incorporated and regulated by the laws of states which are not part of the European Union and which are of relevant significance under paragraph 2 of article 36 of the Market Regulations issued by Consob.
With reference to article 36 of the aforesaid Market Regulations, the existing situation is as follows:
- The administrative, accounting and reporting systems of the two companies allow compliance with the provisions, in terms of public availability of accounting data of the consolidated balance sheet and of the ability to provide timely and regular input to the Management and Auditors of the parent company for the preparation of the consolidated balance sheet.
- Damiani S.p.A. has a copy of the Statute and composition of the corporate bodies, and their powers, of the two above-mentioned companies and it is advised of any modifications in a timely fashion. The documents are retained in the company records and kept up to date by the company legal department.

Stock Options

The Shareholders' Meeting of July 22, 2009 approved the adoption of two plans based on financial instruments in accordance with Article 114bis of Legislative Decree 58/1998, called 2009 Stock Option Plan and 2009 Stock Grant Plan.
The Board of Directors received a mandate from the Shareholders' Meeting to implement the plans and to identify the beneficiaries. Treasury stock held by the Company, up to a maximum of 4,500,000 shares, will be used to serve both plans; of these, 3,500,000 will serve the 2009 Stock Option Plan, and 1,000,000 will serve the 2009 Stock Grant Plan.
The Stock Option Plan can be implemented in one or more tranches within five years after approval by the Shareholders' Meeting.
The Stock Grant Plan entails the free assignment of Damiani stock to employees, in one or more tranches, within five years after approval by the Shareholders' Meeting.
On September 24, 2009, the Board of Directors of Damiani S.p.A. proceeded, with the aid of the Remuneration Committee, to implement the 2009 Stock Option Plan for some members of the management team. 16 beneficiaries were identified (no members of the Damiani family are among them) who paid €0.126 for each right and purchased a total number of 685,000 options, each entitling the holder to purchase one Damiani S.p.A. share at €1.60 (so-called "strike price"). The purchase right will vest on September 12, 2012 and it may be exercised starting from the following day and until September 30,

2012 provided that on that date the beneficiaries are still employed by the Damiani Group. The price of the options, corresponding to their market value, was determined by the Company with the aid of Equita Sim S.p.A.. Beneficiaries paid for the rights assigned to them in November 2009.
In note 40 is provided evidence of stock options granted to members of the board and the strategic managers, as required by Annex 3C layout 2 provided by the Issuers' Regulations.
On September 10, 2009, the Board of Directors of Damiani S.p.A. implemented the 2009 Stock Grant Plan intended for substantially all employees, with the exception of employees residing or domiciled in the United States. The plan entails the free assignment to all beneficiaries of:
• 50 Issuer's shares, to be transferred from September 12, 2011;
• 100 Issuer's shares, to be transferred from September 12, 2011, upon positive assessment of the consolidated results achieved as of March 31, 2010.
An essential condition for the assignment of both lots is that the beneficiaries must still be employed by the Damiani Group on the date of transfer of the shares.
The first implementation cycle of the Plan is intended for a total number of 582 employees and Directors of Group companies.

Purchase of treasury stock

On July 22, 2009, the Shareholders' Meeting of Damiani S.p.A. resolved to authorize, after revocation for the unexecuted part of the shareholders' meeting resolution of February 22, 2008, the purchase and disposal of treasury shares in accordance with Articles 2357 and 2357-ter of the Civil Code and with Article 132 of Legislative Decree 58/1998. The reasons for the authorization are the possibility of implementing plans based on financial instruments in accordance with Article 114-bis of Legislative Decree 58/1998 and of increasing the so-called "securities deposit" to use treasury shares for transactions of interest to Damiani S.p.A., and the opportunity to intervene, in the interest of all shareholders and in consideration of market situations, to support the stock, in compliance with current laws.
The operation was structured as follows:
• Damiani S.p.A. may purchase a maximum of 8,260,000s shares of common stock with a par value of €0.44 each, and in any case not exceeding 10% of the share capital, over a period of 18 months from the date of the Shareholders' Meeting and hence until January 22, 2011.
• The purchase price of each share, including accessory purchase costs, must be within ±20% of the official stock exchange price recorded on the trading day before each individual purchase transaction. Each transaction must fully respect current regulations in order to ensure parity of treatment for all shareholders.
The Shareholders' Meeting also authorized, without time limits, the sale of treasury shares purchased for a minimum price that will not cause negative economic impacts on Damiani S.p.A. and in any case not lower than 90% of the average of the official prices recorded on the stock market in the five days prior to the sale.
As of March 31, 2009, the closing date of the previous financial year, the total number of common stock in the portfolio was 3,753,788 (equal to 4.54% of the share capital), for a value of €6,046 thousand at an average purchase price of €1.611 per share. In financial year 2009/2010 an additional 1,865,821 shares of Damiani S.p.A. common stock were purchased for €2,181 thousand; therefore, as of March 31, 2010, there were 5,619,609 treasury shares in the portfolio (i.e. 6.80% of share capital) and the total expenditure for the buy-back plan was €8,227 thousand at an average purchase price of €1.464 per share.

Research and Development

The products offered by the Group, together with the reputation and image of the brands, has always been the key to the success of the Group, which over the years has consistently been able to provide innovations in style and design that have characterized the collections offered to customers. In order to continue to satisfy its customers with new lines, the Group has increased the number of staff responsible for product development. In financial year 2009/2010, total product development costs amounted to €768 thousand.

Main risks and uncertainties for the Damiani Group

Macro-economic risks
The economic, capital and financial performance of the Group is directly influenced by the macro-economic situation of the countries in which it is present. The reference period, in 2009/2010, was characterized by major uncertainties in the wake of the financial shock of the second half of 2008, which set off a global recessionary phase that affected, to an even greater extent than the most negative forecasts, nearly all industries and countries, both with advanced and emerging economies. The contraction of production and commercial flows stopped in the second half of 2009, when some macroeconomic indicators and in particular some geographic areas (Asia and the United States) started showing signs of improvement. More recently, the deep crisis in the public finances of some euro-zone countries, which sparked a speculative spiral that led to severe writedown of the currency, major increases in the prices of some raw materials (gold, in particular) and onerous interventions by the main European countries in support of the weaker economies, once again started off a period characterized by profound uncertainty and immediately resulted in financial markets suddenly and significantly reversing the positive trend they had recorded for some months (supported by the expansionary monetary policies of Central Banks). The real effects, reflected in macroeconomic indicators, are compounded by the psychological elements linked to the lack of confidence of households and companies, strongly influenced by these sudden fluctuations and trend reversals.
The macro-economic data for the areas in which the Damiani Group mainly operates give a picture of the recession that characterized financial year 2009/2010:
• Euro Zone: In the April-June 2009 quarter, GDP contracted by -3.8% from the same period in 2008, and the contraction continued in the two subsequent quarters as well, albeit with some partial recovery signs (in October-December 2009, the contraction was -1.8% compared to October-December 2008, when the economic slowdown was in its most acute stage), but unemployment rates continue to grow. Limiting the analysis to Italy alone, in the same quarters the negative signs are even more accentuated: GDP contracted by -6.1% in April-June 2009 and by - 2.8% in October-December 2009, growing by a modest +0.6% in January-March 2010;
• United States of America: after two quarters of recession (GDP contracting by -3.8% in April-June 2009 and -2.6% in July-September 2009), the subsequent recovery phase seems to be characterized by sounder foundations and in January-March 2010 GDP grew by a sizable +2.5%, with consumer confidence recovering as well, compared to the corresponding periods of the previous year;
• Japan: in the Asian country, the recession manifested its worst symptoms and after a worrying indicator of -9.7% in January-March 2009, the contraction continued in the two subsequent quarters, respectively by -5.7% and -5.2%. Only in January-March 2010 did GDP return to growth, by +4.6%, but consumption continued to contract;

• Russia: in 2008 the country, whose economy is heavily dependent on raw material exports, still recorded a positive trend, albeit slowing down relative to the previous twelve months. However, in 2009 Russia also went into a deep recession, with severe GDP contraction: in April-June, by as much as -10.8% and after two more negative quarters, the trend was reversed in January-March 2010 with a result of +2.9%.

The economic slowdown that hit all geographic areas where the Damiani Group operates, therefore, had a negative impact on the results of financial year 2009/2010. While more recent signals give some cause for optimism, they do not yet seem consolidated enough to consider the risk correlated to the reference macro-economic environment to be attenuated in the short term.

The raw materials market also recorded a severe drop in demand in 2009. For DTC (De Beers Group), the worldwide leader in diamond sales, turnover was 45% lower than in 2008 (from USD 5.93 billion to USD 3.23 billion), evidence that the market is able to absorb a smaller volume of precious raw materials.

Risks connected to raw material price fluctuation and availability

The raw materials used by the Damiani Group are mostly precious stones, gold, pearls and other precious materials whose prices and whose availability on the market can vary greatly in relation to factors such as government regulations, market trends and investors' speculative positions, relations with suppliers (especially with respect to the purchase of diamonds) and consequent supply conditions.

During financial year 2009/2010, the average price of gold, which normally tends to be considered a safe asset in times of economic turmoil and is subject to intense speculation, rose significantly. In April 2009, the average monthly value was already €21.72 per gram (whereas the yearly average in 2008/2009 had been €19.72 per gram), but after remaining fairly stable from April to September 2009, the price resumed its rise and the monthly average in March 2010 reached €26.40 per gram (with an average value for the financial year of €23.27 per gram, +18% over the previous twelve months). In the following months (April-May 2010), the price did not stop rising.

Risks may be amplified in relation to exchange rate variations, since some raw material purchases are paid in currencies such as dollars (diamonds) and yen (pearls), while the financial statements are prepared in euros.

The Damiani Group mitigates this risk since the impact of such purchases is moderate with respect to the overall cost of production. Purchases are prevalently of finished goods from suppliers with whom there are long-standing relations and agreements defined over the medium term, which attenuates the effects of sudden and frequent price variations, such as were experienced during this financial period.

Exchange rate risk

The Damiani Group prepares its consolidated financial statements in euros and therefore the fluctuation of the exchange rates of currencies (mainly dollars and yen) with which the financial statements of foreign subsidiaries located outside the euro-zone are prepared influence the Group's results and balance sheet upon conversion.

Moreover, some purchases of raw materials and finished goods are carried out in dollars and yen with consequent exposure to exchange risk. Whenever the risk is deemed significant (in periods of particular exchange rate variations) specific contracts are entered into for forward purchases of foreign currencies, to hedge the exchange rate risk. During the financial year, the notional amount of the forward purchase of foreign currencies was very low, compared with previous years, i.e. USD 1,047 thousand.

As of March 31, 2010 there weren't contracts for forward currency purchases stipulated by Damiani S.p.A.. As of March 31, 2009, the contracts amounted to €4,118 thousand.

Interest rate risk

Interest rate changes may compromise the Group's profitability, implying higher interest costs on its debt.

To contain the risk of exposure to interest rate fluctuation, within the scope of a broader process of requalification of the sources of funds, in June 2009 two medium-long term loans (for up to 6 years) were stipulated , for a total amount of €25,000 thousands at a fixed rate (between 4% and 4.5%), without guarantees and covenants.

The Group thereby reduced its use of short-term financing (credit lines and factoring), more exposed to interest rate variations, which are severe in times of credit market turmoil such as the current one.

Therefore, about 66.7% of the Group's debt structure as of March 31, 2010 was medium/long term debt with banks (hence, net of the amount represented by the debt towards related parties connected with sale and leaseback transactions), almost entirely at a fixed rate, with annual rates between 4% and 4.5% for the various loans outstanding and due dates up to June 30, 2015. As of March 31, 2009, only 18.6% of gross debt to the banking system was medium/long term and no loan had a due date after March 31, 2013.

Liquidity risk

The financial balance of the Group is mainly linked, on the one hand, to the tight control of resources generated and absorbed by working capital related to operative activities, which in turn are strongly influenced by important seasonal effects with about 40-45% of revenues concentrated in the third quarter of the financial year (October-December) and to a lesser degree by investment, and on the other hand by the due dates and the renewals of the financial debt and by the related conditions prevailing in the credit market.

The Group manages liquidity risk by tight control of the elements which compose the operating working capital, constituted by inventory and by trade payables and receivables. During the financial period, Damiani S.p.A. transfers credits "pro-solvendo", for the purpose of optimizing the cost related to the various forms of possible loans. Moreover, the Damiani Group has bank credit lines for €140.7 million, far greater than its current utilization.

As part of the search for a correct balance between the resources generated and absorbed by operations, the management also carried out valuations aimed at reducing inventories to levels better suited to current business volumes. These valuations led the parent company during the financial year to carry out scrapping operations that also resulted in the recovery of precious raw materials. In the present market situation, such operations are considered to be the most effective ones in terms of brand equity, liquidity risk management and improving the efficiency of operating working capital.

Credit risk

Credit risk may be defined as the possibility of suffering a financial loss as the result of other parties' failure to fulfil their contractual obligations.

As to trading partners, the Group deals with a select set of customers mainly consisting of jewellery stores, so, generally collateral backed guarantees are not required. It is Group practice to subject its new customers to preliminary screening through a special business information provider and to monitor all customers by assigning them individual credit limits; the credit of each is moreover checked automatically by an information provider which reports possible adverse indications (e.g. dishonoured bills), which immediately trigger credit blocking procedures with accelerated credit recovery. This constant monitoring has so far led to the containment of credit losses to an acceptable level. The deterioration of market conditions and the difficulty in accessing credit can impact on the solvency of some customers, whom the Group monitors constantly in order to safeguard its own interest by valuations of the correlated risk carried out at the end of the financial year.

For more quantitative details, please see note 38. Financial risk management of the consolidated financial statements.

Uncertainties
On December 29, 2009, Tax office in Milan - number 6 informed the subsidiary New Mood S.p.A., which is part of the fiscal consolidation, together with the parent company Damiani S.p.A., of an assessment notice for tax year 2004 contesting the fiscal deductibility of costs of approximately €8,000 thousand for the purchase of goods from suppliers in Hong Kong, on the basis that this operation does not meet the exemption criteria provided for in article 110, paragraph 11 of TUIR. The amount requested by the tax office for taxes and sanctions (net of interest) amounts to € 6,226 thousand. The company presented an appeal against this assessment on May 28, 2010. New Mood S.p.A. maintains that it acted in accordance with the principles of formal and substantive correctness and, also in the light of the opinion of consultants engaged to study the dispute, believes that could demonstrate the illegitimacy of the tax demands. Since the result of the dispute cannot be foreseen and in the light of the observations referred to above, the liability has been qualified as "possible".

Human resources and environment

During the financial period ended on March 31, 2010, the average number of employees in the Damiani Group amounted to 619 (649 in the previous year), divided into category and geographic area:

Labour categories

	Financial Year 2009/2010	% of the total	Financial Year 2008/2009	% of the total	Change
Executives and Managers	*57*	*9.2%*	*57*	*8.7%*	-
Clerks	*439*	*70.9%*	*462*	*71.2%*	*-23*
Workers	*123*	*19.9%*	*130*	*20.0%*	*-7*
Total	619		649		-30

Employees by geografical Area

	Financial Year 2009/2010	% of the total	Financial Year 2008/2009	% of the total	Change
Italy	*501*	*80.9%*	*511*	*78.8%*	*-10*
Americas	*31*	*5.0%*	*39*	*6.0%*	*-8*
Japan	*45*	*7.3%*	*59*	*9.0%*	*-14*
Rest of the World	*42*	*6.8%*	*41*	*6.3%*	*1*
Total	619		649		-30

The reduction during the year is the result of actions taken to rationalize some activities, to contain costs and improve overall efficiency within the Group. Furthermore, the workforce as of March 31, 2010 consisted of 66.2% women (of which 21 Executives and Managers, i.e. 36.8% of the total) and the average age of employees in the Group was 39.8 .
During the period, there were no cases of industrial accidents which caused temporary or permanent injury to individuals on the payroll, nor were there any cases of professional illness of employees or former employees, nor cases of mobbing for which the company could be held liable.
All actions taken to deal with the changed market situation which concerned personnel management were negotiated with the unions and undertaken with their concurrence.

As concerns the environment, the activities of the Damiani Group have no significant impact on the environment. In the course of the period, the Group did not cause any damage to the environment for which it was declared guilty, nor was it subjected to sanctions or punishments for environmental offenses or damage.

Remuneration of administrative bodies

Remuneration paid in the period to members of the administrative and control bodies and managers with strategic responsibilities, as required by Annex 3C layout 1 of the Issuers' Regulations, are provided in note 40. Remuneration for company bodies.

Key Data

Share Capital	March 31 2010	March 31 2009
Number of shares issued	*82,600,000*	*82,600,000*
Par value of individual share	*0.44*	*0.44*
Share capital	*36,344,000*	*36,344,000*

Ownership	% on shares issued	% on shares issued
Leading Jewels S.A.	*56.39%*	*55.82%*
Guido Grassi Damiani	*5.02%*	*5.02%*
Giorgio Grassi Damiani	*6.11%*	*6.11%*
Silvia Grassi Damiani	*5.68%*	*5.68%*
Damiani S.p.A. (buy back) (1)	*6.80%*	*4.54%*
Market	*20.00%*	*22.83%*

Table according to article 79 Legislative Decree n.58/98

Individual	Office	Numer of shares held as of March 31 2010
Guido Grassi Damiani (indirectly n.46.578.882) (2)	*Director*	*4,150,808*
Giorgio Grassi Damiani	*Director*	*5,047,371*
Silvia Grassi Damiani	*Director*	*4,687,371*
Strategic managers		*4,500*

([1]) On July 22, 2009, the Shareholders' Meeting resolved to authorize, for the unexecuted part of the resolution passed by the Shareholders' Meeting of February 22, 2008, the purchase within 18 months of the resolution of up to a total of 8,260,000 treasury shares of Damiani S.p.A. As of March 31, 2010, the purchased stock in the portfolio were 5,619,609, i.e. 6.80% of the share capital.
([2]) As a result of being the controlling shareholder in Leading Jewels S.A., Guido Grassi Damiani also holds 5,619,609 treasury shares in Damiani S.p.A..

The consolidated economic data of financial year 2009/2010 shown in the following tables of the report on operations and explanatory notes are not fully comparable with those of financial year 2008/2009, because in that financial year the Rocca Group was only consolidated from September 1, 2008 onwards (as a result of the purchase), thus not for the entire twelve-month period.

Main economic data *(in thousands of Euro)*	Financial Year 2009/2010	Of which Rocca Group contribution	Financial Year 2008/2009	Of which Rocca Group contribution	Consolidated Data Change %
Revenues from sales and services	145,365	39,094	149,289	21,538	-2.6%
Total Revenues	*145,755*	*39,218*	*149,791*	*21,595*	*-2.7%*
Cost of production	*(158,995)*	*(37,814)*	*(148,670)*	*(21,419)*	*6.9%*
EBITDA (*)	(13,240)	1,404	1,121	176	n.s.
EBITDA %	-9.1%	3.6%	0.7%	0.8%	
Depreciation and amortization	*(5,886)*	*(1,224)*	*(4,191)*	*(810)*	*40.4%*
Operating income	(19,126)	180	(3,070)	(634)	n.s.
Operating income %	-13.1%	0.5%	-2.0%	-2.9%	
Net Financial incomes (expenses)	*(2,715)*	*(1,062)*	*(374)*	*(1,203)*	*n.s.*
Result before taxes	*(21,841)*	*(882)*	*(3,444)*	*(1,837)*	*n.s.*
Net result of the Group	*(18,242)*	*(898)*	*(4,709)*	*(1,721)*	*n.s.*
Basic Earnings (Losses) per Share	*(0.23)*		*(0.06)*		
Personnel Costs	*(27,017)*	*(3,829)*	*(28,251)*	*(2,460)*	*-4.4%*
Average numbers of employees (**)	*591*	*92*	*677*	*102*	*-12.7%*
Gross Margin %(***)	*41.0%*	*20.1%*	*48.8%*	*24.6%*	

(*) EBITDA represents the operating result, i.e. Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is used by the company's management to monitor and evaluate the company's operational performance and it is not an IFRS accounting instrument, therefore it must not be considered an alternative measure for evaluating the company's results. Since EBITDA is not regulated by the accounting principles in question, the criteria employed by the company may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.
(**) This is the average number of employees at March 2010 and March 2009.
(***) Gross Margin: the difference between sale revenues and cost of goods sold, i.e. the sum of the costs for raw materials and other materials (including finished products) and the cost of operations performed outside the company. Gross Margin is used by the company's management to monitor and evaluate the Group's operational performance and it is not an IFRS accounting instrument, therefore it must not be considered an alternative measure for evaluating the Group's results. Since the composition of the Gross Margin is not regulated by the reference accounting standards, the criteria employed by the company may not be the same as criteria used by other companies, and therefore it cannot be used for comparative purposes.

Balance sheet data (In thousands of Euro)	Situation at March 31 2010	Situation at March 31 2009	change
Fixed Assets	*56,060*	*64,208*	*(8,148)*
Net working capital	*98,632*	*115,168*	*(16,536)*
Non current Liabilities	*(6,637)*	*(11,141)*	*4,504*
Net Capital Invested	148,055	168,235	(20,180)
Net Equity	*109,027*	*129,838*	*(20,811)*
Net Financial Debt (*)	*39,028*	*38,397*	*631*
Sources of Financing	148,055	168,235	(20,180)

(*) The net debt position was determined on the basis of the indications of Consob communication DEM/6064293 of July 28, 2006.

The following table is the reconciliation statement between the result of the financial year ended on March 31, 2010 and the shareholders' equity of the parent company at March 31, 2010, with the corresponding consolidated values.

(in thousands of Euro)	Situation at March 31 2010	
Description	Net Equity	Net Result
Net equity of Damiani S.p.A.	119,629	(11,207)
1. Elimination of the book value of consolidated investments:		
- Difference between book value and shareholders's equity	*7,588*	*(7,782)*
Total	7,588	(7,782)
2. Elimination of the transaction between consolidated companies:		
Infra-group profits included in the value of inventories		
- Gross Value	*(24,610)*	*985*
+ Deferred Taxes	*4,932*	*(238)*
Total	(19,678)	747
Net Equity and net Profit belonging to the Group	107,539	(18,242)
Net Equity and net Profit belonging to the Minorities	1,488	(26)
Net Equity and net Profit belonging to the Shareholders	109,027	(18,268)

Comments on the main economic and financial data of the Group

The consolidated financial statements as of March 31, 2010 were prepared with prudence and rigor in compliance with IFRS international accounting principles and on the premise of continuity, in that the Group maintains that there are no uncertainties concerning the ability to continue its activity both in the productive-commercial sense and in the financial sense, for the foreseeable future.
The income statement for financial year 2009/2010 and, for comparison purposes, for financial year 2008/2009 are as follows:

Profit & Loss (In thousands of Euro)	Financial Year 2009/2010	Of which Rocca Group contribution	Financial Year 2008/2009	Of which Rocca Group contribution	Consolidated data change	Consolidated data change %
Revenues from sales and services	145,365	39,094	149,289	21,538	(3,924)	-2.6%
Other recurring revenues	*390*	*124*	*502*	*57*	*(112)*	*-22.3%*
Total Revenues	145,755	39,218	149,791	21,595	(4,036)	-2.7%
Cost of production	*(158,995)*	*(37,814)*	*(148,670)*	*(21,419)*	*(10,325)*	*6.9%*
EBITDA *	(13,240)	1,404	1,121	176	(14,361)	n.s
EBITDA %	-9.1%	3.6%	0.7%	0.8%		
Depreciation and amortization	*(5,886)*	*(1,224)*	*(4,191)*	*(810)*	*(1,695)*	*40.4%*
Operating income	(19,126)	180	(3,070)	(634)	(16,056)	n.s
Operating income %	-13.1%	0.5%	-2.0%	-2.9%		
Net Financial incomes (losses)	*(2,715)*	*(1,062)*	*(374)*	*(1,203)*	*(2,341)*	*n.s.*
Result before taxes	(21,841)	(882)	(3,444)	(1,837)	(18,397)	n.s
Result before taxes %	-15.0%	-2.2%	-2.3%	-8.5%		
Taxes	*3,573*	*(16)*	*(1,421)*	*116*	*4,994*	*n.s.*
Net result	(18,268)	(898)	(4,865)	(1,721)	(13,403)	n.s.
Net result %	-12.5%	-2.3%	-3.2%	-8.0%		
Minorities Interests	*(26)*		*(156)*		*130*	*-83.3%*
Net result of the Group	*(18,242)*		*(4,709)*		*(13,533)*	*n.s.*
Net result of the Group %	*-12.5%*		*-3.1%*			

(*) EBITDA represents the operating result, i.e. Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is used by the company's management to monitor and evaluate the company's operational performance and it is not an IFRS accounting instrument, therefore it must not be considered an alternative measure for evaluating the company's results. Since EBITDA is not regulated by the accounting principles in question, the criteria employed by the company may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

During the financial year, the Group's top management carried out valuation processes that take into account the current market environment where Damiani S.p.A. and its subsidiaries are operating. These valuations led to the booking to the income statement of total costs of €13,567 thousand, mainly to correct current asset values (inventories and trade receivables). These provisions negatively affected the gross operating result of the Group, which therefore was negative for €13,240 thousand. Based upon the management's evaluation, these provisions aim to align the current financial situation to the amounts realizable in the foreseeable future and to ensure a more adequate balance between operating working capital and the Group's level of turnover. Therefore, the consolidated result of financial year 2009/2010 must also be read and interpreted in light of these evaluations carried out by the Group's directors.
To analyze the Group's operating performance net of the aforesaid provisions, the following table is provided:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009	change
EBITDA reported	(13,240)	1,121	(14,361)
Devaluation/scrapping of jewelry products	*9,781*	*3,875*	
Delta on provisions to Bad Debts reserve	*3,786*	*2,035*	
EBITDA adjusted	327	7,031	(6,704)

Details of the main components of the financial statements are given below:

REVENUES

Consolidated revenues from sales and services for financial year 2009/2010 were slightly lower, by €3,924 thousand (-2.6%) than in 2008/2009, i.e. from €149,289 thousand to €145,365 thousand. This performance was also influenced by the growing contribution of the Rocca Group, which in the previous 2008/2009 period was only consolidated for seven months (starting from September 1, 2008, after its purchase) compared with twelve months in 2009/2010.
The contraction in consolidated revenues was mainly concentrated in the first half (April-September), when the recorded decline was -14.5% from the same period of the previous year and the market downturn, above all in the wholesale channel (-29.7%) was going through its most acute phase. In the second half of the financial year, coinciding also with the high seasonality period (October-December), cautious signals of a recovery in the wholesale channel and good retail performance enabled the Group to make up almost entirely the gap accumulated previously. In the second half of 2009/2010 alone, revenues from sales and services were €89,206 thousand, up by €5,609 thousand (+6.7%) from the same period in the previous year.
The following table shows total revenues by sales channels.

Revenues by Sales Channel *(in thousands of Euro)*	Financial Year 2009/2010	Of which Rocca Group contribution	Financial Year 2008/2009	Of which Rocca Group contribution	Consolidated data change	Consolidated data change %
Retail	35,362	24,895	25,380	14,762	9,982	39.3%
Percentage on total revenues	*24.3%*	*63.5%*	*16.9%*	*68.4%*		
Wholesale	109,673	14,197	123,909	6,776	(14,236)	-11.5%
Percentage on total revenues	*75.2%*	*36.2%*	*82.7%*	*31.4%*		
Licences	330	2	-	-	330	n.s.
Percentage on total revenues	*0.2%*	*0.0%*				
Total revenues from sales and services	145,365	39,094	149,289	21,538	(3,924)	-2.6%
Percentage on total revenues	*99.7%*	*99.7%*	*99.7%*	*99.7%*		
Other revenues	390	124	502	57	(112)	-22.3%
Percentage on total revenues	*0.3%*	*0.3%*	*0.3%*	*0.3%*		
Total Revenues	145,755	39,218	149,791	21,595	(4,036)	-2.7%

• Revenues from the retail channel amounted to €35,362 thousand, up 39.3% over the previous period (+38.7% at constant exchange rates) mainly thanks to the growing contribution of directly managed boutiques with the Rocca brand, included in the scope of consolidation starting from September 1, 2008, whose revenues amounted to €24,895 thousand, up by €10,133 thousand from the previous year, with a contribution of twelve months rather than the seven months of the previous year. In the second half of 2009/2010 when the directly operated retail network (single and multi-brand) was substantially consistent with the same period in the previous year, sales amounted to €20,646 thousand, up by €2,006 thousand (+10.8%) over the second half of 2008/2009.
• In the wholesale channel, revenues amounted to €109,673 thousand, -11.5% at current exchange rates relative to the 2008/2009 period (-12% at constant rates), with the decline due mainly to the stagnation of the domestic market and to a slow down in sales in some foreign countries where the Group already had a significant presence (Russia, Middle East and Korea). In the second half alone, sales in the wholesale channel amounted to €68,230 thousand, up +5.0% from the same period of the previous year (when they had reached €64,957 thousand). Signs of a recovery were seen mainly in some foreign countries such as Russia, the Ukraine and in the Far East.
• The marketing of licensed products, which is still in the start-up phase, contributed €330 thousand to the consolidated revenues of financial year 2009/2010.

Overall, in the fourth and last quarter of financial year 2009/2010 (a low seasonality quarter in any case), the sales performance was good compared to the same period in the previous year: revenues amounted to €27,141 thousand, up by around 18.4% compared with the fourth quarter of financial year 2008/2009.

Gross Margin
In the financial year 2009/2010, the Gross Margin was 41.0%, down by 7.8 basic points compared with the previous period (48.8%). This reduction is mostly due to the diluting effect on the total margin deriving from the greater weight of the Rocca network's revenues, which registered lower margin on sales of third-party brands.

Production costs
Total net production costs in the financial year ended March 31, 2010 were €158,995 thousand, up €10,325 thousand (+6.9%) over the period ended on March 31, 2009 (€148,670 thousand). Both financial years were influenced by evaluating components (especially significant in 2009/2010), net of which production costs would have been €145.428 thousand in 2009/2010 and €142,760 thousand in 2008/2009, with lower growth, i.e. €2,668 thousand (+1.9%).
Overall costs in the financial year ended on 31 March 2010 were influenced by the following:
• the cost of raw materials and consumables, including the purchase of finished products, amounted to €82,595 thousand, an increase of 16.2% over the 12-month period ended March 31, 2009 (€71,090 thousand). During 2009/2010 costs include provisions to the inventory write-down reserve and losses from scrapping jewellery by melting and recovering raw materials for a total amount of €9,781 thousand (€3,875 thousand in 2008/2009). These operations refer to specific products whose marketability was reduced in the current market situation, with a specific reserve created for the expenses incurred by the operations (or by the loss already registered). Net of these operations, the cost of raw materials and consumables would have been €72,814 thousand, a reduction of 8.3%, from the adjusted figure from the previous period. The financial statements values were also impacted by the different contribution of the Rocca Group, net of which (in both periods) the costs for raw materials and consumables would have been €51,717 thousand in 2009/2010 and €55,132 thousand in 2008/2009, with a 6.2% drop.
• Other costs for services amounted to €50,226 thousand, down by around -10.1% from the previous period (€55,847 thousand); the drop was due to savings made in 2009/2010 that impacted on some cost items. Net of the contribution from the Rocca Group, in the two periods, the other costs for services would have been €45,798 thousand in 2009/2010 and €52,543 thousand for the previous year, representing with an even more significant contraction of 12.8%.
• Personnel cost amounted to €27,017 thousand, a decrease of 4.4% over the previous period (€28,251 thousand); the contraction of this cost depended mainly on the average reduction in the number of Group personnel, which was about 4.6% between the two periods being compared (due to the effect of the rationalization of some commercial structures). Net of the Rocca Group's contribution, which impacted differently in the two periods, the reduction would have been greater, i.e. 10.1%.
• Other net operating income of €843 thousand compared to €6,518 thousand in the period 2008/2009, with a consequent decrease of €5,675 thousand. The contraction compared with the previous year is mainly due to the lack of net currency exchange rate gains recorded in 2008/2009 which were not repeatable because they were measured on trade receivables in a currency other than euros, which have been closed.

EBITDA
The revenues and production costs described above produced a negative EBITDA for the period ended on March 31, 2010 of €13,240 thousand, representing a €14,361 thousand drop in absolute terms compared with the previous year's EBITDA.
This performance is also affected by the aforementioned evaluative components made in the 2009/2010 financial statements for €13,567 thousand, net of which the positive EBITDA would have amounted to €327 thousand. Consequently, the difference of €6,704 thousand would have been smaller compared with the EBITDA of €7,031 thousand for the previous year, adjusted to take into account the write-downs to current assets already made in the previous period.

Amortization and write-downs
In the financial year ended on March 31, 2010, amortization amounted to €5,886 thousand, €1,695 thousand more than in the previous 12-month period. This increase depended mainly on the greater impact of the amortization rates of the invested capital of the Rocca Group (the differential was €414 thousand), as well as on the total write-down of the carrying value of the key money initially paid when a rental contract was signed for a boutique whose lease agreement was transferred to third parties.

Operating result
In the financial year ended on March 31, 2010, the operating result showed a loss of €19,126 thousand compared to a negative one of €3,070 thousand for the period 2008/2009, due to the effects described above.

Net financial costs
The financial result for the period ended on March 31, 2010 showed a loss of €2.715 thousand, down by €2,341 thousand compared with the previous period ended on March 31, 2009 (a loss of €374 thousand). This negative performance was due to the higher net interest costs, related to the different structure, and to the amount of the average debt in the two periods.

Result before taxes
In the financial year ended on March 31, 2010 the result before taxes showed a loss of €21,841 thousand, worse than the period ended March 31, 2009 by €18,397 thousand.

Current, prepaid and deferred taxes
In the year ended on March 31, 2010, income taxes had a positive impact on the consolidated result for €3,573 thousand, as a result of the advance taxes calculated with reference to evaluative items (inventory write-downs and non-deductible receivables) recorded in the financial statements of the Italian companies (as with previous years, these assets are not booked for foreign subsidiaries for which it is not possible to estimate if future taxable results will be sufficient to enable recoverability).
In 2008/2009 financial statements, even in the presence of a negative pre-tax result, income tax amounted to €1,421 thousand as a result of taxable results for the parent company and other Italian and foreign subsidiaries (not present in 2009/2010), and because of the aforementioned prudent choice not to calculate credits for advance taxes on other foreign subsidiaries, whose recoverability could not be estimated.

Net result

The Group's net consolidated result for the financial year ended on March 31, 2010 showed a loss of €18,242 thousand, a reduction of €13,533 thousand compared with the year ended on March 31, 2009.

Capital and financial situation

The consolidated balance sheet of the Damiani Group on March 31, 2010 compared to that of March 31, 2009 is provided in the following table.

Balance sheet data *(In thousands of Euro)*	Situation at March 31 2010	Situation at March 31 2009	change
Fixed Assets	*56,060*	*64,208*	*(8,148)*
Net working capital	*98,632*	*115,168*	*(16,536)*
Non current Liabilities	*(6,637)*	*(11,141)*	*4,504*
Net Capital Invested	148,055	168,235	(20,180)
Net Equity	*109,027*	*129,838*	*(20,811)*
Net Financial Debt (*)	*39,028*	*38,397*	*631*
Sources of Financing	148,055	168,235	(20,180)

(*) The net financial position was determined on the basis of the indications of Consob communication DEM/6064293 of July 28, 2006.

Fixed Assets

As of March 31, 2010, the invested capital amounted to €56,060 thousand, a decrease of €8,148 thousand compared with March 31, 2009. This difference is mainly due to the following two factors: i) elimination of the net book value of the key money relating to the boutique whose lease agreement was transferred to third parties; ii) elimination of the value of the building constituted by the single-brand Bliss boutique which was booked as financial leasing (a sale and leaseback transaction with a related party, dating back to 2004) as a result of the closing of the direct sales outlet (in January 2010) and of the subletting of space to third parties and simultaneous early termination of the lease agreement with the owners (from January 2012). This transaction led to a €3,806 thousand reduction in value of the buildings booked under tangible fixed assets.

Net working capital

As of March 31, 2010, the net working capital amounted to €98,632 thousand, a decrease of €16,536 thousand compared with March 31, 2009. This change was mainly due to the write-downs made on inventories and receivables, described in the previous points. Net of said write-downs (amounting to €13,567 thousand), the value of net working capital would have been lower in any case, thanks to careful management of various components in the current market context and of the need to continuously monitor cash flows and the related risks.

Non current liabilities

As of March 31, 2010, non-current liabilities amounted to €6,637 thousand, a decrease of €4,504 thousand compared with March 31, 2009. The decrease was mainly due to the reduction in liabilities for deferred taxes connected to the reclassification, made during the year, of the value of the deferred tax effects related to booking of the inventory returns reserve, which was booked to offset the related item in advance taxes.

Shareholders' Equity

As of March 31, 2010 shareholders' equity amounted to €109,027 thousand, down €20,811 thousand from March 31, 2009. The change was mainly due to the following reasons:
- the €18,268 thousand loss for the financial year (including the minority share);
- the purchase of treasury shares during the period, for €2,181 thousand;
- other changes in reserves, for a total of €362 thousand.

Net financial position

The composition of the net financial position on March 31, 2010 and its development compared with March 31, 2009 is given in the following table:

Net Financial Debt *(in thousands of Euro)*	Situation at March 31 2010	Situation at March 31 2009	change
Medium-Long term loans and financing- current portion	*9,399*	*8,902*	*497*
Usage of credit lines, short term financing and others	*1,964*	*16,229*	*(14,265)*
Medium-Long term loans and financing with related parties- current portion	*641*	*779*	*(138)*
Current financial indebtness	12,004	25,910	(13,906)
Medium-Long term loans and financing- non current portion	*22,748*	*5,757*	*16,991*
Medium-Long term loans and financing with related parties- non current portion	*11,608*	*16,272*	*(4,664)*
Non-current financial indebtness	34,356	22,029	12,327
Total gross financial indebtness	46,360	47,939	(1,579)
Cash and cash equivalents	*(7,332)*	*(9,542)*	*2,210*
Net Financial Debt (*)	39,028	38,397	631

(*) The net financial position was determined on the basis of the indications of Consob communication DEM/6064293 of July 28, 2006.

As of March 31, 2010, the Group's net financial debt was €39,028 thousand, slightly worse than the previous year's total of €38,397 thousand. The balance has a different composition than on March 31, 2009 as a result of the restructuring of the gross debt, with greater medium-long term exposure and a reduction in short-term exposure. These actions, accomplished in 2009/2010 with the stipulation of two fixed rate long-term loan agreements for a total amount of €25,000 thousand, had the dual purpose of reducing interest rate risk (which is high at times of financial market turmoil, like the current ones) and lengthening repayment times.
The net financial position as of March 31, 2010 also includes €12,249 thousand payable to a related party for 5 real estate transactions booked as sale and lease-back transactions.
With respect to December 31, 2009 (the reference date of the third quarter of the financial year), the consolidated financial position improved by €15,588 thousand.

Investments (CAPEX)
During the financial year ended on March 31, 2010, industrial investments of €2,040 thousand were carried out, compared with €5,932 thousand in the previous financial year.
These investments were mainly for the maintenance of the retail channel (which did not grow during the year as far as direct management was concerned), and for IT expenditures.

Main economic data by geographical area

The Damiani Group operates in a single business segment, within which there is little product difference that may constitute separate business units. Therefore, the geographical dimension and break-down described below is subject to periodic observation and review by the directors and is the responsibility of the management. In accordance with this model, the segments information was provided in the previous annual financial statements and intermediate reports, in line with the provisions of IFRS 8. The segments are composed as follows:
i) the Italian segment includes the revenues and operating costs of the parent company Damiani S.p.A. and its subsidiaries that operate in Italy;
ii) the Americas segment includes revenues and operating costs of the subsidiary Damiani USA Corp. that operates in the United States of America and markets the Group's products throughout the continent;
iii) the Japanese segment includes revenues and operating costs of Damiani Japan KK which operates in Japan;
iv) the Rest of the World segment includes revenues and operating costs of the other subsidiaries which operate and sell in other countries not included in the preceding segments.

Revenues in the period ended on March 31, 2010 and the previous year ended on March 31, 2009 for each geographical segment are shown in the following table:

Revenues by Geographical Area *(in thousands of Euro)*	Financial Year 2009/2010	% of total	Financial Year 2008/2009	% of total	change %
Italy	112,722	77.3%	109,227	72.9%	3.2%
- Revenues from sales and services	*112,373*		*108,761*		*3.3%*
- Other revenues	*349*		*466*		*-25.1%*
Americas	5,112	3.5%	7,692	5.1%	-33.5%
- Revenues from sales and services	*5,112*		*7,692*		*-33.5%*
Japan	8,490	5.8%	9,667	6.5%	-12.2%
- Revenues from sales and services	*8,486*		*9,660*		*-12.2%*
- Other revenues	*4*		*7*		*-42.9%*
Rest of the World	19,431	13.3%	23,205	15.5%	-16.3%
- Revenues from sales and services	*19,394*		*23,176*		*-16.3%*
- Other revenues	*37*		*29*		*27.6%*
Total Revenues	145,755	100.0%	149,791	100.0%	-2.7%

Compared with the previous year, revenues in **Italy** were higher (+3.2%) thanks to a greater contribution from the Rocca network (consolidated for twelve months in 2009/2010 and for only seven months in 2008/2009), which fully compensates for the contraction in the wholesale channel.
Decreases were registered for sales in the **Americas** (-33.5%), **Japan** (-12.2%), where consumption continued to stagnate, and the **Rest of the World** (-16.3%), where sales contracted in some markets where the Group's presence had been significant in the previous year (Russia, Middle East, and Korea).

EBITDA values for each geographical segment in the period ended March 31,2010 and the period ended March 31, 2009 are given in the following table.

EBITDA by Geographical Area(*) *(in thousands of Euro)*	Financial Year 2009/2010	% of total	Financial Year 2008/2009	% of total	change %
Italy	(11,995)	*90.6%*	(381)	*-34.0%*	*n.s.*
- Italy net of change effects	*(11,974)*		*677*		
Americas	(3,104)	*23.4%*	1,369	*122.1%*	*n.s.*
- Americas net of change effects	*(3,104)*		*(4,297)*		
Japan	(476)	*3.6%*	(409)	*-36.5%*	*-16.3%*
- Japan net of change effects	*(476)*		*(5,156)*		
Rest of the World	2,335	*-17.6%*	543	*48.4%*	*n.s.*
- Rest of world net of change effects	*2,335*		*(630)*		
Consolidated EBITDA	(13,240)	*100.0%*	1,121	*100.0%*	*n.s.*
% of turnover	*-9.1%*		*0.7%*		

(*) EBITDA represents the operating result, i.e. Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is used by the company's management to monitor and evaluate the company's operational performance and it is not an IFRS accounting instrument, therefore it must not be considered an alternative measure for evaluating the company's results. Since EBITDA is not regulated by the reference accounting standards, the criteria employed by the company may not be the same as criteria used by other companies, and therefore cannot be used for comparative purposes.

In terms of EBITDA, the **Italy** segment shows a severe contraction due to the effect of the reduction in wholesale revenues, lower margins in sales of third-party brands in the Rocca network and greater write-downs to assets (inventories and receivables) made in 2009/2010, only partially offset by the savings obtained in the operating cost structure.
In the financial year ended on March 31, 2010, the **Americas** area registered an EBITDA loss of €3,104 thousand, worse than the previous year, which had benefited from non-repeatable exchange rate gains, net of which the EBITDA would have been worse (a €4,297 thousand loss).
In the year ended on March 31, 2010, the **Japan** segment posted negative margins, in line with the previous year, though it no longer benefited from non- repeatable exchange rate gains. Net of these, the improvement would have been significant thanks to the actions taken to contain operating costs.
An improvement compared with the previous year was instead recorded in the EBITDA for the **Rest of the World** segment, thanks to net benefits deriving from the key money collected for the early release of a building that was not strategic for the Group, whose costs were incurred in this segment.

Transactions with related parties

The Damiani Group deals with related parties mostly for real estate (rental of shops and offices). In April-August 2008, before the purchase of Rocca S.p.A. (whose effects for accounting purposes start from September 1, 2008), the Damiani Group also had commercial relations for the sale of different brands in its portfolio to the Rocca Group, included among related parties since it was under common control.
Data concerning dealings of the Group with related parties in the period ended March 31, 2010 and the previous financial year are displayed below (for more details, please see note 32. Transactions with related parties, of the consolidated financial statements).

(in thousands of Euro)	Financial Year 2009/2010		Balance at March 31 2010	
	Operating costs	*Financial expenses*	*Long term loans (including leasing)*	*Trade payables*
Total with related parties	*(1,647)*	*(1,246)*	*(12,249)*	*(1,293)*
Total from Financial Statements	*(164,881)*	*(3,065)*	*(44,396)*	*(57,945)*
% age weight	*1%*	*41%*	*28%*	*2%*

(in thousands of Euro)	Financial Year 2008/2009			Balance at March 31 2009	
	Revenues	*Operating costs*	*Financial expenses*	*Long term loans (including leasing)*	*Trade payables*
Total with related parties	*2,254*	*(975)*	*(995)*	*(17,051)*	*(865)*
Total from Financial Statements	*149,791*	*(152,861)*	*(2,651)*	*(31,710)*	*(70,923)*
% age weight	*2%*	*1%*	*38%*	*54%*	*1%*

Significant non-recurring, atypical and/or unusual operations

There are no positions or transactions deriving from atypical and unusual operations as defined in Consob resolution15519 of July 27, 2006.

The significant non-recurring operations carried out in 2009/2010 can be summarized as follows:
- indemnities paid by third parties to companies of the Damiani Group for vacating in advance a non-strategic building where a directly operated boutique was sited. The net income for the Group amounted to €6,045 thousand.

Significant events during the financial year

On April 3, 2009, the Shareholders' Meeting of Damiani S.p.A. appointed a new Board of Directors which remains in office until approval of the financial statements as of March 31, 2012, setting their number at seven members, compared with eight on the previous Board of Directors. The current composition of the Corporate Bodies is shown in the introductory part of this document.

On May 20, 2009, an agreement was signed with Gianfranco Ferrè, a prestigious Italian fashion brand, for the development and production of a new line of jewellery bearing the name of Gianfranco Ferrè.
On June 15, 2009, a license agreement was signed with the Jil Sander Group for the creation of a line of jewellery and watches under the name of Jil Sander. The Damiani Group will be the exclusive licensee for the design, production and worldwide distribution of these collections, which will be sold throughout the world in Jil Sander boutiques, in Rocca jewellers and in selected jewellers and department stores.

On July 7, 2009, the second collection produced by the Damiani Group for Maison Martin Margiela was presented.

Also in July 2009, Damiani and Sharon Stone announced an important international humanitarian project in favour of African populations.
The project is centred on the desire of Damiani and the American actress to provide tangible help to these populations in economic terms and through the involvement of the media and public opinion. To achieve this important objective, Damiani and Sharon Stone designed a collection of jewellery which went on sale in time for the Christmas season. A part of the profits will be donated to non-governmental and no-profit humanitarian associations that bring water to the most isolated African villages, thereby contributing to reducing the very high infant and child mortality rate. The project was officially presented in Tokyo in November 2009.

As part of the policy of developing the Group's presence in the World, the first English Damiani single-brand boutique was opened in London in Old Bond Street in early July 2009 and the first Bliss single-brand boutique in India was opened in Mumbai in September 2009.

In September 2009, Damiani signed a licensing agreement for a line of jewellery and goods bearing the Ferrari brand name. Damiani will be the partner of the prestigious racing car manufacturer in the production and marketing of a special line of jewellery and objects. The items will be sold in multi-brand stores in the Rocca chain, selected specialty stores and Ferrari Stores throughout the world.
In October 2009 Damiani announced a licensing agreement for the first jewellery collection from the prestigious Maserati car manufacturer, which is based in Modena, Italy. Damiani will design, manufacture and market for Maserati a special line of jewellery inspired by the style and elegance of Maserati. Marketing will be through the Damiani Group's commercial network, Maserati retailers and selected multi-brand jewellers.

In October 2009, a single-brand Damiani corner was opened in franchising at Ataturk airport in Istanbul, a major hub for important international flights.

Damiani was selected by Victoria's Secret to create a diamond-studded Fantasy Bra for its annual collection. The Harlequin Fantasy Bra, worth 3 million dollars, appeared in Victoria's Secret Christmas Dreams & Fantasies Catalogue on October 21, 2009.
The Harlequin Fantasy Bra created by Damiani for Victoria's Secret is a masterpiece that perfectly illustrates the design and mastery of the goldsmith's art that are typical of the Damiani brand. The creation is the work of a team of 15 specialized craftsmen who worked for more than 800 hours at the Valenza workshop.

In November 2009, Damiani announced a commercial distribution agreement with the Birks & Mayors Inc. store network, a North American high-end jewellery and watch group listed on the NYSE Amex. The store network consists of 67 high-end jewellery and watch stores in Canada and in the south eastern United States, and the five-year agreement covers all of the Damiani Group's brands.

Significant events after the end of the financial year

There were no significant events after March 31, 2010.

Business outlook

The worldwide economic downturn, which started to show its real effects in late 2007, cannot yet be considered overcome, in spite of some tentative signs of recovery not just in emerging countries but also in countries with more mature economies. While such signals induce cautious optimism, short-medium term visibility is still limited and it is hard to forecast the development and effects of government intervention, currency exchange rates and raw materials prices, which are under strong speculative pressures, as well as the inevitable impacts of all these variables on consumer spending power.
In this challenging environment the Damiani Group will continue, on the one hand, with its efficiency-boosting actions to contain operating costs and to improve its balance sheet and financial ratios (debt and inventory cutting), and on the other hand to develop its presence on foreign markets, by investing in its own distribution network (in particular in high potential areas where the Group's presence today is still marginal), and to consolidate and strengthen its leadership on the domestic market.
The achievement of these objectives will enable the Damiani Group to attain better performance in 2010/2011 both in terms of business volumes and of operating and net productivity, compared with the year ended on March 31, 2010.

Milan, June 11, 2010

For the Board of Directors
Chairman and CEO
Dr.Guido Grassi Damiani

Table of Contents - Consolidated Financial Statements

Balance Sheet Statement

(in thousands of Euro)	Note	March 31 2010	March 31 2009
NON-CURRENT ASSETS			
Goodwill	4	4,984	5,002
Other Intangible Fixed Assets	5	7,504	9,204
Tangible Fixed Assets	6	20,397	26,626
Investments	7	167	169
Financial receivables and other non current assets	8	4,479	4,655
Deferred tax assets	9	18,529	18,552
TOTAL NON-CURRENT ASSETS		56,060	64,208
CURRENT ASSETS			
Inventories	10	106,108	121,192
Trade receivables	11	42,971	54,551
Tax receivables	12	4,939	5,571
Other current assets	13	9,777	12,619
Cash and cash equivalents	14	7,332	9,542
TOTAL CURRENT ASSETS		171,127	203,475
TOTAL ASSETS		227,187	267,683
GROUP SHAREHOLDERS' EQUITY			
Share Capital		36,344	36,344
Reserves		89,438	96,691
Group net income (loss) for the period		(18,242)	(4,709)
TOTAL GROUP SHAREHOLDERS' EQUITY		107,540	128,326
MINORITY SHAREHOLDERS' EQUITY			
Minority share capital and reserves		1,513	1,668
Minority net income (loss) for the period		(26)	(156)
TOTAL MINORITY SHAREHOLDERS' EQUITY		1,487	1,512
TOTAL SHAREHOLDERS' EQUITY	15	109,027	129,838
NON CURRENT LIABILITIES			
Long term financial debt	16	34,356	22,029
of which towards related parties		11,608	16,272
Termination Indemnities	17	4,693	4,868
Deferred Tax liabilities	9	864	4,227
Risk reserves	18	649	363
Other non current liabilities	19	431	1,683
TOTAL NON CURRENT LIABILITIES		40,993	33,170
CURRENT LIABILITIES			
Current portion of long term financial debt	16	10,040	9,681
of which towards related parties		641	779
Trade payables	20	57,945	70,923
of which towards related parties		1,293	865
Short term borrowings	21	1,964	16,229
Income tax payables	22	2,399	2,752
Other current liabilities	23	4,819	5,090
TOTAL CURRENT LIABILITIES		77,167	104,675
TOTAL LIABILITIES		118,160	137,845
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		227,187	267,683

Separate Income Statement

(in thousands of Euro)		Note	Financial Year 2009/2010	Financial Year 2008/2009
Revenues from sales and services			*145,365*	*149,289*
	of which towards related parties		*-*	*2,254*
Other recurring revenues			*390*	*502*
TOTAL REVENUES		*24*	145,755	149,791
Costs of raw materials and consumables		*25*	*(82,595)*	*(71,090)*
Costs of services		*26*	*(50,226)*	*(55,847)*
	of which towards related parties		*(1,647)*	*(975)*
Personnel cost		*27*	*(27,017)*	*(28,251)*
Other net operating (charges) incomes		*28*	*843*	*6,518*
	of which not recurring		*7,208*	*-*
Amortization and depreciation		*29*	*(5,886)*	*(4,191)*
	of which not recurring		*(1,163)*	*-*
TOTAL OPERATING EXPENSES			(164,881)	(152,861)
OPERATING INCOME (LOSS)			(19,126)	(3,070)
Financial Expenses		*30*	*(3,065)*	*(2,651)*
	of which towards related parties		*(1,246)*	*(995)*
Financial Incomes		*30*	*350*	*2,277*
INCOME (LOSS) BEFORE INCOME TAXES			(21,841)	(3,444)
Income Taxes		*31*	*3,573*	*(1,421)*
NET INCOME (LOSS) FOR THE PERIOD			(18,268)	(4,865)
Attibutable to:				
Group			*(18,242)*	*(4,709)*
Minorities			*(26)*	*(156)*
Basic Earnings (Losses) per Share(*)			*(0.23)*	*(0.06)*
Diluted Earnings (Losses) per Share(*)			*(0.23)*	*(0.06)*

(*) Earnings (losses) per share are calculated by dividing the net result for the period attributable to the company's ordinary shareholders by the weighted average number of ordinary shares in circulation during the period

Comprehensive Income Statement

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Net Income (Loss) for the period	(18,268)	(4,865)
Gain (Losses) on cash flow hedging	*48*	*(126)*
Fiscal effect	*(13)*	*35*
Gain (Losses) on exchange differences on translating foreign operations	*(435)*	*(10,082)*
Fiscal effect	*62*	*624*
Total comprehensive Income (Loss) for the period	(18,606)	(14,414)

Statement of changes in equity

(In thousands of Euro)	*Share Capital*	*Share Premium Reserve*	*Legal Reserve*	*Cash flow hedging reserve*	*Shareholders payment reserve*	*Stock option reserve*	*Own Shares*	*Other reserves*	*Net income (Loss) for the period*	*Group shareholder's equity*	*Minorities shareholder's equity*	*Total shareholder's equity*
Balances at March 31, 2008	36,344	69,858	1,628	-	8,618	58	(2,337)	24,917	15,127	154,213	1,746	155,959
Allocation of the result for the period			*769*					*14,358*	*(15,127)*	*-*		*-*
Other comprehensive income(loss)				*(91)*				*(9,458)*	*(4,709)*	*(14,258)*	*(156)*	*(14,414)*
Stock option						*(58)*				*(58)*		*(58)*
Purchase of own shares							*(5,759)*			*(5,759)*		*(5,759)*
Utilization of own shares for Rocca S.p.A. purchase							*2,050*			*2,050*		*2,050*
Surplus in the Rocca S.p.A. purchase price								*(2,544)*		*(2,544)*		*(2,544)*
Elimination of intercompany margins in Rocca Group inventory at the purchase date								*(4,763)*		*(4,763)*		*(4,763)*
Other movements								*(555)*		*(555)*	*(78)*	*(633)*
Balances at March 31, 2009	36,344	69,858	2,397	(91)	8,618	-	(6,046)	21,955	(4,709)	128,326	1,512	129,838

(In thousands of Euro)	*Share Capital*	*Share Premium Reserve*	*Legal Reserve*	*Cash flow hedging reserve*	*Shareholders payment reserve*	*Stock option reserve*	*Own Shares*	*Other reserves*	*Net income (Loss) for the period*	*Group shareholder's equity*	*Minorities shareholder's equity*	*Total shareholder's equity*
Balances at March 31, 2009	36,344	69,858	2,397	(91)	8,618	-	(6,046)	21,955	(4,709)	128,326	1,512	129,838
Allocation of the result for the period			*37*					*(4,746)*	*4,709*	*-*		*-*
Redemption of sale and leaseback contracts								*201*		*201*		*201*
Other comprehensive income(loss)				*35*				*(373)*	*(18,242)*	*(18,581)*	*(26)*	*(18,606)*
Stock option						*108*				*108*		*108*
Purchase of own shares							*(2,181)*			*(2,181)*		*(2,181)*
Other movements								*(333)*		*(333)*		*(333)*
Balances at March 31, 2010	36,344	69,858	2,434	(56)	8,618	108	(8,227)	16,703	(18,242)	107,540	1,487	109,027

Cash flow statement

(In thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net income (loss) for the period	*(18,268)*	*(4,865)*
Adjustments to reconcile the profit (loss) for the period to the cash flow generated (absorbed) by operations:		
Amortization, depreciation and write-downs	*5,886*	*4,191*
Costs / (Revenues) for stock option	*108*	*(58)*
(Gains)/Losses from sale of non current assets	*78*	*(21)*
Provisions to Bad Debts Reserve	*5,629*	*3,093*
Provisions to risks reserves	*286*	*0*
Changes in the Fair value of Financial Instruments	*(35)*	*126*
Provisions for termination Indemnity and actuarial valuation of ELI Fund	*468*	*233*
Termination indemnity payments	*(643)*	*(407)*
Changes in the deferred tax assets and liabilities	*(3,340)*	*(3,729)*
	(9,831)	*(1,437)*
Changes on operational assets and liabilities		
Trade receivables	*5,951*	*9,395*
Inventories	*15,084*	*(4,959)*
Trade payables	*(12,978)*	*(8,449)*
Tax receivables	*632*	*(5,130)*
Income Tax payables	*(353)*	*(6,308)*
Other current and non current assets and liabilities	*1,354*	*10,622*
NET CASH FLOW PROVIDED (ABSORBED) BY OPERATING ACTIVITIES (A)	(141)	(6,266)
CASH FLOW FROM INVESTING ACTIVITIES		
Cash in from disposal of Intangible and tangible Fixed Assets	*79*	*83*
Leaseback write off	*3,944*	-
Tangible Fixed Assets purchased	*(1,631)*	*(4,568)*
Intangible Fixed Assets purchased	*(409)*	*(1,364)*
Net change in the other non current assets	*178*	*(1,255)*
Cash used for the acquisition of Rocca Group, net of cash acquired (1) :	-	*(3,865)*
NET CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	2,161	(10,969)
CASH FLOW FROM FINANCING ACTIVITIES		
New Long term loans	*25,000*	-
Leaseback debt write off	*(4,266)*	-
Payment of long-term debt	*(8,048)*	*(6,155)*
Net change in short-term financial liabilities	*(14,265)*	*(8,246)*
Purchase of own shares	*(2,181)*	*(5,759)*
Cash used for the distribution of reserves to the mayorities Shareholders in relation with the acquisition of Rocca Group (1)	-	*(494)*
Other changes in Net Equity	*(470)*	*(5,382)*
NET CASH FLOW GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	(4,230)	(26,036)
TOTAL CASH FLOW (D=A+B+C)	(2,210)	(43,271)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	9,542	52,813
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (F=D+E)	7,332	9,542

([1]) The total of the purchase amounted to €7,443 thousand, of which €2,050 thousand from the transfer of treasury shares. The financial outlay was equal to €5,393 thousand, of which €4,899 thousand referred to the carrying value of the net assets purchased (which include €1,034 thousand in cash and amounts to a net outlay of €3,865 thousand) and €494 thousand used for distributing reserves of €2,544 thousand to the controlling shareholders.

Explanatory notes

1. COMPANY INFORMATION AND STRUCTURE OF THE FINANCIAL STATEMENTS

Company information

Damiani Group has been engaged for many years in the production and distribution of jewellery products through wholesale and retail channels. In particular, the Group offers five prestigious jewellery brands, such as Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni. Moreover, through the Rocca network, the Damiani Group also distributes prestigious third-party brands in multi-brand boutiques, in particular with regard to timepieces.
The headquarters address of the company is Viale Santuario n. 46, Valenza (AL), Italy.

Statement of compliance

Damiani S.p.A. has prepared its financial statements as of March 31, 2010 in accordance with IAS /IFRS international accounting standards and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) as adopted by the European Commission and with the provisions contained in article 9 of Legislative Decree 38/2005.

Structure of the Financial Statements

The present consolidated Financial Statements of the Damiani Group as of March 31, 2010 covering the 12-month period April 1, 2009 – March 31, 2010, consisting of the consolidated balance sheet, the separate consolidated income statement, the comprehensive income statement, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement and the explanatory notes (hereafter, the "Consolidated Financial Statement") was approved by the Board of Directors of the company on June 11, 2010.
The statements incorporate the changes introduced by IAS 1 – (Revised) Presentation of Financial Statements.
The structure of the balance sheet takes into account the classification between "current assets" and "non-current assets" while, with reference to the income statement, the classification according the nature of the items has been maintained since this format is believed to be most representative in relation to the so-called "presentation by destination" (also called "cost of goods sold" method).
In accordance with Consob (Italian SEC) resolution number 15519 dated July 27, 2006, the effects of transactions with related parties on the balance sheet assets and liabilities and on the income statement are shown in the statements. Transactions with related parties are identified in accordance with the extended definition laid down by IAS 24, i.e. including relations with the administrative and governing bodies as well as those company executives who have strategic responsibilities. See also note 32. Transactions with related parties, and note 34. Atypical and/or unusual and non recurring operations.
The Cash Flow Statement was prepared using the indirect method.
The Consolidated Financial Statements were prepared in thousands of euros. All amounts included in the tables contained in the notes below are expressed in thousands of euros, unless otherwise indicated.

2. ACCOUNTING STANDARDS AND CRITERIA

Criteria used

The Consolidated Financial Statements for the financial year April 1, 2009 – March 31, 2010 were prepared in accordance with IFRS as adopted by the European Union and include the Financial Statements of Damiani S.p.A. and of the Italian and foreign subsidiaries which the Company is entitled to control, directly or indirectly, determining their financial and management decisions and obtaining the corresponding benefits. In consolidating those companies which do not yet prepare their financial statements in accordance with IFRS, the Group used the Financial Statements (in the case of the Group's Italian subsidiaries), and equivalent accounts (for foreign subsidiaries) prepared using the valuation criteria prescribed by local standards, adjusted to bring them into line with IFRS.
The income statement figures, changes in net equity and the cash flow statement for the financial year ended on March 31, 2010, are presented in a comparative format with the statements for the period from April 1, 2008 to March 31, 2009. The balance sheet data as of March 31, 2010 are presented in a format that is comparable with those as of March 31, 2009.
Subsidiaries are fully consolidated from the date of actual transfer of control to the Group and they cease being consolidated from the date of transfer of control outside the Group.

The following subsidiaries are included within the scope of consolidation on March 31, 2010:

Company name	Registered office	Currency	Share Capital (local currency)	Held by	% Direct	% of the Group
Alfieri & St. John S.p.A.	Valenza (AL), Italy	EURO	1,462,000	Damiani S.p.A.	100%	100%
New Mood S.p.A.	Valenza (AL), Italy	EURO	1,040,000	Damiani S.p.A.	97%	100%
Damiani Manufacturing S.r.l	Valenza (AL), Italy	EURO	850,000	Damiani S.p.A.	51%	51%
Laboratorio Damiani S.r.l.	Bassignana (AL), Italy	EURO	200,000	Damiani S.p.A.	100%	100%
Damiani International B.V.	Amsterdam, Netherland	EURO	193,850	Damiani S.p.A.	100%	100%
Damiani Japan K.K.	Tokio, Japan	JPY	490,000,000	Damiani International B.V.	100%	100%
Damiani USA, Corp.	New York, USA	USD	55,000	Damiani International B.V.	100%	100%
Casa Damiani Espana S.L.	Valencia, Spain	EURO	721,200	Damiani S.p.A.	99%	100%
Damiani Hong Kong L.t.d.	Hong Kong, Hong Kong	HKD	2,500,000	Damiani International B.V.	100%	100%
Damiani France S.A.	Parigi, France	EURO	38,500	Damiani International B.V.	100%	100%
Damiani Service Unipessoal L.d.a.	Madeira, Portugal	EURO	5,000	Damiani International B.V.	100%	100%
Rocca S.p.A.	Milano, Italy	EURO	4,680,000	Damiani S.p.A.	100%	100%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Rocca S.p.A.	100%	100%

During the year closed on March 31, 2010, the subsidiary Courmayeur Rocca S.r.l. was liquidated (in March 2010); the subsidiary operated a multi-brand boutique in Courmayeur, Aosta Valley, Italy, and it had ceased its operations during the year.

Associated companies

Associated companies are those in which the Group owns at least 20% of voting rights or exercises significant influence, but not control, over financial and operating policies.
At March 31, 2010, the Group had no interests in associated companies.

Other equity investments

Information about equity investments in other companies held by the Damiani Group on March 31, 2010, whose total value is €167 thousand, is provided below. See the "Main Accounting principles" paragraph below for an explanation of the criteria used for evaluating other equity investments.

Company name	Currency	Share capital *(in thousands of Euro)*	Book value *(in thousands of Euro)*	Held by	% owned directly	% owned by whole Group
Fin-or-val S.r.l.	Euro	n/d	126	Damiani S.p.A.	3.84%	
				Alfieri & St.John S.p.A.	0.52%	4.36%
Banca d'Alba	Euro	n/d	41	Damiani S.p.A.	0.50%	0.50%

Principles of consolidation

In the preparation of the consolidated financial statement the assets, liabilities, costs and revenues of consolidated companies the line by line method is used, while minority or "non-controlling" interests (in shareholders' equity and in the profit for the period) are accounted for in separate items of the balance sheet and income statement. The book value of the stake in each of the controlled subsidiaries is cancelled against the corresponding portion of shareholders' equity in that subsidiary, including any fair value adjustments of its assets and liabilities, as of the acquisition date, with any residual difference being allocated to goodwill.
All balances and transactions within the Group, including any unrealized gains arising from intra-Group relations, are netted out. Likewise all profits and losses on trade with associate companies, to the extent of the Group's share. Intra-group losses are also netted out, except where they represent impairments.

Conversion of Financial Statements expressed in currencies other than the euro

The consolidated financial statements are expressed in euros, which is also the functional currency in which most Group companies operate.
The balance sheet and income statement figures for companies operating outside the euro-zone are converted into euros applying: (i) the spot exchange rates at year end, for balance sheet asset and liability items; (ii) the historical exchanges rate rates, for shareholders' equity items; (iii) the average rates for the year, for income statement items.
Exchange rate conversion differences from the application of different exchange rates for assets and liabilities, shareholders' equity and the income statement are recognized in the consolidated shareholders' equity item "Foreign currency conversion reserve" for the portion attributable to the Group, and in the item "Minority share capital and reserves" for the portion attributable to minority interests.
The balance sheet and income statement figures used in the conversion are those denominated in the functional currency. Goodwill and fair value adjustments generated when recognizing the purchase cost of a foreign company are recognized in the currency in which they were paid and are converted using the exchange rate at the end of the financial period.

Accounting standards

The accounting standards adopted in the preparation of the financial statements as of March 31, 2010 are the same as those used for the financial year ended on March 31, 2009, except as specified below.
The standards and interpretations applied for the first time in the year ended March 31, 2010, with consequent changes in the adopted accounting procedure and in the disclosure provided by the Group, are discussed below.

Revised IAS 1 – Presentation of Financial Statements

This standard requires the separate presentation of any changes in shareholders' equity in the company's own capital and in third-party capital.
Consequently, the statement of changes in shareholders' equity only includes details of transactions carried out on the company's own capital, while changes in third-party capital are presented in a single line.
Additionally, the principle introduces the statement of comprehensive income, which includes all recognized revenue and cost components, which may be presented as one statement or two related statements.
The Damiani Group opted for presentation in two separate statements, entitled "separate income statement" and "comprehensive income statement", respectively.

Revised IAS 19 – Employee Benefits

This standard clarifies the definition of income/cost related to past employee services, and establishes that in the case of reduction of a plan the effect to be immediately booked to the income statement must only include the benefit reduction for future periods, while the effect deriving from any reduction related to past service periods must be considered a negative cost referring to past employee services. The adoption of this amendment had no effects on the Group's accounting.

Revised IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance

This standard prescribes that the benefits from loans granted by Government entities at a lower than market interest rate must be treated as Government grants, and as such must follow the recognition rules set forth in IAS 20. The adoption of this amendment had no effects on the Group's accounting.

Revised IAS 23 – Borrowing Costs

This amendment removes the option, contemplated in the prior version of the standard, of immediately recognizing borrowing costs an as expense in the income statement for the year in which they are incurred, as an alternative to their capitalization. Therefore, in the revised version any borrowing costs that are directly attributable to the purchase, construction or production of an asset requiring a significant period of time before it is ready for the intended use or for sale must be capitalized as part of the asset's cost. The application of this standard had no accounting effects, as the specific situation is not applicable to the Group.

Amendments to IFRS 1 and IAS 27 – Cost of shareholdings in subsidiary companies, in jointly-controlled entities and in associated companies.

Revised IAS 28 – Investments in Associates

This standard prescribes that, for investments recognized under the equity method, any loss of value should not be allocated to the individual assets (and in particular to any eventual goodwill) that make up the investment's book value, but rather to the investment as a whole. Therefore, in the presence of conditions for a subsequent recovery of value, such recovery must be recognized entirely. The adoption of this amendment had no effects on the accounting, as the Group holds no investments in associate companies.

Revised IAS 38 - Intangible Assets

This revised standard provides for recognition of promotional and advertising costs in the income statement. Further, it prescribes that if the company incurs expenses having future benefits without entering intangible assets, the latter must be recognized in the income statement at the time the company has the right to access the asset, in the case of purchases of goods, or at the time the service is provided, in the case of purchases of services. The application of this standard had no accounting effects, as the specific situation is not applicable to the Group.

Amendment to IFRS 2 – Share-based Payments: Vesting Conditions and Cancellations

This standard has been amended to provide a more specific definition of the vesting terms and conditions and to prescribe the accounting treatment for grants actually cancelled due to failure to meet a non-vesting condition. The adoption of this amendment had no impact on the Group's financial position or performance.

IFRS 7- Financial Instruments: Additional Disclosures

The amendment was issued to increase the level of disclosure required for items designated at fair value, and to strengthen the existing standards concerning disclosures about liquidity risks associated with financial instruments. In particular, the amendment requires the disclosure of the designation at fair value of financial instruments by hierarchical levels of assessment. The amendments did not significantly affect the Group's disclosures about liquidity risks presented in Note 38 below.

IFRS 8 – Operating segments (replaces IAS 14)

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments on the basis of the elements used by management to make its operating decisions, identifying operating segments on the basis of internal reports that are regularly reviewed by management for the purpose of allocating resources to the various segments. Application of this standard had no impact on the Group, because the criteria whereby the Group has always determined the operating segments already comply with the provisions of the new standard.

IFRIC 13 – Customer Loyalty Programmes

This interpretation has defined the accounting methods for the obligation arising at the time of giving reward points to customers after a sale, and prescribes that the fair value of the obligations connected to the reward must be separated from the sale revenue and deferred until the obligation to the customers is extinct. The application of this standard had no impact on the Group, because this type of programme is not used by the Group.

IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement

This interpretation provides the general guidelines on how to determine the limit amount established by IAS for recognition of assets serving benefit plans, and explains the accounting effects deriving from the existence of a minimum funding requirement. The application of this standard had no accounting effects on the Group.

The following amendments, improvements and interpretations, effective as of January 1, 2009, regulate situations and cases which are not applicable to the Company at the date of these financial statements, but which could have accounting effects on future transactions or agreements.
• Improvement to IAS 29 – Financial Reporting in Hyperinflationary Economies
• Amendment to IAS 32 - Financial instruments
• Improvement to IAS 36 – Impairment of assets
• Improvement to IAS 39 – Financial instruments: Recognition and Measurement
• Improvement IAS 40 – Investment Property

New accounting standards applicable to financial statements for periods starting after April 1, 2010

The International Accounting Standards Board (IASB) also issued the following new accounting standards, interpretations and amendments applicable to the Group's financial statements for periods starting after April 1, 2010, not adopted in advance by the Group:

Revised IFRS 3 – Business Combinations

The main changes concern the removal of the obligation to recognize the subsidiary's assets and liabilities at fair value in every subsequent acquisition, in the case of acquisition of subsidiaries by stages. Goodwill shall be determined only in the acquisition phase, and shall be equal to the difference between the value of the investments immediately before acquisition, the price of the transaction and the value of the acquired net assets. Additionally, for equity investments other than 100% acquisitions, the shareholding portion held by others may be recognized either at fair value or using the method previously provided by IFRS 3. The standard's revised version also prescribes that all costs related to the business combination are booked to the income statement and that liabilities for payments subject to conditions are booked at the date of acquisition.

Amendment to IAS 27 – Consolidated and separate financial statements

The amendment prescribes that any changes in the level of ownership interest not resulting in loss of control must be treated as equity transactions, and must therefore have a balancing entry in equity. The new version also prescribes that when a parent company transfers control of a subsidiary but continues to hold an investment in such company, the interest still held must be recognized at fair value. Lastly, the amendment states that all losses attributable to minority shareholders must be allocated to the minority portion, even when these exceed the minority shareholders' portion of the subsidiary's share capital.

Additionally, the following standards and interpretations thereof, not applicable to the Group or not expected to have significant impacts, have been issued and endorsed by the European Union:
- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
- Amendments to IAS 39 -Financial instruments: Recognition and Measurement – Eligible Hedged Items
- IFRS 1 (revised) – First-time adoption of IAS/IFRS
- IFRIC 12 – Service Concession Arrangements
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers
- Amendments to IAS 32 – Classification of Rights Issues.

Use of estimates

The preparation of the financial statements and the explanatory notes under the IFRSs requires the Group to make estimates and assumptions which affect the values of the assets and liabilities stated in the consolidated financial statement and the reporting of potential assets and liabilities. The final results could differ from these estimates. The estimates are used to measure provisions for credit risk, returns, inventory obsolescence, amortization, asset impairments, employee benefits, taxes, and provisions for risks and charges. These estimates and assumptions are reviewed periodically, and the effects of any change are booked directly to the income statement.
The main valuation processes for which the Group has used estimates are those involved in asset impairment tests, in the valuation of expected future returns and in the determination of trade receivable and inventory writedowns.
Because of the current economic and financial crisis, assumptions regarding future trends are highly uncertain; for this reason, the results of upcoming financial periods may be significantly different from those estimated, calling for adjustment of their respective valuations, which cannot be estimated or foreseen at this time. Financial statement entries most affected by these situations of uncertainty are the returned goods reserve and the bad debt and inventory writedown reserve.
Additional details on the estimates are found in the specific notes to the financial statements.

Summary of the main accounting principles

Goodwill

The goodwill acquired in a business combination consists of the amount by which the cost of the combination is exceeded by the combined Group's share of its total shareholders' equity at current values as calculated from the values of the identifiable assets, liabilities and potential liabilities that have been acquired. Following the initial entry, goodwill is valued at cost less any accrued impairment. Goodwill is subjected to an impairment test, either annually or more often if events or changes occur that might give rise to any impairment.
For the purposes of these impairment tests, the goodwill acquired with business combinations is allocated, from the acquisition date onwards, to each of the cash-generating units (or groups of units) which are believed to profit from the synergistic effects of the acquisition, regardless of the allocation of any other assets or liabilities acquired. Each unit or group of units to which goodwill is allocated:
- represents the lowest level within the Group at which goodwill is monitored for internal management purposes;
- is no greater than an operating segment of the Group as defined in the operating segments chart under IFRS 8.
Impairment is determined by defining the recoverable value of the cash generating unit (or group of units) to which the goodwill is allocated. If this recoverable value of the CGU (or group of CGUs) is lower than the book value, an impairment loss is recognized. Where goodwill has been attributed to a CGU (or group of CGUs) whose assets are partially disposed of, the goodwill associated with the asset disposed of is taken into account for the purposes of calculating any capital gain (or loss) arising from the transaction. In these circumstances the goodwill transferred is measured on the basis of the amount of the sold asset in proportion to the asset still held by the same unit.

Intangible fixed assets

Intangible assets acquired separately are recognized at cost, while those acquired through business combinations are recognized at fair value at the acquisition date. After initial recognition, intangible assets are booked at cost, net of accumulated amortization and any accumulated impairments. Intangible assets generated internally are not capitalized, but are recognized in the income statement for the period in which the cost of generating them was incurred.
The useful life expectancy of intangible assets is assessed as finite or indefinite. Intangible assets with a finite useful life are amortized over their estimated useful life and subjected to impairment tests whenever there are reasons to suspect a possible impairment. The amortization period and method applied to them is reviewed at the end of each financial period, or more often if necessary. Changes in the expected useful life or in the way the future financial rewards connected with the intangible asset are reaped by the Group are recognized by modifying the amortization period or method, and treated as changes in the accounting estimates. The amortization rates for intangible assets with a finite life are recognized in the income statement in the cost category consistent with the intangible asset's function.
Intangible assets with an indefinite useful life are subjected annually to an impairment test at the individual level or at the cash-generating unit level. These assets are not amortized at all. The useful life of an intangible asset with an indefinite useful life is reviewed each year to check that the conditions for this classification are still met. If not, the change from definite to finite useful life is done prospectively.
Gains or losses arising on disposal of an intangible asset are measured as the difference between the net revenue from the sale and the net book value of the asset, and are recognized in the income statement at the time of the sale.
In the case of intangible assets with a finite life expectancy, the annual amortization rates applied are as follows:

Category	Rate
Intellectual and industrial property rights	*From 10% to 20%*
Software licences	*From 20% to 33%*
Key Money (Indemnities paid for renewal of shop rental contracts)	*Duration of contract*
Other charges extending over more than one year	*From 14% to 20%*

Research and development costs

Research costs are directly booked to the income statement in the financial year in which they are incurred.
Development expenditures on a particular project are capitalized only when the Group can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or sale, its intention of completing it for in-house use or for sale to third parties, the way in which it will generate probable financial benefits in future, the availability of the technical, financial and other resources needed to complete development, its ability to reliably evaluate the cost of the asset during its development and the existence of a market for the products and/or services that will arise from the asset and/or its usefulness for internal purposes.
Following initial recognition, development costs are recorded net of accumulated amortization and of any impairment losses recognized, as previously described for intangible fixed assets with a finite useful life.
As of March 31, 2010 there are no capitalized development costs in the consolidated financial statements.

Tangible fixed assets

Buildings, plant and machinery acquired separately – based on purchase or lease agreements – are recognized at purchase cost, while those acquired through business combination transactions are recognized on the basis of the fair value determined at the acquisition date.
Buildings, plant and machinery are recognized at cost, including the directly attributable ancillary costs necessary for the asset's deployment in the function for which it was purchased, plus (if relevant and where obligations are incurred immediately), the present value of the estimated expense of dismantling and removing the asset. If significant portions of these tangible assets have different useful lives, these items are accounted for separately.
Land, whether undeveloped or built up, is not depreciated since it's useful life is unlimited.
The book value of tangible fixed assets is reviewed whenever events or changes take place which give reason to believe that the book value, as established under the amortization plan, might not be recoverable. If such reason exists, and if the book value exceeds the estimated recoverable amount, the assets or cash-generating units to which the assets have been allocated are written down to their recoverable value.
The carrying value of the assets, their useful lives and the methods applied are reviewed annually and, if necessary, they are adjusted at the end of each period.
The depreciation rates applied are as follows:

Category	Rate
Buildings	*From 2% to 3%*
Plant and machinery	*From 12% to 25%*
Industrial and commercial equipment	*From 7% to 35%*
Other assets	*From 12% to 25%*
Leasehold improvements	*Duration of contract*

Leased assets

Finance leases, which essentially transfer all the risks and rewards arising from ownership of the leased asset to the Group, are booked, as of the lease commencement date, at either the leased asset's fair value or, if lower, at the current lease value. The rental amounts are divided into a capital portion and an interest portion in such a way as to give a constant rate of interest on the remaining balance of the liability. Borrowing costs are charged directly to the income statement.
Booked leased assets are depreciated over the shorter of the asset's useful life expectancy and the lease period, unless it is reasonably certain that the Group will become the owner of the asset at the end of the contract.
Rental amounts on operating leases are booked to the income statement for the duration of the lease.

Impairment test

At the closing date of each period the Group assesses whether there is any reason to believe that there has been a decrease in the value of its intangible fixed assets with a finite useful life, its tangible fixed assets and its leased assets. If such a decrease has occurred, an impairment test is carried out.
Goodwill and other intangible fixed assets with indefinite useful lives are subjected to an impairment test every year, whether or not there is any reason to suspect a loss in value. Tangible and intangible fixed assets with a definite useful life are also subjected to an impairment test if there is any reason to suspect a loss in value.
Recoverable value is determined as the greater of the fair value of an asset or cash-generating unit (net of selling costs) and its value in use, and it is calculated asset by asset, except where the asset generates income which is not fully independent of that generated by other assets or asset groups, in which case the Group estimates the recoverable value of the cash-generating unit to which the asset belongs. In particular, since goodwill does not generate any income independently of other assets or asset groups, the impairment test is conducted on the unit or group of units to which the goodwill has been allocated.
In determining value in use, the Group discounts the estimated future cash flow from the current value, using a pre-tax discount rate which reflects the market's evaluation of the temporal value of the money and any specific risks pertaining to the asset.
For the purposes of estimating the value in use, future cash flows are derived from the business plans drawn up by the Corporate of the parent company and approved by its Board of Directors, since these represent the Group's best forecast of the economic conditions over the plan period.
Such plan forecasts are normally for a period of three years; the long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the relevant industry, country or market. Future cash flows are estimated on the basis of current conditions, therefore estimates do not take into account any benefits arising from future restructuring to which the company is not yet committed, nor any future capital spending that aims to enhance or optimise the asset or unit or significantly modifies it.
If the book value of an asset or cash-generating unit exceeds its recoverable value, that asset has lost value and is consequently written down to its fair value.
All impairment loss of operating assets are recognized in the income statement under the cost items relating to the asset that had lost value. Moreover, at the closing date of each period the Group assesses whether there is any reason to suspect that losses previously recognized may now be excessive and if this is the case, a new estimate of the fair value is made. The value of a previously written-down asset (except for goodwill) may only be restored if there have been changes in the estimates used to determine the asset's fair value after the most recent recognition of a impairment loss.
In that case the asset's book value is revised to its recoverable value, though the revised value may never exceed the level which the book value would have been (net of any depreciation) if no impairment loss had been recognized in previous years. When a value is restored it is booked as income in the income statement and the adjusted carrying value of the asset is depreciated on a straight-line basis over the remaining useful life, net of any remaining values.
In no circumstances can the value of goodwill be restored after it has been written down.

Investments

Investments in associated companies are valued using the net equity method.
Investments in companies other than associated and subsidiary companies (in general, those where the Group owns less than 20% of the stock), are regarded, at the time of purchase, as either "financial assets available for sale" or "assets valued at fair value with a set-off in the income statement" whether non-current or current assets. In accordance with the provisions of IAS 39, such shareholdings are valued at fair value or, in the case of unlisted shareholdings or those for which a fair value cannot be reliably determined, at cost, adjusted to take into account the reduction of value.
Changes in the value of investments classified as "assets available for sale" are booked to a shareholders' equity reserve which is subsequently booked to the income statement when the asset is sold or when their is a loss in its value. Changes in the value of investments classified as "assets valued at fair value with a set-off in the income statement" are booked directly to the income statement.

Inventories

Inventories are booked at the lower of their purchase or production cost and their net realisable value, this being the amount which the company expects to obtain from their sale in the normal course of business. The cost configuration used is the weighted average cost method, which includes all ancillary charges accruing in relation to the purchase of these stocks during the period. Inventory valuations include both the direct cost of materials and labour and the indirect cost of production.
Inventories also include the production costs relating to returns expected in future years from deliveries already made, estimated on the basis of the sale value minus the average applied margin.
In order to calculate the net value of future realizable, the value of eventual obsolete or slow-moving goods is written down in relation to an estimate of future net use/realisable value, by means of a specific adjustment reserve for the reduction of the value of the inventories.

Trade receivables and other current assets

Trade receivables and other current assets are booked at their fair value, which is the nominal value that is subsequently reduced to take into account any eventual loss in value by means of the creation of a specific bad debt reserve, adjusted to the value of the asset. Trade receivables are booked to the financial statements net of an adjusted reserve for products that the Group estimates are returned by clients. That reserve is related to the amounts invoiced on dispatch of the goods where it is reasonable, in the light of experience and on the probable percentage relating to sales in future years, to expect that not all significant risks and benefits connected to ownership of the assets have been definitively transferred at the balance sheet date.
Trade receivables and other current assets which neither bear interest nor are expected to be settled within normal commercial terms are discounted.

Financial instruments

IAS 39 provides for the following types of financial instrument: 1) financial assets at fair value, with changes booked to the income statement; 2) loans and receivables; 3) investments held to maturity; 4) assets available for sale.
Initially all financial assets are recognized at fair value, plus ancillary charges in the case of assets that are not at fair value in the income statement. The Group classifies its financial assets after they have been initially recognised and, when appropriate and permitted, reviews this classification at the end of each financial year.
All purchases and disposals of financial assets are booked to their transaction date, which is the date on which the Group undertakes to buy the asset.

<u>Financial assets at fair value with changes booked to the income statement</u>
This category includes financial assets held for trading, i.e. all assets acquired for the purpose of disposal in the short term. Derivatives are classified as financial instruments held for trading unless actually designated as hedges. Profits and losses on assets held for trading are booked to the income statement.

<u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. Such assets are recognized at cost amortized using the effective discount rate method. Profits and losses are entered on the income statement when loans or other receivables are removed from the books, when a impairment loss is registered or as part of the depreciation process.

<u>Investments held to maturity</u>
Financial assets which are not derivatives and which have fixed or determinable payments are classified as "investments held to maturity" when the Group intends and is able to hold them in its portfolio until maturity. Financial assets which the Group has decided to hold for an indefinite period do not come into this category. Other long-term financial assets which are held to maturity, such as bonds, are subsequently valued at amortized cost, calculated as the value initially recognized less any capital amounts repaid, plus or minus accumulated amortization using the effective rate of interest of any difference between the value initially recognized and the maturity amount. This calculation includes all fees, commissions or rate points negotiated between the parties that form an integral part of the effective rate of interest, transaction costs and other premiums or discounts. In the case of investments valued at amortized cost, profits and losses are booked to the income statement when the investment is removed from the books, when a impairment loss is registered or as part of the depreciation process.

<u>Assets available for sale</u>
Financial assets available for sale are those financial assets other than derivatives which have been designated as available for disposal or have not been classified under any of the previous three categories. Following initial recognition at cost, financial assets available for disposal are valued at fair value and profits and losses are recognized as a separate item in equity until either the assets are removed from the books or a impairment loss is registered, while profits or losses which have accumulated up to that point in equity are then transferred to the income statement.
In the event of securities traded in regulated markets, fair value is calculated based on their quotation on the stock exchange at the time the financial period ends. In the case of investments for which there is no active market, fair value is determined by means of valuation techniques based on i) the prices of recent transactions among independent parties; ii) the current market value of essentially similar instruments; iii) an analysis of discounted cash flows; iv) option pricing models.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or a group of similar financial assets) is derecognized when:
– the rights to receive the financial flows expire;
– the Group keeps the right to receive the asset's financial flows, but has the contractual obligation to transfer them without delay to a third party;
– the Group has transferred the right to receive the asset's financial flows and (i) it has essentially transferred all the risks and benefits of ownership of the financial asset, or (ii) it has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control of it.
Where the Group has transferred the right to receive the financial flows from an asset and has not transferred or retained all the risks and benefits of the asset nor lost control of it, the asset is recognized in the Group's financial statements to the extent of the Group's remaining involvement in that asset. A "remaining involvement" which takes the form of a guarantee in respect of the transferred asset is valued at the lesser of the asset's initial book value and the maximum amount which the Group might be required to pay.
A financial liability is derecognized from the financial statements when the underlying obligation is extinguished, annulled or fulfilled.
Where an existing financial liability is replaced by another from the same lender on materially different terms, or the terms of an existing financial liability are materially modified, this difference or modification is treated as a de-recognition of the original liability in the accounts and the recognition of a new one and any difference in the book values is booked to the income statement.

Hedge accounting
For the purposes of hedge accounting, hedges are classified as:
(i) fair value hedges, if they hedge the exposure to changes in the fair value of the underlying assets or liabilities; or if they are a firm commitment (in the exceptional case of currency hedges); or (ii) cash flow hedges, if they hedge the exposure to variability of cash flow which is either attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction, or if they hedge the currency risk of a firm commitment; (iii) net hedging of an investment in a foreign company (net investment hedges).
When a hedge transaction is launched, the Group formally designates and documents it as such, stating its objectives in terms of the strategy pursued and the exposure hedged against. This documentation identifies the hedge instrument, the element or transaction hedged, the nature of the risk and the way the company intends to assess the hedge's effectiveness in covering exposure to changes in the fair value of the element covered or in the cash flow linked to the hedged risk.
These hedges are expected to be highly effective in compensating for the hedged element's exposure to fair value or cash flow changes attributable to the risk hedged against; assessment of whether these hedges are in fact highly effective is carried out continuously throughout the financial years in which they have been designated.
Changes in the fair value of the hedge are booked to the income statement. The change in the fair value of the hedged asset attributable to the risk hedged against is recognized as part of the book value of the asset itself, with a counter-entry in the income statement.
As for fair value hedges of assets valued at amortized cost, the adjustment to the book value is amortized in the income statement for all the period remaining up until maturity. Any adjustments to the book value of a hedged financial instrument valued using the effective discount rates are amortized in the income statement.
Any profits and losses resulting from changes in the fair value of derivatives not suitable for hedge accounting are booked directly to the income statement for the period.

Cash and cash equivalents

Cash and cash equivalents are booked at their par value, depending on their nature.

Financial liabilities

Financial liabilities include financial debt and financial liabilities relating to derivative instruments. Financial liabilities other than derivatives are initially booked at fair value plus transaction costs, while thereafter they are valued at amortized cost, i.e. the initial value less any capital repayments already made, adjusted (up or down) by the amortization (at the effective interest rate) of any differences between the initial value and the value at maturity.

Employee benefits

Guaranteed employee benefits paid on or after termination of employment under defined-benefits schemes (for Italian companies, this is the known as "TFR" or severance indemnities) are recognized in the period in which the rights are accrued.
Those liabilities relating to a defined-benefits scheme, net of any assets held to service the plan, are determined on the basis of actuarial assumptions and recognized on an accrual basis consistent with the employment services necessary for obtaining the benefits; liabilities are valued by an independent actuary.
The Group has decided not to adopt the "corridor approach" provided for in IAS 19, therefore profits and losses arising from the actuarial calculations are booked to the income statement in each period under labour costs.

Other employee benefits

In accordance with IFRS 2 (payments based on shares), stock options in favour of employees are valued by an external evaluator at their fair value at the grant date according to appropriate model.
If the right can be exercisable after a certain period and/or when certain performance conditions take place, i.e. the vesting period, the overall fair value of the options is split equally over time during the said period and booked to a specific item in the net equity while a corresponding amount is booked to the income statement under "personnel costs" (since it is a payment in kind paid to the employee) and to "costs for services" (in relation to the directors and agents who are beneficiaries of the options).
During the vesting period the fair value of the option that has been previously calculated is not reviewed or updated, but updating is continually carried out of the estimated number of options that will mature at the due date and, therefore, the number of beneficiaries who will have the right to exercise the options. The change in the estimate is treated as an increase or a reduction in the net equity item referred to while a corresponding amount is booked to the income statement under "personnel costs" and "costs for services".
When the option date expires, the amount booked to the net equity item referred to is reclassified as follows: the amount of the net equity referring to

the exercised options is booked under “share premium reserve”, while the part referring to the options that have not been exercised is reclassified under “Profit (loss) carried forward”.

Trade payables and other current liabilities

Trade payables and other current liabilities, whose due dates fall within normal trade and contractual terms, are not booked to their net present value but to their par value.

Reserves for risks and charges

Reserves for risks and charges refer to costs and charges that are of determined nature and are of either certain or probable and for which it was not possible to calculate the amount or contingency date at the end of the financial period in question. Provisions or reserves for risks and charges are booked when the Group must meet an obligation that derives from a past event if resources will probably have to be used to meet the obligation and the amount required can be reliably estimated.
When the Group believes that a provision will be either totally or partly reimbursed (insurance policy cover risks), if the reimbursement is practically certain, it is booked under a specific item under assets, in which case the provision is booked net of the reimbursement in the income statement.
The value of provisions is based on the best estimate of the amount that is to be paid in order to meet the obligation or to transfer it to a third party, and is booked at the end of the financial period in question.

Revenues from sales and services

Revenues and income shown net of discounts, allowances and returns are booked at their fair value in so far as it is possible to calculate that value and it is possible that the relative financial benefits will be exploited.
Revenues from the sale of goods are recognized when all the following conditions are met:
• the significant risks and benefits connected to the goods are transferred to the purchaser;
• the usual operations associated with ownership of the goods are no longer carried out and effective control of the goods is no longer exercised;
• the amount of the revenues can be reliably calculated;
• it is probable that any future financial benefits will be exploited;
• the costs incurred, or to be incurred can be reliably estimated.
In some cases the Group accepts, for commercial reasons and in line with the usual practices of the sector, returns from customers of goods that have already been delivered, including goods delivered in previous financial years. In such cases, the Group adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of experience and on the probable percentage relating to sales in future years, it is possible to reasonably estimate that at the date of the financial statements not all the significant risks and benefits associated with ownership of the goods will been transferred to the new owner. Returns that are calculated in this manner are booked to the income statement as a reduction of revenues and in the balance sheet under a specific adjustment reserve for receivables from customers, while the relative estimated production cost is included under inventories.

Barter transactions

Sales of goods in return for the purchases of publicity and advertising services are booked separately in the financial statements under “revenues from sales” and “costs of services”. Revenues from the sale of goods is calculated at the fair value of the publicity and advertising services received, adjusted to take into account any cash payments or equivalents, and they are booked at the time the goods are shipped.

Other revenue and income

Other revenues include financial benefits during the period from operations connected to the company’s ordinary business activities.
Key money received as a result of the disposal of leasing contracts before their due date for prestigious property for commercial usage is booked under other operational incomes when the amounts are received, which coincides with the date original leasing contract is cancelled.

Costs

Costs are booked using the accruals system. In particular:
Costs for advertising campaigns and testimonials
Commission due to advertising agencies and the cost of producing advertising campaigns (television commercials and photo shoots), are booked to the income statement at the time they are incurred.
Costs relating to advertising campaigns and promotional activities are recognized in the income statement of each period for the services received (advertising already broadcast, published or transmitted, testimonial appearances already made).
Any advances paid for services still to be received are booked at the period when the services are provided.
Commissions paid to advertising agencies and the cost of producing advertising campaigns, spots and photo shots, are booked to the income statement for the period when the services are provided.
The costs relative to purchased advertising services are posted on an accrual basis in the period when the relative services are received.

Financial incomes and expenses

Financial incomes are recognised after an assessment has been carried out of the interest earned in the relevant period. This assessment is carried out using the effective interest rate method, represented by the rate used to discount the cash flow estimated on the basis of the life expectancy of the financial instrument.
Financial expenses are booked to the income statement in accordance with the accruals system and for the amount of the effective interest.

Dividends

Dividends are booked when the shareholders' right to receive payment comes into force, which coincides with the time resolution is passed on the dividends.

Income taxes

Current taxes

Current taxes are calculated on the basis of the taxable income for the period. Taxable income differs from the financial result shown in the income statement because it excludes items that will be taxable or deductable in other financial years and also items that will never be taxable or deductable. Current tax payables are calculated on the basis of the tax rates in force at the time the financial statements are prepared.

Deferred and prepaid taxes

Deferred and prepaid taxes are calculated on the temporary differences between the book value of the assets and liabilities in the financial statements and the corresponding fiscal value used in calculating taxable income, accounted for using the balance sheet liability method. Deferred tax liabilities are recognized in the case of all such taxable temporary differences, with the exception of the following:

- where the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect either on the profit for the period calculated for the purposes of the financial statements, nor on the profit or loss calculated for tax purposes;
- in the case of taxable temporary differences linked to investments in subsidiary and associated companies and joint ventures, where the reversal of these temporary differences can be verified and it is likely that they will not in fact be reversed in the foreseeable future.

Prepaid taxes are recognized to the extent that it is thought likely that there will be sufficient taxable profits in future to enable the temporary differences to be deducted, except:

- where the prepaid tax derives from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, had no effect either on the profit for the period calculated for the purposes of the financial statements nor on the profit or loss calculated for tax purposes.

The value assigned to advance taxes is re-examined at the end of every financial period and reduced in accordance with the likelihood that in the year in which the temporary difference is expected to be reversed there might not be sufficient taxable income to enable its full or partial recovery. Any previously unrecognized taxes paid in advance are re-examined each year at the end of the financial period and are then recognized in relation to the probability of their recovery.

Both prepaid and deferred taxes are calculated on the basis of the tax rates which are expected to be in force during the financial period in which the tax asset is realized or the tax liability is settled, in accordance with the tax law in force at the time covered by the financial statements.

Deferred and prepaid taxes are booked to the income statement, with the exception of amounts relating to items recognized directly in shareholders' equity for which the relative deferred and advance taxes are directly booked without being entered in the income statement.

Prepaid tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

Foreign currency conversion

The Damiani Group's functional currency is the euro.

Transactions in other currencies are converted and booked at the rate in force at the time of the transaction. Any foreign currency based assets and liabilities are converted to euros using the rate in force on the date the financial statements are closed. All exchange differences resulting from transactions in foreign currencies with third parties are booked to the income statement. Non-monetary items valued at their historical cost in foreign currencies are converted using the exchange rate in force at the date the transaction is recognised. Non-monetary items booked at their fair value in foreign currencies are converted using the exchange rate in force on the date the fair value is calculated.

Treasury stock

Treasury stock is classified as a direct reduction of net equity. The original cost of treasury stock and income from any subsequent sale of it is shown as changes in net equity.

Earnings (losses) per share

Earnings (losses) per share are calculated by dividing the net result for the period attributable to the company's ordinary shareholders by the weighted average number of ordinary shares in circulation during the period. It should be noted that when calculating the earnings per share for the financial period ending March 31, 2010 and for the financial period ending March 31, 2009, the average number of shares in circulation in each period was based on the changes in the company capital in each of those financial periods. The company's diluted earnings (losses) per share are calculated by taking into account the effects produced by the treasury share purchase plan approved by the Shareholders' Meetings of February 22, 2008 and July 22, 2009.

Business combinations

Business combinations are accounted for by using the purchase cost method, whereby the cost of business combinations is allocated by recognizing the fair value of the assets and liabilities purchased, together with any identifiable potential liabilities and any equity instruments issued on of the date of the transaction, and the costs directly attributable to the purchase.

Any positive difference between the purchase cost and the share of the fair value of the assets, liabilities and identifiable potential liabilities of the purchase is recognized as goodwill in the assets and is subject to an impairment test at least once a year. Any negative difference is either booked directly to the income statement or booked as a liability in a special risk reserve if it represents future losses.

Purchase transactions between parties controlled by the same entities, which take the form of transactions between companies "under common control", are not currently regulated by IFRS and so, in line with IFRS recommendations, similar accounting procedures and principles are used for these business combinations. On the basis of such criteria, the purchase is booked at its historic values and any difference between the historic value and the price paid recognized in the financial statements of the purchased company is regarded as received or distributed capital to/from the controlling shareholders.

3. SEGMENT INFORMATION

The Damiani Group operates in a single segment where there is little product difference and no need for separate business units, therefore the Group's business activities are divided up into geographical areas, as referred to in the report on operations. The operational results for the twelve months up to March 31, 2010 and, for the purposes of comparison, those for the twelve months up to March 31, 2009 are illustrated below.

Information by geographical areas (as of March 31, 2010):

Financial Year 2009/2010	Italy	Americas	Japan	Rest of the World	Eliminations	Consolidated
(in thousands of Euro)						
Net sales to third party customers	*112,373*	*5,112*	*8,486*	*19,394*	*-*	*145,365*
Other revenues	*349*	*-*	*4*	*37*	*-*	*390*
Intercompany sales	*36,101*	*3,197*	*1,755*	*25,999*	*(67,052)*	*-*
Total Net Sales	148,823	8,309	10,245	45,430	(67,052)	145,755
Operating costs	(164,164)	(11,906)	(11,110)	(44,753)	67,052	(164,881)
Operating profit (loss)	(15,341)	(3,597)	(865)	677	-	(19,126)

Situation at March 31 2010 *(in thousands of Euro)*	Italy	Americas	Japan	Rest of the World	Eliminations	Consolidated
Total current assets	*170,210*	*31,025*	*16,757*	*46,720*	*(93,585)*	*171,127*
Total assets	*296,766*	*32,607*	*22,928*	*131,133*	*(256,247)*	*227,187*
Total liabilities	*141,766*	*20,546*	*9,049*	*63,407*	*(116,608)*	*118,160*
Capex	*935*		*725*	*380*		*2,040*

Information by geographical areas (as of March 31, 2009).

Financial Year 2008/2009	Italy	Americas	Japan	Rest of the World	Eliminations	Consolidated
(in thousands of Euro)						
Net sales to third party customers	*108,761*	*7,692*	*9,660*	*23,176*	*-*	*149,289*
Other revenues	*466*	*-*	*7*	*29*	*-*	*502*
Intercompany sales	*39,671*	*3,158*	*1,809*	*16,194*	*(60,832)*	*-*
Total Net Sales	148,898	10,850	11,476	39,399	(60,832)	149,791
Operating costs	(152,376)	(9,881)	(12,183)	(39,163)	60,743	(152,861)
Operating profit (loss)	(3,478)	969	(707)	236	(89)	(3,070)

Situation at March 31 2009 *(in thousands of Euro)*	Italy	Americas	Japan	Rest of the World	Eliminations	Consolidated
Total current assets	*229,900*	*26,277*	*17,954*	*54,197*	*(124,853)*	*203,475*
Total assets	*323,392*	*28,446*	*24,731*	*136,434*	*(245,320)*	*267,683*
Total liabilities	*163,822*	*12,507*	*10,343*	*70,779*	*(119,605)*	*137,845*
Capex	*2,438*	*835*	*1,426*	*1,233*		*5,932*

NOTES ON THE MAIN ITEMS OFTHE CONSOLIDATED FINANCIAL STATEMENTS

4. GOODWILL

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Goodwill, boutiques	*726*	*719*
Goodwill, Alfieri & St.John S.p.A.	*4,258*	*4,258*
Goodwill, Damiani Service Unipessoal L.d.a.	*-*	*25*
Total goodwill	4,984	5,002

This refers to €4,258 thousand for goodwill for the purchase in 1998 of 100% of the company shares of Alfieri & St. John S.p.A. and €726 thousand for goodwill paid by the parent company in 1996, 2002, 2007 and 2009 for the purchase of four single-brand shops directly run by the Damiani Group. With regard to the situation at March 31, 2009, writedown for €25 thousand was made for the goodwill paid in November 2007 for 100% of the company shares of Damiani Service Unipessoal L.d.a., which is currently dormant.

Impairment test on intangible assets with an indefinite useful life

Since goodwill is an asset with an indefinite useful life and is booked under non-current assets for the financial years closed at March 31, 2010 and at March 31, 2009, it was subject to an impairment test.
Impairment tests are carried out at least once a year on the cash generating units (CGU) to which the goodwill is booked.
More specifically, the goodwill for Alfieri & St. John was allocated to the CGU Alfieri & St. John CGU, represented by Alfieri & St. John S.p.A., while the goodwill for the boutiques was allocated to the Damiani CGU, represented by the legal entity Damiani S.p.A..
The recoverable value was calculated by using the value in use, which in turn was calculated by using the following data and assumptions in the impairment test:
- the financial data was taken from the 2010-2013 business plan drawn up by the two companies (which constitute the Cash Generating Unit– CGU) and reviewed at Corporate level by Damiani S.p.A. in order to develop Group synergy. The business plan was approved by the Board of Directors of Damiani S.p.A. on June 4, 2010;
- cash flow was calculated from the EBITDA for each company minus the amounts referring to investments and to changes in net working capital.
- the cash flow for Alfieri & St.John S.p.A. was discounted at WACC (equal to 12.30%), calculated on the basis of prudent assumptions of quantitative parameters (in particular for the expected "g" growth rate after the three-year period covered by the business plan to be used for calculating the terminal value that was assumed to be zero); the parameters used were:
• risk free: 3.44%
• beta: 1%
• debt/equity ratio: taken from company data at March 31, 2010
The impairment tests carried out confirmed the recoverability of the book value of the goodwill.
In any case, an analysis of the sensitivity to variation, in a range from +0,5%/-0,5%, of the financial parameters (net present value) was carried out and the recoverable values were confirmed.

5. OTHER INTANGIBLE FIXED ASSETS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Industrial rights and patents	*567*	*823*
Key Money	*6,634*	*8,368*
Fixed intangible assets under construction	*303*	*13*
Total other intangible fixed assets	7,504	9,204

Industrial rights and patents decreased mainly as a result of the depreciations calculated during the period and not compensated for by purchases carried out in the period.
"Key money", which is the amount given to third parties in order to take over existing building leases (or to renew such leases), decreased mainly as a result of ordinary depreciations (amounting to €587 thousand) and the elimination (for €983 thousand) of the carrying value of key money for a boutique that was no longer considered to be strategic for the Group (for which the leasing contract was disposed of in March 2010, as described in note 34).
Key money is amortised on the basis of the residual duration of the leasing contracts.
Intangible assets under construction increased by €290 thousand mainly as a result of the investments made in Rocca for the introduction of SAP, which became operational in April 1, 2010.

The following table shows the changes in intangible assets during the period:

(in thousands of Euro)	Industrial rights and patents	Key Money	Fixed intangible assets under constructior	Total
Net book value at March 31 2009	823	8,368	13	9,204
Purchase	*100*		*309*	*409*
Reclassification to tangible assets	*(29)*	*(164)*	*(19)*	*(212)*
Amortization	*(327)*	*(587)*		*(914)*
Write off		*(983)*		*(983)*
Net book value at March 31 2010	567	6,634	303	7,504

6. TANGIBLE FIXED ASSETS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Land and buildings	*12,662*	*17,830*
Plant and machinery	*830*	*1,063*
Industrial and commercial equipment	*722*	*872*
Other assets	*6,183*	*6,861*
Total tangible fixed assets	20,397	26,626

Tangible assets decreased by €6,229 thousand compared with the previous year.
"Land and buildings" also includes the carrying value of sale and leaseback assets, which related parties purchased from the Group in previous years and subsequently leased back for commercial use to Group companies (details are contained in note 32. Transactions with related parties).
These sale and lease back assets, booked under land and buildings, amounted to €11,113 thousand at March 31, 2010 and €16,250 thousand at March 31, 2009.
The reduction refers to the depreciations calculated for the period (€1,227 thousand), and to the effects of changes made to the conditions originally laid down of two leasing contracts for buildings, which were no longer considered to be strategic for the Group, that resulted in the cancelation of one contract and in the reduction of the duration of another contract, which resulted in that contract no longer being classified as financial leasing as per IAS 17. These contract changes resulted in the elimination of the net book value of the asset when the contract was cancelled or modified (amounting to €3,944 thousand) and the elimination of the corresponding value of the financial debt (equal to €4,266 thousand). The effect, net of taxes impact (€201 thousand) deriving from the elimination of the assets and the corresponding financial debt was booked as a direct increase of shareholders' equity.
"Other assets" include furniture, fittings, office machinery and vehicles and leasehold improvements (the cost of adapting/renovating the boutiques). The most significant increases refer to renovating work carried out on the building that houses the Japanese branch and for opening the boutique in London.
The following table shows the changes to tangible assets that took place up to March 31, 2010.

(in thousands of Euro)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Net book value at March 31 2009	17,830	1,063	872	6,861	26,626
Purchase	*12*	*265*	*72*	*1,282*	*1,631*
Reclassification from intangible assets		*(100)*		*312*	*212*
Leaseback write off	*(3,944)*				*(3,944)*
Disposals		*(28)*	*(7)*	*(128)*	*(163)*
Amortization	*(1,227)*	*(340)*	*(208)*	*(1,762)*	*(3,537)*
Write downs	*(9)*	*(30)*	*(7)*	*(382)*	*(428)*
Net book value at March 31 2010	12,662	830	722	6,183	20,397

The total amount does not include assets that are subject to revaluations, as per the special laws contained in article 10 of Law 72/83.

7. OTHER INVESTMENTS

At March 31, 2010 these referred exclusively to minority stakes in Fin.Or.Val S.r.l and Banca d'Alba for a total of €167 thousand.

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Guarantee deposits	*4,366*	*4,604*
Other receivables	*113*	*51*
Total financial receivables and non current assets	4,479	4,655

The decrease in guarantee deposits compared with the previous financial period is mainly due to the reimbursement by third-parties to Damiani Japan K.K. of amounts paid as deposits for the leasing of offices in Tokyo, following the transfer that took place during the financial year.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Details of the balance of deferred tax assets and deferred tax liabilities for the financial year at March 31, 2010 and at March 31, 2009 are shown in the following table, where the descriptions indicate the nature of the temporary differences:

(in thousands of Euro)	March 31 2010	March 31 2009
Deferred tax assets:		
Net Impact of the returns reserve	*3,026*	*6,047*
Write off on intercompany inventory margins	*4,932*	*5,107*
Exchange loss differences	*40*	*284*
Bad Debts Reserve not deductible	*1,330*	*714*
Devalutaion of inventories	*2,905*	*85*
Costs of the IPO	*883*	*1,295*
Provisions on lawsuits	*201*	
Financial interests	*619*	*579*
Fiscal losses	*553*	*562*
Write off of intercompany gains on brand transfer	*3,221*	*2,882*
Other timing differences of a taxation nature	*819*	*997*
Total deferred tax assets	18,529	18,552
Deferred tax liabilities:		
Exchange differences	*102*	*142*
Impact of the returns reserve on inventories	*-*	*3,020*
Other timing differences of a taxation nature	*426*	*542*
Deferred taxation on capital gains	*336*	*523*
Total deferred tax liabilities	864	4,227

The main variations are due to the reclassification carried out during the period of the value of the deferred fiscal effects linked to the registration of the returns reserve on inventories to compensate the corresponding item booked to advance taxes.

10. INVENTORIES

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Raw materials, semi-finished goods and advance payments	10,772	10,805
Finished products and goods	95,336	110,387
Total inventories	106,108	121,192

The net value of inventories as of March 31, 2010 decreased by €15,084 thousand compared with the previous financial year partly as a result of the €9,638 thousand writedown in inventories booked during the period on the basis of valuations carried out in the light of current market conditions. These led to the conclusion that normal commercial conditions no longer existed for some types of goods and that it was therefore necessary to adjust the price to the presumable recoverable value by means of a partial writedown.
The provisions for inventory writedowns were based on the potential loss deriving from the effects of dismantling those types of jewellery and watches. The total value of the inventory writedown reserve at March 31, 2010 amounted to €11,632 thousand (€3,423 thousand at March 31, 2009).
In addition, during financial year 2009/2010, jewellery was destroyed and transformed by melting it down in three separate operations, for a total of €1,704 thousand. These operations resulted in a net loss of €303 thousand, which was booked to the income statement.
As of March 31, 2010 finished products and goods include finished products for a total value of €13,397 thousand (€13,328 thousand at 31 March 2009) shipped to clients but for which, when the financial statements were prepared, there were no real assurances that the assumptions of revenues recognition were completely satisfied.

11. TRADE RECEIVABLES

The following table shows details of this item as at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	March 31 2010	March 31 2009
Trade receivables, gross	78,566	86,670
Bad Debts Reserve	(7,800)	(4,415)
Fund for returns on sales from customers	(27,653)	(27,511)
Impact of Net Present Value calculation of receivables	(142)	(193)
Total trade receivables	42,971	54,551

The decrease in net trade receivables amounted to €11,580 thousand and was linked to a decrease in sales registered during the financial year and to a net increase in the bad debt reserve as a result of the provisions of €5,629 thousand allocated in financial year 2009/2010, as a consequence of prudent evaluations of the credit risk in the current market situation and of a detailed examination of individual positions. The biggest provisions compared with the previous financial year are mainly concerned with the parent company and some foreign subsidiaries.
The balance of trade receivables is net of bad debt reserves and the reserve for returns from clients, as well as net of the effect of discounting receivables represented by bankers' orders that have been reissued and have due dates that go beyond the accounting period.
The following table shows changes in the bad debt reserve and the reserve for returns from clients that occurred during the financial year up to March 31, 2010.

(in thousands of Euro)	Fund for returns on sales from customers	Bad Debts Reserve
Book value at March 31 2009	(27,511)	(4,415)
Accrual	(10,703)	(5,629)
Utilization	10,561	2,244
Book value at March 31 2010	(27,653)	(7,800)

There are no receivables with a contractual duration of more than 5 years.

12. TAX RECEIVABLES

The balance at March 31, 2010 amounted to €4,939 thousand compared with €5,571 thousand at March 31, 2009. The decrease compared with the previous financial year amounted to €632 thousand and is linked to a decrease in advance taxes paid in 2009/2010 compared with the amount paid in 2008/2009 .

13. OTHER CURRENT ASSETS

The following table shows details of this item at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	March 31 2010	March 31 2009
VAT receivables from the Tax Authorities	*2,553*	*3,471*
Advertisements prepayments	*2,896*	*2,710*
Deposits to suppliers	*2,131*	*1,971*
Prepayments	*1,371*	*2,830*
Receivables from other	*826*	*1,637*
Total other current assets	9,777	12,619

The decrease in this item is mainly due to the fact that the income statement includes advances for leasing payments stipulated in the previous year and linked to the boutique where the rental contract was disposed of in March 2010, to a decrease in VAT credits as a result of a decrease in purchases carried out during the financial year and to a decrease in receivables from others, which in the previous year included an amount from insurance companies for insurance reimbursements.

14. CASH AND CASH EQUIVALENTS

The following table shows details of this item at March 31, 2010 and March 31, 2009 :

(in thousands of Euro)	March 31 2010	March 31 2009
Bank and post accounts	*7,086*	*9,308*
Cash on hand	*246*	*234*
Total cash and cash equivalents	7,332	9,542

The balance represents the existing cash available in bank accounts and post office accounts and petty cash and cash on hand at the closing date of the period.

15. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2010, gross of treasury stock, amounted to €36,344 thousand and was made up of 82,600,000 shares with a par value of €0.44 each.
No dividends were distributed during the financial year. On June 11, 2010, the Board of Directors did not propose to the Shareholders' Meeting any dividend payment for financial year 2010.
The number of treasury stock held in the portfolio amounted to 5,619,609 for an exchange value of €8,227 thousand. This amount is booked as a direct reduction in shareholders' equity.
The number of shares in circulation at the beginning of the financial year amounted to 18,732,570 while at March 31, 2010 it amounted to 16,390,959.
The main changes in shareholders' equity in the financial year that ended on March 31, 2010 (and illustrated in detail in the changes to shareholders' equity table) were as follows:
- a loss for the year of €18,268 thousand;
- the purchase of 1,865,821 treasury stock for a total cost of €2,181 thousand;
- a €373 thousand loss due to converting financial statements prepared in non-euro currencies;
- the recognition of stock options and stock grants for €108 thousand.

16. LONG TERM FINANCIAL DEBT: CURRENT AND MEDIUM-LONG TERM PORTION

The current and medium-long term portion of financial debt were made up as follows at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	March 31 2010	March 31 2009	Note
Non current portion			
Loan A	-	2,000	a
Loan B	-	1,992	b
Loan C	13,500	-	c
Loan D	7,500	-	d
Loan E	89	435	e
Loan F	230	351	f
Loan G	833	-	g
Loan H	596	869	h
Loan L	-	110	l
Financial Leasing	11,608	16,272	n
Total non current portion of medium/long financial debt	34,356	22,029	
Current portion			
Loan A	2,000	2,000	a
Loan B	1,992	2,570	b
Loan C	1,500	-	c
Loan D	2,500	-	d
Loan E	346	329	e
Loan F	121	142	f
Loan G	667	2,000	g
Loan H	273	131	h
Loan I	-	1,667	i
Loan L	-	40	l
Loan M	-	23	m
Financial Leasing	641	779	n
Total current portion of medium/long financial debt	10,040	9,681	
Total medium/long term financial debt	44,396	31,710	

Details of the loans granted to Group companies by banks as of March 31, 2010 are given below:
a) loan A was originally granted to Damiani S.p.A. in December 2005 for a total of €10,000 thousand with a repayment plan based on constant six-monthly instalments for the period from December 28, 2005 to December 31, 2010 at an interest rate of 3.87% per year. The remaining two instalments of the loan will be repaid within twelve months following March 31, 2010, therefore the entire debt has been booked under current loans;
b) loan B was originally granted to Damiani S.p.A. in November 2005 for a total of €10,000 thousand with a repayment plan based on constant instalments for the period from November 28, 2005 to November 30, 2010 at an interest rate of 3.68% per year. The remaining two instalments of the loan will be repaid within twelve months following March 31, 2010, therefore the entire debt has been booked under current loans;
c) loan C was originally granted to Damiani S.p.A. in June 2009 for a total of €15,000 thousand with a repayment plan based on constant six-monthly instalments for the period from December 31, 2010 to June 30, 2015 at an interest rate of 4.40% per year;
d) loan D was originally granted to Damiani S.p.A. in June 2009 for a total of €10,000 thousand with a repayment plan based on constant three-monthly instalments for the period from June 30, 2010 to March 31, 2014 at an interest rate of 4% per year;
e) loan E was granted in 2006 to Rocca S.p.A. for a total of €1,000 thousand and involves repayment instalments every three months. The loan is due to be repaid in full by April 30, 2011 at an interest rate of 5.10% per year;
f) loan F was originally granted in December 2007 to Rocca S.p.A. for a total of €600 thousand with a repayment plan based on a three-monthly instalment up to and including December 31, 2012. Interest on this loan was agreed at a rate equal to the three-month Euribor rate plus 1.10%;
g) loan G was originally granted in December 2007 to Rocca S.p.A. for a total of €2,000 thousand with a repayment plan based on a three-monthly instalment for the period from September 30, 2009 to June 30, 2012. Interest on this loan was agreed at a rate equal to the three-month Euribor rate plus 0.90%. This loan was granted with two covenants: a) the net share capital must not be less than €8,300 thousand; b) the company must agree not to distribute dividends until the expiration of the loan. However, since the first of these conditions was not respected at March 31, 2009, the loan was entirely classified as short term. At March 31, 2010 the above mentioned condition was respected, therefore the subsequent instalment due at March 31, 2011 was classified as medium-long term;
h) loan H was originally granted in March 2008 to Rocca S.p.A. for a total of €1,000 thousand with a repayment plan based on a constant three-monthly

instalment for the period from December 31, 2009 to March 31, 2013. Interest on the loan was agreed at a rate equal to the three-month Euribor rate plus 1.20%;
i) loan I was originally granted to Rocca S.p.A. and was regularly paid off in December 2009;
l) loan L was originally granted to Courmayeur Rocca S.r.l. in December 2007 for a total of €200 thousand with a repayment plan based on three-monthly instalments. The instalment due at December 31, 2012 was paid off in advance during the year when the company was wound up;
m) loan M was originally granted to Rocca S.p.A. and was regularly paid off in May 2009;
Moreover, the point n) leasing debts on buildings for a total of €12,249 thousand include the amount relating to the contract for the sale of buildings to related parties, which are accounted for as a sale and leaseback arrangement under IAS 17. These properties are the sites of Damiani and Rocca shops. During the year two leaseback contracts were terminated in advance for a total of €4,266 thousand. This amount, net of the eliminated assets, was booked to the shareholders' equity, as explained in note 6.
The following table illustrates the details of net financial debt at March 31, 2010 and March 31, 2009:

Net Financial Debt *(in thousands of Euro)*	Situation at March 31 2010	Situation at March 31 2009	change
Medium-Long term loans and financing- current portion	*9,399*	*8,902*	*497*
Usage of credit lines, short term financing and others	*1,964*	*16,229*	*(14,265)*
Medium-Long term loans and financing with related parties- current portion	*641*	*779*	*(138)*
Current financial indebtness	12,004	25,910	(13,906)
Medium-Long term loans and financing- non current portion	*22,748*	*5,757*	*16,991*
Medium-Long term loans and financing with related parties- non current portion	*11,608*	*16,272*	*(4,664)*
Non-current financial indebtness	34,356	22,029	12,327
Total gross financial indebtness	46,360	47,939	(1,579)
Cash and cash equivalents	*(7,332)*	*(9,542)*	*2,210*
Net Financial Debt (*)	39,028	38,397	631

(*) The net financial position was calculated on the basis of the indications contained in Consob communication DEM/6064923 of July 28, 2006.

The net financial position at March 31, 2010 showed a net negative balance of €39,028 thousand, representing a slight increase of €631 thousand compared with the figure of €38,397 thousand at March 31, 2009.
The composition of the debt has changed compared with the previous financial year with a larger amount booked as medium-long term, as a direct result of the debt restructuring plan implemented during the year designed to reduce the risk of interest rate variations and to extend the due date of loans, which resulted in two long-term fixed-interest loan contracts (without covenants) being signed for a total of €25,000 thousand.

17. TERMINATION INDEMNITIES

In the twelve-month period up to March 31, 2010, the following changes took place in severance indemnities (TFR):

(in thousands of Euro)	March 31 2010	March 31 2009
Termination Indemnities at the beginning of the year	4,868	4,223
TFR according to IFRS acquired from Rocca Group	-	*818*
Cost related to current work performed	*171*	*128*
Financial expenses	*207*	*214*
Paid benefits	*(643)*	*(407)*
Actuarial Loss (Profit)	*90*	*(108)*
Termination Indemnities at the end of the year	4,693	4,868

The changes during the period reflect the provisions and outlays, including advances, implemented during the financial year.
Severance indemnities are part of a defined benefits plan.
Liabilities are calculated using the Project Unit Cost method based on the following:
- a series of financial assumptions are used (increases in the cost of living, pay increases, etc.) to calculate the potential payments that will have to be made to each employee in the event of retirement, death, invalidity, resignation and so on. This estimate of future payments includes eventual pay increases as a result of the accrual of long-service entitlements and future pay increases;
- the current average value of future payments is calculated on the basis of the yearly interest rate adopted and on the probability, at the time the financial statements were prepared, of effectively having to make each of these payments;
- the company's liabilities are calculated by identifying that portion of the current average value of future payments that refers to services already provided by employees at the time of the evaluation date;
- the amount of the reserve set aside for the purposes of IFRS is calculated on the basis of the liabilities referred to in the previous point and the reserve set aside in the financial statements as per Italian law.

Details of the assumptions adopted are as follows:

Financial hypotheses	March 31 2010	March 31 2009
Annual rate for the Net Present Value	*4.00%*	*4.55%*
Annual inflation rate	*2.00%*	*2.00%*

Demographic hypotheses	
Mortality	*RG 48 (RGS table 48)*
Inability	*INPS tables by age and sex*
Pensionable age	*Reaching the general obligatory social security requirements*

It should be noted that the Group has decided not to adopt the "corridor method" allowed by IAS 19, therefore gains and losses deriving from actuarial calculations are booked to the income statement each period, under labour costs.

18. RISK RESERVES

The risk reserve is set up for the purposes of covering any lawsuits involving former employees and agents. The reserve amounted to €363 thousand at March 31, 2009 and increased to €649 thousand at March 31, 2010 as a result of provisions of €286 thousand made during the financial year. There were no utilisations during the financial year.

19. OTHER NON-CURRENT LIABILITIES

The amount changed from €1,683 thousand at March 31, 2009 to €431 thousand at March 31, 2010. The main change during the period was due to the payment of €954 thousand as part of the debt to previous shareholders of Damiani France S.A., who at the time of the purchase agreed to instalment payments.

20. TRADE PAYABLES

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Trade payables due in less than 12 months	*57,356*	*70,180*
Bill payable, other credit securities and advances	*589*	*743*
Total trade payables	57,945	70,923

The reduction was due to a decrease in the Group's volume of business.

21. SHORT TERM BORROWINGS

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Usages of short term credit lines and bank loans	*1,886*	*12,934*
Payables to factor for transfer credits	*-*	*3,169*
Fair value of financial derivates	*78*	*126*
Total short term borrowings	1,964	16,229

Short-term credit lines are utilised for financing working capital.
As a result of debt restructuring that was implemented during the financial year and which led to an increase in medium-long term debt, the Group's short-term debts were progressively reduced.

22. INCOME TAX PAYABLES

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
VAT payables	*478*	*151*
Taxes withheld from employees (IRPEF)	*381*	*318*
Current income tax payables (IRES and IRAP)	*1,404*	*2,142*
Other tax payables	*136*	*141*
Total income tax payables	2,399	2,752

The decrease compared with the previous financial year is mainly due to a reduction in current income tax payables as a consequence of the deterioration of the result.

23. OTHER CURRENT LIABILITIES

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Payables to social security institutions	*1,132*	*1,190*
Payables to employees	*2,295*	*2,883*
Other liabilities	*860*	*684*
Accrued expenses	*318*	*265*
Deferred income	*214*	*68*
Total other current liabilities	4,819	5,090

Payables to social security institutions include amounts due for social security charges and retirement and insurance contributions.
Payables to employees include amounts due for holidays and leave accrued but not taken as well as pay accrued of the 13th and 14th monthly salaries not yet paid.

24. REVENUES

The following table illustrates consolidated revenues for the financial year at March 31, 2010 and at March 31, 2009:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Revenues from sales and services	*145,365*	*149,289*
Other recurring revenues	*390*	*502*
Total revenues	145,755	149,791

Breakdown of revenues by distribution channels is shown below:

Revenues by Sales Channel *(In thousands of Euro)*	Financial Year 2009/2010	Financial Year 2008/2009
Retail	35,362	25,380
Percentage on total sales	*24.3%*	*16.9%*
Wholesale	109,673	123,909
Percentage on total sales	*75.2%*	*82.7%*
Licenze	330	-
Percentage on total sales	*0.2%*	*0.0%*
Total revenues from sales and services	145,365	149,289
Percentage on total sales	*99.7%*	*99.7%*
Other revenues	390	502
Percentage on total sales	*0.3%*	*0.3%*
Total Revenues	145,755	149,791

The proportion of revenues from sales and services of the Rocca Group for financial year 2009/2010 amounted to €39,218 thousand, equal to 26.9% of the consolidated total and representing an increase of €17,623 thousand compared with the previous financial year when the Rocca Group was only consolidated for seven months (from September 1, 2008 to March 31, 2009). This amount consists of sales in the retail channel for €24,895 thousand, sales in other channels for €14,321 thousand and sales through licensing for €2 thousand.
The following table illustrates details of other revenues for the financial years at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Leases and rentals	*347*	*334*
Franchising	*36*	*107*
Capital gain on disposals of fixed assets	-	*53*
Revenue from sale of advertising material	*7*	*8*
Total other revenues	390	502

The Rocca Group registered sales of €124 thousand for financial year 2009/2010 (representing 31.8% of the consolidated total) and €57 thousand for financial year 2008/2009 (11.4% of the consolidated total).

25. COST OF RAW MATERIALS AND CONSUMABLES

Details of the cost of raw materials and consumables (including purchases of finished goods) at March 31, 2010 and March 31, 2009 are given in the following table:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Purchases	*68,178*	*72,778*
Change in inventory of finished products	*14,301*	*(1,166)*
Change in inventory of raw materials and consumables	*116*	*(522)*
Total cost of raw materials and consumables	82,595	71,090

The amount for 2009/2010 also includes the following adverse effects: i) a net loss of €303 thousand registered by the Group as a result of operations carried out to destroy and transform jewellery products by melting and the subsequent partial sale of recovered raw materials; ii) writedowns of €9,478 thousand for finished products in stock with an effect on the consolidation. Details of the criteria used for calculating the writedowns are contained in note 10.
The share of these costs attributable to the Rocca Group amounted to €30,878 thousand in 2009/2010 (representing 37.4% of the consolidated total) and €15,958 thousand in 2008/2009 (22.5% of the consolidated total).

26. COST OF SERVICES

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Functional expenses	*8,603*	*10,049*
Advertising expenses	*11,725*	*13,795*
Other commercial expenses	*3,289*	*4,370*
Production costs	*4,067*	*5,381*
Consultancy	*4,468*	*4,323*
Travel/transport expenses	*4,396*	*5,094*
Directors' Fees	*2,592*	*2,879*
Usage of third party properties	*11,086*	*9,956*
Total cost of services	50,226	55,847

The cost of services decreased by €5,621 thousand compared with the previous financial year as a result of savings made during 2009/2010, which had a significant impact on some of the items such as advertising and other commercial, travelling and functional expenses. Usage of third-party properties, which is directly linked to the retail channel, increased as a result of the increased impact of the Rocca Group, which was consolidated in 2009/2012 for the entire twelve months instead of only seven months as in 2008/2009.
The cost of services attributable to the Rocca Group amounted to €4,428 thousand for 2009/2010 (representing 8.8% of the consolidated total) and €3,304 thousand for 2008/2009 (5.9% of the consolidated total).

27. PERSONNEL COST

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Wages and salaries	*19,820*	*20,725*
Social security costs	*5,259*	*5,429*
Termination indemnity	*1,413*	*1,057*
Other personnel costs	*525*	*1,040*
Total personnel cost	27,017	28,251

The decrease in the cost of this item compared with the previous financial year, equal to 4.4%, is linked to the decrease in the average number of Group employees (4.6%).
The following table shows the average number of Group employees at March 31, 2010 and at March 31, 2009:

Labour categories	Financial Year 2009/2010	Financial Year 2008/2009
Executives and Managers	*57*	*57*
Clerks	*439*	*462*
Workers	*123*	*130*
Total	619	649

There was a decrease compared with the previous financial year even though Rocca Group employees were counted for the full twelve-month period and not just for seven months as in the previous financial year (from September 1, 2008 to March 31, 2009). The cost of personnel attributable to the Rocca Group amounted to €3,829 thousand for 2009/2010 (representing 14.2% of the consolidated total) and €2,460 thousand for 2008/2009 (8.7% of the consolidated total).

28. OTHER NET OPERATING INCOMES (CHARGES)

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Bad debt reserve allowance	*(5,629)*	*(3,093)*
Net exchange difference from trade receivables	*(21)*	*10,528*
Other operating (charges) incomes	*6,493*	*(917)*
Total other net operating (charges) incomes	843	6,518

This item includes the positive effects deriving from key money (booked under other net incomes) received from third parties following the disposal in advance of a leasing contract for a boutique that was considered to be no longer strategic for the Group (amounting to €7,208 thousand), and the negative effects deriving from provisions made in the bad debt reserve, which increased significantly compared with the previous financial year. The surplus balance registered in the previous financial year was influenced by the net income from currency exchange operations linked to commercial operations in foreign currencies, which were not repeatible in 2009/2010.
Net incomes attributable to the Rocca Group amounted to €1,320 thousand for 2009/2010 and €303 thousand for 2008/2009.

29. AMORTIZATION AND DEPRECIATION

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Amortization of intangible assets	*914*	*884*
Depreciation of tangible assets	*3,536*	*3,299*
Devaluation of intangible and tangibles assets	*1,436*	*8*
Total Amortization and depreciation	5,886	4,191

The increase in this item was mainly due to the fact that the Rocca Group was consolidated for twelve months instead of only seven months as in the previous year and to a writedown of the carrying value of key money (for €1,163 thousand), initially paid when the leasing contract for a boutique was signed; this contract was subsequently disposed of to a third party in March 2010 as is commented in more detail in note 28.
The share of this item attributable to the Rocca group amounted to €1,224 thousand for 2009/2010 (representing 20.8% of the consolidated total) and €810 thousand for 2008/2009 (19.3% of the consolidated total).

30. FINANCIAL INCOME AND (EXPENSES)

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Net losses on exchange	*(25)*	-
Interest paid	*(1,675)*	*(1,541)*
Other financial charges	*(1,365)*	*(1,110)*
Total financial expenses	(3,065)	(2,651)
Net gains on exchange	*0*	*949*
Financial gain on discounting	*193*	*328*
Other financial revenues	*157*	*1,000*
Total financial incomes	350	2,277
Total financial (expenses) and incomes	(2,715)	(374)

Compared with the previous financial year, the balance shows an increase of €2,341 thousand in financial charges that was due to an increase in net financial expenses resulting from higher average financial exposure and to negative currency exchange differences on foreign debt as a result of depreciation of the euro.
The negative share attributable to the Rocca Group amounted to €1,062 thousand for 2009/2010 and €1,253 thousand for 2008/2009.

31. INCOME TAXES

Details of this item at March 31, 2009 and March 31, 2010 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Current taxes	*(2,731)*	*499*
Deferred tax (assets)/Liabilities	*(842)*	*922*
Total income taxes	(3,573)	1,421

Current taxes include IRES and IRAP income taxes for the period.
Current and deferred taxes booked directly to shareholders' equity showed a surplus of €49 thousand.
The reconciliation between fiscal charges in the consolidated financial statements and theoretical fiscal charges calculated on the basis of the IRES rate applied to Damiani S.p.A. for the financial year at March 31, 2010 and at March 31, 2009 is as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Result before taxes	*(21,841)*	*(3,444)*
IRES (Corporate) Tax Rate for the period	*27.5%*	*27.5%*
Theoretical Tax Burden	6,006	947
Non recoverable subsidiary losses	*(1,700)*	*(1,688)*
IRAP (Regional Tax on Productive Activities) effect	*(283)*	*(881)*
Effect of foreign companies	*271*	*650*
Other non deductible costs	*(721)*	*(449)*
Total differences	*(2,433)*	*(2,368)*
Total taxes for Income Statement	3,573	(1,421)
Effective tax rate	*-16.4%*	*41.3%*

32. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes relations between companies of the Damiani Group and related parties during the financial years at March 31, 2010 and March 31, 2009, and highlights the effect of these transactions on the consolidated income statements and balance sheet statements.
During 2009/2010 these transactions were almost exclusively of a property-financial nature (leasing, sale and leaseback operations, leasing of business unit). However, in 2008/2009 these relations also concerned trade operations (sale of jewellery, cooperation agreements) with the Rocca Group, which at the time was considered a related party since it was under common control, but these relations are not included in the following table after September 1, 2008 when Rocca S.p.A. was purchased and fully consolidated.
The following table gives details of relations between Group companies and related parties during the financial year up to March 31, 2010.

(in thousands of Euro)	Financial Year 2009/2010		Balance at March 31 2010	
	Operating costs	Financial expenses	Long term loans (including leasing)	Trade payables
D. Holding S.A.	(170)			(510)
Imm.re Miralto S.r.l.	(1,390)	(1,246)	(12,249)	(531)
Roof Garden S.A.	(87)			(252)
Total with related parties	(1,647)	(1,246)	(12,249)	(1,293)
Total from Financial Statements	(164,881)	(3,065)	(44,396)	(57,945)
% age weight	1%	41%	28%	2%

• the costs of €170 thousand to D.Holding SA refer to rental payments made by the subsidiary Damiani International B.V. for the use at special events of the jewels that won the Diamonds International Awards and are owned by the related party; this company has succeeded in Sparkling Inv. SA which previously owned these items;
• costs to Immobiliare Miralto S.r.l. refer to rental payments for the premises in Milan and in Valenza (AL). There were also additional financial charges during the period for €1,246 thousand that correspond to the interest on the repayment of the financial debt with related parties for sales and leaseback operations relating to the premises in Milan where the Damiani and Rocca boutiques are located, to the workshop premises in Bassignana (AL) that is used by the subsidiary Laboratorio Damiani S.r.l. and to the two shops situated in Padua and Taormina. The remaining financial debt amounted to €12,249 thousand, while during the period the leaseback contracts for the Bliss boutique in Milan and the Damiani shop in Portofino were cancelled. The carrying value of the financial debt, which amounted to €4,266 thousand, was eliminated with a set-off in shareholders' equity.
• costs to Roof Garden S.A. refer to rents paid for premises in New York;

The following table gives details of relations between Group companies and related parties during the financial year up to March 31, 2009:

(in thousands of Euro)	Financial Year 2008/2009			Balance at March 31 2009	
	Revenues	Operating costs	Financial expenses	Long term loans (including leasing)	Trade payables
Sparkling Inv. SA		(170)	(7)		(340)
Rocca S.p.A.	2,205				
Rocca International SA	43				
Imm.re Miralto S.r.l.		(646)	(958)	(17,051)	(432)
Courmayeur Rocca S.r.l	6				
WJR Participation S.A.			(30)		
Roof Garden S.A.		(87)			(93)
Immobiliare Pessina S.A.		(72)			
Total with related parties	2,254	(975)	(995)	(17,051)	(865)
Total from Financial Statements	149,791	(152,861)	(2,651)	(31,710)	(70,923)
% age weight	2%	1%	38%	54%	1%

• the costs of €170 thousand to Sparkling Inv. SA refer to rental payments paid by the subsidiary Damiani International B.V. for the use at special events of the jewels that won the Diamonds International Awards and are owned by the related party. Financial charges of €7 thousand refer to interest due on a loan granted by that company to Rocca S.p.A., which was fully paid off at March 31, 2009;
• revenues from Rocca S.p.A. are for the sale of different Group brands of jewellery for €1,733 thousand and the rent received from New Mood S.p.A. and Damiani S.p.A. for a total of €472 thousand for the lease of business units for managing three shops (Milan, Verona and Portofino) during the period before the acquisition;
• the revenues from Rocca International S.A. for €43 thousand relate to the sale of jewellery by Damiani International B.V. during the period before the acquisition;
• costs to Immobiliare Miralto S.r.l. refer to rental payments for the premises in Milan and in Valenza (AL). There were also additional financial charges during the period for €958 thousand that correspond to interest on repayments of the financial debt with related parties for sales and leaseback operations relating to the premises in Milan where the Damiani and Rocca boutiques are located, to the workshop premises in Bassignana (AL) that is used by the subsidiary Laboratorio Damiani S.r.l. and to the two shops situated in Padua and Taormina. The remaining financial debt amounted to €17,051 thousand;
• revenues from Courmayeur Rocca S.r.l. refer to jewellery sales during the period April-August 2008;
• financial expenses to W.J.R. Partecipations S.A. refer to interest due on a financial loan granted by that company to Rocca S.p.A., which was fully paid off at March 31, 2009;
• costs to Roof Garden S.A. refer to rents paid for premises in New York;
• costs to Immobiliare Pessina S.A. refer to rental payments for the premises in Lugano where the Rocca boutique is located.

In both periods there were also loan contracts between the parent company and a number of subsidiaries that were negotiated at normal market conditions.

33. COMMITMENTS AND POTENTIAL LIABILITIES

There are no commitments or liabilities deriving from current obligations that would probably require resources to be used to fulfil the commitments, apart from those already shown in the financial statements at March 31, 2010.

On December 29, 2009, Tax office in Milan - number 6 informed the subsidiary New Mood S.p.A., which is part of the fiscal consolidation, together with the parent company Damiani S.p.A., of an assessment notice for tax year 2004 contesting the fiscal deductibility of costs of approximately €8,000 thousand for the purchase of goods from suppliers in Hong Kong, on the basis that this operation does not meet the exemption criteria provided for in article 110, paragraph 11 of TUIR. The amount requested by the tax office for taxes and sanctions (net of interest) amounts to € 6,226 thousand. The company presented an appeal against this assessment on May 28, 2010. New Mood S.p.A. maintains that it acted in accordance with the principles of formal and substantive correctness and, also in the light of the opinion of consultants engaged to study the dispute, believes that could demonstrate the illegitimacy of the tax demands. Since the result of the dispute cannot be foreseen and in the light of the observations referred to above, the liability has been qualified as "possible".

On May 27, 2010, the tax inspection carried out at Damiani S.p.A. for the 1/4/2008-31/3/2009 tax period was completed by the Alessandria tax authorities. The inspection revealed marginal substantive violations that will be notified to the company during the financial year after April 1, 2010. No provisions were made for the possible results of this inspection in the financial statements at March 31, 2010.

34. ATYPICAL AND/OR UNUSUAL AND NON-RECURRING TRANSACTIONS

There were no positions or transactions arising from atypical and/or unusual operations, as defined by Consob resolution 15519 of 27/07/2006.
Non-recurring significant operations, as defined by Consob communication DEM/6064293 of 28/7/2006, carried out during financial year 2009/2010 are summarised below :
- compensation paid by third parties to companies belonging to the Damiani Group for an early release of a non-strategic location where a directly-managed boutique was situated. The net income for the Group amounted to €6,045 thousand

35. EARNINGS (LOSSES) PER SHARE

The basic earnings (losses) per share was calculated by dividing the net result for the financial year attributable to the ordinary shareholders of the parent company by the weighted average number of shares in issue during the relative period in question.
The weighted average number of ordinary shares in issue also takes into account the effects deriving from the purchase of treasury stock made in the two periods following the resolutions passed by the shareholders' meetings of February 22, 2008 and July 22, 2009.
The following table contains information about the shares used in the calculation of the basic and diluted earnings (losses) per share:

Basic Earnings (Losses) per Share	Financial Year 2009/2010	Financial Year 2008/2009
Number of ordinary shares at the beginning of the period	*82,600,000*	*82,600,000*
Number of ordinary shares at the end of the period	*82,600,000*	*82,600,000*
Weighted average number of ordinary shares for computation of basic earnings per share	*79,783,933*	*79,783,933*
Basic Earnings (Losses) per Share (amount in Euro)	(0.23)	(0.06)

Diluted Earnings (Losses)per Share	Financial Year 2009/2010	Financial Year 2008/2009
Number of ordinary shares at the beginning and at the end of the period	*82,600,000*	*82,600,000*
Weighted average number of ordinary shares for computation of diluited earnings per share	*79,783,933*	*79,783,933*
Diluted effect from Stock option plan	-	-
Weighted average number of ordinary shares for computation of basic earnings per share	*79,783,933*	*79,783,933*
Diluted Earnings (Losses) per Share (amount in Euro)	(0.23)	(0.06)

36. STOCK OPTION PLAN

The Shareholders' Meeting of July 22, 2009 approved the adoption of two plans based on financial instruments as per article 114bis of Legislative Decree 58/1998, denominated 2009 Stock Option Plan and 2009 Stock Grant Plan.
The Board of Directors received a mandate from the Shareholders' Meeting to implement the plans and to identify the beneficiaries. The shares to be used for both plans are to be taken up to a maximum of 4,500,000 shares from the portfolio of treasury stock, with 3,500,000 reserved for the 2009 Stock Option Plan and 1,000,000 for the 2009 Stock Grant Plan.
The Stock Option Plan can be implemented in one or more tranches and within five years of the resolution of the Shareholders' Meeting.
The Stock Grant Plan provides for the allocation of Damiani shares to employees, free of charge, in one or more tranches and within five years of the resolution of the Shareholders' Meeting.
On September 24, 2009, the Board of Directors of Damiani S.p.A., together with the Remuneration Committee, began implementing the 2009 Stock Option Plan destined for management staff. 16 beneficiaries were identified (members of the Damiani family were not included) and they purchased at a cost of €0.126 for each right, a total of 685,000 shares, each of which entitles the owner to the right to purchase one Damiani S.p.A. share at the strike price of €1.60.. The purchase right will vest on September 12, 2012 and it may be exercised starting from the following day and until September 30, 2012 provided that on that date the beneficiaries are still employed by the Damiani Group. The price of the options, which corresponds to their market value, was set by the Company with the aid of Equita Sim S.p.A.. Beneficiaries paid for the rights assigned to them in November 2009.

On September 10, 2009 the Board of Directors of Damiani S.p.A. implemented the 2009 Stock Grant Plan destined for employees, with the exception of employees residing or domiciled in the United States. The plan entails the free assignment to all beneficiaries of:
• 50 Issuer's shares, which will be transferred as from September 12, 2011;
• 100 Issuer's shares, which will be transferred as from September 12, 2011, following the consignment of positive consolidated results as at March 31, 2010.
An essential condition for the assignment of both lots is that the beneficiaries must still be employed by the Damiani Group on the date of the share transfer.
The first phase of the plan involves a total of 582 employees and managers of Group companies.

37. CAPITAL MANAGEMENT

The primary objective of the Damiani group is to guarantee, even during financially critical periods, the best possible balance between profitability indicators (the company's ability to turn generated profits into cash flow), solvency indicators (its ability to maintain a balance between assets and liabilities) and growth indicators (its ability to ensure steady income growth without compromising the overall stability of assets). Starting from these principles the Group is committed, even in an unstable market context, to maintaining a solid asset base and limiting financial debt with banks (by utilising more medium-long term loans at fixed-rate interest) in order to maximise its credit rating and therefore support its expansion plans under the best possible economic and financial conditions.
The Group manages the structure of its capital and amends it in accordance with changes in financial conditions and the objectives of its own strategic plans.
In order to maintain or adjust the capital structure, the Parent company may from time to time revise its policy of disposing of the treasury stock it holds in its portfolio and resolve to purchase or issue new shares.

38. FINANCIAL RISK MANAGEMENT

At March 31, 2010, the Damiani Group's net financial position registered a negative balance of €39 million, substantially unchanged compared with March 31, 2009 despite the fact that the last twelve months were characterised by the uncertainty and difficult of the reference market as far as product sales and the purchase of raw materials was concerned. This resulted in the necessity to take decisive commercial action and to rationalise operating costs in order to maintain a satisfactory asset-financial balance. Consequently, the Group adapted its financial risk management policy to the current situation and to the specific projects it developed during the period.
The following paragraphs outline the main financial risks the Damiani Group is exposed to. These risks are constantly monitored in order to identify the best methods of neutralising them, and the list is drawn up in order of importance.

Credit risk

Credit risk can be defined as the possibility of suffering a financial loss due to a counterpart's failure to fulfil its contractual obligations.
With reference to trade relations management, the Group deals with selected customers that mainly consists of jewellers and distributors, therefore collateral guarantees are generally not requested. The Group's policy is to subject new clients to preliminary screening carried out by a specialist company and to monitor all clients by assigning them individual credit limits. In addition, each client's credit is automatically monitored with the help of an information provider that reports any possible negative signals (for example, dishonoured bills), which immediately lead to the client in question being blocked and credit recovery operations being implemented. This constant monitoring has restricted credit losses to an acceptable level, even when there is a market crisis like the present one. The deterioration in market conditions and the difficulty of obtaining credit can have a negative impact on the solvency of some of our customers, therefore the Group carries out constant monitoring of such possible risks in order to protect its own interests, and an accurate assessment of related risks is carried out when preparing the financial statements.

The following table shows the maximum potential exposure to credit risk at March 31, 2010 and March 31, 2009.

(in thousands of Euro)	March 31 2010	March 31 2009
Cash and cash equivalents	*7,332*	*9,542*
Trade receivables	*42,971*	*54,551*
Other non current assets	*4,479*	*4,655*
Other current assets	*14,716*	*18,190*
Total maximum exposure to the Credit Risk	69,498	86,938

With regard to trade receivables, the amount shown in the table has already been adjusted in order to reflect the presumable realisable value at the time the financial statements were prepared on the basis of the valuation and results referred to in note 11.

Liquidity risk

This risk consists in the impossibility or difficulty of finding the financial resources necessary for carrying out operations and meeting obligations linked to renewing and paying off loans. All cash flow is centrally managed by the Group as far as the individual needs of Group companies and the seasonal nature of the core business is concerned, in order to reduce liquidity risk.
The Damiani Group's exposure to third parties is mainly represented by debts of a commercial nature linked to relations with suppliers (at March 31, 2010 equal to approximately 52% of the overall consolidated exposure) and by medium-long term financial debts (at March 31, 2010 equal to approximately 29% of the overall consolidated exposure). Total exposure decreased by €15,181 thousand in 2009/2010, with more emphasis on medium-long term loans due to new loans of €25,000 thousand taken out during the period.
The following table gives details of the liquidity risk:

	Analysis of the due dates at March 31 2010			
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	*57,945*	-	-	*57,945*
Long term financial debt to banks	*9,399*	*21,248*	*1,500*	*32,147*
Long term financial debt to leasing	*641*	*2,564*	*9,044*	*12,249*
Short term borrowings	*1,964*	-	-	*1,964*
Other current liabilities	*7,218*	-	-	*7,218*
Total Exposure	77,167	23,812	10,544	111,523

	Analysis of the due dates at March 31 2009			
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	*70,923*			*70,923*
Long term financial debt to banks	*8,902*	*5,757*		*14,659*
Long term financial debt to leasing companies	*779*	*3,116*	*13,156*	*17,051*
Short term borrowings	*16,229*			*16,229*
Other current liabilities	*7,842*			*7,842*
Total Exposure	104,675	8,873	13,156	126,704

Price risk

The main types of raw materials used by the Damiani Group are precious stones, gold, pearls and other precious materials, the prices and availability of which on the market can vary significantly in relation to factors such as government regulations, market performance and investors speculation, relations with suppliers (particularly as far as the purchase of diamonds is concerned) and the consequent supply conditions.
During 2009/2010 the average price of gold was €23.27 per gram (with prices very much higher than the average price particularly in the last two months of financial year 2009/2010, with average prices reaching €26.40 per gram in March 2010), while in the previous financial year the average price was €19.72 per gram, with an increase of around 18% on an annual basis.
The risk can be further heightened as a result of changes in currency exchange rates, since some purchases of raw materials are negotiated in foreign currencies such as dollars (diamonds) and yens (pearls) while the consolidated financial statements are prepared in euros.
The Damiani Group has been able to reduces this risk since the impact of the purchase of raw materials is relatively small compared with overall production costs. Purchases are in fact mainly confined to finished products from suppliers with whom the Group has consolidated relations and medium-

term agreements that make it possible to mitigate the effects connected to sudden and frequent price variations, such as those registered during the period in question.

Exchange rate risk

The Damiani Group prepares its consolidated financial statements in euros, therefore any variations in the exchange rate of those non-euro currencies (mainly the dollar and yen) used to prepare the financial statements of some foreign subsidiaries affect the Group's economic result and its balance sheet. These effects are booked to shareholders' equity as a conversion difference, and currently no hedging operations are set up because they refer to such a limited value.
In addition, some purchases of raw material and finished products are negotiated in yens and dollars, with a subsequent exposure to exchange rate risk. If this risk is deemed to be significant, specific forward foreign currency purchase contracts are signed in order to hedge against the risk of currency variations.
The notional amount of forward purchase made during financial year 2009/2010 totalled $1,047 thousand, a decrease compared with the previous financial year when forward purchases amounted to $15,088 thousand to face more significant currency variations.
At March 31, 2010, the parent company Damiani S.p.A. had no forward foreign currency purchase contracts (at March 31, 2009 this type of contract amounted to €4,118 thousand).

Interest rate risk

Changes in interest rates can have a negative effect on the Group's profitability due to increased interest costs for loans.
In order to minimise the risk of exposure to interest rate variations, as part of a more far-reaching plan to re-qualify loan sources, during financial year 2009/2010 (to June 2009) two medium-long term loans were agreed (for a maximum period of 6 years) for a total of €25,000 thousand at a fixed interest rate (between 4% and 4.5%) and without any guarantees or covenants.
In this way the Group aims to reduce the need to seek short-term loans (credit and factor lines), which are more susceptible to interest rate variations and can vary considerably when the credit market is going through a crisis and there is a great deal of economic speculation, just like the present economic situation.
At March 31, 2010, 66.7% of the gross financial debt was made up of medium-long term loans at a fixed interest rate (net of payables to related parties for sale and leaseback operations), with due dates up to June 30, 2015. At March 31, 2009, only 18.6% of the gross debt to banks was classified as medium-long term and no loans had a due date after March 31, 2013.

Financial instruments at fair value and relative valuation hierarchy levels

The table below gives details of assets and liabilities valued at fair value. No significant differences emerge from a comparison of the book value and fair value of each of the different categories of financial instruments used by the Group and booked to the financial statements.

	Book value						Fair value	
	Total		of which current		of which not current			
(in thousands of Euro)	March 31 2010	March 31 2009	March 31 2010	March 31 2009	March 31 2010	March 31 2009	March 31 2010	March 31 2009
Cash and cash equivalents	*7,332*	*9,542*	*7,332*	*9,542*	-	-	*7,332*	*9,542*
Trade receivables	*42,971*	*54,551*	*42,971*	*54,551*	-	-	*42,971*	*54,551*
Other financial assets	*19,195*	*22,845*	*14,716*	*18,190*	*4,479*	*4,655*	*19,195*	*22,845*
Total financial assets	69,498	86,938	65,019	82,283	4,479	4,655	69,498	86,938
Trade payables	*57,945*	*70,923*	*57,945*	*70,923*	-	-	*57,945*	*70,923*
Payables to banks and other financial liabilities	*46,360*	*47,939*	*12,004*	*25,910*	*34,356*	*22,029*	*46,360*	*47,939*
Other liabilities	*7,218*	*7,842*	*7,218*	*7,842*	-	-	*7,218*	*7,842*
Total financial liabilities	111,523	126,704	77,167	104,675	34,356	22,029	111,523	126,704

With regard to the financial instruments booked at fair value, IFRS 7 requires these values to be classified on the basis of hierarchy levels that reflect the significance of the method used to calculate the fair value.
These levels are as follows:
level 1: financial instruments listed on an active market;
level 2: fair value is measured on the basis of valuation techniques that are based on observable market data, different from the listing;
level 3: the fair value is calculated on the basis of valuation techniques that are not based on observable market data.
All assets and liabilities valued at fair value at March 31, 2010 are classified at level 2 and during financial year 2009/2010 there were no transfers from level 1 or 3 to level 2.

At March 31, 2010, the only derivative financial instruments held by the Group were IRS contracts for loans from banks. The economic effect of the recognition of those affects in the financial statements of March 31, 2010 was marginal and equal to €35 thousand.

39. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

There were no significant events after March 31, 2010.

40. REMUNERATION FOR CORPORATE BOARDS

The table below gives details of the remuneration paid during the period to members of the governing and supervisory bodies and to executives with strategic responsibilities, as required by Annex 3C, layout 1 of Issuers' Regulations.

Indivudual	Office	Duration of the office (*)	Remuneration from Damiani S.p.A.	Not monetary benefits	Bonus and other incentives	Other remunerations(**)	Total
Guido Roberto Grassi Damiani	*Chairman and CEO Damiani S.p.A., Chairman and CEO Alfieri & St. John S.p.A., Chairman Laboratorio Damiani S.r.l., Chairman and CEO New Mood S.p.A., Chairman Rocca S.p.A., Director Damiani Manufacturing S.r.l., Chairman and CEO Damiani Japan K.K., Director Damiani Service Unipessoal Lda, Director Damiani Hong Kong Ltd, Director Damiani International B.V., Chairman and CEO Damiani Usa Co.*	*up to 2012 , 3 31*	*933,000*	*7,852*		*35,000*	*975,852*
Giorgio Andrea Grassi Damiani	*Vice Chairman Damiani S.p.A., Director Alfieri & St. John S.p.A., Director New Mood S.p.A., Chairman Damiani Manufacturing S.r.l., Vice Chairman Rocca S.p.A., Director Damiani Japan K.K., Director Damiani International B.V., Director Damiani USA Corp., Chairman Damiani France S.A, Director Damiani Service Unipessoal Lda.*	*up to 2012 , 3 31*	*345,000*	*7,311*		*47,000*	*399,311*
Silvia Maria Grassi Damiani	*Vice Chairman Damiani S.p.A.*	*up to 2012 , 3 31*	*280,000*	*3,594*			*283,594*
Stefano Graidi	*Director Damiani S.p.A., Executive Director charged with the internal control Damiani S.p.A., Director Damiani International B.V., Damiani Japan K.K., Damiani Hong Kong Ltd e Damiani Service Unipessoal Lda*	*up to 2012 , 3 31*	*25,000*			*10,000*	*35,000*
Giancarlo Malerba	*Director Damiani S.p.A. and member of the Internal Control and Corporate Governance Committee and Remuneration Committee of Damiani S.p.A.*	*up to 2012 , 3 31*	*15,000*			*4,500*	*19,500*
Fabrizio Redaelli	*Director Damiani S.p.A. and member of the Internal Control and Corporate Governance Committee and Remuneration Committee of Damiani S.p.A.*	*up to 2012 , 3 31*	*15,000*			*4,000*	*19,000*
Roberta Benaglia	*Director Damiani S.p.A. and member of the Internal Control and Corporate Governance Committee and Remuneration Committee of Damiani S.p.A.*	*up to 2012 , 3 31*	*15,000*			*4,000*	*19,000*
Gianluca Bolelli	*Chairman of the Board of Statutory Auditors Damiani S.p.A.*	*up to 2012 , 3 31*	*45,000*				*45,000*
Simone Cavalli	*Acting Statutory Auditor Damiani S.p.A.*	*up to 2012 , 3 31*	*30,000*			*6,104*	*36,104*
Fabio Massimo Micaludi	*Acting Statutory Auditor Damiani S.p.A.*	*up to 2012 , 3 31*	*30,000*				*30,000*
Strategic managers			-	*32,602*	*10,656*	*606,207*	*649,465*

(*) On April 3 2009 the Damiani's Shareholders Meeting appointed the new Board of Directors. Their office will be terminated on the Shareholders'Meeting for Financial Statements as of March 31 2010.
(**) Includes fees being component of the Company bodies or control in other controlled companies, salaries (where applicable) and from any salaries regarding the work provided.

The following table refers to stock options assigned to members of the company bodies and to executives with strategic responsibilities, as required by Annex 3C, layout 2 of Issuers' Regulations.

		Options at the beginning of the FY			Assigned options during the FY			Expired options	Options at the end of the FY		
Individual	Office	Number of options	Average Price	Average expiration	Number of options	Average Price	Average expiration		Number of options	Average Price	Average expiration
Stefano Graidi	Executive directors	50,000	4.00	31/3/11				-	50,000	4.00	31/3/11
Strategic managers		125,000	4.00	31/3/11	430,000	1.60	30/9/12	-	555,000	2.14	29/5/12

41. AUDITING COSTS

The following table, prepared in accordance with article149-duodecies of Consob Issuers' Regulations, shows the contractual fees accruing in the financial year ended on March 31, 2010 for services provided by the independent audit company and by other organisations belonging to the same network.
The independent auditor has provided only the following audit services:
1. Audit of financial statements of the Parent company Damiani S.p.A. and its subsidiaries;
2. Audit of consolidated financial statements;
3. Limited review of the consolidated interim financial report as of September 30, 2009.
Costs for these services are summarized in the following table:

Type of services	Service provider	Service provide to	Type of services	Fee
Audit of the accounts	*Reconta Ernst & Young S.p.A.*	*Parent Company*	*Professional fees*	*162*
	Reconta Ernst & Young S.p.A.	*Parent Company*	*Other fees*	*60*
	Reconta Ernst & Young S.p.A.	*Subsidiaries*	*Professional fees*	*207*
Audit of the accounts	*Reconta Ernst & Young S.p.A.*	*Subsidiaries*	*Other fees*	*53*
		Total		482

42. EXCHANGE RATES

The table below shows the exchange rates at March 31, 2010 and March 31, 2009 used to covert financial statements expressed in foreign currencies.

Currency	Average 2009/2010	Spot March 31 2010	Average 2008/2009	Spot March 31 2009
USD	*1.4145*	*1.3479*	*1.4231*	*1.3308*
JPY	*131.1834*	*125.93*	*143.7101*	*131.17*
CHF	*1.5015*	*1.4276*	*1.562*	*1.5152*
GBP	*0.8857*	*0.8898*	*N/A*	*N/A*
HKD	*10.9676*	*10.4653*	*11.0696*	*10.314*

For the Board of Directors
Chairman and CEO
Dr. Guido Grassi Damiani

Attestation regarding the Consolidated Financial Statements, pursuant to article 154 bis of the Legislative Decree 58/98

1. The undersigned Mr. Guido Grassi Damiani, Chairman and CEO, and Mr. Gilberto Frola, Executive in charge of drawing up the accounting documents of Damiani S.p.A., also considering the provisions of article 154-bis, paragraphs 3 and 4, of the Legislative Decree no 58 of February 24, 1998, certify:
• The adequacy in relation to the characteristics of the company and
• The effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements as of March 31, 2010.

2. Furthermore it is certified that the consolidated financial statements:
a) is prepared in conformity with International Accounting Standards as endorsed by the European Union pursuant to EC regulation no. 1606/2002 of the European Parliament and Council dated July 19, 2002;
b) agrees with the contents of the accounting books and entries;
c) provides a true and fair representation of the balance sheet, income statement and financial position of the Issuer and the companies included in the consolidation;
d) the report on operations contains a reliable operating and financial review of the Group, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 11, 2010

Mr. Guido Grassi Damiani

____

Chairman an CEO

Mr. Gilberto Frola

____

Executive in charge of drawing up
the Company's accounting documents

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent auditors' report
pursuant to art. 156 of Legislative Decree n. 58 of February 24, 1998
(now art. 14 of Legislative Decree n. 39 of January 27, 2010)
(Translation from the original Italian text)

To the Shareholders
of Damiani S.p.A.

1. We have audited the consolidated financial statements of Damiani S.p.A. and its subsidiaries, (the "Damiani Group") as of and for the year ended March 31, 2010, comprising the balance sheet statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these consolidated financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of the Damiani S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   Our audit of the consolidated financial statements for the year ended March 31, 2010 was made in accordance with the regulations in force during that year.

   With respect to the consolidated financial statements of the prior year, presented for comparative purposes, which have been restated to apply IAS 1, reference should be made to our report dated July 6, 2009.

3. In our opinion, the consolidated financial statements of the Damiani Group at March 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Damiani Group for the year then ended.

4. The management of Damiani S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and on the company's ownership structure published in the section "investor relations" of the website of Damiani 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 reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and on the company's ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession and recommended by CONSOB. In our opinion, the Report on Operations and the information reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the Report on Corporate Governance and on the company's ownership structure, are consistent with the consolidated financial statements of the Damiani Group as of March 31, 2010.

Milan, July 2, 2010

Reconta Ernst & Young S.p.A.
signed by: Maurizio Girardi, partner

Financial Statement
of Damiani S.p.A.
as of March 31 2010

Prepared in accordance with
IAS/IFRS accounting standards

Damiani S.p.A.
Report on operations
as of March 31 2010

Report on operations [1].

Damiani S.p.A. business activities

Damiani S.p.A., parent company of Damiani Group, focuses on the sale of jewellery nationwide, with its Damiani and Salvini brands, via two main channels of distribution:
• The wholesale channel, made up of multibrand independent jewellery shops and franchisees;
• The retail channel, made up of monobrand points of sale managed directly by the Group. On March 31, 2010, there were 5 directly managed points of sale in Italy (Milan, Rome, Bologna, Florence and Naples), all under the Damiani brand.
In addition, the Company handles requests for its products coming from the market, supplying, directly and indirectly, its Italian and foreign subsidiaries that cover their specific geographic areas of responsibility, including: Rocca S.p.A. for Italy; Damiani International B.V., Rocca International S.A., Damiani USA Corp., Damiani Japan K.K., Damiani France S.A. and Damiani Hong Kong Ltd for the rest of the world.
Jewellery products are manufactured by the Group's two in-house production units, as well as from third-party producers located mainly in the district of Valenza (AL), center of international excellence in the manufacture of high value and quality jewellery, with whom Damiani S.p.A. has long standing relationships.

Corporate Governance

The system of governance of Damiani S.p.A. is the so-called "Latin" or "traditional" form: the corporate bodies are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.
The Board of Directors was renewed on April 3, 2009 by the Shareholder's Meeting which appointed seven members (instead of eight, as previously), of which three non-executive and two independent.
The composition of the Board of Directors complies with the applicable regulations (pursuant to article 147-IV and article 148, paragraph 3 of Legislative Decree 58/98), and the principles of corporate governance contained in the Self-Regulation Code for Listed Companies.
On April 3, 2009, the Board of Directors confirmed the establishment of an Internal Auditing and Corporate Governance Committee and of a Remuneration Committee, in accordance with articles 5, 7 and 8 of the Code.
The three non-executive members of the Board of Directors, two of whom are also independent directors, were appointed as members of the above committees, after it had been established by the administrative body that they met the criteria under articles 2.C.1 (with reference to their "non-executive" status) and 3.C.1 (with reference to their "independent" status) of the Self-regulation Code. In compliance with Code recommendations, the Board also appointed a Lead Independent Director.
These criteria were subjected to review on June 11, 2010.
Also in accordance with the principles of self-regulation, the Board defined specific criteria for the identification of significant transactions, carried out also through subsidiaries, including transactions with related parties, which must be agreed on and/or carried out in compliance with procedural and substantial correctness criteria. In this regard, it should be noted that the Company has already started a review of internal procedures in light of the new regulations on related party transactions, approved by Consob on March 12, 2010.
With regard to internal checks, the Board recently renewed the guidelines of the internal audit system, also to update and coordinate their contents with the new regulations contained in Legislative Decree 39/2010 ("Consolidated Code on Statutory Auditing").
Damiani S.p.A. adopted a Code of Ethics and the organizational model as required under Legislative Decree 231/2001. The Code of Ethics is based on the values Damiani Group adheres to in conducting its business, and contains the ethical principles and the rules that must guide the conduct of the individuals for whom it is meant. The Code of Ethics is applicable to all directors, employees, suppliers, consultants and in general all individuals who operate on behalf of the company. The Organizational Model approved by Damiani S.p.A. is a set of specific regulations dealing with conduct and operational procedures, and is designed to prevent unlawful conduct within those areas of business activities where there is a potential risk.
The current Control Body of Damiani S.p.A. is composed of the internal auditor and two external professionals who are partners in prestigious law firms. This structure assures that the Control Body is composed of individuals who represent all the expertise necessary to oversee the company's management, and at the same time to meet the criteria of autonomy and independence required by law.
The Control Body has been assigned all the powers necessary for ensuring that the Organizational Model adopted by the company is effectively implemented and observed, and that it is efficient and effective in preventing the offences currently specified in Legislative Decree 231/2001. The Control Body can also make recommendations to the Board of Directors about updating and making adjustments that may be necessary to the Organizational Model.
The Control Body of Damiani S.p.A. met 4 times during the financial year and reported on its operation to the Board and to Board of Statutory Auditors.
Further details about the Corporate Governance system, together with information on the ownership structure per article 123–bis of Legislative Decree 58/1998, can be found in the Annual Report on Corporate Governance published at the same time as the financial statements and also available for consultation in the Investor Relations section of the website www.damiani.com.

Compliance with Title VI of the regulations of Legislative Decree 58 of February 24, 1998 concerning market discipline (Market regulations).

Damiani S.p.A. indirectly controls two companies which are incorporated and regulated by to the laws of non-EU member States, which are of relevant significance under paragraph 2 of article 36 of the Market Regulations issued by Consob.
With reference to article 36 of the Market Regulations, the existing situation is the following:
- The administrative, accounting and reporting systems of the two companies allow compliance with the provisions, in terms of public availability of accounting data of the consolidated balance sheet and of the ability to provide timely and regular input to the Management and Auditors of the parent company for the preparation of the consolidated balance sheet.

Damiani S.p.A. ends its financial year on March 31, therefore, the financial statements at March 31, 2010 cover the period from 1 April 2010 - 31 March 2010 (henceforth, refered to as financial year ended on 31 March 2010 or financial year 2009/2010). For comparative purposes, the present financial statements also include the figures for the period 1 April 2008 – March, 31 2009 (henceforth financial year ended on 31 March 2009 or financial year 2008/2009).

- Damiani S.p.A. has a copy of the Statute and composition of the corporate bodies, and their powers, of the two above-mentioned companies and is advised of any modifications in a timely fashion. The documents are kept in the company records and kept up to date by the company legal department.

Stock Options

The Shareholders' Meeting of July 22, 2009 approved the adoption of two plans based on financial instruments in accordance with article 114-bis of Legislative Decree 58/1998, called 2009 Stock Option Plan and 2009 Stock Grant Plan.
The Board of Directors received a mandate from the Shareholders' Meeting to implement the plans and to identify the beneficiaries. Treasury stock held by the Company, up to a maximum of 4,500,000 shares, will be used to serve both plans; of these, 3,500,000 will serve the 2009 Stock Option Plan, and 1,000,000 will serve the 2009 Stock Grant Plan.
The Stock Option Plan can be implemented in one or more tranches within five years after approval by the Shareholders' Meeting.
The Stock Grant Plan entails for the free assignment of Damiani shares to employees, in one or more tranches, within five years after approval by the Shareholders' Meeting.
On September 24, 2009 the Board of Directors of Damiani S.p.A., with the assistance of the Remuneration Committee, implemented the 2009 Stock Option Plan for some members of the management team. 16 beneficiaries were identified (no members of the Damiani family are among them)who paid €0.126 for each right and purchased a total number of 685,000 options each entitling the holder to purchase one Damiani S.p.A. share at €1.60 (so-called "strike price"). The purchase right will vest on September 12, 2012 and it may be exercised starting from the following day and until September 30, 2012 as long as the beneficiary is still an employee of Damiani Group at that date. The option price corresponds to their market value and was determined by the Company with the assistance of Equita Sim S.p.A. The beneficiaries paid for the right assigned to them in November 2009.
In note 40 of the consolidated financial statements is provided evidence of stock options granted to members of the board and the strategic managers, as required by Annex 3C layout 2 provided by the Issuers' Regulations.
On September 10, 2009 the Board of Directors of Damiani S.p.A. implemented the 2009 Stock Grant Plan for substantially all employees, except those who are resident or domiciled in the United States. According to the plan, all beneficiaries will receive a free grant of:
- 50 Issuer's shares, to be transferred from September 12, 2011;
- 100 Issuer's shares, to be transferred from September 12, 2011, upon positive assessment of consolidated results achieved as of March 31, 2010.
An essential condition for the assignment of both lots is that the beneficiary must still be employed by Damiani Group on the date of transfer of the shares.
The first plan implementation cycle will involve a total of 582 employees and directors of Group companies.

Purchase of treasury stock

On July 22, 2009 the Shareholders' Meeting of Damiani S.p.A. resolved to authorize, after revocation for the unexecuted part of the shareholders' meeting resolution of February 22, 2008, the purchase and disposal of treasury stock in accordance with articles 2357 and 2357-terl of the Civil Code and with article 132 of Legislative Decree 58/1998. The reasons for the authorization are the possibility of implementing plans based on financial instruments under article 114-bis of Legislative Decree 58/1998 and of increasing the so-called "securities deposit" to use treasury shares for transactions of interest to Damiani S.p.A., as well as the opportunity to take action, in the interest of all shareholders and in consideration of market situations, to support the stock in compliance with current laws.
The operation is structured as follows:
• Damiani S.p.A. may purchase up to a maximum of 8,260,000 common shares with a par value of €0.44 each, and in any case up to a limit of 10% of the share capital, over a period of 18 months from the date of the Shareholders' Meeting (i.e. until January 22, 2011).
• The purchase price of each share, including accessory purchase costs, must not be 20% less or 20% more than the official stock exchange price on the trading day before each individual purchase transaction. Each transaction must fully comply with current regulations in order to ensure equal treatment for all shareholders.
The Shareholders' Meeting also authorized, without time limits, the sale of any treasury stock purchased, at a minimum price that will not cause negative financial impacts on Damiani S.p.A., and in any case not lower than 90% of the average of official prices recorded on the stock market during the five days prior to the sale.
At the end of the previous financial year on March 31, 2009, the Company held a total of 3,753,788 treasury shares (equal to 4.54% of the share capital), for a total amount of €6,046 thousand at an average purchase price of €1.611 per share. In financial year 2009/2010 an additional 1,865,851 common shares of Damiani S.p.A. were purchased for an amount of € 2,181 thousand; therefore, at March 31, 2010 the number of treasury shares held is 5,619,609 (equal to 6.80% of the share capital), and the total buy-back expenditure was €8,227 thousand at an average purchase price of €1.464 per share.

Research and Development

The products offered by the Damiani Group, together with the reputation and image of the brands, has always represented the key to the success of the Group, which over the years has consistently been able to provide innovation in style and design that have characterized the collections offered to customers. In order to continue to satisfy its customers with new lines, Damiani Spa has increased the number of staff responsible for product development. During financial year 2009/2010, development costs incurred by Damiani S.p.A. amounted to €768 thousand.

Main risks and uncertainties for Damiani S.p.A.

For market risks affecting the company and resulting from the current international economic crisis, please see the report on operations of the consolidated financial statements. The management of financial risks is part of the Group's broader policies for the management of the capital and financial structure. Specific details are found in Note 36. Financial Risk Management.
On December 29, 2009, Tax office in Milan - number 6 informed the subsidiary New Mood S.p.A., which is part of the fiscal consolidation, together with the parent company Damiani S.p.A., of an assessment notice for tax year 2004 contesting the fiscal deductibility of costs of approximately €8,000 thousand for the purchase of goods from suppliers in Hong Kong, on the basis that this operation does not meet the exemption criteria provided for in article 110, paragraph 11 of TUIR. The amount requested by the tax office for taxes and sanctions (net of interest) amounts to € 6,226 thousand. The company presented an appeal against this assessment on May 28, 2010. New Mood S.p.A. maintains that it acted in accordance with the principles of formal and substantive correctness and, also in the light of the opinion of consultants engaged to study the dispute, believes that could demonstrate the

illegitimacy of the tax demands. Since the result of the dispute cannot be foreseen and in the light of the observations referred to above, the liability has been qualified as "possible".

Human resources and environment

For details please see the report on operations of the consolidated financial statements.

Remuneration of administrative bodies

Remuneration paid during the period to members of the governing and control bodies and to managers with strategic responsibilities, as required under Annex 3C, layout 1 of the Issuers' Regulations, is provided in Note 40. Remuneration for company bodies of the consolidated financial statements of the Damiani Group.

Key data

Share Capital	March 31 2010	March 31 2009
Number of shares issued	*82,600,000*	*82,600,000*
Par value of individual share	*0.44*	*0.44*
Share capital	*36,344,000*	*36,344,000*

Ownership	% on shares issued	% on shares issued
Leading Jewels S.A.	*56.39%*	*55.82%*
Guido Grassi Damiani	*5.02%*	*5.02%*
Giorgio Grassi Damiani	*6.11%*	*6.11%*
Silvia Grassi Damiani	*5.68%*	*5.68%*
Damiani S.p.A. (buy back) (1)	*6.80%*	*4.54%*
Market	*20.00%*	*22.83%*

Table according to article 79 Legislative Decree n.58/98

Individual	Office	Numer of shares held as of March 31 2010
Guido Grassi Damiani (indirectly n.46.578.882) (2)	*Director*	*4,150,808*
Giorgio Grassi Damiani	*Director*	*5,047,371*
Silvia Grassi Damiani	*Director*	*4,687,371*
Strategic managers		*4,500*

(1) On July 22, 2009 the Shareholders' Meeting resolved to authorize, for the unexecuted part of the resolution passed by the Shareholders' Meeting on February 22, 2008 the purchase within 18 months of the resolution of up to a total of 8,260,000 treasury shares of Damiani S.p.A.. As of March 31, 2010, the purchased stock in the portfolio were 5,619,609, ie 6.80% of the share capital.
(2) As a result of being the controlling shareholder in Leading Jewels S.A., Guido Grassi Damiani also holds 5,619,609 treasury shares in Damiani S.p.A.

Main economic data *(in thousands of Euro)*	Financial Year 2009/2010	Financial Year 2008/2009	Change %
Revenues from sales and services	56,738	71,106	-20.2%
Total Revenues	*56,738*	*71,236*	*-20.4%*
Cost of production	*(68,769)*	*(71,165)*	*-3.4%*
EBITDA (*)	(12,031)	71	n.s.
EBITDA %	-21.2%	0.1%	
Depreciation and amortization	*(1,257)*	*(1,117)*	*12.5%*
Operating income	(13,288)	(1,046)	n.s.
Operating income %	-23.4%	-1.5%	
Net Financial incomes (expenses)	*(1,170)*	*2,405*	*n.s.*
Result before taxes	*(14,458)*	*1,359*	*n.s.*
Net Result	*(11,207)*	*737*	*n.s.*
Gross Margin % (**)	*29.6%*	*45.2%*	
Average numbers of employees (***)	*237*	*257*	*-7.8%*

(*) EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization. As such, EBITDA is a metric used by the company's management to monitor and evaluate the company's operating performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating the company's results. Since EBITDA is not regulated by the reference accounting standards, the determination criteria employed by the company may not be consistent with criteria used by other companies and therefore cannot be used for comparative purposes.
(**) Gross Margin: the difference between revenues from sales and the cost of goods sold, i.e. the sum of the cost of raw and other materials and the cost of third-party processing. As such, Gross Margin is a metric used by the company's management to monitor and evaluate the company's operating performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating the company's results. Since Gross Margin is not regulated by the reference accounting standards, the determination criteria employed by the company may not be consistent with criteria used by other companies and therefore cannot be used for comparative purposes
(***) Average number of employees in March 2010 and in March 2009

Balance sheet data *(in thousands of Euro)*	Situation at March 31 2010	Situation at March 31 2009	change
Fixed Assets	*100,348*	*113,993*	*(13,645)*
Net working capital	*53,713*	*42,548*	*11,165*
Non current Liabilities	*(3,888)*	*(6,453)*	*2,565*
Net Capital Invested	150,173	150,088	85
Net Equity	*119,629*	*132,911*	*(13,282)*
Net Financial Debt (*)	*30,544*	*17,177*	*13,367*
Sources of Financing	150,173	150,088	85

(*) The net financial debt was determined on the basis of the indications of Consob communication DEM/6064293 of July 28, 2006.

Comments on the main economic and financial data of Damiani S.p.A.

Total revenue and profitability of Damiani S.p.A. for the financial year ended March 31, 2010 show the following changes from the previous period:
- Total **revenues** declined by €14,498 thousand (-20.4%) owing mainly to lower sales in the wholesale channel, both as to direct sales to third parties in Italy (-15.7%) and through the indirect channel represented by intercompany sales both in Italy and abroad (inter-company sales declined by -34.6%).The retail channel recorded a less severe sales decrease (-9.4%). Revenues by sales channel are shown in the table below:

Revenues by Sales Channel *(in thousands of Euro)*	Financial Year 2009/2010	Financial Year 2008/2009	change %
Third parties Wholesale	38,422	45,567	-15.7%
Percentage on total revenues	*67.7%*	*64.0%*	
Third parties Retail	5,772	6,369	-9.4%
Percentage on total revenues	*10.2%*	*8.9%*	
Total Revenues wholesale and retail from third parties	44,194	51,936	-14.9%
Percentage on total revenues	*77.9%*	*72.9%*	
Intercompany sales	*12,544*	*19,170*	-34.6%
Percentage on total revenues	*22.1%*	*26.9%*	
Other revenues	-	*130*	-100.0%
Percentage on total revenues		*0.2%*	
Total Revenues	56,738	71,236	-20.4%

- **EBITDA** for the year ended on March 31, 2010 was negative and amounted to €12,031 thousand, down €12,102 thousand from the year ended on March 31, 2009, when EBITDA was slightly positive and amounted to €71 thousand. This decline is attributable to a reduction in sales and to significant write-downs which the company has deemed useful to make, considering the current market environment, in working capital assets (inventory and accounts receivable as well as already realized losses on jewellery scrapping) for a total of €10,480 thousand. Net of these adjustments, EBITDA would still be negative to €1,551 thousand, with a more moderate decline from the previous year.
Overall, costs of production during the year ended on March 31, 2010 amounted to €68,796 thousand, down 3.4% compared to the previous period ended on March 31, 2009.
- The **net result** for the period was a loss of €11,207 thousand, compared to a net profit of €737 thousand recorded in the previous period. The negative performance of 2009/2010 was the result of an operating loss of €13,288 thousand, as well as of net financial charges amounting to €1,170 thousand (compared to net financial earnings for €2,405 thousand in the previous year), due to the disappearance of dividends from subsidiaries recorded in 2008/2009, for €501 thousand, and to an average financial exposure, accruing interest payable, that was higher in 2009/2010 than in the previous year (in the first half of 2008/2009 Damiani S.p.A. recorded a net liquid position). Net advance tax calculated on the negative result before taxes amount to €3,251 thousand, as it is reasonably likely that advance tax credits deriving from these temporary differences may be recoverable in the future within the terms allowed by applicable regulations.

Capital and financial situation
- As of March 31, 2010, the **Net Invested Capital** of Damiani S.p.A. amounts to €150,173 thousand, up by €85 thousand from March 31, 2009. While the amount remains substantially stable, the composition of net invested capital is different from March 31, 2009, with fixed assets decreasing by €13,645 thousand and net working capital increasing by €11,165 thousand, as a consequence of a different structuring of receivables from the subsidiary Damiani International B.V. Because of the subsidiary's difficulties in paying its debts, and the consequent uncertainty on the date of payment, in the previous year Damiani S.p.A. reclassified these receivables entirely between financial items; during 2009/2010, due to the subsidiary's higher cash generation, the pre-existing liabilities were partly paid, and therefore the receivables arising from trade supplies to Damiani International B.V. carried out in 2009/2010 were recorded as trade receivables.
Additionally, during 2009/2010 Damiani S.p.A. recapitalized two of its subsidiaries, New Mood S.p.A. and Rocca S.p.A., for a total of €11.000 thousand.
- Owing to changes in net invested capital, to the negative business performance and to continuing buy-back transactions, in the course of the year ended March 31, 2010 the **Net Financial Debt** worsened by €13,367 thousand. Moreover, as part of the financing sources restructuring process with a view to extend durations and reduce interest rate fluctuation risks, the breakdown of the Company's gross debt has changed, with higher medium-long term exposure than at March 31, 2009. The Company took out two long-term (5-6 years duration), fixed interest rates (4-4.5%) without covenants, thus changing the breakdown of its gross debt to banks, at March 31, 2010, as follows: 71.9% medium-long term (23.8% at March 31, 2009) and 28.1% short-term (76.2% at March 31, 2009).

Transactions with related parties

Damiani S.p.A.'s dealings with related parties are mostly of a commercial nature (sales of jewellery products of the two Company brands) in connection with its core business, or real estate transactions (rental of shops and offices).
For the specific figures and descriptions of the nature of dealings with related parties, please see Note 31. Transactions with related parties, in the explanatory notes accompanying the financial statement.

Significant events during the financial year

On April 3, 2009, the Shareholders' Meeting of Damiani S.p.A. appointed the new Board of Directors which remains in office until approval of the financial statement as of March 31, 2012, setting their number at seven members instead of eight as in the previous Board. The current composition of the corporate bodies is set forth in the Introductory part of this document.

Significant events after the end of the financial year

No significant events occurred after March 31, 2010.

Business outlook

The global economic crisis, which started to show its real effects in late 2007, is still not behind us, despite cautious signs of recovery not only in emerging countries but also in more mature economies. While these signs encourage a cautious optimism, visibility in the short-medium term is still limited, which makes it difficult to predict how the situation will evolve and what will be the effects (also on tax matters) of the ongoing measures by the national Government, of the trends in raw material prices currently under strong speculative pressure, and of the inevitable impact of all these variables on consumers' spending ability.
In this challenging evironment, the management of Damiani S.p.A. will continue, on the one hand, to pursue efficiency recovery objectives to contain operating costs and improve the company's capital and financial ratios (debt and inventory reduction), and on the other, to strengthen its leadership in the domestic market.
If fully achieved, these objectives will reasonably allow Damiani S.p.A. to perform better in 2010/2011, both in terms of business volumes and of operating and net profit, compared to the period ended on March 31, 2010.

Proposed resolution on Damiani S.p.A.'s results for the financial year ended March 31, 2010

Shareholders,
to conclude our report, and trusting in your approval of the form and criteria used in preparing the financial statements at March 31, 2010, we propose:

1. to approve the financial statements of Damiani S.p.A. for the year ended March 31, 2010;
2. to balance this year's loss for €11,207,091 using existing reserves.

Milan, June 11, 2010

For the Board of Directors
Chairman and CEO
Dr. Guido Grassi Damiani

Table of contents - Damiani S.p.A. Financial Statements

Balance Sheet Statement

(in Euro)		Note	March 31 2010	March 31 2009
NON-CURRENT ASSETS				
Goodwill		*4*	*726,704*	*726,704*
Other Intangible Fixed Assets		*5*	*771,951*	*873,732*
Tangible Fixed Assets		*6*	*5,726,302*	*6,648,282*
Investments		*7*	*37,597,699*	*26,597,699*
Other Investments		*7*	*150,103*	*152,079*
Financial receivables and other non current assets		*8*	*49,126,219*	*72,252,118*
	of which towards related parties		*48,933,849*	*72,046,212*
Deferred tax assets		*9*	*6,249,175*	*6,742,007*
TOTAL NON-CURRENT ASSETS			100,348,153	113,992,621
CURRENT ASSETS				
Inventories		*10*	*37,359,814*	*43,396,166*
Trade receivables		*11*	*51,127,548*	*47,043,774*
	of which towards related parties		*24,829,701*	*12,510,000*
Tax receivables		*12*	*4,337,022*	*5,022,398*
Other current assets		*13*	*2,303,705*	*2,697,086*
Cash and cash equivalents		*14*	*1,868,778*	*3,182,878*
TOTAL CURRENT ASSETS			96,996,867	101,342,302
TOTAL ASSETS			197,345,020	215,334,923
SHAREHOLDERS' EQUITY				
Share Capital			*36,344,000*	*36,344,000*
Reserves			*94,492,574*	*95,829,702*
Net income (loss) for the period			*(11,207,091)*	*736,947*
TOTAL SHAREHOLDERS' EQUITY		*15*	119,629,483	132,910,649
NON CURRENT LIABILITIES				
Long term financial debt		*16*	*24,006,999*	*7,373,016*
	of which towards related parties		*3,007,000*	*3,381,000*
Termination Indemnities		*17*	*2,633,240*	*2,810,052*
Deferred Tax liabilities		*9*	*660,714*	*3,279,936*
Risk reserves		*18*	*594,000*	*363,000*
TOTAL NON CURRENT LIABILITIES			27,894,953	13,826,004
CURRENT LIABILITIES				
Current portion of long term financial debt		*16*	*8,198,017*	*4,760,631*
	of which towards related parties		*206,000*	*191,000*
Trade payables		*19*	*38,574,136*	*50,558,746*
	of which towards related parties		*13,910,786*	*18,593,819*
Short term borrowings		*20*	*208,148*	*8,226,069*
Income tax payables		*21*	*230,279*	*1,263,112*
Other current liabilities		*22*	*2,610,004*	*3,789,712*
	of which towards related parties		*541,914*	*1,295,000*
TOTAL CURRENT LIABILITIES			49,820,584	68,598,270
TOTAL LIABILITIES			77,715,537	82,424,274
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			197,345,020	215,334,923

Separate Income Statement

(in Euro)	Note	Financial Year 2009/2010	Financial Year 2008/2009
Revenues from sales and services		*56,737,561*	*71,106,096*
of which towards related parties		*12,543,927*	*20,832,000*
Other recurring revenues		*263*	*130,253*
TOTAL REVENUES	23	56,737,824	71,236,349
Costs of raw materials and consumables	24	*(36,264,122)*	*(36,544,058)*
of which towards related parties		*(5,863,729)*	*(4,583,100)*
Costs of services	25	*(20,876,923)*	*(22,274,472)*
of which towards related parties		*(6,469,075)*	*(5,365,241)*
Personnel cost	26	*(11,135,967)*	*(12,746,845)*
Other net operating (charges) incomes	27	*(492,335)*	*399,903*
of which towards related parties		*3,195,252*	*2,857,448*
Amortization and depreciation	28	*(1,256,609)*	*(1,117,152)*
TOTAL OPERATING EXPENSES		(70,025,956)	(72,282,624)
OPERATING INCOME (LOSS)		(13,288,132)	(1,046,275)
Financial Expenses	29	*(1,874,060)*	*(1,116,535)*
of which towards related parties		*(525,000)*	*(436,000)*
Financial Incomes	29	*704,389*	*3,521,609*
of which towards related parties		*502,784*	*1,477,000*
INCOME (LOSS) BEFORE INCOME TAXES		(14,457,803)	1,358,799
Income Taxes	30	*3,250,712*	*(621,852)*
NET INCOME (LOSS) FOR THE PERIOD		(11,207,091)	736,947

Comprehensive Income Statement

(InEuro)	Financial Year 2009/2010	Financial Year 2008/2009
Net Income (Loss) for the period	(11,207,091)	736,947
Other movements	-	-
Total comprehensive Income (Loss) for the period	(11,207,091)	736,947

Statement of changes in equity

(In Euro)	Share Capital	Share Premium Reserve	Legal Reserve	Shareholders payment reserve	Stock option reserve	Own Shares	Other reserves	Net income (Loss) for the period	Total shareholder's equity
Balances at March, 31 2008	36,344,000	69,857,285	1,848,359	3,641,000	58,301	(2,337,000)	15,490,690	10,969,958	135,872,593
Allocation of the result for the period			*548,498*				*10,421,460*	*(10,969,958)*	*-*
Other comprehensive income(loss)								*736,947*	*736,947*
Purchase of own shares						*(5,758,643)*			*(5,758,643)*
Stock option					*(58,301)*				*(58,301)*
Utilization of own shares for Rocca S.p.A. purchase						*2,050,000*			*2,050,000*
Other movements							*68,053*		*68,053*
Balances at March, 31 2009	36,344,000	69,857,285	2,396,857	3,641,000	-	(6,045,643)	25,980,203	736,947	132,910,649

(In Euro)	Share Capital	Share Premium Reserve	Legal Reserve	Shareholders payment reserve	Stock option reserve	Own Shares	Other reserves	Net income (Loss) for the period	Total shareholder's equity
Balances at March, 31 2009	36,344,000	69,857,285	2,396,857	3,641,000	-	(6,045,643)	25,980,203	736,947	132,910,649
Allocation of the result for the period			*36,848*				*700,099*	*(736,947)*	*-*
Other comprehensive income(loss)								*(11,207,091)*	*(11,207,091)*
Redemption of leaseback contracts							*27,333*		*27,333*
Stock option/Stock grant					*95,936*				*95,936*
Purchase of own shares						*(2,181,607)*			*(2,181,607)*
Other movements							*(15,737)*		*(15,737)*
Balances at March, 31 2010	36,344,000	69,857,285	2,433,705	3,641,000	95,936	(8,227,250)	26,691,898	(11,207,091)	119,629,483

Cash flow statement

(In Euro)	Financial Year 2009/2010	Financial Year 2008/2009
CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net income (loss) for the period	*(11,207,091)*	*736,947*
Adjustments to reconcile the profit (loss) for the period to the cash flow generated (absorbed) by operations:		
Amortization, depreciation and write-downs	*1,256,609*	*1,117,152*
Costs / (Revenues) for stock option	*95,936*	*-*
(Gains)/Losses from sale of non current assets	*(58)*	*(21,250)*
Provisions to Bad Debts Reserve	*3,365,000*	*1,875,406*
Provisions for termination Indemnity and actuarial valuation of ELI Fund	*170,946*	*6,214*
Termination indemnity payments	*(347,758)*	*(290,000)*
Changes in the deferred tax assets and liabilities	*(2,126,390)*	*(1,870,526)*
	(8,792,806)	*1,553,943*
Changes on operational assets and liabilities		
Trade receivables	*(7,448,774)*	*38,075,101*
Inventories	*6,036,352*	*(3,501,657)*
Trade payables	*(11,984,610)*	*143,342*
Tax receivables	*685,376*	*(4,457,161)*
Income Tax payables	*(1,032,833)*	*(6,143,820)*
Other current and non current assets and liabilities	*(555,327)*	*6,687,593*
NET CASH FLOW PROVIDED (ABSORBED) BY OPERATING ACTIVITIES (A)	(23,092,622)	32,357,341
CASH FLOW FROM INVESTING ACTIVITIES		
Cash in from disposal of Intangible and tangible Fixed Assets	*3,454*	*30,000*
Leaseback write off	*136,667*	*-*
Tangible Fixed Assets purchased	*(353,691)*	*(1,061,375)*
Intangible Fixed Assets purchased	*(19,220)*	*(116,074)*
(Purchase)/sale of investmnents	*(11,000,000)*	*(8,493,192)*
Net change in the other non current assets	*23,127,875*	*(63,663,729)*
NET CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	11,895,085	(73,304,370)
CASH FLOW FROM FINANCING ACTIVITIES		
New Long term loans	*25,000,000*	*-*
Leaseback debt write off	*(164,000)*	*-*
Payment of long-term debt	*(4,764,631)*	*(4,628,261)*
Net change in short-term financial liabilities	*(8,017,921)*	*6,567,685*
Purchase of own shares	*(2,181,607)*	*(5,758,643)*
Own shares used for the acquisition of Rocca Group	*-*	*2,050,000*
Other changes in Net Equity	*11,596*	*9,752*
NET CASH FLOW GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	9,883,437	(1,759,467)
TOTAL CASH FLOW (D=A+B+C)	(1,314,100)	(42,706,496)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	3,182,878	45,889,374
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (F=D+E)	1,868,778	3,182,878

Explanatory Notes

1. COMPANY INFORMATION AND STRUCTURE OF THE FINANCIAL STATEMENTS

Company information

The company Damiani S.p.A. has been engaged for many years in the distribution of jewellery products through both wholesale and retail channels under the brand names Damiani and Salvini.
The Company has its registered office in Viale Santuario no. 46, Valenza (AL), Italy.

Statement of compliance

Damiani S.p.A. has prepared its financial statements as of March 31, 2010 in accordance with IAS/IFRS international accounting standards and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) as adopted by the European Commission, and with the provisions contained in article 9 of Legislative Decree n. 38/2005.

Structure of the Financial Statements

This Financial Statement of Damiani S.p.A. as of March 31, 2010 covering the twelve-month period from April 1, 2009 to March 31, 2010, consisting of the balance sheet, the separate and the comprehensive income statements, the statement of changes in shareholders' equity, the cash flow statement, and the explanatory notes (hereafter, the Financial Statements) was approved by the Company's Board of Directors on June 11, 2010.
The statements incorporate the changes introduced by IAS 1 – (Revised) Presentation of Financial Statements.
The structure of the balance sheet takes into account the classification between "current assets" and "non-current assets" while, with reference to the income statement, the classification by the nature of the items has been maintained since this format is believed to be more representative than the so-called "presentation by destination" (also called "cost of goods sold" method).
In compliance with Consob (Italian SEC) resolution 15519 of July 27, 2006, the effects of transactions with related parties on Balance Sheet assets and liabilities and on the income statement for the financial period ended on March 31, 2010 are shown in the financial statements. Transactions with related parties are identified in accordance with the extended definition set forth in IAS 24, which includes relationships with members of the administrative and governing bodies as well as those company executives who have strategic responsibilities. See also Note 31. Transactions with Related Parties, and Note 33. Atypical and/or unusual and non recurring transactions.
The Cash Flow Statement was prepared using the indirect method.
The financial statements have been prepared in euros. All amounts included in the tables contained in the notes below are in thousands of euros unless otherwise stated.

2. ACCOUNTING STANDARDS AND CRITERIA

Criteria used

Damiani S.p.A. Financial Statements for the period from April 1, 2009 to March 31, 2010 were prepared in compliance with the IFRSs adopted by the European Union.
Income statement figures, changes in Shareholders' equity, and the cash flow statement for the twelve-month financial year ended on March 31, 2010 are presented in comparative form against those for the accounting period from April 1, 2008 to March 31, 2009. The balance sheet data as of March 31, 2010 are presented in comparative form against those of March 31, 2009.

Accounting standards

The accounting standards adopted in preparing the Financial Statements for the financial year ended at March 31, 2010 are consistent with those used for the financial year ended at March 31, 2009, except as described below.
The principles and interpretations first applied during the year ended at March 31, 2010, resulting in changes in the accounting procedures adopted in the company's reporting, are explained below.

Revised IAS 1 – Presentation of Financial Statements

The standard requires the separate presentation of any changes in Shareholders' equity in the company's own capital and in third party capital.
Consequently, the statement of changes in Shareholders' equity only includes the details of transactions carried out on the company's own capital, while changes in third party capital are presented in a single line.
Additionally, the standard introduces the statement of comprehensive income, which includes all recognized revenue and cost components, which may be presented as one statement or two related statements.
The company opted for presentation in two separate statements, entitled "Separate Income Statement" and "Comprehensive Income statement", respectively.

Revised IAS 19 – Employee Benefits

The standard clarifies the definition of income/cost related to past employee services, and establishes that in case of reduction of a plan the effect to be immediately recorded in the income statement must only include the benefit reduction for future periods, while the effect deriving from any reduction related to past service periods must be considered a negative cost referring to past employee services. The adoption of this amendment has no effects on the Company's accounting.

Revised IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance

The standard prescribes that the benefits from loans granted by Government entities at a lower than market interest rate must be treated as Government grants, and as such must follow the recognition rules set forth in IAS 20. The adoption of this amendment has no effects on the Company's accounting.

Revised IAS 23 – Borrowing Costs

The amendment removes the option, contemplated in the prior version of the standard, of immediately recognizing borrowing costs an as expense in the income statement for the year in which they are incurred, as an alternative to their capitalization. Therefore, in the revised version any borrowing costs that are directly attributable to the purchase, construction or production of an asset requiring a significant period of time before it is ready for the intended use or for sale must be capitalized as part of the asset's cost. The application of this standard has not brought about any accounting effects, as the specific situation is not applicable to the Company.

Amendments to IFRS 1 and IAS 27 – Cost of shareholdings in subsidiary companies, in jointly-controlled entities and in associated companies.

Revised IAS 28 – Investments in Associates

The standard prescribes that, for investments recognized under the equity method, any loss of value should not be allocated to the individual assets (and in particular to any eventual goodwill) that make up the investment's book value, but rather to the investment as a whole. Therefore, in the presence of conditions for a subsequent recovery of value, such recovery must be recognized entirely. The adoption of this amendment had no effects on the accounting, as the Company holds no investments in associate companies.

Revised IAS 38 - Intangible Assets

The revised standard provides for recognition of promotional and advertising costs in the income statement. Further, it prescribes that if the company incurs expenses having future benefits without entering intangible assets, the latter must be recognized in the income statement at the time the company has the right to access the asset, in the case of purchases of goods, or at the time the service is provided, in the case of purchases of services. The application of this standard had no accounting effects, as the specific situation is not applicable to the Company.

Amendment to IFRS 2 – Share-based Payments: Vesting Conditions and Cancellations

The standard has been amended to provide a more specific definition of the vesting terms and conditions and to prescribe the accounting treatment for grants actually cancelled due to failure to meet a non-vesting condition. The adoption of this amendment has no impact on the Company's financial position or performance.

IFRS 7- Financial Instruments: Additional Disclosures

The amendment was issued to increase the level of disclosure required for items designated at fair value, and to strengthen the existing standards concerning disclosures about liquidity risks associated with financial instruments. In particular, the amendment requires the disclosure of the designation at fair value of financial instruments by hierarchical levels of assessment. The amendments did not significantly affect the Company's disclosures about liquidity risks presented in Note 36 below.

IFRIC 13 – Customer Loyalty Programmes

This interpretation has defined the accounting methods for the obligation arising at the time of giving reward points to customers after a sale, and prescribes that the fair value of the obligations connected to the reward must be separated from the sale revenue and deferred until the obligation to the customers is extinct. The application of this standard had no impact on the Company, because this type of programme is not used by the Company.

IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement

The interpretation provides the general guidelines on how to determine the limit amount established by IAS for recognition of assets serving benefit plans, and explains the accounting effects deriving from the existence of a minimum funding requirement. The application of this standard had no accounting effects on the Company.

The following amendments, improvements and interpretations, effective as of January 1, 2009, regulate situations and cases which are not applicable to the Company at the date of these financial statements, but which could have accounting effects on future transactions or agreements.
- Improvement to IAS 29 – Financial Reporting in Hyperinflationary Economies
- Amendment to IAS 32 - Financial instruments
- Improvement to IAS 36 – Impairment of assets
- Improvement to IAS 39 – Financial instruments: Recognition and Measurement
- Improvement IAS 40 – Investment Property

New accounting standards applicable to financial statements for periods starting after April 1, 2010

The International Accounting Standards Board (IASB) also issued the following new accounting standards, interpretations and amendments applicable to the Company's financial statements for periods starting after April 1, 2010, not adopted in advance by the Company:

Revised IFRS 3 – Business Combinations

The main changes concern the removal of the obligation to recognize the subsidiary's assets and liabilities at fair value in every subsequent purchase, in the case of purchase of subsidiaries by stages. Goodwill shall be determined only in the purchase phase, and shall be equal to the difference between the value of the investments immediately before purchase, the price of the transaction and the value of the acquired net assets. Additionally, for equity investments other than 100% purchases, the shareholding portion held by others may be recognized either at fair value or using the method previously provided by IFRS 3. The standard's revised version also prescribes that all costs related to the business combination are booked to the income statement and that liabilities for payments subject to conditions are booked at the date of acquisition.

Amendment to IAS 27 – Consolidated and separate financial statements

The amendment prescribes that any changes in the level of ownership interest not resulting in loss of control must be treated as equity transactions, and must therefore have a balancing entry in equity. The new version also prescribes that when a parent company transfers control of a subsidiary but continues to hold an investment in such company, the interest still held must be recognized at fair value. Lastly, the amendment states that all losses attributable to minority shareholders must be allocated to the minority portion, even when these exceed the minority shareholders' portion of the subsidiary's share capital.

Additionally, the following standards and interpretations thereof, not applicable to the Company or not expected to have significant impacts, have been issued and endorsed by the European Union:
- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
- Amendments to IAS 39 - Financial instruments: Recognition and Measurement - Eligible Hedged Items
- IFRS 1 (revised) – First-time adoption of IAS/IFRS
- IFRIC 12 – Service Concession Arrangements
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers
- Amendments to IAS 32 – Classification of Rights Issues.

Use of estimates

The preparation of the Financial Statements and the explanatory notes under the IFRSs requires the Company to make estimates and assumptions which affect the values of the assets and liabilities stated in the Financial Statements and the reporting of potential assets and liabilities. The final results could differ from these estimates, which are used to measure provisions for credit risk, returns, inventory obsolescence, amortization, asset impairments, employee benefits, taxes, and provisions for risks and charges. These estimates and assumptions are reviewed periodically, and the effects of any change are booked directly to the income Statement.
The main valuation processes for which the Company has used estimates are those involved in asset impairment tests, in the valuation of expected future returns, and in the determination of trade receivable and inventory write-downs.
Because of the current economic and financial crisis, assumptions regarding future trends are highly uncertain; for this reason, the results of the next financial period may be significantly different from those estimated, calling for adjustment of their respective valuations, which cannot be estimated or foreseen at this time. Financial statement entries most affected by these situations of uncertainty include the returned goods reserves and the bad debt and inventory write-down reserve.
Additional details on the estimates are found in the specific notes to the financial statements.

Summary of the main accounting principles

Goodwill

The goodwill acquired in a business combination consists of the amount by which the cost of the combination is exceeded by the combined Group's share of the total Shareholders' Equity at current values as calculated from the identifiable values of the assets, liabilities and potential liabilities that have been acquired. Following the initial entry, goodwill is valued at cost less any accrued impairment. Goodwill is subjected to an impairment test, either annually or more often if events or changes occur that might give rise to any impairment.
For the purposes of these impairment tests, the goodwill acquired with business combinations is allocated, from the purchase date onwards, to each of the cash-generating units (or groups of units) which are believed to profit from the synergistic effects of the purchase, regardless of the allocation of any other assets or liabilities acquired. Each unit or group of units to which goodwill is allocated:
- represents the lowest level within the Group at which goodwill is monitored for internal management purposes;
- is no greater than an operating segment of the Group as defined in the operating segments chart under IFRS 8.
Impairment is determined by defining the recoverable value of the cash-generating unit (or group of units) to which the goodwill is allocated. If this recoverable value of the CGU (or group of CGUs) is lower than the book value, an impairment loss is recognized. Where goodwill has been attributed to a CGU (or group of CGUs) whose assets are partially disposed of, the goodwill associated with the asset disposed of is taken into account for the purposes of calculating any capital gain (or loss) arising from the transaction. In these circumstances the goodwill transferred is measured on the basis of the amount of the sold asset in proportion to the asset still held by the same unit.

Intangible fixed assets

Intangible assets acquired separately are recognized at cost, while those acquired through business combinations are recognized at fair value at the purchase date. After initial recognition, intangible assets are booked at cost, net of accumulated amortization and any accumulated impairments. Intangible assets generated internally are not capitalized, but are recognized in the Income Statement for the period in which the cost of generating them was incurred. The useful life expectancy of intangible assets is assessed as finite or indefinite. Intangible assets with a finite useful life are amortized over their estimated useful life and subjected to impairment tests whenever there are reasons to suspect a possible impairment. The amortization period and method applied

to them is reviewed at the end of each financial period, or more often if necessary. Changes in the expected useful life or in the way the future financial rewards connected with the intangible asset are reaped by the Group are recognized by modifying the amortization period or method, and treated as changes in the accounting estimates. The amortization rates for intangible assets with a finite life are recognized in the income statement in the cost category consistent with the intangible asset's function.
Intangible assets with an indefinite useful life are subjected annually to impairment test at the individual level or at the cash-generating unit level. These assets are not amortized at all. The useful life of an intangible asset with an indefinite useful life is reviewed each year to check that the conditions for this classification are still met. If not, the change from definite to finite useful life useful life is done prospectively.
Gains or losses arising from disposal of an intangible asset are measured as the difference between the net revenue from the sale and the net book value of the asset, and are recognized in the income statement at the time of the sale.
In the case of intangible assets with a finite life expectancy, the annual amortization rates applied are as follows:

Category	Rate
Software licences	*20%*
Key Money (Indemnities paid for renewal of shop rental contracts)	*Duration of contract*

Research and development costs

Research costs are directly booked to the income statement in the financial year in which they are incurred.
Development expenditures on a particular project are capitalized only when Damiani S.p.A. can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or sale, its intention of completing it for in-house use or for sale to third parties, the way in which it will generate probable financial benefits in future, the availability of the technical, financial and other resources needed to complete development, its ability to reliably evaluate the cost of the asset during its development, and the existence of a market for the products and/or services that will arise from the asset and/or its usefulness for internal purposes.
Following initial recognition, development costs are recorded net of accumulated amortization and of any impairment losses recognized, as previously described for intangible fixed assets with a finite useful life.
As of March 31, 2010 there are no capitalized development costs.

Tangible fixed assets

Buildings, plant and machinery acquired separately – based on purchase or lease agreements – are recognized at purchase cost, while those acquired through business combination transactions are recognized on the basis of the fair value determined at the acquisition date.
Buildings, plant and machinery are recognized at cost, including the directly attributable ancillary costs necessary for the asset's deployment in the function for which it was purchased, plus (if relevant and where obligations are incurred immediately), the present value of the estimated expense of dismantling and removing the asset. If significant portions of these tangible assets have different useful lives, these items are accounted for separately.
Land, whether undeveloped or built up, is not depreciated since it's useful life is unlimited.
The book value of tangible fixed assets is reviewed whenever events or changes take place which give reason to believe that the book value, as established under the amortization plan, might not be recoverable. If such reason exists, and if the book value exceeds the estimated recoverable amount, the assets or cash-generating units to which the assets have been allocated are written down to their recoverable value.
The carrying value of the assets, their useful lives and the methods applied are reviewed annually and, if necessary, they are adjusted at the end of each period.
The depreciation rates applied are as follows:

Category	Rate
Buildings	*3%*
Plant and machinery	*12.5%*
Industrial and commercial equipment	*From 12% to 35%*
Other assets	*From 12% to 25%*
Leasehold improvements	*Duration of contract*

Leased assets

Finance leases, which essentially transfer all the risks and rewards arising from ownership of the leased asset to Damiani S.p.A., are booked, as of the lease commencement date, at either the leased asset's fair value or, if lower, at the current lease value. The rental amounts are divided into a capital portion and an interest portion in such a way as to give a constant rate of interest on the remaining balance of the liability. Borrowing costs are booked directly to the income statement.
Booked leased assets are depreciated over the shorter of the asset's useful life expectancy and the lease period, unless it is reasonably certain that Damiani S.p.A. will become the owner of the asset at the end of the contract.
Rental amounts on operating leases are booked to the income statement for the duration of the lease.

Investments

Investments in subsidiaries and in other companies are booked at cost adjusted in the presence of long-term decrease in value, calculated on the basis of an impairment test.

Impairment test

At the closing date of each period Damiani S.p.A. assesses whether there is any reason to believe that there has been a decrease in the value of its intangible fixed assets with a finite useful life, its tangible fixed assets, its leased assets and its investments. If such a decrease has occurred, an impairment test is carried out.
Goodwill and other intangible fixed assets with indefinite useful lives are subjected to an impairment test every year, whether or not there is any reason to suspect a loss in value. Tangible and intangible fixed assets with a definite useful life are also subjected to an impairment test if there is any reason to suspect a loss in value.
Recoverable value is determined as the greater of the fair value of an asset or cash-generating unit (net of selling costs) and its value in use, and it is calculated asset by asset, except where the asset generates income which is not fully independent of that generated by other assets or asset groups, in which case the Company estimates the recoverable value of the cash-generating unit to which the asset belongs. In particular, since goodwill does not generate any income independently of other assets or asset groups, the impairment test is conducted on the unit or group of units to which the goodwill has been allocated.
In determining value in use, the Company discounts the estimated future cash flow from the current value, using a pre-tax discount rate which reflects the market's evaluation of the temporal value of the money and any specific risks pertaining to the asset.
For the purposes of estimating value in use, future cash flows are derived from the business plans drawn up by the Corporate of the parent company and approved by its Board of Directors, since these represent the Company's best forecast of the economic conditions over the period of the plan. Such plan forecasts are normally for a period of three years; the long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the relevant industry, country or market. Future cash flows are estimated on the basis of current conditions, therefore estimates do not take into account any benefits arising from future restructuring to which the company is not yet committed, nor any future capital spending that aims to enhance or optimise the asset or unit or significantly modifies it.
If the book value of an asset or cash-generating unit exceeds its recoverable value, that asset has lost value and is consequently written down to its fair value. The impairment loss of operating assets is recognized in the income statement under the cost items relating to the asset that had lost value. Moreover, at the closing date of each period the Company assesses whether there is any reason to suspect that losses previously recognized may now be excessive and if this is the case, a new estimate of the fair value is made. The value of a previously written-down asset (except for goodwill) may only be restored if there have been changes in the estimates used to determine the asset's fair value after the most recent recognition of a impairment loss. In that case the asset's book value is revised to its recoverable value, though the revised value may never exceed the level which the book value would have been (net of any depreciation) if no impairment loss had been recognized in previous years. When a value is restored it is booked as income in the income statement and the adjusted carrying value of the asset is depreciated on a straight-line basis over the remaining useful life, net of any remaining values. In no circumstances can the value of goodwill be restored after it has been written down.

Inventories

Inventories are booked at the lower of their purchase or production cost and their net realisable value, this being the amount which the Company expects to obtain from their sale in the normal course of business. The cost configuration used is the weighted average cost method, which includes all ancillary charges accruing in relation to the purchase of these stocks during the period. Inventory valuations include both the direct cost of materials and labour and the indirect cost of production.
Inventories also include production costs relating to returns expected in future years from deliveries already made, estimated on the basis of the sale value minus the average applied margin.
In order to calculate the net value of future realizable , the value of eventual obsolete or slow-moving goods is written down in relation to an estimate of future net use/realisable value, by means of a specific adjustment reserve for the reduction of the value of the inventories.

Trade receivables and other current assets

Trade receivables and other current assets are booked at their fair value, which is the nominal value that is subsequently reduced to take into account any eventual loss in value by means of the creation of a specific bad debt reserve, adjusted to the value of the asset. Trade receivables are booked to the financial statements net of an adjusted reserve for products that the Company estimates are returned by clients. That reserve is related to the amounts invoiced on dispatch of the goods where it is reasonable, in the light of experience and on the probable percentage relating to sales in future years, to expect that not all significant risks and benefits connected to ownership of the assets have been definitively transferred at the balance sheet date. Trade receivables and other current assets which neither bear interest nor are expected to be settled within normal commercial terms are discounted.

Financial instruments

IAS 39 provides for the following types of financial instrument: 1) financial assets at fair value, with changes booked to the income statement; 2) loans and receivables; 3) investments held to maturity; 4) assets available for sale.
Initially all financial assets are recognized at fair value, plus ancillary charges in the case of assets that are not at fair value in the income statement. The Company classifies its financial assets after they have been initially recognised and, when appropriate and permitted, reviews this classification at the end of each financial year.
All purchases and disposals of financial assets are booked to their transaction date, which is the date on which the Company undertakes to buy the asset.

Financial assets at fair value with changes booked to the income statement
This category includes financial assets held for trading, i.e. all assets acquired for the purpose of disposal in the short term. Derivatives are classified as financial instruments held for trading unless actually designated as hedges. Profits and losses on assets held for trading are booked to the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. Such assets are recognized at cost amortized using the effective discount rate method. Profits and losses are entered on the income statement when loans or other receivables are removed from the books, when a impairment loss is registered or as part of the depreciation process.

Investments held to maturity
Financial assets which are not derivatives and which have fixed or determinable payments are classified as "investments held to maturity" when Damiani S.p.A. intends and is able to hold them in its portfolio until maturity. Financial assets which Damiani S.p.A. has decided to hold for an indefinite period do not come into this category. Other long-term financial assets which are held to maturity, such as bonds, are subsequently valued at amortized cost, calculated as the value initially recognized less any capital amounts repaid, plus or minus accumulated amortization using the effective rate of interest of any difference between the value initially recognized and the maturity amount. This calculation includes all fees, commissions or rate points negotiated between the parties that form an integral part of the effective rate of interest, transaction costs and other premiums or discounts. In the case of investments valued at amortized cost, profits and losses are booked to the income statement when the investment is removed from the books, when a impairment loss is registered or as part of the depreciation process.

Assets available for sale
Financial assets available for sale are those financial assets other than derivatives which have been designated as available for disposal or have not been classified under any of the previous three categories. Following initial recognition at cost, financial assets available for disposal are valued at fair value and profits and losses are recognized as a separate item in equity until either the assets are removed from the books or a impairment loss is registered, while profits or losses which have accumulated up to that point in equity are then transferred to the income statement.
In the event of securities traded in regulated markets, fair value is calculated based on their quotation on the stock exchange at the time the financial period ends. In the case of investments for which there is no active market, fair value is determined by means of valuation techniques based on I) the prices of recent transactions among independent parties; ii) the current market value of essentially similar instruments; iii) an analysis of discounted cash flows; iv) option pricing models.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or a group of similar financial assets) is derecognized when:
– the rights to receive the financial flows expire;
– Damiani S.p.A. keeps the right to receive the asset's financial flows, but has the contractual obligation to transfer them without delay to a third party;
– Damiani S.p.A. has transferred the right to receive the asset's financial flows and (i) it has essentially transferred all the risks and benefits of ownership of the financial asset, or (ii) it has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control of it.
Where Damiani S.p.A. has transferred the right to receive the financial flows from an asset and has not transferred or retained all the risks and benefits of the asset nor lost control of it, the asset is recognized in the financial statements of Damiani S.p.A. to the extent of its remaining involvement in that asset. A "remaining involvement" which takes the form of a guarantee in respect of the transferred asset is valued at the lesser of the asset's initial book value and the maximum amount which Damiani S.p.A. might be required to pay.
A financial liability is derecognized from the financial statements when the underlying obligation is extinguished, annulled or fulfilled.
Where an existing financial liability is replaced by another from the same lender on materially different terms, or the terms of an existing financial liability are materially modified, this difference or modification is treated as a de-recognition of the original liability in the accounts and the recognition of a new one and any difference in the book values is booked to the income statement.

Hedge accounting
For the purposes of hedge accounting, hedges are classified as:
i) fair value hedges, if they hedge the exposure to changes in the fair value of the underlying assets or liabilities; or if they are a firm commitment (in the exceptional case of currency hedges); or ii) cash flow hedges, if they hedge the exposure to variability of cash flow which is either attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction, or if they hedge the currency risk of a firm commitment; iii) net hedging of an investment in a foreign company (net investment hedges).
When a hedge transaction is launched, Damiani S.p.A. formally designates and documents it as such, stating its objectives in terms of the strategy pursued and the exposure hedged against. This documentation identifies the hedge instrument, the element or transaction hedged, the nature of the risk and the way the company intends to assess the hedge's effectiveness in covering exposure to changes in the fair value of the element covered or in the cash flow linked to the hedged risk.
These hedges are expected to be highly effective in compensating for the hedged element's exposure to fair value or cash flow changes attributable to the risk hedged against; assessment of whether these hedges are in fact highly effective is carried out continuously throughout the financial years in which they have been designated.
Changes in the fair value of the hedge are booked to the income statement. The change in the fair value of the hedged asset attributable to the risk hedged against is recognized as part of the book value of the asset itself, with a counter-entry in the income statement.
As for fair value hedges of assets valued at amortized cost, the adjustment to the book value is amortized in the income statement for all the period remaining up until maturity. Any adjustments to the book value of a hedged financial instrument valued using the effective discount rates are amortized in the income statement.
Any profits and losses resulting from changes in the fair value of derivatives not suitable for hedge accounting are booked directly to the income statement for the period.

Cash and cash equivalents

Cash and cash equivalents are booked at their par value, depending on their nature.

Financial liabilities

Financial liabilities include financial debts and financial liabilities relating to derivative instruments. Financial liabilities other than derivatives are initially booked at fair value plus transaction costs, while thereafter they are valued at amortized cost, i.e. the initial value less any capital repayments already made, adjusted (up or down) by the amortization (at the effective interest rate) of any differences between the initial value and the value at maturity.

Employee benefits

Guaranteed employee benefits paid on or after termination of employment under defined-benefits schemes (for Italian companies, this is the known as "TFR" or severance indemnities) are recognized in the period in which the rights are accrued.
Those liabilities relating to a defined-benefits scheme, net of any assets held to service the plan, are determined on the basis of actuarial assumptions and recognized on an accrual basis consistent with the employment services necessary for obtaining the benefits; liabilities are valued by an independent actuary.
Damiani S.p.A. has decided not to adopt the "corridor approach" provided for in IAS 19, therefore profits and losses arising from the actuarial calculations are booked to the income statement in each period under labour costs.

Other employee benefits

In accordance with IFRS 2 (payments based on shares), stock options in favour of employees are valued by an external evaluator at their fair value at the grant date according to appropriate model.
If the right can be exercisable after a certain period and/or when certain performance conditions take place, i.e. the vesting period, the overall fair value of the options is split equally over time during the said period and booked to a specific item in the net equity while a corresponding amount is booked to the income statement under "personnel costs" (since it is a payment in kind paid to the employee) and to "costs for services" (in relation to the directors and agents who are beneficiaries of the options).
During the vesting period the fair value of the option that has been previously calculated is not reviewed or updated, but updating is continually carried out of the estimated number of options that will mature at the due date and, therefore, the number of beneficiaries who will have the right to exercise the options. The change in the estimate is treated as an increase or a reduction in the net equity item referred to while a corresponding amount is booked to the income statement under "personnel costs" and "costs for services".
When the option date expires, the amount booked to the net equity item referred to is reclassified as follows: the amount of the net equity referring to the exercised options is booked under "share premium reserve", while the part referring to the options that have not been exercised is reclassified under "Profit (loss) carried forward".

Trade payables and other current liabilities

Trade payables and other current liabilities, whose due dates fall within normal trade and contractual terms, are not booked to their net present value but to their par value.

Reserves for risks and charges

Reserves for risks and charges refer to costs and charges that are of determined nature and are of either certain or probable and for which it was not possible to calculate the amount or contingency date at the end of the financial period in question. Provisions or reserves for risks and charges are booked when the company must meet an obligation that derives from a past event if resources will probably have to be used to meet the obligation and the amount required can be reliably estimated.
When the company believes that a provision will be either totally or partly reimbursed (insurance policy cover risks), if the reimbursement is practically certain, it is booked to a specific item under assets, in which case the provision is booked net of the reimbursement in the income statement.
The value of provisions is based on the best estimate of the amount that is to be paid in order to meet the obligation or to transfer it to a third party, and is booked at the end of the financial period in question.

Revenues from sales and services

Revenues and income shown net of discounts, allowances and returns are booked at their fair value in so far as it is possible to calculate that value and it is possible that the relative financial benefits will be exploited.
Revenues from the sale of goods are recognized when all the following conditions are met:
• the significant risks and benefits connected to the goods are transferred to the purchaser;
• the usual operations associated with ownership of the goods are no longer carried out and effective control of the goods is no longer exercised;
• the amount of the revenues can be reliably calculated;
• it is probable that any future financial benefits will be exploited;
• the costs incurred, or to be incurred can be reliably estimated.
In some cases Damiani S.p.A. accepts, for commercial reasons and in line with the usual practices of the sector, from customers returns of goods that have already been delivered, including goods delivered in previous financial years. In such cases, the Company adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of experience and on the probable percentage relating to sales in future years, it is possible to reasonably estimate that at the date of the financial statements not all the significant risks and benefits associated with ownership of the goods will been transferred to the new owner. Returns that are calculated in this manner are booked to the income statement as a reduction of revenues and in the balance sheet under a specific adjustment reserve for receivables from customers, while the relative estimated production cost is included under inventories.

Barter transactions

Sales of goods in return for the purchases of publicity and advertising services are booked separately in the financial statements under "revenues from sales" and "costs of services". Revenues from the sale of goods is calculated at the fair value of the publicity and advertising services received, adjusted to take into account any cash payments or equivalents, and they are booked at the time the goods are shipped.

Other revenue and income

Other revenues include financial benefits during the period from operations connected to the company's ordinary business activities.
Key money received as a result of the disposal of leasing contracts before their due date for prestigious property for commercial usage is booked under other operational incomes when the amounts are received, which coincides with the date the original leasing contract is cancelled.

Costs

Costs are booked using the accruals system. In particular:
Costs for advertising campaigns and testimonials
Commission due to advertising agencies and the cost of producing advertising campaigns (television commercials and photo shoots), are booked to the income statement at the time they are incurred.
Costs relating to advertising campaigns and promotional activities are recognized in the income statement of each period for the services received (advertising already broadcast, published or transmitted, testimonial appearances already made).
Any advances paid for services still to be received are booked at the period when the services are provided.
Commissions paid to advertising agencies and the cost of producing advertising campaigns, spots and photo shots, are booked to the income statement for the period when the services are provided.
The costs relative to purchased advertising services are posted on an accrual basis in the period when the relative services are received.

Financial incomes and expenses

Financial incomes are recognised after an assessment has been carried out of the interest earned in the relevant period. This assessment is carried out using the effective interest rate method, represented by the rate used to discount the cash flow estimated on the basis of the life expectancy of the financial instrument.
Financial expenses are booked to the income statement in accordance with the accruals system and for the amount of the effective interest.

Dividends

Dividends are booked when the shareholders' right to receive payment comes into force, which coincides with the time resolution is passed on the dividends.

Income taxes

Current taxes
Current taxes are calculated on the basis of the taxable income for the period. Taxable income differs from the financial result shown in the income statement because it excludes items that will be taxable or deductable in other financial years and also items that will never be taxable or deductable. Current tax payables are calculated on the basis of the tax rates in force at the time the financial statements are prepared.

Deferred and prepaid taxes
Deferred and prepaid taxes are calculated on the temporary differences between the book value of the assets and liabilities in the financial statements and the corresponding fiscal value used in calculating taxable income, accounted for using the balance sheet liability method. Deferred tax liabilities are recognized in the case of all such taxable temporary differences, with the exception of the following:
- where deferred tax liabilities derive from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect either on the profit for the period calculated for the purposes of the financial statements, nor on the profit or loss calculated for tax purposes;
- in the case of taxable temporary differences linked to investments in subsidiary and associated companies and joint ventures, where the reversal of these temporary differences can be verified and it is likely that they will not in fact be reversed in the foreseeable future.
Prepaid taxes are recognized to the extent that it is thought likely that there will be sufficient taxable profits in future years to enable temporary differences to be deducted, except:
- where the prepaid tax derives from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, had no effect either on the profit for the period calculated for the purposes of the financial statements nor on the profit or loss calculated for tax purposes.
The value assigned to advance taxes is re-examined at the end of every financial period and reduced in accordance with the likelihood that in the year in which the temporary difference is expected to be reversed there might not be sufficient taxable income to enable its full or partial recovery. Any previously unrecognized taxes paid in advance are re-examined each year at the end of the financial period and are then recognized in relation to the probability of their recovery.
Both prepaid and deferred taxes are calculated on the basis of the tax rates which are expected to be in force during the financial period in which the tax asset is realized or the tax liability is settled, in accordance with the tax law in force at the time covered by the financial statements.
Deferred and prepaid taxes are booked to the income statement, with the exception of amounts relating to items recognized directly in shareholders' equity for which the relative deferred and advance taxes are directly booked without being entered in the income statement.
Prepaid tax assets and deferred tax liabilities are classified as non-current assets and liabilities.
In accordance with Legislative Decree 344 of December 12, 2003, which introduced the fiscal regime of group taxation called "Fiscal consolidated", Damiani S.p.A. came to an agreement with its subsidiaries New Mood S.p.A., Alfieri & St. John S.p.A., Rocca S.p.A., Damiani Manufacturing S.r.l. and Laboratorio Damiani S.r.l. to jointly choose the "National consolidated" option for the 2010-2012 three-year period.

Foreign currency conversion

The functional currency for Damiani S.p.A. is the euro.
Transactions in other currencies are converted and booked at the rate in force at the time of the transaction. Any foreign currency based assets and liabilities are converted to euros using the rate in force on the date the financial statements are closed. All exchange differences are booked to the income statement. Non-monetary items valued at their historical cost in foreign currencies are converted using the exchange rate in force at the date the transaction is recognised. Non-monetary items booked at their fair value in foreign currencies are converted using the exchange rate in force on the date the fair value is calculated.

Treasury stock

Treasury stock is classified as a direct reduction of the net equity. The original cost of treasury stock and income from any subsequent sale of it is shown as changes in net equity.

3. NOTES ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

The individual items in the balance sheet and income statement are explained below.

4. GOODWILL

Goodwill amounted to €727 thousand and is the same as at March 31, 2009.
This item refers to goodwill paid by Damiani S.p.A. relating to purchase of four directly run single-brand shops.

Impairment test on goodwill
Since goodwill is an asset with an indefinite useful life and is booked under non-current assets for the financial years ended on March 31, 2010 and at March 31, 2009, it was subject to an impairment test.
Impairment tests are carried out at least once a year on the cash generating units (CGU) to which the goodwill is booked.
More specifically, the goodwill for the boutiques was attributed to the Damiani CGU, represented by Damiani S.p.A..
The method utilised is described in detail in note 7, with reference to the impairment test carried out to verify the recoverability of the book value of the investments.

5. OTHER INTANGIBLE FIXED ASSETS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Industrial rights and patents	*138*	*187*
Key Money	*634*	*687*
Total other intangible fixed assets	772	874

"Key money" refers to the amount paid for the purchase of the leasing contract for the shop in Naples where Damiani S.p.A. opened a directly run, single-brand boutique during financial year 2008/2009. This amount is amortised on the basis of the residual duration of the leasing contract.
Purchases relating to "Industrial rights and patents" are for software licences.

(in thousands of Euro)	Industrial rights and patents	Key money	Total
Net book value at March 31 2009	*187*	*687*	*874*
Purchase	*19*		*19*
Disposals	*(68)*	*(53)*	*(121)*
Net book value at March 31 2010	138	634	772

6. TANGIBLE FIXED ASSETS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Land and buildings	*4,284*	*4,775*
Plant and machinery	*334*	*344*
Industrial and commercial equipment	*30*	*36*
Leasehold improvements	*167*	*272*
Other assets	*911*	*1,221*
Total tangible fixed assets	5,726	6,648

"Land and buildings" also include the carrying value of sale and leaseback assets, which related parties purchased from Damiani S.p.A. in previous years and subsequently leased back to the company. These sales and leasebacks amounted to €2,798 thousand at March 31, 2010 and €3,259 thousand at March 31, 2009.
The reduction in the item during the financial year refers to the depreciations calculated for the period (€350 thousand), and to the recognition of the effects deriving from the cancellation of a contract. This cancellation resulted in the elimination of the net carrying value of the asset on the write off date (€137 thousand) and the elimination of the corresponding value of the residual financial debt (€164 thousand). The net effect (€27 thousand) deriving from the elimination of the asset and the corresponding financial debt was booked as a direct increase of shareholder' equity.
"Other assets" mainly include furniture, fittings, office machinery and vehicles.
The following table shows the changes to tangible assets that took place up to March 31, 2010.

(in thousands di Euro)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Total
Historical cost	*5,915*	*1,758*	*627*	*300*	*13,831*	*22,431*
Depreciation reserve at March 31 2009	*(1,140)*	*(1,414)*	*(591)*	*(28)*	*(12,610)*	*(15,783)*
Net book value at March 31 2009	4,775	344	36	272	1,221	6,648
Purchases	-	*154*	*14*	-	*186*	*354*
Riclassifica	*(4)*	-	-	-	*4*	-
Disposals	*(137)*	-	*(3)*	-	-	*(140)*
Depreciation	*(350)*	*(164)*	*(17)*	*(105)*	*(500)*	*(1,136)*
Net book value at March 31 2010	4,284	334	30	167	911	5,726

The total amount does not include assets that are subject to revaluations, as per the special laws contained in article 10 of Law 72/83.

7. INVESTMENTS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Investments in subsidiaries companies	*37,598*	*26,598*
Investments in other companies	*150*	*152*
Total investments	37,748	26,750

The increase in the value of investments in subsidiaries for €11,000 thousand was related to the recapitalization done during the year in Rocca S.p.A. and in New Mood S.p.A. respectively for €4,500 thousand and for €6,500 thousand (of which €3,500 thousand by waiving a debt owed by the subsidiary).

The following table gives details of the subsidiaries as of March 31, 2010.

(in thousands of Euro)			Net equity					
Company name	Registered office	Share Capital	Total	of which Profit (Loss)	%	Net equity owned	Book value	Note
Casa Damiani Espana S.L.	*Valencia (Spain)*	*721*	*837*	*(3)*	*99%*	*829*	*330*	*2)*
Damiani International B.V.	*Amsterdam (Netherlands)*	*194*	*69,664*	*1,993*	*100%*	*69,664*	*9,894*	*2)*
New Mood S.p.A.	*Valenza (Italy)*	*1,040*	*3,225*	*(3,426)*	*97%*	*3,128*	*9,459*	*1)*
Damiani Manufacturing S.r.l.	*Valenza (Italy)*	*850*	*3,225*	*(14)*	*51%*	*1,645*	*467*	*2)*
Alfieri & St John S.p.A.	*Valenza (Italy)*	*1,462*	*5,093*	*330*	*100%*	*5,093*	*4,225*	*1)*
Laboratorio Damiani S.r.l.	*Bassignana (Italy)*	*200*	*333*	*29*	*100%*	*333*	*1,250*	*2)*
Damiani Service Unipessoal L.d.a.	*Madeira (Portugal)*	*5*	*(69)*	*(15)*	*100%*	*(69)*	*30*	*2)*
Rocca S.p.A.	*Milano (Italy)*	*4,680*	*9,304*	*(748)*	*100%*	*9,304*	*11,943*	*2)*
Total							37,598	

1) Financial statements prepared in accordance with IFRS principles
2) Financial statements prepared in accordance with local principles. IFRS adjustments are made in the consolidation

Impairment tests on investments

Investments, which constitute cash generating units (CGU), are subject to impairment tests, particularly those where the book value is higher than the share of shareholder' equity.
The recoverable value was calculated by using the value in use, which in turn was calculated by using the discounted cash flow method that involves estimating the future cash flow and discounting this by using a rate coinciding with the weighted average cost of the capital (WACC). In order to carry out the impairment test the following data and assumptions were used:
- the financial data was taken from the 2010-2013 business plan drawn up by the companies (which constitute the Cash Generating Unit– CGU) and reviewed at Corporate level by Damiani S.p.A. in order to develop Group synergy. The business plan was approved by the Board of Directors of Damiani S.p.A. on June 4, 2010;
- cash flow was calculated by taking the EBITDA for each CGU minus the amounts referring to capital expenditure and to changes in net working capital.
- the cash flow for the companies was discounted at the WACC (linked to the specific debt/equity ratio of each CGU), calculated on the basis of prudent assumptions of quantitative parameters (in particular for the expected "g" growth rate after the three-year period covered by the business plan used for calculating the terminal value that was assumed to be zero); the parameters used were:
- risk free: 3.44%
- beta: 1%
- debt/equity ratio: taken from company data at March 31, 2010

The impairment tests carried out confirmed the recoverability of the book value of the investments.
In any case, an analysis of the sensitivity to variation, in a range from +0,5%/-0,5% of the financial parameters (net present value) was carried out and the recoverable values were confirmed.
It should be noted, however, that various factors, linked in part to the difficult macroeconomic scenario of financial market which effects the luxury goods market, could lead to a re-calculation of the recoverable value of investments and goodwill described in the previous paragraphs. The circumstances and events that could result in the necessity to carry out a further impairment test to ascertain the impairment loss will be constantly monitored by the Company.
The following table gives details of the investments in other companies.

(in thousands of Euro)	March 31 2010
Fin-Or-Val S.r.l.	*109*
Banca d'Alba	*41*
Total Investments in other companies	150

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Receivables towards subsidiaries	*48,934*	*72,046*
Receivables towards others	*192*	*206*
Total financial receivables	49,126	72,252

Financial receivables from subsidiaries decreased during the period by €23,112 thousand mainly due to the payment received (equals to € 16,205 thousand) from the subsidiary Damiani International B.V. that at March 31, 2009 had been reclassified under other long-term assets because of uncertainty about when they would be paid, and to the decision to swap the financial loan of €3,500 thousand due from the subsidiary New Mood S.p.A. for a part of the capital increase (with a consequent increase in the value of the investment).
At March 31, 2010 these financial receivables from subsidiaries were as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Rocca S.p.A.	*11,000*	*14,000*
New Mood S.p.A.	*5,150*	*9,750*
Damiani Manufacturing S.r.l.	*1,700*	*-*
Alfieri & St. John S.p.A.	*-*	*1,600*
Damiani International B.V.	*30,165*	*46,370*
Laboratorio Damiani S.r.l.	*580*	*-*
Damiani Japan K.K.	*339*	*326*
Total	48,934	72,046

Loans made to subsidiaries involve interest rates based on either the three-month or six-month Euribor plus a 0.5% spread.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Deferred tax assets		
Net Impact of the returns reserve	*1,980*	*4,136*
Exchange loss differences	*-*	*267*
Bad Debts Reserve not deductible	*1,030*	*577*
Costs of the IPO	*863*	*1,295*
Other risk reseve	*186*	*-*
Devalutaion of inventories	*1,810*	*-*
Other timing differences of a taxation nature	*380*	*467*
Total deferred tax assets	6,249	6,742

(in thousands of Euro)	March 31 2010	March 31 2009
Deferred taxes liabilities		
Exchange differences	*86*	*101*
Impact of the returns reserve on inventories	*-*	*2,156*
Other timing differences of a taxation nature	*126*	*126*
Deferred taxation on capital gains	*449*	*897*
Total deferred tax liabilities	661	3,280

The differences compared with the situation at March 31, 2009 were mainly due to the following items: i) a reduction in deferred tax liabilities connected to the reclassification carried out during the period of the value of the deferred fiscal effects linked to the registration of the inventory returns reserve to compensate the corresponding item booked to advance taxes; ii) the registration of advance taxes related to the provisions made during the financial year, the non-deductable bad debt reserve and the inventory writedown carried out during the financial year as part of valuations linked to the current market context.

10. INVENTORIES

At March 31, 2010 and March 31, 2009, this item was made up as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Raw materials, semi-finished goods and advance payments	*7,863*	*8,524*
Finished products and goods	*29,497*	*34,872*
Total inventories	37,360	43,396

The value of inventories for finished products and goods at March 31, 2010 includes:
- €6,341 thousand (unchanged compared with March 31, 2009) for finished products supplied to clients but for which, when the financial statements were prepared, there were no real assurances that the assumptions of revenues recognition were completely satisfied;
- €6,585 thousand writedowns in the 2009/2010 on the basis of valuations carried out in the light of current market conditions, in order to align the cost to the presumable recoverable value.

In addition, the value of inventories at March 31, 2010 was booked net of the effects deriving from operations to destroy and transform jewellery by melting, which were carried out at various times during the period, for inventories worth a total of €1,704 thousand. These operations resulted in a net loss of €530 thousand, which was booked to the income statement. Similar operations carried out in the previous financial year involved inventories worth €2,358 thousand, for a net loss of €742 thousand.

11. TRADE RECEIVABLES

The following table shows details of this item as at March 31, 2010 and March 31, 2009:

(in thousand of Euro)	March 31 2010	March 31 2009
Trade receivables towards clients	*43,523*	*49,808*
Trade receivables towards subsidiaries	*24,830*	*12,510*
Trade receivables, gross	68,353	62,318
Bad debts reserve	*(3,931)*	*(1,918)*
Fund for return on sales from customers	*(13,173)*	*(13,173)*
Impact of Net Present Value calculation of receivables	*(121)*	*(183)*
Total trade receivables	51,128	47,044

The balance of trade receivables is net of bad debt reserves and returns reserves, as well as net of the effects of discounting the receivables represented by bankers' orders that have been reissued and have due dates that go beyond the accounting period.
The following table shows changes in the bad debt reserve and the returns reserve that occurred during the financial year up to March 31, 2010.

(in thousand of Euro)	Fund for returns on sales from customers	Bad debt reserve
Book value at March 31 2009	13,173	1,918
Accrual	*6,844*	*3,365*
Utilization	*(6,844)*	*(1,352)*
Book value at March 31 2010	13,173	3,931

Provisions made during the period to the bad debt reserve are included under "Other net operating incomes (charges)" in the income statement. Provisions and utilisations during the period for the returns reserve are booked as direct changes to "Revenues from sales and services" in the income statement. There are no receivables with a contractual duration of more than 5 years.

The following table gives details of receivables from Group companies for the two periods in question. The overall increase of €12,320 thousand is mainly due to receivables from the subsidiary Damiani International B.V. for the sale of goods abroad during financial year 2009/2010. Since the subsidiary showed a greater capacity to generate cash flows in the period in question, these receivables were again booked to trade receivables.

(in thousands of Euro)	March 31 2010	March 31 2009
Rocca S.p.A.	*2,235*	*3,449*
Courmayeur Rocca S.r.l.	*-*	*1*
New Mood S.p.A.	*563*	*1,035*
Alfieri & St John S.p.A.	*4,553*	*4,068*
Damiani Manufacturing S.r.l.	*157*	*243*
Damiani International B.V.	*13,405*	*-*
Laboratorio Damiani S.r.l.	*525*	*255*
Casa Damiani Espana S.L.	*2*	*2*
Damiani Usa Corp.	*2,392*	*2,261*
Damiani Japan K.K.	*998*	*1,196*
Total	24,830	12,510

12. TAX RECEIVABLES

Tax receivables decreased from €5,022 thousand to €4,337 thousand. The reduction of tax receivables was linked to a decrease in advance taxes paid in financial year 2009/2010 compared with the amount paid in the previous financial year, when the amount was based on the higher result registered in the previous year.

13. OTHER CURRENT ASSETS

The following table shows details of this item at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	March 31 2010	March 31 2009
VAT receivables from the Tax Authorities	*342*	*687*
Prepayments	*325*	*409*
Receivables from other	*1,637*	*1,601*
Total other current assets	2,304	2,697

The reduction in VAT credits was linked to the decrease in the Company's volume of business.

14. CASH AND CASH EQUIVALENTS

The following table shows details of this item at March 31, 2010 and March 31, 2009 :

(in thousands of Euro)	March 31 2010	March 31 2009
Bank and post accounts	*1,820*	*3,136*
Cash on hand	*49*	*47*
Total cash and cash equivalents	1,869	3,183

The balance represents the existing cash available in bank accounts and post office accounts and the petty cash and cash on hand at March 31, 2010.

15. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2010, amounted to €36,344 thousand, gross of treasury stock, and was made up of 82,600,000 shares with a par value of €0.44 each.
No dividends were distributed during the financial year. On June 11, 2010, the Board of Directors did not propose to the Shareholders' Meeting any dividend payment for financial year 2009/2010.
The number of treasury stock held in the portfolio amounted to 5,619,609 (6.80% of the share capital) for an exchange value of €8,227 thousand. This amount is booked as a direct reduction in shareholders' equity.
The number of shares in circulation at the beginning of the financial year amounted to 18,732,570 while at March 312010 it amounted to 16,390,959.
The main changes in shareholders' equity in the financial year that ended on March 31, 2010 were as follows:
- a loss for the year of €11,207 thousand.
- the purchase of 1,865,821 treasury stock for €2,181 thousand, in accordance with the resolution passed by the Shareholders' Meeting of July 22, 2009 that authorised, following cancellation of the part not carried out of the resolution passed by the Shareholders' Meeting of February 22, 2008, the purchase of treasury stock within a period of 18 months from the time of the resolution, up to a maximum of 8,260,000 ordinary shares of Damiani S.p.A.. At March 31, 2010 the number of treasury stock held in the portfolio, including those purchased previously, amounted to 5,619,609, equal to 6.80% of the share capital.
- the setting up of a stock option reserve for €96 thousand, to cover the stock option and stock grant plans approved by the Shareholders' Meeting of July 22, 2009, the characteristics of which are described in note 34.
Details of the utilisation and availability of the reserve are given below:

Description	Amount	Usage	Part available	Usage in the three previous financial years to cover losses	for other uses
Share capital	*36,344*				
Share Premium Reserve	*69,857*	*1), 2),3)*	*69,857*	-	-
Legal Reserve	*2,434*	*2)*		-	-
Other reserve :					
Extraordinary reserve	*22,105*	*1),2),3)*	*22,105*	-	-
Stock option reserve and stock grant reserve	*96*	*1),2)*		-	-
Totale	130,836		91,962	-	-

1) For Share Capital increases
2) To cover losses
3) To be distributed to shareholders

16. LONG TERM FINANCIAL DEBT : CURRENT AND MEDIUM/LONG TERM PORTION

The current and medium-long term portion of financial debt were made up as follows at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	March 31 2010	March 31 2009	Note
Non current portion			
Loan A	-	*2,000*	*a*
Loan B	-	*1,992*	*b*
Loan C	*13,500*	-	*c*
Loan D	*7,500*	-	*d*
Financial Leasing	*3,007*	*3,381*	*e*
Total non current portion of medium/long financial debt	24,007	7,373	
Current portion			
Loan A	*2,000*	*2,000*	*a*
Loan B	*1,992*	*2,570*	*b*
Loan C	*1,500*	-	*c*
Loan D	*2,500*	-	*d*
Financial Leasing	*206*	*191*	*e*
Total current portion of medium/long financial debt	8,198	4,761	
Total medium/long financial debt	32,205	12,134	

Details of the loans granted to Damiani S.p.A. by banks are given below:
a) loan A was originally granted in December 2005 for a total of €10,000 thousand with a repayment plan based on constant six-monthly instalments for the period from December 28, 2005 to December 31, 2010 at an interest rate of 3.87% per year. The remaining two instalments of the loan will be repaid within twelve months following March 31, 2010, therefore the entire debt has been booked under current loans;
b) loan B was originally granted in November 2005 for a total of €10,000 thousand with a repayment plan based on constant instalments for the period from November 28, 2005 to November 30, 2010 at an interest rate of 3.68% per year. The remaining two instalments of the loan will be repaid within twelve months following March 31, 2010, therefore the entire debt has been booked under current loans;

c) loan C was originally granted in June 2009 for a total of €15,000 thousand with a repayment plan based on constant six-monthly instalments for the period from December 31, 2010 to June 30, 2015 at an interest rate of 4.40% per year;
d) loan D was originally granted in June 2009 for a total of €10,000 thousand with a repayment plan based on constant three-monthly instalments for the period from June 30, 2010 to March 31, 2014 at an interest rate of 4% per year;
Moreover, the point e) leasing debts on buildings include the amount for a contract, classified as sale and leaseback arrangements under IAS 17, with related parties for a Damiani shop.
Changes in this item compared with March 31, 2009, amounting to €20,071 thousand, refer to: i) two new medium-long term loans underwritten by the company in June 2009 as part of a loan restructuring plan designed to reduce the risk of interest rate variations and to extend the due date of loans, for a total of €25,000 thousand at a fixed interest rate and without covenants; ii) the payment of instalments due as part of a loan amortisation plan for €4,570 thousand and payments for leaseback operations for €359 thousand. The latter also includes €164 thousand for the effects of the cancellation of a second leaseback contract. This value, net of the net value of the eliminated asset, was booked to shareholders' equity, as described in note 6.The following table illustrates the details of the net financial debt at March 31, 2010 and March 31, 2009:

Net Financial Debt *(in thousands of Euro)*	March 31 2010	March 31 2009
Medium-Long term loans and financing- current portion	*7,992*	*4,570*
Medium-Long term loans and financing with related parties- current portion	*206*	*191*
Usage of credit lines, short term financing and others	*208*	*5,057*
Payables to factor for receivables	*-*	*3,169*
Current financial indebtness	8,406	12,987
Medium-Long term loans and financing- non current portion	*21,000*	*3,992*
Medium-Long term loans and financing with related parties- non current portion	*3,007*	*3,381*
Non-current financial indebtness	24,007	7,373
Total gross financial indebtness	32,413	20,360
Bank and post accounts	*(1,820)*	*(3,136)*
Cash on hand	*(49)*	*(47)*
Net Financial Debt	30,544	17,177

The net financial debt of Damiani S.p.A. at March 31, 2010 showed a net loss of €30,544 thousand, representing a €13,367 thousand increase in the loss mainly due to the effects of the negative cash flow during the period (€6,888 thousand, net of the reclassifications of the amounts from subsidiaries already described in notes 8 and 11) and to those linked to buyback operations (€2,181 thousand cash in financial year 2009/2010). In addition, the composition of net financial debt for financial year 2009/2010 changed compared with the situation at March 31, 2009, with a higher exposure to medium-long term loans due to the plan to restructure the overall Group debt and reduce the risk of interest rate variations.

17. TERMINATION INDEMNITIES

In the twelve-month period up to March 31, 2010, the following changes took place in severance indemnities (TFR):

(in thousands of Euro)	March 31 2010	March 31 2009
Termination Indemnities at the beginning of the year	2,810	3,094
Financial expenses	*120*	*137*
Paid benefits	*(347)*	*(290)*
Actuarial Loss (Profit)	*50*	*(130)*
Termination Indemnities at the end of the year	2,633	2,810

The changes during the period reflect the provisions and outlays, including advances, implemented during the financial year up to March 31, 2010.
Severance indemnities are part of a defined benefits plan.
Liabilities are calculated using the Project Unit Cost method based on the following:
- a series of financial assumptions are used (increases in the cost of living, pay increases, etc.) to calculate the potential payments that will have to be made to each employee in the event of retirement, death, invalidity, resignation and so on. This estimate of future payments includes eventual pay increases as a result of the accrual of long-service entitlements and future pay increases;
- the current average value of future payments is calculated on the basis of the yearly interest rate adopted and on the probability, at the time the financial statements were prepared, of effectively having to make each of these payments;
- the company's liabilities are calculated by identifying that portion of the current average value of future payments that refers to services already provided by employees at the time of the evaluation date;

- the amount of the reserve set aside for the purposes of IFRS is calculated on the basis of the liabilities referred to in the previous point and the reserve set aside in the financial statements as per Italian law.

Details of the assumptions adopted are as follows:

Financial hypotheses	March 31 2010	March 31 2009
Annual rate for the Net Present Value	*4.00%*	*4.55%*
Annual inflation rate	*2.00%*	*2.00%*

Demographic hypotheses	
Mortality	*RG 48 (RGS table 48)*
Inability	*INPS tables by age and sex*
Pensionable age	*Reaching the general obligatory social security requirements*

It should be noted that Damiani S.p.A. has decided not to adopt the "corridor method" allowed by IAS 19, therefore profits and losses deriving from actuarial calculations are booked to the income statement under labour costs or financial income.
On January 1, 2007, the financial bill and the relative implementation decrees introduced important modifications to severance indemnities (TFR), including the possibility for employees to choose the destination of their severance indemnities. In particular, employees can either choose to put the new TFR amounts in private pension plans or leave them with the company (which pays the TFR amounts into a specific INPS or national social security institute account). The introduction of these new regulations has not had any significant effects on the company.

18. RISK RESERVES

The risk reserves are set up for the purposes of covering any lawsuits involving former employees and agents. The reserve amounted to €363 thousand at March 31, 2009 and increased to €594 thousand at March 31, 2010 as a result of provisions of €231 thousand made during the financial year. There were no utilisations during the financial year.

19. TRADE PAYABLES

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Trade payables due in less than 12 months	*24,765*	*32,146*
Trade payables towards subsidiaries within 12 months	*13,710*	*18,230*
Bill payable, other credit securities and advances	*99*	*183*
Total trade payables	38,574	50,559

Details of trade payable to subsidiaries are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
New Mood S.p.A.	*54*	*-*
Damiani Manufacturing S.r.l.	*4,493*	*3,491*
Laboratorio Damiani S.r.l.	*513*	*143*
Rocca S.p.A.	*284*	*813*
Damiani International BV	*5,295*	*10,661*
Casa Damiani Espana S.L.	*721*	*721*
Alfieri & St John S.p.A.	*414*	*58*
Damiani Usa Corp.	*1,936*	*1,961*
Damiani Japan KK	*-*	*382*
Total	13,710	18,230

The reduction in trade payables to the subsidiary Damiani International B.V. is mainly due to the compensation between reciprocal trade payables and receivables during the financial year as a result of agreements between the two parties. The reduction in trade payables to third parties was due to a decrease in the Company's volume of business.

20. SHORT TERM BORROWINGS

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Usages of short term credit lines and bank loans	*208*	*5,057*
Payables to factor for transfer credits	*-*	*3,169*
Total short term borrowings	208	8,226

Short-term credit lines are utilised for financing working capital. The medium-long term loan contracts signed in June 2009 resulted in a decrease in short-term credit lines with factors (with anticipations on the value of credit "pro-solvendo") and traditional banks.

21. INCOME TAX PAYABLES

The balance for this item at March 31, 2010 amounted to €230 thousand compared with €1,263 thousand at March 31, 2009. This decrease of €1,033 thousand is mainly due to a reduction in current income tax payables as a consequence of the deterioration of the result.

22. OTHER CURRENT LIABILITIES

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
Payables to social security institutions	*714*	*715*
Payables to employees	*1,249*	*1,690*
Other liabilities towards subsidiaries	*542*	*1,295*
Other liabilities	*105*	*90*
Total other payables	2,610	3,790

Payables to employees refer to amounts due for holidays and leave accrued but not taken as well as pay accrued of the 13th and 14th monthly salaries not yet paid.
The amount of payables to subsidiaries is as follows:

(in thousands of Euro)	March 31 2010	March 31 2009
New Mood S.p.A.	*424*	*1,036*
Damiani Manufacturing S.r.l.	*19*	*166*
Alfieri & St John S.p.A.	*99*	*93*
Total	542	1,295

The changes in payables to subsidiaries is linked to an increase/decrease of benefits for Damiani S.p.A. deriving from the taxable results for subsidiaries in the tax consolidation.

23. REVENUES

The following table shows revenues for the financial year at March 31, 2010 and March 31, 2009:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Revenues from sales and services	*56,738*	*71,106*
Other recurring revenues	*-*	*130*
Total revenues	56,738	71,236

The €14,498 thousand decrease in revenues from sales and services was mainly due to a €7,145 thousand decrease registered in the wholesale channel and to a €6,626 thousand decrease in intercompany sales, and, to a lesser extent, to a €597 thousand decrease registered in the retail channel.

24. COST OF RAW MATERIALS AND CONSUMABLES

Details of the cost of raw and consumables (including purchases of finished goods) at March 31, 2010 and March 31, 2009 are given in the following table:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Total cost of raw materials and consumables	*36,264*	*36,544*

The values also include changes in raw materials and finished products in stock.
At March 31, 2010 the amount also included:
- writedowns for €6,585 thousand for finished products in stock;
- a net loss of €530 thousand as a result of operations carried out during the period to destroy and transform jewellery products by melting, with reference to unsold products in stock for €1,704 thousand. This net loss (partially offset by the subsequent sale at market prices of the raw materials recovered from the melting) represents 31.1% of the book value of inventories. Similar operations carried out in the previous year referred to inventories for €2,358 thousand, produced a net loss of €742 thousand, with an incidence rate substantially similar to that of 2009/2010.

25. COST OF SERVICES

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Functional expenses	*3,835*	*4,485*
Advertising expenses	*3,636*	*4,705*
Other commercial expenses	*1,136*	*1,070*
Production costs	*3,665*	*2,421*
Consultancy	*1,956*	*2,388*
Travel/transport expenses	*1,362*	*1,810*
Directors' Fees	*1,673*	*1,717*
Usage of third party properties	*3,614*	*3,678*
Total cost of services	20,877	22,274

26. PERSONNEL COST

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Wages and salaries	*7,718*	*8,836*
Social security costs	*2,535*	*2,785*
Termination indemnity	*802*	*601*
Other personnel costs	*81*	*525*
Total personnel cost	11,136	12,747

The cost of personnel decreased by €1,611 due to a rationalisation plan for the organisational structure introduced in the second half of the previous financial year, which resulted in a decrease in the number of staff and the relative costs. The following table shows the average number of Company employees at March 31, 2010 and at March 31, 2009:

Labour categories	Financial Year 2009/2010	Financial Year 2008/2009
Executives and Managers	*28*	*29*
Clerks	*199*	*213*
Workers	*18*	*20*
Total	245	262

27. OTHER NET OPERATING INCOMES (CHARGES)

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Other net operating (charges) incomes	*2,894*	*3,333*
Bad debt reserve allowance	*(3,365)*	*(1,875)*
Net exchange differences	*(21)*	*(1,058)*
Total other net operating (charges) incomes	(492)	400

The balance of the item shows a worsening of of €892 thousand compared with the previous financial year mainly due to the effects of increased provisions in the bad debt reserve in order to take into account the increased risk of not being able to recover debts due to the crisis that has badly affected some clients.

28. AMORTIZATION AND DEPRECIATION

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Amortization and depreciation	*1,257*	*1,117*
Total Amortization and depreciation	1,257	1,117

29. FINANCIAL INCOMES AND (EXPENSES)

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
(Financial expenses)	*(1,874)*	*(1,117)*
Financial incomes	*704*	*3,522*
Total financial (expenses) and incomes	(1,170)	2,405

The increase in financial expenses is due to the higher average financial exposure registered in financial year 2009/2010 compared with the previous financial year. The decrease in financial incomes is due to the lack of income from currency exchanges and from dividends cashed in the 2008/2009 financial year from Casa Damiani Espana S.L. and Damiani Manufacturing S.r.l. for a total amount of €501 thousand.

30. INCOME TAXES

Details of this item at March 31, 2010 and March 31, 2009 are as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Current taxes	*(1,082)*	*1,027*
Deferred tax (assets)/Liabilities	*(2,169)*	*(405)*
Total income taxes	(3,251)	622

The reconciliation between fiscal charges in the financial statements and theoretical fiscal charges calculated on the basis of the IRES rate applied to Damiani S.p.A. for the financial year at March 31, 2010 and at March 31, 2009 is as follows:

(in thousands of Euro)	Financial Year 2009/2010	Financial Year 2008/2009
Result before taxes	*(14,458)*	*1,359*
IRES (Corporate) Tax Rate for the period	*27.5%*	*27.5%*
Theoretical Tax Burden	3,976	(374)
IRAP (Regional Tax on Productive Activities) effect	-	*(511)*
Other non deductible costs	*(725)*	*263*
Total differences	(725)	(248)
Total taxes for Income Statement	3,251	(622)
Effective tax rate	*22.5%*	*45.7%*

31. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes relations between Damiani S.p.A., subsidiaries and related parties during the financial years ended on March 31, 2010 and March 31, 2009, and highlights the effect of these transactions on the Company's income statement and balance sheet.
During these periods, transactions with related parties referred to property (leasing, sale and leaseback operations, leasing of business unit), mainly with Immobiliare Miralto s.r.l., and trade (sale of jewellery, cooperation agreements), mainly with Rocca S.p.A. and Damiani International B.V.. During the financial year up to March 31, 2009, Rocca S.p.A. was considered as a related party only up until August 31, 2008 since it became part of the Damiani Group on September 1, 2008, after which it was considered a subsidiary.

The following table gives details of relations between Damiani S.p.A., subsidiaries and related parties for the financial year up to March 31, 2010.

(in Euro)			Financial Year 2009/2010					Balance at March 31 2010		
	Revenues	**Other operati incomes**	**Financial incomes**	**Operating costs**	**Financial charges**	**Financial receivables**	**Trade receivables**	**Financial payables (including leasing)**	**Trade payables**	**Other current liabilities**
Damiani International B.V.	7,483,259	431,118	26,280	(139,919)		30,164,528	13,405,300		(5,295,149)	
Alfieri & St.John S.p.A.	1,106,169	1,015,819	17,202	(112,691)			4,552,474		(413,665)	(99,467)
Damiani Manufacturing S.r.l.	771,268	126,424	22,456	(5,970,556)		1,700,000	156,702		(4,492,886)	(19,342)
New Mood S.p.A.	1,927	855,606	187,506	(257,732)		5,150,000	562,898		(53,812)	(423,105)
Damiani Japan K.K.		143,920	4,927			339,321	997,521			
Damiani Usa Corp.		138,512					2,392,575		(1,935,959)	
Courmayeur Rocca S.r.l.	5,859									
Casa Damiani Espana S.L.							1,986		(721,480)	
Rocca S.p.A.	3,022,756	421,444	243,027	(2,143,916)		11,000,000	2,235,312		(284,162)	
Laboratorio Damiani S.r.l.	152,689	62,409	1,386	(2,765,924)		580,000	524,933		(512,770)	
Imm.re Miralto S.r.l.				(942,066)	(525,000)			(3,213,000)	(200,903)	
Totals with related parties	12,543,927	3,195,252	502,784	(12,332,804)	(525,000)	48,933,849	24,829,701	(3,213,000)	(13,910,786)	(541,914)
Total from Financial Statements	56,737,824	3,697,186	704,389	(61,330,566)	(1,874,060)	49,126,219	51,127,548	(32,205,016)	(38,574,136)	(2,610,004)
% age weight	22%	86%	71%	20%	28%	100%	49%	10%	36%	21%

- revenues from the subsidiaries Damiani International B.V., Alfieri & St John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A., Courmayeur Rocca S.r.l., Rocca S.p.A. and Laboratorio Damiani S.r.l. include sales of Damiani and Salvini brand jewellery and raw materials (with corresponding trade receivables);
- other operating incomes from the subsidiaries Damiani International B.V., Alfieri & St. John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A., Damiani Japan K.K., Damiani Usa Corp., Rocca S.p.A. and Laboratorio Damiani S.r.l. include recharge for advertising and consultancy services effected centrally;
- financial incomes from the subsidiaries Damiani International B.V., Alfieri & St. John S.p.A., New Mood S.p.A., Damiani Japan K.K., Laboratorio Damiani S.r.l., Damiani Manufacturing S.r.l. and Rocca S.p.A. refer to interest earned on loans to these companies;
- costs from the subsidiaries Damiani International B.V., Alfieri & St John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A. and Laboratorio Damiani S.r.l. refer to the purchase of goods and services (repairs, processing), with corresponding trade payables;
- costs from Rocca S.p.A. mainly refer to leasing payments for the boutiques in Milan (Salvini and Calderoni, with a partial recharge to Alfieri & St. John S.p.A.) and Turin (Damiani single-brand), managed on behalf of Damiani S.p.A.;
- balances for other current assets/(liabilities) from subsidiaries are due to amounts linked to the fiscal consolidation headed by Damiani S.p.A.;
- the costs from Immobiliare Miralto S.r.l. refer to leasing payments for renting premises in Milan and in Valenza (AL). In addition, there were also financial charges during the period for €942 thousand representing the interest on the repayment of the financial debt with related parties for sales and leaseback operations relating to the premises in Milan where the Damiani boutique is situated. The remaining financial debt amounted to €3,213 thousand, while during the period the leaseback contract for the Damiani shop in Portofino was cancelled. The carrying value of the financial debt, which amounted to €164 thousand, was eliminated with a set-off in shareholders' equity.

The following table gives details of relations between Damiani S.p.A. and related parties during the financial year up to March 31, 2009.

(in Euro)			Financial Year 2008/2009					Balance at March 31 2009		
	Revenues	**Other operating incomes**	**Financial incomes**	**Operating costs**	**Financial charges**	**Financial receivables**	**Trade receivables**	**Financial payables (including leasing)**	**Trade payables**	**Other current liabilities**
Damiani International B.V.	15,998,000	536,000	78,000	(327,000)		46,371,212			(10,661,000)	
Alfieri & St.John S.p.A.	433,000	1,175,000	72,000	(66,000)		1,600,000	4,068,000		(58,000)	(93,000)
Damiani Manufacturing S.r.l.	881,000	192,000	105,000	(5,256,000)			243,000		(3,491,000)	(166,000)
New Mood S.p.A.	10,000	548,000	496,000	(572,000)		9,750,000	1,035,000			(1,036,000)
Damiani Japan K.K.		177,000	5,000			325,000	1,196,000		(381,000)	
Damiani Usa Corp.		117,000		(79,000)			2,261,000		(1,961,000)	
Courmayeur Rocca S.r.l.	1,000						1,000			
Casa Damiani Espana S.L.			396,000				2,000		(721,000)	
Rocca S.p.A.	3,378,000	99,000	319,000	(1,204,000)		14,000,000	3,449,000		(813,000)	
Laboratorio Damiani S.r.l.	131,000	115,000	6,000	(1,936,000)			255,000		(143,000)	
Imm.re Miralto S.r.l.				(609,893)	(436,000)			(3,572,000)	(364,819)	
Totals with related parties	20,832,000	2,959,000	1,477,000	(10,049,893)	(436,000)	72,046,212	12,510,000	(3,572,000)	(18,593,819)	(1,295,000)
Total from Financial Statements	71,236,349	3,206,086	3,521,609	(63,021,695)	(1,116,535)	72,252,118	47,043,774	(12,133,647)	(50,558,746)	(3,789,712)
% age weight	29%	92%	42%	16%	39%	100%	27%	29%	37%	34%

- revenues from the subsidiaries Damiani International B.V., Alfieri & St John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A., Courmayeur Rocca S.r.l., Rocca S.p.A. and Laboratorio Damiani S.r.l. include sales of Damiani and Salvini brand jewellery and raw materials (with corresponding trade receivables);
- other operating incomes from the subsidiaries Damiani International B.V., Alfieri & St. John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A., Damiani Japan K.K., Damiani Usa Corp., Rocca S.p.A. and Laboratorio Damiani S.r.l. include recharge for advertising and consultancy services effected centrally;
- costs from the subsidiaries Damiani International B.V., Alfieri & St John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A., Laboratorio Damiani S.r.l. and Damiani Usa Corp. Refer to the purchase of goods and services (repairs, processing), with corresponding trade payables;
- costs from Rocca S.p.A. mainly refer to amounts for restructuring, outfitting and leasing payments for the boutiques in Milan (Salvini and Calderoni, with a partial recharge to Alfieri & St. John S.p.A.) and Turin (Damiani single-brand), managed on behalf of Damiani S.p.A., as well as advertising costs of €196 thousand;
- financial revenues from the subsidiaries Damiani International B.V., Alfieri & St. John S.p.A., New Mood S.p.A., Damiani Japan K.K., Laboratorio Damiani S.r.l. and Rocca S.p.A. refer to interest earned on loans to these companies;
- financial revenues from Casa Damiani Espana S.L. and Damiani Manufacturing S.r.l. refer to distributed dividends;
- balances for other current assets/(liabilities) from subsidiary companies are due to amounts linked to the fiscal consolidation headed by Damiani S.p.A.;
- the costs from Immobiliare Miralto S.r.l. refer to leasing payments for renting premises in Milan and in Valenza (AL). In addition, there were also financial charges during the period for €436 thousand representing the interest on the repayment of the financial debt with related parties for sales and leaseback operations relating to the premises where the boutiques in Milan and Portofino are situated. The remaining financial debt amounted to €3,572 thousand.

In both periods there were also loan contracts between Damiani S.p.A. and a number of subsidiaries that were negotiated at normal market conditions and are described in previous notes.

32. COMMITMENTS AND POTENTIAL LIABILITIES

On May 27, 2010, the tax inspection carried out at Damiani S.p.A. for the 1/4/2008-31/3/2009 tax period was completed by the Alessandria tax authorities. The inspection revealed marginal substantive violations that will be notified to the Company during the financial year after April 1, 2010. No provisions were made for the possible results of this inspection in the financial statements at March 31, 2010.
On December 29, 2009, Tax office in Milan - number 6 informed the subsidiary New Mood S.p.A., which is part of the fiscal consolidation, together with the parent company Damiani S.p.A., of an assessment notice for tax year 2004 contesting the fiscal deductibility of costs of approximately €8,000 thousand for the purchase of goods from suppliers in Hong Kong, on the basis that this operation does not meet the exemption criteria provided for in article 110, paragraph 11 of TUIR. The amount requested by the tax office for taxes and sanctions (net of interest) amounts to € 6,226 thousand. The company presented an appeal against this assessment on May 28, 2010. New Mood S.p.A. maintains that it acted in accordance with the principles of formal and substantive correctness and, also in the light of the opinion of consultants engaged to study the dispute, believes that could demonstrate the illegitimacy of the tax demands. Since the result of the dispute cannot be foreseen and in the light of the observations referred to above, the liability has been qualified as "possible".

33. ATYPICAL AND/OR UNUSUAL AND NON-RECURRING TRANSACTIONS

There were no positions or transactions arising from atypical and/or unusual operations and non recurring transactions, as defined by Consob resolution 15519 of 27/07/2006 and Consob resolution DEM 6064293 of 28/7/2006.

34. STOCK OPTION PLAN

The Shareholders' Meeting of July 22, 2009 approved the adoption of two plans based on financial instruments as per article 114bis of Legislative Decree 58/1998, denominated 2009 Stock Option Plan and 2009 Stock Grant Plan.
The Board of Directors received a mandate from the Shareholders' Meeting to implement the plans and to identify the beneficiaries. The shares to be used for both plans are to be taken from the portfolio of treasury stock, up to a maximum of 4,500,000 shares, with 3,500,000 reserved for the 2009 Stock Option Plan and 1,000,000 for the 2009 Stock Grant Plan.
The Stock Option Plan can be implemented in one or more tranches and within five years of the resolution of the Shareholders' Meeting.
The Stock Grant Plan provides for the allocation of Damiani shares to employees, free of charge, in one or more tranches and within five years of the resolution of the Shareholders' Meeting.
On September 24, 2009, the Board of Directors of Damiani S.p.A., together with the Remuneration Committee, began implementing the 2009 Stock Option Plan destined for management staff. 16 beneficiaries were identified (members of the Damiani family were not included) and they purchased at a cost of €0.126 for each right a total of 685,000 shares, each of which entitles the owner to the right to purchase one Damiani S.p.A. share at the strike price of €1.60. The purchase right will vest on September 12, 2012 and it may be exercised starting from the following day and until September 30, 2012 as long as the beneficiary is still an employee of Damiani Group at that date. The option price corresponds to their market value and was determined by the Company with the assistance of Equita Sim S.p.A. The beneficiaries paid for the right assigned to them in November 2009.
The beneficiaries paid for the rights assigned to them in November 2009.
On September 10, 2009 the Board of Directors of Damiani S.p.A. implemented the 2009 Stock Grant Plan destined for employees, with the exception of employees residing or domiciled in the United States. The plan entails the free assignment to all beneficiaries of:
- 50 Issuer's shares, to be transferred from September 12, 2011;
- 100 Issuer's shares, to be transferred as from September 12, 2011, following the consignment of positive consolidated results as of March 31, 2010.
An essential condition for the assignment of both lots is that the beneficiaries must still be employed by the Damiani Group on the day of the share transfer. The first phase of the plan involves a total of 582 employees and managers of Group companies.

35. CAPITAL MANAGEMENT

The primary objective of the Company is to guarantee, even during financially critical periods, the best possible balance between profitability indicators (the

company's ability to turn generated profits into cash flow), solvency indicators (its ability to maintain a balance between assets and liabilities) and growth indicators (its ability to ensure steady income growth without compromising the overall stability of assets). Starting from these principles the company is committed, even in an unstable market context, to maintaining a solid asset base and limiting financial debt with banks (by utilising more medium-long term loans at fixed-rate interest) in order to maximise its credit rating and therefore support its expansion plans under the best possible economic and financial conditions. The Company manages the structure of its capital and amends it in accordance with changes in financial conditions and the objectives of its own strategic plans.
In order to maintain or adjust the capital structure, the Company may from time to time revise its policy of disposing of the treasury stock it holds in its portfolio and resolve to purchase or issue new shares.

36. FINANCIAL RISK MANAGEMENT

At March 31, 2010 Damiani S.p.A. registered a negative net financial position of around €31 million, around €13 million increase compared with the amount at March 31, 2009, due to a negative economic performance and to the ongoing buyback plan. The twelve-month period was characterised by the uncertainty and difficult of the reference market as far as product sales and the purchase of raw materials was concerned. This resulted in the necessity to take decisive commercial action and to rationalise operating costs in order to maintain a satisfactory asset-financial balance. Consequently, the company adapted its financial risk management policy to the current situation and to the specific projects it developed during the period.
The following paragraphs outline the main financial risks the Company is exposed to. These risks are constantly monitored in order to identify the best methods of neutralising them, and the list is drawn up in order of importance.

Credit risk

Credit risk can be defined as the possibility of suffering a financial loss due to a counterpart's failure to fulfil its contractual obligations.
With reference to trade relations management, the Company deals with selected customers that mainly consists of jewellers and distributors, therefore collateral guarantees are generally not requested. The Company's policy is to subject new clients to preliminary screening carried out by a specialist company and to monitor all clients by assigning them individual credit limits. In addition, each client's credit is automatically monitored with the help of an information provider that reports any possible negative signals (for example, dishonoured bills), which immediately lead to the client in question being blocked and credit recovery operations being implemented. This constant monitoring has restricted credit losses to an acceptable level, even when there is a market crisis like the present one. The deterioration in market conditions and the difficulty of obtaining credit can have a negative impact on the solvency of some of our customers, therefore the company carries out constant monitoring of such possible risks in order to protect its own interests, and a accurate assessment of related risks is carried out when preparing the financial statements.
The following table shows the maximum potential exposure to credit risk at March 31, 2010 and March 31, 2009.

(in thousands of Euro)	March 31 2010	March 31 2009
Cash and cash equivalents	*1,869*	*3,183*
Trade receivables	*51,128*	*47,044*
Financial receivables towards subsidiaries companies	*48,934*	*72,046*
Other non current assets	*192*	*207*
Other current assets	*6,641*	*7,719*
Total maximum exposure to the Credit Risk	**108,764**	**130,199**

Liquidity risk

The Company's exposure to liquidity risk is mainly represented by commercial debts linked to supplier relations and to medium-long term financial loans. The overall exposure decreased by €2,145 thousand in financial year 2009/2010, with more emphasis placed on medium-long term loans due to new loans of €25,000 thousand taken out during the period. In details, in the two periods:

	Analysis of the due dates at March 31 2010			
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	*38,574*	-	-	*38,574*
Long term financial debt to banks	*7,992*	*19,500*	*1,500*	*28,992*
Long term financial debt to leasing companies	*206*	*824*	*2,183*	*3,213*
Short term borrowings	*208*	-	-	*208*
Other current liabilities	*2,840*	-	-	*2,840*
Total Exposure	**49,820**	**20,324**	**3,683**	**73,827**

(in thousands of Euro)	Analysis of the due dates at March 31 2009 within 1 year	1 to 5 years	over 5 years	Total
Trade payables	*50,559*	-	-	*50,559*
Long term financial debt to banks	*4,570*	*3,992*	-	*8,562*
Long term financial debt to leasing companies	*191*	*764*	*2,617*	*3,572*
Short term borrowings	*8,226*	-	-	*8,226*
Other current liabilities	*5,053*	-	-	*5,053*
Total Exposure	68,599	4,756	2,617	75,972

Price risk

The main types of raw materials used by Damiani S.p.A. are precious stones, gold, pearls and other precious materials, the prices and availability of which on the market can vary significantly in relation to factors such as government regulations, market performance and investors speculation, relations with suppliers (particularly as far as the purchase of diamonds is concerned) and the consequent supply conditions. During 2009/2010 the average price of gold was €23.27 per gram (with prices very much higher than the average price particularly in the last two months of financial year 2009/2010, with average prices reaching €26.40 per gram in March 2010), while in the previous financial year the average price was €19.72 per gram, with an increase of around 18% on an annual basis. The risk can be further heightened as a result of changes in currency exchange rates, since some purchases of raw materials are negotiated in foreign currencies such as dollars (diamonds) and yens (pearls) while the consolidated financial statements are prepared in euros. The company has been able to reduces this risk since the impact of the purchase of raw materials is relatively small compared with overall production costs. Purchases are in fact mainly confined to finished products from suppliers with whom the company has consolidated relations and medium-term agreements that make it possible to mitigate the effects connected to sudden and frequent price variations, such as those registered during the period in question.

Exchange rate risk

The company purchases some raw materials and finished products in yens and dollars, with a subsequent exposure to exchange rate risk. If this risk is deemed to be significant, specific forward foreign currency purchase contracts are signed in order to hedge against the risk of currency variations.
The notional amount of forward purchases made during financial year 2009/2010 totalled $1,047 thousand, a decrease compared with the previous financial year when forward purchases amounted to $15,088 thousand to face more significant currency variations. At March 31, 2010, Damiani S.p.A. had no forward foreign currency purchase contracts (at March 31, 2009 this type of contract amounted to €4,118 thousand).

Interest rate risk

Changes in interest rates can have a negative effect on the Company's profitability due to increased interest costs on loans.
In order to minimise the risk of exposure to interest rate variations, as part of a more far-reaching plan to re-qualify loan sources, during financial year 2009/2010 (to June 2009) two medium-long term loans were agreed (for a maximum period of 6 years) for a total of €25,000 thousand at a fixed interest rate (between 4% and 4.5%) and without any guarantees or covenants. In this way the Company aimed to reduce the need to seek short-term loans (credit and factor lines), which are more susceptible to interest rate variations and can vary considerably when the credit market is going through a crisis and there is a great deal of economic speculation, just like the present economic situation. At March 31, 2010, 71.9% of the gross financial debt was made up of medium-long term loans at a fixed interest rate (net of payables to related parties for sale and leaseback operations), with due dates up to June 30, 2015. At March 31, 2009, only 23.8% of the gross debt to banks was classified as medium-long term and no loans had an due date after March 31, 2013.

Financial instruments at fair value and relative valuation hierarchy levels

The table below shows the financial assets and liabilities classified on the basis of the categories defined in IAS 39.

(in thousands of Euro)	Book value: Total March 31 2010	Total March 31 2009	of which current March 31 2010	of which current March 31 2009	of which not current March 31 2010	of which not current March 31 2009	Fair value March 31 2010	Fair value March 31 2009
Cash and cash equivalents	*1,869*	*3,183*	*1,869*	*3,183*	-	-	*1,869*	*3,183*
Trade receivables	*51,128*	*47,044*	*51,128*	*47,044*	-	-	*51,128*	*47,044*
Other financial assets	*6,833*	*7,926*	*6,641*	*7,719*	*192*	*207*	*6,833*	*7,926*
Financial receivables towards to subsidiaries companies	*48,934*	*72,046*	*48,934*	*72,046*	-	-	*48,934*	*72,046*
Total financial assets	108,764	130,199	108,572	129,992	192	207	108,764	130,199
Trade payables	*38,574*	*50,559*	*38,574*	*50,559*	-	-	*38,574*	*50,559*
Payables to banks and other financial liabilities	*32,413*	*20,360*	*8,406*	*12,987*	*24,007*	*7,373*	*32,413*	*20,360*
Other liabilities	*2,840*	*5,053*	*2,840*	*5,053*	-	-	*2,840*	*5,053*
Total financial liabilities	73,827	75,972	49,820	68,599	24,007	7,373	73,827	75,972

With regard to financial instruments booked at fair value, IFRS 7 requires these values to be classified on the basis of hierarchy levels that reflect the significance of the method used to calculate the fair value.
These levels are as follows:
level 1: financial instruments listed on an active market;
level 2: fair value is measured on the basis of valuation techniques that are based on observable market data, different from the listing;
level 3: the fair value is calculated on the basis of valuation techniques that are not based on observable market data.

All assets and liabilities valued at fair value at March 31, 2010 are classified at level 2 and during financial year 2009/2010 there were no transfers from level 1 or 3 to level 2.

37. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

There were no significant events after March 31, 2010.

38. AUDITING COSTS

The following table, prepared in accordance with article149-duodecies of Consob Issuers' Regulations, shows the contractual fees accruing in the financial year ended on March 31, 2010 for services provided by the independent audit company and by other organisations belonging to the same network.

Type of services	Service provider	Fee
Audit of the accounts	*Reconta Ernst & Young S.p.A.*	*222*
	Total	*222*

For the Board of Directors
Chairman and CEO
Dr. Guido Grassi Damiani

ATTACHMENT 1

Summary of key data for directly and indirectly held subsidiaries

Alfieri & St. John S.p.A.	
Registered office	*Valenza (AL), Italy*
Key figures (in thousand of Euro)	*FY closed at March 31 2010*
Share Capital	*1,462*
Revenues from sales and services	*19,123*
Operating result	*563*
Net Result	*330*
Total assets	*23,072*
Shareholders' equity	*5,093*
Total liabilities	*17,979*
Financial report according to IFRS	

New Mood S.p.A.	
Registered office	*Valenza (AL), Italy*
Key figures (in thousand of Euro)	*FY closed at March 31 2010*
Share Capital	*1,040*
Revenues from sales and services	*13,852*
Operating result	*(4,344)*
Net Result	*(3,426)*
Total assets	*20,090*
Shareholders' equity	*3,225*
Total liabilities	*16,865*
Financial report according to IFRS	

Damiani Manufacturing S.r.l	
Registered office	*Valenza (AL), Italy*
Key figures (in thousand of Euro)	*FY closed at March 31 2010*
Share Capital	*850*
Revenues from sales and services	*5,971*
Operating result	*105*
Net Result	*(14)*
Total assets	*6,706*
Shareholders' equity	*3,225*
Total liabilities	*3,481*
Financial report according to local Gaap	

Laboratorio Damiani S.r.l.	
Registered office	*Bassignana (AL), Italy*
Key figures (in thousand of Euro)	*FY closed at March 31 2010*
Share Capital	*200*
Revenues from sales and services	*3,284*
Operating result	*79*
Net Result	*29*
Total assets	*2,212*
Shareholders' equity	*333*
Total liabilities	*1,879*
Financial report according to local Gaap	

Damiani International B.V.	
Registered office	Amsterdam, Holland
Key figures (in thousand of Euro)	FY closed at March 31 2010
Share Capital	194
Revenues from sales and services	35,634
Operating result	1,915
Net Result	1,993
Total assets	128,370
Shareholders' equity	69,664
Total liabilities	58,706
Financial report according to local Gaap	

Damiani Japan K.K.	
Registered office	Tokyo, Japan
Key figures (in millions of Jpy)	FY closed at March 31 2010
Share Capital	490
Revenues from sales and services	1,204
Operating result	(34)
Net Result	(139)
Total assets	2,887
Shareholders' equity	1,748
Total liabilities	1,139
Average exchange rate 2009/2010	Euro/Jpy 131,18
Exchange rate at March, 31 2010	Euro/Jpy 125,93
Financial report according to local Gaap	

Damiani USA, Corp.	
Registered office	New York, USA
Key figures (in thousand of USD)	FY closed at March 31 2010
Share Capital	55
Revenues from sales and services	8,839
Operating result	(5,511)
Net Result	(5,555)
Total assets	43,351
Shareholders' equity	15,657
Total liabilities	27,694
Average exchange rate 2009/2010	Euro/Usd 1,41
Exchange rate at March, 31 2010	Euro/Usd 1,35
Financial report according to local Gaap	

Casa Damiani Espana S.L.	
Registered office	Madrid, Spain
Key figures (in thousand of Euro)	FY closed at March 31 2010
Share Capital	721
Revenues from sales and services	0
Operating result	(3)
Net Result	(3)
Total assets	843
Shareholders' equity	837
Total liabilities	6
Financial report according to local Gaap	

Damiani Hong Kong Ltd	
Registered office	Hong Kong, Hong Kong
Key figures (in thousand of Hkd)	FY closed at March 31 2010
Share Capital	2,500
Revenues from sales and services	7,828
Operating result	(2,043)
Net Result	(2,492)
Total assets	13,997
Shareholders' equity	(10,457)
Total liabilities	24,454
Average exchange rate 2009/2010	Euro/Hkd 10,97
Exchange rate at March, 31 2010	Euro/Hkd 10,47
Financial report according to local Gaap	

Damiani France S.A.	
Registered office	Paris, France
Key figures (in thousand of Euro)	FY closed at March 31 2010
Share Capital	39
Revenues from sales and services	282
Operating result	(447)
Net Result	(439)
Total assets	3,266
Shareholders' equity	(3,232)
Total liabilities	6,498
Financial report according to local Gaap	

Damiani Service Unipessoal Lda	
Registered office	Madeira, Portugal
Key figures (in thousand of Euro)	FY closed at March 31 2010
Share Capital	5
Revenues from sales and services	-
Operating result	(20)
Net Result	(15)
Total assets	13
Shareholders' equity	(69)
Total liabilities	82
Financial report according to local Gaap	

Rocca S.p.A.	
Registered office	Milan, Italy
Key figures (in thousand of Euro)	FY closed at March 31 2010
Share Capital	4,680
Revenues from sales and services	38,309
Operating result	(20)
Net Result	(748)
Total assets	35,145
Shareholders' equity	9,304
Total liabilities	25,943
Financial report according to local Gaap	

Rocca International S.A.	
Registered office	*Lugano, Switzerland*
Key figures (in thousand of Euro)	*FY closed at March 31 2010*
Share Capital	*600*
Revenues from sales and services	*1,681*
Operating result	*(31)*
Net Result	*(86)*
Total assets	*2,181*
Shareholders' equity	*1,122*
Total liabilities	*1,059*
Average exchange rate 2009/2010	*Euro/Chf 1,50*
Exchange rate at March, 31 2010	*Euro/Chf 1,43*
Financial report according to local Gaap	

Attestation regarding Damiani S.p.A. Financial Statements, pursuant to article 154 bis of the Legislative Decree 58/98 (italian TUF)

1. The undersigned Mr. Guido Grassi Damiani, Chairman and CEO, and Mr. Gilberto Frola, Executive in charge of drawing up the accounting documents of Damiani S.p.A., also considering the provisions of article 154-bis, paragraphs 3 and 4, of the Legislative Decree no 58 of February 24, 1998, certify:
- The adequacy in relation to the characteristics of the company and
- The effective application of the administrative and accounting procedures for the preparation of Damiani S.p.A. financial statements as of March 31, 2010.

2. Furthermore it is certified that Damiani S.p.A. financial statements:
a) is prepared in conformity with International Accounting Standards as endorsed by the European Union pursuant to EC regulation no. 1606/2002 of the European Parliament and Council dated July 19, 2002;
b) agrees with the contents of the accounting books and entries;
c) provides a true and fair representation of the balance sheet, income statement and financial position of Damiani S.p.A.;
d) the report on operations contains a reliable operating and financial review of the Issuer, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 11, 2010

Mr. Guido Grassi Damiani	Mr. Gilberto Frola
Chairman an CEO	Executive in charge of drawing up the Company’s accounting documents

DAMIANI S.p.A.
Registered Office in Valenza (AL), Viale Santuario, 46
Share Capital Euros 36,344,000 fully paid up
Vat Number and Tax Code 01457570065

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF DAMIANI S.P.A. PURSUANT TO ARTICLE 153 OF THE LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

In the financial year ended at 31 March 2010, we discharged the supervisory tasks imposed under Law, in accordance with the rules of conduct for the Board of Auditors as provided for by the Italian Board of Professional Accountants and Auditors, attending the meeting of corporate organs, carrying out the periodic checks and meeting with the Reconta Ernst & Young Independent Auditors' managers, the Company's Internal Control managers and the Executive in charge of drawing up of the company's accounting documents, to exchange information on the activities undertaken by them, and to assess the timetable of scheduled internal control operations.

Pursuant to article 153 of legislative decree no. 58/1998 and section 2429 of the Italian Civil Code, as well as taking into account the indications in Consob notices no. DEM/1025564 of 6 April 2001, as further amended and extended, we report the following:

- we have supervised and checked compliance with the law and the Company's by-laws;
- the Directors provided us, with the required periodicity, information on the activities undertaken by them, and on the most significant economic, financial and capital transactions carried out by the Company and its subsidiaries, ensuring us that the same were in accordance with the Law and the Company's by-laws and were not

manifestly imprudent or risky, in potential conflict of interest, in breach of the resolutions passed by the Shareholders' Meeting or susceptible of compromising the integrity of the Company's assets and equity;

- we have not found nor received information from the Board of Directors, the Independent Auditors or the Internal Control and Corporate Governance Committee regarding the existence of atypical and / or unusual transactions carried out with third parties, Group companies or related parties;
- the Directors have illustrated, in their Reports on Operations attached to the annual Financial Statements of Damiani S.p.A. and to the Consolidated Financial Statements of the Damiani Group and in the explanatory notes to them, the normal business nature operations carried out during the financial year with related parties or with companies belonging to the Group. We ask you to make reference to these documents regarding the matters that fall within our competencies and, specifically, regarding the description of the characteristics of the operations and their relative economic and equity impacts.

  With regard to such transactions, with the support of the Board of Directors and the Internal Controls and Corporate Governance Committee, we have checked on the existence and the observance of procedures that are suitable for ensuring that these operations are carried out at suitable terms and in the Company's interest;
- the information pertaining to transactions with group companies and / or related parties, contained, in particular, in the paragraphs "Transactions with related entities" in the explanatory notes attached to the IAS/IFRS statutory and consolidated financial statements of the Damiani Group and Casa Damiani S.p.A. and in the "Transaction with related entities" in the respective directors' reports are adequate in light of the Company's size and structure;
- the Independent Auditors have expressed an unqualified opinion on the financial statements, thereby attesting that the same are in accordance with the rules

governing financial statements. They also expressed an opinion on Directors Report consistency with the statutory financial statements;

- neither complaints, pursuant to article 2408 of the Italian Civil Code, nor reports were received during the course of the financial year;
- the information received from the Independent Auditors indicates that, in the financial year, Damiani S.p.A. did not confer to them or to other subjects belonging to the "network" other appointments in addition to those pertaining to the auditing of the Financial Statements of the Company and its subsidiaries.

Following the involvement of the board of auditors in the assessment of the independence of the auditing firm, no critical aspects have emerged.

Further we outline the following:

- during the course of financial year we have issued our opinions as provided for by the Law;
- during the course of financial year we have attended 9 meetings of the Board of Directors and 4 meetings of the Remuneration Committee. In the same period the Board of Statutory Auditors met 10 times, 4 of which were in joint meetings with the Internal Controls and Corporate Governance Committee;
- we have acquired knowledge and watched over, insofar as this falls within our competencies, that the principles of correct administration have been observed, the adequacy of the organizational structure and the directives issued by the Company to its subsidiaries, pursuant to article 114, paragraph 2, of the Legislative Decree 58/1998, through direct observation, getting information from the managers of the company functions involved and meetings with the Independent Auditors, with the Executive in charge of drawing up the Company's accounting documents and with the Internal Audit Manager for the purposes of a reciprocal exchange of relevant data and information;

- we have acquired knowledge and watched over, insofar as this falls within our competencies, regarding the adequacy of the internal controls system, the activities of the relative Managers and the administration/accounting system, as well as on the dependability of this latter to correctly reflect operational events, by obtaining information from functional managers, by examining the company documents and the work carried out by the Independent Auditors, by attending the meetings with the Internal Controls and Corporate Governance Committee and through meetings with the Executive in charge of drawing up the company's accounting documents, as well as with the Internal Controls Manager and the Director entrusted with the functionality of the internal controls system;
- no significant aspects or issues worthy of mention arose during the meetings held with the same bodies in the subsidiary companies;
- no significant aspects or issues worthy of mention arose during the meeting held with the Independent Auditors pursuant to article 150, paragraph 3, of the Legislative Decree 58/1998;
- we checked the procedures for the proper implementation of the rules of corporate governance entrenched in the new edition of the Self-Regulatory Code of the Corporate Governance Committee of listed companies adopted by the Board of Directors in the meeting of 27 June 2007. In the meeting of 10 February 2010 the Board of Directors of Damiani S.p.A. confirmed and identified as *"strategically significant subsidiary"* Rocca S.p.A. and Damiani International B.V., a company incorporated under Dutch Law;
- through direct checks and information obtained from the Independent Auditors and the Executive in charge of drawing up the Company's accounting documents, we oversaw compliance with statutory provisions pertaining to the preparation and layout of the Consolidated Financial Statements of the Damiani Group, the Financial Statements of Damiani S.p.A. and the related Reports on Operations. Our

oversight activities did not reveal any facts warranting a report to internal control organs or worthy of mention in this report.

The Company is provided with the organizational, management and controls model contained as ruled by Legislative Decree 231/2001.

Considering the results of the activities carried out by Independent Auditors and taking into account what has been referred to above, within the matters falling within our purview, we have not found any reasons hindering the approval of the Financial Statements for the year closed at 31st March 2010 and we agree with the proposal expressed by the Board of Directors relating the cover of the loss of the year.

We hereby attach a list of our appointments pursuant to article 144-quinquiesdecies of the Consob Regulations no. 11971/1999.

We thank you for the trust received and we remind you that with the approval of the financial statement at 31 March 2010 our appointment as Statutory Auditors has expired and we invite the Shareholder meeting to decide upon.

Milan, 2 July 2010

The Board of Statutory Auditors

Gianluca Bolelli - Chairman

Simone Cavalli – Active Statutory Auditor

Fabio Massimo Micaludi – Active Statutory Auditor

List of the positions held by Board of Statutory Auditor members in other companies at 2 July 2010 Art. 144- quinquiesdecies of Regulation of Issuers

Gianluca Bolelli (Chairman)

Company	Position	Term of the Office
AGRIWATT ASOLA SOCIETA' AGRICOLA A RESPONSABILITA' LIMITATA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
AGRIWATT CASTEL GOFFREDO SOC. AGRICOLA A RESPONSABILITA' LIMITATA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
AGRIWATT SAN BENEDETTO SOC. AGRICOLA A RESPONSABILITA' LIMITATA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
BOSFIN SPA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
CASA DAMIANI SPA (*)	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/03/2010
CFO SIM SPA	CHAIRMAN OF THE BOARD OF DIRECTORS	FINANCIAL STATEMENTS 31/12/2011
COMIFIN SPA	DIRECTOR	FINANCIAL STATEMENTS 31/12/2011
E. BOSELLI & C. SPA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
EDIZIONI PIEMME SPA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
FIERA MILANO CONGRESSI SPA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 30/06/2009
IMPAR SRL	SOLE DIRECTOR	Unlimited
LA PROVINCIA SPA EDITORIALE	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010
MID INDUSTRY CAPITAL SPA (*)	BODY OF SURVEILLANCE	FINANCIAL STATEMENTS 31/12/2011
BRUGOLA OEB INDUSTRIALE SPA	DIRECTOR	FINANCIAL STATEMENTS 31/12/2010
OEB SRL	DIRECTOR	FINANCIAL STATEMENTS 31/12/2010
PIERREL SPA (*)	DIRECTOR	FINANCIAL STATEMENTS 31/12/2011
RUBELLI SPA	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/12/2009
SI LIN TSI SRL	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010
TESMEC SPA (*)	DIRECTOR VICE PRESIDENT OF THE BOARD	FINANCIAL STATEMENTS 31/12/2012
TRE LAGHI SPA	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010

Total position held: 20 of which 4 in listed companies.

(*) Position in listed company

Simone Cavalli

Company	Position	Term of the Office
Casa Damiani S.p.A. (*)	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/03/2010
TESMEC S.p.A. (*)	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/12/2012
Attijariwafa Finanziaria S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
B.C. Immobiliare S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Comitalia Compagnia Fiduciaria S.p.A.	INDIPENDENT AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Coprosider IBF S.p.A.	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/12/2012
Finanziaria Immobiliare d'Este S.r.l.	INDIPENDENT AUDITOR	FINANCIAL STATEMENTS 31/12/2010
Gamma S.r.l.	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/12/2010
Gianni Crespi Foderami S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Hydroservice S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010
IBF S.p.A.	ACTIVE STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/12/2010
Ilva S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Laboratorio Damiani S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/03/2010
A. Merati & C. – Cartiera di Laveno S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010
Misco Italy Computer Supplies S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
OMR Italia S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Perini Navi Group S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Sugarmusic S.p.A.	INDIPENDENT AUDITOR	FINANCIAL STATEMENTS 30/06/2010
Soller S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010
T.Fin S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
TSP - Tecnologie e Servizi per il Pubblico S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011

Total position held: 21, of which 2 in listed companies.

(*) Position in listed company

Fabio Massimo Micaludi

Company	Position	Term of the Office
Biolase S.p.A	CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS	FINANCIAL STATEMENTS 31/12/2012
Hi-Media Italia S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Apple Retail Italia S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 30/09/2012
B.S.M. S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Casa Damiani S.p.A. (*)	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/03/2010
CFM Nilfisk – Advance S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Gritti Gas Rete S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Gritti Gas S.r.l.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Immobiliare Centro Milano S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Landi S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Lehman Brothers Asset Management Italy SGR S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 30/11/2012
Media Finanziaria di Partecipazione S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2011
Metallurgica Alta Brianza S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2012
Principio Attivo S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/12/2010
Reddy Pharma Italia S.p.A.	ACTIVE STATUTORY AUDITOR	FINANCIAL STATEMENTS 31/03/2011

Total position held: 15, of which 1 in listed companies.

(*) Position in listed company

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent auditors' report
pursuant to art. 156 of Legislative Decree n. 58 of February 24, 1998
(now art. 14 of Legislative Decree n. 39 of January 27, 2010)
(Translation from the original Italian text)

To the Shareholders
of Damiani S.p.A.

1. We have audited the financial statements of Damiani S.p.A. as of and for the year ended March 31, 2010, comprising the balance sheet statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of the Damiani S.p.A.' s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   Our audit of the financial statements for the year ended March 31, 2010 was made in accordance with the regulations in force during that year.

   For our opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated July 6, 2009.

3. In our opinion, the financial statements of Damiani S.p.A. at March 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Damiani S.p.A. for the year then ended.

4. The management of Damiani S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and on the company's ownership structure published in the section "Investor relations" of the website of Damiani 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 reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and on

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.

A member firm of Ernst & Young Global Limited

the company's ownership structure , with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession and recommended by CONSOB. In our opinion, the Report on Operations and the information reported in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the Report on Corporate Governance and on the company's ownership structure, are consistent with the financial statements of Damiani S.p.A. as of March 31, 2010.

Milan, July 2, 2010

Reconta Ernst & Young S.p.A.
signed by: Maurizio Girardi, partner

Yearly Report on Corporate Governance and ownership structure of Damiani S.p.A.

Financial Year
1 April 2009 - 31 March 2010

Drafted pursuant to article 123 bis of Legislative Decree no. 58/98 (“Consolidated Law on Finance”) (traditional management and control system)
Approved by the Board of Directors of the Company on 11 June 2010 and available on the website www.damiani.com in the “Investor Relations – Corporate Governance” section.

Dear Shareholders,
pursuant to the applicable legislation and regulations as well as to the "Instructions on the Italian Stock Exchange Regulation", and having taken into account the new "Format of report on corporate governance and ownership structure" issued by Borsa Italiana S.p.A. last February, the Board of Directors of Damiani S.p.A. provides you with a complete information on its system of *Corporate Governance*, with reference to the principles of the *Corporate Governance* Code of Listed Companies (March 2006 edition; hereinafter also referred to as "*Corporate Governance* Code").
This Report - approved by the Board of Directors during the meeting of 11 June 2010 – was made available on the website www.damiani.com, "Investor Relations - *Corporate Governance*" section, within the timeframes set forth by the applicable regulation.

DAMIANI S.P.A. – registered office in Valenza (AL), Viale Santuario no. 46 –
Share capital: € 36.344.000 entirely paid – Fiscal Code and VAT code no. 01457570065
Companies Register of Alessandria no. 01457570065 – REA no. 162836

1. ISSUER PROFILE

The system of corporate governance of Damiani S.p.A. is the traditional one, the so-called Latin model and, therefore, the corporate bodies of the Company are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.
The Board of Directors has two internal committees: the Internal Control and *Corporate Governance* Committee and the Remuneration Committee. Both committees play an advisory and proposing role, with the aim of facilitating the functionality and the activities of the Board.

A) THE SHAREHOLDERS' MEETING
The competences, role and functioning of the Shareholders' Meeting are set forth by the law and by the Company's By-laws currently in force, which we hereby make reference to.

B) THE BOARD OF DIRECTORS
The Board of Directors consists of a number of directors between five and fifteen, said number being decided, from time to time, by the Shareholders' Meeting. The Board appoints a President among its members and can also appoint one or more Vice Presidents.
According the Company's By-laws the President, or the subject taking his place, legally acts on behalf of the Company, both towards third parties and in judicial proceedings, with single signature, being entitled to file suits and pleas as well as suits for annulment and appeal to the Supreme Court, to appoint lawyers and attorneys for disputes. Moreover, the legal representation is granted disjointly, within the limits of the powers granted by the Board of Directors, to one or more members of the Board, also acting in the quality of managing directors.
As detailed below, the Board of Directors is provided with the most wide range of powers for the ordinary and extraordinary management of the Company (with the only exception of the powers reserved by the law to the approval of the Shareholders' Meeting), including the power to resolve upon mergers in the cases described by articles 2505 and 2505 bis of the Italian Civil Code, to set up and terminate branch offices, to grant directors the powers to legally represent the Company, to approve the reduction of Company's share capital in case of withdrawing by any shareholders, to conform the Company's By-laws to any law provisions, and to approve the transfer of the registered office within the national territory.

C) THE COMMITTEES
Pursuant to the Self-Discipline provisions, an "Internal Control and *Corporate Governance* Committee" and a "Remuneration Committee" - with advisory and proposing functions - are set within the Board of Directors. On the other hand, as of today it was not deemed necessary to set up an Appointment Committee.

D) THE BOARD OF STATUTORY AUDITORS
Consisting of three standing members and two substitute members, it is the Company's control body. The Board is entrusted with the task of supervising on the compliance by the Company of the laws and of the Company's By-laws, as well as of the standard principles of accounting and administration, also verifying that appropriate instructions are given by the Company to its internal bodies and subsidiaries. The Board of Statutory Auditors must also supervise on the adequacy of the Company's organizational structure, on its internal control and accounting-administration systems, carrying out any necessary control with this purpose.
Furthermore, the Board must also supervise that the corporate governance rules provided for by the codes approved by the stock-exchanges managing companies and by trade associations and to which the Company publicly declares to comply with, are effectively complied with by the Company, as well as supervise on the adequacy of the instructions transmitted by the Company to its subsidiaries in order for the latter to provide the Company with any information necessary for the compliance with the duties of disclosure provided by the law.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (as per article 123-bis, first paragraph, of the Consolidated Law on Finance)

Please find below the information on the ownership structure of the Company as to the date of approval of this Report, pursuant to article 123 bis, first paragraph, of the Consolidated Law on Finance.

(A) SHARE CAPITAL STRUCTURE (as per article 123-bis, first paragraph, letter a) of the Consolidated Law on Finance)

The entire share capital of Damiani S.p.A. consists of ordinary shares with voting right, listed on the computerized stock exchange, STAR segment (i.e. "Segmento Titoli Alta Rilevanza"), managed by Borsa Italiana S.p.A.
The current share capital of the Company is wholly subscribed and paid up, amounts to EUR 36,344,000.00 (thirtysixmillionthreehundredandfortyfourthousand) and it is divided into 82,600,000.00 (eightytwomillionsixhundredthousand) ordinary shares, having nominal value of EUR 0.44 (zeropointfortyfour) each.
On the date of approval of this Report the Board there are three pending plans based on financial instruments, namely:
- the "Stock-Option Plan of Gruppo Damiani S.p.A. 2007/2010 for the granting of option on a maximum number of 1.600.000 ordinary shares", described in the "Informative Document on the Remuneration plan based on financial instruments (Stock Option)" drafted pursuant to article 84bis of CONSOB Regulation no. 11971/99, and made available on the website www.damiani.com, "Investor Relation – Financial Press Releases" section;
- the "Stock Grant Plan 2009" regarding the free assignment of a maximum number of 1.000.000 Damiani shares to employees and certain directors of the Damiani Group, in one or more tranches, within five years from the approval by the Shareholders' Meeting of 22 July 2009; the plan is described in the "Informative Document drafted pursuant to article 84 bis, first paragraph, of the CONSOB Regulation no. 11971/99 and subsequent amendments", included in the Damiani S.p.A. Directors Report pursuant to article 3 of Ministerial Decree no. 437 of 5 November 1998, and in the "Integrative Information" made available on the website www.damiani.com, "Investor Relation – Financial Press Releases" section;
- the "Stock Option Plan 2009" regarding the sale of options for the purchase of Damiani shares to the Management of the Damiani Group, in one or more tranches, within five years from the approval by the shareholders' meeting of 22 July 2009; the plan is described in the "Informative Document drafted pursuant to article 84 bis, first paragraph, of the CONSOB Regulation no. 11971/99 and subsequent amendments", included in the Damiani S.p.A. Directors Report pursuant to article 3 of Ministerial Decree no. 437 of 5 November 1998, and in the "Integrative Information on the Stock Option Plan 2009" made available on the website www.damiani.com, "Investor Relation – Financial Press Releases" section.

SHARE CAPITAL STRUCTURE				
	NUMBER OF SHARES	% OF THE SHARE CAPITAL	LISTED (ON WHAT MARKETS)/ NOT LISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	82.600.000	100%	Mercato Telematico Azionario – STAR segment – managed by Borsa Italiana S.p.a.	
LIMITED-VOTE SHARES				
NON-VOTING SHARES				

(B) RESTRICTION ON THE TRANSFER OF SHARES (as per article 123-bis, first paragraph, letter b) of the Consolidated Law on Finance).

The By-laws of Damiani S.p.A. neither set any restrictions on the transfers of shares or to the holding of shares, nor require the approval by any corporate bodies or shareholders for the admission of new Shareholders.

(C) SIGNIFICANT INTERESTS IN THE SHARE CAPITAL (as per article 123-bis, first paragraph, letter c) of the Consolidated Law on Finance).

Based on the entries of the Shareholders Register updated up to the date of approval of this Report, including any communication received by the Company as per article 120 of the Consolidate Law on Finance, as well as on the basis of any other available information, parties owning, both directly and indirectly, an interest exceeding 2% of the subscribed and paid up Share Capital are the followings:

RELEVANT INTERESTS IN THE SHARE CAPITAL			
DECLARANT	DIRECT SHARE HOLDER	QUOTA OF THE ORDINARY SHARE CAPITAL	QUOTA OF THE VOTING SHARE CAPITAL
DAMIANI S.P.A.	DAMIANI S.P.A.	6,803%	6,803%
GUIDO GRASSI DAMIANI	GUIDO GRASSI DAMIANI	5,025%	5,025%
GUIDO GRASSI DAMIANI	LEADING JEWELS SA	56,413%	56,413%[1]
GIORGIO GRASSI DAMIANI	GIORGIO GRASSI DAMIANI	6,111%	6,111%[2]
SILVIA GRASSI DAMIANI	SILVIA GRASSI DAMIANI	5,675%	5,675%
DGPA SGR S.P.A.	DGPA SGR S.P.A.	5,363%	5,363%

[1] *Out of which no. 616.379 in bare property with voting right.*
[2] *Out of which no. 163.373 in bare property with voting right.*

(D) OWNERS OF SHARES GRANTING SPECIAL RIGHTS OF CONTROL (as per article 123-bis, first paragraph, letter d) of the Consolidated Law on Finance).

The Company has not issued any shares granting special rights of control and the Company's By-laws ("By-laws") do not provide for any special powers for specific shareholders or for owners of particular kind of shares.

(E) EMPLOYEES' SHAREHOLDING: VOTING MECHANISM (as per article 123-bis, first paragraph, letter e) of the Consolidated Law on Finance).

The By-laws of Damiani S.p.A. do not include any special provision regarding voting rights of the employees.

(F) RESTRICTIONS ON VOTING RIGHT (as per article 123-bis, first paragraph, letter f) of the Consolidated Law on Finance).

The By-laws of Damiani S.p.A. do not provide for any restrictions or limitations to the voting rights, and the financial rights pertaining to the shares are not splitted from the ownership of the relevant shares.

(G) SHAREHOLDERS' AGREEMENT (as per article 123-bis, first paragraph, letter g) of the Consolidated Law on Finance).

As on the date of approval of this Report, one Shareholders' Agreement exists as per article 122 of Legislative Decree 58/1998 ("Consolidated Law on Finance"), entered into by and between the Damiani Siblings (Guido, Giorgio and Silvia) on 9 September 2007. Said agreement was published, pursuant to article 122 of the Consolidated Law on Finance and following amendments, in the daily newspaper "La Repubblica" on 18 November 2007 and it was registered with the Companies Register of Alessandria (AL) on 19 November 2007.
The companies whose shares are concerned by the Agreement are "D Holding S.A." and "Leading Jewels S.A.", the latter being the owner of a direct controlling interest in Damiani S.p.A.
For further information please make reference to the abstract of the agreement published on the CONSOB website www.CONSOB.it.

(H) CHANGE OF CONTROL CLAUSES (as per article 123-bis, first paragraph, letter h) of the Consolidated Law on Finance).

As on the date of drafting of this Report the Company is party to a loan agreement with Unicredit Corporate Banking S.p.A. which includes a provision granting the Bank the right to terminate the agreement in case of change of control; the agreement starts from 1 July 2010 and its duration is 72 months (12 of which of pre-amortization).
As on the same date, the Company is also party to two loan agreements that do not include any clause influencing their efficacy or implying amendments of termination as a consequence of the change of control of the Company (so called "change of control clauses"), but include the right of withdrawal of the bank in case of merger or spin-off of the Company. Reference is specifically made to:
- a loan agreement entered into with Interbanca with effect as of 31 December 2005 and duration until 31 December 2010;
- a loan agreement entered into with Medio Credito Centrale with effect as of 30 November 2005 and duration until 30 November 2010.

"Change of control" clauses are also included in (i) some license agreements, as well as (ii) in some selective distribution agreement entered into by the subsidiary Rocca S.p.A. with Rolex Italia S.p.A., Patek Philippe S.A., Richemond Italia S.p.A. and Bulgari Italia S.p.A., in order for Rocca's branches over the Italian territory to be qualified as "Authorized Dealers" of Rolex, Patek Philippie, Cartier, IWC, Baume & Mercier, Lange et Sohne, Bulgari brands.

(I) DELEGATED POWERS TO INCREASE THE COMPANY'S SHARE CAPITAL AND TO PURCHASE COMPANY'S OWN SHARES.

The Board of Directors has not been granted with any proxy to increase the share capital pursuant to article 2443 of the Civil Code.
The Ordinary Shareholders' Meeting of 22 July 2009 – after revoking the authorization to purchase and dispose of own shares, resolved during the meeting of 22 February 2008, within the limit the same has not been already used – authorized the Board of Directors, pursuant to articles 2357 and followings of the Italian Civil Code as well as of article 132 of the Consolidated Law on Finance, to purchase Company's own shares up to a maximum of one tenth of the Company's share capital hence non exceeding the number of 8,260,000 (eightmilliontwohundredandsixtythousand) ordinary shares with nominal value of Euro 0,44 each (also considering shares that might be owned by the Company's subsidiaries); said authorization was approved for a period of 18 months starting from the resolution and expiring on 22 January 2011, and granted the power to dispose of the own shares eventually bought, without any time limit, in one or more lots, even prior to the completion of the purchase of the maximum number of own shares allowed.
Pursuant to article 132 of the Consolidated Law on Finance and article 144 bis of CONSOB Regulation no. 11971/99, the purchases of shares can be made (i) by takeover bids, (ii) on the market, pursuant to the technical modalities set forth under the stock-exchange regulations that do not allow a direct connection between specific purchases and sale offers, as well as (iii) by purchase and sale of derivatives negotiated on the market at the conditions set by the regulation; lastly (iv) by the other modalities that might be allowed pursuant to articles 132 of the Consolidated Law on Finance and article 144bis of CONSOB Regulation no. 11971/99 or by other provisions applicable from time to time as on the date of the transaction; in any case in order to ensure the same treatment to all Shareholders and the compliance with any applicable regulation, including the EU regulation; moreover, purchases may be made in one or more lots.
The purchase price of each own share is fixed and equal, including the purchase additional charges, to an amount (a) not lower, as to its minimum, to the 20% (twentypercent) of the official price during the Stock Exchange business day before each transaction, and (b) not higher, as to its maximum, to the 20% (twentypercent) of the official price during the Stock Exchange business day before each transaction.
During the same meeting of 22 July 2009 the Shareholders' Meeting authorized the disposal, with no time-limits, of the own shares at such a minimum price as to not negatively affect the Company and, in any case, not lower than 90% of the average official price during the five Stock Exchange business days before each sale (that can be derogated in particular cases and in the Company's interest, such as in case of exchange or transfer of own share within the frame of an industrial project, as well as in case of appointment and/or transfer of shares pursuant to distribution plans, against consideration or for free, of shares or options on the same shares in favour of directors, employees or co-operators of the Damiani Group and, in general, any plan approved pursuant to article 114 bis of the Consolidated Law on Finance, as well as in case of free assignment plans in favour of shareholders).
The acts of disposal of purchased shares can be made, in one or more lots, also before the completion of all the authorized purchases, with the modalities deemed more appropriate in the Company's interest, including the sale on the Stock Exchange, out of the market, or by means of the exchange of participations or other assets within the frame of industrial projects, or the performance of incentive plans or in any case plans pursuant to article 114 bis of the Consolidated Law on Finance, or by means of Public Offerings to Buy or Exchange.

On 22 July 2009 and in line with the resolution of the Shareholders' Meeting of the same date, the Board of Directors approved a new purchase plan of Company's own shares up to a maximum number of 3.043.810 shares, at a maximum price of Euro 12,175,240, to be finalized – in compliance with the applicable laws and regulations – between 23 July 2009 and 22 January 2011.
As on 11 June 2010, date of approval of this Report, said purchase plan of own shares is still under performance and the Company owns an overall number of 5,619,609 shares in Damiani S.p.A., representing 6,8% of the Issuer's share capital.

(L) MANAGEMENT AND COORDINATION ACTIVITY (as per article 2497 and followings of the Civil Code).

Damiani S.p.A. is not subject to any management and coordination activity (as per articles 2497 and followings of the Italian Civil Code) neither by the direct parent company, Leading Jewels S.A., which holds 56.18% of the Issuer's share capital, nor by the indirect parent company D. Holding S.A.; on the other hand the Issuer manages and coordinates its own subsidiaries.
Pursuant to the principles of corporate governance - as detailed below - any transactions of particular strategic, economic and financial relevance concerning the Damiani Group are subject to the examination and exclusive approval of the Issuer's Board of Directors which, as of 3 April 2009, includes 3 non-executive directors, two of whom are independent as per article 3 of the *Corporate Governance* Code.
The expertise and the reputation of the non-executive and independent directors and their significant relevance in the Board's decisions are deemed as further guarantees that all the decisions of the Board of Directors are taken in the interest of Damiani S.p.A. only, and that there are no directives or interferences by any third parties bearing interests different from those of the Group.
Please note that:
(A) Information required by article 123-bis, first paragraph, letter i), of the Consolidated Law on Finance ("agreements between companies and directors, members of the control body or supervisory council which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract should terminate as the result of a takeover bid") are described within the section of the Report on the remuneration of directors (paragraph 8).
(B) Information required by article 123-bis, first paragraph, letter l), of the Consolidated Law on Finance ("rules applying to the appointment and replacement of directors and members of the control body or supervisory council, and to amendments to the articles of association if different from those applied as a supplementary measure") are described within the section of the Report on the Board of Directors (paragraph 4.1).

3. COMPLIANCE

The Company believes that conforming its internal *Corporate Governance* structures to those recommended by the *Corporate Governance* Code is an efficient and important opportunity to consolidate its reliability before the market.
Therefore, as already explained in the last annual Report, on 27 June 2007 the Board of Directors passed a frame-resolution that, together with other resolutions, was meant to implement the self-discipline principles of the *Corporate Governance* Code as shown in detail below; such resolutions have been further implemented also during the fiscal year ended on 31 March 2010.

Before describing the structure of the Issuer's *Corporate Governance* structure, please note that during the meeting of 10 February 2010 the Board of Directors of Damiani S.p.A. qualified Rocca S.p.A. and Damiani International B.V. as "subsidiary companies with strategic relevance"; according to the Board of Directors the Dutch nationality of Damiani International B.V. does not significantly affect the Issuer's structure of *Corporate Governance*.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS AND AMENDMENTS TO THE COMPANY'S BY-LAWS (as per article 123-bis, first paragraph, letter l) of the Consolidated Law on Finance).

As per article 147 ter of the Consolidated Law on Finance, the Company's By-laws of Damiani S.p.A. (article 16) provide that the members of the Board of Directors are to be appointed by means of a voting-list procedure, granting to the second-ranked list the appointment of one director (all the other members of the Board being taken from the first-ranked list).
Shareholders owning a participation at least equal to the percentage set forth by CONSOB - as provided for by the law and regulations – are entitled to present lists of candidates for the appointment of Directors. Furthermore, pursuant to the corporate governance principles the Company complies with, the candidates' curricula - including the statements and certificates provided by the law - must be registered at least fifteen days before the date of first call of the Shareholders' Meeting. By means of resolution no. 16872 of 21 April 2009, CONSOB fixed the relevant shareholding necessary in order to present minority lists in 2,5% of the company's share capital.
Any replacement of directors is regulated according to the provisions of law.
Any amendments of the Company's By-Laws will be implemented in compliance with the principles of law and regulations, taking into account the provisions of article 20 of the Company's By-Laws pursuant to which the Board of Directors is entitled to resolve upon the matters listed by article 2365, second paragraph, of the Italian Civil Code.

4.2 COMPOSITION (as per article 123-bis, first paragraph, letter d), of the Consolidated Law on Finance).

Before considering the composition of the managing body in office during the financial year ended on 31 March 2010, please note that the current Board of Directors was appointed by the Shareholders' Meeting of 3 April 2009, which also decided that the whole number of directors to be seven (7) and their office to end on the date of the Shareholders' Meeting called for the approval of the Financial Statement as on 31 March 2012.
As regards the appointment of the Board of Directors currently in office by the Shareholders' Meeting of 3 April 2009, please note that the Board of Directors was appointed on the basis of two lists presented respectively by the majority Shareholder Leading Jewels S.A. and by the minority Shareholder DGPA S.G.R. S.p.A.
Six out of the seven member of the Board of Directors currently in office – namely, Guido Grassi Damiani, Giorgio Grassi Damiani, Silvia Grassi Damiani, Giancarlo Malerba, Stefano Graidi and Fabrizio Redaelli, (the latter having the independence requirements as per article 148, paragraph 3, of the Consolidated Law on Finance, as well as pursuant to article 3 of the *Corporate Governance* Code) – have been taken, with the favourable vote of 92,83% of the voting share capital, from the list presented by the Shareholder Leadin Jewels S.A., which included, in this order, Guido Grassi Damiani, Giorgio Grassi Damiani, Silvia Grassi Damiani, Fabrizio Redaelli, Giancarlo Malerba and Stefano Graidi.
One of the seven members of the Board of Directors currently in office – namely, Roberto Benaglia, having the independence requirements as per article 148, paragraph 3, of the Consolidated Law on Finance, as well as pursuant to article 3 of the *Corporate Governance* Code – has been taken from the list presented by the minority shareholder DGPA S.G.R. S.p.A., which only included Roberto Benaglia.

Please find below the personal and professional profile of each director currently in office, also in accordance with Article 144-decies of CONSOB Regulation No. 11971/99.

1) GUIDO ROBERTO GRASSI DAMIANI, President and Managing Director of the Company, joined the Company in 1994 and was entrusted both with the management of both the Italian sales network and marketing, introducing new strategies and contributing significantly to the development of the Group. He took the helm of Damiani Group in 1996.
Graduated with honours in Sociology, he also holds a diploma in Gemmology from the International Gemmological Institute. Before joining the family business, he had a successful real estate career.

2) GIORGIO ANDREA GRASSI DAMIANI, Vice President, is entrusted with the purchase of raw materials, product development and business relations, as well as with the office of President and President of Damiani USA.
He joined the family business in 1990 immediately following to its graduation in a technical business high school. Within the Company he learned various profiles of the goldsmith art and got familiar in different business fields, especially focusing on the appraisal and acquisition of precious raw materials. Successively he was appointed Head of International Distribution, gathering a wide knowledge on foreign markets. Afterwards he managed the Raw Material Purchasing, the Creation and the Product Development Areas, being at the same time the Art Director. On 1994 he won the Diamonds International Award.

3) SILVIA MARIA GRASSI DAMIANI, Vice President of Damiani Group entrusted with External Relations and Group Image, she held the role of Image and VIP Relations Manager, choosing many international celebrities as testimonials for the different trademarks. She won the Diamonds International Award in 1996. She also holds an MBA from IPSOA as well as a diploma in Gemmology from the International Gemmological Institute. She started her career in the family business in 1985, getting experienced in pearl purchasing and a long term experience in the creative department.

4) STEFANO GRAIDI, Executive Director of Damiani, entrusted with the supervision of the internal control system. Graduated in Political Economy at "Università Bocconi" of Milan. He is a Certified Public Accountant registered on the Roll of Accounting Auditors. He previously worked for Pirelli Group in various positions of responsibility in International Taxation before becoming Director of both Taxation and Operational Sectors. In addition, he gained significant experience in Switzerland in the areas of finance and administration of the listed company Pirelli International. He played an active role in both the restructuring of the tyre sector as well as in the listing of Tyre Holding on the Amsterdam Stock Exchange. A publicist and lecturer, he is currently a partner of Tax Advisors S.A. of Lugano.

5) GIANCARLO MALERBA, Non-Executive Director and President of the Internal Control and *Corporate Governance* Committee as well as of the Remuneration Committee, holds a degree in Business Management at "Università Bocconi" of Milan. He started his career in 1986 in KPMG, where he played a managerial role in the banking and financial sectors. Certified Public Accountant, he is registered on the Roll of Accounting Auditors and is partner of Biscozzi Nobili Law Firm. He is an expert in the civil and tax law aspects of consolidated financial statements and he has frequently published articles in magazines and journals on taxation and financial reportings.

6) ROBERTA BENAGLIA, Non-Executive and Independent Director, member of the Internal Control and *Corporate Governance* Committee and of the Remuneration Committee. Graduated in Management Engineering at "Politecnico" of Milan. On 1999 she started working in the listing department of Borsa Italiana S.p.A.. Starting from 2001 she has cooperated with the advisory company Onetone Consulting in favour of Venture Capital Onetone, and held the office of Sole Director of Action Management Consulting, a company specialized in M&A and Financial Advisory. Starting from 2005 she has held the office of Managing Director of DGPA SGR S.p.A., a company of management of private equity funds, active in the study evaluation and selection of investments, business & financial due diligence, structuring, negotiation and completion of investment transactions.

7) FABRIZIO REDAELLI, Non-Executive and Independent Director, was appointed as Lead Independent Director by the Board of Directors initially on 12 September 2007 and successively on 3 April 2009. He is also a member of the Internal Control and *Corporate Governance* Committee as well as of the Remuneration Committee. He graduated in Business Management at Università Bocconi of Milan and is Certified Public Accountant also registered on the Roll of Accounting Auditors. He runs his own accounting firm, Studio Redadelli & Associati, in Milan and is also Senior Professor of Real Estate and Business Finance at the School of Business Management at "Università Bocconi" at Milan.

The existence of the abovementioned executive/non-executive as well as independent/non-independent requirements of the Directors of the Company was assessed by the Board of the Directors pursuant the criterion set forth by Articles 2 and 3 of the *Corporate Governance* Code of 14 March 2006 and finally during the Board Meeting of 11 June 2010; the Board of Auditors acknowledged the application of said criterion. In order to properly apply the principles of corporate governance, on 10 February 2010 the Board identified Rocca S.p.A. and Damiani International B. V. as "companies of strategic relevance" for Gruppo Damiani S.p.A..
The composition of the Board of Directors of the Company and relevant information for each Director holding the office as on the date of approval of this Report are included in Schedule 2, attached hereto sub "A".

As on the date of drafting of the present Report, Gabriella Colombo Damiani holds the title of Honorary Chairman. Said honorary position does not have an expiration date; since 1 October 2007 Mrs. Colombo Damiani has not received any remuneration for such position.

MAXIMUM NUMBER OF OFFICES HELD IN OTHER COMPANIES

In relation to criterion 1.C.3. of the *Corporate Governance* Code, please note that on the date of approval of this Report, the Board has deemed it unnecessary and inappropriate to adopt general criterion in order determine the maximum number of offices of director and auditor that the directors of the company are allowed to hold, at the same time, in other listed companies as well as in financial, banking and insurance companies or in other companies of a relevant size; on the other hand the Board decided to assess on a case by case basis the peculiarities of each Director (experience, kind of offices held, etc.) and to decide on the basis of same whether the offices held are compatible with the office of Director of the Issuer.
The Board - finally during its meeting of 11 June 2010 - examined on a case by case basis and in relation to the characteristics of the each Director (i.e. experience, offices, etc.) the compatibility of the offices held in other companies with the office of member of the Board of Directors.

4.3 ROLE OF THE BOARD OF DIRECTORS (as per article 123-bis, first paragraph, letter d), of the Consolidated Law on Finance)

As already described in the Yearly *Corporate Governance* Report of the previous financial years, the Board of Directors of Damiani S.p.A. plays a central role in deciding the strategic targets of the Issuer and of the Group.
During the financial year ended on 31 March 2010, the current Board of Directors met 9 (nine) times, whilst during the current financial year the Board of Directors is supposed to meet 4 (four) times; as on today the Board met 2 (two) times, including the meeting of approval of this Report.
Each meeting of the Board lasts about an hour and ten minutes.
The directors have attended regularly and, in fact, the overall attendance of the meetings is 98%, whilst the attendance by independent directors is 100%.

According to the Law and to the Company's By-Laws, the Board is granted with all the powers of ordinary and extraordinary administration, being entitled to make any act that the Law and the Company's By-Laws do not specifically reserve to the Shareholders' Meeting.
Article 20 of the Company's By-Laws grants the Board the powers to resolve upon the matters listed under article 2365, second paragraph, of the Italian Civil Code: therefore the Board is entitled to resolve upon mergers in cases described by article 2505 and 2505 bis of the Italian Civil Code, the opening and closing of branches, the appointment of directors with legal representation of the Company, the reduction of the share capital in case of withdrawal by shareholders, the updating of the By-Laws following to any legislative amendments, as well as the transfer of the registered office within Italy.

Moreover, in relation to criterion 1.C.1. e 8.C.1 of the Code, the Board of Directors has decided to retain for its approval the following matters (in addition to those set forth by the law and the Company's By-laws):

a) examination and approval of the strategic, industrial and financial plans of the Company and of the Group, as well as of the system of corporate governance of the Company and of the structure of the Group;

b) the identification - subject to the determination of the relevant criterion - of the subsidiary companies with strategic relevance; the assessment of the adequacy of the organizational, administrative and general accounting structure of the Company and of its subsidiaries with strategic relevance (set by the Managing Directors), with particular attention to the internal control system and to the treatment of conflicts of interests;

c) delegation and revocation of powers of the Managing Directors and of the Executive Committee, with definition of their limits and modalities of implementation; determination of the frequency of reporting by the Managing Directors to the Board on the activities performed in the exercise of the delegated powers, in any case to be not less than once every quarter;

d) after having considered the proposals of the special committee and consulted with the Board of Statutory Auditors, decision on the remuneration of the Managing Directors and of other directors with specific tasks, as well as decision on the allocation of the total remuneration of the Board members in case the Shareholders' Meeting has not resolved upon this matter;

e) evaluation of the general performance of the Company, taking into specific account the information received from the delegated bodies, and periodical comparison of the actual results with the plans;

f) examination and approval of transactions having strategic relevance or economic, patrimonial and financial relevance for the Company, both when carried out by the Issuer and its subsidiaries, with particular attention to transactions in relation to which one or more directors holds a interest (also on behalf of third parties) and generally to transactions involving related parties. For this purpose the Board of Directors sets forth the general criteria to identify significant transactions;

g) evaluation – at least once a year – of the size, composition and functioning of the Board and of its committees, pointing out the types of professionals that would be appropriate to have in the Board, assessing the existence of executive/non-executive and independent/non-independent requirements pursuant to the Code;

h) appointment of a lead independent director, when deemed appropriate also in relation to the number of non-executive and independent directors, with the following tasks:
- coordination of the activities of the non-executive directors in order to maximize their contribution to the activities and works of the Board;
- cooperation with the President in order to ensure that all the directors are properly informed,
- convening meetings of the independent directors whenever deemed necessary in relation to his tasks and at least once a year;

i) specification - to be included in the Report on *Corporate Governance* and Ownership Structure - of any information on the implementation of article 1 of the Code and, specifically, on the number of meetings held during the financial year by the Board of Directors and by the Executive Committee, with evidence of the percentages of attendance of each director;
as well as, with the assistance of the Internal Control Committee:

l) definition of the guidelines for the internal control system, in order to properly identify, assess, manage and monitor the main risks of the Issuer and of its subsidiaries, also determining the criteria of compatibility between said risks and the correct and proper management of the Company;

m) identification of an executive director to be entrusted with the supervision of the functionality of the internal control system;

n) evaluation of the adequacy, effectiveness and functioning of the internal control system and approval of the Risk Management Policies of the Company and of the Group;

o)description – to be included in the *Corporate Governance* Report – of the essential elements of the internal control system, specifying the assessment of adequacy;

p) appointment, revocation and determination of the remuneration (to be consistent with the policy of the Company) of one or more persons in charge of the internal control, on proposal of the director in charge of supervising on the functionality of the internal control system and having considered the opinion of the Internal Control Committee.
With regard to article 1.C.1 of the *Corporate Governance* Code, the Board reiterated - also in its "Framework Resolution" approved on 27 June 2007 - the principle of reporting by the delegated bodies to the Board on the implementation of the delegated powers, at least quarterly and in compliance with the applicable provisions.
In order to implement the principles and authorities described above, the Board of Directors:

(**A**) approved, on 27 June 2007, the "Guidelines on transaction of particular relevance and with related parties of the Damiani Group" ("Guidelines"), including specific criteria to identify transactions of "particular relevance" as well as those entered into with third or related parties, also through subsidiary companies, falling within the competencies of the Board (even when delegated); in particular:
• are to be considered as "particularly relevant", being therefore always subjected to the prior examination and approval of the Board, the following transactions, regardless of the counterparty:
a) transactions that require the Company to make available to the public an information document drafted in accordance with the provisions of CONSOB;
b) passive financial transactions (such as mortgages and loans, as well as collateral and personal guarantees issuing) for amounts higher than Euro 15,000,000.00 for each transaction;
c) transactions of acquisition and disposal of trademarks;
d) trademark licenses for amounts higher than Euro 10,000,000.00 for each transaction;
e) transactions other than those listed under the previous points, whose value is higher than Euro 15,000,000.00 for each transaction.

• are to be qualified as "particularly relevant transaction with related parties" the transactions, also implemented through subsidiary companies, that:
a) are "particularly relevant", pursuant to paragraph 2 above or that, in any case:
b) are for an amount higher than Euro 5,000,000.00 for each transaction.
However, as an exception to provisions of letters a) and b) above, are not considered as "particularly important" and, therefore, are not necessarily subject to the prior examination and approval by the Board of Directors, the transactions with related parties that are typical or usual or at standard conditions. Transactions are typical or usual when, because of their object, nature, characteristics and conditions are part of the Company's normal business, as well as when do not contain any particular elements of criticality as to their features or to the risks related to the nature of the counterparty at the time when they take place: are normally included in said category the transactions between companies of the Damiani Group as long as they are carried out according to the normal arm's length market values.
Transaction are at standard conditions when are agreed at the same conditions as with any counterparty whatsoever.
The relevant definition of "related parties" is the one provided by the regulations applicable at the time when each operation is approved; at the time of approval of this document the relevant definition is the one provided by IAS 24 adopted by means of the EEC Regulation 1725/2003 and subsequent amendments and additions.

The Board of Directors has always been promptly updated on the transactions with related parties, also pursuant to article 22 of the By-laws and article 150 of the Legislative Decree no. 58/1998.
With specific reference to transactions with related parties, please note that during the financial year ended on 31 March 2010 the Group entered into transactions with related parties both included and not-included in the consolidation area.
During financial year ended on 31 March 2010 the relations with related parties within the consolidation area were of commercial nature mainly, consisting of sales of jewellery or raw materials, and took place in the context of normal inter-company operations carried out at normal arm's length market conditions, or concerned real estate transactions.
Relations with related parties outside the consolidation area – and namely with Immobiliare Miralto S.r.l. – have been of non-commercial nature only and concerned real estate rental agreements only.

Relations with related parties were examined and analyzed by the Internal Control Manager who, carrying out his functions, controlled that the same transactions took place at normal arm's length market conditions.

Moreover, the Board of Directors:
(**B**) assessed the adequacy of the organizational, administrative and accounting structure (i) of the subsidiaries having strategic relevance, during the meeting of 11 June 2010 and (ii) of the Issuer, during the meeting of 11 June 2010 convened for the approval of both the financial report as to 31 March 2009 and the draft financial statement as to 31 March 2009. More specifically, the assessment was made with the support of the Internal Control Committee that, in the context of its own meetings and with the participation of the Internal Control Manager, has been able to continuously check the functioning of the Internal Control System of both the Issuer and the other companies of the Group, with particular reference to the companies with strategic relevance. With specific regard to said companies, please note that, during the meetings of 27 June 2007 and finally 10 February 2010, the Board of Directors of the parent company Damiani S.p.A. resolved to identify the "subsidiary companies having strategic relevance" taking into account the following criteria (listed in the "Guidelines of the Internal Control System of the Group"):
(i) the relevance and complexity of the functions of the subsidiary within the Group;
(ii) the strategic relevance of the subsidiary within the market;
(iii) the turnover of the subsidiary;
(iv) the value of its assets;
(v) the presence of an articulated organizational structure, with a significant presence of managers (other than directors) granted with management autonomy.
From the combination of the abovementioned criteria, during the meetings of 27 June 2007 and 13 June 2008, Damiani International B.V., a company incorporated under Dutch Law, was identified as a subsidiary company of Damiani S.p.A. having strategic relevance; during the meeting of 10 February 2010, the same qualification was also attributed to Rocca S.p.A. (a company entered into the Damiani Group in September 2008 following to the abovementioned acquisition of its entire share capital by the Issuer, information on which were already included in the Report on *Corporate Governance* of financial year ended on 31 March 2009 - available on www.damiani.com in the "Investor Relations – *Corporate Governance* – Relazione di Governance" section);

(**C**) on 3 April 2009, fixed the remuneration of directors entrusted with particular duties, based on the proposals of the Remuneration Committee and having considered the opinion of the Board of Statutory Auditors;

(**D**) on 11 June 2010, assessed the general trend of the management, based on the information received from the delegated bodies and compared the actual results with the plans;

(**E**) again on 11 June 2010, carried out the evaluation of the size, composition and functioning of the Board and of its committees - the so-called self assessment - acknowledging that the current Board consists of 7 directors, 3 of which are non-executive and 2 independent according to the criteria set by the *Corporate Governance* Code. The assessment, based on a report by the Internal Control Committee, confirmed the wide range of professional skills existing within the Board and, specifically, the expertise in economics, accounting, legal and/or financial matters of the non-executive directors.

Also in observance of the Criterion 1.C.2. of the *Corporate Governance* Code, the offices of director or auditor that are held, as of the approval date of this Report, in other companies listed on regulated markets (also foreign) and in financial, banking and insurance companies or in companies of a relevant size by the current directors are shown below in the Schedule attached sub "C".

Please note that, during the meeting of 3 April 2009, the Shareholders' Meeting expressly authorized the appointed directors to hold offices and to carry out activities pursuant to article 2390 of Italian Civil Code. Pursuant to criterion 1.C.4 of the *Corporate Governance* Code, the Board is entrusted to assess each problematic position in relation to the above and to refer to the Shareholders' Meeting on the existence of the same; however please note that no problematic positions have been reported to the Board as on the date of approval of this Report.

4.4 DELEGATED BODIES

The current Board of Directors performs its functions directly and collegially, as well as through:
- its President, who has also been appointed Managing Director;
- two Vice-Presidents;
- one further Executive Director besides the President and Vice-Presidents.

At least quarterly, the Managing Director and the other Executive Directors:
- report to the Board of Directors on transactions realized by exercising their powers (both on ordinary, atypical and particular transactions, as well as in connection with transactions – other than relevant ones –with related parties);
- submit to the Board (for its approval) relevant transactions with related parties which, in accordance with the "Guidelines" approved by the Board of Directors on 27 June 2007, are reserved to the Board of Directors.

As mentioned above, in relation to Article 1.C.1 of the *Corporate Governance* Code, the Board has also formally confirmed (in its "Framework Resolution" approved on 27 June 2007) the principle that any bodies and officers granted with delegated powers must report to the Board - during the financial year the powers refer to - at least on a quarterly basis and in any case pursuant to the applicable law.

Before the meetings of 27 June 2007 and 3 April 2009, the Board of Directors appointed the PRESIDENT, Mr Guido Grassi Damiani also as Managing Director, confirming in favour of the same all the powers – including the powers to sign on behalf of and to represent the Company, pursuant to the Law and to the Company's By-Laws vis-à-vis third parties and before any Courts – of ordinary and extraordinary management, with the exception of powers reserved to the Shareholders' Meeting and to the Board of Directors by the Law or by the Company's By-law or by the same Board of Directors pursuant to the principles of the *Corporate Governance* Code, together with the authority to appoint and revoke representatives and attorneys for single deeds or group of deeds, to take actions or judicial suite, also of annulment and before the Supreme Court, as well as to appoint lawyers and attorneys for disputes of any kind and degree of judgment.

During the same meetings the Board of Directors resolved the following:
- to entrust the VICE-PRESIDENT, Mr Giorgio Grassi Damiani with the disjoint powers relating to the purchase of raw materials, product development and commercial relationships, namely:

(i) full powers to supervise the activities of the Company's department dealing with the purchase of raw materials, to be exercised with disjoint signature and without any restrictions as to the amounts involved (with the sole exception of the matters reserved by the Company's By-Laws or by the Board itself to the competence of the Board of Directors, pursuant to the *Corporate Governance* Code for Listed Companies); such powers include, for instance (but not limited to) the authority to negotiate and purchase raw materials and components necessary for the production of jewellery, watches and precious items in general; and

(ii) any powers to carry out any activity necessary for the development of new products, with single and disjoint signature and no limits of value, with the exception of the matters reserved to the Board of Directors by the Company's By-Laws or by the Board itself pursuant to the *Corporate Governance* Code;

(iii) any powers necessary in order to take care of and develop relationships with the clients and suppliers of the Group, and more generally to develop the Company's and the Damiani Group's market and commercial communication, supporting the devoted departments, with single and disjoint signature and no limits of value, with the exception of the matters reserved to the Board of Directors by the Company's By-laws or by the Board itself pursuant to the *Corporate Governance* Code;

- to entrust the other VICE-PRESIDENT, MRS SILVIA GRASSI DAMIANI, with the external relations and image care of the Damiani Group, granting her – with single and disjoint signature - all the powers necessary to:

(i) take care of the image of the Company's and Group's products vis-à-vis its clients and, more in general, the public, as well as to take care of the relationships with celebrities, members of the national and international "jet set" and personalities from the world of fashion and entertainment, even by organizing and promoting events;

(ii) take care of and develop relations with the press and media in general;

(iii) take care and develop relations with testimonials, promoting their fidelity to the Group's brands;

all the above with the support of and in coordination with the devoted Company's departments; all the abovementioned powers can be exercised by means of her disjoint and single signature and without any limit as to the amounts involved, and with the exception of those matters reserved to the Board of Directors by the Company's By-Laws or by the Board itself pursuant to the applicable principles (also of "Self-Discipline").

In relation to article 2 of the *Corporate Governance* Code, please note that the President of the Board of Directors, Guido Grassi Damiani, is the controlling shareholder of the Company as well as Chief Executive Officer and that therefore the Board of Directors has decided to adopt the suggestions concerning the appointment of a Lead Independent Director with the functions suggested by the *Corporate Governance* Code.

Furthermore please note that, in relation to principle 2.P.4 (suggestion to avoid concentration of more corporate offices in one person) and principle 2.P.5 (reasons for delegating executive powers to the President), the Board finally reconsidered this issue on 11 June 2010 and concluded that the governance of Damiani S.p.A is fully in line with its corporate interests, despite such concentration of offices, also considering that: (i) the President's position is not limited to institutional or representative functions, but it is fully operative and therefore essential to improve the performance of the Company; and (ii) executive powers have also been delegated to other Directors, in addition to the President (with four Executive Directors appointed).

In compliance with Criterion 2.C.2 and with the suggestions included in the comment to Article 2 of the *Corporate Governance* Code, on 3 April 2009 the Board of Directors confirmed Fabrizio Redaelli, Independent Director, as "Lead Independent Director", with the following functions:
- to coordinate the activities of the Non-Executive Directors in order to improve their contribution to the Board's activities and functioning;
- to cooperate with the President to ensure that all Directors are promptly and fully informed;
- to convene meetings exclusively among Independent Directors whenever he deems it necessary and to ensure that the Independent Directors meet separately – i.e. without the other Directors - at least once a year.

In this regard please note that, on 28 January 2010, the Independent Directors holding the office during the financial year ended on 31 March 2010 met to review the state of implementation of the principles of corporate governance set forth by the *Corporate Governance* Code.

4.5 OTHER EXECUTIVE DIRECTORS

With regard to the current Directors, Guido Grassi Damiani, Giorgio Grassi Damiani, Silvia Grassi Damiani and Stefano Graidi are Executive directors, the latter continuing to be executive officer of Damiani International BV (subsidiary controlled by Damiani and having strategic relevance) and, starting from 7 August 2008, having assumed a further role of executive director in charge of the functionality of the internal control system.

4.6 INDEPENDENT DIRECTORS

As already mentioned, in its meeting of 3 April 2009 following to the appointment of the current directors and finally on 11 June 2010, the Board of Directors assessed the existence of the independence requirements as per article 147 ter, fourth paragraph, of the Consolidated Law on Finance and article 3 of the *Corporate Governance* Code, and ascertained the existence of said requirements with Roberta Benaglia and Fabrizio Redaelli.

Pursuant to the criterion 3.C.5 of the *Corporate Governance* Code, the Board of Statutory Auditors approved the criterion and procedures adopted by the Board of Directors in assessing the independence of directors.

Pursuant to criterion 3.C.6. of the *Corporate Governance* Code, on 28 January 2010 independent directors met, without the other directors, in order to examine the implementation of the corporate governance principles provided by the *Corporate Governance* Code, with particular attention to the adequacy of the information flows within the company, as well as in order to examine and discuss the second proposed regulation on transactions with related parties and role of the independent directors, issued by CONOSB on 3 August 2009. During the meeting the independent directors also examined the legislative decree no. 27/2010, implementing the EU Directive no. 2007/36/CE of 11 July 2007 on the rights of shareholders of listed companies and functioning of shareholders' meeting, and pointed out that such new rules require the amendment of the listed companies' by-laws, including Damini S.p.A.'s.

4.7 LEAD INDEPENDENT DIRECTOR

Considering that the President of the Board of Directors, Guido Grassi Damiani, is the main responsible for the management of the Issuer (CEO), as wells as the controlling Shareholder, the Board of Directors deemed it appropriate to comply with the recommendation to appoint a lead independent director and grant to the same the function suggested by the *Corporate Governance* Code.
Pursuant to criterion 2.C.3 of the *Corporate Governance* Code as well as recommendation included in the comment to article 2 of the same Code, the Board appointed the (non-executive and) independent director Fabrizio Redaelli as "Lead Independent Director", granting the same the following functions:
- to coordinate the activities of the non-executive directors, particularly the independent ones, also in order to improve their contribution to the activity and functioning of the Board;
- to cooperate with the President in order that all the directors receive complete and prompt information;
- to call meetings reserved to independent directors any time it is deemed necessary for the best performance of its functions, ensuring that the independent directors meet, without any other director, at least once a year.

5. TREATMENT OF CORPORATE INFORMATION (ARTICLE 4 OF THE CODE)

The *Corporate Governance* Code requires Directors and members of the Board of Statutory Auditors to keep confidential all documents and information acquired while performing their office, and to comply with the procedures adopted by the Company for the internal treatment and external communication of such documents and information.
In compliance with said provisions and with those referred to under Articles 114, first a twelfth paragraphs, and 115bis of the (Italian) Consolidated Law on Finance, as well as by Articles 66 and followings and 152bis and followings of the Issuers Regulation, the Company adopted the "Procedure for the treatment and disclosure of privileged information" and on 12 September 2007 the "Procedure for the constitution, maintenance and update of the Group Register of the subjects having access to Damiani SpA privileged information".
The registers of the Company and of its subsidiaries have been duly constituted.
In compliance with the provisions set forth by Article 114, seventh paragraph, of the (Italian) Consolidated Law on Finance and by Articles 152-sexies and followings of the Issuers Regulation, on 12 September 2007 the Board of Directors also resolved upon the adoption of the "Procedure for identifying Relevant Persons and for the disclosure of transactions carried out by the same in Company's shares or equity-related securities, both directly and through an intermediary" (the "INTERNAL DEALING PROCEDURE"): such procedure identifies the so called "Relevant Persons" and focuses on how to inform CONSOB and the market of any transactions carried out by the same in the Company's shares or equity-related securities. During the meeting of 12 June 2009, the Board of Directors entrusted the Internal Control and *Corporate Governance* Committee with the drafting and approval of a new version of the Internal Dealing Procedure, updated in order to comply with the amendments and integrations made by CONSOB to the Issuers Regulation by means of the resolution no. 16850 of 1 April 2009, with specific reference to the modalities of communication of said transactions.
Both versions of the Internal Dealing Procedure – as per article 2.2.3, third paragraph, letter p), of the Stock-Exchange Regulation – forbids "Relevant Persons" to deal in the Company's shares or equity-related securities during the so-called "blackout periods", i.e. during the 15 days immediately previous to the Board's meetings convened to approve the draft annual Financial Statement, the consolidated Financial Statement, the half-year or quarterly reports or some other determined reports or budgets.
The Internal Dealing Procedure in force during the financial year ended on 31 March 2010 came into force starting from the trading of the company's shares in the STAR segment of the electronic market (MTA) managed and organised by Borsa Italiana S.p.A..

6. INTERNAL COMMITTEES OF THE BOARD (AS PER ARTICLE 123-BIS, SECOND PARAGRAPH, LETTER D), OF THE CONSOLIDATED LAW ON FINANCE)

On 27 June 2007 the Board resolved upon the adoption of principles and criteria provided for by Article 5 of the *Corporate Governance* Code, and, accordingly, resolved upon the criteria of a "Internal Control and *Corporate Governance* Committee" as well as a "Remuneration Committee", created and operating pursuant to the same Code. The working principles and criteria of the two Committees, both of which have been confirmed on 3 April 2009, are the followings:
a) the Committees are composed of at least three members, all of them non-executive and the majority of which are independent; at least one member of Internal Control Committee has to be specialized in accounting and finance;
b) the Board may subsequently resolve upon adding or varying the tasks of the Committees as hereinafter indicated;
c) each meeting of the Committees must be entered in the minutes;
d) while performing their activity, the Committees must have access to such information and Company's offices as it is necessary in order to perform their functions; with the Board's prior authorisation, they may also seek for the advice of external consultants;
e)non-members may take part to the meetings of the Committee, on the Committee's invitation and with limitation to specific items on the Agenda;

f) resolutions of the Committees will only be valid if a majority of the Committee's current members are present; decisions are taken by absolute majority of the present members and in the event of a tie the President has casting vote; meetings may also be held by videoconference or teleconference, provided that all the participants can be identified by the President and by the other participants, are able to follow and participate in real time to the discussion on the Agenda, and are able to receive and transmit documents; in such cases the Committee is regarded as been held in the place where the President is located;
g) the Board's annual Report on *Corporate Governance* must inform the market on the creation and composition of the Committees, the terms of their tasks and the activities actually carried out during the financial period, specifying the number of meetings held and each member's percentage of attendance.
On 3 April 2009, following to the appointment of the new Directors resolved on the same date, the new Board confirmed the creation of the two Committees and appointed the new members of the Internal Control and *Corporate Governance* Committee as well as of the Remuneration Committee.
As on the date of approval of this Report, the Board has not deemed necessary the creation of an Appointment Committee, considering the current ownership structure.

The principles of *Corporate Governance* implemented by Damiani S.p.A. by means of the Board resolution of 27 June 2007 require in any case:
- that the lists of candidates are registered at the Company's registered office not later than 15 days before the date of the Shareholders' Meeting convened to appoint Directors, together with sufficient details of each candidate's professional and personal qualifications, all the information required by the law or by the Company's By-Laws as well as confirmation that the candidate meets the independence criteria under Article 3 of the *Corporate Governance* Code (if this is the case);
- that the lists, together with the candidate details listed above, are published in due course on the Company's website.

In the light of the proposed amendments that are likely to be approved by the Shareholders' Meeting called for 21 July 2010 – and also considering the new regulation of implementation in Italy of the Directive 2007/36/CE (so called "Record Date" Directive) - said provisions are apparently outdated since the new regulation will require the deposit of the documentation necessary for the presentation of the lists, at least 25 days before the date of the Meeting.

7. REMUNERATION COMMITTEE

Pursuant to Article 23 of the Company's By-laws, the determination of the remuneration of the Directors for their participation to the meetings of the Company's Board is reserved to the competence of the Shareholders' Meeting. Pursuant to the same Article:
- the Board has the power to determine the remuneration of the Executive Directors – i.e. directors with specific duties as per Article 2389, third paragraph, of the Italian Civil Code – on the basis of the recommendations issued by the Remuneration Committee;
- the Board is authorized to approve particular payments to any Director at the end of his/her office period.

During its meeting held on 3 April 2009 and after having verified that the individuals concerned met the non-executive and independent requirements in accordance with the principles provided for by the *Corporate Governance* Code, the Board decided to set up for the three-year period 2009-2011 a Remuneration Committee composed of the following Non-Executive Directors (two of them being also Independent): Giancarlo Malerba (President), Roberta Benaglia and Fabrizio Redaelli. During that same meeting the Board of Directors also resolved – pursuant to article 7 of the *Corporate Governance* Code – to grant to the Remuneration Committee the tasks indicated by the Board of Directors frame resolution of 24 June 2007; in particular, the Remuneration Committee is entrusted with the following tasks:
a) to make proposals to the Board concerning the remuneration of directors with delegated powers and of other directors with special tasks, in compliance with the relevant suggestions of the *Corporate Governance* Code, and to supervise the application of the Board resolutions;
b) to annually review the criteria used for determining the remuneration of managers with strategic responsibilities, supervising the application of the same criteria on the basis of the information provided by the Executive Officers; as well as to give general recommendations to the Board on this matter.
Please note that, pursuant to criterion 7.C.4 of the *Corporate Governance* Code, even though there is no specific rule with this regard, no Director concerned by the relevant resolution attended the meetings of the Remuneration Committee dealing with the proposed remuneration of the same.

During the financial year ended on 31 March 2010, the Committee met four times, whilst during the current financial year the Board of Directors is supposed to meet 2 (two) times (one of which already took place as on the date of approval of this Report). Meetings during financial year ended on 31 Mach 2010 had an average duration of 35 minutes and its members have attended regularly and, in fact, the overall attendance of the meetings is 98%, whilst the attendance of each member is specified in Schedule 2 attached hereto sub "A".
During said meetings the Committee examined the remuneration of directors entrusted with particular offices in order to submit the relevant proposals to the Board of Directors (see meeting of 3 April 2009); upon report of the Company's Direction, the Committee also decided to submit to the Shareholders' Meeting the approval a "Stock Grant" Plan consisting of the free assignment of a maximum number of 1.000.000 Damiani shares to employees and certain directors of Damiani Group, in one or more tranches, within five years from the approval by the Shareholders' Meeting ("Stock Grant Plan 2009"); as well as the adoption of a sale plan of option on Damiani shares in favour of the Damiani Group Managament, in one or more lots, within five years from the approval by the Shareholders' Meeting ("Stock Option Plan 2009" – see meeting of 12 June 2009). Following to the Shareholders' Meeting authorization, the Committee also assessed the proposal of implementation of the "Stock Option Plan 2009" and of the "Stock Grant Plan 2009" presented by the Company's Direction, and gave its positive opinion (see meetings of 7 and 24 September 2009).

In performing its functions, the Remuneration Committee has the faculty to access all the necessary information and business functions, as well as to avail itself of external advisors, with the prior authorization of the Board of Directors. Please note that the Board has not allocated a specific budget in favour of the Remuneration Committee, and that the Company grants the Committee with the funds necessary from time to time for the performance of its functions.

8. REMUNERATION OF DIRECTORS

It was assessed that the remuneration of Directors is sufficient in order to attract and motivate directors having the professional standing required to manage the Company successfully.
With regard to principle 7.P.2 of the *Corporate Governance* Code, please note that all the remunerations in favour of the Directors currently in office are fixed.

As to the incentive plans based on shares in favour of the executive directors and managers with strategic functions, please note that among the beneficiaries of all the three incentive plans under performance as on the date of approval of this Report, as indicated above ("Stock-Option Plan of Gruppo Damiani S.p.A. 2007/2010 for the granting of option on a maximum number of 1.600.000 ordinary shares", "Stock Grant Plan 2009" and "Stock Option Plan 2009"), are also included some managers of the Company with strategic functions (together with the executive director Stefano Graidi).

Pursuant to criterion 7.C.2 of the *Corporate Governance* Code, the remuneration of non-executive directors is proportioned to the required activity of each of them, also considering the participation to Committees, and is not linked to the economic results of the Company; moreover, non-executive directors are not beneficiaries of any incentive plan based on shares.

INDEMNITIES IN FAVOUR OF DIRECTORS IN CASE OF THEIR RESIGNATION, REVOCATION OR TERMINATION OF THE EMPLOYMENT AGREEMENT, ALSO AS A RESULT OF A TAKEOVER BID (as per article 123 bis, first paragraph, letter i), of the Consolidated Law on Finance).

As on the date of this Report no agreements have been entered into between the Issuer and its Directors granting the latter any indemnity in the event of resignation or termination of the employment relation without just cause. Furthermore, no provisions referring to cases of termination of the employment relation as a result of a takeover bid have been agreed.

9. INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE

The Internal Control and *Corporate Governance* Committee currently holding the office was appointed – following to assessment of the non-executive and independence requirements pursuant to the law and to the criterion of article 3 of the *Corporate Governance* Code – by the Board of Directors on 3 April 2009 with immediate effect, and is composed by the following directors:
- Giancarlo Malerba – President – (Non-Executive Director);
- Fabrizio Redaelli – (Independent Director and Lead Independent Director);
- Roberta Benaglia – (Independent Director).

During the financial period ended on 31 March 2010 the Committee met 5 (five) times, and 6 (six) more meetings are planned for the current fiscal year (3 of which already took place as on the date of approval of this Report). The meetings of the Committee held on the financial year ended on 31 March 2010 had an average duration of 1:17 hours and were regularly attended by its members (the overall percentage of attendance was 98%, and the one of the independent members 90%; the percentage of attendance of each member is indicated in Schedule 2 attached sub "A").
Besides the President of the Statutory Auditors (or the other Statutory Auditor chosen by the latter), on invitation of the President and for specific items of the Agenda, the Head of Internal Control, the Executive-Director in charge of the functionality of the internal control system as well as the Manager in charge of preparing the Company's financial reports and some other managers of the Company participated to the meetings.
The meetings of the Committee were duly recorded into the Committee Book of the Minutes.

The professional experiences of the current Directors ensure the Committee a sufficient expertise in accounting and finance. The following functions of advice and proposal have been assigned to the Committee by the Board on 27 June 2007 and finally on 3 April 2009 (they are identical to those listed in the *Corporate Governance* Code with the exception of criterion 8.C.3 (d) and (e)):
a) to assist the Board with the tasks indicated in criterion 8.C.1. of the *Corporate Governance* Code;
b) to assess, together with the Manager in charge of preparing the Company's financial reports and the auditors, the proper application of the accounting standards and their uniform application in drawing up the Consolidated Financial Statements;
c) on request of the Executive Director in charge, to release opinions on the main risks existing within the Company, as well as on the project, implementation and management of the Internal Control System;
d) to examine the schedule of work and periodic reports drafted by the Head of the Internal Control;
e) to report to the Board on its activities and on the adequacy of the internal control system, periodically and at least every six months (at the approval of the Financial Statement and of the Half-Year interim Reports).

It was deemed not appropriate to grant the Committee the task to "supervise the efficacy of the auditing process"; on the basis of the implementing provisions of Directive 2006/43/CE on auditing, "Guiding Principles" entrust the Board of Statutory Auditors with this task.
Please note that "Guidelines of the Internal Control system of Damiani S.p.A. Group" ("Guidelines") - approved by the Board of Directors on 27 June 2007 – has been integrated and amended by the Board of Directors in its meeting of 11 June 2010 also in order to strengthen and optimize the internal controls system of the Company and of the Group.
With reference to the single functions entrusted, please note that during financial year ended on 31 March 2010 the Internal Control and *Corporate Governance* Committee has inter alia:
- examined the periodical reports prepared by the Head of Internal Control, in order to constantly monitor the suitability of the internal control system and to intervene, where necessary, in order to fulfil any lack;
- examined together with the auditing company the proper use of the accounting standards and their homogenous application in view of the drafting of the consolidated financial statement.
Lastly, on 11 June 2010 the President of the Internal Control and *Corporate Governance* Committee provided the Board of Directors with a summary of the activities carried out by the Committee and, also on the basis of the work perform by the Person responsible for Internal Control, expressed to the Board of Directors its assessment on the overall adequacy, effectiveness and efficiency of the Internal Control System.
In accordance with the Criterion 5.C.1), letter e), of the Code, the Committee has access to any information and Company's officers, necessary for carrying out its functions and can also seek the advice of external consultants, within the limits approved by the Board. Please note that the Board has not allocated a specific budget in favour of the Committee, and that the Company grants the Committee with the funds necessary from time to time for the performance of its functions.

10. THE INTERNAL CONTROL SYSTEM

As indicated in the Report of last year (available on the website www.damiani.com, in the section "Investor Relations – *Corporate Governance* – Relazione di Governance"), on proposal of the Executive Director in charge of supervising the Internal Control System and with the assistance of the Internal Control and *Corporate Governance* Committee, on 13 June 2008 the Board of Directors approved the guiding principles of the Internal Control System ("the Guiding Principles"), as integrated and amended by the Board of Directors on 11 June 2010, the purpose of which is to strengthen and optimize

the internal control systems of both the Company and the Damiani Group as a whole, with particular reference to subsidiaries that qualifies as "strategically relevant" pursuant to Article 1 of the *Corporate Governance* Code.
The new "Guiding Principles" set forth, inter alia, the powers and tasks of the Executive Director in charge of supervising the internal control system (as described in the following paragraph 10.1).
The same "Guiding Principles" entrust the Board of Directors with final responsibility for the adequacy of the Internal Control system, and set forth in detail the relevant tasks.
In relation to article 8 of the *Corporate Governance* Code, at its meeting of 27 June 2007 the Company's Board of Directors entrusted the Board of Statutory Auditors with the evaluation of the offers received from the auditing companies, as well as the audit-plans and the results showed in their reports and in the letter of suggestions: the entrustment of the Board of Statutory Auditors seems to be consistent with the duty of the same body of recommending an auditing company to the General Meeting as well as with the recent amendments introduced by the Legislative Decree no. 39/2010 on accounting.
As anticipated above, it was deemed not appropriate to grant the Committee the task to "supervise the efficacy of the auditing process"; on the basis of the implementing provisions of Directive 2006/43/CE on auditing, "Guiding Principles" entrust the Board of Statutory Auditors with this task.

EXISTING SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROL RELATED TO THE FINANCIAL INFORMATION PROCESS, ALSO CONSOLIDATED.

PREAMBLE

Pursuant to the principles included in the Format published by Borsa Italiana, the Damiani Group management and control system of the risks concerned by financial information is part of the Internal Controls System of Damiani S.p.A. and of the Group and is mainly composed of:
- the Ethical Code;
- the organization and control model pursuant to Legislative Decree no. 231/01;
- the procedure for the institution, management and updating the Group register of persons having access to privileged information of Damiani S.p.A. ("Internal Dealing Procedure");
- procedures and principles for transactions with related parties;
- the system of powers and proxies;
- the organization chart;
- the procedure for the management and disclosure of privileged information;
- the accounting and management system, composed of a number of procedures and documents and instructions for the financial statement activity and reporting, as well as relevant timeframes.

The Board of Directors of Damiani S.p.A. has a central role for the coordination and direction of the Internal Control System, and sets the general guidelines of the organizational, management and accounting structures of the Issuer and of the other companies of the Group.

The Internal Control System on financial information is a set of activities aimed at identifying and assessing actions and/or events able to compromise the trustworthiness, accuracy, reliability and timeliness of the financial information. Therefore, the system adopted by Damiani S.p.A. and the Group has the purpose to assure the reliability of the financial information, according to the business model of the Group, of its structure (including the identification of the companies with strategic relevance), of the accounting principles and their evolution.

DESCRIPTION OF THE MAIN CHARACTERISTICS

The control system for financial information is based upon a risk assessment activity aimed at identifying and assessing the areas of risk where (as a consequence of the business model, corporate and organizational structure, supplying and distribution markets, applicable laws and regulations) events might potentially compromise the reliability of the financial information.
By means of said activities companies with strategic relevance were identified on the basis of quantitative and qualitative parameters as well as of the main business processes that provides data for the individual and consolidated financial statements.
In such way a matrix of processes/entities have been identified to be submitted to the check and assessment by the existing Control System, with specific regard to the their typical risks concerning the preparation of the official and public financial information.
Specific items of the financial statements and business functions providing data for the same have been identified for each relevant company (whose control system is subject to specific evaluation and monitoring) in order to identify the specific controls to be implemented in order to ensure the typical targets that have to be pursued by Internal Control System for financial information.

ROLE AND FUNCTIONS INVOLVED

The management and control system of financial information is managed by the Manager in charge of preparing the Company's financial reports, appointed by the Board of Directors pursuant to the current Company's By-laws
In performing its activities the Manager:
- interacts with the Internal Audit, which carries out its independent checks on the functioning of the Internal Control System and support the Manager in its activities;
- is supported by the persons responsible for the business functions (in particular, by the managers) of the Group, which assure the completeness, reliability and timeliness of the information flows to the Manager, who coordinate their activity in the view of drafting the financial statement information;
- exchanges information with the Internal Control Committee and with the Board of Directors, reporting on the performed activity;
- periodically informs the Board of Statutory Auditors on the relevant events which might affect the financial information and the adequacy and reliability of the management-control system for the recording of the same.

The monitoring of the actual implementation of the risk management system of financial information is carried out on a continuous basis during the financial year by the Manager, who is responsible for the correct and prompt performance of the management activities for management, accounting and finance within the Group.
Inspections have shown no risks or situations other than those already monitored by the Company.

The Manager in charge of preparing the Company's financial reports, together with the President and CEO, issues the statement pursuant to article 154-bis, fifth paragraph, of the Consolidated Law on Finance.
Pursuant to the criterion 8.C.1, letter c), of the *Corporate Governance* Code, the Board assessed the adequacy of the general organizational, management and accounting system of the Issuer and of its subsidiaries with strategic relevance, during the meeting of 11 June 2010; in particular the assessment

was based on the report of the executive director in charge of the functioning of the internal control system and with the support of the Internal Control Committee (which was able to continuously check the actual functioning of the Internal Control System of the Company and the Group, with specific reference to companies with strategic relevance, during its meetings – that were also attended by the Directors in charge of supervising the Internal Control System, see 10.1 below).

10.1 EXECUTIVE DIRECTOR IN CHARGE OF SUPERVISING THE INTERNAL CONTROL SYSTEM

In accordance with criterion 8.C.1)(b) of the *Corporate Governance* Code, the new "Guiding Principles" inter alia provide for the following functions of the Executive Director in charge of supervising the Internal Control System:
a) to take care of the identification of the main corporate risks, taking into account the characteristics of the business carried out by the Company and its subsidiaries, with particular attention to the companies with strategic relevance, and to submit such principles to the Board of Directors as well as to the Internal Control and *Corporate Governance* Committee at least once a year and normally at the meeting of the Board of Directors called to approve the draft individual and consolidated financial statements;
b) to structure, implement and manage an Internal Control System able to monitor the corporate risks. In particular, the Executive Director:
- identifies the risks for the Issuer and the other companies of Damiani Group, with particular attention to companies with strategic relevance – besides the responsibility of the CEO of the single companies – also considering the changes occurred to the internal and external conditions of work, as well as the management trends, the differences respect to the forecasts and the legal framework applicable from time to time;
- defines the tasks of the operative units in charge of the control, making sure that the activities are managed by qualified employees, with specific experience and knowledge – reducing the areas of potential clash of interests;
- creates information channels in order to make sure that all the employees know the polices and procedures related to their tasks and responsibilities;
- defines the information flows in order to assure the full knowledge and manageability of the corporate events; inter alia, the same makes sure that the Board of Directors is able to identify the strategic transactions of the Group – completed by the Issuer or by its subsidiaries – that are to be submitted to the managing body of the Parent company;
c) at least once a year, and normally at the meeting of the board of Directors called for the approval of the draft financial statement – as well as any time it is deemed necessary or appropriate in relation to the circumstances (as in case of new relevant risks or relevant increase in the possibility of risk) – submits to the Board of Directors the corporate risks and the control systems adopted and planned for the prevention, reduction and management of the same, in order to let the Board of Directors to consciously resolve on the strategies and polices of management of the Issuer and of Gruppo Damiani S.p.A., with particular attention to the companies with strategic relevance;
d) proposes to the Board of Directors the appointment, revocation and remuneration of the Person responsible for the Internal Control, and assures its independency and autonomy from any persons in charge of the operative management, granting the same sufficient means.

In its meeting of 3 April 2009 the Board of Directors confirmed Stefano Graidi as Executive Director in charge of supervising the Internal Control System (following to the appointment of 7 August 2008), granting the same all the functions and powers provided by the "Guiding Principles of the Internal Control System of the Damiani Group", and namely:
i) to identify the main corporate risks (taking into account the characteristics of the activities carried out by the Company and its subsidiaries) and periodically submit such principles to the Board of Directors, as well as to the Internal Control and *Corporate Governance* Committee;
ii) to project, implement and manage the internal control system, constantly monitoring its overall adequacy, effectiveness and efficiency; to adapt such system to the operative and legal framework; to submit to the Board of Directors, if necessary, the update of the guiding principles of the Internal Control System of the Damiani Group;
iii) to propose to the Board of Directors (also informing the Internal Control and *Corporate Governance* Committee) the appointment, revocation and remuneration of the Persons in charge of the Internal Control of the Group.
(With regard to the latter function please note that, during the financial year ended on 31 March 2010, the Executive Director in charge of supervising the Internal Control System did not propose the appointment of new Persons in charge of the Internal Control, nor the revocation of the one currently in office).

10.2 PERSON RESPONSIBLE FOR THE INTERNAL CONTROL

On 12 September 2007, on the proposal of the Executive Director in charge of supervising the Internal Control System and on the basis of the favourable opinion of all the members of the Internal Control and *Corporate Governance* Committee, the Board of Directors appointed Luana Carlotta Lanzi Puglia as Company's "person responsible for internal control" with all the supervisory functions and duties provided for by the *Corporate Governance* Code and the *Corporate Governance* frame resolution adopted by the Board of Directors on 27 June 2007.

Pursuant to the new "Guiding Principles" the updated version of which was approved by the Board of Directors on 11 June 2010, the Person Responsible for the Internal Control:
• extends its control to all the companies of Gruppo Damiani S.p.A., with particular attention to the companies qualified by the Board of Directors as strategically relevant, and has access to all their activities and relevant documentation;
• in case of externalization of specific controls by the Company or other companies of the Group, the Person Responsible for Internal Control has access to the documentation provided by the entrusted persons;
• monitors the adequacy of the internal procedures, assures the restraint of the risks of the Issuer and the Damiani Group and assists the Group with the identification and assessment of the main risks;
• the tasks of the Person Responsible for Internal Control are performed by random sample controls of the procedures subject to control;
• the Person Responsible for the Internal Control:
a) presents the proposed annual work schedule to the Internal Control and *Corporate Governance* Committee in due time in order to allow the punctual performance of its functions and to formulate any recommendations deemed appropriate;
b) assists the Executive Director in charge of supervising the Internal Control System in planning, managing and supervising the internal control system and the identification of the various risk factors;
c) plans and carries out, in line with the annual work schedule, direct and specific controls of the various departments of the Company and of the other companies of the Group, with particular regard to subsidiaries of strategic relevance, in order to reveal any inadequacies in the internal control system in respect of the various areas of risk;
d) checks that the rules and procedures of the control procedures are complied with and that all the subjects involved act accordingly to the targets. More

in particular, the same:
- monitors the reliability of the information flows, also in relation to the survey systems;
- checks, as part of that work schedule, that the procedures adopted by the Company and Group ensure that the applicable statutory and regulatory provisions are actually complied with;
e) investigates on specific irregularities, either on its own initiative or on request of the Board of Directors, the Internal Control and *Corporate Governance* Committee, the Executive Director in charge of supervising the Internal Control System or the Board of Statutory Auditors;
f) checks, in any way deemed appropriate, that any anomalies noticed during the inspections is corrected;
g) keeps records of the activities carried out and makes such records available on request to the subjects in charge of the control procedures;
h) refers on the results of the control activities in special "Audit Reports" to the Executive Director in charge of supervising the Internal Control System, to the Internal Control and *Corporate Governance* Committee and to the head of the department under inspection; in case of control of subsidiaries, the Audit Reports are copied to the relevant bodies of the Company concerned.
It is also entrusted with the task of identifying any inadequacies in the internal control system in the light of the results of the inspections and analysis of the corporate risk, and to recommend any measures to improve the same system; such inadequacies and the proposed remedies are to be included in the Control Reports;
i) drafts, at least twice a year and in due course to enable the Internal Control and *Corporate Governance* Committee and the Board of Directors to carry out their respective tasks in preparation of the meetings held to approve the draft Financial Statements or the half-year interim reports, a summary of the main data relating to the last six months or the entire financial year, as the case may be. The summary drafted for the meeting convened to approve the draft of Financial Statements shall also include an updated account on corporate risks pointed out during the year;
l) reports on its activities - providing copies of the Audit Reports referred to under paragraph (h) above - to the following bodies:
- the Executive Director in charge of supervising the Internal Control System and delegated bodies of any subsidiary which have been subject to the control activities;
- the Internal Control and *Corporate Governance* Committee, also attending its meetings when required by its members. The Internal Control and *Corporate Governance* Committee checks that reports are forwarded to all the members the Board of Directors in connection with the items on the Agenda; the Board of Statutory Auditors examines said Reports during the meetings of the Internal Control and *Corporate Governance* Committee;
m) in case of critical situations requiring a prompt action, promptly informs the Executive Director in charge of supervising the Internal Control System and the delegated bodies, as wells as the Internal Control and *Corporate Governance* Committee and the Board of Statutory Auditors on the results of their activity.

During the financial year ended on 31 March 2010, the person responsible for internal control monitored the areas under its control according to the provisions of the Internal Audit Plans of the relevant periods, drafted by the same and presented to the Internal Control and *Corporate Governance* Committee during the meetings of 26 November 2009 18 November 2009.
In particular, the main activities carried out by the Person responsible for the Internal Control during the financial year ended on 31 March 2010 concerned:
(i) within the frame of the compliance with the provisions of Law no. 262/05 and Legislative Decree no. 231/01:
- the review of the corporate procedures of the Issuer and of the companies of the Group and, when necessary, their updating;
- the start of the updating of the organization and control models following to the new crimes included in the Legislative Decree no. 231/2001;
(ii) within the frame of the "Internal Audit":
- the monitoring and analysis of transaction with related parties, with particular attention to the non-commercial transactions (rentals);
- activities of compliance audit and operation audit in the companies of the Group, pursuant to the work plan approved by the Internal Control and *Corporate Governance* Committee;
- training activities on compliance in order to assure the understanding and correct implementation of the procedures by the corporate functions.

During financial year ended on 31 March 2010, the Person responsible for the Internal Control had access to any information needed for the proper performance of its duties, and reported to the Internal Control and *Corporate Governance* Committee and to the President of the Board of Statutory Auditors on its activities, as well as to the Executive Director in charge of supervising the Internal Control System.
Pursuant to criterion 8.C.7 and 8.C.8 of the *Corporate Governance* Code, the Person responsible for the Internal Control is the head of the Internal Audit function (which is not externalized) and is not subject to the hierarchy of any heads of the operative areas.

10.3 MODEL OF ORGANISATION PURSUANT TO LEGISLATIVE DECREE NO. 231/2001

In order to ensure that the Group's internal control systems complies with the provisions of Legislative Decree no. 231/2001 and in accordance with article 2.2.3 third paragraph, letter (j) of the Stock Exchange Regulation, on 27 March 2008 the Board of Directors approved the Model of Organisation, Management and Control as provided for by Article 6 of Legislative Decree no. 231/2001 (the "Organisation Model") and the Ethical Code.
The Organisation Model adopted by the Company provides as follows:
• one General Section, which introduces the model and set forth the rules concerning the governance, with particular reference to (i) the subjects concerned; (ii) the composition, role and powers of the Monitoring Body; (iii) the role of the Board of Directors; (iv) the reporting to the Monitoring Body (hereinafter "MB"); (v) the sanctions; (vi) divulgation of the Model among the subjects concerned and training.
• six Special Sections, each one identifying and disciplining risky processes and the rules of conduct to be followed by the concerned subjects while carrying out the working activity. Pursuant to the Organisation Model, the followings are the crimes that could theoretically be relevant for the Issuer: (i) offences against Public Administration; (ii) corporate crimes; (iii) crimes and administrative offences on market abuse; (iv) transnational offences; (v) crimes on employment health and safety; (vi) money-laundering.
With regard to each area of risk the Special Section makes reference to specific Protocols governing the operational and monitoring procedure for managing the process with a view to the prevention of the "231 offences".
A specific Monitoring Body, with full financial autonomy, is entrusted with the control of the functioning of the Model. The Monitoring Body holding the office during the financial year ended on 31 March 2010 – appointed by the Board of Directors on 27 march 2008 – is composed of the person responsible for internal control, Carlotta Lanzi Puglia, and by two external advisors, Luca Pecoraro and Francesco Satta.
The Monitoring Body has been granted with all the necessary powers in order to promptly and efficiently watch over the compliance with the Organisation Model approved by the Company, as well as in order to verify the adequacy of the same in order to promptly and efficiently prevent the criminal offences listed by the Legislative Decree no. 231/2001, with the possibility to make proposals to the Board of Directors for the updating and adjustment of the Organisation Model.

10.4 EXTERNAL AUDITING COMPANY

The Auditing Company entrusted with the external auditing of the accounts of Damiani S.p.A. and its subsidiaries is Reconta Ernst & Young S.p.A., with registered office in Rome, Via G.D. Romagnoli 18A, which is a firm of auditors registered under Article 161 of the (Italian) Consolidated Law on Finance (the "External Auditor").
Pursuant to Article 159 of the (Italian) Consolidated Law on Finance, on 27 June 2007 the Shareholders' Meeting of Damiani S.p.A. appointed said auditing company as External Auditor with duration of nine financial years, i.e. until the approval of the Financial Statements of the financial year ending on 31 March 2016.

10.5. EXECUTIVE IN CHARGE OF DRAWING-UP OF THE COMPANY'S ACCOUNTING DOCUMENTS

The executive in charge of drawing-up of the Company's accounting documents is Gilberto Frola, who was appointed by the Issuer's Board of Directors during the meeting held on 12 September 2007 for an indefinite period of time, with effect from the date on which the shares of the Company were admitted to trading on the electronic market (MTA) of Borsa Italiana S.p.A..

Pursuant to Article 27 of the Company's By-laws said Manager has to be chosen by the Board of Directors with the previous opinion of the Board of Statutory Auditors, and his background must include at least a three-year experience as qualified accountant or business administrator in listed companies, or in companies whose capitalisation amounts to not less than 1 million Euro.

The Board of Directors granted the Manager, Dr Frola, all the necessary powers for the fulfilment of his duties under the law and By-laws, including the followings:
– to have direct access, without need of any further authorisation, to any information required to produce the accounts, under the duty (together with all his staff) to keep confidential all documents and details acquired in the course of his activities, in compliance with all relevant statutory and regulatory provisions in force from time to time;
– to use internal means of communication ensuring that the information transferred within the Group is accurate;
– to organize his own department in order for the latter to be adequate as to its human and technical resources (including equipment, software, etc.);
– to draft administrative and accounting procedures, with the assistance of the offices involved in the generation of the relevant information;
– to seek the advice of external consultants whenever required by particular needs;
– to establish reporting and notification procedures together with the other persons in charge of monitoring and auditing, so as to ensure a constantly updated mapping of risks and processes as well as adequate checks that the procedures themselves are working properly (External Auditor, person responsible for internal control, etc.);
– to make the expenses necessary to perform its duties and authorised by the Board of Directors, or by either the Internal Control and *Corporate Governance* Committee or the President, on Board's behalf, with a duty of yearly report to the Board.

11. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

Principle 9 of the *Corporate Governance* Code requires the Board to take all the necessary steps to ensure that transactions with related parties are carried out with transparency and in compliance with the principles of both formal and substantial correctness. A similar obligation is provided for by Article 2391-bis of the Italian Civil Code, pursuant to which the governing bodies of companies listed in stock-exchange must adopt proper rules and internal procedures in order rule transactions with related parties (including those carried out through subsidiaries) so as to ensure transparency and accuracy of the same transactions, both from a formal and substantial point of view. Recently the regulation has been amended by the Public Authority: by means of resolution of 12 March 2010, no. 17221 CONSOB approved the new Regulation relating to transactions with related parties, which is currently under examination by the Board of Directors; with this respect, please note that Damiani S.p.A. has already started the activity of approval of the internal procedures relating to transactions with related parties, in order to comply with the new regulation within the terms set forth by the provisional rules of CONSOB resolution no. 17221 of 12 March 2010.

In accordance with the Code, as well as with the relevant provisions of the Civil Code, on 27 June 2007 the Board of Directors approved the "Damiani Group's Guidelines on Particularly Important Transactions and Transactions with Related Parties" ("the Guidelines"), which reserve to the competence of the Board of Directors all the "significant transactions" with any party as well as all the transactions with "related parties", including those carried out through subsidiaries, and specifies the rules for their approval and execution (the "Guidelines" are available on the website www.damiani.com, under the "Investor Relations" section).
During the financial year the Board has always been promptly and effectively informed about plans for important transactions with related parties, and approved such transactions after assessing their procedural and substantive accuracy.

With respect to the transactions examined during financial year ended on 31 March 2010, the Board judged them bearing at least the same economic benefit to the Damiani Group than would have been achieved if the transaction had been negotiated with external counterparties; moreover, the Board has always been duly notified in advance - as required by the law - of any potential conflict of interests in any particular transaction. A summary of transactions with related parties can be found under paragraph 4.3 above.

12. APPOINTMENT OF STATUTORY AUDITORS

The appointment of Statutory Auditors and of the President of the Board of Statutory Auditors is one of the competences of the Shareholders' Meeting. The modalities of presentation of the lists with the proposals of appointment and voting are regulated by the Company's By-law.
Pursuant to Article 24 of the Company's By-Laws, the Board of Statutory Auditors includes three standing and two substitute members. Auditors hold the office for three financial years, ending on the day of the Shareholder's Meeting convened to approve the Financial Statement relating to the last of the three financial years, and can be re-elected.
The same article of the Company's By-Laws assures that the President of the Board of Statutory Auditors is appointed by the minority shareholders, from the list ranking second as to the number of votes.
Pursuant to principle 10.P.1 of the Code (which requires the Board of Statutory Auditors to be appointed according to a transparent procedure which guarantees, among other things, prompt information about the candidates' personal and professional qualifications), Article 24 of the Company's By-

Laws provides for the standing and substitute members of the Board of Statutory Auditors to be appointed as follows:
(a) Shareholders or groups of Shareholders holding at least the interest specified by CONSOB for the appointment of Directors, in accordance with the law and regulations - which, as on the date of approval of this Report is equal to 2,5% (CONSOB resolution no. 17280 of 20 April 2010) – are entitled to present a ranked and numbered list of candidates, by lodging the list at the Company's registered office no later than fifteen (15) days before the date set for the Shareholders' Meeting (first call). Each list must include the personal details required by the applicable statutory and regulatory provisions; lists not complying with the abovementioned provisions are disqualified;
(b) no shareholder is entitled to present or vote in favour of more than one list, either indirectly or through a fiduciary; members belonging to the same group or being parties to a shareholders' agreement are entitles to present and vote for no more than one list, either indirectly or through a fiduciary;
(c) no candidate can be included in more than one list, being otherwise ineligible; no person can be included in any lists of candidates in breach of the limitations on multiple-offices holding set by the applicable law and regulations;
(d) should only one list be presented within the deadline specified under (a) above, or every lists be presented by members which are to be considered as "related to each other" pursuant to the applicable laws and regulations, the deadline is postponed of five days and in such cases the holding's thresholds required under (a) above are halved.

According to the same article of Damiani's By-Laws, members of the Board of Statutory Auditors are elected as follows:
(i) two (2) standing members and one (1) substitute member of the Board of Statutory Auditors are drawn from the list with the highest number of votes, in the order in which they are ranked in that list;
(ii) the remaining standing and substitute members are drawn from the list with the second highest number of votes (provided that the same is not presented and voted by persons connected - even indirectly - with the members having presented or voted the winning list), again in the order in which they were ranked on the list.
The President of the Board of Statutory Auditors is the standing member drawn from the second list.
Should a member of the Board of Statutory Auditors need to be replaced, the replacing member shall be the substitute member taken from the same list as the member to be replaced.
If the member to be replaced is the President, the new President is the substitute member who has replaced the replaced auditor.
Any General Meeting convened to integrate the Board of Statutory Auditors pursuant to the law shall proceed in such a way as to respect the principle of representation of minorities.
The regulations set out above for the election of the Board of Statutory Auditors and appointment of its President shall not apply in case of presentation or voting of one list solely; in such cases the Shareholders' Meeting shall resolve upon majority of votes.

13. STATUTORY AUDITORS (as per article 123-bis, second paragraph, letter d), of the Consolidated Law on Finance)

The Board of Statutory Auditors currently holding the office was appointed by the Shareholders' Meeting on 15 June 2007 for the duration of three financial years, i.e. until the date of the Shareholders' Meeting called to approve the financial statement as of 31 March 2010.
All the standing and substitute members of the current Board of Statutory Auditors have been appointed unanimously by the Shareholders' Meeting upon proposal of all the Shareholders.
Its current composition is described in Schedule 3, attached hereto sub "B".
During the financial year ended on 31 March 2010, the Board of Statutory Auditors holding the office met 10 times, 4 of which in conjunction with the Internal Control and *Corporate Governance* Committee; no. 10 meetings are planned for the current financial year, 3 of which have already been held (and 2 of which in conjunction with the Internal Control and *Corporate Governance* Committee). The meetings of the Board of Statutory Auditors held during financial year ended on 31 March 2010 had an average duration of 1:45 h. and registered the regular attendance of its members (the percentage of overall attendance is 98%, whilst the percentage of attendance of each member to the meetings held in the same period is specified in Schedule 3, attached hereto sub "B").
Since the end of the financial year to the date of approval of this Report no changes have affected the composition of the Board of Statutory Auditors.
Personal and professional information on each Statutory Auditor are hereinafter specified:

GIANLUCA BOLELLI – PRESIDENT OF THE BOARD OF STATUTORY AUDITORS
Graduated in Economics at the Bocconi University in Milano. Registered with the Registries of Accountants and Auditors. He started his professional career as auditor with Deloitte and Touche and then as a consultant with KPMG. Since March 1986 he has been a self-employed accountant, being also a promoting partner of Bolelli, Sportelli, De Pietri, Tonelli Law Firm. He is a member of the Scientific Committee of AIDAF and external professor at "Scuola di Direzione Aziendale (SDA)" of Bocconi University in Milan and at "Supsi" in Lugano.

SIMONE CAVALLI – STANDING AUDITOR
Graduated in Economics and registered with the Registry of Auditors. He started his professional career in Arthur Andersen in 1992, where he held several managerial roles. In 2004 he became a partner in the "Auditing, Analysis, Control and Companies Evaluation Firm" where he currently works as an accountant on yearly and consolidated financial statements, accounting and financial due diligence in view of acquisitions, no behalf of both corporate clients and Italian and international private equity firms.

FABIO MASSIMO MICALUDI – STANDING AUDITOR
Graduated in Economics at Bocconi University in Milan, specialised in administration and control. He is registered with the Registries of Accountants and Auditors. He started his professional career with Arthur Young & Company, now Ernst & Young. From 1990 to 1993 he worked as Administrative and Financial Director of the Editing Group Sugar – Messaggerie Musicali. From 1993 to 1997 he worked as Financial and Control Director of Dia Distribuzione S.p.A. – Group Promodes, currently Carrefour. Afterwards he started to practice as self-employed professional, starting the activity of Accountant in Milan in 1997, becoming a partner at the "Studio Commercialisti Associati" and later, in 2000, a promoting partner at Galli – Madau – Micaludi – Persano – Adorno – Villa Associated Accountants, specializing in corporate, tax and accounting issues connected to extraordinary transactions. Since 2008 he is member of the Finance and Control Commission of the Role of Accountants of Milan.
Pursuant to criterion 10.C.2 of the Code, the independence of the auditors is deemed to be guaranteed by the compliance with the applicable laws and regulations and with the Company's By-laws, and therefore the Company deemed not necessary to apply to the Statutory Auditors the independence criterion set forth by article 3 of the *Corporate Governance* Code.
For this reason in order to assess the permanence of the independence requirements during the office, the Company has considered the criterion provided by the law and by the Company's By-laws only.

Pursuant to criterion 10.C.4 of the *Corporate Governance* Code, the Statutory Auditor having, also on behalf of third parties, an interest in a specific transaction of the Issuer, has to promptly and exhaustively inform the other Auditors and the President of the Board of Directors about the nature, terms, origin and extent of the interest.
Pursuant to criterion 10.C.5 of the *Corporate Governance* Code, the Board of Statutory Auditors supervised the independence of the auditing company, by monitoring both the compliance with the applicable regulations and the nature and kind of services (other than auditing) performed by the same auditing company and its network in favour of the Issuer and its subsidiaries.
Finally, please note that within the frame of its activity, the Board of Statutory Auditors also coordinated with the Person in charge of the Internal Control – also responsible for the internal audit – and with the Internal Control and *Corporate Governance* Committee.

14. RELATIONS WITH SHAREHOLDERS

The Company believes that it is in its best interest—further than its duty towards the market—to establish a continuous dialogue with its shareholders, based on a mutual understanding of the reciprocal roles. This dialogue, however, needs to comply with external communication procedures on corporate documentation and information.

Pursuant to Article 2.2.3, paragraph 3, letter i), of the Regulatory Instructions of Borsa Italiana S.p.A., the Company has included within its staff a professionally-qualified Investor Relator in charge of taking care of the Company's relations with the professional investors and other shareholders. Our Investor Relations Office is run by Dr. Paola Burzi, who may be contacted by calling 02/46716340 or by emailing her at paolaburzi@damiani.it.

15. SHAREHOLDERS' MEETINGS (as per article 123-bis, second paragraph, letter c), of the Consolidated Law on Finance)

In compliance with Article 11 of the *Corporate Governance* Code, all the Directors take part to the Shareholders' Meetings.
Pursuant to article 10 of the Company's By-laws, the Shareholders' ordinary and extraordinary Meeting is called by means of notice published – within the terms set forth by the law and regulations – on the "Gazzetta Ufficiale della Repubblica Italiana" or alternatively on one of the following newspapers "Il Sole 24Ore", "Repubblica", "Il Corriere della Sera", "Milano Finanza". It is possible to indicate in the same notice the date of the second meeting; in case of extraordinary meeting, it is possible to indicate the date of a third meeting. The Shareholders' Meeting can be called and can be held also in a place different from the registered office, in Italy, in another country of the EU or in Switzerland.
Article 11 of the Company's By-laws provides that "each shareholder – being entitled to take part to the meeting – can be represented by another person, also non-shareholder, by means of written proxy, with the modalities and within the limits set forth by the Law". As on the date of approval of this Report, the same article grant the right to take part to the meeting to all the shareholders in relation to which the communication of article 2370, second paragraph, Civil Code (certifying the number shares held) has been duly transmitted to the Company within the second working day prior to the meeting, and that holds the appropriate certification as on the date of the meeting.
The Company's By-laws do not dispose that the shares for which the abovementioned certification has been required are to be considered undisposable.

The Shareholders' Meeting is validly constituted and resolves, both in ordinary and extraordinary meeting, with the majorities set forth by the Law.

The Shareholders' Meeting resolves upon the matters falling within its authority pursuant to the applicable legislation, as the Company's By-laws do not provide for any further specific subjects. Please note that, pursuant to article 2365, second paragraph, of the Civil Code, the Company's By-laws grant the Board of Directors the authority to resolve upon mergers in the cases provided by articles 2505 and 2505bis of the Civil Code, the set up and suppression of secondary offices, the reduction of the share capital following to withdrawal by Shareholders, the modification of the Company's By-laws after legislative rules, and the transfer of the seat within the national territory.

So far, the Company has not deemed it necessary to adopt a set of regulations for the Shareholders' Meetings.

Shareholders' Meetings also give the chance to inform the Shareholders in compliance with the rules on privileged information. In this view, the Board of Directors has always endeavoured to provide shareholders with adequate information in order to allow them to take decisions on the basis of sufficient information; with this respect the Board of Directors has always informed the Shareholders' Meeting on the activity carried out and planned for the future.

As to the criterion 11.C.6 of the *Corporate Governance* Code, please note that during financial year ended on 2010 the variation of the market capitalization of the shares of the Issuer has been in line with the market trends, and no material change in the ownership structure of the Company has been registered.

During the financial year ended on 31 March 2010, the Shareholders' Meeting was held two times.

16. CHANGES OCCURRED SINCE THE CLOSING DATE OF THE FINANCIAL YEAR.

Since the end of the financial year ending on 31 March 2010 to the date of approval of this Repost, no changes affected the corporate governance structures of the Company.

Milan, 11 June 2010

The President of the Board of Directors
GUIDO GRASSI DAMIANI

ATTACHMENT “A” TO THE YEARLY REPORT ON CORPORATE GOVERNANCE

SCHEDULE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES

Board of Directors											Internal Control Committee		Remun. Committe		*Appointment Commit. (if any)*		*Executive Committ. (if any)*		*Other Committ. (if any)*	
Office	Members	Holding the office since	Holding the office until	List (M/m) *	Exec.	Non-exec.	Indip. As per Code	Indip. As per TUF	(%) **	Number of other offices***	****	**	****	**	****	**	****	**	****	**
President and Managing Director	GUIDO GRASSI DAMIANI	03.04.2009	Approval of financial statements as on 31.03.2012	M	X	-	-	-	100	14	-	-	-	-	-	-	-	-	-	-
Vice-President	GIORGIO GRASSI DAMIANI	03.04.2009	Approval of financial statements as on 31.03.2012	M	X	-	-	-	100	13	-	-	-	-	-	-	-	-	-	-
Vice-President	SILVIA GRASSI DAMIANI	03.04.2009	Approval of financial statements as on 31.03.2012	M	X	-	-	-	100	3	-	-	-	-	-	-	-	-	-	-
Director	STEFANO GRAIDI	03.04.2009	Approval of financial statements as on 31.03.2012	M	X	-	-	-	90	14	-	-	-	-	-	-	-	-	-	-
Director	GIANCARLO MALERBA	03.04.2009	Approval of financial statements as on 31.03.2012	M	-	X	-	-	100	10	X	100	X	100	-	-	-	-	-	-
Director	ROBERTA BENAGLIA	03.04.2009	Approval of financial statements as on 31.03.2012	M	-	X	X	X	100	7	X	80	X	100	-	-	-	-	-	-
LID	FABRIZIO REDAELLI	03.04.2009	Approval of financial statements as on 31.03.2012	M	-	X	X	X	100	7	X	100	X	75	-	-	-	-	-	-
------------------------------- DIRECTORS TERMINATING THE OFFICE DURING THE FINANCIAL YEAR -------------------------------																				
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quorum required for the presentation of lists during the latest election: 2,5%																				
Number of meetings during last financial year:						*BoD:9*			*ICC:5*		*RC: 4*									

NOTES

** This column indicates whether the director was taken from the majority list (M) or from the minority list (m).*

*** This column indicates the percentage of attendance of the director to the meetings of the Board and of the committees.*

**** This column specifies the number of offices held in other listed companies, as well as in financial, banking, insurance and/or other large companies.*

***** This columns specifies whether the director takes part to the relevant committee.*

ATTACHMENT "B" TO THE YEARLY REPORT ON CORPORATE GOVERNANCE

SCHEDULE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors							
Office	Member	Holding the office since	Holding the office until	List (M/m)*	Independence pursuant to the Code	** (%)	Number of other offices ***
President	BOLELLI GIANLUCA	15.06.2007	Approval of financial statements as on 31.03.2010	-	X	100	19
Standing Auditor	CAVALLI SIMONE	15.06.2007	Approval of financial statements as on 31.03.2010	-	X	100	20
Standing Auditor	FABIO MASSIMO MICALUDI	15.06.2007	Approval of financial statements as on 31.03.2010	-	X	90	15
Substitute Auditor	PIETRO SPORTELLI	15.06.2007	Approval of financial statements as on 31.03.2010	-	X	NA	
Substitute Auditor	PIETRO MICHELE VILLA	15.06.2007	Approval of financial statements as on 31.03.2010	-	X	NA	
Quorum **required for the presentation of lists during the latest election: -**							
Number of meetings during last financial year: *10*							

NOTES

** The appointment of the current Boardo of Statutory Auditors was unanimously approved by the Shareholders' Meeting of Damiani S.p.A. (at the time Damiani S.p.A. was not listed);.*

*** This column specifies the percentage of attendance of statutory auditors to the meetings of the Boardo of Statutory Auditors;*

**** This column specifies the number of offices of statutory auditor or director held pursuant to article 148 bis of the Consolidated Law on Finance. The complete list of the offices is attached pursuant to article 144-quinquiesdecies of the CONSOB Issuers Regulation, to the reporto on the auditing activity drafted by the statutory auditors pursuant to article 153, first paragraph, of the Consolidate Law on Finance.*

ATTACHMENT "C" TO THE YEARLY REPORT ON CORPORATE GOVERNANCE

List of offices held in other listed companies, as well as in financial, banking, insurance and/or other large companies, in addition to their activities within the Damiani Group, by the members of the Board of Directors of DAMIANI S.p.A holding the office as on the date of approval of this Report.

Director	Company	Title
GUIDO GRASSI DAMIANI	Alfieri & St. John S.p.A. *	President of the Board of Directors and Managing Director
	New Mood S.p.A. *	President of the Board of Directors and Managing Director
	Damiani Manufacturing S.r.l. *	Director
	Laboratorio Damiani S.r.l. *	President of the Board of Directors
	Damiani International BV *	Director
	Damiani Japan KK *	President of the Board of Directors and Managing Director
	Damiani USA Corp. *	President of the Board of Directors
	Damiani Hong Kong *	Director
	Damiani Service Unipessoal SA *	Director
	D. Holding SA *	Director
	Leading Jewels SA	Director
	Sparkling Investment SA	Director
	Rocca S.p.A. *	President of the Board
	Courmayeur Rocca S.r.l.	President of the Board
	Immobiliare Miralto S.r.l.	Director
GIORGIO GRASSI DAMIANI	Alfieri & St. John S.p.A.*	Director
	New Mood S.p.A. *	Director
	Damiani Manufacturing S.r.l. *	President of the Board of Directors
	Damiani Japan KK *	Director
	Damiani USA Corp. *	Director
	Immobiliare Miralto S.r.l.	President of the Board of Director and Managing Director
	Damiani International B.V. *	Director
	D. Holding SA	Director
	Leading Jewels SA	Director
	Sparkling Investment SA	Director
	Damiani Service Unipessoal LDA	Director
	Damiani France S.A.	President of the Board of Directors
	Rocca S.p.A.	Vice-President of the Board of Directors
SILVIA GRASSI DAMIANI	D. Holding SA	Director
	Leading Jewels SA	Director
	Sparkling Investment SA	Director

**Subsidaries of Damiani S.p.A. Group*

STEFANO GRAIDI	Aprilia World Service BV, Netherlands	Director
	Carraro SA Lux	Legal Responsible CH
	Chiorino Group SA, Luxembourg	Director
	Chiorino Participations SA, Luxembourg	Director
	D. Holding SA	Director
	Damiani Japan KK *	Director
	Gen Del SA Geneva, Switzerland	Director
	Giovanni Rana SA	Director
	Leading Jewels SA	Director
	Olivetti Engineering, Switzerland	Director
	Prada SA Lux	Legal Responsible CH
	Space SA	Director
	Sparkling Inv. SA	Director
GIANCARLO MALERBA	Atlas Copeo Finance S.r.l.	Standing Auditor
	Bolton Manitoba S.p.A.	Standing Auditor
	Collistar S.p. A.	Standing Auditor
	Cordifin S.p.A.	Standing Auditor
	De' Longhi Capital Services S.p.A.	Standing Auditor
	EEMS Italia S.p. A.	Director
	IBF S.p.A.	Standing Auditor
	Perini Navi Group S.p.A.	President of the Board of Statutory Auditors
	Rodacciai S.p.A.	President of the Board of Statutory Auditors
	Continuum S.r.l .in liquidation	Standing Auditor
FABRIZIO REDAELLI	Aedes S.p.A.	Director
	Caleffi S.p.A.	Standing Auditor
	Eagles Pictures S.p.A.	President of the Board of Statutory Auditors
	Kedrion S.p. A.	President of the Board of Statutory Auditors
	Prima TV S.p. A.	Standing Auditor
	The Walt Disney Company S.p. A.	Standing Auditor
	Tod's S.p.A.	Standing Auditor
ROBERTA BENAGLIA	DGPA SGR Spa	Managing Director
	Light Force Spa	Director
	Viterie Italia Centrale Srl	Director
	Kickoff Spa	Attorney/Director
	Naturservice Srl	Director
	Dipros Srl	Director
	Vetrerie Riunite Spa	Director

**Subsidaries of Damiani S.p.A. Group*

Damiani S.p.A.

Registered Office
Viale Santuario, 46
15048 Valenza (AL) - Italy

Headquarter
Corso Magenta, 82
20123 Milano - Italy
Tel. +39 02 467161

External Relations and Media Relations Department
Corso Magenta, 82
20123 Milano - Italy
Tel. +39 02 467161
Fax +39 02 46716287
E-mail: comunicazione@damiani.it

Investor Relations Department
Corso Magenta, 82
20123 Milano - Italy
Tel. +39 02 46716340
Fax +39 02 46716344
E-mail: paolaburzi@damiani.it

www.damiani.com

DAMIANI