DAMIANI

ANNUAL REPORT 2011/2012


DAMIANI
HANDMADE IN ITALY SINCE 1924
DAMIANI BOUTIQUE PARIS: 2, PLACE VENDÔME - PHONE 0142 969551
MILAN: VIA MONTENAPOLEONE • LONDON: OLD BOND STREET • LOS ANGELES: BEVERLY HILLS, RODEO DRIVE • TOKYO: GINZA
BOLOGNA • FLORENCE • GENOA • NAPLES • PORTO CERVO • PORTOFINO • ROME • TURIN • VENICE • VERONA
MOSCOW • KIEV • ODESSA • HONOLULU • MONTERREY • OSAKA • BUSAN • DAEGU • SEOUL • TAIPEI • CHENGDU • NINGBO
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THE D.ICON COLLECTION DAMIANI.COM

GUIDO GRASSI DAMIANI
President & CEO

Dear Shareholders,

We closed the financial year with an improvement over the previous year, both in terms of revenues and operating profits although still in an uncertain scenario which worsened, particularly nationally. Over the twelve months to 31 March 2012, we continued the strategy of expansion of the Damiani brand in new foreign markets, in particular in Asian countries with high development potential.

We concluded an important strategic agreement with Itochu, a Japanese group of international relevance, active in various sectors, with a turnover of about Euro 116 billion and more than 70,000 employees. On the basis of the agreement, Itochu has entered the capital of the Japanese subsidiary Damiani Japan K.K. with a minority holding of 14% through an increase in reserved capital. This partnership will allow our group to accelerate development in Japan, traditionally one of the most important markets for the jewellery sector. The inauguration of the new Damiani flagship store in Osaka last February moves in the same direction.

In addition, we have continued the strategy of expansion in China, where we recently announced an agreement with the Hengdeli group, leader in the distribution of top class clocks and watches and jewellery in a country where it has more than 400 shops. The contract foresees the opening of various shop in shops and Damiani corners within the network of the partner's shops. We already have 5 single-brand Damiani shops in China, and we'll double these by the end of the current financial year. Still in China, we have also opened a new Bliss sales point in Shanghai.

We've extended in Mexico, another area we believe has ample prospects for growth, with the opening of various 'shop in shops' in Palacio de Hierro department stores. Our group has thus strengthened in the main country of Central America with these new openings.

We inaugurated the new Rocca multi-brand boutique in Lugano, and this is the first step towards a more ample process of internationalisation of the chain.

We've renewed the Damiani boutique of Via Montenapoleone, Milan, where the showroom will also be located. The new flagship store has more than 500 square metres on two floors and a new, modern exhibition concept. Sharon Stone was the guest of honour at the inauguration of the boutique last February.

Last May, we inaugurated our first Damiani boutique in New Delhi, India, one of the new emerging markets where, today, there are already refined consumers looking for exclusivity. In the future, this market will be more and more important for our expansion strategy in Asian countries.

We have continued to grow with our directly managed single- and multi-brand boutiques, which have confirmed the positive trends which have been continuing for two years. The wholesale channel has also grown, although a high level of uncertainty continues in the sector, particularly in Italy.

At the same time, internally, we have implemented and continue to implement, very close control over costs to effect all possible interventions to increase the efficiency of the production and distribution processes. This, plus the constant monitoring of the operating working capital, has enabled us to reduce the leftover stock and keep group financial borrowing unchanged, confirming its solidity at capital and financial level.

In this way, I believe that we'll know how to recover an adequate level of operating profitability, maintaining the balance at capital level without changing the foreign expansion strategy which is going in the hoped-for direction. The 'luxury goods' sector has plenty of room for growth. World demand for luxury goods is rising as a consistent quota of the population is only now considering these products. The jewellery offer, with a strong brand and consolidated expertise, like Damiani, is in the hands of a limited number of companies. I'm sure that our group is able to accept this challenge to consolidate in the mature markets and, in the future, carve itself a growing role in the emerging markets.

Guido Grassi Damiani

1924 The Group is established

1976 The Group wins the first of 18 Diamond International Awards

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

1996 The third generation of the Damiani family entered the company

1997 The internationalization process starts with the construction of the foreign subsidiaries

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

2000 Creation of the Bliss brand

2001 Voluntary auditing of the 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

2011 Sales development in the Far East area and opening of new direct and franchising boutiques

2012 Commercial agreements with Itochu and Hengdeli

1924. The origins
The Damiani history started in Valenza in 1924, in the heart of the goldsmith centre considered the world excellence for the production of jewellery. Because of his ability as a master goldsmith, Enrico, the founder, soon became the jeweller that leading families of the time contacted for the production of unique pieces, true masterpieces of fine craftsmanship.
The fact that Damiani has always been a producer of jewellery, unlike competitors who started as retailers, makes the company truly unique. Being part of the Valenza area, where all the big names have gradually established their production, for generations, is an important added value for the company.
Damiani is the only Italian goldsmith company to design and produce jewellery from its foundation.

1960s.
Industrial growth and commercial expansion
In 1934, Enrico's son Damiano Grassi Damiani was born. In the 1960s, he started a process of industrial growth and commercial expansion and promoted research into design and technical innovation, which would have a profound effect on the evolution of the company. Damiani jewellery also became increasingly famous through the idea, revolutionary at the time, of guaranteeing the price to customers and creating catalogues with all the collections.

1970s.
The first Diamonds International Award
In 1976, Damiani received the first Diamonds International Award, the most important recognition in the sector, which gives a prize to the best design and best creation of jewellery with diamonds. The first time, it was awarded to Shark, a bracelet in yellow gold and platinum illuminated by more than 41 carats of white diamond pavé. Over the years, Damiani was to win the sought-after award 17 times, to which the four won by Calderoni can be added.

1980s. The first testimonials
Between the end of the 1980s and the 1990s, Damiani successfully designed and created a new style of communication that associates the image of the jewellery with very famous people. Damiani, one of the leading jewellery companies in the world, introduced the use of testimonials. Personalities from the star system, chosen by Damiani, were captured in portraits by internationally famous photographers for high impact advertising campaigns, winners of awards and recognitions for the innovative style of communication.
In 1986, the new brand Salvini was launched.

1990s. The third generation and international expansion
The third generation entered the company in the early 1990s. Silvia Grassi Damiani, born in 1966, was involved in the purchase of pearls and was also responsible for communication; her brother Giorgio, born in 1971, started working in exports and Guido, born in 1968, became Sales Director, Italy. Damiano Grassi Damiani died in an accident in 1996 and management of the company, which already employed 200 people, passed definitively into the hands of his wife and children. Gabriella, his wife, now Honorary Chairman, was President at the time. Guido Grassi Damiani was appointed Chief Executive Officer, a position he still holds as well as that of President. Silvia, currently Vice President, was responsible for purchasing and communication at the time. Giorgio, now Vice President, was responsible for creation and development of the collections and the purchase of precious stones. At the end of the 1990s, the Damiani group opened the first international branches in Switzerland, the United States and Japan with the aim of supervising distribution in the main overseas markets. In 1998, the group acquired the jewellery brand Alfieri & St. John.

2000-2009. From family company to listing on the Stock Exchange
At the end of the 1990s, Damiani changed from a family company to a managed company.
In 2000, the Bliss brand was created and launched.
In 2001, the passage to the IT system ERP/SAP was made operative with the aim of optimising processes and supporting the development of the group.
With effect from 2001, the group financial statements were subjected to voluntary certification.
During 2006, the group acquired the brand Calderoni, a historic Milanese brand of high-end jewellery.

In November 2007, the Damiani group was listed on the Milan Stock Exchange. This project was the great desire of the family and, today, Damiani is one of the very few high-end jewellery groups in the world to have achieved this objective.

In September 2008, the group acquired full control of Rocca, the high-end jewellery and watch chain, which thus became the first distribution brand of the group.

During 2009, the group signed agreements with leading brands operating in the luxury sector for the design, creation and distribution of jewellery licences.

Since 2010.
Internationalisation and the contract with Itochu

A great many shops have been opened, particularly in Asia, and there are also new commercial agreements.
In February 2012, Damiani announced a strategic agreement with Itochu, an important Japanese group with more than 70,000 employees to be found in 80 countries. The agreement sets out the entrance of Itochu to the capital of the Japanese branch Damiani Japan K.K. with a minority holding of 14% through a reserved capital increase. The aim of this partnership is to strengthen the Damiani group in Japan.
In May 2012, Damiani signed an exclusive distribution contract with the Hendgeli group, leader in the distribution of high-end watches and jewellery in China.

GUIDO GRASSI DAMIANI
President & CEO

SILVIA GRASSI DAMIANI
Vice President

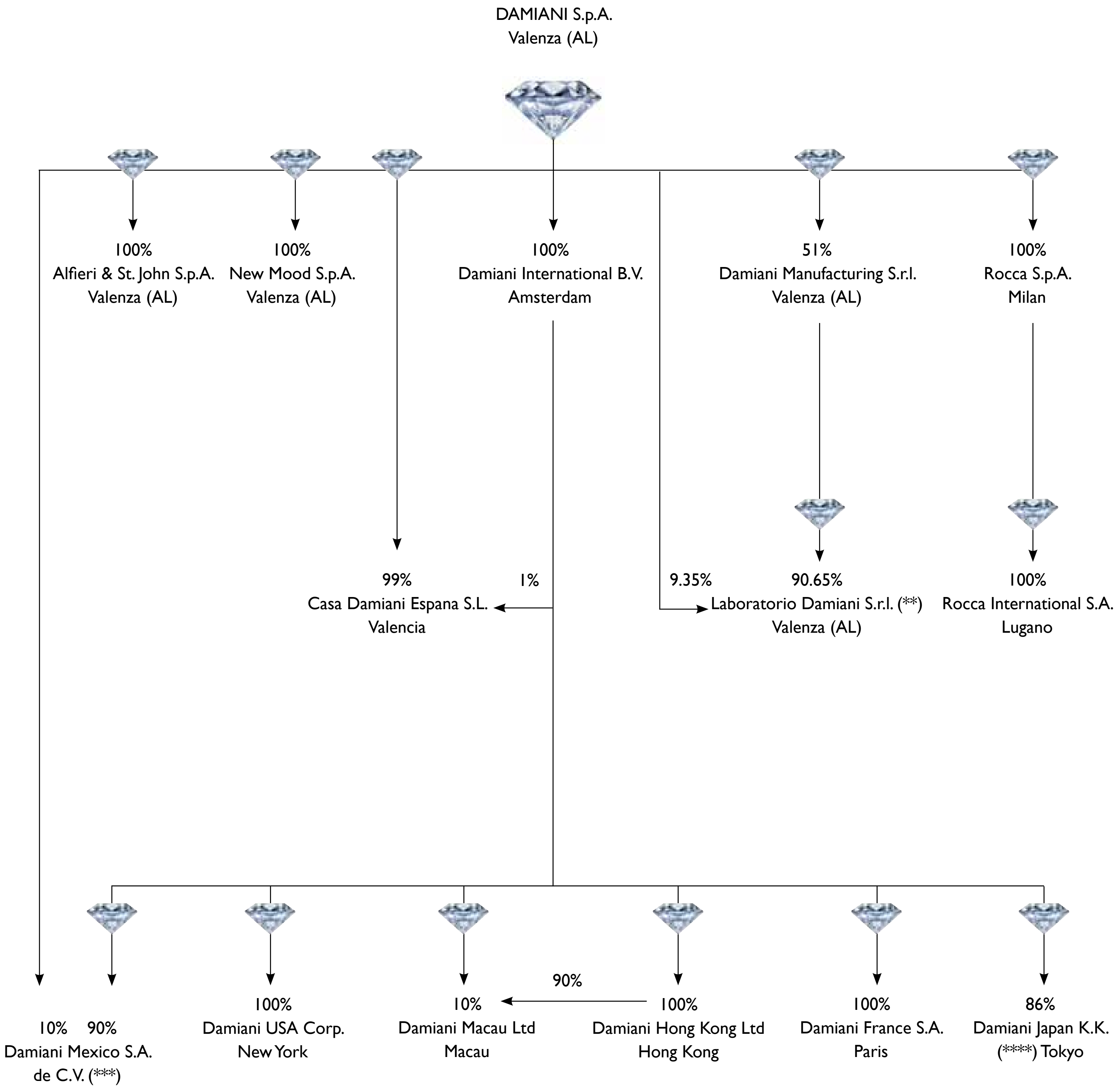
GIORGIO GRASSI DAMIANI
Vice President

GABRIELLA GRASSI DAMIANI
Honorary President

Creativity, design and entrepreneurship are the main elements which distinguish the Damiani family. The third generation of the family, currently running the group, also features the great passion for a job that has been passed on from father to son.

Guido Damiani holds the positions of President and Chief Executive Officer of the group while brother and sister Giorgio and Silvia Damiani are both Vice Presidents. Their mother, Gabriella, a solid link between the second and third generations, is Honorary Chairman. The three Damiani literally grew up amongst the jewellery and work tools that, on more than one occasion, replaced toys, living the soul of the family company from the earliest years. They have gained experience in the craftsman production of jewellery over the years in addition to purchasing gold, diamonds and pearls.

After the early death of their father in 1996, the three Damiani have continued running the company covering the different responsibilities in synergy, entrusting the leadership to the current President and CEO.



(*) 49% is held by Christian and Simone Rizzetto, both currently Damiani Manufacturing S.r.l. directors.

(**) 90.65% is held by Damiani Manufacturing S.r.l. and 9.35% is held by Damiani S.p.A.. Overall Damiani S.p.A. holds 55.58% of the share capital of Laboratorio Damiani S.r.l..

(***) Formerly Exclusividad en Joyas Italianas S.A. de C.V. On December 20, 2011 the company adopted its present name.

(****) Since January 2012 14% of Damiani Japan is held by Itochu Corporation.

Damiani S.p.A., the parent company of the Damiani group, is a historic leading company in the Italian market for the production and marketing of high-end designer jewellery with brands like Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni. In addition, there is Rocca, the prestigious jewellery and watches chain. Today, the Damiani group can be found in Italy and leading countries in the world through an extensive, organised distribution network with subsidiary companies which oversee the European, American and Asian markets - Damiani International BV, Damiani USA Corp., Damiani Japan K.K. and the recently set up Damiani Hong Kong.

The Damiani group has its own production plant and also produces in outsourcing, mainly in the Valenza area. The distinctive features of the Damiani group are:

- the almost century-old tradition in the jewellery sector developed in the goldsmiths' area of Valenza with which the group has always maintained very strong links;
- the uniqueness of starting as producers of jewellery and not retailers, unlike competitors;
- direct presence in the Valenza territory which allows the group to both make use of its own plant and external production units, and ensure the greatest production flexibility;
- the great fame of the Damiani brand, to be found in the main cities of the world through a network of mono-brand shops;
- the strong complementary nature of the five brands in the portfolio - Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni - which enables most of the market sectors to be overseen and the requests of different types of consumers to be satisfied;
- the renowned quality of the products and the raw materials used;
- the exclusive, recognisable design of the collections;
- the innovative marketing and communication strategy.

Since 2008 the group also owns Rocca, the high-end jewellery and watch chain, a unique company in Italy distributing quality and prestige watches and jewels. Rocca was founded in 1794 and was the official supplier to the Casa Savoia (Italian royal family). Currently, Rocca has shops in the most important Italian cities.

TRADITION
Each Damiani creation is the result of an almost 100-year-old history developed in the goldsmith area of Valenza. All the jewellery of the group is the expression of a tradition that remains unchanged: from design to creation, from the search of the stones to production, from quality control to distribution.

QUALITY AND SAVOIR FAIRE
The main value of a Damiani jewel in the intrinsic quality it shows - the impeccable certificated raw materials (gold, stones and pearls) and the exceptional quality of the manual processing of the high-end goldsmith's art. All the jewels, wholly made by hand with the greatest care for detail, are true masterpieces of the goldsmith's art. Damiani's craftsman savoir-faire appears in the Masterpieces, unique pieces of great value, as in each piece of jewellery. Each Damiani jewel goes through four quality control checks.

DESIGN
Very high-level design is a feature of each piece of Damiani jewellery. Aesthetic, modern and innovative taste make each creation unique and unmistakeable.

ETHICS
All Damiani group suppliers belong to a small group of highly selected companies that respect the UN resolutions on the certification of the origin of the diamonds. Adhering to the Kimberley Process to purchase diamonds as well as a strong attention to get a certified origin for each stone show how ethics are essential for Damiani. Damiani also requires ethics in the working world and respect for all the persons involved, at every stage of manufacture.

AUTONOMY
Damiani has maintained the DNA of a family company and, today, is led by the third generation - Guido, Giorgio and Silvia Grassi Damiani, the founder's grandchildren. The Damiani group is still one of the few 100% Italian companies which has kept its independence, history and philosophy intact.

INNOVATION
Damiani jewellery is classic yet contemporary. The creative team favours innovation in design, as in production, while remaining linked to a strong craftsman tradition that ensures exceptional quality.

EXCLUSIVITY
Owning a piece of Damiani jewellery doesn't just mean having something precious but, in particular, something exclusive or even unique. Alongside the collections, Damiani creates Limited Editions and unique Masterpieces which are sometimes created or personalised at the customer's request. Of these, the Damiani Masterpieces are true expressions of the goldsmith's art at an exceptional level which, over the years, have obtained prestigious awards and recognitions.

TREASURING
Each Damiani jewel is a value to hand down through the generations and which creates an indissoluble link between past and future; a heritage, also sentimental, to keep forever. Damiani offers a further guarantee of quality - diamonds of more than 0.3 carats have a minuscule laser engraving with the Damiani logo and the certification number on the stone's side.

GROUP BRANDS

Damiani

Damiani was founded in 1924 and asserted itself in Italian and international markets as an Italian brand synonymous with high-end jewellery, tradition, quality and craftsmanship. Damiani is for a refined, elegant woman who wants the best for herself.

Every piece of Damiani jewellery is the result, completely handmade, of an exclusive design, great attention to the quality of the raw materials and perfect workmanship.

Damiani produces watches since 1995. The range of Damiani watches is inspired by the jewellery collections of the brand, like the Belle Epoque range that offers jewel-watches as well as ceramics versions for everyday wear.

Salvini

Salvini started in 1986 and soon gained a strong identity both in terms of product and communication. The brand offers classic jewellery for the contemporary woman with Italian taste and great attention to quality. Salvini revisits tradition from a modern point of view.

ALFIERI & ST. JOHN

Alfieri & St. John, founded in 1977, was acquired by the Damiani group in 1998 with the aim of enlarging the brand portfolio. The brand targets young, modern, fashion-conscious women. Alfieri & St John offers a vast range of jewellery and presents itself as a young versatile brand.

bliss

Bliss, launched by the Damiani group in 2000, is for a wide, transversal target, offering modern, elegant jewellery which interprets current trends. Bliss jewellery is made from precious materials, such as gold and silver, but also steel and other innovative materials, like carbon. Bliss products aim to reach a public of young curious consumers.

CALDERONI
MILANO 1840

Calderoni was founded in 1840 under the arcades of Piazza Duomo and, for decades, was the main jeweller of Milan, becoming a supplier to the Royal Family and serving the nobility and high society of the time, and also passing by maharajahs and sultans. Calderoni high-end jewel have always featured impeccable balance between originality and tradition, classicity and modernity. Calderoni has won four International Diamond Awards.

ROCCA
1794

The Rocca family started as master watchmakers in 1794. Rocca soon became one of the Italian importers of Swiss watches and, over the years, customers have included famous personalities such as Cavour, Garibaldi, d'Annunzio, Verdi and Pirandello. Today, Rocca is a leading chain of high-end watches and jewels in Italy and one of the few in the world.

COMMERCIAL AGREEMENTS AND LICENCES

In addition to the creation, production and distribution of the owned brands, Damiani produces and distributes jewellery under licence for brands including Ferrari, Maserati, Ducati and John Galliano.

Ferrari

Licence agreement for jewellery and luxury gifts labelled Ferrari, the most famous Italian brand in the world and the ambassador of high-end quality Italian products. Damiani is Ferrari's partner in the production and marketing of an exclusive range of jewellery and precious articles sold through the Rocca chain, some selected specialist shops and the Ferrari Stores

DUCATI

Licence agreement for the jewellery line of the best-known Italian motorcycle company. Damiani has created jewellery inspired by the world and mood of Ducati. Marketing is through selected multi-brand jewellers, the Damiani group commercial network and Ducati retailers around the world.

MASERATI

Licence agreement for the jewellery line of the prestigious car manufacturer based in Modena. Damiani has created a special range of jewellery inspired by the world and elegance of Maserati. Marketing is through selected multi-brand jewellers and the Damiani group commercial network.

John Galliano

Partnership agreement between the Damiani group and the Spanish designer for the development of an exclusive jewellery with a unique, glamorous design. In the Galliano Jewellery collections, Damiani has understood how to grasp the eclectic spirit of the famous designer, combining modernity and luxury. The Damiani master goldsmiths have been able to express the Galliano style, mixing and matching elements and materials in a way that is only apparently casual. Each piece of Galliano jewellery is unique and larger than life, for lovers of original luxury.

Laboratorio Damiani in Valenza

Damiani group products are designed, created and marketed following a management model common to all group companies which features strict control of the value chain. The organisational model for each brand can be divided into the following stages:

Market analysis and product creation

Analysis of the market is the preliminary work carried out by the group to identify the market's product needs. The process of creation and development of each jewel starts on the basis of these results. This stage, carried out by the Marketing department, means the making of drawings to be transformed into prototypes. After a careful selection and review, the CEO is called to approve the prototypes that will be put into production and marketed. At this point, the Marketing division defines the selling price and the prototype is consigned to the production and logistics division. The company has a special software to support this work at all stages.

Purchase of raw materials

The Damiani group has significant experience in the selection of the raw materials which are mainly diamonds, other precious stones, pearls, gold and platinum.

Precious stones

The group only uses "conflict free" rubies, emeralds, sapphires and diamonds.

Gold

Damiani purchases gold only at banks.

Pearls

The main pearl production areas are Japan, Australia and Polynesia. In particular, the Damiani group has a long commercial relationship with farm owners Japanese suppliers.

Production

The group uses both its own workshop in Valenza and external production units. The production of Damiani, Salvini and Alfieri & St. John jewellery is in the goldsmiths' area of Valenza while for Bliss, part of the jewellery and the steel are produced in Asia.

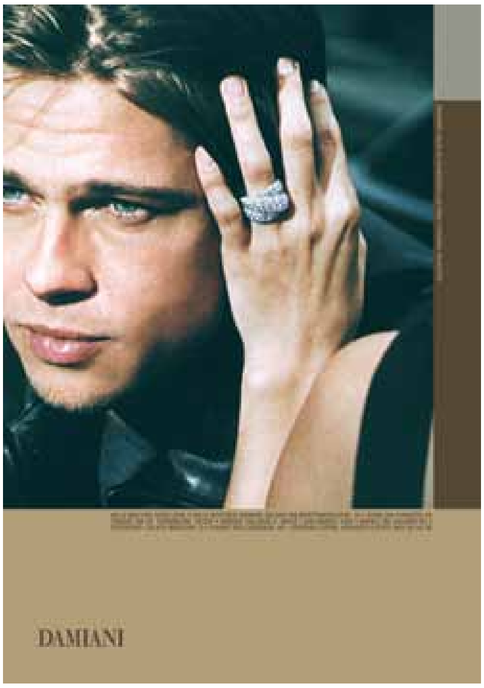
Quality control

The Damiani group pays special attention to the quality of its jewellery. A special internal team is responsible for making constant checks to guarantee the indispensable quality standard.

Distribution

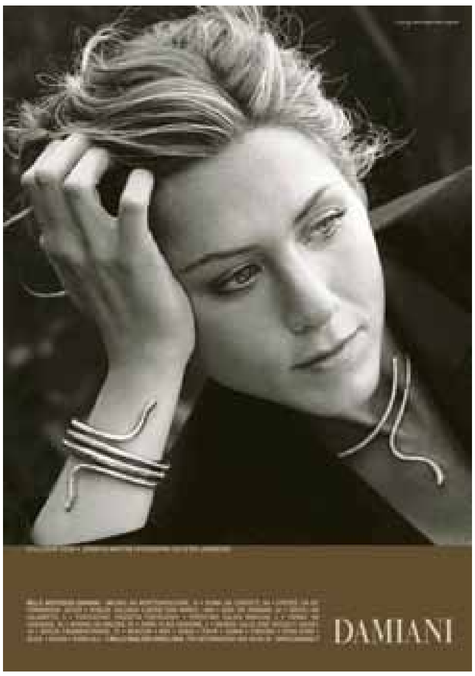
The Damiani group mainly distributes its products through two channels. Retail has 47 mono and multibrand points of sale directly managed by the group while wholesale manages 28 monobrand franchised boutiques, independent multi-brand jewellers, jewellery chains, department stores and distributors. The Damiani group sells its products through 2,500 wholesale resellers around the world.

Isabella Rossellini 1999



Brad Pitt 2000

Chiara Mastroianni 2001

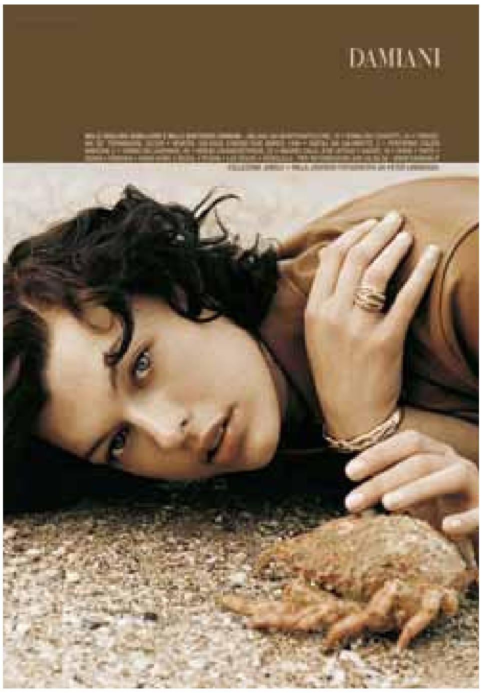


Jennifer Aniston 2002

Gwyneth Paltrow 2006

Gwyneth Paltrow 2006

Damiani historical adv campaigns



Milla Jovovich 2001

Natassia Kinski 2001

In the early Eighties, Damiani was one of the first Italian companies already understanding the importance of ambassadors for a luxury brand.
Since then, Damiani has worked with people like Mila Jovovich, Jennifer Aniston, Isabella Rossellini, Natassja Kinski, Sophia Loren, Chiara Mastroianni, Brad Pitt, Gwyneth Paltrow and Sharon Stone, to mention only a few.

Francesca Neri, Raul Bova, Luis e Helene Figo, Eva Longoria, Vasco Rossi, Alessandro Del Piero, Paris Hilton have represented other brands of the Group.

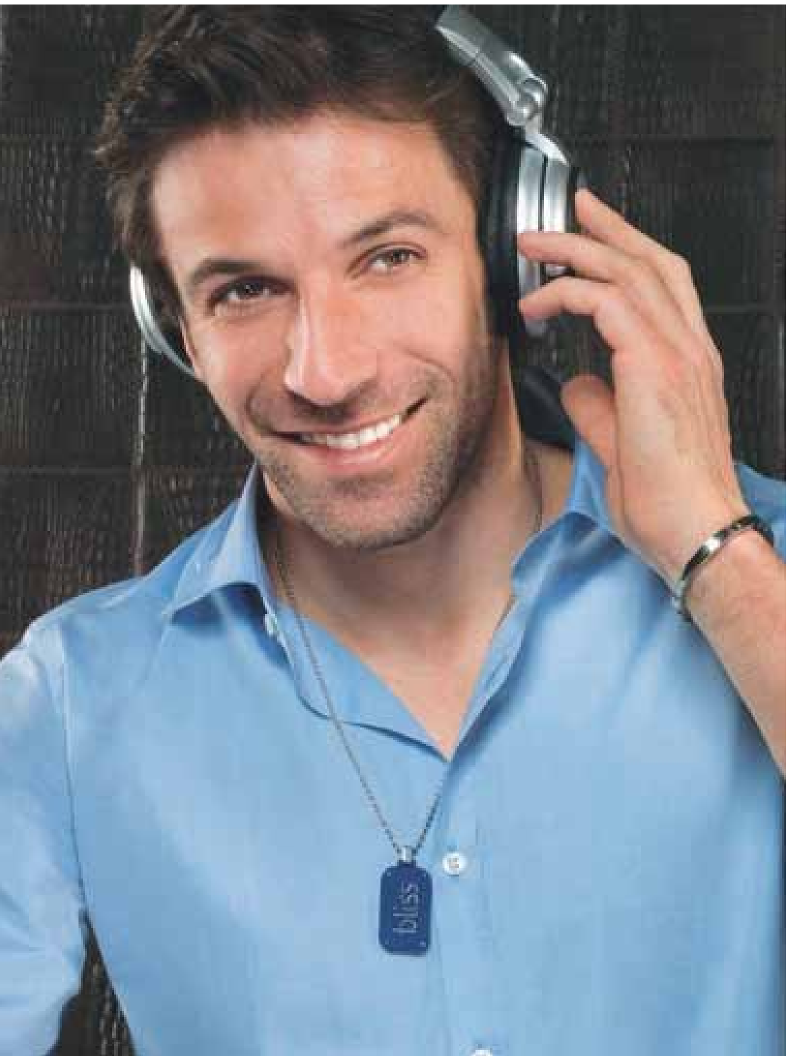
Sharon Stone 2008

Sharon Stone 2011

Francesca Neri for Salvini - 2004

Raoul Bova for Salvini - 2007

Alessandro Del Piero for Bliss - 2005



Alessandro and Sonia Del Piero for Bliss - 2006

SALVINI AND BLISS ADV CAMPAIGNS

Eva Longoria for Salvini - 2012

Paris Hilton for Bliss 2007

CELEBRITIES WHO WORE DAMIANI

In the cinema


Cannes 2011 - Li Bing Bing


Venezia 2011 - Cristiana Capotondi


Golden Globes 2012 - Livia Firth


David di Donatello 2012
Micaela Ramazzotti


Cannes 2012
Kasia Smutniak


Cannes 2012
Marta Gastini


Cannes 2012
Eva Longoria

CELEBRITIES WHO WORE DAMIANI

In television

Hong Kong Film Festival 2012 - Qin Hailu

2012 - Simona Ventura at X Factor

Cannes 2012
Andie Mac Dowell

2012
Elisabetta Canalis at San Remo Festival

DAMIANI FOR JAPAN
Damiani boutiques supporting the women hit by the earthquake and tsunami

Damiani promoted an important charity in favour of the Japanese population affected by the disaster of March 2011 with the aim of collecting funds in support of the women in the areas involved. The operation, held between 1 July - 31 August 2011, involved the main Damiani boutiques. All the profits made from the sales were donated to the Japanese association Japanese Organization for International Cooperation in Family Planning (JOICFP). The work of JOICFP, supported by the Damiani donation, includes health care, the supply of basic necessities to mothers and children, financial aid and the guarantee of post-natal support.

Damiani partner of Confindustria at the 41st conference of Young Businesspeople at Santa Margherita Ligure

Damiani took part as a partner at the 41st conference of Young Entrepreneurs of Confindustria held at Santa Margherita Ligure in June 2011. To confirm Damiani group's interest towards the entrepreneurial world and for the role young entrepreneurs can have in the economic growth of the country. Damiani also participated to the 42nd conference of June 2012.

Masterpiece couture in Shanghai

In November 2011, the Damiani Masterpiece Couture event was held in the Peninsula Hotel in Shanghai. For the first time, these exceptional Damiani unique pieces, masterpieces of the goldsmith's art, were shown in China. Leading names in the entrepreneurial, cultural and entertainment worlds took part.

Masterpiece couture in Tokyo

In March 2012, Damiani Masterpiece Couture was held at the Italian Embassy in Tokyo, where some of the most impressive Damiani jewels were presented, in the presence of many important guests.

G. Damiani with the football player Hide Nakata

Damiani at the "tradition and innovation" exhibition in shanghai

Damiani takes place at the 'Tradition and Innovation' exhibition in Shanghai, from April 2012 to January 2013, the first show co-produced by the Triennale di Milano and Shanghai Expo group. At the exhibition, Damiani presents some of its iconic collections, like Gomitolo and San Lorenzo.

Sharon Stone at the inauguration of the new damiani boutique in Milan

Sharon Stone was Guido, Silvia and Giorgio Damiani's guest of honour on 16 February 2012 for the reopening, after the restyling, of the Damiani boutique in Via Montenapoleone, Milan.

Bocca di squalo 1976

INTERNATIONAL AWARDS


Eden 2000


Spaziale 1988


Flash 1992


Hong kong Light 1994


Sahara 1996


The Well 1998

Damiani is the only goldsmith company in the world to have received 18 Diamond International Awards, the international jewellery Oscar, an unequalled record. Bocca di Squalo, a bracelet designed by Gabriella Damiani in 1976, won the first Diamond International Award. Calderoni won 4 others of these awards.

To quote only a few, Damiani also won two Tahitian Pearl Trophies, a Haute Couture Design Award, a Vogue Joyas and lots of others awards in the entrepreneurship and communication fields.

THE DAMIANI GROUP AROUND THE WORLD

The distribution network

The Damiani group mainly distributes its products through two distribution channels:
- the retail channel, consisting of 47 mono- and multi-brand points of sale run directly by the group. Damiani has created an international flagship stores, multibrand and mono-brand shops network.
- he wholesale channel includes 28 franchised mono-brand boutiques in addition to independent multi-brand jeweller's, jewellery chains, department stores, franchisees and distributors. The group distributes its products around the world through more than 2,500 retailers.

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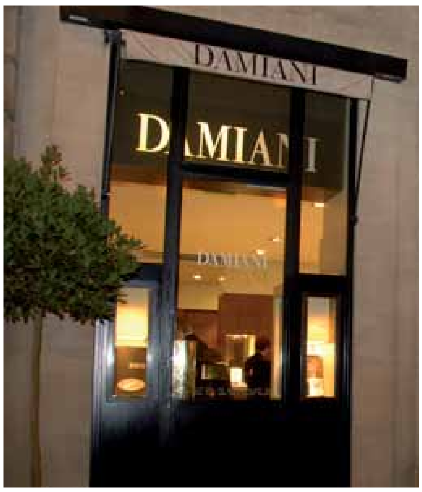


6

1. Milan
2. Tokyo
3. Hong Kong
4. Osaka
5. New Delhi
6. Paris

7

8

9

10

11

12

7. Mexico City
8. Los Angeles - Beverly Hills
9. Dubai
10. Ning Bo
11. London
12. Beirut

BOUTIQUES DAMIANI

BOLOGNA
FLORENCE
GENOA
MILAN
NAPLES
PORTOCERVO
PORTOFINO
ROME
TURIN
VENICE
VERONA
LONDON
PARIS
MOSCOW
KIEV
ODESSA
BUCHAREST
YEREVAN
LOS ANGELES
HONOLULU
CANCUN
MEXICO CITY
MONTERREY
SUFUOKA
OSAKA
SAPPORO
TOKYO
KYOTO
BUSAN
DAEGU
SEOUL
TAIPEI
HONG KONG
CHENGDU
MACAO
NINGBO
ALMATY
DUBAI
KUWAIT CITY
DOHA
BEIRUT
NEW DELHI

New Design for the damiani boutique in via Montenapoleone

The architectural inspiration comes from a Mediterranean atmosphere, the warm, intense shades of natural tones, bronze, gold and copper colouring the sea at sunset - as happens on the Italian islands. The project was developed by internal Damiani designers. All the furniture has been designed and built in Italy.

The new boutique, inaugurated on 16 February 2012, is very large, - more than 500 square metres on two levels and with a new and modern display concept, consisting entirely of showcases, both inside and out. The large door to the shop opens onto Via Montenapoleone.

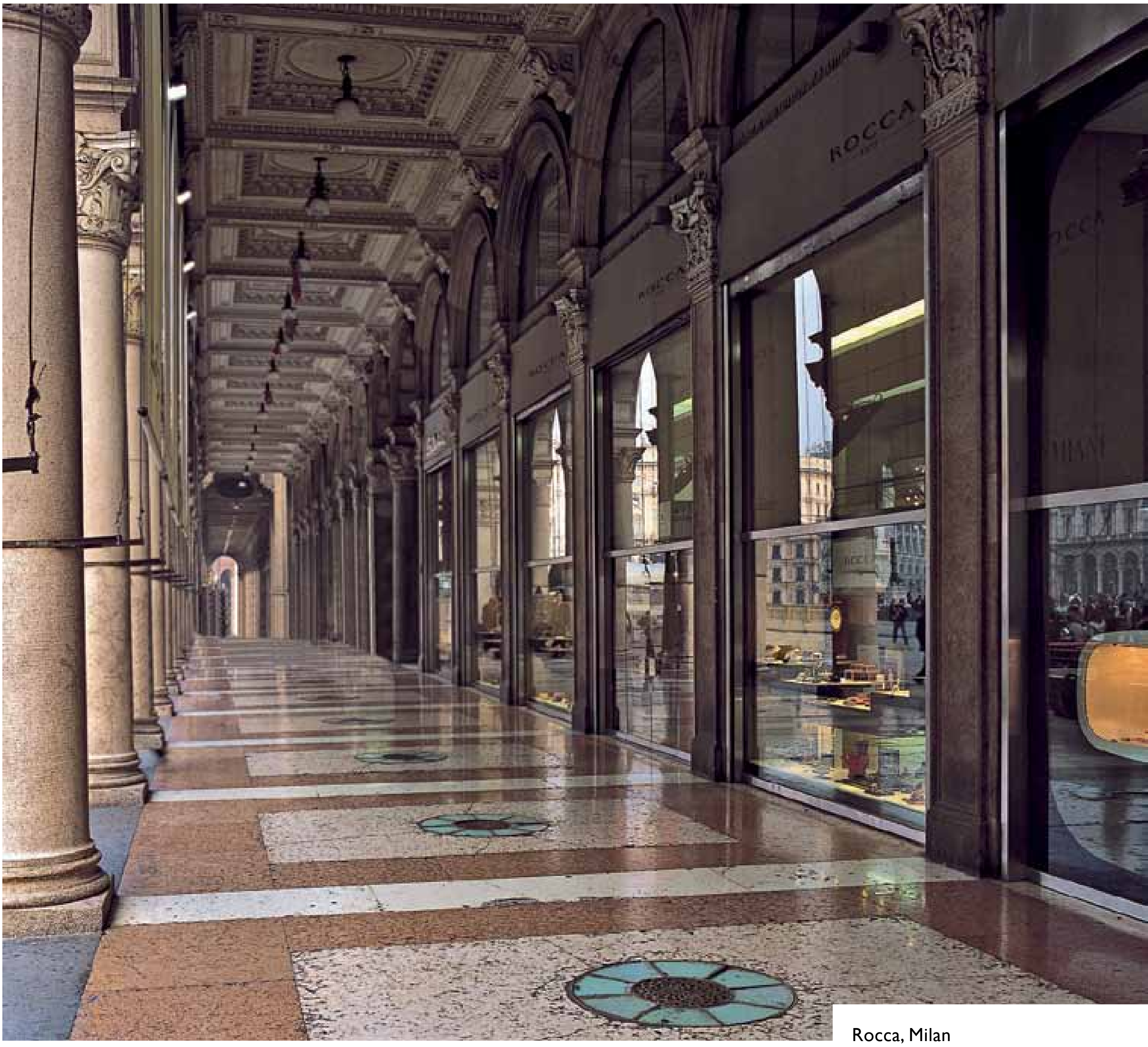
The new Damiani boutique in Montenapoleone Street

BOUTIQUES ROCCA

BARI
CATANIA
LECCE
LUGANO
MANTOVA
MILAN
PADOVA
PESCARA
ROME
TAORMINA
TURIN
VENICE

BOUTIQUES BLISS

TURIN
ALESSANDRIA
SHANGHAI



Rocca, Milan

Rocca, Lugano

Bliss, Shanghai

Board of Directors

President & 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	**Francesco Minoli**
Board Director	**Fabrizio Redaelli**

Board of Statutory Auditors

President	**Gianluca Bolelli**
Statutory Auditor	**Simone Cavalli**
Statutory Auditor	**Fabio Massimo Micaludi**
Statutory Auditor	**Pietro Sportelli**
Statutory Auditor	**Pietro Michele Villa**

External Auditors

Reconta Ernst & Young S.p.A.

Internal Control and Corporate Governance Committee

President	**Giancarlo Malerba**
	Roberta Benaglia
	Fabrizio Redaelli

Remuneration Committee

President	**Giancarlo Malerba**
	Roberta Benaglia
	Fabrizio Redaelli

FINANCIAL HIGHLIGHTS

At march 31 2012 Damiani group reached total revenues of 151.6 millions Euro, Ebitda of -4.3 millions Euro, Operating result (Ebit) of -7.4 milions Euro and Net result of -11.9 milions Euro.

Revenues breakdown by distribution channel at March 31 2012:

• wholesale: 69.4%

• retail: 30.6%

Revenues breakdown by regions at March 31 2012 :

• Italy 71.5%

• Japan 6.4%

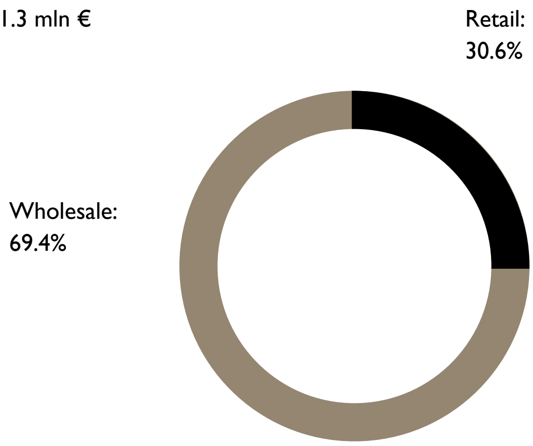
• Americas 4.6%

• Rest of the World 17.5%

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

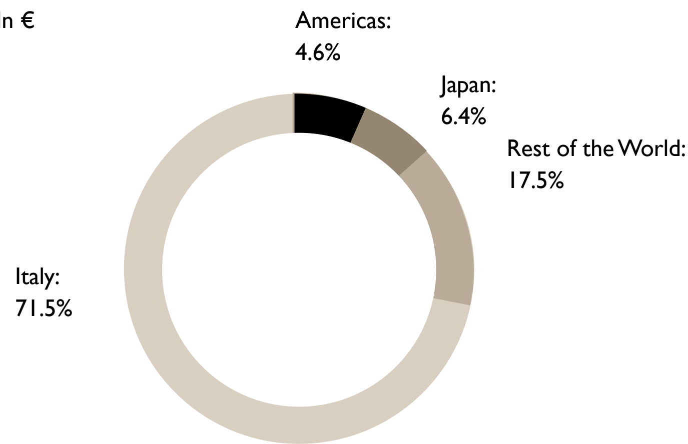
Revenues breakdown by distribution channel (FY2011/12 at March 31, 2012)

Total revenues from sales and services: 151.3 mln €
Wholesale: 105.0 mln €
Retail: 46.3 mln €



Revenues breakdown by region (FY2011/12 at March 31, 2012)

Total revenues from sales and services: 151.3 mln €
Italy: 108.2 mln €
Americas: 6.9 mln €
Japan: 9.7 mln €
Rest of the World: 26.6 mln €



PERFORMANCE ON THE STOCK EXCHANGE

During the financial year 2011/2012, Damiani recorded an increase of 3.68% from 1 April 2011 to 30 March 2012 (FTSE Italia All Share Index -25.08%, FTSE Italia Star Index -8.91%).

The factors which mainly influenced the markets in general, and the Damiani share in particular, over the financial year were as follows:

- great uncertainty in the markets correlated with the high public debt in many countries in the Euro area with resulting speculative pressure on investment in shares (public and private);
- high unemployment in Europe and the United States which has influenced consumption and the allocation of the available liquidity;
- low market capitalisation of Damiani shares which are less exposed to the volatility of the lists;
- the share belongs to the luxury goods sector which has generally followed a good trend in the period under consideration. Damiani has therefore recorded a higher performance than the Italian reference indices.

On 30 March 2012 (last day of trading in the financial year just closed), Damiani shares recorded a quotation of Euro 0.95; the relative market capitalisation was Euro 81.4 million.

The table below summarises the main Stock Market data for the year to 30 March 2012.

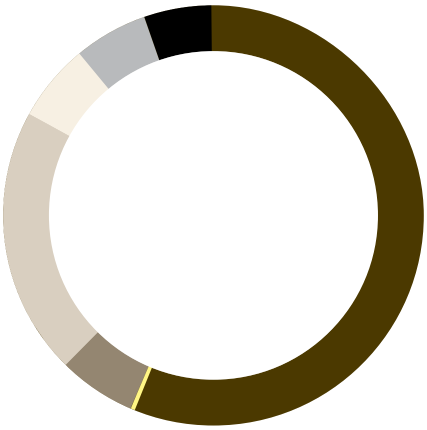
Damiani trend vs. italian index - April 1, 2011 - March 30, 2012

Source: Bloomberg

Damiani in the Stock Market*

Price on April, 1st 2011 (euro)	0.95
Price on March 30, 2012 (euro)	0.98
Maximum price (euro)	1.26 (on 1st June 2011)
Minimum price (euro)	0.77 (on 18th January 2012)
Average volumes	51,647
Maximum volumes	939,478 (on 11th May 2011)
Minimum volumes	337 (on 16th December 2011)
N° shares Company capital	82,600,000
Market capitalisation at March 30, 2012 (euro mln)	81.4

Shareholders**



Leading Jewels***	56.8%
Guido Damiani	5.9%
Giorgio Damiani	6.1%
Silvia Damiani	5.3%
Market	17.7%
Own shares****	6.7%
Sparkling Investment S.A.***	1.5%

*The table above summarizes the main share data as of March 30, 2012

* * Shareholding at March 30, 2012

* * * Controlled by Guido Damiani

* * * * Includes purchase of 5,566,559 treasury shares

Source: Bloomberg

CONSOLIDATED FINANCIAL STATEMENTS OF THE DAMIANI GROUP AS OF MARCH 31 2012

Prepared in accordance with IAS / IFRS accounting standards

Damiani S.p.A.

Report on operations
of the consolidated financial statements
as of March 31 2012

Structure of the Damiani Group

Damiani S.p.A. is an holding company that, besides carrying out productive and commercial activities directly, also acts for strategic direction and coordination of the Group and technical, financial and administrative assistance both in the production and in the commercial operations carried out by subsidiaries, directly and indirectly controlled.

The consolidated financial statements for the financial year ended March 31, 2012 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 subsidiaries included in the consolidation area at March 31, 2012, and therefore consolidated using 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	EUR	1,462,000	Damiani S.p.A.	100.00%	100.00%
New Mood S.p.A.	Valenza (AL), Italy	EUR	1,040,000	Damiani S.p.A.	100.00%	100.00%
Damiani Manufactoring S.r.l.	Valenza (AL), Italy	EUR	850,000	Damiani S.p.A.	51.00%	51.00%
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	EUR	2,140,000	Damiani Manufactoring S.r.l.	9.35%	55.58%
Damiani International B.V.	Amsterdam, Netherland	EUR	193,850	Damiani S.p.A.	100.00%	100.00%
Damiani Japan K.K.	Tokyo, Japan	JPY	495,000,000	Damiani International B.V.	0.00%	86.00%
Damiani USA, Corp.	New York, USA	USD	900,000	Damiani International B.V.	0.00%	100.00%
Casa Damiani Espana S.L.	Valencia, Spain	EUR	721,200	Damiani S.p.A.	99.00%	100.00%
Damiani Hong Kong L.t.d.	Hong Kong	HKD	2,500,000	Damiani International B.V.	0.00%	100.00%
Damiani France S.A.	Paris, France	EUR	38,500	Damiani International B.V.	0.00%	100.00%
Damiani Macau L.t.d.	Macau	MOP	2,200,000	Damiani Hong Kong L.t.d.	0.00%	100.00%
Rocca S.p.A.	Milan, Italy	EUR	4,680,000	Damiani S.p.A.	100.00%	100.00%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Rocca S.p.A.	0.00%	100.00%
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	PES	3,000,000	Damiani International B.V.	10.00%	100.00%

(*) It's the share directly held by Damiani S.p.A.

The consolidation area at March 31, 2012 changed from the closing of the annual report to March 31, 2011 as follows:

- On September 15, 2011 has been incorporated the Mexican company Esclusividad en Joyas Italianas S.A. de C.V. located in Mexico, Distrito Federal with a share capital of 50,000 Pesos, fully owned by Damiani Group (90% from Damiani International B.V.; 10% from Damiani S.p.A.). Afterwards, has been made a capital increase, keeping the shares of ownership, up to a total of 3,000,000 Pesos. The company has to manage the import and distribution in Mexico of jewels of Damiani Group brands. On December 20, 2011 the Mexican subsidiary changed its name in Damiani Mexico S.A. de C.V.
- On January 6, 2012 the Japanese Itochu Corporation acquired a 14% stake in the local subsidiary Damiani Japan KK, through a reserved capital increase. The new shareholder is active in various sectors and has already worked with leading fashion and luxury brands and building on its expertise and knowledge of the peculiarities of the local market can contribute to growth the presence of the Damiani Group in Japan.

The Damiani Group, which is concentrated on producing and distributing top quality jewelry both in Italy and abroad, offers wide coverage of the main market segments and thanks to its different brands provides customers with a large range of variously priced jewelry. The Group's portfolio is made up of five brands: Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni.

Furthermore, through the fully owned network Rocca, the Group distributes prestigious third party brands, mainly in the timepiece sectors, in directly managed multi-brands boutiques. Finally, the Group manufactures and distributes products according to license agreements and supply contracts with fashion (John Galliano) and automotive brands (Ferrari, Maserati and Ducati).

The distribution of the Group products takes place through two different channels in Italy and abroad:

- the wholesale channel, consisting of independent multi-brands jewelers, department stores, franchisees and distributors;

(1) The Damiani Group ends its financial year on March 31, therefore the consolidated financial statements at March 31, 2012 cover the period April 1, 2011 – March 31, 2012 (henceforth referred to as Financial year ended on March 31, 2012 or Financial Year 2011/2012). For comparative purposes are shown also the figures related to the previous period April 1 2010 – March 31 2011 (henceforth Financial year ended on March 31, 2011 or Financial year 2010/2011).

- the retail channel consisting of the individual store directly managed by the Group (boutiques and shop-in-shop). As of March 31, 2012 the POS in Italy and abroad were 42, of which 27 with the Damiani brand, 3 single-brand Bliss and 12 multi-brand Rocca boutiques.

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 of which 3 non-executive and 2 independent; later, the Shareholders' Meeting held on July 21, 2010 voted to bring to eight board members, that will last in charge until the approval of the current financial statements as of March 31, 2012.

The composition of the Board of Directors complies with the applicable regulations (as per articles 147-ter and 148, paragraph 3, of the Legislative Decree no. 58/1998) 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. These criteria were subjected to review on June 14, 2012.

The Board also named a Lead Independent Director, in compliance with the recommendations of the Code.

Damiani S.p.A. and the subsidiaries Alfieri & St. John S.p.A., New Mood S.p.A., Laboratorio Damiani S.r.l. and Rocca S.p.A. adopted a Code of Ethics and the organizational model prescribed by Legislative Decree no. 231/2001. The Code of Ethics of each company 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, agents and business partners and in general all individuals who operate on behalf of the company.

The Organizational Model adopted in its current version by the Board of Directors of Damiani S.p.A. on May 23, 2012 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.

To ensure the correct application of the Organizational Model supervises the Supervisory Body under Legislative Decree no. 231/2001.

On September 15, 2011 the Board of Directors of Damiani S.p.A. has reinstated the composition of the Supervisory Body of Damiani S.p.A. that will be in charge until March 31, 2014, appointing Francesco Delucchi, as Internal auditor officer, to replace the resigning member. The Supervisory Body is collegial and include the Internal auditor and two external consultants, paid for the job done.

This structure assures that the Supervisory 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 Supervisory Body has been assigned all the powers and resources (with a budget periodically revised) necessary for ensuring 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 no. 231/2001. The Supervisory Body has the possibility to make recommendations to the Board of Directors about updating or adjustments of the Organizational Model.

The Supervisory Body of Damiani S.p.A. met 7 times during the Financial year 2011/2012.

For further details about the system of Corporate governance of the parent company, together with information on the company structure per article 123–bis of Legislative Decree no. 58/1998, see the Annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relation section of the website www.damiani.com.

About the obligation under Title VI of the Regulation of Legislative Decree no. 58 of February 24, 1998 concerning market discipline (Market regulations), states that Damiani S.p.A. controls indirectly two companies which are not part of the European Union and which are relevant as per article 151 of the Market Regulations.

According to article 36 of Market Regulations, states that:

- the companies have, in the opinion of the Issuer Damiani S.p.A., an administrative and reporting system suitable for regular reporting to the Corporate of Damiani S.p.A. of economic and financial figures necessary to prepare the consolidated financial statements and to carry out the statutory audit;

- the Issuer has the Statute and knows the composition of the Corporate bodies, and their powers, of the above mentioned companies, and it is advised of any modifications in a timely fashion;
- the reporting package of the two companies, prepared for the purpose of consolidated financial statements of the Damiani Group, are provided in the manner and terms established by law.

Share buy-back program

The Shareholders' Meeting of July 27, 2011 resolved to authorize – subject to revocation, for the part not executed of the resolution adopted by the Shareholders' Meeting of July 21, 2010 – the purchase and disposal of own shares under co-joined articles 2357 and 2357 ter of the Civil Code and article 132 of Legislative Decree no. 58/1998.

The reasons for the authorization consist of the possibility of: i) using own shares in operations related to projects of interest for the Issuer Damiani S.p.A., as arises the opportunity for exchanges or transfers of shareholdings; ii) intervene in the interests of the Company and all its shareholders, in relation to contingent market situations, to perform an activity that supports the liquidity of the stock itself, by promoting the regular course of negotiations, in compliance with applicable laws and regulations and however ensuring the equal treatment of shareholders; iii) proceed with investments in shares of the Company, if trend in stock prices or the amount of cash available can make it convenient, economically, this operation; iv) assign/transfer shares to employees and to implement plans based on financial instruments pursuant to article 114-bis of Legislative Decree no. 58/1998; v) purchase in connection with commercial transactions of interest for the Company.

The authorization to purchase own shares is structured as follows:

- Damiani S.p.A. may purchase a maximum of ordinary shares whose nominal value does not exceed the limit of the law, up to a maximum of no. 16,250,000 ordinary shares, at a nominal value of 0.44 euro each, also keeping in consideration the shares held by the Company and, in case, by the subsidiaries;
- the authorization was granted for a period of 18 months starting from the Shareholders' Meeting date and lasting until the date of January 27, 2013;
- the purchase price of each share, including additional expenses of purchase, must be as a minimum not less than 20% and a maximum not more than 20% of the official price registered by the title in the trading session before each exchange transaction;
- purchase transactions will be conducted on regulated markets in accordance with local regulations (article 132 of Legislative Decree no. 58/1998; article 144-bis of Consob Regulation no. 11971/1999) and respecting the principle of equality treatment of Shareholders.

As of March 31, 2012 the own shares in portfolio were no. 5,566,559 (equal to 6.74% of the share capital) and the total expense for the buy-back plan, started with the resolution of the Shareholders' Meeting of Damiani S.p.A. on February 22, 2008 was Euro 8,149 thousands at an average price for the purchase of Euro 1.464 per share. It shows that between April 2011 and March 2012 did not purchase its own shares.

Administrative Bodies' fees

The fees for the financial year 2011/2012 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A. also with reference to what is perceived to similar functions performed within other Group companies are reported in the Annual report on remuneration, prepared pursuant to article 123-ter of Legislative Decree no. 58/1998 and article 84-quater of Consob Regulation no. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2012/2013 and the procedures used for the adoption and implementation of this policy, and contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of Legislative Decree no. 58/1999.

The Remuneration report is made available to the public, together with the annual financial statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website www.damiani.com

Research and development

The product offered, together with the reputation and image of the brands distributed, 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, Group operates with a team dedicated to product development. In the financial year 2011/2012 the total cost incurred for product development amounted to Euro 1,015 thousands.

Main risks and uncertainties for the Damiani Group

Macroeconomic risks

The economic and financial performance of the Group is affected by the macroeconomic scenario of Countries where it operates.

In 2011 there was a general economic slowdown compared to previous year's trend, not only in the Eurozone, the United States and Japan, which are the main markets for luxury goods, but even in the Emerging countries, which are continuing to achieve growth rates significantly higher than those found in most advanced economies. The policies pursued by western governments, including sovereign debts that remain dangerously high and costly, increasing rates of unemployment and poor inflow of financial resources to the production system does not currently seem to be able to initiate a virtuous cycle of sustained economic growth.

At the same time the slowing growth of same Emerging countries seems to start with protectionist policies with state intervention aimed at raising barriers to entry of imported goods, in contrast with the trend in recent years, with further negative impacts on the amount of goods exchanged and consequent slump effects induced. In this scenario of uncertainty in macroeconomic terms, negative psychological factors add that affect consumption levels, which remain low in broad sections of society, not only in Italy.

Macroeconomic data to areas where the Damiani Group mainly operates provide the overall framework of this scenario not positive and uncertain that characterized 2011([2]):

- Eurozone: in 2011 showed a weak trend growth of GDP to +1.4%, against a trend that had been higher in 2010 (+1.9%) and with the prospect of a decline for 2012 to -0.3%, average between +0.6% in Germany (+0.5% in France) and -1.9% in Italy (-1.8% in Spain). In 2011 Italy has already registered the lowest GDP growth among the major countries of the Euro (+0.4%) and has an unemployment rate stable at around 8.5% but expected to grow by about a percentage point in 2012.
- United States of America: in 2011 GDP growth was +1.7%, slowing down after the increase recorded in 2010 (+3.0%) and with a projected trend of mild recovery in 2012 (+2.1%). In 2011 the unenployment rate remained high, around 9%, while in 2012 it is expected a slight contraction.
- Japan: the Asian country, hardest hit by natural disasters in the first half of 2011, has been able to recover quickly but nonetheless had a negative GDP in the year (-0.7%), after high growth in 2010 (+4.4%). In 2012 the projections are positive with an expected increase of +2% and with an unemployment rate stable at 4.5%, the lowest among the advanced economies.
- Russia: in 2011 the country, whose economy is heavily dependent on commodity exports, grew by +4.3%, in line with the trend recorded in 2010, and also for 2012 expectations are for a GDP in a further growth of +4%. Even most of the countries of the former Soviet Union marked a decided increase in their GDP in 2011: Ukraine +5,2%; Kazakhstan +7,5%; Uzbekistan +8,3%, with positive expectations also for 2012 (overall +4.6%), with consumer prices slowing and the unemployment rate stable.
- Emerging economies: total in 2011 showed a very positive GDP growth but slowed compared to 2010 (+6.2% and +7.5% respectively), with highest rates both in China (+9.2%) and India (+7.2%), where the slowdown was not irrelevant. Forecasts for 2012 remain positive but with GDP growth still slowing in total (+5.7%), driven downward by a further contraction in the two major Asian countries: China +8.2% and India +6.9%. Even the growth of consumer prices should slow down while the unemployment rate should remain stable. In Mexico the growth in 2011 was lower than 2010 (+4% and +5.5% respectively) and is expected to decline further in 2012 (+3.6%).

The Damiani Group operates in countries and areas highlighted above with a weight still strongly inhomogeneous: while its presence is more established in countries with advanced economies (Italy, USA and Japan), with an image that even if a bit blurred in recent years are still traditionally recognized as target markets for the luxury sector (traditional markets established by USA, Japan and Italy still weigh nearly 50% of total worldwide turnover 2011), in emerging countries, in which China reached a market share of 7% of the global luxury market (over 12% as Greater China, also including Hong Kong, Macau and Taiwan), the Group's presence is still limited.

Over the next few years the Asian countries, along with Russia and former Soviet Republics and the whole Middle East, represent the biggest growth opportunity for the Damiani Group, for their high potential as a market for luxury goods.

Therefore, if the macroeconomic environment may affect the Group's business growth in the negative if there is a contraction in the consumption of luxury goods in areas in which our presence requested direct investments, on the other hand it is an opportunity for development on wholesale and retail channels (and the use of qualified human resources) in those countries where time of return of the investments are accelerated.

Risks linked to the price fluctuations and availability of raw materials

Among its raw materials the Damiani Group mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors such as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2011/2012 the average price of gold, which is normally considered as being a shelter-good in times of economic/financial crisis and subject to much speculation, continued to rise highly in price. In the month of April 2011 the average monthly value was 32.86 Euros per gram (compared with an annual average of the previous financial year 2010/2011 which was equal to 31.44 Euros per gram), and has continued to grow in the following months, reaching the average price of 40.76 Euros per gram of March 2012 (with an average value for the financial year 2011/2012 of 38.59 Euros per gram, +23% over the previous twelve months). Over the next months (April-May 2012) the rising race seems to have stopped and the price remained stable around 40 Euros per gram.

This upward trend has also hit other raw materials used in jewelry production (for example: diamonds and silver), in some cases accompanied by severe and sudden swings that make it extremely difficult to program purchases and, where appropriate, also the construction of a hedging strategy. For 2012, analysts said it should assist in a decline in prices of precious raw materials from the peak reached in 2011, without excluding the possibility of strong and rapid oscillations.

The risks can increase in relation to the trend of exchange rates, because some raw materials have official prices in different currencies from the Euro and their purchases are settled in currencies such as US Dollars for diamonds and Japanese Yen for pearls, while the

[2] Source: World Economic Outlook – April 2012 of the International Monetary Fund.

functional currency in the Group is Euro.
The Damiani Group mitigates this risk as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2012 active contracts relating to purchases of gold were 6 for a total quantity of 100 kilograms and an agreed equivalent of Euro 3,926 thousands); b) the purchases often consist of finished products from suppliers with who there exist well established relationships and defined agreements for a medium-term time that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the incidence of gold is not majority compared to the overall cost of production; d) the retail price is increased (usually annually) in relation to the increase in the production costs. However, it has to be underlined that in the medium-long term the uptrend in the price of raw materials used in the production process inevitably leads to a reduction of margins for the Group, because is not possible to pass totally the increase of production costs to the retail price, especially in stable markets.

Exchange rate risk
The Damiani Group's functional currency is the Euro and, therefore, the transactions that originate in other currencies are subject to exchange rate fluctuations, mainly of the US Dollar and Japanese Yen, which are the currencies in which are prepared the financial statements of the foreign subsidiaries located outside the Eurozone. When converting the fluctuations in exchange rates affect the financial result and financial position of the Group.
Furthermore, some purchases of raw materials and finished products, as described above, are made in US Dollars and Japanese Yen, which exposes them to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk. The notional amount of the currency forward purchases made by the Group during the financial year amounted to a total of Euro 9,377 thousands.
At March 31, 2012 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 1,603 thousands and by the subsidiary New Mood S.p.A. for a total of Euro 132 thousands. At March 31, 2011 contracts within the Group were instead equal to a total of Euro 2,997 thousands.

Interest rate risk
Interest rate changes may affect the Group's profitability, implying higher costs for interest on debt.
In order to limit the risk of exposure to fluctuations in interest rates, in June 2009 the Group signed medium-long term loans, for a maximum period of 6 years and for a total amount of Euro 25,000 thousands at a fixed rate between 4% and 4.5%, without any additional guarantees and covenants. The residual value at March 31, 2012 of such funding signed by Damiani S.p.A. was Euro 15,500 thousands.
The subsidiary Rocca S.p.A. has three outstanding loans, the residual value at March 31, 2012 amounted to Euro 575 thousands and that will be fully extinguished by March 31, 2013.
The Group is therefore facing a deep and prolonged global financial crisis with a proper balance of its debt structure and the cost control of the same, using a lesser extent the short-term financing (credit lines and factor), more exposed to fluctuations in interest rates and credit crunches that may occur in times of crisis like the present.
At March 31, 2012 the Group's debt structure is still well balanced with a weight greater than 40% of the sources of external financing in the medium-long term (net of the amount payable to related parties consists of the operations connected with the sale and lease back) in the total gross debt to the banking system.
The use of short-term borrowings during the financial year 2011/2012, to cover the needs of working capital (at March 31, 2012 short-exposure amounted to Euro 14,692 thousands, of which Euro 6,075 thousands relating to installments due within 12 months of medium-long term financing) is, however, occurred at average rates less than 3% per year, lower than those paid on outstanding medium-long term financing (around 4.2%).
In relation to the gradual repayment of medium-long term financing and to the expected cash needs during the financial year 2012/2013 the Group will also assess the ability to turn new medium-long term financing, considering market conditions proposed by the banking system.

Liquidity risk
The financial equilibrium of the Group is mainly linked, on one hand, to the strict control of the financial resources that are generated and the resources that are absorbed by the working capital linked to operational activities in turn strongly influenced by widespread seasonal with over 40% of the annual revenues concentrated within the third quarter of the financial year, i.e. from October to December, and to a lesser extent, investments made and on the other hand the renewal of debt maturities and the related conditions in the credit market.
The Group manages the liquidity risk through the strict control of the operating working capital, consisting of stock and trade receivables and payables. During the financial year Damiani S.p.A. has mainly transferred receivables "pro-solvendo", for the purpose of optimizing the costs related to the different forms of possible financing. Compared to the current use, the Damiani Group has bank credit lines much broader and equal to Euro 109 million.
As part of the proper balance between resources generated or used by operating activities also includes assessment made by management to bring the inventories to a size better related to the current volume of activity. These evaluations have led the Group to make

during the year certain destructions with recovery of valuable raw materials. These actions, under current market circumstances, can be beneficial both in terms of brand equity and control of liquidity risk and optimization in the management of working capital.

<u>Credit risk</u>

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by th non-fulfillment of a contractual obligation by a counterpart.

With reference to the dealership, the Group deals with a customer base consisting mainly of jewelry shops and distributors and therefore are not generally required collateral. The Group carries out a preliminary information surveys to customers through a specific information company and monitors all customers with the attribution of a specific trust; for all is also operating an automatic control with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection.

Where there are critical situations with the customers, the credit management department formalizes plans to return while generating a lengthening of the average collection times, minimizes the risk of loss.

This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged (mostly domestically), and the difficult to access to credit can impact the solvency of some clients. The Group shall conduct timely assessments of risks both in the closing of the financial year that in course of the same, in correspondence with the preparation of the interim reports.

For more details see note 40. Management of the financial risks in the Consolidated financial statements.

<u>Uncertainties</u>

On December 29, 2009 the Tax Agency in Milan – Office 6 notified the subsidiary New Mood S.p.A., together with the parent company Damiani S.p.A. which took part in the fiscal consolidation system, an assessment notice for the tax year 2004, based on which there was contested the fiscal deductibility of costs for about Euro 8,000 thousands relating the purchases of goods from supplier companies resident in Hong Kong, maintaining that for these companies did not exist the tax exemption conditions laid down by article no.110, paragraph 11 of the TUIR (Consolidated Income Tax Act). The amount demanded by the Office, in terms of taxes and fines net of interests, was Euro 6,226 thousands. The company presented a plea against this assessment notice on May 28, 2010, because it believes it has acted according to the principles of procedural and substantive fairness and it can demonstrate the illegality of the tax claim. On November 5, 2010 the Provincial Tax Commission of Milan issued the decision at first instance which accepting the reasons of the plaintiff New Mood S.p.A., recognized the deductibility of the costs incurred in 2004 to operations with foreign suppliers. On May 5, 2011 the Regional Tax Commission of Milan of the Tax Agency presented an appeal with a request for public hearing at first instance sentence of November 2010, maintaining that the reasons were insufficient and that the evaluation of the facts and proofs supplied by Ne Mood S.p.A. were erroneous and reiterating that there did not exist the exemption conditions laid down by article no. 110, paragraph 11, of the TUIR. In terms of the judicial process that regulates the litigation, New Mood S.p.A. has produced its counterclaims and on May 10, 2012 a hearing was held on the second level of judgment.

Therefore, it is now pending appellate decision that should be issued shortly. In the light of what is described above and the fact that in the first instance the position of New Mood S.p.A. has been well received, the liabilities continue to be classified as "possible", in line with what already happened in the financial statements at March 31, 2010 and at March 31, 2011.

It's going from the Italian Tax Representative of the subsidiary Damiani International B.V. a check on the correct application of the value added tax by the Provincial Tax Agency of Como. This inspection was initiated on March 14, 2012 and at present, on the basis of information provided by the external tax advisor that assists the Company during the checks, there are no grounds to assume probable obligations on the company.

Human resources and environment

During the twelve months period closed at March 31, 2012 the average number of employees of the Damiani Group was 573 people, essentially unchanged from the previous year in which they were equal to 574 units, as subdivided by category and by geographic area:

LABOUR CATEGORY	FINANCIAL YEAR 2011/2012	% ON TOTAL	FINANCIAL YEAR 2010/2011	% ON TOTAL	Δ
Managers	57	9.9%	55	9.6%	2
Clerks	407	71.0%	407	70.9%	0
Workers	109	19.0%	112	19.5%	-3
Total	**573**		**574**		**-1**

EMPLOYEES BY GEOGRAPHICAL AREA	FINANCIAL YEAR 2011/2012	% ON TOTAL	FINANCIAL YEAR 2010/2011	% ON TOTAL	Δ
Italy	453	79.0%	466	81.2%	-13
Americas	23	4.0%	26	4.5%	-3
Japan	53	9.2%	45	7.8%	8
Rest of the World	45	7.8%	37	6.4%	8
Total	**573**		**574**		**-1**

We also report that the workforce at March 31, 2012 was the 67.5% of women (of which no. 21 executives and managers, equal to 35.6% of total) and the average age of the human resources employed in the Group was 40.7 years.
During the financial year there were not recorded any cases of workplace accidents that involved serious or extremely serious injuries to personnel nor have there been any complaints or claims made regarding work-related illnesses involving employees or former employees, or any legal proceedings for mobbing for which the Group has been declared responsible.
The actions taken during the financial year 2011/2012 that affected the staff were previously shared, where necessary, with the Unions.

Regarding the environment, the activities of the Damiani Group don't involve significant consequences on the habitat. It therefore suggests that, during the year, the Group has not caused any damage to the environment, for which it has been convicted or has been subject to sanctions or punishment for crime or environmental damage.

Key data

SHARE CAPITAL	March 31 2012	March 31 2011
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. (1)	56.76%	56.76%
Sparkling Investment S.A. (1)	1.45%	0.57%
Guido Grassi Damiani	5.89%	5.02%
Giorgio Grassi Damiani	6.11%	6.11%
Silvia Grassi Damiani	5.31%	5.68%
Damiani S.p.A. (buy back) (2)	6.74%	6.80%
Market	17.74%	19.06%

Shares held by the subject indicated by Article 79 Legislative Decree no, 58/1998		
INDIVIDUAL	Office held	Number of shares
Guido Grassi Damiani (total no. 58,513,396) (3)	Director	4,865,687
Giorgio Grassi Damiani	Director	5,047,371
Silvia Grassi Damiani	Director	4,387,371
Strategic executives		58,100

(1) Companies attributable to Damiani family.

(2) The Shareholders' Meeting of July 27, 2011 has approved the authorization, for the part not executed of the resolution of the Shareholders' Meeting of July 21, 2010, for the purchase of own shares up to a maximum of no. 16,250,000 ordinary shares of Damiani S.p.A. within a period of 18 months from the date of the resolution. As of March 31, 2012 own shares in portfolio were no. 5,566,559, equal to 6.74% of the share capital.

(3) As controlling shareholder are traceable to Guido Grassi Damiani the shares owned by Leading Jewels S.A., Sparkling Investment S.A. and the own shares held by Damiani S.p.A.

Consolidated economic/financial data

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011	CHANGE	CHANGE %
Revenues from sales and services	**151,308**	**143,323**	**7,985**	**5,6%**
Total revenues	151,599	143,549	8,050	5,6%
Cost of production	**(155,908)**	**(149,623)**	**(6,285)**	**4,2%**
EBITDA*	**(4,309)**	**(6,074)**	**1,765**	**29,1%**
EBITDA %	**-2,8%**	**-4,2%**		
Depreciation and amortization	**(3,047)**	**(4,844)**	**1,797**	**-37,1%**
Operating income	**(7,356)**	**(10,918)**	**3,562**	**32,6%**
Operating income %	**-4,9%**	**-7,6%**		
Net financial incomes (expenses)	(2,112)	(2,549)	437	-17,1%
Result before taxes	(9,468)	(13,467)	3,999	29,7%
Net result of the Group	(11,939)	(14,525)	2,586	17,8%
Basic Earnings (Losses) per Share	**(0,15)**	**(0,19)**		
Personnel cost	(26,054)	(24,821)	(1,233)	5,0%
Average number of employees (**)	**573**	**574**	**(1)**	**-0,2%**

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes

(**) Average number of employees for the financial year 2011/2012 and 2010/2011.

BALANCE SHEET DATA (in thousands of Euro)	Situation at March 31 2012	Situation at March 31 2011	CHANGE
Fixed Assets	50,015	51,684	(1,669)
Net working capital	71,956	79,653	(7,697)
Non current Liabilities	(7,205)	(7,380)	175
Net Capital Invested	**114,766**	**123,957**	**(9,191)**
Net Equity	86,178	95,106	(8,928)
Net Financial position (*)	28,588	28,851	(263)
Sources of Financing	**114,766**	**123,957**	**(9,191)**

(*) The net financial position is determined according to the indication of Consob communication no. DEM/6064293 of July 28, 2006.

In the following table there is given the reconciliation between the result for the financial year closed at March 31, 2012 and the net equity at March 31, 2012 of the Group Parent company with the same figures in the consolidated accounts:

(in thousands of Euro)	Situation at March 31 2012	
DESCRIPTION	NET EQUITY	NET RESULT
Net Equity of Damiani S.p.A.	108,600	(5,959)
1. Elimination of the book value of consolidated investments: - Difference between book value and shareholders' equity	(8,513)	(8,438)
TOTAL	**(8,513)**	(8,438)
2. Elimination of the transaction between consolidated companies: Infra-group profits included in the value of inventories		
- Gross value	(21,971)	3,296
+ Deferred taxes	5,195	(838)
TOTAL	**(16,776)**	**2,458**
Net equity and net profit belonging to the Group	**83,311**	**(11,939)**
Net equity and net profit belonging to the Minorities	**2,867**	**(137)**
Net equity and net profit belonging to the Shareholders	**86,178**	**(12,076)**

Comments on the main economic and financial data of the Group

The Consolidated Financial Statements at March 31, 2012 were drawn up based on the going concern assumption because, in spite of the difficulties encountered that are reflected in the current negative trend, the Group firmly believes that there do not exist any uncertainties regarding its ability to continue to carry out its operations for the foreseeable future, also because of the actions taken, whose full implementation is under way to adapt to the changing trend of the market.

In particular, the Group has increased its presence in emerging markets, both in the wholesale and in the retail channels, to benefit from high growth rates in the luxury market that these countries are experiencing while on the contrary, the more mature markets including Italy, are in a stagnant phase.

Simultaneously, the internal audit of all processes, production and distribution, has identified a series of projects, currently under implementation, which can generate structural efficiencies on operating costs (already during the financial year 2011/2012 they recorded a growth of 4.2%, lower than the increase in revenues that was equal to 5.6%), with benefits fully visible starting from the financial year 2012/2013.

In the following table is shown the consolidated income statement for the financial year 2011/2012 and for comparison to the financial year 2010/2011:

PROFIT & LOSS (in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011	CHANGE	CHANGE %
Revenues from sales and services	151,308	143,323	7,985	5.6%
Other recurring revenues	291	226	65	28.8%
Total revenues	**155,599**	**143,549**	**8,050**	**5.6%**
Cost of production	(155,908)	(149,623)	(6,285)	4.2%
EBITDA *	**(4,309)**	**(6,074)**	**1,765**	**29.1%**
EBITDA %	**-2.8%**	**-4.2%**		
Depreciation and amortization	(3,047)	(4,844)	1,797	-37.1%
Operating income	**(7,356)**	**(10,918)**	**3,562**	**32.6%**
Operating income %	**-4.9%**	**-7.6%**		
Net financial incomes (losses)	(2,112)	(2,549)	437	-17.1%
Result before taxes	**(9,468)**	**(13,467)**	**3,999**	**29.7%**
Result before taxes %	**-6.2%**	**-9.4%**		
Taxes	(2,608)	(1,083)	(1,525)	140.8%
Net result	**(12,076)**	**(14,550)**	**2,474**	**17.0%**
Net result %	**-8.0%**	**-10.1%**		
Minorities Interests	(137)	(25)	(112)	n.s.
Net result of the Group	(11,939)	(14,525)	2,586	17.8%
Net result of the Group %	-7.9%	-10.1%		

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

REVENUES

In the financial year 2011/2012 the consolidated revenues from sales and services were in increase of Euro 7,985 thousands (+5.6%) compared to the previous financial year, from Euro 143,323 thousands to Euro 151,308 thousands.

The increase in consolidated revenues is attributable both to the retail channel (+12.0%), and in particular the very positive performance recorded by the Damiani brand boutiques abroad (+64%), that the good performance in the wholesale channel (+3.0%), despite the uncertainty present in many mature markets resulting in a conservative approach in purchases from customers.

The following table shows the revenues breakdown by channels.

REVENUES BY SALES CHANNEL (in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011	CHANGE	CHANGE %
Retail	**46,330**	**41,377**	**4,953**	**12.0%**
Percentage on total revenues	30,6%	28,8%		
Wholesale	**104,978**	**101,946**	**3,032**	**3.0%**
Percentage on total revenues	69,2%	71,0%		
Total revenues from sales and services	**151,308**	**143,323**	**7,985**	**5.6%**
Percentage on total revenues	99,8%	99,8%		
Other revenues	**291**	**226**	**65**	**28.8%**
Percentage on total revenues	0,2%	0,2%		
Total Revenues	**151,599**	**143,549**	**8,050**	**5.6%**

The share of retail revenues is therefore in an increase in the total incidence of 30.6%, almost two percentage points higher than the previous year.
Even at constant exchange rates, revenues from sales are increasing by 5.5%, respectively: retail +11.6% and wholesale +3.0%.
It can be seen in the fourth quarter (January-March 2012) the total revenues were Euro 33,156 thousands, an increase of 3.5% over the corresponding quarter of the previous year (Euro 32,047 thousands).

Cost of production
Overall the total net costs of production for the financial year ended March 31, 2012 were equal to 155,908 thousands, an increase of Euro 6,285 thousands (+4.2%) compared to the financial year ended March 31, 2011 (Euro 149,623 thousands).
In detail, the trend of costs in the financial year 2011/2012 was the following:

- Cost of raw materials and other materials, including purchase of finished products, was Euro 85,687 thousands, an increase of +7.8% compared to the twelve period ended March 31, 2011 (Euro 79,476 thousands). The increase of that percentage is higher than the growth in revenues from sales and is mainly related to: i) increase the impact of sales of third party brands through the network Rocca, which show a lower margin than the average Group sales brands; ii) increased cost of raw materials.
- Costs for services amounted to Euro 45,445 thousands, a decrease of -1.7% over the previous year (Euro 46,229 thousands); the performance of these costs is influenced both by savings actived in the period of some items that increases in other components more directly related to revenue growth and international expansion of the Group.
- Personnel costs amounted to Euro 26,054 thousands, an increase of +5.0% compared to the previous year (Euro 24,821 thousands), as a result of the efforts needed to support areas of business development (especially abroad) that have requested the inclusion of new resources with a higher per capita cost. In the financial year ended March 31, 2012 the average number of Group employees was of 573 units, virtually unchanged from the previous year (574 units).
- Other net operating incomes of Euro 1,278 thousands compared to a balance also positive of Euro 903 thousands in the financial year 2010/2011. In both years compared the balance includes writedowns and credit losses that remain stable: respectively Euro 1,194 thousands in financial year 2011/2012 and Euro 1,266 thousands in the financial year 2010/2011. Furthermore, the balance for the year ended March 31, 2012 also includes the positive net effect of Euro 3,338 thousands related to a partial release of the provision for return on sales, set aside in previous years and currently in excess, given the volume of return from customers in contraction. In the previous financial year 2010/2011 the balance include instead key money (Euro 1,829 thousands) cashed in for the early release of some stores no longer strategic for the Group (in the face of this income had been accounted the depreciation of the amount initially paid for acquire the same locations and other related fixed assets not fully depreciated; these amounts are recorded in amortization and depreciation). The positive net effects of such real estate transactions on the income statement for the period 2010/2011 were found to be equal to Euro 533 thousands.

EBITDA
The trend of revenues and cost of production described above determine a EBITDA for the financial year ended March 31, 2012 negative of Euro 4,309 thousands, an improvement over the gross operating result of the prior year (a loss of Euro 6,074 thousands) for Euro 1,765 thousands.

Depreciation, amortization and devaluation
In the financial year ended March 31, 2012 the amount of depreciation and write-downs amounted to Euro 3,047 thousands, a decrease of Euro 1,797 thousands compared to the prior twelve months period, which had recorded write-downs of assets for Euro 1,428 thousands relating to the locations sold, previously mentioned. Excluding this component, the decrease is due to the lower value of the depreciable basis of property.

Operating result
In the financial year ended March 31, 2012 as a result of the above, operating income was negative for Euro 7,356 thousands compared with a loss of Euro 10,918 thousands in 2010/2011, resulting in an improvement of Euro 3,562 thousands.

Net financial incomes (expenses)
The balance in the financial year ended March 31, 2012 was negative for Euro 2,112 thousands, an improvement of Euro 437 thousands compared to the twelve months period ended March 31, 2011 (negative balance of Euro 2,549 thousands). The trend is attributable to the decrease in net interest expense, related to the smaller average financial debt in the two periods.

Result before taxes
In the financial year ended March 31, 2012 the result before taxes was negative for Euro 9,468 thousands, an improvement over the twelve months period ended March 31, 2011 for Euro 3,999 thousands (previous year loss before taxes was equal to Euro 13,467 thousands).

Current, prepaid and deferred taxes
For the financial year closed at March 31, 2012 the income taxes negatively impacted the consolidated result for Euro 2,608 thousands, while for the financial year 2010/2011 the negative impact has been Euro 1,083 thousands. The higher value for the financial year

2011/2012 is mainly due to release of deferred tax assets, recognized in prior years with respect to temporary differences between book value and tax value, corresponding to the partial release of the fund for returns on sales and of intercompany margins previously generated from sales between Group companies and now transferred to third parties.

Following what was laid down by Legislative Decree no. 344 of December 12, 2003 that introduced the group taxation system called the "Fiscal consolidation", Damiani S.p.A. formalized, 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. the agreement on the joint exercise of the option for "National tax consolidation" for the three-year period 2010-2012.

Net result

The Consolidated Net result attributable to the Group for the financial year closed at March 31, 2012 was negative for Euro 11,939 thousands, an improvement of Euro 2,586 thousands compared to the year ended March 31, 2011 (net loss of Euro 14,525 thousands).

Balance sheet and financial situations

In the following table there are shown the Consolidated balance sheet of the Damiani Group at March 31, 2012 compared to that at March 31, 2011.

BALANCE SHEET DATA (in thousands of Euro)	Situation at March 31 2012	Situation at March 31 2011	CHANGE
Fixed Assets	50,015	51,684	(1,669)
Net working capital	71,956	79,653	(7,697)
Non current Liabilities	(7,205)	(7,380)	175
Net Capital Invested	**114,766**	**123,957**	**(9,191)**
Net Equity	86,178	95,106	(8,928)
Net Financial position (*)	28,588	28,851	(263)
Sources of Financing	**114,766**	**123,957**	**(9,191)**

(*) The net financial position is determined according to the indication of Consob communication no. DEM/6064293 of July 28, 2006.

Fixed Assets

At March 31, 2012 the Consolidated fixed assets amounted to Euro 50,015 thousands, a decrease compared to March 31, 2011 of Euro 1,669 thousands. The change was mainly due to the following items: i) the drop in the values of the intangible and tangible fixed assets due to the normal processes of amortization and depreciation, against Euro 2,423 thousands of capex; ii) decrease in deferred tax assets of Euro 1,601 thousands. These contractions are countered by the increase in security deposits for new boutique locations (Euro 566 thousands) recorded as financial receivables.

Net working capital

At March 31, 2012 the Net working capital amounted to Euro 71,956 thousands, a decrease compared to March 31, 2011 of Euro 7,697 thousands: that change is the result of a careful monitoring of financial flows that led to a significant decrease in operating working capital components: trade receivables and inventories, partly due to of destruction and transformation by fusion of jewelry products.

Non-current liabilities

At March 31, 2012 the non-current liabilities amounted to Euro 7,205 thousands, a reduction of Euro 175 thousands compared to March 31, 2011. Given the contraction of the liabilities for severance indemnities and deferred tax liabilities (total of Euro 602 thousands), the risks funds were increased to cover expenses related to litigation in progress and to operations of internal reorganization in progress (total increase of Euro 388 thousands).

Net equity

At March 31, 2012 Net equity amounted to Euro 86,178 thousands, a reduction of Euro 8,928 thousands compared to March 31, 2011. The variation is due to following reasons:

- Negative net result of the financial year for Euro 12,076 thousands (including minorities);
- Increase of stock option reserve for the provision under IFRS 2 related to the stock option plan implemented on April 2011 for Euro 182 thousands;
- Other positive changes in reserves for a total of Euro 954 thousands, mainly due to translation differences;
- Net transfer of treasury shares for a total of Euro 66 thousands;
- Capital increase in Damiani Japan KK, with the contribution of a new minority shareholder, for a total of Euro 1,946 thousands.

Net financial position

The following table shows the composition of net debt at March 31, 2012 and its evolution in relation to March 31, 2011:

NET FINANCIAL POSITION (*) (in thousands of Euro)	Situation at March 31 2012	Situation at March 31 2011	CHANGE
Medium-long term loans and financing - current portion	6,075	7,147	(1,072)
Usage of credit lines, short term financing and others	8,617	5,965	2,652
Medium-long term loans and financing with related parties - current portion	975	714	261
Current financial indebtness	**15,667**	**13,826**	**1,841**
Medium-long term loans and financing - non current portion	10,000	15,602	(5,602)
Medium-long term loans and financing with related parties - non current portion	9,579	10,714	(1,135)
Non current financial indebtness	**19,579**	**26,316**	**(6,737)**
Total gross financial indebtness	35,246	40,142	(4,896)
Financial current assests	0	(1,074)	1,074
Cash and cash equivalents	(6,658)	(10,217)	3,559
Net financial position (*)	**28,588**	**28,851**	**(263)**

(*) The net financial position is determined according to the indication of Consob communication no. DEM/6064293 of July 28, 2006.

The Group at March 31, 2012 has a net debt of Euro 28,588 thousands, a slight improvement compared to the value of the previous year which had a balance of Euro 28,851 thousands. The change from the previous year is Euro 263 thousands.

It should be noted that the net financial position at March 31, 2012 includes Euro 10,554 thousands as a financial debt to related parties for no. 4 real estate transactions accounted as sale and lease-back.

Compared to December 31, 2011 (the date of the third quarter of the financial year) the net financial position showed an improvement of Euro 6,158 thousands, related to the dynamic of the flows of receipts and payments dependent on the seasonality of the business.

CAPEX

During the financial year ended March 31, 2012 were made capital expenditures of Euro 2,423 thousands compared to Euro 1,071 thousands booked in the previous year.

These investments were mainly due to the retail channel for new outlets abroad.

Key economic data by geographical segments

The Damiani Group operates in a single operating segment and within which there do not exist any significant differences that could be considered as a basis for constituting separate business units. Therefore, geographical dimension, broken down by the segments that are described afterwards, is the subject of periodic observation and revision by the Directors, as well as falling within the operational responsibilities of Group management.

In accordance with this operating model, in the Yearly and Interim Financial Statements has been supplied the segment information, which is in line with what is laid down by the IFRS 8. The sectors are thus formed:

i) The Italy segment includes revenues and operating costs of the Group parent company Damiani S.p.A. and its direct subsidiaries that operate in Italy
ii) The Americas segment includes revenues and operating costs of the subsidiary Damiani USA Corp. based in New York and that commercializes the Group products in the whole continent and the Mexican subsidiary Damiani Mexico S.A. de C.V., currently in the start-up;
iii) The Japan segment includes revenues and operating costs of the subsidiary Damiani Japan K.K. that operates in Japan;
iv) The Rest of the World segment includes revenues and operating costs of the other subsidiaries that operate and sell in all those other countries which are not included in the geographical areas that are listed above.

In the following table there are shown the revenues for each geographical segment for the financial year closed at March 31, 2012 and for the previous financial year closed at March 31, 2011.

REVENUES BY GEOGRAPHICAL AREA (in thousands of Euro)	FINANCIAL YEAR 2011/2012	% OF TOTAL	FINANCIAL YEAR 2010/2011	% OF TOTAL	CHANGE %
ITALY	**108,,423**	**71.5%**	**103,627**	**72.2%**	**4.6%**
Revenues from sales and services	108,171		103,434		
Other revenues	252		193		
AMERICAS	**6,895**	**4.5%**	**8,223**	**5.7%**	**-16.1%**
Revenues from sales and services	6,895		8,223		
Other revenues	-		-		
JAPAN	**9,666**	**6.4%**	**9,857**	**6.9%**	**-1.9%**
Revenues from sales and services	9,663		9,845		
Other revenues	3		12		
REST OF THE WORLD	**26,615**	**17.6%**	**21,842**	**15.2%**	**21.9%**
Revenues from sales and services	26,579		21,821		
Other revenues	36		21		
Total revenues	**151,599**	**100.0%**	**143,549**	**100.0%**	**5.6%**

Compared to the previous year revenues in **Italy** resulted in increase (+4.6%), despite the uncertainty that has hit the country in the second half of the financial year 2011/2012, and has negatively influenced for broad social strata their propensity in consumption in general, and consequently also in jewelry products.

Abroad there was a significant increase in the **Rest of the World**, with a +21.9% (+21.6% at constant exchange rates) that benefits from the growing retail, while revenues are shrinking slightly in **Japan**, -1.9% (-5.6% at constant exchange rates), and more pronounced is the reduction in the **Americas**, -16.1%, also suffers from the effects of exchange rate (-12.7% at constant exchange rates) and by the actions of reorganization under way in the US subsidiary.

Overall during the financial year 2011/2012 the foreign revenues reached 28.5% of the total consolidated, with a weight increase of almost one percentage point over the previous year.

The following table shows the EBITDA values for each geographical sectors for the financial year ended March 31, 2012 and for the financial year ended March 31, 2011.

EBITDA BY GEOGRAPHICAL AREA* (in thousands of Euro)	FINANCIAL YEAR 2011/2012	% OF TOTAL	FINANCIAL YEAR 2010/2011	% OF TOTAL	CHANGE %
ITALY	2,716	-63.0%	877	-14.4%	209.7%
AMERICAS	(4,556)	105.7%	(5,681)	93.5%	19.8%
JAPAN	(2,623)	60.9%	(1,535)	25.3%	-70.8%
REST OF THE WORLD	154	-3.6%	265	-4.4%	-41.9%
Consolidated EBITDA	**(4,309)**	**100.0%**	**(6,074)**	**100.0%**	**29.1%**
% on Revenues	-2.8%		-4.2%		

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group 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 an increase of Euro 1,839 thousands related to the increase in turnover and the careful management of operating costs.
The **Americas** sector benefits from restructuring actions implemented during the financial year that resulted in a decrease in operating costs and recorded a partial recovery in EBITDA even in the presence of declining revenues.
In **Japan**, the increase in gross operating loss is related to the growth of costs associated with the development of the retail channel, whose benefits will be visible from next year.
EBITDA for the **Rest of the World** sector remained essentially unchanged in absolute terms over the previous year because the increase in revenues is related to the development of the recently opened stores that have weighed down the operational cost structure.

Transactions with related parties

The Damiani Group deals with related parties mostly for real estate (rental of shops and offices). Data concerning dealings of the Group with related parties in the period ended March 31, 2012 and in the previous financial year are displayed below (for more details see note 33. Transactions with related parties of the consolidated financial statements).

(in thousands of Euro)	FINANCIAL YEAR 2011/2012		BALANCE AT MARCH 31 2012		
	OPERATING COSTS	FINANCIAL EXPENSES	OTHER CURRENT ASSETS	FINANCIAL DEBTS (INCLUDING LEASING)	TRADE PAYABLES
Total with related parties	(2,433)	(1,012)	1,166	(10,554)	(761)
Total from Financial Statements	(158,955)	(2,487)	11,788	(35,246)	(51,180)
% age weight	2%	41%	10%	30%	1%

(in thousands of Euro)	FINANCIAL YEAR 2010/2011		BALANCE AT MARCH 31 2011		
	OPERATING COSTS	FINANCIAL EXPENSES	OTHER CURRENT ASSETS	FINANCIAL DEBTS (INCLUDING LEASING)	TRADE PAYABLES
Total with related parties	(2,904)	(1,098)	935	(11,428)	(1,928)
Total from Financial Statements	(154,467)	(2,926)	11,401	(40,142)	(54,673)
% age weight	2%	38%	8%	28%	4%

Significant non-recurring, atypical and/or unusual operations

There are no positions or transactions deriving from non-recurring, atypical and unusual operations as defined in Consob resolution no. 15519 of July 27, 2006.

Significant events during the financial year

On April 21, 2011 the Board of Directors of Damiani S.p.A. has implemented the Stock option plan approved by the Shareholders' Meeting of July 21, 2010, after positive evaluation of the manner and terms of implementation of the Plan by the Remuneration Committee.
On that date the Board of Directors of Damiani S.p.A. has also ratified the renunciation of all the fees for the financial year 2011/2012 Directors' Guido Grassi Damiani (President and Chief Executive Officer), Giorgio Grassi Damiani (Vice President) and Silvia Grassi Damiani (Vice President) for a total of Euro 1.3 million.
At the Cannes Film Festival in May 2011 Damiani organized an event to promote the Sino-American movie "Snow flower and the secret fan" directed by Wayne Wang and set in China in the nineteenth century. An affinity of interests with the Chinese world, celebrated on the Croisette in Cannes, but that is part of a series of activities and projects dedicated to the Chinese market which is one of the most important target for the brand.

In this context also places the opening in May 2011 of a new Bliss boutique in franchising Shanghai in the International Finance Centre (IFC), the most prestigious mall in Pudong, the business district of Shanghai, the heart of shopping that includes all major international luxury brands. In July 2011 was instead opened a new franchising mono-brand Damiani store in Chengdu, one of the most populated and important economic centers of China.

On May 26, 2011 was inaugurated the new multi-brand Rocca boutique in Lugano.

Damiani participated as partner to the 41st Conference of the Young Entrepreneurs of Confindustria, which took place on 10 and 11 June in Santa Margherita Ligure. At the traditional annual event, Damiani has exposed some of the masterpieces of the goldsmith to the opening night of the event and the young entrepreneurs had the opportunity to wear these unique and precious jewels. The appointment confirmed the proximity of the Damiani Group to the business world, and its feeling with the role that the young entrepreneurs can have in the country's economic growth, in the name of the preservation of the tradition of Made in Italy of which Damiani echoes in Italy and abroad. Participation was also repeated on the 42nd conference of June 2012.

In September started the new advertising campaign of Salvini brand with the launch of the new collections worn by the famous and fascinating American actress Eva Longoria, new prestigious testimonial that helps to strengthen the image and the awareness of the brand.

On September 15, 2011 has been incorporated the Mexican company Esclusividad en Joyas Italianas S.A. de C.V., subsequently transformed into Damiani Mexico S.A. de C.V., fully owned by Damiani Group. The company has to manage the import and distribution in Mexico of jewels of Damiani Group brands.

On October 27, 2011 the President of the Damiani Group participated in the "General states of the Foreign Trade" organized in Rome by the Italian Government, along with a select group of entrepreneurs and sole representative of the luxury goods sector. Goal of the meeting was to develop strategies for the expansion of the Italian companies abroad.

On November 25, 2011 at Peninsula Hotel in Shanghai were presented for the first time in China the unique collection of Damiani within the exclusive "Masterpiece Couture" at the presence of big names of local business, culture and entertainment.

On November 29, 2011 Damiani opened a new boutique in the prestigious Department store Palacio de Hierro Interlomas, housing in the district of Mexico City, alongside the most prestigious European luxury brands. In the month of December were also opened a new shop in shop and four other corners in the department stores chain Palacio de Hierro in Mexico City. With these openings Damiani consolidates its presence in the main country in Central America.

In January the Damiani Group has signed a strategic agreement with the Japanese Group Itochu, which operates internationally with over 70,000 employees in various sectors including textiles, aerospace, electronics, media and finance and has worked with major names in fashion and luxury. Under the agreement signed Itochu entered the capital of the subsidiary Damiani Japan KK with a minority stake of 14% through a reserved capital increase. The Damiani Group will use the know-how of the partner in trade and distribution to increase its weight in Japan. In this direction is also the opening in March 2012 of a new Damiani brand boutique in Osaka, in the Hilton Plaza West.

On February 16, 2012 the American star Sharon Stone has inaugurated in Montenapoleone Street in Milan the Damiani boutique, fully refurbished to the new concept designed by the Group's designers which were inspired by the typical Italian taste and creativity.

Significant events after the end of the financial year

In May, the Damiani Group has signed a distribution agreement for the Damiani brand in China with the Hengdeli Group, a leader in the distribution of haute horlogerie on the Chinese market. The multi-year agreement plans to open several shops in shops and corners Damiani inside of the store network of the partner. Hengdeli Group is listed on the Stock Exchange of Hong Kong since 2005, has a market capitalization of around Euro 1.4 billion and between its shareholders include also Swatch Group and LVMH and operates over 400 stores located in China, Hong Kong, Macau and Taiwan.

In May it has been opened the first mono-brand Damiani boutique in New Delhi inside the luxury Oberoi Hotel, where there are already international prestigious brands of luxury. This opening is also the start for the Group's penetration of the Indian market, characterized by high relief and potential worldwide.

Business outlook

In the financial year 2011/2012 the Damiani Group recorded a revenue growth and an improvement in profitability, but not yet satisfactory, albeit in a macroeconomic and financial context that was not positive and that it gradually deteriorated, mainly at national level. These difficulties have continued in the early months of the current financial year, particularly in Italy, the main market of Group products. The management looks so with caution and prudence to the revenue forecasts for the first half of the financial year 2012/2013, given the stagnation of consumption adversely affected by the climate of uncertainty and mistrust especially prevalent in the Euro zone.
Against this backdrop the Group has reacted with measures to both increase its presence in foreign markets with high growth potential, where the presence is still limited so far, and both with actions designed to restore operating profitability through rationalization of internal processes and the reduction of costs. These actions, which require little investments and therefore don't affect the financial balance of the Group, will generate positive returns on economic performances already in the short terms with benefits that should be visible in the second half of financial year 2012/2013.

Milan, June 14, 2012

For the Board of Directors
President and CEO
Mr. Guido Grassi Damiani

Table of contents

CONSOLIDATED BALANCE SHEET

(in thousands of Euro)	Note	March 31, 2012	March 31, 2011
NON-CURRENT ASSETS			
Goodwill	4	4,984	4,984
Other Intangible Fixed Assets	5	5,227	5,596
Tangible Fixed Assets	6	17,460	17,590
Investments	7	167	167
Financial receivables and other non current assets	8	3,924	3,493
Deferred tax assets	9	18,253	19,854
TOTAL NON CURRENT ASSETS		**50,015**	**51,684**
CURRENT ASSETS			
Inventories	10	87,791	96,192
Trade receivables	11	29,320	31,232
Tax receivables	12	1,769	2,788
Other current assets	13	11,788	11,401
of which towards related parties		1,166	935
Current financial receivables	14	-	1,074
Cash and cash equivalents	15	6,658	10,217
TOTAL CURRENT ASSETS		**137,326**	**152,904**
TOTAL ASSETS		**187,341**	**204,588**
GROUP SHAREHOLDERS' EQUITY			
Share Capital		36,344	36,344
Reserves		58,906	71,890
Group net income (loss) for the period		(11,939)	(14,525)
TOTAL GROUP SHAREHOLDERS' EQUITY		83,311	93,709
MINORITY SHAREHOLDERS' EQUITY			
Minority share capital and reserves		3,004	1,422
Minority net income (loss) for the period		(137)	(25)
TOTAL MINORITY SHAREHOLDERS' EQUITY		**2,867**	**1,397**
TOTAL SHAREHOLDERS' EQUITY	**16**	**86,178**	**95,106**
NON CURRENT LIABILITIES			
Long term financial debts	17	19,579	26,316
of which towards related parties		9,579	10,714
Termination Indemnities	18	4,011	4,325
Deferred Tax liabilities	9	843	1,131
Risk reserves	19	1,819	1,431
Other non current liabilities	20	532	493
TOTAL NON CURRENT LIABILITIES		**26,784**	**33,696**
CURRENT LIABILITIES			
Current portion of long term financial debts	17	7,050	7,861
of which towards related parties		975	714
Trade payables	21	51,180	54,673
of which towards related parties		761	1,928
Short term borrowings	22	8,617	5,965
Income tax payables	23	2,151	2,425
Other current liabilities	24	5,381	4,862
of which towards related parties		-	-
TOTAL CURRENT LIABILITIES		**74,379**	**75,786**
TOTAL LIABILITIES		**101,163**	**109,482**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**187,341**	**204,588**

CONSOLIDATED INCOME STATEMENT

Basic Earnings (Losses) per Share(*) Diluted Earnings (Losses) per Share(*)	NOTE	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Revenues from sales and services		151,308	143,323
Other revenues		291	226
TOTAL REVENUES	**25**	**151,599**	**143,549**
Cost for raw materials and consumables	26	(85,687)	(79,476)
Cost of services	27	(45,445)	(46,229)
of which towards related parties		(2,197)	(2,108)
of which not recurring		-	(35)
Personnel cost	28	(26,054)	(24,821)
Other net operating (charges) incomes	29	1,278	903
of which towards related parties		(236)	(796)
of which not recurring		-	1,829
Amortization, depreciation and devaluation	30	(3,047)	(4,844)
of which not recurring		-	(1,261)
TOTAL OPERATING EXPENSES		**(158,955)**	**(154,467)**
OPERATING INCOME (LOSS)		**(7,356)**	**(10,918)**
Financial Expenses	31	(2,487)	(2,926)
of which towards related parties		(1,012)	(1,098)
Financial Incomes	31	375	377
INCOME (LOSS) BEFORE INCOME TAXES		**(9,468)**	**(13,467)**
Income Taxes	32	(2,608)	(1,083)
NET INCOME (LOSS) FOR THE PERIOD		**(12,076)**	**(14,550)**
Attributable to:			
Group		(11,939)	(14,525)
Minorities		(137)	(25)
Basic Earnings (Losses) per Share (*)		**(0,15)**	**(0,19)**
Diluted Earnings (Losses) per Share (*)		**(0,15)**	**(0,19)**

(*) 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Net income (Loss) for the period	(12,076)	(14,550)
Gain (Losses) on cash flow hedges	20	55
Fiscal Effect	(6)	(15)
Gain (Losses) on exchange differences on translating foreign operations	529	463
Fiscal Effect	411	114
Total Comprehensive Income (loss) for the period	(11,122)	(13,933)

CONSOLIDATED 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, 2010	**36,344**	**69,858**	**2,434**	**(56)**	**8,618**	**108**	**(8,227)**	**16,703**	**(18,242)**	**107,540**	**1,487**	**109,027**
Allocation of the result for the period								(18,242)	18,242	-		-
Other comprehensive income (loss)				40				577	(14,525)	(13,908)	(25)	(13,933)
Stock option						(16)			(13,475)	(16)		(16)
Other movements							2	91		93	(65)	28
Balances at March 31, 2011	**36,344**	**69,858**	**2,434**	**(16)**	**8,618**	**92**	**(8,225)**	**(871)**	**(14,252)**	**93,709**	**1,397**	**95,106**
(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, 2011	**36,344**	**69,858**	**2,434**	**(16)**	**8,618**	**92**	**(8,225)**	**(871)**	**(14,252)**	**93,709**	**1,397**	**95,106**
Allocation of the result for the period								(14,525)	14,525	-		-
Other comprehensive income (loss)				14				940	(11,939)	(10,985)	(137)	(11,122)
Stock option						182				182		182
Capital increase								339		339	1,607	1,946
(Purchase)/Sale of own shares						(10)	76			66		66
Balances at March 31, 2012	**36,344**	**69,858**	**2,434**	**(2)**	**8,618**	**264**	**(8,149)**	**(14,117)**	**(11,939)**	**83,311**	**2,867**	**86,178**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net Income / (Loss) for the period	**(12,076)**	**(14,550)**
Adjustments to reconcile the profit (loss) for the period to the cash flow generated (absorbed) by operations:		
Amortization and depreciation	3,047	4,844
Costs / (Revenues) for stock option	248	(4)
(Gains) / Losses from disposals	(1)	(2,289)
Provisions to Bad debts reserve	892	1,228
Provisions /(Utilizations) to risks reserves	388	782
Changes in the fair value of financial instruments	(202)	154
Provisions in termination indemnities	430	(77)
Payements for termination indemnities	(744)	(291)
Changes in the deferred tax assets and liabilities	1,313	220
	(6,705)	(9,983)
Changes on operational assets and liabilities:		
Trade receivables	1,020	10,511
Inventories	8,401	9,916
Trade payables	(3,493)	(3,272)
Tax receivables	1,019	873
Income tax payables	(274)	26
Other current assets and current and non current liabilities	1,447	(2,747)
NET CASH FLOW PROVIDED (ABSORBED) BY OPERATING ACTIVITIES (A)	**1,415**	**5,324**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash in from disposals of tangible and intangible assets	35	3,211
Leaseback write-off	-	151
Tangible fixed assets purchased	(2,319)	(960)
Intangible fixed assets purchased	(104)	(111)
Exchange differences on non current assets	(159)	-
Net change in other non current assets	(431)	986
NET CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	**(2,978)**	**3,277**
CASH FLOW FROM FINANCING ACTIVITIES		
Leaseback debt write-off	-	(184)
Repayment of long-term debt	(7,548)	(10,035)
Net change in short-term financial liabilities	2,652	4,001
Share Capital increase	1,946	-
Other changes in net equity	954	502
NET CASH FLOW GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	**(1,996)**	**(5,716)**
TOTAL CASH FLOW (D=A+B+C)	**(3,559)**	**2,885**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (E)	**10,217**	**7,332**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (F=D+E)	**6,658**	**10,217**

EXPLANATORY NOTES

1. COMPANY INFORMATION AND STRUCTURE OF THE FINANCIAL STATEMENTS

Company information

The Damiani Group has been engaged for many years in the production and distribution of jewelry products through both wholesale and retail channels. In particular, the Group offers five prestigious jewelry 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 the timepieces.

The registered office of the parent company Damiani S.p.A. is Piazza Damiano Grassi Damiani 1, Valenza (AL), Italy. Damiani S.p.A. is controlled by Leading Jewels S.A. (due to the family Grassi Damiani) which owns 56.76% of share capital.

Statement of compliance

The Damiani Group prepared its consolidated financial statements as of March 31, 2012 in accordance with IAS/IFRS international accounting standards and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) issued by the International Accounting Standards Board (IASB) as adopted by the European Community and with the measures implementing article no. 9 of Legislative Decree 38/2005.

Structure of the Financial Statements

The present consolidated Financial Statements of the Damiani Group as of March 31, 2012 covering the period April 1, 2011 – March 31, 2012, consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the explanatory notes (hereafter, the "Consolidated Financial Statement") was approved by the Board of Directors of Damiani S.p.A. on June 14, 2012.
The statements comply with the provisions of 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 no. 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 control bodies as well as those executives who have strategic responsibilities. See also note 33. Transactions with related parties.
The Statement of cash flows 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, 2011 – March 31, 2012 have been 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 on 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 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 consolidated financial statements at March 31, 2012 has been prepared on a going concern. Despite the difficulties reflected from the economic downturn, the Group believes that there is no uncertainty about the ability to continue in operational existence for the foreseeable future, also because of the actions taken, whose full implementation is under way to adapt to changing trends in the market.
The income statement figures, changes in net equity and the cash flow statement for the financial year ended on March 31, 2012, are presented in a comparative format with the statements for the period from April 1, 2010 to March 31, 2011. The balance sheet data as of March 31, 2012 are presented in a format that is comparable with those as of March 31, 2011.
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, 2012:

COMPANY NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (local currency)	HELD BY	% DIRECT (*)	% OF THE GROUP
Alfieri & St. John S.p.A.	Valenza (AL), Italy	EUR	1,462,000	Damiani S.p.A.	100.00%	100.00%
New Mood S.p.A.	Valenza (AL), Italy	EUR	1,040,000	Damiani S.p.A.	100.00%	100.00%
Damiani Manufactoring S.r.l.	Valenza (AL), Italy	EUR	850,000	Damiani S.p.A.	51.00%	51.00%
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	EUR	2,140,000	Damiani Manufactoring S.r.l.	9.35%	55.58%
Damiani International B.V.	Amsterdam, Netherland	EUR	193,850	Damiani S.p.A.	100.00%	100.00%
Damiani Japan K.K.	Tokyo, Japan	JPY	495,000,000	Damiani International B.V.	0.00%	86.00%
Damiani USA Corp.	New York, USA	USD	900,000	Damiani International B.V.	0.00%	100.00%
Casa Damiani Espana S.L.	Valencia, Spain	EUR	721,200	Damiani S.p.A.	99.00%	100.00%
Damiani Hong Kong L.t.d.	Hong Kong	HKD	2,500,000	Damiani International B.V.	0.00%	100.00%
Damiani France S.A.	Paris, France	EUR	38,500	Damiani International B.V.	0.00%	100.00%
Damiani Macau L.t.d.	Macau	MOP	2,200,00	Damiani Hong Kong L.t.d.	0.00%	100.00%
Rocca S.p.A.	Milan, Italy	EUR	4,680,000	Damiani S.p.A.	100.00%	100.00%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Rocca S.p.A.	0.00%	100.00%
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	MXN	3,000,000	Damiani International B.V.	10.00%	100.00%

(*) It's the share directly held by Damiani S.p.A.

The consolidation area at March 31, 2012 changed from the closing of the annual report to March 31, 2011 as follows:

- On September 15, 2011 has been incorporated the Mexican company Esclusividad en Joyas Italianas S.A. de C.V. located in Mexico, Distrito Federal with a share capital of 50,000 Pesos, fully owned by Damiani Group (90% from Damiani International B.V.; 10% from Damiani S.p.A.). Afterwards, has been made a capital increase, keeping the shares of ownership, up to a total of 3,000,000 Pesos. The company has to manage the import and distribution in Mexico of jewels of Damiani Group brands. On December 20, 2011 the Mexican subsidiary changed its name in Damiani Mexico S.A. de C.V.
- On January 6, 2012 the Japanese Itochu Corporation acquired a 14% stake in the local subsidiary Damiani Japan KK, through a reserved capital increase. The new shareholder is active in various sectors and has already worked with leading fashion and luxury brands and building on its expertise and knowledge of the peculiarities of the local market can contribute to growth the presence of the Damiani Group in Japan.

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, 2012, 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, 2012, whose total value was Euros 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 (1) (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	2,966	126	Damiani S.p.A.	3.84%	
				Alfieri & St. John S.p.A.	0.52%	4.36%
Banca d'Alba	Euro	44,983	41	Damiani S.p.A.	0.50%	0.50%

(1) At December 31, 2010

Principles of consolidation

In the preparation of the consolidated financial statement the assets, liabilities, costs and revenues the line by line method is used, while minority or "non-controlling" interests (in shareholders' equity and in the net result 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 foreign currencies different from euro

The consolidated financial statements are expressed in Euro, 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 Euro 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 consolidated financial statements as of March 31, 2012 was prepared in accordance with international accounting standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Community and regulations implementing article 9 of the Legislative Decree no. 38/2005. IFRS are all the revised international accounting standards ("IAS"), all the interpretations issued by the International Financial Reporting Interpretations Commitee ("IFRIC") previously known as Standing Interpretations Committee ("SIC").

New Accounting standards to be adopted from April 1, 2011

The following standards, amendments, improvements and interpretations applicable from the financial year beginning April 1, 2011 and refers to cases that have no impact on the financial statements at March 31, 2012 of the Damiani Group:

- Amendment to IAS 32 – Financial instruments: Presentation – Classification of rights issues
- Amendment to IFRIC 14 – Prepayments of a minimum funding requirement
- IFRIC 19 – Extinguishing of financial liabilities with equity instruments
- Improvements to IAS/IFRS (2010)
- Amendment to IAS 24 – Disclosure about transactions with related parties
- Review of IFRS1 and IFRS7 – Limited exemption from comparative as IFRS 7 for new adopters.

Have also been issued by the IASB the following new accounting standards, interpretations and amendments applicable to the financial statements of companies for annual periods beginning after January 1, 2011 and not early adopted by the Group:

- IFRS 7 – Financial instruments: disclosures – transfers of financial assets.

It also reports that were issued by the IASB the following accounting standards and interpretations whose trial is still pending approval by the European Union.

- IFRS 10 – Consolidated financial statements which will replace the SIC-12 Consolidation – Special purpose entities (SPV) and parts of IAS 27 – Consolidated and Separate financial statements. The new principle is based on a modified control concept and also provide a guide to determine the existence of control where it is difficult to ascertain.
- IFRS 11 – Partnership agreements which will replace the IAS 31 – Interests in joint-venture and the SIC-13 – Joint ventures – Contribution in kind by the venturers. The new standard provides criteria for identifying partnership agreements based on the rights and obligations arising from agreements rather than legal form of the same and states as the sole method of accounting for investments in joint ventures in consolidated financial statements, the equity method.
- IFRS 12 – Additional information on shareholdings in other companies, which is a complete new principle to provide additional information on each type of participation, including those of subsidiaries, partnership agreements, associates, special purpose entities and other special vehicles not consolidated.
- IFRS 13 – Measuring fair value, which clarifies how to determine the fair value for financial reporting purposes and applies to all IFRS principles that require or permit fair value measurement or presentation of information based on the fair value.
- IAS 27 – Separate financial statements.

- IAS 28 – Investments in associates and joint ventures.
- Review of IAS 1 – Presentation of financial statements to require companies to group together all the components presented in Other comprehensive income/(losses) depending on whether or not they may subsequently be reclassified to the income statement.
- Review of IAS 12 – Income taxes. Clarifies the determination of deferred tax on investment property measured at fair value. Result of this amendment, the SIC 21 – Income taxes – Recoverability of revalued non-depreciable asset will no longer apply.
- Review of IAS 19 – Employee benefits that eliminates the option of deferring the recognition of gains and losses under the corridor method, requiring the presentation in the financial situation of the deficit or surplus of the fund in its entirety, and the separate recognition in the income statement of cost components related to work performance and financial expenses, and the inclusion of gains and losses arising from remeasurement at any period of liabilities and assets between the Other comprehensive income/(losses).

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 statements 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, for determining the useful life of tangible and intangible assets in the determination of depreciation, asset impairments, employee benefits, provisions for risks and charges and the assessment of taxable income for the purposes of determining the recoverability of deferred tax assets. 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 conducting audits of the recoverability of the goodwill and value of investments in the financial statements (impairment test), in the valuation of expected future returns, in the determination of trade receivable and inventory writedowns, and in the determination of risk reserves for which at the reporting date there are obligations for which are likely to use resources to satisfy them.

The current economic and financial environment has a great volatility and uncertainty. Therefore, assumptions regarding future trends are characterized by high randomness; 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 funds for return on sales 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 indefinite 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
Industrial rights and patents	from 10% to 20%
Software licences	from 20% to 33%
Key money (indemnities paid for renewal of shop rental contracts)	Duration of contract
Other deferred charges	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 booked 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, 2012 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 ancillary costs directly attributable and 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, are not depreciated since their 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 equipments	from 7% to 35%
Other assets	from 12% to 25%
Leasehold improvements	Duration of lease contract

Leased assets

The 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 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.
The capitalized leased assets are depreciated over the shorter of the asset's useful life expectancy or 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 the 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.

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 at the current value the estimated future cash flow, 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 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 expenditures that aim to enhance or optimise the asset or unit or significantly modify 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 the value of goodwill can 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 there 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, amending the value of the asset. Trade

receivables are booked to the financial statements net of an adjustment reserve for products that according to the Group estimates will be 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 interests 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 recognized 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.

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 the loans or other receivables are removed from the books, when an impairment loss is registered or as part of the depreciation process.
Investments held to maturity
The 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. The 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
The 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 been 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.

<u>Hedge accounting</u>

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) hedging of a net 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 equivalent

Cash and cash equivalent 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.

Profits and losses arising from the actuarial calculations are booked to the income statement in each period as labor costs.

Other employee benefits

In accordance with IFRS 2 (Payments based on shares), stock options in favor of employees are valued by an external evaluator at their fair value at the grant date according to an 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 as "personnel costs" (since it is a payment in kind paid to the employee) and as "costs of 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 as "personnel costs" and "costs of 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 "Other reserves".

Trade payables and other current liabilities
Trade payables and other current liabilities, whose due date fall under 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 year. 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 year.

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 likely that the relative financial benefits will be enjoyed.
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 likely that any future financial benefits will be enjoyed;
- the costs incurred, or to be incurred can be reliably estimated.

In some cases the Group accepts from customers, for commercial reasons and in line with the usual practices of the sector, returns 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 estimates related to the market, 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 revenues and income
The other revenues include financial benefits during the period from operations connected to the company’s ordinary business activities. Key monies received as a result of the disposal of leasing contracts before their due date for the commercial usage of premises are 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:
<u>Costs for advertising campaigns and testimonials</u>
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.

Financial income and expenses
Financial incomes are recognized 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, coinciding with the moment in which they are declared.

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 (positive or negative) that will be taxable or deductible in other financial years and also items that will never be taxable or deductible. 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:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect 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

Deferred tax assets 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 the deferred tax assets 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 taxes (liabilities and assets) 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 and presentation 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 recognized. 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 are classified as a direct reduction of net equity. The original cost of treasury stock and gain 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, 2012 and for the financial period ending March 31, 2011, 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, July 22, 2009, July 21, 2010 and July 27, 2011.

Business combination

Business combinations are accounted for by using the purchase cost method, whereby the costs of business combinations are 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 business segment within which there do not exist any levels of differences between products that would require the setting up of any separate business units.

Therefore, the basis on which the Directors set the goals and attribute responsibilities and according to which company management operates is geographical segments, which are broken down as already shown in the Report on Operations and regarding which there are given the operating results of the financial year 2011/2012 and, for comparative purposes, of the financial year 2010/2011.

Information by geographical areas (financial year ended March 31 2012)

FINANCIAL YEAR 2011/2012 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	CONSOLIDATED
Net Sales to third party customers	108,171	6,895	9,663	26,579	151,308
Other revenues	252	-	3	36	291
Total net sales	**108,423**	**6,895**	**9,666**	**26,615**	**151,599**
Operating Costs	**(107,915)**	**(11,778)**	**(12,481)**	**(26,781)**	**(158,955)**
Operating profit (loss)	**508**	**(4,883)**	**(2,815)**	**(166)**	**(7,356)**

SITUATION AT MARCH 31 2012 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	ELIMINATIONS	CONSOLIDATED
Total current assets	166,559	14,520	17,276	43,839	(104,868)	137,326
Total assets	258,860	15,355	22,314	128,866	(238,054)	187,341
Total liabilities	116,385	15,383	10,460	62,528	(103,593)	101,163
Capex	394	124	829	1,076	-	2,423

Information by geographical areas (financial year ended March 31 2011)

FINANCIAL YEAR 2010/2011 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	CONSOLIDATED
Net Sales to third party customers	103,434	8,223	9,845	21,821	143,323
Other revenues	193	-	12	21	226
Total net sales	**103,627**	**8,223**	**9,857**	**21,842**	**143,549**
Operating Costs	**(106,661)**	**(14,387)**	**(11,670)**	**(21,749)**	**(154,467)**
Operating profit (loss)	**(3,034)**	**(6,164)**	**(1,813)**	**93**	**(10,918)**

SITUATION AT MARCH 31 2011 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	ELIMINATIONS	CONSOLIDATED
Total current assets	181,526	28,061	18,228	48,961	(123,872)	152,904
Total assets	275,155	29,054	22,369	134,037	(256,027)	204,588
Total liabilities	125,217	24,254	10,141	68,484	(118,614)	109,482
Capex	596	10	53	412	-	1,071

NOTES ON ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

4. GOODWILL

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Goodwill, boutiques	726	726
Goodwill, Alfieri & St. John S.p.A.	4,258	4,258
Total goodwill	**4,984**	**4,984**

This item refers to Euros 4,258 thousand for goodwill for the purchase in 1998 of 100% of the company shares of Alfieri & St. John S.p.A. and Euros 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, 2011, no changes have happened.

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, 2012 and at March 31, 2011, 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 charged.

More specifically, the goodwill for Alfieri & St. John S.p.A. was allocated to the 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 were taken from the 2012-2015 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 May 23, 2012
- the 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 14.6%), 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: 5%
• beta: 1%
• debt/equity ratio: taken from company data at March 31, 2012

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

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Industrial rights and patents	393	610
Key Money	4,782	4,984
Fixed intangible assets under construction	53	2
Total other intangible fixed assets	**5,227**	**5,596**

The items Industrial rights and patent and Key money decreased by amortization of the financial year. The increase in fixed intangible asset under construction was mainly due to investments made in the American subsidiary. The amount of key money is amortized on the basis of the residual duration of the leasing contract.

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 CONSTRUCTION	TOTAL
Net book value at March 31, 2011	610	4,984	2	5,596
Purchases	37	-	67	104
Amortization	(263)	(233)	-	(496)
Exchange differencies	9	31	(16)	23
Net book value at March 31, 2012	**393**	**4,782**	**53**	**5,227**

6. TANGIBLE FIXED ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Land and buildings	10,616	11,551
Plant and machinery	714	693
Industrial and commercial equipment	521	582
Other assets	5,266	4,695
Fixed tangible assets under construction	343	69
Total tangible fixed assets	**17,460**	**17,590**

Tangible fixed assets decreased a total of Euro 130 thousands compared to the previous financial year.
The increases for investments, totaling Euro 2,319 thousands, mainly represented by the investments for the development of the retail channel abroad and machinery used in production activity at Laboratorio Damiani s.r.l.
The Land and buildings item also includes the residual value of property subject to sale and lease back, which related parties have bought from Group's subsidiaries in prior financial years and then leased for commercial use to the same (for details see note 33. Transactions with related parties).
These sale and lease back assets amounted to Euro 9,011 thousands at March 31, 2012 and to Euro 10,053 thousands at March 31, 2011.
The item Other assets includes furniture, furnishings, office equipment and vehicles, and leasehold improvements (costs incurred to adapt/refurbish the boutiques).
The following table shows the changes in tangible assets during the period.

(in thousands of Euro)	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	FIXED TANGIBLE ASSETS UNDER CONSTRUCTION	TOTAL
Net book value at March 31, 2011	**11,551**	**693**	**582**	**4,695**	**69**	**17,590**
Purchases	4	222	128	1,624	341	2,319
Disposals	-	-	(1)	(33)	-	(34)
Depreciation	(939)	(202)	(197)	(1,213)	-	(2,551)
Reclassification	-	-	-	67	(67)	-
Exchange differencies	-	1	9	126	-	136
Net book value at March 31, 2012	**10,616**	**714**	**521**	**5,266**	**343**	**17,460**

The fixed assets do not include assets subject to revaluations, as per the special laws contained in article 10 of Law 72/1983.

7. INVESTMENTS

At March 31, 2012 this item was referred exclusively to minority stakes in Fin.Or.Val S.r.l and Banca d'Alba for a total of Euro 167 thousands. There were no changes compared to March 31, 2011.

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Guarantee deposits	3,873	3,307
Other receivables	51	186
Total financial receivables and non current assets	**3,924**	**3,493**

The increase in guarantee deposits of Euro 566 thousands compared to the previous financial year was manily due to the signing of new leases for the direct management of sales outlets abroad.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The balances of the items Deferred tax assets and Deferred tax liabilities for the financial year ended March 31, 2012 and financial year ended March 31, 2011 are detailed in the table below; the descriptions indicate the nature of temporary differences:

(in thousands of Euro)	March 31 2012	March 31 2011
Deferred tax assets:		
Net Impact of the returns reserve	2,208	2,898
Write off on intercompany inventory margins	5,252	5,660
Exchange loss differences	2	8
Bad Debts Reserve not deductible	958	1,148
Devaluation of inventories	1,807	2,157
Costs of the IPO	-	432
Provisions on lawsuits	174	113
Financial interests in excess	1,545	1,411
Fiscal losses	1,984	1,742
Write off of intercompany gains on brand transfer	3,557	3,557
Other timing differences of a taxation nature	766	728
Total deferred tax assets	**18,253**	**19,854**
Deferred tax liabilities:		
Exchange differences	44	100
Other timing differences of a taxation nature	725	932
Deferred taxation on capital gains	74	99
Total deferred tax liabilities	**843**	**1,131**

The main differences compared to March 31, 2011 were due to: i) release of deferred tax assets to the extent related to the partial release of the returns reserve made on March 31, 2012 that was in excess compared to the estimated future returns, given the contraction of the volume of products returned by customers; ii) reduction in deferred tax assets related to the eliminations of margins on intercompany inventory; iii) release of deferred tax assets related to the utilization of the inventory write-down; iv) completion of the deferred deduction of the 2007 IPO costs of Damiani S.p.A.

Deferred tax assets on tax loss recorded in the financial statements refer to the Italian companies participating the fiscal regime of group taxation called "Fiscal consolidated" and are deemed recoverable considering the benefits of membership in this institution and, therefore, the estimate of future taxable income of subsidiaries. In this financial year, given the changes in the tax law by Decree 98/2011 which introduced the new system of carry forward tax losses (article n. 84 of the Income Tax Code), making them temporally unlimited even if with annual numerical limitations, we proceeded to detect deferred tax assets arising from tax losses of the previous financial year 2010/2011 with reference to the subsidiaries Rocca S.p.A., Alfieri & St. John S.p.A. and Laboratorio Damiani s.r.l. for which future plans support the recoverability of the values and that recorded a positive taxable income in the financial year 2011/2012, for a total amount of Euro 379 thousands.

Also in relation to an accurate interpretation of the wording of IAS 12 it has not proceeded instead to record deferred tax assets related to Damiani S.p.A. and New Mood S.p.A. that in the financial year 2012/2012 didn't record a positive taxable income. The cumulative amount of deferred tax assets not recorded is equal to Euro 3,736 thousands.

10. INVENTORIES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Raw materials, semi-finished goods and advance payments	14,509	11,666
Finished products and goods	73,282	84,526
Total inventories	**87,791**	**96,192**

The net value of inventories at March 31, 2012 showed a decrease of Euro 8,401 thousands compared to the values of the previous year. This contraction was also affected by the devaluation of inventories, measured on the basis of assessments made by the management

with reference to the stock of certain types of goods which is excessive for the current marketing conditions and for the effects of the operations of destruction and transformation by fusion of products of jewelry.
The provision for inventory write-down amounted to Euro 2,084 thousands has been estimated based on the value of the potential loss arising from transactions involving the disposal of finished products outside the ordinary channels of distribution. During the financial year the fund was used for Euro 4,285 thousands for operation of destruction of jewelry products and destocking carried out at the various Group companies which generated losses in line or below the values set aside.
Following the provision/utilization for the financial year, the total value of inventory write-down to March 31, 2012 amounted to Euro 9,339 thousands (Euro 11,540 thousands at March 31, 2011).
Please note that on March 31, 2012 the item Finished product and goods includes for Euro 9,132 thousands (Euro 12,387 thousands at March 31, 2011) finished goods delivered to customers but for which at the end of the financial year were not met the conditions for the recognition of related revenues.

11. TRADE RECEIVABLES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Trade receivables, gross	53,445	63,790
Bad Debts Reserve	(5,229)	(6,871)
Fund for returns on sales from customers	(18,861)	(25,580)
Net Present Value calculation of receivables	(35)	(107)
Total net trade receivables	**29,320**	**31,232**

The decrease in net trade receivables of Euro 1,918 thousands, even in the presence of an increase in wholesale sales recorded during the financial years, was the result of more effective management of the financial flows related to the net working capital that resulted in a reduction in average days of receivables collection. The balance at March 31, 2012 was shown net of allowance for doubtful receivables and fund for returns, and the effect of discounting receivables represented by reissued bank effects with maturity over the period.
The following table shows the changes in the bad debts reserve and in the fund for returns on sales during the financial year ended March 31, 2012.

(in thousands of Euro)	FUND FOR RETURNS ON SALES FROM CUSTOMERS	BAD DEBTS RESERVE
Book value at March 31 2011	(28,580)	(6,871)
Accrual	(5,130)	(892)
Utilization	11,849	2,534
Book value at 30 September 2008	**(18,861)**	**(5,229)**

There are no receivables with contractual terms exceeding five years.

12. TAX RECEIVABLES

The balance at March 31, 2012 amounted to Euro 1,769 thousands compared to Euro 2,788 thousands at March 31, 2011. The decrease was due to a lower tax credit of the Parent company.

13. OTHER CURRENT ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
VAT receivables from the Tax Authorities	5,394	3,664
Prepayments on exchanges of goods	1,730	1,875
Deposits to suppliers	1,966	1,601
Prepayments	1,990	1,786
Receivables from other	708	2,475
Total other current assets	**11,788**	**11,401**

The change in Other current assets was mainly due to the following causes which move opposite sign to the item: i) increase the VAT credit especially in the subsidiary Rocca S.p.A.; ii) less receivables from other that at March 31, 2011 included receivables from insurance companies for a refund for which had been issued the notice of receipt but had not yet proceeded to liquidation. The collection is regularly occurred in the first half of the financial year 2011/2012.

14. CURRENT FINANCIAL RECEIVABLES

The current financial receivables amounted to zero at March 31, 2012 because it was totally grossed the remaining credit to third parties arising from the sale occurred in the previous year of the leases of two shops Damiani Japan KK. That receivable amounted to Euro 1,074 thousands at March 31, 2011.

15. CASH AND CASH EQUIVALENTS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Bank and post accounts	6,431	9,976
Cash on hand	227	241
Total cash and cash equivalents	**6,658**	**10,217**

The cash balance represents the existing bank accounts and post office and the existence of cash and cash equivalents at the end of the financial year.

16. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2012, gross of treasury stock amounted to Euro 36,344 thousands and is made up of 82,600,000 ordinary shares a par value of Euro 0.44 each.
No dividends were distributed during the financial year 2011/2012. On June 14, 2012 the Board of Directors did not propose to the Shareholders' Meeting any dividend payment for the financial year 2011/2012.
The number of treasury stock held in the portfolio amounted to 5,566,559 equivalent to Euro 8,149 thousands. 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 n. 15,745,315 while at March 31, 2012 they were n. 14,651,862.
The changes in shareholders' equity in the financial year ended March 31, 2012 (and illustrated in details in the statement of changes in equity) were as follows:

- loss for the year of Euro 12,076 thousands (including minorities);
- positive effects due to converting financial statements prepared in non-euro currencies for Euro 940 thousands;
- increase of cash flow hedging reserve for Euro 14 thousands;
- increase of stock option reserve for Euro 182 thousands, for the annual share related to the fair value valuation of the stock option plan 2010 (implemented in April 2011), according to the IFRS 2;
- capital increase for the contribution of a third party in the Japanese subsidiary Damiani Japan KK, equivalent to Euro 1,946 thousands;
- free distribution to employees of own shares for Euro 66 thousands.

17. FINANCIAL DEBTS: CURRENT AND MEDIUM-LONG TERM PORTION

The current and the medium-long term portion of financial debt was made up as follows at March 31, 2012 and March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011	NOTE
Non current portion			
Loan A	7,500	10,500	a
Loan B	2,500	5,000	b
Loan D	-	102	d
Financial Leasing	9,579	10,714	g
Total non current portion of medium/long term financial debt	**19,579**	**26,316**	
Current portion			
Loan A	3,000	3,000	a
Loan B	2,500	2,500	b
Loan C	-	89	c
Loan D	101	128	d
Loan E	167	833	e
Loan F	307	597	f
Financial Leasing	975	714	g
Total current portion of medium/long term financial debt	**7,050**	**7,861**	
Total medium/long financial debt	**26,629**	**34,177**	

The following is a breakdown of key information pertaining to loans granted by banks to companies at March 31, 2012:

a) Loan A was originally granted to Damiani S.p.A. in June 2009 for a total of Euro 15,000 thousands 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;
b) Loan B was originally granted to Damiani S.p.A. in June 2009 for a total of Euro 10,000 thousands 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;
c) Loan C was granted to Rocca S.p.A. in 2006 for a total of Euro 1,000 thousands with a repayment plan based on quarterly instalments. The loan was regularly repayed at April 30, 2011;
d) Loan D was granted to Rocca S.p.A. in December 2007 for a total of Euro 600 thousands with a repayment plan based on quarterly instalments that will be concluded at December 31, 2012; on such financing are paid interest at a rate equal to three months Euribor plus a spread of 1.10%;
e) Loan E was granted to Rocca S.p.A. in December 2007 for a total of Euro 2,000 thousands with a repayment plan based on constant quarterly instalments for the period from September 30, 2009 to June 30, 2012; on such financing are paid interest at a rate equal to three months Euribor plus a spread of 0.9%; This loan was granted with two covenants: i) the net equity must not be less than Euro 8,300 thousands; ii) the company must agree not to distribute dividends until the expiration of the loan; The first of these conditions was not respected at March 31, 2012 (the same at March 31, 2011), but anyway the classification as short term was related to the complete reimbursement of the loan within next twelve months;
f) Loan F was granted to Rocca S.p.A. in March 2008 for a total of Euro 1,000 thousands with a repayment plan based on constant quarterly instalments for the period from December 31, 2009 to March 31, 2013; on such financing are paid interest at a rate equal to three months Euribor plus a spread of 1.2%; This loan was granted with two covenants: i) the net equity must not be less than Euro 8,300 thousands; ii) the company must agree not to distribute dividends until the expiration of the loan; The first of these conditions was not respected at March 31, 2012 (the same at March 31, 2011), but anyway the classification as short term was related to the complete reimbursement of the loan within next twelve months.

Moreover, the point g) reports the leasing debts on buildings for a total of Euro 10,554 thousands and are relative to four contracts for the sale of real estates to related party, which are accounted for as a sale and leaseback arrangement under IAS 17. These real estate units are Damiani and Rocca store locations.

The table below shows the detail of net debt at March 31, 2012 and at March 31, 2011:

NET FINANCIAL POSITION (*) (in thousands of Euro)	Situation at March 31 2012	Situation at March 31 2011
Medium-long term loans and financing - current portion	6,075	7,147
Usage of credit lines, short term financing and others	8,617	5,965
Medium-long term loans and financing with related parties - current portion	975	714
Current financial indebtness	**15,667**	**13,826**
Medium-long term loans and financing - non current portion	10,000	15,602
Medium-long term loans and financing with related parties - non current portion	9,579	10,714
Non current financial indebtness	**19,579**	**26,316**
Total gross financial indebtness	**35,246**	**40,142**
Financial current assets	-	(1,074)
Cash and cash equivalents	(6,658)	(10,217)
Net Financial Position (*)	**28,588**	**28,851**

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

At March 31, 2012 the Group had a net financial debt equal to Euro 28,588 thousands, a slight improvement compared to March 31, 2011 that was equal to Euro 28,851 thousands. The positive change compared to the previous financial year, even in the presence of a negative operating performance, was due to: i) constant and careful monitoring of operating working capital; ii) collection of the capital increase subscribed by the new Japanese shareholder that has acquired a minority stake of 14% of the subsidiary Damiani Japan KK, equivalent to Euro 1,946 thousands.

18. TERMINATION INDEMNITIES

In the twelve-months period up to March 31, 2012 in Termination indemnities took place the following changes:

(in thousands of Euro)	
Termination Indemnities at March 31 2011	4,325
Cost related to current work performed	100
Financial expenses	205
Paid benefits	(744)
Actuarial Loss (Profit)	125
Termination Indemnities at March 31 2012	**4,011**

The changes during the period reflect the provisions and the outlays, including advances, implemented during the financial year.
Termination indemnities are part of a defined benefits plan.
Liabilities were calculated using the Project Unit Cost method based on the following:

- A series of financial assumptions were 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 the increases due to further years of service experience and the expected growth rate of pay received at the valuation date;
- It has been calculated the average present value of future benefits on the basis of the annual interest rate used and the probability that each service has to be effectively delivered at the financial statements date;
- It has been defined the liability for the Group identifying the share of the average present value of future benefits that refers to the service already accrued by the employee at the date of valuation;
- It has been established, on the basis of the liability determined in the previous paragraph and the reserve set aside in the financial statements as per the Italian law, the IRFS reserve.

Details of the assumptions adopted are as follows:

FINANCIAL HYPOTHESES	
Annual rate for the Net Present Value	5.00%
Annual inflation rate	2.00%

DEMOGRAPHIC HYPOTHESES	
Mortality	RG 48 (RGS table 48)
Inability	INPS tables by age and sex
Pensionable age	Reaching 100% of the mandatory social security requirements

Gains and losses deriving from actuarial calculations are booked to the income statement in each period as labor costs.

19. RISK RESERVES

At March 31, 2012 the risk reserves amounted to Euro 1,819 thousands, to cover expected costs of litigation for Euro 1,129 thousands and for Euro 690 thousands to reorganization measures in progress at several foreign subsidiaries. The value of the fund for litigation increased from Euro 481 thousands at March 31, 2011 to Euro 1,129 thousands at March 31, 2012 due to: i) provisions for Euro 851 thousands made in the period; ii) use of Euro 203 thousands. The reorganization fund decreased from Euro 950 thousands at March 31, 2011 to Euro 690 thousands to March 31, 2012 due to: i) provision for Euro 300 thousands; ii) use of Euro 560 thousands by the subsidiary Damiani Usa Corp.

20. OTHER NON CURRENT LIABILITIES

The amount of the item increased from Euro 493 thousands at March 31, 2011 to Euro 532 thousands at March 31, 2012. The amount is mainly constituted by the termination indemnities of directors.

21. TRADE PAYABLES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Trade payables due in less than 12 months	50,405	53,987
Bill payable, other credit securities and advances	775	686
Total trade payables	**51,180**	**54,673**

While in the presence of an increase in costs to third parties (for purchases of services and raw materials and finished products) the decrease in trade payables is related to the different mix of purchases from suppliers that match different terms of payment..

22. SHORT TERM BORROWINGS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Usages of short term credit lines and bank loans	8,614	5,942
Fair value of financial derivatives	3	23
Total short term borrowings	**8,617**	**5,965**

The use of short-term lines of credit are intended to finance working capital.
The increased exposure in the short term compared to March 31, 2011 (also related to the gradual repayment of medium/long term loans) did not result in adverse effects in terms of burden (interest rates paid on short-term debt are currently lower than those paid on medium/long term) and short-term credit lines available are underutilized.

23. TAX PAYABLES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
VAT payables	198	542
Taxes withheld from employees (IRPEF)	346	331
Current income tax payables (IRES and IRAP)	1,546	1,449
Other tax payables	61	103
Total tax payables	**2,151**	**2,425**

There were not significant changes from the previous year.

24. OTHER CURRENT LIABILITIES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Payables to social security institutions	1,176	1,043
Payables to employees	2,953	2,964
Other liabilities	411	625
Deferred income	841	230
Total other current liabilities	**5,381**	**4,862**

Payables to social security institutions included the debt for social security and social contributions and insurance.
The item payables to employees included liabilities for vacation and leave not enjoyed as well as the amount accrued and not yet delivered by 13-th and 14-th monthly.
The increase in accrued liabilities was primarily related to deferred income for rent in Damiani USA Corp. and Damiani International BV for Euro 373 thousands and accrued liabilities in Damiani Hong Kong L.t.d. for Euro 213 thousands.

25. REVENUES

The table below shows the consolidated revenues for the financial year ended March 31, 2012 and the financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Revenues from sales and services	151,308	143,323
Other recurring revenues	291	226
Total revenues	**151,599**	**143,549**

The breakdown of revenues by sales channel is the following:

REVENUES BY SALES CHANNEL (in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Retail	**46,330**	**41,377**
Percentage on total sales	30.6%	28.8%
Wholesale	**104,978**	**101,946**
Percentage on total sales	69.2%	71.0%
Total Revenues from sales and services	**151,308**	**143,323**
Percentage on total sales	99.8%	99.8%
Other Revenues	**291**	**226**
Percentage on total sales	0.2%	0.2%
Total Revenues	**151,599**	**143,549**

Consolidated revenues for the financial year ended March 31, 2012 amounted to Euro 151,599 thousands, compared to Euro 143,549 thousands in the financial year ended March 31, 2011, an increase equal to Euro 8,050 thousands (+5.6%).
The following is a breakdown of other income for the financial year ended March 31, 2012 and that ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Leases and rentals	262	192
Franchising	25	16
Revenue from sale of advertising material	4	18
Total other revenues	**291**	**226**

26. COST OF RAW MATERIALS AND CONSUMABLES

The table below shows the cost of raw materials and consumables (including purchases of finished products) for the financial year ended March 31, 2012 and the financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Purchases	80,741	71,994
Change in inventory of finished products	7,694	8,459
Change in inventory of raw materials and consumables	(2,748)	(977)
Total cost of raw materials and consumables	**85,687**	**79,476**

The increase of Euro 6,211 thousands, that in percentage terms was higher than the increase of sales, was mainly due to: i) growth of cost of raw materials; ii) increased incidence of sales of third parties brands through Rocca network, on which the purchase cost of the products (in weight % of sales) is higher than that of the products of the Group.

27. COST OF SERVICES

The breakdown of the item for the financial year ended March 31, 2012 and the financial year ended March 31, 2011 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Functional expenses	9,176	8,475
Advertising expenses	10,216	10,490
Other commercial expenses	3,499	3,656
Production costs	2,693	3,070
Consultancy	4,032	3,751
Travel/transport expenses	4,126	4,297
Directors' Fees	1,217	2,535
Usage of third party properties	10,485	9,955
Total cost of services	**45,445**	**46,229**

The cost of services recorded a decrease of Euro 784 thousands compared to the previous year to the combined effect of: i) contraction of same cost components, including the amount most significant that was the reduction of directors' fees as a result of waiver, formalized by the Board of Directors of Damiani S.p.A. on April 21, 2011, of the fees for the financial year 2011/2012 by the Brothers Damiani and refer to those approved for the position of directors of the Parent company; ii) increase in other cost components mainly related to the development of the Group abroad in the retail channel.

28. PERSONNEL COST

The breakdown of the item for the financial year ended March 31, 2012 and the financial year ended March 31, 2011 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Wages and salaries	19,415	18,718
Social security costs	5,292	5,259
Termination indemnity	1,052	760
Other personnel costs	295	84
Total personnel cost	**26,054**	**24,821**

The increase in cost compared to the previous year, equal to around 5%, was due to the inclusion of additional resources with highest cost per capita to support the development of business abroad and the strengthening of some core functions. These resources, in quantitative terms, have compensated outputs due to natural turnover, maintaining stable the average number of employees of the Group in the two financial years compared.
The table below shows the average number of employees of the Group in the financial year ended March 31, 2012 and the financial year ended March 31, 2011:

LABOUR CATEGORY	FINANCIAL YEAR 2011/2012	% ON TOTAL	FINANCIAL YEAR 2010/2011	% ON TOTAL	Δ
Managers	57	9.9%	55	9.6%	2
Clerks	407	71.0%	407	70.9%	0
Workers	109	19.0%	112	19.5	-3
Total	**573**	**-**	**574**	**-**	**-1**

29. OTHER NET OPERATING (CHARGES) INCOMES

The breakdown of the item for the financial year ended March 31, 2012 and the financial year ended March 31, 2011 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Other operating (charges) incomes	2,472	2,169
Bad debt reserve allowance	(1,194)	(1,266)
Total other net operating (charges) incomes	**1,278**	**903**

The positive net balance in both financial years and an increase of Euro 375 thousands, includes the following main components:
in the financial year 2011/2012:
1) The release of funds to cover possible returns by customers, that has been made in previous financial years and that at March 31, 2012 were in excess based on the update of the estimates and as a consequence of less use of this sale incentive to support the development of sales. The positive net effect was equal to Euro 3,338 thousands;
2) Provisions for risks and charges made to cover liabilities as probable for Euro 1,151 thousands;
3) Provision for doubtful accounts and credit losses booked in for Euro 1,194 thousands.

In the financial year 2010/2011:
1) The positive effects, deriving from the accounting between the other net incomes of the key money collected (Euro 1,829 thousands) for the early release of some boutiques no longer strategic for the Group. Against this income was booked the write-off of the corresponding amount initially paid to obtain the same locations and the other related fixed assets not yet completely amortized (those amounts are booked between amortization and devaluation). The net effects in the income statement were positive for Euro 533 thousands;
2) Provisions for risks and charges made to cover liabilities as probable for Euro 1,070 thousands;
3) Provision for doubtful accounts and credit losses booked in for Euro 1,266 thousands;
4) The release of funds for Euro 1,260 thousands, that have been made in previous financial years and that at March 31, 2012 were in excess based on the update of the estimates.

30. AMORTIZATION, DEPRECIATION AND DEVALUATION

The breakdown of the item for the financial year ended March 31, 2012 and the financial year ended March 31, 2011 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Amortization of intangible assets	496	643
Depreciation of tangible assets	2,551	2,773
Devaluation of intangible and tangibles assets	-	1,428
Total Amortization and depreciation	**3,047**	**4,844**

Overall, the item had a decrease of Euro 1,797 thousands due to both the lower value of depreciable fixed assets and the absence of devaluation of assets that in the previous financial year had impacted for Euro 1,428 thousands. The item Devaluation of assets referred to the complete write-off of the residual value of key money paid when the rental contract had been signed and that was related to the boutique which contract has been sold to third party during the financial year 2010/2011.
This write-off was related to the value of key money collected on the sale of such contracts entered under "Other net operating (charges)/income" described in note 29.

31. FINANCIAL (EXPENSES) AND INCOMES

The breakdown of the item for the financial year ended March 31, 2012 and the financial year ended March 31, 2011 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Net exchange charges	(200)	(154)
Other financial charges	(2,287)	(2,772)
Other financial revenues	375	377
Total financial (expenses) and incomes	**(2,112)**	**(2,549)**

The improvement of the balance from the previous financial year of Euro 437 thousands was mainly due to the lower financial expenses reported on financial debts that has been maintained on average smaller than the previous year and the increased use of short term debt, whose interest rates were lower than the interest rates paid on medium/long term loans, that according to the contractual maturities have been gradually reduced for repaying.

32. INCOME TAXES

Income taxes amounted to Euro 2,608 thousands in the financial year ended March 31, 2012 while in the financial year ended March 31, 2011 they had an impact of Euro 1,083 thousands.
The greatest burden for the financial year 2011/2012 was due to effects arising from the release of deferred tax assets recorded in prior years with respect to temporary differences between book value and tax value, related to the partial release of reserve for returns on sales and margins on stocks generated from intercompany sales that reduced during the financial year.
Furthermore, consistent with that taken in the previous year and despite the changes introduced by the Legislative decree 98/2011 which amended the rules for tax losses carried forward (article 84 of the Income Tax Code), making them temporally unlimited even if with quantitative limits, it is proceeded to recognized deferred tax assets arising from losses of the previous financial year 2010/2011 with reference to the subsidiaries Rocca S.p.A, Alfieri & St. John S.p.A. and Laboratorio Damiani s.r.l., which future plans support the recoverability of the values and that have already reached a positive taxable income in the financial year 2011/2012, for a total of Euro 379 thousands. Also in relation with an accurate interpretation of IAS 12 was not undertaken to book the deferred tax assets related to Damiani S.p.A. and New Mood S.p.A., that in the financial year 2011/2012 have registered a negative taxable income. The amount of deferred tax assets not recorded cumulatively amounted to Euro 3,736 thousands.
The current and deferred taxes recognized directly in equity are active and equal to Euro 405 thousands.
The reconciliation between taxes from the consolidated financial statements and theoretical tax calculated on the basis of IRES rate applicable to Damiani S.p.A. in the financial year ended March 31, 2012 and the financial year ended March 31, 2011 is presented below:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Result before taxes	**(9,468)**	**(13,467)**
IRES (Corporate) tax rate for the period	27.5%	27.5%
Theoretical tax burden	2,604	3,703
Not recoverable subsidiary losses	(2,506)	(4,809)
IRAP (Regional tax on productive activities) effect	(392)	(512)
Differences in tax rates	33	157
Changes in the tax rates	(267)	924
Other non deductible costs	(2,080)	(546)
Total differences	**(5,212)**	**(4,786)**
Total taxes for Income statements	**(2,608)**	**(1,083)**
Effective tax rate	27.5%	8.0%

33. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes the relationships between the companies of the Damiani Group and the related parties as defined in IAS 24 and by Consob Regulation n. 17221/2010 and subsequent amendments and additions, for the financial years ended March 31, 2012 and March 31, 2011, highlighting the impact on the consolidated economic and financial values.
Dealings with related parties are almost exclusively related to real estates and financial (leases, sale and lease-back transactions, rental of a business unit).
The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2012.

(in thousands of Euro)	Financial Year 2011/2012		Balance at March 31 2012		
	Operating costs	Financial expenses	Other current assets	Long term debts (including leasing)	Trade payables
D. Holding S.A.	(170)	-	-	-	(510)
Imm.re Miralto S.r.l.	(1,836)	(1,012)	1,166	(10,554)	(2)
Montenapo 13 S.r.l.	(30)	-	-	-	-
Roof Garden S.A.	(90)	-	-	-	(185)
Executives with strategic responsabilities	(307)	-	-	-	(64)
Total with related parties	**(2,433)**	**(1,012)**	**1,166**	**(10,554)**	**(761)**
Total from Financial Statements	**(158,955)**	**(2,487)**	**11,788**	**(35,246)**	**(51,180)**
% age weight	**2%**	**41%**	**10%**	**30%**	**1%**

- The costs of Euro 170 thousands to D.Holding S.A. refer to rental payment made by the subsidiary Damiani International B.V. for the use at special events of the masterpieces that won the Diamonds International Awards, and are owned by the related party;
- The costs to Immobiliare Miralto S.r.l. refer to rental payments for the premises in Milan, in Turin and in Valenza (AL). Moreover, in the period there are also additional financial expenses for Euro 1,012 thousands, that correspond to the interest on the financial debt with related party for sale and lease-back operations relating to four real estates in Milan, Padova e Taormina where boutiques Damiani and Rocca are located. The outstanding financial debt at March 31, 2012 amounts to Euro 10,554 thousands. The other current assets include: i) the prepaid expense initially paid by Rocca S.p.A. in the previous financial year when the lease contract related to the Turin boutique was signed (the value at March 31, 2012 of this current asset is equal to Euro 742 thousands); ii) the deposit paid by Damiani S.p.A. to the related party in respect to the expenses incurred by him to restore the premises in Milan where will be transferred the marketing department Damiani during the financial year 2012/2013;
- Costs to Montenapo 13 s.r.l. refer to rents paid by the subsidiary Rocca S.p.A. for a store in Italy;
- Costs to Roof Garden S.A. refer to rents for a premises in New York used by the subsidiary Damiani Usa Corp.;
- The costs to executives with strategic responsibilities were related to services which fall under the ordinary operations of the Group.

The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2011.

(in thousands of Euro)	Financial Year 2010/2011		Balance at March 31 2011		
	Operating costs	Financial expenses	Other current assets	Long term debts (including leasing)	Trade payables
D. Holding S.A.	(170)	-	-	-	(340)
Imm.re Miralto S.r.l.	(2,395)	(1,098)	935	(11,428)	(1,225)
Roof Garden S.A.	(93)	-	-	-	(268)
Executives with strategic responsabilities	(246)	-	-	-	(95)
Total with related parties	**(2,904)**	**(1,098)**	**935**	**(11,428)**	**(1,928)**
Total from Financial Statements	**(154,467)**	**(2,926)**	**11,401**	**(40,142)**	**(54,673)**
% age weight	**2%**	**38%**	**8%**	**28%**	**4%**

- The costs of Euro 170 thousands to D.Holding S.A. refer to rental payment made by the subsidiary Damiani International B.V. for the use at special events of the masterpieces that won the Diamonds International Awards, and are owned by the related party;
- The costs to Immobiliare Miralto S.r.l. refer to rental payments for the premises in Milan, in Turin and in Valenza (AL). Moreover, in the period there are also additional financial expenses for Euro 1,098 thousands, that correspond to the interest on the financial debt with related party for sale and lease-back operations relating to two real estates in Milan, where Damiani and Rocca boutiques are located, two multi brand stores Rocca in Padova and Taormina and until September 2010 the workshop premises in Bassignana (AL), used by the subsidiary Laboratorio Damiani s.r.l. The outstanding financial debt at March 31, 2011 amounts to Euro 11,428 thousands. At September 30, 2010 the sale and lease-back contract for the workshop in Bassignana (AL) was terminated in advance following the transfer of the factory to Valenza; the residual value of the financial debt, equal to Euro 184 thousands, has been eliminated and converted in equity. The other current assets include the prepaid expense initially paid by Rocca S.p.A. and described above (Euro 1,000 thousand) when the lease contract related to the Turin boutique was signed (June 2010);
- Costs to Roof Garden S.A. refer to rents for a premises in New York used by the subsidiary Damiani Usa Corp.;
- The costs to executives with strategic responsibilities were related to services which fall under the ordinary operations of the Group.

In both periods are also outstanding loans agreements between the Parent company and certain subsidiaries negotiated at arm's.

34. COMMITMENTS AND POTENTIAL LIABILITIES

There are outstanding commitments and liabilities arising from obligations under way and which is likely the use of resources to fulfill the obligation, which are not already reflected in the values of the financial statements at March 31, 2012.

On December 29, 2009 the Tax Agency in Milan – Office 6 notified the subsidiary New Mood S.p.A., together with the parent company Damiani S.p.A. which took part in the fiscal consolidation system, an assessment notice for the tax year 2004, based on which there was contested the fiscal deductibility of costs for about Euro 8,000 thousands relating the purchases of goods from supplier companies resident in Hong Kong, maintaining that for these companies did not exist the tax exemption conditions laid down by article no.110, paragraph 11 of the TUIR (Consolidated Income Tax Act). The amount demanded by the Office, in terms of taxes and fines net of interests, was Euro 6,226 thousands. The company presented a plea against this assessment notice on May 28, 2010, because it believes it has acted according to the principles of procedural and substantive fairness and it can demonstrate the illegality of the tax claim. On November 5, 2010 the Provincial Tax Commission of Milan issued the decision at first instance which accepting the reasons of the plaintiff New Mood

S.p.A., recognized the deductibility of the costs incurred in 2004 to operations with foreign suppliers. On May 5, 2011 the Regional Tax Commission of Milan of the Tax Agency presented an appeal with a request for public hearing at first instance sentence of November 2010, maintaining that the reasons were insufficient and that the evaluation of the facts and proofs supplied by Ne Mood S.p.A. were erroneous and reiterating that there did not exist the exemption conditions laid down by article no. 110, paragraph 11, of the TUIR. In terms of the judicial process that regulates the litigation, New Mood S.p.A. has produced its counterclaims and on May 10, 2012 a hearing was held on the second level of judgment.
Therefore, it is now pending appellate decision that should be issued shortly. In the light of what is described above and the fact that in the first instance the position of New Mood S.p.A. has been well received, the liabilities continue to be classified as "possible", in line with what already happened in the financial statements at March 31, 2010 and at March 31, 2011.
It's going from the Italian Tax Representative of the subsidiary Damiani International B.V. a check on the correct application of the value added tax by the Provincial Tax Agency of Como. This inspection was initiated on March 14, 2012 and at present, on the basis of information provided by the external tax advisor that assists the Company during the checks, there are no grounds to assume probable obligations on the company.

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

There were no positions or transactions deriving from atypical and/or unusual and non-recurring as defined by Consob n. 15519 of July 27, 2006.

36. EARNINGS (LOSSES) PER SHARE

The basic earnings (losses) per share was calculated dividing the net result for the financial year attributable to the ordinary shareholders of the Issuer Damiani S.p.A. by the weighted average number of shares in circulation during the period. For the calculation of earnings (losses) per share was determined by the weighted average number of shares in circulation considering also the effects arising from the purchase of own shares starting from March 2008, following the resolutions approved by the Shareholders' Meeting on February 22, 2008, July 22, 2009, July 21, 2010 and July 27, 2011.
The following section provides information on the shares used in calculating basic and diluting earnings/(losses) per shares:

BASIC EARNINGS (LOSSES) PER SHARE	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
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	77,800,445	78,082,892
Basic Earnings per Share (amount in Euro)	**(0,15)**	**(0,19)**

DILUTED EARNINGS (LOSSES) PER SHARE	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
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	77,800,445	78,082,892
Weighted average number of ordinary shares for computation of basic earnings per share	77,800,445	78,082,892
Diluted Earnings per Share (amount in Euro)	**(0,15)**	**(0,19)**

37. DIRECTORS' FEES

The fees for the financial year 2011/2012 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A. also with reference to what is perceived to similar functions performed within other Group companies are reported in the Annual report on remuneration, prepared pursuant to article 123-ter of Legislative Decree no. 58/1998 and article 84-quater of Consob Regulation no. 11971/1999.
This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2012/2013 and the procedures used for the adoption and implementation of this policy, and contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of Legislative Decree no. 58/1999.
The Remuneration report is made available to the public, together with the annual financial statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website www.damiani.com.

38. STOCK OPTION PLANS

The General Meeting of July 21, 2010 approved the adoption of the Stock option plan 2010, pursuant to article 114 bis of the TUF 58/1998, which provides for the free allocation to beneficiaries of option for maximum n. 3,500,000 shares of Damiani S.p.A. and has authorized the Board of Directors to implement this plan.
This plan can be implemented in one or more tranches, with the allocation of options to purchase or subscribe for share within five years from the date of the General Meeting for directors, executives, managers and other employees, consultants and collaborators of Damiani S.p.A. and other Group companies.
On April 21, 2011 the Board of Directors of Damiani S.p.A., following a positive evaluation of the Remuneration Committee, has resolved to establish an initial implementation of the Stock option plan identifying the beneficiaries, the number of options to be assigned, as well as its timing, strike price and mode of enjoyment. At March 31, 2012 beneficiaries were n. 47, to which have been allocated a total of n. 1,768,000 free and personal options, within the maximum n. 3,500,000 options under the Plan approved by Shareholders' Meeting. The strike price of the option is Euro 1.47 per share of Damiani S.p.A., higher by about 50% at the current value at grant. Moreover, were fixed three different period of maturation (the vesting period): until April 21, 2013, April 21, 2014 and April 21, 2015 with exercise of options granted in the following three years (it being understood that at the time of vesting must be in force the relevant relationship, at the date of the effective exercise this relationship can be terminated).
The shares of the Plan will be drawn from the own shares of Damiani S.p.A. in portfolio; therefore, the allotment of shares will have no dilutive effect in respect of the current shareholders of Damiani S.p.A

39. CAPITAL MANAGEMENT

The primary objective of the Damiani Group is to guarantee, even in period of economic crisis and financial stress, the best possible balance between assets and liabilities (solvency ratio). Starting from this principle the Group is committed, even in a not positive market environment, to maintain an high capital strength and to limit debt to the banking system (by utilizing more medium-long term loans at a fixed interest rate) in order to maximize its credit rating and therefore support the expansion plans of the Group in the best possible financial conditions.
The Group manages its capital structure and changes it according to the changes in economic conditions and in the targets of its strategic plans.

40. FINANCIAL RISK MANAGEMENT

At March 31, 2012 the Damiani Group had a negative net financial position of about Euro 28.6 million, in line with that at March 31, 2011, that was equal to Euro 28.9 million, despite a negative net result and thanks to the actions implemented during the financial year to monitor carefully the operating working capital.
The Group has adjusted its policy of financial risk management at the existing situation and at the specific projects which in turn intended to develop.
In the following paragraphs are described the main financial risks to which the Damiani Group is exposed and that are constantly monitored in order to identify appropriate actions to mitigate them, listing them in descending order of importance.

Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.
With reference to the dealership, the Group deals with a customer base consisting mainly of jewelry shops and distributors and therefore are not generally required collateral. The Group carries out a preliminary information surveys to customers through a specific information company and monitors all customers with the attribution of a specific trust; for all is also operating an automatic control with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection.
Where there are critical situations with the customers, the credit management department formalizes plans to return while generating a lengthening of the average collection times, minimizes the risk of loss.
This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged (mostly domestically), and the difficult to access to credit can impact the solvency of some clients. The Group shall conduct timely assessments of risks both in the closing of the financial year that in course of the same, in correspondence with the preparation of the interim reports.
The table below shows the maximum potential exposure to the credit risk at March 31, 2012 and at March 31, 2011.

(in thousand of Euro)	March 31 2012	March 31 2011
Current financial receivables	-	1,074
Cash and cash equivalent	6,431	9,976
Trade receivables	29,204	31,232
Other non current assets	3,924	3,493
Other current assets	13,673	14,189
Total maximum exposure to the credit risk	**53,232**	**59,964**

In relation to trade receivables the exposure reported in the table has already been appropriately adjusted to reflect the estimated realizable value at the date of the financial statements based on the assessment and the findings reported in note 11.

Liquidity risk

The financial equilibrium of the Group is mainly linked, on one hand, to the strict control of the financial resources that are generated and the resources that are absorbed by the working capital linked to operational activities in turn strongly influenced by widespread seasonal with over 40% of the annual revenues concentrated within the third quarter of the financial year, i.e. from October to December, and to a lesser extent, investments made and on the other hand the renewal of debt maturities and the related conditions in the credit market. The Group manages the liquidity risk through the strict control of the operating working capital, consisting of stock and trade receivables and payables. During the financial year Damiani S.p.A. has mainly transferred receivables "pro-solvendo", for the purpose of optimizing the costs related to the different forms of possible financing. Compared to the current use, the Damiani Group has bank credit lines much broader and equal to Euro 109 million.

As part of the proper balance between resources generated or used by operating activities also includes assessment made by management to bring the inventories to a size better related to the current volume of activity. These evaluations have led the Group to make during the year certain destructions with recovery of valuable raw materials. These actions, under current market circumstances, can be beneficial both in terms of brand equity and control of liquidity risk and optimization in the management of working capital.

The table below shows the detail of the liquidity risk:

	ANALYSIS OF THE DUE DATE AT MARCH 31 2012			
(in thousand of Euro)	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	51,180	-	-	51,180
Long term financial debts	6,075	10,000	-	16,075
Debts for financial leasing	975	3,900	5,679	10,554
Short term borrowings	8,617	-	-	8,617
Other current liabilities	7,532	-	-	7,532
Total exposure	**74,379**	**13,900**	**5,679**	**93,958**

	ANALYSIS OF THE DUE DATE AT MARCH 31 2011			
(in thousand of Euro)	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	54,673	-	-	54,673
Long term financial debts	7,147	15,602	-	22,749
Debts for financial leasing	714	2,856	7,858	11,428
Short term borrowings	5,965	-	-	5,965
Other current liabilities	7,287	-	-	7,287
Total exposure	**75,786**	**18,458**	**7,858**	**102,102**

Risks linked to the price fluctuations and availability of raw materials

Among its raw materials the Damiani Group mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors such as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2011/2012 the average price of gold, which is normally considered as being a shelter-good in times of economic/ financial crisis and subject to much speculation, continued to rise highly in price. In the month of April 2011 the average monthly value was 32.86 Euros per gram (compared with an annual average of the previous financial year 2010/2011 which was equal to 31.44 Euros per gram), and has continued to grow in the following months, reaching the average price of 40.76 Euros per gram of March 2012 (with an average value for the financial year 2011/2012 of 38.59 Euros per gram, +23% over the previous twelve months). Over the next months (April-May 2012) the rising race seems to have stopped and the price remained stable around 40 Euros per gram.

This upward trend has also hit other raw materials used in jewelry production (for example: diamonds and silver), in some cases accompanied by severe and sudden swings that make it extremely difficult to program purchases and, where appropriate, also the construction of a hedging strategy. For 2012, analysts said it should assist in a decline in prices of precious raw materials from the peak reached in 2011, without excluding the possibility of strong and rapid oscillations.

The risks can increase in relation to the trend of exchange rates, because some raw materials have official prices in different currencies from the Euro and their purchases are settled in currencies such as US Dollars for diamonds and Japanese Yen for pearls, while the functional currency in the Group is Euro.

The Damiani Group mitigates this risk as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2012 active contracts relating to purchases of gold were 6 for a total quantity of 100 kilograms and an agreed equivalent of Euro 3,926 thousands); b) the purchases often consist of finished products from suppliers with who there exist well established relationships and defined agreements for a medium-term time that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the incidence of gold is not majority compared to the overall cost of production; d) the retail price is increased (usually annually) in relation to the increase in the production costs. However, it has to be underlined that in the medium-long term the uptrend in the price of raw materials used in the production process inevitably leads to a reduction of margins for the Group, because is not possible to pass totally the increase of production costs to the retail price, especially in stable markets.

Interest rate risk

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

In order to limit the risk of exposure to fluctuations in interest rates, in June 2009 the Group signed medium-long term loans, for a maximum period of 6 years and for a total amount of Euro 25,000 thousands at a fixed rate between 4% and 4.5%, without any additional guarantees and covenants. The residual value at March 31, 2012 of such funding signed by Damiani S.p.A. was Euro 15,500 thousands.

The subsidiary Rocca S.p.A. has three outstanding loans, the residual value at March 31, 2012 amounted to Euro 575 thousands and that will be fully extinguished by March 31, 2013.

The Group is therefore facing a deep and prolonged global financial crisis with a proper balance of its debt structure and the cost control of the same, using a lesser extent the short-term financing (credit lines and factor), more exposed to fluctuations in interest rates and credit crunches that may occur in times of crisis like the present.

At March 31, 2012 the Group's debt structure is still well balanced with a weight greater than 40% of the sources of external financing in the medium-long term (net of the amount payable to related parties consists of the operations connected with the sale and lease back) in the total gross debt to the banking system.

The use of short-term borrowings during the financial year 2011/2012, to cover the needs of working capital (at March 31, 2012 short-exposure amounted to Euro 14,692 thousands, of which Euro 6,075 thousands relating to installments due within 12 months of medium-long term financing) is, however, occurred at average rates less than 3% per year, lower than those paid on outstanding medium-long term financing (around 4.2%).

In relation to the gradual repayment of medium-long term financing and to the expected cash needs during the financial year 2012/2013 the Group will also assess the ability to turn new medium-long term financing, considering market conditions proposed by the banking system.

Exchange rate risk

The Damiani Group's functional currency is the Euro and, therefore, the transactions that originate in other currencies are subject to exchange rate fluctuations, mainly of the US Dollar and Japanese Yen, which are the currencies in which are prepared the financial statements of the foreign subsidiaries located outside the Eurozone. When converting the fluctuations in exchange rates affect the financial result and financial position of the Group.

Furthermore, some purchases of raw materials and finished products, as described above, are made in US Dollars and Japanese Yen, which exposes them to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk. The notional amount of the currency forward purchases made by the Group during the financial year amounted to a total of Euro 9,377 thousands.

At March 31, 2012 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 1,603 thousands and by the subsidiary New Mood S.p.A. for a total of Euro 132 thousands. At March 31, 2011 contracts within the Group were instead equal to a total of Euro 2,997 thousands.

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 differencies emerge from a comparison of the book value and fair value of the different categories of financial instruments used by the Group and booked to the financial statements.

	BOOK VALUE						FAIR VALUE	
	Total		current		non current			
(in thousand of Euro)	March 31 2012	March 31 2011	March 31 2012	March 31 2011	March 31 2012	March 31 2011	March 31 2012	March 31 2011
Cash and cash equivalent	6,658	10,217	6,658	10,217	-	-	6,658	10,217
Current financial receivables	-	1,074	-	1,074	-	-	-	1,074
Trade receivables	29,204	31,232	29,204	31,232	-	-	29,204	31,232
Other financial assets	17,597	17,682	13,673	14,189	3,924	3,493	17,597	17,682
Total financial assets	**53,459**	**60,205**	**49,535**	**56,712**	**3,924**	**3,493**	**53,459**	**60,205**
Trade liabilities	51,180	54,673	51,180	54,673	-	-	51,180	54,673
Financial debts	35,246	40,142	15,667	13,826	19,579	26,316	35,246	40,142
Other liabilities	7,532	7,287	7,532	7,287	-	-	7,532	7,287
Total financial liabilities	**93,958**	**102,102**	**74,379**	**75,786**	**19,579**	**26,316**	**93,958**	**102,102**

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 instrument 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: 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, 2012 are classified at level 2 and during the financial year 2011/2012 there were no transfer from level 1 or 3 to level 2.

At March 31, 2012 the Group holds derivative financial instruments such as the IRS contracts on loans obtained from banks. The economic effect of the recognition of those effects in the financial statements at March 31, 2012 was marginal and equal to Euro 14 thousands (recognized in the comprehensive income statement).

41. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

In May, the Damiani Group has signed a distribution agreement for the Damiani brand in China with the Hengdeli Group, a leader in the distribution of haute horlogerie on the Chinese market. The multi-year agreement plans to open several shops in shops and corners Damiani inside of the store network of the partner. Hengdeli Group is listed on the Stock Exchange of Hong Kong since 2005, has a market capitalization of around Euro 1.4 billion and between its shareholders include also Swatch Group and LVMH and operates over 400 stores located in China, Hong Kong, Macau and Taiwan.

In May it has been opened the first mono-brand Damiani boutique in New Delhi inside the luxury Oberoi Hotel, where there are already international prestigious brands of luxury. This opening is also the start for the Group's penetration of the Indian market, characterized by high relief and potential worldwide.

42. AUDITING COSTS

The following table, prepared in accordance with article 149-duodecies of Consob Issuers' Regulation, shows the contractual fees accrued in the financial year ended March 31, 2012 for services provided by the independent audit company and by entities 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 2011.

The costs of these services are summerized in the table below

(in thousands of Euro)				
TYPE OF SERVICES	SERVICE PROVIDER	SERVICE PROVIDE TO	SERVICES	FEES
Audit	Reconta Emst & Young S.p.A.	Parent company	Professional fees	174
		Parent company	Other expenses	38
Audit	Reconta Emst & Young S.p.A.	Subsidiaries	Professional fees	222
		Subsidiaries	Other expenses	36
		Total		**470**

43. EXCHANGE RATES

The exchange rates at March 31, 2012 and at March 31, 2011 used for the conversion of financial statements in foreign currencies were the following:

CURRENCY	AVERAGE 2011/2012	SPOT MARCH 31, 2012	AVERAGE 2010/2011	SPOT MARCH 31, 2011
U.S. Dollar	1.378	1.336	1.322	1.421
Japanese Yen	108.804	109.560	113.083	117.610
Swiss franc	1.213	1.205	1.337	1.301
G.B. Pound	0.863	0.834	0.850	0.884
Hong Kong Dollar	10.714	10.371	10.281	11.056
Pataca Macau	11.030	10.676	10.864	11.386
Mexican Peso	17.727	17.022	N.A.	N.A.

For the Board of Directors
President and CEO
Mr. Guido Grassi Damiani

Attestation regarding the Consolidated Financial Statements, pursuant to article 154 bis of the Legislative Decree 58/1998

1. The undersigned Mr. Guido Grassi Damiani, President 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, paragraph 3 and 4, of the Legislative Decree n. 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, 2012.

2. Furthermore it is certified that the consolidated financial statements:

a) Are prepared in conformity with the International Accounting Standards as endorsed by the European Union pursuant to the EC regulation n. 1606/2002 of the European Parliament and Council dated July 19, 2002;
b) Agree with the contents of the accounting books and entries;
c) Provide a true and fair representation of the balance sheet, economic and financial position of the Issuer and the companies included in the consolidation area;
d) The report on operations contains a reliable analysis of the results of operations, and the situation of the Group, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 14, 2012

Guido Grassi Damiani	Gilberto Frola
President and CEO	Executive in charge of drawing up the accounting documents

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of 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 March 31, 2012 and for the year then ended, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 Damiani S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated June 28, 2011.

3. In our opinion, the consolidated financial statements of the Damiani Group as of March 31, 2012 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 Directors of Damiani S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure published in the "Inverstor relation" section of Damiani S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented 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 the Company's Ownership Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented 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 the Company's Ownership Structure are consistent with the consolidated financial statements of the Damiani Group as of March 31, 2012.

Milan, June 28, 2012

Reconta Ernst & Young S.p.A.
Signed by: Fabio Mischi, partner

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

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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FINANCIAL STATEMENTS OF DAMIANI S.P.A. AS OF MARCH 31 2012

Prepared in accordance with IAS / IFRS accounting standards

Damiani S.p.A.

Report on operations
as of March 31 2012

Damiani S.p.A. business activities

Damiani S.p.A., parent company of the Damiani Group, focuses on the sale of jewelry nationwide, with its Damiani and Salvini brands, through two channels of distribution:

- The wholesale channel, made up of multi-brand independent jewelry shops, franchisees and stockists;
- The retail channel made up of mono-brand points of sale managed directly by the Company. At March 31, 2012 there were n. 5 directly managed points of sale in Italy (Milan, Rome, Bologna, Florence and Naples), all under the Damiani brand.

Moreover, the Company distributes in Italy through the wholesale channel third-party licensed brand products, which licensors are prestigious international brands of fashion and Made in Italy actives in the automotive sector (Ferrari, Maserati and Ducati).

Finally, the Company handles requests for products (Damiani, Salvini and licensed brands) coming from the market both domestic and abroad through its subsidiaries that cover their specific geographic areas/channels of responsibility. These subsidiaries are: Rocca S.p.A. for Italy and Damiani International B.V. for the foreign market (the latter to reach different final markets, in turn, makes use of the different subsidiaries of the Group operating abroad: Rocca International S.A., Damiani Usa Corp., Damiani Japan K.K., Damiani France S.A., Damiani Hong Kong L.t.d., Damiani Macau L.t.d. and Damiani Mexico S.A. de C.V.).

The jewelry products are manufactured by the in-house production unit, supplied by the subsidiary Laboratorio Damiani S.r.l., as well as from third-party producers located mainly in the district of Valenza (AL), international center of excellence in the manufacture of high value and quality jewelry craftsmanship.

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 Damiani S.p.A. was renewed on April 3, 2009 by the Shareholders' Meeting which nominated 7 members of which 3 non-executive and 2 independent; later, the Shareholders' Meeting held on July 21, 2010 voted to bring to eight board members, that will last in charge until the approval of the current financial statements as of March 31, 2012.

The composition of the Board of Directors complies with the applicable regulations (as per articles 147-ter and 148, paragraph 3, of the Legislative Decree no. 58/1998) 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. These criteria were subjected to review on June 14, 2012.

The Board also named a Lead Independent Director, in compliance with the recommendations of the Code.

Damiani S.p.A. adopted a Code of Ethics and the organizational model prescribed by Legislative Decree no. 231/2001. The Code of Ethics refers to the values the Company 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, agents and business partners and in general all individuals who operate on behalf of the Company.

The Organizational Model adopted in its current version by the Board of Directors of Damiani S.p.A. on May 23, 2012 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.

To ensure the correct application of the Organizational Model supervises the Supervisory Body under Legislative Decree no. 231/2001. On September 15, 2011 the Board of Directors of Damiani S.p.A. has reinstated the composition of the Supervisory Body of Damiani S.p.A. that will be in charge until March 31, 2014, appointing Francesco Delucchi, as Internal auditor officer, to replace the resigning member. The Supervisory Body is collegial and include the Internal auditor and two external consultants, paid for the job done.

This structure assures that the Supervisory 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.

[1] Damiani S.p.A. ends its financial year at March 31, therefore the Financial statements at March 31, 2012 cover the period April 1 2011 – March 31 2012 (hereafter Financial year ended March 31, 2012 or Financial year 2011/2012). For comparative purposes are exposed the data relating to the period April 1 2010 – March 31 2011 (hereafter Financial year ended March 31, 2011 or Financial year 2010/2011).

The Supervisory Body has been assigned all the powers and resources (with a budget periodically revised) necessary for ensuring 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 no. 231/2001. The Supervisory Body has the possibility to make recommendations to the Board of Directors about updating or adjustments of the Organizational Model.
The Supervisory Body of Damiani S.p.A. met 7 times during the Financial year 2011/2012.
For further details about the system of Corporate governance of Damiani S.p.A., together with information on the company structure per article 123–bis of Legislative Decree no. 58/1998, see the Annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relation section of the website www.damiani.com.

About the obligation under Title VI of the Regulation of Legislative Decree no. 58 of February 24, 1998 concerning market discipline (Market regulations), states that Damiani S.p.A. controls indirectly two companies which are not part of the European Union and which are relevant as per article 151 of the Market Regulations:

- the companies have, in the opinion of the Issuer Damiani S.p.A., an administrative and reporting system suitable for regular reporting to the Corporate of Damiani S.p.A. of economic and financial figures necessary to prepare the consolidated financial statements and to carry out the statutory audit;
- the Issuer has the Statute and knows the composition of the Corporate bodies, and their powers, of the above mentioned companies, and it is advised of any modifications in a timely fashion;
- the reporting package of the two companies, prepared for the purpose of consolidated financial statements of the Damiani Group, are provided in the manner and terms established by law.

Share buy-back program

The Shareholders' Meeting of July 27, 2011 resolved to authorize – subject to revocation, for the part not executed of the resolution adopted by the Shareholders' Meeting of July 21, 2010 – the purchase and disposal of own shares under co-joined articles 2357 and 2357 ter of the Civil Code and article 132 of Legislative Decree no. 58/1998.
The reasons for the authorization consist of the possibility of: i) using own shares in operations related to projects of interest for the Issuer Damiani S.p.A., as arises the opportunity for exchanges or transfers of shareholdings; ii) intervene in the interests of the Company and all its shareholders, in relation to contingent market situations, to perform an activity that supports the liquidity of the stock itself, by promoting the regular course of negotiations, in compliance with applicable laws and regulations and however ensuring the equal treatment of shareholders; iii) proceed with investments in shares of the Company, if trend in stock prices or the amount of cash available can make it convenient, economically, this operation; iv) assign/transfer shares to employees and to implement plans based on financial instruments pursuant to article 114-bis of Legislative Decree no. 58/1998; v) purchase in connection with commercial transactions of interest for the Company.
The authorization to purchase own shares is structured as follows:

- Damiani S.p.A. may purchase a maximum of ordinary shares whose nominal value does not exceed the limit of the law, up to a maximum of no. 16,250,000 ordinary shares, at a nominal value of 0.44 euro each, also keeping in consideration the shares held by the Company and, in case, by the subsidiaries;
- the authorization was granted for a period of 18 months starting from the Shareholders' Meeting date and lasting until the date of January 27, 2013;
- the purchase price of each share, including additional expenses of purchase, must be as a minimum not less than 20% and a maximum not more than 20% of the official price registered by the title in the trading session before each exchange transaction;
- purchase transactions will be conducted on regulated markets in accordance with local regulations (article 132 of Legislative Decree no. 58/1998; article 144-bis of Consob Regulation no. 11971/1999) and respecting the principle of equality treatment of Shareholders.

As of March 31, 2012 the own shares in portfolio were no. 5,566,559 (equal to 6.74% of the share capital) and the total expense for the buy-back plan, started with the resolution of the Shareholders' Meeting of Damiani S.p.A. on February 22, 2008 was Euro 8,149 thousands at an average price for the purchase of Euro 1.464 per share. It shows that between April 2011 and March 2012 did not purchase its own shares.

Administrative Bodies' fees

The fees for the financial year 2011/2012 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A. also with reference to what is perceived to similar functions performed within other Group companies are reported in the Annual report on remuneration, prepared pursuant to article 123-ter of Legislative Decree no. 58/1998 and article 84-quater of Consob Regulation no. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2012/2013 and the procedures used for the adoption and implementation of this policy, and contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of Legislative Decree no. 58/1999.

The Remuneration report is made available to the public, together with the annual financial statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website www.damiani.com.

Research and development

The product offered, together with the reputation and image of the brands distributed, 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 Company operates with a team dedicated to product development. In the financial year 2011/2012 the total cost incurred for product development amounted to Euro 1,015 thousands.

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

For market risks affecting the Company and which are strongly related to the current economic environment, characterized even by the financial crisis and credit, which generates negative effects on the industrial system and a generally high level of uncertainty in forecasting consumer trends, see as already indicated in the report of operations of the consolidated financial statements.

The financial risk management is part of wider policies for managing the Group financial structure. For specific details see note 35. Financial risk management.

For commitments and contingencies which affect Damiani S.p.A. see note 32. Commitments and potential liabilities.

Human resources and environment

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

Key Data

SHARE CAPITAL	March 31 2012	March 31 2011
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. (1)	56.76%	56.76%
Sparkling Investment S.A. (1)	1.45%	0.57%
Guido Grassi Damiani	5.89%	5.02%
Giorgio Grassi Damiani	6.11%	6.11%
Silvia Grassi Damiani	5.31%	5.68%
Damiani S.p.A. (buy back) (2)	6.74%	6.80%
Market	17.74%	19.06%
SHARES HELD BY THE SUBJECTS INDICATED BY ARTICLE 79 LEGISLATIVE DECREE NO. 58/1998		
INDIVIDUAL	OFFICE HELD	NUMBER OF SHARES
Guido Grassi Damiani (total no. 58,513,396) (3)	Director	4,865,687
Giorgio Grassi Damiani	Director	5,047,371
Silvia Grassi Damiani	Director	4,387,371
Strategic executivies		58,100

(1) Companies attributable to Damiani family.

(2) The Shareholders' Meeting of July 27, 2011 has approved the authorization, for the part not executed of the resolution of the Shareholders' Meeting of July 21, 2010, for the purchase of own shares up to a maximum of no. 16,250,000 ordinary shares of Damiani S.p.A. within a period of 18 months from the date of the resolution. As of March 31, 2012 own shares in portfolio were no. 5,566,559, equal to 6.74% of the share capital.

(3) As controlling shareholder are traceable to Guido Grassi Damiani the shares owned by Leading Jewels S.A., Sparkling Investment S.A. and the own shares held by Damiani S.p.A.

Economic/financial data

MAIN ECONOMIC DATA (in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011	CHANGE	CHANGE %
Revenues from sales and services	**64,793**	**60,825**	**3,968**	**6.5%**
Total revenues	64,793	60,825	3,968	6.5%
Cost of production	(68,532)	(63,336)	(5,196)	8.2%
EBITDA (*)	**(3,739)**	**(2,511)**	**(1,228)**	**-48.9%**
EBITDA %	**-5.8%**	**-4.1%**		
Depreciation and amortization	(705)	(852)	147	-17.3%
Operating income	**(4,444)**	**(3,363)**	**(1,081)**	**-32.1%**
Operating income %	**-6.9%**	**-5.5%**		
Net financial incomes (expenses)	(686)	(1,412)	726	51.4%
Result before taxes	(5,130)	(4,775)	(355)	-7.4%
Net result	(5,959)	(5,302)	(657)	-12.4%
Average number of employees (**)	225	232	(7)	-3.0%

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

(**) Average number of employees for the financial year 2011/2012 and 2010/2011.

BALANCE SHEET DATA (in thousands of Euro)	Situation at March 31 2012	Situation at March 31 2011	CHANGE
Fixed assets	74,552	78,229	(3,677)
Net working capital	55,786	59,878	(4,092)
Non current liabilities	(3,074)	(3,029)	(45)
Net capital invested	**127,264**	**135,078**	**(7,814)**
Net equity	108,600	114,314	(5,714)
Net financial position (*)	18,664	20,764	(2,100)
Sources of financing	**127,264**	**135,078**	**(7,814)**

(*) The net financial position is determined according to the indication of Consob communication no. DEM/6064293 of July 28, 2006.

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

The trend in total revenues and profitability of Damiani S.p.A. in the financial year ended March 31, 2012 shows the following major deviations from the previous financial year:

- Total **Revenues** increased by Euro 3,968 thousands (+6.5%), due to both sales to external customers in the wholesale and retail channels (overall +6.0%) and the intercompany sales (+7.8%) to supply the foreign market and the Rocca network. The table below shows the breakdown of sales by channels.

REVENUES BY SALES CHANNEL (in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011	CHANGE	CHANGE %
Third parties Wholesale	**37,710**	**34,699**	**3,011**	8,7%
Percentage on total revenues	58,2%	57,1%		
Third parties Retail	**6,933**	**7,435**	**(502)**	**-6,8%**
Percentage on total revenues	10,7%	12,2%		
Total wholesale and retail revenues	**44,643**	**42,134**	**2,509**	**6,0%**
Percentage on total revenues	68,9%	69,3%		
Intercompany sales	20,150	18,691	1,459	7,8%
Percentage on total revenues	31,1%	*30,7%*		
Total Revenues	**64,793**	**60,825**	**3,968**	**6,5%**

- **EBITDA** for the financial year ended March 31, 2012 was negative for Euro 3,739 thousands, in worsening of Euro 1,228 thousands compared to financial year ended March 31, 2011, in which the EBITDA had been negative for Euro 2,511 thousands. The negative performance was mainly due to an increase more than proportionally, than the trend in revenues, in the cost of purchasing of raw materials and finished goods, both for a different mix of sales (more oriented on channels with lower margins) and for pressure on production costs by raising prices of precious raw materials (gold and diamonds).
- The **Net result** for the period was negative for Euro 5,959 thousands compared with a loss of Euro 5,302 thousands recorded in the previous financial year. On the negative financial year 2011/2012 has impacted the negative operating result (loss for Euro 4,444 thousands), only partially offset by the net balance of financial incomes (losses) (compared to the previous financial year an improvement for Euro 726 thousands). On the pre-tax loss have not been calculated deferred tax assets, in continuity with the previous financial year.

Balance sheet and financial situation

- At March 31, 2012 the **Net Capital Invested** of Damiani S.p.A. was equal to Euro 127,264 thousands, in decrease compared to March 31, 2011 of Euro 7,814 thousands. Compared to March 31, 2011 the Fixed Assets decreased by Euro 3,677 thousands, due to: i) amortization and depreciation of tangible and intangible assets against low investments (overall only Euro 58 thousands); ii) reduction of financial receivables towards subsidiaries for Euro 2,258 thousands; iii) reduction of deferred tax assets for Euro 894 thousands. The net working capital at March 31, 2012 was in reduction for Euro 4,092 thousands compared to the previous financial year, mainly due to a reduction in trade receivables. Unchanged are the non-current liabilities
- At March 31, 2012 Damiani S.p.A. had a **Net financial position** negative for Euro 18,664 thousands an improvement of Euro 2,100 thousands compared to the amount of the previous financial year that had a balance of Euro 20,764 thousands. The positive change, achieved despite a negative net result, was a consequence of: i) reduction of the overall intercompany receivables, thanks to an higher cash flow generated by the foreign subsidiaries which resulted in a reduction of their exposure to the Parent company; ii) improvements in terms of collection of trade receivables.

Transactions with related parties

Damiani S.p.A.'s dealings with related parties are mostly of a commercial nature (sales of jewelry products of the two Company brands and, to a lesser extent, of licensed products), 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 of the financial statements).

Significant events during the financial year

On April 21, 2011 the Board of Directors of Damiani S.p.A. has implemented the Stock option plan approved by the Shareholders' Meeting of July 21, 2010, after positive evaluation of the manner and terms of implementation of the Plan by the Remuneration Committee.
On that date the Board of Directors of Damiani S.p.A. has also ratified the renunciation of all the fees for the financial year 2011/2012 or the Directors: Guido Grassi Damiani (President and Chief Executive Officer), Giorgio Grassi Damiani (Vice President) and Silvia Grassi Damiani (Vice President) for a total of Euro 1.3 million.
Damiani participated as partner to the 41st Conference of the Young Entrepreneurs of Confindustria, which took place on 10 and 11 June in Santa Margherita Ligure. At the traditional annual event, Damiani has exposed some of the masterpieces of the goldsmith to the opening night of the event and the young entrepreneurs had the opportunity to wear these unique and precious jewels. The appointment confirmed the proximity of the Damiani Group to the business world, and its feeling with the role that the young entrepreneurs can have in the country's economic growth, in the name of the preservation of the tradition of Made in Italy of which Damiani echoes in Italy and abroad. Participation was also repeated on the 42nd conference of June 2012.
In September started the new advertising campaign of Salvini brand with the launch of the new collections worn by the famous and fascinating American actress Eva Longoria, new prestigious testimonial that helps to strengthen the image and the awareness of the brand.
On September 15, 2011 has been incorporated the Mexican company Esclusividad en Joyas Italianas S.A. de C.V., subsequently transformed into Damiani Mexico S.A. de C.V., fully owned by Damiani Group and with a direct share of 10% owned by Damiani S.p.A. (the remaining 90% is owned by Damiani International BV). The Mexican company has to manage the import and distribution in Mexico of jewels of Damiani Group brands.
On October 27, 2011 the President of the Damiani Group participated in the "General states of the Foreign Trade" organized in Rome by the Italian Government, along with a select group of entrepreneurs and sole representative of the luxury goods sector. Goal of the meeting was to develop strategies for the expansion of the Italian companies abroad.
On February 16, 2012 the American star Sharon Stone has inaugurated in Montenapoleone Street in Milan the Damiani boutique, fully refurbished to the new concept designed by the Group's designers which were inspired by the typical Italian taste and creativity.
In the month of March 2012 Damiani S.p.A. has formalized the purchase by Damiani International B.V. of the remaining share of 3% stake in New Mood S.p.A. Therefore, at March 31, 2012 Damiani S.p.A. fully owns New Mood S.p.A.

Significant events after the end of the financial year

There were no significant events after the end of the financial year.

Business outlook

The domestic market, that in the first half of the financial year 2011/2012 seemed to give encouraging signs of recovery, in the second half of the year, and just at the period of high seasonality of the industry, has again shown a deteriorating trend. The widespread uncertainty about future economic scenario, with political measures necessitated by the financial crisis but with effects that at least in the short term are recessive, caused a significant decline in consumer spending in many sectors, including also the jewelry sector and more cautious were the purchases of wholesale customers. Despite this, Damiani S.p.A. continued to take actions to reposition the offer to reach more effectively the end consumer and ended the financial year with growing revenues.
In the new financial year the Company will also continue in the rationalization of the existing distribution processes with the aim to eliminate areas of internal inefficiencies, not only with specific reference to the domestic market, but also as regards the management of demand from abroad, and achieve improved operating results.

Proposed resolution on Damiani S.p.A.'s results for the financial year ended March 31, 2012

Shareholders,
to conclude our report, and trusting in your approval of the form and criteria used in preparing the financial statements at March 31, 2012, we propose:

1. to approve the financial statements of Damiani S.p.A. for the financial year ended March 31, 2012;
2. to balance this financial year's loss for Euro 5,959,066 using the Extraordinary reserve.

Milan, June 14 2012

For the Board of Directors
President and CEO
Mr. Guido Grassi Damiani

Table of contents

BALANCE SHEET

(in Euro)	Note	March 31 2012	March 31 2011
NON-CURRENT ASSETS			
Goodwill	4	726,704	726,704
Other intangible fixed assets	5	559,954	661,950
Tangible fixed assets	6	4,461,598	5,006,682
Investments	7	37,682,632	37,567,699
Other investments	7	150,103	150,103
Financial receivables and other non current assets	8	25,101,037	27,351,758
of which towards related parties		24,935,690	27,193,581
Deferred tax assets	9	5,870,024	6,764,150
TOTAL NON CURRENT ASSETS		**74,552,053**	**78,229,046**
CURRENT ASSETS			
Inventories	10	38,903,867	36,756,098
Trade receivables	11	54,512,488	59,317,657
of which towards related parties		37,314,107	39,631,921
Tax receivables	12	1,549,758	2,264,822
Other current assets	13	2,639,005	2,326,988
of which towards related parties		755,678	393,311
Cash and cash equivalents	14	703,153	3,415,223
TOTAL CURRENT ASSETS		**98,308,271**	**104,080,788**
TOTAL ASSETS		**172,860,324**	**182,309,834**
SHAREHOLDERS' EQUITY			
Share capital		36,344,000	36,344,000
Reserves		78,214,994	83,272,008
Net result for the period		(5,959,066)	(5,301,765)
TOTAL SHAREHOLDERS' EQUITY	15	**108,599,929**	**114,314,243**
NON CURRENT LIABILITIES			
Long term financial debt	16	12,502,000	18,271,000
of which towards related parties		2,502,000	2,771,000
Termination Indemnities	17	2,343,971	2,454,197
Deferred tax liabilities	9	169,627	213,705
Risk reserves	18	560,581	361,167
TOTAL NON CURRENT LIABILITIES		**15,576,179**	**21,300,069**
CURRENT LIABILITIES			
Current portion of long term financial debt	16	5,769,000	5,736,000
of which towards related parties		269,000	236,000
Trade payables	19	39,214,011	37,923,297
of which towards related parties		14,420,657	12,282,129
Short term borrowings	20	1,096,243	172,310
Tax payables	21	228,891	416,465
Other current liabilities	22	2,376,071	2,447,450
of which towards related parties		128,889	21,338
TOTAL CURRENT LIABILITIES		**48,684,217**	**46,695,522**
TOTAL LIABILITIES		**64,260,395**	**67,995,591**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**172,860,324**	**182,309,834**

INCOME STATEMENT

(in Euro)	Note	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Revenues from sales and services		**64,793,143**	**60,824,816**
of which towards related parties		20,150,076	18,691,260
Other revenues		-	-
TOTAL REVENUES	23	**64,793,143**	**60,824,816**
Cost of raw materials and consumables	24	(39,435,583)	(34,604,290)
of which towards related parties		(8,285,701)	(4,072,746)
Cost of services	25	(20,110,325)	(19,743,048)
of which towards related parties		(5,085,643)	(5,800,762)
Personnel cost	26	(10,779,493)	(10,295,307)
Other net operating (charges) incomes	27	1,793,361	1,306,513
of which towards related parties		2,022,393	2,389,794
Amortization and depreciation	28	(705,144)	(851,540)
TOTAL OPERATING EXPENSES		**(69,237,184)**	**(64,187,672)**
OPERATING INCOME (LOSS)		**(4,444,041)**	**(3,362,856)**
Financial expenses	29	(1,323,569)	(1,901,656)
of which towards related parties		(464,000)	(494,000)
Financial incomes	29	637,753	489,605
of which towards related parties		495,893	277,144
INCOME (LOSS) BEFORE INCOME TAXES		**(5,129,856)**	**(4,774,907)**
Income taxes	30	(829,209)	(526,858)
NET INCOME (LOSS) FOR THE PERIOD		**(5,959,066)**	**(5,301,765)**

STATEMENT OF COMPREHENSIVE INCOME

(in Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Net income (loss) for the period	**(5,959,066)**	**(5,301,765)**
Other movements	-	-
Total comprehensive income (loss) for the period	**(5,959,066)**	**(5,301,765)**

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 shareholders' equity
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**
Allocation of the result for the period							(11,207,091)	11,207,091	-
Comprehensive income (loss)								(5,301,765)	(5,301,765)
Stock option					(13,475)				(13,475)
Other movements						1,903	(1,903)		-
Balances at March 31, 2011	**36,344,000**	**69,857,285**	**2,433,705**	**3,641,000**	**82,461**	**(8,225,347)**	**15,482,904**	**(5,301,765)**	**114,314,243**
(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 shareholders' equity
Balances at March 31, 2011	**36,344,000**	**69,857,285**	**2,433,705**	**3,641,000**	**82,461**	**(8,225,347)**	**15,482,904**	**(5,301,765)**	**114,314,243**
Allocation of the result for the period							(5,301,765)	5,301,765	-
Comprehensive income (loss)								(5,959,066)	(5,959,066)
Stock option					178,870				178,870
Other movements					(9,955)	75,837			65,882
Balances at March 31, 2012	**36,344,000**	**69,857,285**	**2,433,705**	**3,641,000**	**251,376**	**(8,149,510)**	**10,181,139**	**(5,959,066)**	**108,599,929**

STATEMENT OF CASH FLOWS

(in Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net income /(Loss) for the period	(5,959,066)	(5,301,765)
Adjustments to reconcile the profit (loss) for the period to the cash flow generated (absorbed) by operations:		
Amortization and depreciation	705,144	851,540
Devaluation of investments	-	45,926
Costs/(Revenues) for stock option	244,751	(875)
(Gains)/Losses from disposals	(5)	(11,740)
Changes in the fair value of financial instruments	(161,857)	112,393
Provision to bad debt reserve	697,195	409,932
Provision in termination indemnities	114,716	(74,617)
Payments for termination indemnities	(224,942)	(104,426)
Provision to risk reserve	301,653	-
Changes in the deferred tax assets and liabilities	850,048	316,450
	(3,432,363)	(3,757,182)
Changes on operational assets and liabilities		
Trade receivables	4,107,974	(8,600,041)
Inventories	(2,147,769)	603,716
Trade payables	1,290,714	(650,839)
Tax receivables	715,064	793,766
Tax payables	(187,574)	186,186
Other current assets and current and non current liabilities	(323,778)	(531,063)
NET CASH FLOW PROVIDED (ABSORBED) BY OPERATING ACTIVITIES (A)	**22,268**	**(11,955,457)**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash in from disposals of tangible and intangible assets	5	52,282
Tangible fixed assets purchased	(56,935)	(60,172)
Intangible fixed assets purchased	(1,130)	(2,289)
(Purchase)/Sale of investments	(114,933)	(15,926)
Net changes in other non current assets	2,250,721	21,774,461
NET CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	**2,077,728**	**21,748,356**
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(5,736,000)	(8,198,016)
Net change in short term financial liabilities	923,933	(35,838)
Other changes in net equity	-	(12,600)
NET CASH FLOW GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	**(4,812,067)**	**(8,246,454)**
TOTAL CASH FLOW (D=A+B+C)	**(2,712,070)**	**1,546,445**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (E)	**3,415,223**	**1,868,778**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E)	**703,153**	**3,415,223**

EXPLANATORY NOTES

1. COMPANY INFORMATION AND STRUCTURE OF THE FINANCIAL STATEMENTS

Company Information

The Company Damiani S.p.A. works with experience in the production and in the distribution of jewelry products through both wholesale and retail channels with reference to its brands Damiani and Salvini and licensed products.
The Company's registered office is at Valenza (AL), Damiani Grassi Damiani 1 Square.

Statement of compliance

Damiani S.p.A. prepared its separate financial statements as of March 31, 2012 in accordance with IAS/IFRS international accounting standards and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) issued by the International Accounting Standards Board (IASB) as adopted by the European Community and with the measures implementing article no. 9 of Legislative Decree 38/2005.

Structure of the Financial statements

The present Financial Statements of Damiani S.p.A. as of March 31, 2012 covering the period April 1, 2011 – March 31, 2012, consisting of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes (hereafter, the "Financial Statements") was approved by the Board of Directors of Damiani S.p.A. on June 14, 2012.
The statements comply with the provisions of 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 no. 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 control bodies as well as those executives who have strategic responsibilities. See also note 31. Transactions with related parties.
The statement of cash flows was prepared using the indirect method.
The Financial Statements were prepared in 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 Financial Statements of Damiani S.p.A. for the financial year April 1, 2011 – March 31, 2012 have been prepared in accordance with IFRS as adopted by the European Union.
The financial statements at March 31, 2012 have been prepared on a going concern. Despite the difficulties reflected from the economic downturn, the Directors believes that there is no uncertainty about the ability to continue in operational existence for the foreseeable future, also because of the actions taken, whose full implementation is under way.
The income statement figures, changes in net equity and the cash flow statement for the financial year ended on March 31, 2012 (or financial year 2011/2012), are presented in a comparative format with the statements for the period from April 1, 2010 to March 31, 2011 (or financial year 2010/2011). The balance sheet data as of March 31, 2012 are presented in a format that is comparable with those as of March 31, 2011.

Accounting standards

The financial statements as of March 31, 2012 was prepared in accordance with international accounting standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Community and regulations implementing article 9 of the Legislative Decree n. 38/2005. IFRS are all the revised international accounting standards ("IAS"), all the interpretations issued by the International Financial Reporting Interpretations Commitee ("IFRIC") previously known as Standing Interpretations Committee ("SIC").

New accounting standards to be adopted from April 1, 2011

The following standards, amendments, improvements and interpretations applicable from the financial year beginning April 1, 2011 and refers to cases that have no impact on the financial statements at March 31, 2012 of the Damiani Group:

- Amendment to IAS 32 – Financial instruments: Presentation – Classification of rights issues
- Amendment to IFRIC 14 – Prepayments of a minimum funding requirement

- IFRIC 19 – Extinguishing of financial liabilities with equity instruments
- Improvements to IAS/IFRS (2010)
- Amendment to IAS 24 – Disclosure about transactions with related parties
- Review of IFRS1 and IFRS7 – Limited exemption from comparative as IFRS 7 for new adopters.

Have also been issued by the IASB the following new accounting standards, interpretations and amendments applicable to the financial statements of companies for annual periods beginning after January 1, 2011 and not early adopted by the Group:

- IFRS 7 – Financial instruments: disclosures – transfers of financial assets.

It also reports that were issued by the IASB the following accounting standards and interpretations whose trial is still pending approval by the European Union.

- IFRS 10 – Consolidated financial statements which will replace the SIC-12 Consolidation – Special purpose entities (SPV) and parts of IAS 27 – Consolidated and Separate financial statements. The new principle is based on a modified control concept and also provide a guide to determine the existence of control where it is difficult to ascertain.
- IFRS 11 – Partnership agreements which will replace the IAS 31 – Interests in joint-venture and the SIC-13 – Joint ventures – Contribution in kind by the venturers. The new standard provides criteria for identifying partnership agreements based on the rights and obligations arising from agreements rather than legal form of the same and states as the sole method of accounting for investments in joint ventures in consolidated financial statements, the equity method.
- IFRS 12 – Additional information on shareholdings in other companies, which is a complete new principle to provide additional information on each type of participation, including those of subsidiaries, partnership agreements, associates, special purpose entities and other special vehicles not consolidated.
- IFRS 13 – Measuring fair value, which clarifies how to determine the fair value for financial reporting purposes and applies to all IFRS principles that require or permit fair value measurement or presentation of information based on the fair value.
- IAS 27 – Separate financial statements.
- IAS 28 – Investments in associates and joint ventures.
- Review of IAS 1 – Presentation of financial statements to require companies to group together all the components presented in Other comprehensive income/(losses) depending on whether or not they may subsequently be reclassified to the income statement.
- Review of IAS 19 – Income taxes. Clarifies the determination of deferred tax on investment property measured at fair value. Result of this amendment, the SIC 21 – Income taxes – Recoverability of revalued non-depreciable asset will no longer apply.
- Review of IAS 12 – Employee benefits that eliminates the option of deferring the recognition of gains and losses under the corridor method, requiring the presentation in the financial situation of the deficit or surplus of the fund in its entirety, and the separate recognition in the income statement of cost components related to work performance and financial expenses, and the inclusion of gains and losses arising from remeasurement at any period of liabilities and assets between the Other comprehensive income/(losses).

Use of estimates

The preparation of the financial statements and the explanatory notes under the IFRSs requires Damiani S.p.A. 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. The estimates are used to measure provisions for credit risk, returns, inventory obsolescence, for determining the useful life of tangible and intangible assets in the determination of depreciation, asset impairments, employee benefits, 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 conducting audits of the recoverability of the goodwill and value of investments in the financial statements (impairment test), in the valuation of expected future returns, in the determination of trade receivable and inventory write-downs, and in the determination of risk reserves for which at the reporting date there are obligations for which are likely to use resources to satisfy them.

The current economic and financial environment has a great volatility and uncertainty. Therefore, assumptions regarding future trends are characterized by high randomness; 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 funds for return on sales 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 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 Company at which goodwill is monitored for internal management purposes;
- is no greater than an operating segment of the Company 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 Damiani S.p.A. 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 indefinite 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
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 booked 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, 2012 there are no capitalized development costs in the 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 ancillary costs directly attributable and 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, are not depreciated since their 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
The 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 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.
The capitalized leased assets are depreciated over the shorter of the asset's useful life expectancy or 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 other companies are recorded at cost adjusted for impairment losses, determined on the basis of a separate 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 investments. If such a decrease has occurred, an impairment test is carried out.
Goodwill and the 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.
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 at the current value the estimated future cash flow, 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 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 expenditures that aim to enhance or optimize the asset or unit or significantly modify 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 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 an 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 the value of goodwill can be restored after it has been written down.

Inventories

Inventories are booked at the lower of their purchase or production cost and their net realizable 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/realizable 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, amending the value of the asset. Trade receivables are booked to the financial statements net of an adjustment reserve for products that according to the Company estimates will be 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 interests 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 recognized 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.

<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 the loans or other receivables are removed from the books, when an impairment loss is registered or as part of the depreciation process.

<u>Investments held to maturity</u>

The 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. The 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 an impairment loss is registered or as part of the depreciation process.

<u>Assets available for sale</u>

The 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 an impairment loss is registered, while profits or losses which have been 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 Company's financial statements to the extent of Damiani S.p.A. remained involved 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.

Cash and cash equivalent

Cash and cash equivalent 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.

Such liabilities relating to defined-benefits schemes, net of any assets held to service the plan, are determined on the basis of actuarial assumptions and recognized on an accrual basis consistently with the employment services necessary for obtaining the benefits; liabilities are valued by an independent actuary.

Profits and losses arising from the actuarial calculations are booked to the income statement in each period as labor costs.

Other employee benefits

In accordance with IFRS 2 (Payments based on shares), stock options in favor of employees are valued by an external evaluator at their fair value at the grant date according to an 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 as "personnel costs" (since it is a payment in kind paid to the employee) and as "costs of 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 as "personnel costs" and "costs of 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 "Other reserves".

Trade payables and other current liabilities

Trade payables and other current liabilities, whose due date fall under 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 year. 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 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 year.

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 likely that the relative financial benefits will be enjoyed.
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 likely that any future financial benefits will be enjoyed;
- the costs incurred, or to be incurred can be reliably estimated.

In some cases Damiani S.p.A. accepts from customers, for commercial reasons and in line with the usual practices of the sector, returns of goods that have already been delivered, including goods delivered in previous financial years. In such cases, Damiani S.p.A. adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of experience and estimates related to the market, 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 revenues and income
The other revenues include financial benefits during the period from operations connected to the Company's ordinary business activities.

Costs
Costs are booked using the accruals system. In particular:
<u>Costs for advertising campaigns and testimonials</u>
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.

Financial income and expenses
Financial incomes are recognized 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, coinciding with the moment in which they are declared.

Income taxes
<u>Current taxes</u>
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 (positive or negative) that will be taxable or deductible in other financial years and also items that will never be taxable or deductible. 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:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect 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.

Deferred tax assets 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 the deferred tax assets 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 taxes (liabilities and assets) 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.
Following the provisions of the Legislative Decree of December 12, 2003, n. 344 which introduced the tax regime for the taxation of the Group called "Group tax", Damiani S.p.A. formalized 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. the agreement on the joint exercise of the option for "National Group tax" for the three years period 2010-2012.

Foreign currency conversion

Damiani S.p.A. functional and presentation 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 recognized. 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 are classified as a direct reduction of net equity. The original cost of treasury stock and gain from any subsequent sale of it is shown as changes in net equity.

3. NOTES ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Here are commented the individual items of the balance sheet and income statement.

4. GOODWILL

The goodwill at March 31, 2012 amounted to Euro 727 thousands and was unchanged compared to March 31, 2011.
The item refers to goodwill paid by Damiani S.p.A. in connection with the acquisition of four retail stores directly managed.

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, 2012 and at March 31, 2011, 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 charged.
More specifically, the goodwill for the boutiques was allocated to the Damiani CGU, represented by the legal entity Damiani S.p.A..
The methodology applied is more detailed at note 7, with reference to the impairment test made to verify the recoverability of the book value of investments.

5. OTHER INTANGIBLE FIXED ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Industrial rights and patents	33	82
Key money	527	580
Total other intangible fixed assets	**560**	**662**

The item "key money" refers to the amount paid for the purchase of the leasing contract for the shop in Naples, where Damiani S.p.A. manages a mono-brand store from the financial year 2008/2009. Such amount is amortized on the basis of the residual duration of the leasing contract.
The "Industrial rights and patents" refer to software licenses.
The following table shows the changes in intangible assets during the period:

(in thousands of Euro)	INDUSTRIAL RIGHTS AND PATENTS	KEY MONEY	TOTAL
Net book value at March 31, 2011	82	580	662
Purchases	1	-	1
Amortization	(50)	(53)	(103)
Net book value at March 31, 2012	**33**	**527**	**560**

6. TANGIBLE FIXED ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Land and buildings	3,599	3,942
Plant and machinery	203	255
Industrial and commercial equipments	39	22
Leasehold improvements	123	139
Other assets	498	649
Total tangible fixed assets	**4,462**	**5,007**

The Land and buildings item also includes the residual value of a property subject to sale and lease back, which related parties have bought from Damiani S.p.A. in prior financial years and then leased for commercial use to the same.
These sale and lease back assets amounted to Euro 2,176 thousands at March 31, 2012 and to Euro 2,487 thousands at March 31, 2011.
The item Other assets includes furniture, furnishings, office equipment and vehicles.
The following table shows the changes in tangible assets during the period.

(in thousands of Euro)	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENTS	LEASEHOLD IMPROVEMENTS	OTHER ASSETS	TOTAL
Historical cost	7,830	1,867	427	300	12,976	23,400
Depreciation reserve at March 31 2011	(3,888)	(1,612)	(405)	(161)	(12,327)	(18,393)
Net book value at March 31 2011	**3,942**	**255**	**22**	**139**	**649**	**5,007**
Purchases	-	1	34	-	22	57
Disposals	-	-	-	-	-	0
Depreciation	(343)	(53)	(17)	(16)	(173)	(602)
Net book value at March 31 2012	**3,599**	**203**	**39**	**123**	**498**	**4,462**

The fixed assets do not include assets subject to revaluations, as per the special laws contained in article 10 of Law 72/1983.

7. INVESTMENTS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Investments in subsidiaries	37,683	37,568
Investments in other companies	150	150
Total investments	**37,833**	**37,718**

The changes in the "Investments in subsidiaries companies" item refer to the purchase of 3% in New Mood S.p.A. from Damiani International B.V. for Euro 86 thousands and to the signing of 10% of the capital share in Damiani Mexico S.A. for Euro 29 thousands.
The following table shows in detail the investments in subsidiaries at March 31, 2012.

(in thousands of Euro) COMPANY NAME	REGISTERED OFFICE	SHARE CAPITAL	NET EQUITY	PROFIT/ (LOSS)	% OWNED	NET EQUITY OWNED	BOOK VALUE	NOTE
Casa Damiani Espana S.L.	Valencia (Spain)	721	835	(1)	99%	827	330	3)
Damiani International B.V.	Amsterdam (Netherlands)	194	69,306	787	100%	69,306	9,894	3)
New Mood S.p.A.	Valenza (Italy)	1,040	2,237	(770)	100%	2,237	9,545	2)
Damiani Manufacturing S.r.l.	Valenza (Italy)	850	3,083	0	51%	1,572	467	3)
Alfieri & St John S.p.A.	Valenza (Italy)	1,462	5,977	549	100%	5,977	4,225	2)
Laboratorio Damiani S.r.l. 1)	Valenza (Italy)	2,140	3,293	120	9.35%	308	1,250	3)
Rocca S.p.A.	Milano (Italy)	4,680	7,586	603	100%	7,586	11,943	3)
Damiani Mexico S.A.	Mexico D.F. (Mexico)	176	280	(26)	10%	28	29	3)
Total							**37,683**	

1) The share capital of Laboratorio Damiani s.r.l. is owned by Damiani S.p.A. (9.35%) and by Damiani Manufacturing s.r.l. (90.65%). Overall the share held by Damiani S.p.A. is equal to 55.58%

2) Financial statements prepared in accordance with IFRS standards

3) Financial statements prepared in accordance with local accounting standards

Impairment test on investments

The investments, which constitute Cash generating units (CGU), are subject to impairment test, particularly those where the book value is higher than the share in the equity.
In order to determine the recoverable amount reference was made to the value in use, using the "Discounted cash flow" model, based on the forecast of the expected discounted cash flow using a rate equal to the average cost of capital (WACC). To determine such impairment the following data and assumptions have been used:

- the financial data were taken from the 2012-2015 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 May 23, 2012;
- the 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 the subsidiaries was discounted at WACC (depending from the Debt/Equity ratio of each company), 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: 5%
  - beta: 1%
  - debt/equity ratio: taken from the companies data at March 31, 2012.

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.
The following table shows details of the investments in other companies.

(in thousands of Euro)	March 31 2012
Fin-Or-Val S.r.l.	109
Banca d'Alba	41
Total investments in other companies	**150**

Values are unchanged compared to March 31, 2011.

8. FINANCIAL RECEIVABLES AND OTHER NON CURRENT ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Receivables towards subsidiaries	24,936	27,194
Receivables towards others	165	158
Total financial receivables	**25,101**	**27,352**

In the financial year the financial receivables towards subsidiaries decreased by Euro 2,258 thousands due to the partial collection of the receivables toward Damiani International B.V. (for Euro 2,968 thousands) and New Mood S.p.A. (for Euro 450 thousands) which contrasts with the additional funding to Laboratorio Damiani S.r.l. for Euro 1,160 thousands.
At March 31, 2012 such receivables towards subsidiaries were:

(in thousands of Euro)	March 31 2012	March 31 2011
Rocca S.p.A.	11,000	11,000
New Mood S.p.A.	1,000	1,450
Damiani International B.V.	10,596	13,564
Laboratorio Damiani S.r.l.	2,340	1,180
Total	**24,936**	**27,194**

The loans to subsidiaries include interests based on Euribor (three or six months) plus a spread of 0.5%.

9. DEFERRED TAX ASSETS AND LIABILITIES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Deferred tax assets		
Net impact of the returns reserve	1,612	1,980
Financial interests in excess	717	573
Fiscal losses	1,257	1,278
Bad Debt reserve not deductible	718	824
Costs of the IPO	-	432
Provisions on lawsuits	140	113
Devaluation of inventories	1,032	1,265
Other timing differences of a taxation nature	394	299
Total deferred tax assets	**5,870**	**6,764**

(in thousands of Euro)	March 31 2012	March 31 2011
Deferred tax liabilities		
Exchange differences	44	88
Other timing differences of a taxation nature	126	126
Total deferred tax liabilities	**170**	**214**

The net reduction of the deferred tax assets compared to March 31, 2011 was mainly due to the effects of the following movements: i) increase of deferred tax assets related to financial expenses in excess of 30% of the Gross Operating result; ii) decrease in deferred tax assets related to the uses made in the financial year of the not deductale bad debts reserve, of the write-downs of inventories and of the fund for return on sales; iii) reset of the deferred tax assets related to the IPO's costs, for the completion of the process of deferred deductibility of the same.
Deferred tax assets on tax losses booked in the prior financial years are considered recoverable based on future plans, taking into account both the benefits arising from the institute of tax consolidation and for the changes introduced by Legislative decree n. 98/2011 that introduced the new system of carry forward tax losses, making them temporally unlimited albeit with quantitative restrictions on an annual basis. In this financial year, and coherently with the precedent, given the persistence of a negative result before taxes have not detected additional deferred tax assets calculated on the loss. The amount of the deferred tax on the fiscal losses not booked were Euro 3,241 thousands at March 31, 2012.

10. INVENTORIES

The value of inventories for finished products and goods at March 31, 2012 includes:

(in thousands of Euro)	March 31 2012	March 31 2011
Raw materials, semi-finished goods and advance payments	11,790	9,032
Finished products and goods	27,114	27,724
Total inventories	**38,904**	**36,756**

The value of inventories for finished products and goods at March 31, 2012 includes:

- Euro 5,138 thousands (Euro 6,341 thousands at March 31, 2011) of finished products delivered to clients but for which at the financial year date there were no real assurances that the assumptions of revenues recognition were completely satisfied;
- Euro 3,754 thousands (Euro 4,598 thousands at March 31, 2011) for the provisions for inventories write-downs to cover the risk of commercial obsolescence of stock of finished goods, determined according to the management estimates. During the financial year the fund has been used by Euro 844 thousands, against: i) operations to destroy and transform jewellery by melting for an amount of stock of Euro 2,355 thousands that determined a usage of the fund for Euro 762 thousands; the average net loss was equal to 32% of the book value, in line with the estimates of the risk of obsolescence; ii) other usage for Euro 82 thousands against supply of goods. At March 31, 2012 no other provisions have been done because the fund on stock obsolescence was considered adequate.

11. TRADE RECEIVABLES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Trade receivables towards clients	30,664	36,163
Trade receivables towards subsidiaries	37,314	39,632
Trade receivables, gross	**67,978**	**75,795**
Bad debt reserve	(2,765)	(3,210)
Fund for return on sales	(10,673)	(13,173)
Net present value calculation of receivables	(28)	(94)
Total trade receivables	**54,512**	**59,318**

The balance of trade receivables is shown net of allowance for doubtful accounts and fund for return on sales, as well as net of the effects of discounting the receivables represented by bank receipts that have been reissued and have due dates that go beyond the accounting period.

The following table shows the details of trade receivables from Group companies in the two periods compared.

(in thousands of Euro)	March 31 2012	March 31 2011
Rocca S.p.A.	1,885	2,178
New Mood S.p.A.	1,132	600
Alfieri & St. John S.p.A.	1,334	3,615
Damiani Manufacturing S.r.l.	-	9
Damiani International B.V.	30,767	28,844
Laboratorio Damiani S.r.l.	298	815
Damiani Usa Corp.	590	2,379
Damiani Japan K.K.	1,308	1,192
Total	**37,314**	**39,632**

Compared to March 31, 2011 the trade receivables towards subsidiaries decreased overall by Euro 2,318 thousands.

The following table shows the changes in the provision for doubtful accounts and for return on sales happened during the financial year ended March 31, 2012.

(in thousands of Euro)	Fund for returns of sales	Bad debt reserve
Book value at March 31 2011	**13,173**	**3,210**
Accrual	2,798	697
Utilization	(5,298)	(1,142)
Book value at March 31 2012	**10,673**	**2,765**

The reduction on the fund for return on sales at March 31, 2012 compared to the previous financial year was a direct consequence of the contraction of the volume of returns accepted by customers compared to the prior trend. Consequently, the existing fund was in excess compared to the expected future risk.

Provisions made during the period to the bad debt reserve are included under "Other net operating (charges) incomes" in the income statement. The provisions made during the period for the return reserve are booked as direct changes to "Revenues from sales and services" in the income statement.

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

12. TAX RECEIVABLES

The tax receivables, related to deposit for income taxes, decreased from Euro 2,265 thousands at March 31, 2011 to Euro 1,550 thousands at March 31, 2012 for partial compensation done during the financial year.

13. OTHER CURRENT ASSETS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
VAT receivables from the Tax Authorities	321	281
Prepayments	1,126	853
Accrued income towards subsidiaries	48	2
Prepayments towards susidiaries	263	391
Advances to suppliers	633	524
Receivables from others	248	276
Total other current assets	**2,639**	**2,327**

The prepaid expenses were primarily related to barter contracts to purchase advertising services that will be used in the next financial years.
Advances to suppliers include also the amount paid to the related party Immobiliare Miralto S.r.l. (equal to Euro 424 thousands) for completion of work at the headquarters in Via Montenapoleone in Milan, where will be transferred the show room and the offices of the Company during the financial year 2012/2013.
Receivables from other include at March 31, 2012 also Euro 20 thousands from Alfieri & St. John S.p.A.

14. CASH AND CASH EQUIVALENTS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Bank and post accounts	671	3,371
Cash on hand	32	44
Total cash and cash equivalents	**703**	**3,415**

The balance represents the cash existing in the bank and post office accounts and cash equivalents at the end of the period.

15. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2012 amounted to Euro 36,344 thousands, gross of treasury stock, and was made up of n. 82,600,000 shares with a par value of Euro 0.44 each.
It should be noted that no dividends were paid during the financial year. The Board of Directors on June 14, 2012 did not propose to the Shareholders' Meeting any dividend payment for the financial year 2011/2012.
The number of treasury stock held in the portfolio amounted to n. 5,566,559 (6.74% of the share capital) for a total value of Euro 8,149 thousands. Such amount was booked as a direct reduction in equity.
The number of shares in circulation at the beginning of the financial year amounted to n. 15,745,315 while at March 31, 2012 it amounted to n. 14,651,862.
The main changes in equity in the financial year ended March 31, 2012 were as follows:

- Negative net result for Euro 5,959 thousands.
- Net change in the stock option reserve for Euro 169 thousands, related to the stock option and stock grant plans approved by the Shareholders' Meeting on July 22, 2009 and by the Shareholders' Meeting on July 21, 2010 (and implemented by the Board of Directors on April 21, 2011).
- Disposal of treasury shares for Euro 76 thousands.

Details of the utilisation and availability of the reserves are given below:

DESCRIPTION	AMOUNT	USAGE	SHARE 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 reserves:					
shareholders payment reserve	3,641	1) 2) 3)	3,641		
extraordinary reserve	10,182	1) 2) 3)	10,182	16,508	
stock option and stock grant reserve	251	1) 2)			
own shares	(8,150)				
Total	**114,559**		**83,680**	**16,508**	-

1) For share capital increase

2) To cover losses

3) To be distributed to shareholders

(*) For position 3) distribution to shareholders the share premium reserve is used for 65,022 thousands euro

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

The current and the medium-long term portion of financial debt were made up as follows at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011	Nota
Non current portion			
Loan A	7,500	10,500	a
Loan B	2,500	5,000	b
Financial leasing	2,502	2,771	c
Total non current portion of medium/long term financial debt	**12,502**	**18,271**	
Current portion			
Loan A	3,000	3,000	a
Loan B	2,500	2,500	b
Financial leasing	269	236	c
Total current portion of medium/long term financial debt	**5,769**	**5,736**	
Total medium/long term financial debt	**18,271**	**24,007**	

Details of the loans granted to Damiani S.p.A. by banks are given below:

a) Loan A was originally granted in June 2009 for a total of Euro 15,000 thousands 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;

b) Loan B was originally granted in June 2009 for a total of Euro 10,000 thousands 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, in the point c) has highlighted the debt to finance lease on a property, classified as sale and lease back with related party regarding a Damiani shop, qualifies as a contract of sale and leaseback transaction pursuant to IAS 17.

The change of this item compared to March 31, 2011 for Euro 5,736 thousands was due to: payments of instalments according to loan amortization plans for Euro 5,500 thousands and payments for leaseback operations for Euro 236 thousands.

The following table shows the details of the net financial debt at March 31, 2012 and at March 31, 2011:

NET FINANCIAL POSITION (*) (in thousands of Euro)	March 31 2012	March 31 2011
Medium-long term loans - current portion	5,500	5,500
Medium-long term financing with related parties - current portion	269	236
Short term borrowings	1,096	172
Current financial indebtness	**6,865**	**5,908**
Medium-long term loans - non current portion	10,000	15,500
Medium-long term financing with related parties - non current portion	2,502	2,771
Non Current financial indebtness	**12,502**	**18,271**
Total gross financial indebtness	**19,367**	**24,179**
Bank and post accounts	(671)	(3,371)
Cash on hand	(32)	(44)
Net financial position (*)	**18,664**	**20,764**

(*) The net financial position is determined according to the indication of Consob communication no. DEM/6064293 of July 28, 2006.

The net financial position of Damiani S.p.A. at March 31, 2012 had a negative balance for Euro 18,664 thousands, an improvement of Euro 2,100 thousands compared to the value at the end of the previous financial year when the balance was Euro 20,764 thousands.

The positive change compared to the prior financial year, achieved despite a net loss, was due to: i) reduction of the total intercompany receivables, thanks to the higher cash flow generated by the foreign subsidiaries which reduced their exposure towards the Parent company; ii) improvement in the terms of collection of trade receivables

17. TERMINATION INDEMNITIES

In the financial year ended March 31, 2012 the following changes took place in the termination indemnities (TFR):

(in thousands of Euro)	March 31 2012	March 31 2011
Termination indemnities at the beginning of the period	**2,454**	**2,633**
Financial expenses	120	104
Transfer from Group companies	-	26
Paid benefits	(225)	(104)
Actuarial Loss (Profit)	(5)	(205)
Termination indemnities at the end of the period	**2,344**	**2,454**

The movements of the period reflect accruals and disbursements, included advances made during the financial year ended March 31, 2012. Termination indemnities are part of a defined benefits plan.
Liabilities were calculated using the Project Unit Cost method based on the following:

- A series of financial assumptions were 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 the increases due to further years of service experience and the expected growth rate of pay received at the valuation date;
- It has been calculated the average present value of future benefits on the basis of the annual interest rate used and the probability that each service has to be effectively delivered at the financial statements date;
- It has been defined the liability for the Group identifying the share of the average present value of future benefits that refers to the service already accrued by the employee at the date of valuation;
- It has been established, on the basis of the liability determined in the previous paragraph and the reserve set aside in the financial statements as per the Italian law, the IRFS reserve.

The assumptions adopted are as follows:

FINANCIAL HYPOTHESES	March 31 2012	March 31 2011
Annual rate for the Net present value	5.00%	4.00%
Annual inflation rate	2.00%	2.00%

DEMOGRAPHIC HYPOTHESES	
Mortality	RG48 (RGS table 48)
Inability	INPS tables by age and sex
Pensionable Age	Reaching 100% of the mandatory social security requirements

Gains and losses deriving from actuarial calculations are booked to the income statement in each period as labor costs.

18. RISK RESERVES

The risk reserve is found to face the litigation. The value of the reserve grew from Euro 361 thousands at March 31, 2011 to Euro 561 thousands at March 31, 2012 due to: i) utilizations for Euro 102 thousands; ii) provisions for Euro 302 thousands, to face a litigation for which at March 31, 2012 the Company had already incurred a probable obligation.

19. TRADE PAYABLES

It provides the following item at March 31, 2012 and at March 31, 2011

(in thousands of Euro)	March 31 2012	March 31 2011
Trade payables due in less than 12 months	24,761	26,593
Trade payables towards subsidiaries within 12 months	14,402	11,256
Bill payable, other credit securities and advances	51	74
Total trade payables	**39,214**	**37,923**

Details of trade payables to subsidiaries were as follows:

(in thousands of Euro)	March 31 2012	March 31 2011
New Mood S.p.A.	1,714	1,289
Damiani Manufacturing S.r.l.	-	14
Laboratorio Damiani S.r.l.	6,226	4,609
Rocca S.p.A.	344	300
Damiani International B.V.	3,482	1,617
Casa Damiani Espana S.L.	721	721
Alfieri & St. John S.p.A.	1,915	869
Damiani Usa Corp.	-	1,837
Total	**14,402**	**11,256**

20. SHORT TERM BORROWINGS

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Current debts towards banks	960	-
Accrued expenses related to interest on loans	136	172
Total short term borrowings	1,096	172

The short term debts towards banks are generated from the requirements linked to the operational management of working capital.

21. INCOME TAX PAYABLES

The balance at March 31, 2012 amounted to Euro 229 thousands compared to a balance of Euro 416 thousands at March 31, 2011.

22. OTHER CURRENT LIABILITIES

It provides the following item at March 31, 2012 and at March 31, 2011:

(in thousands of Euro)	March 31 2012	March 31 2011
Payables to social security institutions	696	667
Payables to employees	1,459	1,482
Other liabilities towards subsidiaries	129	21
Other liabilities	92	277
Total other current liabilities	**2,376**	**2,447**

The item payables to employees included liabilities for vacation and leave not enjoyed as well as the amount accrued and not yet delivered by 13-th and 14-th monthly.
The amount of liabilities towards subsidiaries was as follows:

(in thousands of Euro)	March 31 2012	March 31 2011
Damiani International B.V.	86	-
New Mood S.p.A.	9	8
Laboratorio Damiani S.r.l.	9	9
Alfieri & St. John S.p.A.	4	4
Rocca S.p.A.	21	-
Total	**129**	**21**

23. REVENUES

In the financial year 2011/2012 total revenues were Euro 64,793 thousands and recorded an increase by Euro 3,968 thousands (+6.5%) compared to the prior financial year (Euro 60,825 thousands), due to the growth both by the sales to third parties (+6.0%) and by inter-company (+7.8%). The following table shows breakdown by sales channels.

REVENUES BY SALES CHANNEL (in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Third parties Wholesale	**37,710**	**34,699**
Percentage on total revenues	58.2%	57.1%
Third parties Retail	**6,933**	**7,435**
Percentage on total revenues	10.7%	12.2%
Total Wholesale and Retail revenues	**44,643**	**42,134**
Percentage on total revenues	68.9%	69.3%
Intercompany sales	**20,150**	**18,691**
Percentage on total revenues	31.1%	30.7%
Total Revenues	**64,793**	**60,825**

24. COSTS OF RAW MATERIALS AND CONSUMABLES

In the financial year 2011/2012 the costs of raw materials and consumables (including purchases of finished goods) were Euro 39,436 thousands, an increase by Euro 4,832 thousands compared to the financial year ended March 31, 2011 (Euro 34,604 thousands).
The growth was related to the increase in revenues but with a growing trend more than proportional due to both the different mix of revenues (with an increasing weight of the share with lower marginality) and the effects of rising commodity prices (gold and diamonds in particular) that led to pressure on product margins.

25. COSTS OF SERVICES

The following table shows the costs of services in the financial year ended March 31, 2012 and in the prior financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Functional expenses	3,567	3,378
Advertising expenses	4,101	3,038
Other commercial expenses	2,933	1,816
Production costs	3,182	3,568
Consultancy	1,920	1,741
Travel/transport expenses	1,153	1,274
Directors' fees	139	1,454
Usage of third parties properties	3,115	3,474
Total cost of services	**20,110**	**19,743**

The costs of services showed an increase by Euro 367 thousands compared to the prior financial year. Such growth was mainly due to two opposite trends: i) increase of the costs directly linked to sales: advertising expenses and other commercial expenses for the commissions to agents; ii) reduction in the indirect costs: travel expenses, rents and directors' fees (in this last case for the waiver for the financial year 2011/2012 of their fees of the Damiani brothers; such waiver was approved by the Board of Directors of the Company on April 21, 2011).

26. PERSONNEL COST

The following table shows the details of the item in the financial year ended March 31, 2012 and in the prior financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Wages and salaries	7,517	7,367
Social security costs	2,461	2,467
Termination indemnity	564	408
Other personnel costs	237	53
Total personnel cost	**10,779**	**10,295**

The personnel cost increased by Euro 484 thousands due to the inclusion of some new people in core activities, with a pro-capita cost higher than the average cost, which completely offset the positive effects related to the natural turnover of the Company's staff. The following table shows the average number of employees of the Company in the financial year ended March 31, 2012 and in the prior financial year, with a contraction of n. 7 units employed in the two periods (-3%):

LABOUR CATEGORY	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Executives and managers	28	26
Clerks	180	188
Workers	17	18
Total	**225**	**232**

27. OTHER NET OPERATING (CHARGES) INCOMES

The following table shows the details of the item in the financial year ended March 31, 2012 and in the prior financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Other operating (charges) incomes	2,792	1,717
Bad debt reserve allowance	(697)	(410)
Provision for lawsuits	(302)	-
Total other net operating (charges) incomes	**1,793**	**1,307**

The balance in the item was positive in the two periods compared and showed an improvement by Euro 486 thousands mainly due to the net incomes related to the partial release of the fund for returns on sales, set aside in prior years and estimated in excess at March 31, 2012 given the decline in returns from customers. Such positive effect, equal to Euro 1,173 thousands, contributed to offset the rising provisions for bad debts and for legal risks compared to the previous financial year (overall the difference was Euro 589 thousands).

28. AMORTIZATION AND DEPRECIATION

The amortization and depreciation of intangible and tangible assets in the financial year ended March 31, 2012 were Euro 705 thousands, in reduction by Euro 146 thousands compared to the prior financial year (Euro 852 thousands). The contraction was due to the lower value of the depreciable stock, against content industrial investments (Euro 58 thousands).

29. **FINANCIAL (EXPENSES) INCOMES**

The following table shows the financial expenses and incomes in the financial year ended March 31, 2012 and in the prior financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Exchange differences	(5)	34
(Financial charges)	(1,319)	(1,826)
(Devaluation of investments)	-	(76)
Financial incomes	638	456
Total financial (expenses) and incomes	**(686)**	**(1,412)**

The improvement of the balance of financial compared to the prior financial year was related to lesser financial charges which benefited of a lower average debt and of a strong reduction in the long term portion, on which currently is paid an upper interest rate (average of 4.3% per annum) compared to that on the current debt (average of about 1.8%).
The financial incomes generated by intercompany financings were Euro 496 thousands in the financial year 2011/2012 (they were Euro 277 thousands in the prior financial year).

30. INCOME TAXES

The following table shows the details of the item in the financial year ended March 31, 2012 and in the prior financial year ended March 31, 2011:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Current taxes	46	210
Deferred tax (assets)/liabilities	783	317
Total income taxes	**829**	**527**

The current taxes include taxes on income IRAP (regional tax) for the period.
The reconciliation between fiscal charges in the financial statements and theoretical fiscal charges calculated on the basis of the IRES tax rate applicable to Damiani S.p.A. for the financial year ended March 31, 2012 and for the prior financial year was as follows:

(in thousands of Euro)	FINANCIAL YEAR 2011/2012	FINANCIAL YEAR 2010/2011
Result before taxes	(5,130)	(4,775)
IRES (Corporate) tax rate for the period	27.5%	27.5%
Theoretical tax burden	**1,411**	**1,313**
IRAP (Regional tax on productive activities) effect	(46)	(210)
Other non deductible costs	(2,194)	(1,630)
Total differences	**(2,240)**	**(1,840)**
Total taxes for income statements	**(829)**	**(527)**
Effective tax rate	-16.2%	-11.0%

31. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes the relationships between Damiani S.p.A., subsidiaries and related parties during the financial year ended March 31, 2012 and the prior financial year, highlighting the impact on economic and financial values of the Company.
Such relationships with related parties are of real estate nature (rents, sale and lease back transactions, rental of business units), mainly with the Immobiliare Miralto S.r.l. and of commercial nature (sale of jewelry products, cooperation agreements), with the various subsidiaries of the Group which distribute the products in their fields of competence.

The following table shows the details of these relationships in the financial year ended March 31, 2012.

FINANCIAL YEAR 2011/2012							BALANCE AT MARCH 31 2012					
(in Euro)	Revenues	Other operating incomes (charges)	Financial incomes	Costs of raw materials	Costs of services	Financial expenses	Financial receivables	Trade receivables	Other current assets	Financial debt (including leasing)	Trade payables	Other current liabilities
Damiani International B.V.	14,297,811	413,299	48,463	(2,394,958)	-	-	10,596,255	30,766,814	48,463	-	(3,482,279)	(86,000)
Alfieri & St.John S.p.A.	260,523	487,476	-	(759,979)	(77,976)	-	-	1,333,551	60,090	-	(1,914,795)	(3,797)
Damiani Manufacturing S.r.l.	-	-	-	-	-	-	-	-	-	-	-	(9)
New Mood S.p.A.	-	437,921	32,990	(20,205)	(525,985)	-	1,000,000	1,132,473	20,800	-	(1,714,449)	(8,905)
Damiani Japan K.K.	-	28,075	-	-	-	-	-	1,308,468	-	-	-	-
Damiani Usa Corp.	-	87,370	-	-	(107)	-	-	590,246	-	-	-	-
Casa Damiani Espana S.L.	-	-	-	-	-	-	-	-	-	-	(721,480)	-
Rocca S.p.A.	3,809,174	426,599	349,189	(45,000)	(332,800)	-	11,000,000	1,884,970	202,325	-	(343,843)	(21,045)
Laboratorio Damiani S.r.l.	1,782,568	141,653	65,251	(5,065,558)	(2,671,682)	-	2,339,434	297,585	-	-	(6,225,027)	(9,134)
Imm.re Miralto S.r.l.	-	-	-	-	(1,314,481)	(464,000)	-	-	424,000	(2,771,000)	(2,185)	-
Executives with strategic responsabilities	-	-	-	-	(162,611)	-	-	-	-	-	(16,600)	-
Total with related parties	**20,150,076**	**2,022,393**	**495,893**	**(8,285,701)**	**(5,085,643)**	**(464,000)**	**24,935,690**	**37,314,107**	**755,678**	**(2,771,000)**	**(14,420,657)**	**(128,889)**
Total from financial statements	**64,793,143**	**1,793,361**	**637,753**	**(39,435,583)**	**(20,110,325)**	**(1,323,569)**	**25,101,037**	**54,512,488**	**2,639,005**	**(18,271,000)**	**(39,214,011)**	**(2,376,071)**
% age weight	**31%**	**n. m.**	**78%**	**21%**	**25%**	**35%**	**99%**	**68%**	**29%**	**15%**	**37%**	**5%**

The following table shows the details of these relationships in the financial year ended March 31, 2011.

FINANCIAL YEAR 2010/2011							BALANCE AT MARCH 31 2011					
(in Euro)	Revenues	Other operating incomes (charges)	Financial incomes	Costs of raw materials	Costs of services	Financial expenses	Financial receivables	Trade receivables	Other current assets	Financial debt (including leasing)	Trade payables	Other current liabilities
Damiani International B.V.	14,093,451	473,614	27,846	273,270	-	-	13,563,581	28,843,915	-	-	(1,616,857)	-
Alfieri & St.John S.p.A.	300,191	400,904	-	(634,035)	(227,856)	-	-	3,615,243	-	-	(868,823)	(3,746)
Damiani Manufacturing S.r.l.	88,233	29,350	9,333	(616,865)	(902,080)	-	-	8,714	-	-	(14,072)	-
New Mood S.p.A.	-	634,051	51,076	(359,212)	(819,468)	-	1,450,000	599,595	-	-	(1,288,953)	(8,495)
Damiani Japan K.K.	-	142,837	4,089	-	-	-	-	1,192,241	-	-	15	-
Damiani Usa Corp.	240	119,307	-	-	-	-	-	2,379,269	-	-	(1,836,756)	-
Casa Damiani Espana S.L.	-	-	-	-	-	-	-	-	1,986	-	(721,480)	-
Rocca S.p.A.	3,237,714	483,140	171,240	(50)	(490,652)	-	11,000,000	2,178,452	391,325	-	(299,707)	-
Laboratorio Damiani S.r.l.	971,431	106,590	13,561	(2,735,854)	(1,776,677)	-	1,180,000	814,493	-	-	(4,609,771)	(9,098)
Imm.re Miralto S.r.l.	-	-	-	-	(1,461,181)	(494,000)	-	-	-	(3,007,000)	(981,203)	-
Executives with strategic responsabilities	-	-	-	-	(122,849)	-	-	-	-	-	(44,521)	-
Total with related parties	**18,691,260**	**2,389,794**	**277,144**	**(4,072,746)**	**(5,800,762)**	**(494,000)**	**27,193,581**	**39,631,921**	**393,311**	**(3,007,000)**	**(12,282,129)**	**(21,338)**
Total from financial statements	**60,824,816**	**1,306,513**	**489,605**	**(34,604,290)**	**(19,743,048)**	**(1,901,656)**	**27,351,758**	**59,317,657**	**2,326,988**	**(24,007,000)**	**(37,923,297)**	**(2,447,450)**
% age weight	**31%**	**n. m.**	**57%**	**12%**	**29%**	**26%**	**99%**	**67%**	**17%**	**13%**	**32%**	**1%**

- Revenues from subsidiaries Damiani International B.V., Alfieri & St John S.p.A., Damiani Manufacturing S.r.l., Damiani Usa Corp., Rocca S.p.A., Laboratorio Damiani S.r.l. include sale of jewelry products of Damiani and Salvini brands and of raw materials (which correspond to trade receivables);
- The other operating incomes from 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 the re-charge, according to the agreements between the parties, of services and management fees drawn up centrally and enjoyed by subsidiaries and the recharge of seconded staff;
- The financial incomes from subsidiaries Damiani International B.V., Damiani Manufacturing S.r.l., New Mood S.p.A., Damiani Japan K.K., Laboratorio Damiani S.r.l. and Rocca S.p.A. are related to the interest rates paid on the financings to those companies;
- The costs from subsidiaries Alfieri & St John S.p.A., Damiani Manufacturing S.r.l., New Mood S.p.A., Laboratorio Damiani S.r.l. are related to the purchases of goods and services (repairs and production costs) to which correspond the trade payables; the positive balance to Damiani International B.V. in the financial year 2010/2011 was due to the return of watches made by the foreign subsidiary;
- The costs from Rocca S.p.A. are mainly due to the rental fees related to the boutique in Turin (a mono-brand Damiani), managed on behalf of Damiani S.p.A.;
- The balance related to other current assets/(liabilities) from subsidiaries are due to items relating to the fiscal consolidation achieved in Damiani S.p.A.;
- The costs from Immobiliare Miralto S.r.l. are related to the rental fees paid for the premises in Milan and Valenza (AL). Moreover, in the two periods there are financial charges respectively of Euro 464 thousands in the financial year 2011/2012 and for Euro 494 thousands in the financial year 2010/2011, corresponding to the portion of interest for the repayment of borrowings to the related party for a sale and lease back transaction for a building in Milan where is located a Damiani boutique. The outstanding debt at March 31, 2012 amounts to Euro 2,771 thousands.
- The costs from strategic executives refer to services received which are among the Company's ordinary operations.

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

32. COMMITMENTS AND POTENTIAL LIABILITIES

On December 29, 2009 the Tax Agency in Milan – Office 6 notified also Damiani S.p.A. which took part in the fiscal consolidation system, an assessment notice in which was contested to the subsidiary New Mood S.p.A for the tax year 2004 the fiscal deductibility of costs for about Euro 8,000 thousands relating the purchases of goods from supplier companies resident in Hong Kong, maintaining that for these companies did not exist the tax exemption conditions laid down by article n. 110, paragraph 11 of the TUIR (Consolidated Income Tax Act). The amount demanded by the Office, in terms of taxes and fines net of interests, was Euro 6,226 thousands. The company New Mood S.p.A. presented a plea against this assessment notice on May 28, 2010, because it believes it has acted according to the principles of procedural and substantive fairness and it can demonstrate the illegality of the tax claim. On November 5, 2010 the Provincial Tax Commission of Milan issued the decision at first instance which accepting the reasons of the plaintiff New Mood S.p.A., recognized the deductibility of the costs incurred in 2004 to operations with foreign suppliers. On May 5, 2011 the Regional Tax Commission of Milan of the Tax Agency presented an appeal with a request for public hearing at first instance sentence of November 2010 (notified also Damiani S.p.A.), maintaining that the reasons were insufficient and that the evaluation of the facts and proofs supplied by New Mood S.p.A. were erroneous and reiterating that there did not exist the exemption conditions laid down by article n. 110, paragraph 11, of the TUIR. In terms of the judicial process that regulates the litigation, New Mood S.p.A. has produced its counterclaims and on May 10, 2012 a hearing was held on the second level of judgment.
Therefore, it is now pending appellate decision that should be issued shortly. In the light of what is described above and the fact that in the first instance the position of New Mood S.p.A. has been well received, the liabilities continue to be classified as "possible", in line with what already happened in the financial statements at March 31, 2010 and at March 31, 2011.

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

There were no positions or transactions deriving from atypical and/or unusual and significant non-recurring items as defined by Consob resolution n. 15519 of July 27, 2006 and by Consob communication DEM 6064293 of July 28, 2006.

34. CAPITAL MANAGEMENT

The primary objective of Damiani S.p.A. is to guarantee, even in period of economic crisis and financial stress, the best possible balance between assets and liabilities (solvency ratio) also from an overall view of the Group. Starting from this principle the Company is commit-

ted, even in a not positive market environment, to maintain an high capital strength and to limit debt to the banking system (by utilizing more medium-long term loans at a fixed interest rate) in order to maximize its credit rating and therefore support the expansion plans of the Group in the best possible financial conditions.
The Group manages its capital structure and changes it according to the changes in economic conditions and in the targets of its strategic plans.

35. FINANCIAL RISK MANAGEMENT

At March 31, 2012 Damiani S.p.A. had a negative net financial position of about Euro 18.7 million, in improvement of more than Euro 2 million compared to March 31, 2011, despite a negative net result and thanks to the actions implemented during the financial year to monitor carefully the operating working capital and to an optimization of cash flow generated within the Group from which also benefited the Company.
Damiani S.p.A. has adjusted its policy of financial risk management at the existing situation and at the specific projects which in turn intended to develop.
In the following paragraphs are described the main financial risks to which Damiani S.p.A. is exposed and that are part of a wider management at Group level (described in the consolidated report on operations and in the notes of the consolidated financial statements) constantly monitored in order to identify appropriate actions to mitigate them, listing them in descending order of importance.

Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.
With reference to the dealership, Damiani S.p.A. deals with a customer base consisting mainly of jewelry shops and distributors and therefore are not generally required collateral. Damiani S.p.A. carries out a preliminary information surveys to customers through a specific information company and monitors all customers with the attribution of a specific trust; for all is also operating an automatic control with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection.
This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged, and the difficult to access to credit can impact the solvency of some clients. Damiani S.p.A. shall conduct timely assessments of risks in the closing of the financial year.

The table below shows the maximum potential exposure to the credit risk at March 31, 2012 and at March 31, 2011.

(in thousands of Euro)	March 31 2012	March 31 2011
Deposits	671	3,371
Trade receivables	54,512	59,318
Financial receivables towards subsidiaries	24,936	27,194
Other non current assets	165	158
Other current assets	4,189	4,592
Total maximum exposure to the credit risk	**84,473**	**94,633**

Liquidity risk

The exposure of Damiani S.p.A. is mainly represented by trade payables related to supply transactions and borrowings from the banking system. The overall exposure is decreased by Euro 3,780 thousands in the financial year 2011/2012 for the repayment of medium/long term loans, contracted in the previous years in which they have been counteracted regularly without affecting the soundness of the Company and without the need of new financings, which in the present context are likely to be less affordable. The table below shows the detail of the liquidity risk:

	Analysis of the due date at March 31 2012			
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	39,214	-	-	39,214
Long term financial debts to banks	5,500	10,000	-	15,500
Long term financial debt to leasing	269	1,076	1,426	2,771
Short term borrowings	1,096	-	-	1,096
Other current liabilities	2,605	-	-	2,605
Total exposure	**48,684**	**11,076**	**1,426**	**61,186**

	Analysis of the due date at March 31 2011			
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	37,923	-	-	37,923
Long term financial debts to banks	5,500	15,500	-	21,000
Long term financial debt to leasing	236	944	1,827	3,007
Short term borrowings	172	-	-	172
Other current liabilities	2,864	-	-	2,864
Total exposure	**46,695**	**16,444**	**1,827**	**64,966**

Risks linked to the price fluctuations and availability of raw materials

Among its raw materials Damiani S.p.A. mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors such as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2011/2012 the average price of gold, which is normally considered as being a shelter-good in times of economic/financial crisis and subject to much speculation, continued to rise highly in price. In the month of April 2011 the average monthly value was 32.86 Euros per gram (compared with an annual average of the previous financial year 2010/2011 which was equal to 31.44 Euros per gram), and has continued to grow in the following months, reaching the average price of 40.76 Euros per gram of March 2012 (with an average value for the financial year 2011/2012 of 38.59 Euros per gram, +23% over the previous twelve months). Over the next months (April-May 2012) the rising race seems to have stopped and the price remained stable around 40 Euros per gram.

This upward trend has also hit other raw materials used in jewelry production (for example: diamonds and silver), in some cases accompanied by severe and sudden swings that make it extremely difficult to program purchases and, where appropriate, also the construction of a hedging strategy. For 2012, analysts said it should assist in a decline in prices of precious raw materials from the peak reached in 2011, without excluding the possibility of strong and rapid oscillations.

The risks can increase in relation to the trend of exchange rates, because some raw materials have official prices in different currencies from the Euro and their purchases are settled in currencies such as US Dollars for diamonds and Japanese Yen for pearls, while the functional currency is Euro.

Damiani S.p.A. mitigates this risk as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2012 active contracts relating to purchases of gold were 6 for a total quantity of 100 kilograms and an agreed equivalent of Euro 3,926 thousands); b) the purchases often consist of finished products from suppliers with who there exist well established relationships and defined agreements for a medium-term time that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the incidence of gold is not majority compared to the overall cost of production; d) the retail price is increased (usually annually) in relation to the increase in the production costs. However, it has to be underlined that in the medium-long term the uptrend in the price of raw materials used in the production process inevitably leads to a reduction of margins for the Company, because is not possible to pass totally the increase of production costs to the retail price, especially in stable markets.

Exchange rate risk

The Company carries out some purchases of raw materials and finished products in US Dollars and Japanese Yen, which exposes it to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk.

At March 31, 2012 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 1,603 thousands. At March 31, 2011 contracts were instead equal to a total of Euro 2,264 thousands.

Interest rate risk

Interest rate changes may affect the Company's profitability, implying higher costs for interest on debt.

In order to limit the risk of exposure to fluctuations in interest rates, in June 2009 Damiani S.p.A. signed medium-long term loans, for a maximum period of 6 years and for a total amount of Euro 25,000 thousands at a fixed rate between 4% and 4.5%, without any additional guarantees and covenants. The residual value at March 31, 2012 of such funding signed by Damiani S.p.A. was Euro 15,500 thousands.

The Company (and the entire Group) is therefore facing a deep and prolonged global financial crisis with a proper balance of its debt structure and the cost control of the same, using a lesser extent the short-term financing (credit lines and factor), more exposed to fluctuations in interest rates and credit crunches that may occur in times of crisis like the present.

At March 31, 2012 the Company's debt structure is still well balanced between the sources of external financing in the medium-long term (net of the amount payable to related parties consists of the operations connected with the sale and lease back) and short term sources towards the banking system.

The use of short-term borrowings during the financial year 2011/2012 is, however, occurred at average rates less than 2% per year, lower than those paid on outstanding medium-long term financing (around 4.3%).

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 the different categories of financial instruments used by the Company and booked to the financial statements.

	BOOK VALUE						FAIR VALUE	
	Total		current		non current			
(in thousands of Euro)	March 31 2012	March 31 2011	March 31 2012	March 31 2011	March 31 2012	March 31 2011	March 31 2012	March 31 2011
Cash and cash equivalent	703	3,415	703	3,415	-	-	703	3,415
Trade receivables	54,512	59,318	54,512	59,318	-	-	54,512	59,318
Other financial assets	4,354	4,750	4,189	4,592	165	158	4,354	4,750
Financial receivables to subsidiaries	24,936	27,194	24,936	27,194	-	-	24,936	27,194
Total financial assets	**84,505**	**94,677**	**84,340**	**94,519**	**165**	**158**	**84,505**	**94,677**
Trade payables	39,214	37,923	39,214	37,923	-	-	39,214	37,923
Payables to banks and other financial liabilities	19,367	24,179	6,865	5,908	12,502	18,271	19,367	24,179
Other liabilities	2,605	2,864	2,605	2,864	-	-	2,605	2,864
Total financial liabilities	**61,186**	**64,966**	**48,684**	**46,695**	**12,502**	**18,271**	**61,186**	**64,966**

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 instrument 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: 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, 2012 are classified at level 2 and during the financial year 2011/2012 there were no transfer from level 1 or 3 to level 22.

36. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

There were no significant events after the end of the financial year.

37. AUDITING COSTS

The following table, prepared pursuant to article 149-duodecies of the Consob Issuer Regulations, shows the contractual amounts for the financial year ended March 31, 2012 for services rendered by the independent auditors and entities belonging to its network.

(in thousands of Euro)			
Type of service	Service provider	Services	Fees
Audit	Reconta Ernst & Young S.p.A.	Professional fees	174
		Other expenses	38
Totale			**212**

For the Board of Directors
President and CEO
Mr. Guido Grassi Damiani

ANNEX 1
Key data of subsidiaries

Alfieri & St, John S.p.A. Registered office	Valenza (AL), Italy
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	1,462
Revenues from sales and services	11,913
Operating result	865
Net result	549
Total assets	15,241
Shareholders' equity	5,977
Total liabilities	9,264
Financial report according to IFRS	

New Mood S.p.A. Registered office	Valenza (AL), Italy
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	1,040
Revenues from sales and services	9,547
Operating result	(491)
Net result	(770)
Total assets	12,003
Shareholders' equity	2,237
Total liabilities	9,766
Financial report according to IFRS	

Damiani Manufactoring S.r.l. Registered office	Valenza (AL), Italy
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	850
Revenues from sales and services	-
Operating result	0
Net result	0
Total assets	3,155
Shareholders' equity	3,083
Total liabilities	72
Financial report according to local GAAP	

Laboratorio Damiani S.r.l. Registered office	Valenza (AL), Italy
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	2,140
Revenues from sales and services	8,390
Operating result	349
Net result	120
Total assets	9,572
Shareholders' equity	3,293
Total liabilities	6,279
Financial report according to local GAAP	

Damiani International B.V. Registered office	Amsterdam, Netherlands
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	194
Revenues from sales and services	38,867
Operating result	518
Net result	787
Total assets	120,891
Shareholders' equity	69,306
Total liabilities	51,585
Financial report according to local GAAP	

Damiani Japan K.K. Registered office	Tokio, Japan
Key figures (in millions of Jpy)	FY closed at March 31 2012
Share capital	495
Revenues from sales and services	1,052
Operating result	(352)
Net result	(357)
Total assets	2,445
Shareholders' equity	1,299
Total liabilities	1,146
Average exchange rate 2011/2012	Euro/Jpy 108,8040
Exchange rate at March 31 2012	Euro/Jpy 109,5600
Financial report according to local GAAP	

Damiani USA, Corp. Registered office	New York, USA
Key figures (in thousands of Usd)	FY closed at March 31 2012
Share capital	900
Revenues from sales and services	10,684
Operating result	(7,106)
Net result	(7,231)
Total assets	19,505
Shareholders' equity	(413)
Total liabilities	19,918
Average exchange rate 2011/2012	Euro/Usd 1,3775
Exchange rate at March 31 2012	Euro/Usd 1,3356
Financial report according to local GAAP	

Casa Damiani Espana S.L. Registered office	Valencia, Spain
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	721
Revenues from sales and services	-
Operating result	(1)
Net result	(1)
Total assets	835
Shareholders' equity	835
Total liabilities	-
Financial report according to local GAAP	

Damiani Hong Kong L.t.d. Registered office	Hong Kong, Hong Kong
Key figures (in thousands of Hkd)	FY closed at March 31 2012
Share capital	2,500
Revenues from sales and services	20,154
Operating result	(6,590)
Net result	(6,795)
Total assets	23,555
Shareholders' equity	(19,868)
Total liabilities	43,423
Average exchange rate 2011/2012	Euro/Hkd 10,7143
Exchange rate at March 31 2012	Euro/Hkd 10,3705
Financial report according to local GAAP	

Damiani France S.A. Registered office	Paris, France
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	39
Revenues from sales and services	961
Operating result	(337)
Net result	(337)
Total assets	3,121
Shareholders' equity	(4,025)
Total liabilities	7,146
Financial report according to local GAAP	

Damiani Macau Registered office	Macau
Key figures (in thousands of Pataca)	FY closed at March 31 2012
Share capital	2,200
Revenues from sales and services	13,103
Operating result	(777)
Net result	(770)
Total assets	19,006
Shareholders' equity	(252)
Total liabilities	19,258
Average exchange rate 2011/2012	Euro/Pataca 11,0303
Exchange rate at March 31 2012	Euro/Pataca 10,6764
Financial report according to local GAAP	

Rocca S.p.A. Registered office	Milan, Italy
Key figures (in thousands of Euro)	FY closed at March 31 2012
Share capital	4,680
Revenues from sales and services	45,057
Operating result	1,063
Net result	603
Total assets	35,764
Shareholders' equity	7,586
Total liabilities	28,178
Financial report according to local GAAP	

Rocca International S.A. Registered office	Lugano, Switzerland
Key figures (in thousands of Chf)	FY closed at March 31 2012
Share capital	600
Revenues from sales and services	1,500
Operating result	(230)
Net result	(203)
Total assets	3,267
Shareholders' equity	933
Total liabilities	2,334
Average exchange rate 2011/2012	Euro/Chf 1,2129
Exchange rate at March 31 2012	Euro/Chf 1,2045
Financial report according to local GAAP	

Damiani Mexico S.A. Registered office	Mexico - Distrito Federal, Mexico
Key figures (in thousands of Mxn)	FY closed at March 31 2012
Share capital	3,000
Revenues from sales and services	584
Operating result	(464)
Net result	(455)
Total assets	12,771
Shareholders' equity	4,773
Total liabilities	7,998
Average exchange rate 2011/2012	Euro/Mxn 17,7274
Exchange rate at March 31 2012	Euro/Mxn 17,0222
Financial report according to local GAAP	

For the Board of Directors
President and CEO
Mr. Guido Grassi Damiani

Attestation regarding the Financial Statements of Damiani S.p.A., pursuant to article 154 bis of the Legislative Decree 58/1998

1. The undersigned Mr. Guido Grassi Damiani, President 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, paragraph 3 and 4, of the Legislative Decree n. 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 financial statements as of March 31, 2012.

2. Furthermore it is certified that the financial statements:

a) Are prepared in conformity with the International Accounting Standards as endorsed by the European Union pursuant to the EC regulation n. 1606/2002 of the European Parliament and Council dated July 19, 2002;
b) Agree with the contents of the accounting books and entries;
c) Provide a true and fair representation of the balance sheet, economic and financial position of the Issuer;
d) The report on operations contains a reliable analysis of the results of operations, and the situation of the Company, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 14, 2012

Guido Grassi Damiani
President and CEO

Gilberto Frola
Executive in charge of drawing up
the accounting documents

DAMIANI S.p.A.
Registered Office in Valenza (AL), Piazza Damiano Grassi Damiani, n. 1
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

FINANCIAL STATEMENT MARCH 31ST 2012

Dear Shareholders,

In the financial year closed at 31 March 2012, we discharged the supervisory activities required by Law, in accordance with the rules of conduct for the Board of Statutory 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 Independent Auditors' managers of Reconta Ernst & Young, the Company's Internal Control managers, the members of the Supervisory Body established pursuant to Legislative Decree no. 231/2001, the main executives of the several company's functions 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 the Legislative Decree no. 58/1998 and article 2429 of the Italian Civil Code, as well as taking into account the indications supplied by Consob notice 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 received from the Board of Directors, the half-year financial report and the quarterly report, according to the law;
- we have not found nor received information from the Board of Directors, the Independent Auditors or the Internal Auditing 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 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 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 Auditing 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 market conditions and in the Company's interest. Moreover we have supervised the conformity to the principles required by art. 4, paragraph 1, of the Consob regulation adopted with resolution no. 17221 of 12 March 2010 (and successively modified with the resolution no. 17389 of 23 June 2010) concerning the procedure on transactions with related parties approved by the Board of Directors of Damiani S.p.A. of 26 November 2010;

- the information pertaining to transactions with group companies and / or related parties, contained, in particular, in the paragraphs "Transactions with related parties" 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 parties" in the respective report on operations are adequate in light of the Company's size and structure;
- no complaints, pursuant to article 2408 of the Italian Civil Code, and no 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;
- we have received notice confirming the independence of the Independent Auditors responsible for the statutory audit according to article 17, paragraph 9, letter a), of the Legislative Decree no. 39/2010. We did not found situation that have compromised the independence or the occurrence of incompatibility. In addition, we have discussed with the Independent Auditors about their independency and the measures taken to mitigate those risks;
- we have received from the Independent Auditors the report required by article 19, Section 3, of the Legislative Decree no. 39/2010 dated 28 June 2012, which shows that, based on the work performed, no "fundamental issue" or "material shortcomings in the system of internal controls concerning the financial disclosure process" were identified even related to controlled subsidiaries outside the European Union;
- we have monitored the effectiveness of the auditing process, reviewing the audit plan and discussing the work performed;
- the Independent Auditors issued on 28 June 2012 their opinions on the statutory and consolidated financial statements. These opinions are unqualified and do not contain any matter of emphasis;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of Consolidated Law on Finance and 84-quarter of the Issuers' Regulation and we have no special observations to make;

- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we verified that independence requirements of the Statutory Auditors remain valid, already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- during the course of financial year we rendered our opinions as provided for by Law;
- during the course of financial year we have attended 7 meetings of the Board of Directors and 2 meetings of the Remuneration Committee. In the same period the Board of Statutory Auditors met 10 times, 6 of which were in joint meetings with the Internal Auditing 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 observations, 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 ensured that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts;
- we have acquired knowledge and have watched over, insofar this falls within our competencies, also pursuant to art. 19 of Legislative Decree no. 39 /2010, regarding the adequacy of the internal controls system and of the risk management 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 Auditing 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 no. 58/1998;
- we checked the procedures for the proper implementation of the rules of corporate governance entrenched in the new edition of the Self-Regulation Code for listed companies adopted by the Board of Directors in the meeting of 27 June 2007. We confirm compliance with the regulations provided by the above Code. This compliance was covered in the Corporate Governance report and ownership structures of Damiani S.p.A. relating to the financial year April 1st 2011 . March 31st 2012 that is available in the forms provided. We outline that 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 control model contained as ruled by Legislative Decree no. 231/2001 and with the Code of Ethics. The Supervisory Body reported on the activities carried out without pointing out matters that could be subject to sanction or specific violations of the Model;

Considering 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 31 March 2012 and we propose to the shareholders' meeting to approve the financial statement of Damiani S.p.A. and the report on operations as presented by the Board of Directors and we agree to their proposal relating the cover of the loss of the year.

Milan, 28 June 2012

The Board of Statutory Auditors

Gianluca Bolelli - Chairman

Simone Cavalli – Active Statutory Auditor

Fabio Massimo Micaludi – Active Statutory Auditor

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Damiani S.p.A.

1. We have audited the financial statements of Damiani S.p.A. as of March 31, 2012 and for the year then ended, comprising the balance sheet, the income 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 Damiani S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the 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 of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated June 28, 2011.

3. In our opinion, the financial statements of Damiani S.p.A. as of March 31, 2012 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 Directors of Damiani S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure published in the "Investor relation" section of Damiani S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented 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 the Company's Ownership Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented 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 the Company's Ownership Structure are consistent with the financial statements of Damiani S.p.A. as of March 31, 2012.

Milan, June 28, 2012

Reconta Ernst & Young S.p.A.
Signed by: Fabio Mischi, Partner

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

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE OF DAMIANI S.P.A.

Pursuant to Article 123-bis of Legislative Decree 58/98 ('TUF')

(Traditional model of governance)

Damiani S.p.A.
Web site www.damiani.com
Company financial year 1 April 2011–31 March 2012
Report approved by the Board of Directors of the company on 14 June 2012

DAMIANI S.P.A. – Registered office at Piazza Damiani Grassi Damiani 1, Valenza (AL), – Share Capital: € 36,344,000 Fully paid up, Tax code and VAT No. 01457570065, Businesses Registry of Alessandria No. 01457570065, REA No. 162836/AL

INDEX

INDEX

GLOSSARY

Code/Corporate Governance Code: The Corporate Governance Code of the listed company approved in March 2006 (and amended in March 2010) by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. Where not otherwise specified, the references to Principles, Criteria and Comments are understood to mean this version of the Code.

Code/Corporate Governance Code 2011: The Corporate Governance Code of listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, ANIA, Assogestioni, Assonime and Confindustria.

Civil Code/C.C.: The Italian Civil Code.

Board/Board of Directors: the Board of Directors of the Issuer.

Issuer/Company: Damiani S.p.A.

Financial year: the company financial year to which this Report refers is 1 April 2011–31 March 2012.

Issuer Regulation: The Regulation issued by CONSOB with Resolution No. 11971 of 1999 (as subsequently amended) on issuers.

Market Regulation: The Regulation issued by CONSOB with Resolution No. 16191 of 2007 (as subsequently amended) on markets.

Related Parties Regulation: The Regulation issued by CONSOB with Resolution No. 17221 of 2010 (as subsequently amended) on operations with related parties.

Report: The Corporate Governance Report and the ownership structure that the company is required to draft pursuant to Art. 123-bis TUF.

TUF: Legislative Decree 58 dated 24 February 1998 (Testo Unico della Finanza - Unified Finance Law).

1. PROFILE OF THE ISSUER

The Corporate Governance system of Damiani S.p.A. is the traditional one (the so-called 'Latin' model). The corporate bodies are therefore the Shareholders' Meeting, the Board of Directors and the Board of Auditors.
The Board of Directors is divided into two internal committees -the Committee for Internal Control and Operations with Related Parties, and the Remuneration Committee. Both committees have a role of consultation and proposal, with the aim of facilitating the functionality and work of the Board.

A) THE SHAREHOLDERS' MEETING

The competences, role and operation of the Shareholders' Meeting are determined by the current law and Articles of Association, to which full reference is made.

B) THE BOARD OF DIRECTORS

The Board of Directors consists of a number of members between five and fifteen, determined each time by the Meeting. The Board elects a chairman from its members and, if necessary, one or more deputy chairmen.
Pursuant to Art. 21 of the Articles of Association, the chairman has the legal representation of the company before third parties and in court. He has free signature with the right to move legal action or petitions, also for revocation and Cassation sentences, appointing lawyers and attorneys of record. The legal representation is also separately entrusted within the limits of the powers conferred on them by the Board of Directors to one or more of its members, also with the qualification of delegated directors where appointed.
As shown in greater detail below, the Board of Directors is invested with the widest powers for the ordinary and extraordinary management of the company (only excluding what is reserved to the Shareholders' Meeting by the law), including the jurisdiction to deliberate a merger in the cases set out by Arts. 2505 and 2505-bis of the Civil Code, the establishment and suppression of branches, the indication of which of the directors can represent the company, the reduction of the capital if the shareholders withdraw, the adaptation of the Articles to legislative provisions and the transfer of the registered office within Italy.

C) THE COMMITTEES

In compliance with the provisions of the Corporate Governance Code, the Committee for Internal Control and the Operations with Related Parties and the Remuneration Committee are set up within the sphere of the Board of Directors and have a role of consultation and proposal; to date, it has not been considered necessary to set up an Appointments' Committee.
In implementing the Related Parties Regulation and in consideration of the qualification of the Issuer as 'a smaller-sized company', the role and relevant competences that the Related Parties Regulation attributes to the committee consisting of non-executive, mainly independent directors with reference to all the operations with related parties have been attributed to the Committee for Internal Control and the Operations with Related Parties.

D) THE BOARD OF AUDITORS

This consists of three regular and two alternate members and is the control body of the company. The Board is responsible for supervising the company and ensuring that, in its work, it respects the law and the Articles of Association, criteria of correct administration and gives adequate instructions to its internal apparatus and subsidiaries. For the aspects of competence, the Board of Auditors must similarly supervise the adequacy of the organisational structure of the company, the internal control and administrative accounting systems, as well as the reliability of the latter in correctly representing the management, making the necessary checks for the purpose.
It is also the responsibility of the Board to supervise the real implementation of the rules of corporate governance set out by the Codes of Conduct drawn up by the management companies of regulated markets or sector associations which the company states it belongs to through information given to the public, and also check the adequacy of the provisions issued by the company to its subsidiaries so that they give it all the news necessary for compliance with the communication requirements set out by the law. In compliance with Legislative Decree 39 of 27 January 2010, it should be noted that the Board of Auditors supervises, in particular, the process of financial reporting, the effectiveness of the internal control systems, internal audit, if applicable, and risk management, the statutory auditing of the annual accounts and consolidated financial statements, and the independence of the statutory auditor or legal auditing company, especially with reference to the provision of non-auditing services to the Issuer.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (EX ART. 123-BIS, SUB-PARA.1, TUF)

The detailed information on the ownership structure at the date of approval of this Report on 14 June 2012 is given below, in compliance with the provisions of Art. 123-bis, sub-para.1, of the TUF.

(A) STRUCTURE OF THE SHARE CAPITAL (EX ART. 123-BIS, SUB-PARA.1, (A) TUF).

The whole Damiani S.p.A. share capital consists of ordinary shares with voting rights, listed on the screen-based Stock Exchange, STAR segment, managed by Borsa Italiana S.p.A. The actual share capital, fully issued and paid up, is Euro 36,344,000 (thirty-six million, three hundred and forty-four thousand) and is divided into 82,600,000 (eighty-two million, six hundred thousand) ordinary shares, with a nominal value of Euro 0.44 (zero point forty-four) each.

There were three plans based on financial instruments in progress at the date of approval of this Report. In detail:

- the **'Stock Grant Plan 2009'**, approved by the Shareholders Meeting on 22 July 2009 and concerning the free assignment of a maximum 1,000,000 Damiani shares to employees and some directors of the Damiani group in one or more tranches, within five years of approval by the Meeting. The description of the plan is given in the 'Information Document prepared pursuant to Art. 84 bis, sub-para.1 of CONSOB Regulation No. 11971/99 and subsequent amendments' in the Directors' Report of Damiani S.p.A. of 12 June 2009, and the subsequent integrating information documents (the last of which is shown attached to the Remuneration Report), available in the 'Investor Relations/Shareholders/Shareholders Meeting' and 'Investor Relations/Financial Documents/Documents and Notices' sections of the website www.damiani.com;
- the **'Stock Option Plan 2009'**, approved by the Shareholders' Meeting on 22 July 2009 and concerning the sale of options for the purchase of a maximum 3,500,000 Damiani shares (in the measure of one share per option sold) to the Management of the Damiani group, in one or more tranche, within five years of approval by the Meeting; the description of the plan is shown in the 'Information Document prepared pursuant to Art. 84 bis, sub-para.1 of CONSOB Regulation No. 11971/99 and subsequent amendments' in the Directors' Report of Damiani S.p.A. dated 12 June 2009,and the subsequent integrating information document, available in the 'Investor Relations/Shareholders/ Shareholders Meeting' and 'Investor Relations/Financial Documents/Documents and Notices' sections of the website www.damiani.com;
- the **'Stock Option Plan 2010'**, approved by the Shareholders' Meeting on 21 July 2010 and concerning the free assignment of options for the purchase of a maximum 3,500,000 Damiani shares (in the measure of one share per option assigned) to executive directors, senior managers, middle managers, other employees, consultants and co-workers, including the agents of the company and companies in the Damiani group, in one or more tranche, within five years of approval by the Meeting. The description of the plan is given in 'Information Document prepared pursuant to Art. 84 bis, sub-para.1 of CONSOB Regulation No. 11971/99 and subsequent amendments' in the Directors' Report of Damiani S.p.A. dated 11 June 2010, and the subsequent integrating information documents (the last of which is shown attached to the Remuneration Report), available in the 'Investor Relations/Shareholders/Shareholders Meeting' and 'Investor Relations/ Financial Documents/Documents and Notices' sections of the website www.damiani.com.

See Table 1 in the Appendix to the Report for any other information and, with reference to the recompense plans based on financial instruments to information documents drafted pursuant to Art.84-bis of the Issuer Regulation available on the company website, and also the Remuneration Report prepared pursuant to Art. 123-terof the TUF.

Please note that the company has not issued other financial instruments that attribute the right to subscribe newly issued shares.

(B) RESTRICTIONS ON THE TRANSFER OF SECURITIES (EX ART. 123-BIS, SUB-PARA.1, (B) TUF).

The Articles of Association of Damiani S.p.A. do not consider restrictions on the transfer of shares, nor limits to the shareholding, or the approval of corporate bodies or shareholders for the admission of shareholders to the body of shareholders.

(C) RELEVANT HOLDINGS OF CAPITAL (EX ART. 123-BIS, SUB-PARA.1, (C) TUF).

Based on the results of the Shareholders' Register and the updates available at the date of approval of this Report, including the advice received by the company pursuant to Art. 120 of the TUF, as well as any other information available, the people who are directly or indirectly holders of participations of greater than 2% of the share capital issued and fully paid up, are those indicated in Table 1 shown in the Appendix to this Report.

(D) SECURITIES GIVING SPECIAL RIGHTS (EX ART. 123-BIS, SUB-PARA.1, (D) TUF).

The company has not issued securities that give special rights of control nor do the Articles of Association provide for special powers for some shareholders or possessors of particular sectors of shares.

(E) EMPLOYEE SHARE OWNERSHIP – MECHANISM FOR THE EXERCISE OF THE VOTING RIGHTS (EX ART. 123-BIS, SUB-PARA.1, (E) TUF).

The Articles of Association do not provide for special provisions relating to the exercise of voting rights of employee shareholders.

(F) RESTRICTIONS ON VOTING RIGHTS (EX ART. 123-BIS, SUB-PARA.1, (F) TUF).

There are no particular provisions determining restrictions or limitations on the right to vote in the Articles of Association nor are the financial rights connected to securities separate from their possession.

(G) AGREEMENTS BETWEEN SHAREHOLDERS (EX ART. 123-BIS, SUB-PARA.1, (G) TUF).

At the date of approval of this Report, there was a shareholders' agreement exArt. 122 of the TUF signed between Guido, Giorgio and Silvia Grassi Damiani on 9 September 2007 with a duration of 3 years, tacitly renewed on 9 September 2010 for a further period of 3 years and, therefore, until 9 September 2013. The said shareholders' agreement was published, pursuant to Art. 122 of the TUF, in the newspaper'Milano Finanza' on 10 September 2010 and was lodged with the Businesses Registry of Alessandria (AL) on the same date.
The companies whose equity instruments are the subject of the shareholders' agreement are D Holding S.A. and Leading Jewels S.A., the latter holder of a controlling participation (direct) in Damiani S.p.A.
For further information, see the extract of the agreement published in the CONSOB web site www.consob.it.

(H) CHANGE OF CONTROL CLAUSES (EX ART. 123-BIS, SUB-PARA.1, (H) TUF) AND STATUTORY PROVISIONS ON TAKE-OVERS (EX ARTS. 104, SUB-PARA.1-TER, AND 104-BIS, SUB-PARA.1, TUF).

At the date of publication of this Report, the company has a loan arrangement with Unicredit Corporate Banking S.p.A., which sets out the right of the bank to terminate the contract if the controlling shareholder loses control of the company; the contract started on 1.07.2010 and lasts for 72 months (of which 12 months are pre-amortisation).
Change of control clauses are in (i)some trademark licence contracts (Ferrari, Ducati, Maserati) concerning authorisations of Damiani for the production of various luxury items of jewellery and gifts, and also(ii)in some selective distribution contracts signed by the subsidiary Rocca S.p.A. with Rolex Italia S.p.A., Patek Philippe S.A., Richemont Italia S.p.A. and Bulgari Italia S.p.A, in order to acquire the qualification of Authorised Retailer of the Rolex, Patek Philippe, Cartier, IWC, Baume & Mercier, Lange et Sohne and Bulgari brands for some Rocca points of sale in various parts of Italy.

Please note that on take-overs, the Articles of Association of the Issuer(i)do not derogate from the provisions on the passivity rule set out by Art. 104 of the TUF, and (ii) do not provide for the application of the rules of neutralisation envisaged byArt. 104-bis of the TUF.

(I) POWERS TO INCREASE THE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE TREASURY SHARES (EXART.123-BIS, SUB-PARA.1, (M) TUF).

The Board of Directors has not been delegated by the Shareholders' Meeting to increase the share capital pursuant to Art. 2443 of the Civil Code. After revoking the authorisation to purchase and dispose of treasury shares, resolved on by the session of 21 July 2010 as not used, the General Shareholders' Meeting of 27 July 2011, authorised the Board of Directors, pursuant to Articles 2357 et seq. of the Civil Code, and also Art. 132 of the TUF, to purchase treasury shares in one or more solutions, as long as its not more than a fifth of the share capital, and so a maximum of 16,520,000 (sixteen million five hundred and twenty thousand) ordinary shares with a nominal value of Euro 0.44 each (for the purpose also taking account of shares of the company and its subsidiaries); the said authorisation was resolved on for a period of 18 months with effect from the date of the decision in the Meeting and so until 27 January 2013.
The purchases, pursuant to Art. 13 2of the TUF and Art. 144-bis of the Issuer Regulation, can be made (i)through Public Offer of shares for sale,(ii)in the market, in accordance with the operational methods established by the company managing the market,(iii)through the purchase and sale of derivative instruments traded in regulated markets which provide for the physical consignment of the underlying shares, in compliance with the regulatory provisions,(iv)through attribution to Shareholders of an option to sell to be exercised within 18 months of 27 July 2011, proportional to the shares held, and lastly, (v)with the different methods permitted in compliance with current principles, taking account of the need to respect, in any case, the principle of equal treatment of Shareholders. Purchases can be made in one or more solutions.
Except for the cases of non-money payments, the purchase price of each treasury share is set at an amount including the accessory purchase fees (a) no lower than 20% (twenty per cent) less compared to the official price of the trading recorded on the screen-based Stock Exchange the day before the purchase, and (b) not more than 20% (twenty percent) higher than the official price of trading recorded on the screen-based Stock Exchange the day before the purchase.
In the same session of 27 July 2011, the Shareholders' Meeting also authorised the provision of treasury shares with no time limit, also before the purchases have been completed.
Similarly, the Meeting ordered that the sale price of the shares to third parties must not be less than 90% of the average of the official prices recorded on the screen-based Stock Exchange in the five days preceding the sale; this price limit can be derogated in special cases in the interest of the company, as in the case of exchanges or transfers of treasury shares in the sphere of the fulfilment of industrial and/or commercial projects and/or however of interest to the Issuer, and also for the assignment and/or transfer, free of charge or against payment, of shares or options against the same to directors, employees or co-workers of the Damiani group and also, in performance of any plan adopted pursuant to Art. 114-bisof the TUF, and programmes of free assignment of shares to shareholders.
Acts of disposal of acquired shares can be made once or more times, also before purchases have been completed and, if necessary, the same shares can be repurchased in compliance with the limits and conditions established by the authorisation of the Shareholders' Meeting.
Over the financial year, the Board did not implement programmes for the purchase of treasury shares and, at the date of approval of this Report, the company held 5,566,509 Damiani S.p.A. shares overall amounting to 6.74% of the share capital of the Issuer.
The Articles of Association of Damiani S.p.A. do not permit the company to issue related financial instruments.

(J) MANAGEMENT AND CO-ORDINATION (EX ART. 2497 ET SEQ. OF THE CIVIL CODE).

Damiani S.p.A. is not subject to the management and co-ordination by either directly by holding company Leading Jewels S.A. (which holds 56.76% of the share capital of the Issuer) or indirectly by D. Holding S.A., pursuant to Articles 2497 et seq. of the Civil Code, and manages and co-ordinates its subsidiary companies.

In compliance with the principles of the Corporate Governance Code, as shown below, the operations of particular strategic, economic, capital and financial importance of Gruppo Damiani S.p.A. are reserved for collective examination and the exclusive approval of the Board of Directors of the Issuer, in which – as recently checked on 14 June 2012 – there are 4 directors with the requisites of not being executive, 2of whom have the requirements of independence just as the application criteria established by Art. 3 of the Corporate Governance Code.

It is considered that the jurisdiction and authoritativeness of the non-executive and independent directors and their significant weight in the assumption of Board decisions is a further guarantee that all the decisions of the Board of Directors are adopted in the exclusive interest of Damiani S.p.A. and in the absence of directives or interference of third parties with interests extraneous to those of the group

Please note that:

(A) the information requested by Art. 123-bis, sub-para.1, (i) of the TUF ('agreements between the company and directors … which set out indemnities for resignation or dismissal without just cause or if their employment relationship ceases following a take-over bid') is shown in the Remuneration Report published pursuant to Art. 123-terof the TUF;

(B) the information requested by Art. 123-bis, sub-para.1, (l) of the TUF ('regulations applicable to the appointment and replacement of directors … and also the amendment of the Articles, if different from the legislative and regulatory ones applicable as an alternative') is shown in the section of the Report on the Board of Directors (sect.4.1).

3. COMPLIANCE (ex Art. 123-bis, sub-para.2, (a), TUF)

The company considers that the alignment of the internal Corporate Governance structure with that suggested by the Corporate Governance Code is a valid and indispensable opportunity to increase its reliability towards the market. As a result, the Board of Directors of the Issuer has adopted a framework resolution and a series of resolutions aimed at the real implementation of the principles of the Corporate Governance Code, as shown below in detail, since 27 June 2007, and this was then followed by resolutions also during the financial year to 31 March 2012.

Before describing the Corporate Governance structure of the Issuer, it should be noted that, in the meeting of 10 February 2012, the Board of Directors of the parent company Damiani S.p.A. identified the 'subsidiary companies with strategic relevance' as Rocca S.p.A. and Damiani International B.V., the latter being subject to Dutch Law, without this, moreover, having a significant influence on the governance structure of the Issuer, in the opinion of the Board of Directors.

It should be noted that, as far as the statutory references are concerned, this Report refers to Articles, as in force at its date of approval, in the version approved by the Extraordinary Shareholders' Meeting of 27 July 2011. The Articles of Damiani S.p.A. are adequate for the current provisions of the law on companies with shares traded in Italian regulated markets and marked by criteria of clarity and functionality. The Articles in force today and this Report can be consulted on the company website www.damiani.com.

Please note that the Corporate Governance Code can be accessed by the public at the website www.borsaitaliana.it.

Please also note that the company is not subject to legal provisions that are not Italian which influence the corporate governance structure of the Issuer.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS AND STATUTORY AMENDMENTS (EX ART. 123-BIS, SUB-PARA.1, (L) TUF).

In compliance with Art. 147-ter of the TUF, Art. 16 of the Articles of Association sets out that the mechanism of voting a list is used for the election of the Board of Directors, with the attribution of a director to the list which is second for number of votes (the other members being taken from the list with the most votes).Shareholders with a holding equal to that determined by CONSOB, pursuant to the law and the regulations, or more, have the right to present lists of candidates for the division of directors to elect. At the date of approval of this Report, this figure corresponded to 2.5% of the share capital of the Issuer (see CONSOB Resolution No. 18185 of 24 April 2012), and subsequently, generally, with Resolution No. 18214 of 9 May 2012 which, inter alia, amended Art. 144-quater of the Issuer Regulations. In compliance with Art. 147-ter, sub-para.4, of the TUF, Art. 16 of the Articles of Damiani S.p.A. sets out that 'at least due candidates, always indicated in at least the fourth and seventh places of each list, must have the requisites of independence established by Legislative Decree No. 58/1998'. The Articles of Association do not provide for additional requisites of independence with respect to those established for the auditors pursuant to Art. 148, sub-para. 3 of the TUF, nor requirements of integrity and/or professionalism different from and additional to those requested by the law for the assumption of the position of director.

In compliance with Art. 147-ter, sub-para.1-bis, of the TUF and Art. 16 of the Articles of Association, the lists of candidates presented by the Shareholders must be lodged in the registered office, with the appropriate documentation issued by the qualified intermediaries proving that the necessary number of shares is held at the presentation of the lists, the CVs of the candidates with a detailed description of their personal and professional features, and the declarations and legal certifications referred to on acceptance of the candidature, that there are no causes of ineligibility and, if necessary, the possession of the requirements of independence established by the TUF, at least 25 (twenty-five) days before the date set for the First Call of the Shareholders' Meeting. The documentation certifying possession of the minimum participation quota in the share capital can be produced subsequently, at least 21 (twenty-one days) at the latest before the date of the Shareholders' Meeting.
Pursuant to Art. 16 of the Articles of Association, the procedure is as follows to determine those elected to the office of director:
(a) all the directors to elect, except one, are taken from the list that obtained the highest number of votes expressed by the shareholders in the progressive order in which they are found on the list;
(b) the remaining director is taken from the list that obtained the second highest number of votes, after the first list, in the Meeting, and which is not connected in any way, even indirectly, with the shareholders who presented or voted the list which obtained the highest number of votes.
The Articles of Association provide that, for the purposes of the division of the directors to elect, no account is taken of the lists which did not achieve a percentage of votes at least equal to half those required by the Articles for their presentation.
If just one list is presented or accepted for voting, the candidates of the said list will be appointed directors in the sphere of that list, according to the progressive number with which they were listed in it.
If no list is presented, the Shareholders' Meeting will deliberate with the legal majority, without respecting the above-mentioned procedure.
If there is a reduction of one or more members of the Board of Directors during the company financial year, provision must be made pursuant to Art. 2386 of the Civil Code.
Please note that legislative rules from additional sectors with respect to those of the TUF are not applicable for the composition of the Board of Directors.

Pursuant to Art. 123-bis, sub-para. 1, (l), of the TUF and with reference to the amendments to the Articles of Association, please recall that every amendment will be applied respecting current legislative and regulatory principles, with the specification that Art. 20 of the Articles of Association attributes the jurisdiction to deliberate on matters, as per Art. 2365, sub-para. 2, of the Civil Code, to the Board of Directors.

4.2 COMPOSITION (EX ART. 123-BIS, SUB-PARA.1, (D) TUF).

The current Board of Directors were appointed by the Shareholders' Meeting of 3 April 2009, which set the overall number of directors as 7 (seven), and it will expire with the Meeting convened for approval of the balance sheet of the financial year to 31 March 2012.
The Shareholders' Meeting of 21 July 2010 subsequently determined the overall number of directors as 8 (eight), providing that the director thus appointed would remain in office until the expiry of the whole Board, and so until the approval of the balance sheet for the financial year to 31 March 2012.
With reference to the appointment of the Board of Directors made by the Shareholders' Meeting of 3 April 2009, please note that the election was made on the basis of two lists respectively presented by the majority shareholder Leading Jewels S.A. and the minority shareholder DGPA S.G.R. S.p.A. The list presented by the shareholder Leading Jewels S.A., which counted Messrs Guido Grassi Damiani and Giorgio Grassi Damiani, Ms Silvia Grassi Damiani, Messrs Fabrizio Redaelli, Giancarlo Malerba and Stefano Graidi among the candidates, in that order. Six members of the Board of Directors currently in office were taken from this list with a percentage of votes in favour of 92.83% of the voting capital. In detail, they were Messrs Guido Grassi Damiani and Giorgio Grassi Damiani, Ms Silvia Grassi Damiani, Messrs Giancarlo Malerba, Stefano Graidi and Fabrizio Redaelli (this last with the requisites of independence pursuant to Art. 148, sub-para.3,of the TUF, and also of Art. 3 of the Corporate Governance Code). The list presented by the minority shareholder DGPA S.G.R. S.p.A. – which proposed just one candidate, Ms Roberta Benaglia, giving one of the seven members of the Board of Directors appointed by the Meeting of 3 April 2009, obtained favourable votes accounting for a percentage of 7.1604% of the voting capital. In detail, Ms Roberta Benaglia has the requisites of independence pursuant to Art. 148, sub-para.3, of the TUF, and of Art. 3 of the Corporate Governance Code.
With reference to the appointment of the additional director, made by the Shareholders' Meeting held on 21 July 2010, please note that the election was based on a single candidature made by the majority shareholder Leading Jewels S.A. The candidate Mr Francesco Minoli was elected with a favourable vote of 99.70% of the voting capital taking part in the Meeting.

The personal and professional features of each director currently in office are shown below, also pursuant to Art. 144-decies of the Issuers' Regulations:

1) **GUIDO ROBERTO GRASSI DAMIANI**, Chairman and Managing Director of the company, joined in 1994, being concerned with the sales network in Italy and the marketing, introducing new strategies and making a significant contribution to development. In 1996, he took over management of the Damiani group. He has an honours degree in Sociology and an Istituto Gemmologico Italiano (IGI - Italian Gemmological Institute) diploma in Gemmology. Before joining the family company, he followed a personal career in the real estate sector for a number of years achieving brilliant results.

2) **GIORGIO ANDREA GRASSI DAMIANI**, Deputy Chairman of the company with responsibility for the purchase of the raw materials, product development and trade relations. He joined the company immediately after obtaining the High School technical sales diploma in 1990, learning the stages of goldsmith working and training in the various areas of the company. In particular, he studied the techniques of the valuation and purchase of precious components in depth. Subsequently, he became international distribution manager, acquiring great knowledge of foreign markets. He then started managing the Raw Materials Supply and Product Creation and Development areas, covering the position of Art Director. In 1994, he won a Diamonds International Award.

3) **SILVIA MARIA GRASSI DAMIANI**, Deputy Chairman of the Damiani group with responsibility for External Relations and the Image of the group; she covered the position of Image Director and VIP Relations with the Damiani group, adopting international testimonials representing the aims of the different brands of the group. In 1996, she won a Diamonds International Award. She is currently Vice President of Damiani USA. She obtained an IPSOA Master in Business Management and diploma in Gemmology at the IGI. She started working in the family company in 1985, gaining considerable experience in the purchase of pearls and has long practice with the creative staff.

4) **STEFANO GRAIDI**, executive director of Damiani, responsible for supervising the operation of the internal control system. He graduated in Economics from the Bocconi University, Milan. He is a Chartered Accountant and is enrolled in the Register of Statutory Auditors. He worked in the Pirelli group, covering positions of responsibility in International Taxation and then as Co-director of Taxation and Business Lines. He previously had significant experience in Switzerland in the finance and administration area of the Società Internazionale Pirelli, listed on the Stock Exchange. He took an active part in the restructuring of the tyre sector and the listing of Tyre Holding in the Amsterdam Stock Exchange. Journalist and lecturer. He is currently partner in Tax Advisors S.A. of Lugano.

5) **GIANCARLO MALERBA**, non-executive and non-independent director, chairman of the Committee for Internal Control and Operations with Related Parties and the Remuneration Committee. He graduated in Business Management from the Bocconi University, Milan. He started working for KPMG as a manager in 1986, specialising in the banking and finance sector. He is enrolled in the Register of Chartered Accountants of Milan and also the Register of Internal Auditors. He is a partner in the law company Studio Legale Tributario Biscozzi Nobili and is an expert in statutory and tax aspects linked to consolidated financial statements and co-operates with magazine and journals specialised in tax and balance sheet matters.

6) **ROBERTA BENAGLIA**, non-executive and independent director of Damiani, and also member of the Committee for Internal Control and Corporate Governance and the Remuneration Committee; she is a graduate in Management Engineering from the Politecnico di Milano. Her career has developed since 1999 with a professional appointment at the listing department of the Borsa Italiana. She worked with Onetone Consulting, an advisory company for the venture capital fund Onetone in 2001 and covered the position of Sole Director of Action Management Consulting, an M&A and Financial advisory company. She has been managing director of DGPA SGR S.p.A., a company managing private equity funds since March 2005. She is active in research, investment assessment and selection, business & financial due diligence, planning, negotiation and closing of investment operations.

7) **FABRIZIO REDAELLI**, non-executive and independent director appointed by the Board of Directors on 12 September 2007; subsequently becoming 'Lead Independent Director' and also member of the Committee for Internal Control and Corporate Governance and the Remuneration Committee on 3 April 2009. He obtained a degree in Business Management from the Bocconi University, Milan. He is enrolled in the Register of Chartered Accountants of Milan and also the Register of Internal Auditors and is in private practice in Studio Redaelli & Associati. He is a Senior Lecturer at the Management School (SDA) of the Bocconi University, Corporate Finance and Real Estate Area.

8) **FRANCESCO MINOLI**, non-executive and non-independent director, appointed by the Shareholders' Meeting on 21 July 2010. He obtained a degree in Law from the University of Rome. Originally from Turin, Francesco Minoli was managing director of Pomellato until October 2009 for a period of more than 10 years, relaunching the company and doubling turnover, with profitability and asset indices that were a reference in the luxury sector. Francesco Minoli is currently director of Mantero Finanziaria S.p.A. and continues to work in the jewellery sector as a businessman. In the past, he gained several years of experience in leading companies where he held central positions in Top Management. These include M&A S.p.A., a leading company in independent Mergers & Acquisitions in Italy with the position of managing director, and ABN Amro as Senior Advisor of Capital Investments, being concerned with investment in Italy and the private equity.

Please note that the existence of the above-mentioned requisites of being/not being executive and independence/non-independence of the directors of the company has been hereby assessed by the Board of Directors of Damiani S.p.A. in compliance with the application criteria established by Articles 2 and 3 of the Corporate Governance Code, and recently in the sphere of the Board meeting of 14 June 2012 and that the Board of Auditors acknowledged the correct implementation of those criteria on the same date.
The composition of the Board of Directors of the company and the relevant information for each director in office at the date of approval of this Report is shown in the Appendix in Table 2.

At the date this Report was drafted, Ms Gabriella Colombo Damiani covered the role of Honorary Chairman of the company. There is no duration indicated for the honorary office but, from 1 October 2007 ,Ms Colombo Damiani has not received any recompense for the position held.

MAXIMUM ACCUMULATION OF POSITIONS COVERED IN OTHER COMPANIES

In relation to application criterion 1.C.3 of the Corporate Governance Code, please note that, at the date of approval of the Report, the Board did not consider it either necessary or opportune to establish general criteria to set the maximum number of positions of director and auditor that the directors of the company can hold at the same time in other listed companies, financial, banking and insurance companies or those of relevant size, instead opting for an assessment of the individual cases, in relation to the features of each director (experience, features of the positions held, etc.) from which the compatibility of the offices held can be inferred with the assumption of the position on the Board of Directors of the Issuer. In the session of 14 June 2012, the Board checked the compatibility of the offices held with the assumption of the position on the Board of Directors, case by case and in relation to the features of the individual directors (experience, positions held, etc.).

4.3 ROLE OF THE BOARD OF DIRECTORS (EX ART. 123-BIS, SUB-PARA.1(D),TUF).

As extensively highlighted in the Corporate Governance Report drafted with reference to previous financial years, the Board of Directors of Damiani S.p.A. covers a central role in the determination of the strategic objectives of the Issuer and group. Over the financial year, the Board of Directors met 7 (seven) times and, for the current one, at least 7 (seven) meetings have been planned; it should be noted that, at today's date, the Board of Directors has met twice (two times), including the meeting for the approval of this Report. On average, Board meetings last for an hour and a half.The meetings recorded the regular and frequent participation of the directors (the overall percentage of participation was 94.64%, while the percentage of participation of independent directors was 92.86%).
Pre-meeting information is guaranteed through the distribution, reasonably in advance of the date of the meeting, all the documentation relative to the points on the agenda. People outside the Board took part in the Board meetings held during the financial year, invited in relation to the matters to be dealt with on the agenda each time.
In compliance with the Articles of Association, the Board is invested with all the powers of ordinary and extraordinary management, without limitations, and with the right to carry out all the acts considered opportune to fulfil the company's' objectives, only excluding those that the law and the Articles of Association reserve for the Shareholders' Meeting.
Art. 20 of the Articles of Association also attributes the competence to resolve on the matters set out by Art. 2365, sub-para. 2, of the Civil Code on the Board. So the Board has, therefore, the competence to deliberate the merger in the cases set out by Arts. 2505 and 2505-bis of the Civil Code, the establishment and suppression of branches, the indication of which director can represent the company, the reduction of capital if the shareholders withdraw, the adaptation of the Articles of Association to legislative provisions and the transfer of the registered office within Italy.

Furthermore, in relation to application criteria 1.C.1 and 8.C.1 of the Corporate Governance Code, the Board of Directors has decided to reserve the following subjects for its jurisdiction, in addition to that established by law and the Articles of Association (and respecting their limits):

a) examine and approve the strategic, industrial and financial plans of the company and group that it leads, the system of corporate governance of the company and the structure of the group;
b) subject to determination of the relative criteria, identify the subsidiary companies with strategic relevance; assess the adequacy of the organisational, administrative and general accounting structure of the company and its subsidiaries with strategic relevance prepared by the managing directors, with particular reference to the internal control system and the management of conflicts of interest;
c) attribute and revoke the powers of the managing directors and the Executive Committee defining their limits and methods of operation; similarly, establish the frequency, however not less than once a quarter, with which the delegated bodies must refer to the Board on the work performed in the exercise of the delegated powers;
d) determine the remuneration of the managing director and the other directors covering particular positions, having examined the proposals of the appropriate Committee and with the opinion of the Board of Auditors, and also, when the Shareholders' Meeting has not already arranged for this, decide the division of the overall recompense due to members of the Board;
e) assess the general trend of the management, taking into consideration the information received from the delegated bodies, in particular, and also periodically comparing the results obtained with those planned;
f) esaminare e approvare preventivamente le operazioni con significativo rilievo strategico, economico, patrimoniale o finanziario per examine and approve in advance the operations with significant strategic, economic, asset or financial importance for the company, implemented by it and its subsidiaries, paying special attention to the situations in which one or more directors hold an interest on their own behalf or that of third parties and, more generally, the operations with related parties; for this purpose, the Board of Directors establishes general criteria to identify operations of significant importance ('Guidelines');
g) at least once a year, carry out an assessment of the size, composition and operation of the Board and its committees, if necessary giving orientation on the professionals considered to be opportune for the Board; in particular, assess the existence of the requisites of an executive, non-executive and independent nature required by the Corporate Governance Code, ensuring that the number of executive, non-executive and independent directors respect the application criteria indicated by the Code;

h) appoint, when considered opportune, also in relation to the number of non-executive and independent directors, a Lead Independent Director who will be attributed with the following functions:
- co-ordination of the work of the non-executive directors to improve their contribution to the work and operation of the Board;
- co-operation with the chairman to guarantee that all directors receive complete and timely information;
- convene meetings of just independent directors each time it is considered necessary for the fulfilment of his/her duties ensuring, inter alia, that the independent directors meet, without the other directors, at least once a year;

i) give information in the Report on Corporate Governance and the ownership structure of the company, method of application of Art.1 of the Corporate Governance Code and, in particular, the number of meetings of the Board and, if necessary, the Executive Committee, held during the financial year and the percentage of participation of each director;
j) define the Guidelines of the internal control system, so that the main risks relating to the Issuer and its subsidiaries are correctly identified, adequately measured, managed and monitored, ensuring that the criteria of compatibility of those risks are determined with sound and proper management of the company
k) identify an executive director responsible for supervising the operation of the internal control system;
l) assess the adequacy, effectiveness and effective operation of the control system and approve the risk management policies of the company and group at least once a year;
m) describe the essential elements of the internal control system in the Report on corporate governance, giving their assessment on its adequacy;
n) appoint and revoke one or more people responsible for internal control, on the proposal of the director responsible for supervising the operations of the internal control system and with the guidance of the Internal Control Committee, similarly defining the remuneration consistent with company policies.

In relation to application criterion 1.C.1 of the Corporate Governance Code, the Board also formally confirmed (in the sphere of the 'Framework Resolution' adopted on 27 June 2007), the principle that the delegated bodies refer to the Board on the work performed in the financial year of the powers confirmed at least once a quarter, all in compliance with the current legal provisions. Please also note that, in compliance with the Related Parties Regulation and the 'Procedure on operations with related parties of Damiani S.p.A.', the delegated bodies must supply complete information at least once a quarter to the Board of Directors and Board of Auditors on the performance of operations with related parties.

In implementing the principles and competences described above, the Board of Directors:
(A) approved the 'Guidelines on particularly significant operations and with related parties of the Gruppo Damiani S.p.A.' on 27 June 2007, then redefined as 'Guidelines on particularly significant operations' ('Guidelines') which contain precise identification criteria of 'particularly significant' and relevant operations concluded with third parties, also through subsidiaries reserved for the jurisdiction of the Board (although falling within the subject concerned by the proxy); in particular:
• are 'particularly significant' and, as a result, are always subjected prior examination and approval by the Board of the company, the following operations, with whomsoever they are conducted:
a) operations that oblige the company to make an information document drafted in compliance with the provisions set out by CONSOB available to the public;
b) financial liabilities operations (assumption of mortgages and loans in general, and also the issue of collateral securities or personal guarantees), for amounts higher than Euro 15,000,000.00 per operation;
c) trademark acquisition and disposal operations;
d) licensing of trademarks for amounts higher than Euro 10,000,000.00 per operation;
e) other operations, different from the points above, whose value is greater than Euro 15,000,000.00 per operation.
After the Related Parties Regulation became effective, the Board updated, inter alia, the criteria used to identify the degree of importance of the operations to submit to its prior examination and approval;
(B) adopted the 'Procedure on operations with related parties of Damiani S.p.A.' (hereinafter the' OPC Procedure') on 26 November 2010, in compliance with the provisions of the Related Parties Regulation, identifying the most relevant operations with related parties in compliance with the relevance threshold set out by Appendix 3 to the Related Parties Regulation. Please note, in respect of this Regulation and in consideration of the qualification of Damiani S.p.A. as a 'smaller-sized company', the role and relevant competences that the regulatory legislation attributes to the committees set up, wholly or mainly with independent directors, has been attributed to the Committee for Internal Control and Operations with Related Parties of the Issuer, consisting of non-executive, mainly independent directors; the OPC Procedure sets out that all operations with related parties (whether of greater or lesser relevance) are to be resolved upon by the competent body each time, which deliberates only after the issue of a motivated, non-binding opinion by the Committee for Internal Control and Operations with Related Parties, concerning the interests of the company in the completion of the operation, and also the expedience and substantial fairness of the conditions of the operation.
The Board of Directors has always been immediately updated on operations with related parties, also pursuant to Art. 22 of the Articles of Association and Art. 150 of the TUF.

The Board of Directors also:

(C) assessed the adequacy of the organisational, administrative and general accounting structure (i)of subsidiaries with strategic relevance, and(ii)of the Issuer, in the meeting for the approval of the draft balance sheet to 31 March 2012 held on 14 June 2012; in particular, the assessment was adopted with the aid of the Internal Control Committee which, in the sphere of its meetings, in which the Internal Control Officer also took part (see below), was able to continuously check the effective operation of the internal control system both of the Issuer and the group, with special reference to companies with strategic relevance; with reference to these, please also note that in the meeting of 10 February 2012,the Board of Directors of the parent company Damiani S.p.A. resolved to confirm the current nature of the parameters adopted to identify the 'subsidiaries with strategic relevance', taking into account the criteria indicated in the 'Guidelines of the group Internal Control System' developed by the company:

(*i*) relevance and complexity of the functions performed by the subsidiary within the group;

(*ii*) strategic relevance of the subsidiary within the market;

(iii) turnover;

(iv) value of the total assets;

(v) existence in the sphere of the subsidiary of a separate organisational structure, featuring a significant management element (distinct from the members of the administrative body) with operational independence.

In the recent meeting of 10 February 2012,Damiani International B.V., a company subject to Dutch law, and Rocca S.p.A., which entered the Damiani group in September 2008 following the acquisition of the entire share capital by the Issuer, were identified as being subsidiaries of Damiani S.p.A. with strategic relevance using the combination of the above parameters;

(D) having assessed the general trend in management on the basis of the information received from the delegated bodies, comparing the results achieved with those budgeted, on 14 June 2012;

(E) having made, still on 14 June 2012, the assessment of the size, composition and operation of the Board and its committees (the so-called self-assessment) acknowledging that the current Board consists of 8 directors of whom 4 non-executive, 2 of whom independent, in accordance with the application criteria established by the Corporate Governance Code. The self-assessment process by the administrative body particularly concerned: the adequacy of the size and composition of the management body for the operation of the company, also with reference to the professionals on the Board, the ratio between the overall number of Board members and the number of non-executive and/or independent directors, the competences of the independent directors, the timeliness and completeness of the information and the documentation sent to members of the Board and Committees before the respective meetings, the compatibility of the management and control positions covered by each member of the management body with an effective performance of the role of director in the company, the adequacy and completeness of the information supplied by the delegated bodies during the Board meetings and, lastly, the assessment of the requisites of independence on the basis of the legal provisions and those of the Corporate Governance Code.

In the meeting of 14 June 2012, the Board of Directors examined the outcome of the self-assessment process and considered, also with a positive assessment by the independent directors, that the size and composition of the current Board (consisting of 8 directors of whom 4 non-executive, 2 of whom independent) is completely adequate with respect to the operation of the company; the independence of its directors was assessed on the basis of both the criteria established by the law and those of the Corporate Governance Code. On one side, the self-assessment process highlighted the numerical consistency of the directors with respect to the operations of the company, and the independent directors with respect to the size of the Board and the business carried on by the company, and also the numerical consistency of the ratio between members of the Board and non-executive directors. On the other hand, the heterogeneous nature of the professionals called to contribute to the work of the Board and, particularly the competences of the non-executive directors in economic, accounting, legal and/or financial matters, which contributes to nurturing the dialectics of the Board, which is the assumption of every reasonable and informed Board decision.

The Board of Directors, also with a positive assessment by the independent directors, similarly expressed its favourable opinion on the operation of the Board and Committees, considering the information and documentation supplied before each of the relative meetings adequate, complete and timely, and assessed the information received from the delegated bodies during the Board meetings as adequate and satisfactory, both with reference to the general trend in management and to the operations effected with related parties.

In consideration of the imminent expiry of the current Board of Directors, which will be the approval of the balance sheet to 31 March 2012, the Board, once more in the meeting of 14 June 2012, in compliance with application criterion 1.C.1, (h) of the Corporate Governance Code 2011, expressed its orientation on the professionals it considers opportune in the administrative body, recommending shareholders who intend to present a list to include candidates of both kinds with adequate experience, also managerial, and skills in economic, accounting, legal and financial matters and/or remuneration policies, in the belief that the heterogeneous and highly qualified nature of the professional called to contribute to the work of the administrative body enables the various subjects under discussion to be analysed from different perspectives, thus contributing to fuelling the Board dialectics, the assumption of every reasonable and informed Board decision. This orientation and recommendations were in the Directors' Report on the agenda of the Meeting, drafted pursuant to Art. 125-ter of the TUF, made available to the public in the manner set out by current legislation from 15 June 2012.Also in compliance with application criterion 1.C.2 of the Corporate Governance Code, the offices of director or auditor covered today by the current directors in third party companies listed in regulated markets, including foreign ones, financial, banking and insurance companies or those of relevant size are schematically shown in the attachment in the Appendix.

Please note that the Shareholders' Meeting, both on 3 April 2009 and 21 July 2010, specifically authorised the directors appointed to assume offices and perform business pursuant to Art. 2390 of the Civil Code. In compliance with application criterion 1.C.4 of the Corporate Governance Code, the Board of Directors has the task of assessing the merits of each problem and report any critical points at the first possible meeting; the Board of Directors examined one event, concerning the director Minoli, considering that, at present, there are no problems or critical points that should be reported.

4.4 DELEGATED BODIES

The current Board of Directors expresses its work, not only directly and collectively, through:
- the chairman who is also conferred with the position of managing director;
- two deputy chairmen;
- an additional executive director with respect to the chairman and deputy chairmen.

In the session of 27 June 2007 and, subsequently, in that of 3 April 2009, the Board of Directors attributed the role of managing director on the **CHAIRMAN Mr Guido Grassi Damiani** and confirmed - with the signatory and representative powers set out by the law and the Articles of Association before third parties and the courts - all the powers of ordinary and extraordinary administration, except for those reserved for the jurisdiction of the Shareholders' Meeting or the Board of Directors by the law, the Articles of Association or the Board of Directors itself, also in compliance with the principles of the Corporate Governance Code, with the right to appoint and revoke representatives and proxies for individual acts or categories of acts, move legal action or petitions, also for revocation and Cassation sentences as well as appoint lawyers and attorneys of record for every type and level of justice.

The Board of Directors then resolved to attribute the following in the same session:
- the **DEPUTY CHAIRMAN Mr Giorgio Grassi Damiani** with the purchasing powers for raw materials, product development and trade relations conferring on him, with free signature:
(i) all the powers necessary to supervise the work of the company area referring to the purchase of raw materials and, in relation to this, by way of example, with single and separate signature and without limits on the amount, except for, however, that reserved to the jurisdiction of the Board of Directors by the Articles of Association or the Board of Directors itself in compliance with the principles of the Corporate Governance Code of listed companies, the power to negotiate and purchase raw materials and components necessary for the production of jewellery, watches and precious articles in general; and also
(ii) all the powers to carry out all the necessary activities for the development of new products, still with single and separate signature and without limits on the amount, except for, however, that reserved to the jurisdiction of the Board of Directors by the Articles of Association or the Board of Directors itself in compliance with the principles of the Corporate Governance Code of listed companies, supporting the dedicated company area;
(iii) all the powers and authorisations necessary to maintain and develop relationships with customers and suppliers of the group and, more generally, develop the commercial communication of the company and the Damiani group, supporting the dedicated company areas, still with single and separate signature and without limits on the amount, except for, however, that reserved to the jurisdiction of the Board of Directors by the Articles of Association or the Board of Directors itself in compliance with the principles applicable, also of Self-Regulation; all with the power to appoint and revoke representatives and proxies for individual acts or categories of acts;

- to the other **DEPUTY CHAIRMAN, Ms Silvia Grassi Damiani**, the responsibility for External Relations and Image of the Damiani group, conferring her with all the necessary powers and to:
(i) take care of the image of company and group products with customers and more generally with the public, with particular reference to the care of relations with celebrities, people from the national and international jet set, members of the fashion and entertainment world, also through the organisation and promotion of events and other promotional initiatives;
(ii) take care of and develop relationships with the press and the media in general;
(iii) take care of and develop relationships with the testimonials, promoting loyalty to group brands;
all in support of and in co-ordination with the dedicated company area, with single and separate signature and without limits on the amount, except for, however, that reserved to the jurisdiction of the Board of Directors by the Articles of Association or the Board of Directors itself in compliance with the principles applicable, also of Self-Regulation.

Chairman of the Board of Directors

With reference to Art. 2 of the Corporate Governance Code, it should be noted that the Chairman of the Board of Directors Mr Guido Grassi Damiani is the controlling shareholder of the Issuer and Chief Executive Officer, and that the Board of Directors considered it opportune to support the recommendation on the appointment of a Lead Independent Director who is attributed with the functions suggested by the Corporate Governance Code.
It should also be noted that, in relation to principles 2.P.4 (opportunity of avoiding the concentration of company positions in a single person) and 2.P.5 (illustration of the reasons why the Chairman is conferred with administrative powers), the Board, re-examining the matter recently on 14 June 2012,considered that the governance of Damiani S.p.A., also from the point of view of the concentration of positions,

conforms to the interests of the company, taking into account, inter alia, that (i)the role of chairman is not circumscribed to institutional and representative functions but is fully operative and so essential for the best trend of the company, and (ii)the management powers are also conferred on other directors, in addition to the chairman (there are a total of four executive directors).

Information to the Board

At least once a quarter, the managing director and the other executive directors:

- must report the operations carried out in the financial year of the powers to the Board of Directors, both for ordinary operations and the atypical and unusual ones, as well as the operations occurring with related parties;
- submit the significant operations whose exclusive jurisdiction is reserved to the Board of Directors, to the approval of the Board, in compliance with the 'Guidelines', recently updated by the Board of Directors on 11 February2011 (following the specific approval of the direct procedure to order the operations of the group with related parties).

As already referred, in relation to application criterion 1.C.1 of the Corporate Governance Code, the Board has also formally confirmed the principle that the delegated bodies refer to the Board on the work performed in the financial year of the powers conferred with a frequency of at least quarterly, all in compliance with the current legislative and statutory provisions.

4.5 OTHER EXECUTIVE DIRECTORS

With reference to the directors currently in office, Mr Guido Grassi Damiani, Mr Giorgio Grassi Damiani, Ms Silvia Grassi Damiani and Mr Stefano Graidi, who continues to be a director of Damiani International B.V. (a subsidiary of Damiani with strategic relevance) and who is also the executive director responsible for the operation of the internal control system in the company, are executive pursuant to Art. 2 of the Corporate Governance Code.

All the directors have in-depth knowledge of the company and its dynamics and those of the group; it is also considered that the number of meetings of the Board, to which participation in the Committees is added in various cases, guarantees continuous updating of the directors on the situation of the company and the market. Furthermore, during the meetings of the Board of Directors, the managing director illustrates what he has found on the trend of the company and group, constantly supplying, inter alia, information on the main updates to the legislative framework of interest and their impact on the company.

4.6 INDEPENDENT DIRECTORS

As anticipated, in the meeting of 3 April 2009 after the appointment of the directors currently in office, in the financial year and, recently, in the meeting of 14 June 2012, the Board of Directors checked the existence of the requisites of independence established by Art. 148, sub-para. 3, of the TUF and Art. 3 of the Corporate Governance Code, on the basis of the information given by each director, also following the self-assessment process, considering them proven for Ms Roberta Benaglia and Mr Fabrizio Redaelli.

In compliance with application criterion 3.C.5 of the Corporate Governance Code, the Board of Auditors considered correct the criteria and procedures adopted by the Board to assess the independence of its members.

In the implementation of application criterion 3.C.6 of the Corporate Governance Code, the independent directors met during the financial year, without the other directors, inter alia on 10 June 2011, to express their opinion on the proposal to amend Art. 20 of the Articles of Association relating to operations with related parties and, on 10 February 2012, to give their opinion on the amendment of the Procedure on operations with related parties of the company.

4.7 LEAD INDEPENDENT DIRECTOR

Considering that Mr Guido Grassi Damiani, the Chairman of the Board of Directors, is the main person responsible in the management of the Issuer (Chief Executive Officer), and also the controlling shareholder of the Issuer, the Board of Directors considered it opportune to respect the recommendation on the appointment of a Lead Independent Director to whom the functions suggested by the Corporate Governance Code can be attributed. Respecting application criterion 2.C.3 of the Corporate Governance Code and the recommendation as per the comment relating to Article 2 of the Code, the Board appointed the (non-executive and independent) director Fabrizio Redaelli as 'Lead Independent Director', to whom the following functions were attributed:

- co-ordination of the work of the non-executive directors and, in particular, of the independent ones, also in order to improve their contribution to the work and operation of the Board;
- co-operation with the Chairman to guarantee that all the directors receive complete and timely information;
- convocation of meetings of just independent directors every time this is considered necessary for the fulfilment of his duties, guaranteeing, inter alia, that the independent directors meet without the other directors at least once a year.

During the financial year, the Lead Independent Director co-operated with the Chairman to ensure the completeness and timeliness of the information flow to all directors, and convened two meetings of the independent directors, held on 10 June 2011 and 10 February 2012.

5.HANDLING OF CORPORATE INFORMATION

The Corporate Governance Code sets out that directors and auditors are required to keep the documents and information acquired while performing their duties confidential and respect the procedure adopted by the company for internal management and disclosure of those documents and that information outside the company. In compliance with those provisions, and also with the dispositions as per Art. 114, first and twelfth sub-paras., and 115-bis of the TUF, as well as Arts. 66 et seq. and 152-bis et seq. of the Issuer's Regulations, the company has adopted the 'Procedure for the management and disclosure to the market of privileged information' and the 'Procedure for the institution, management and updating of the group register of people with access to privileged information of Damiani S.p.A.', amended in the Board meeting of 11 February 2011.
The registers were duly instituted for both the Issuer and the subsidiaries.

On 12 September 2007, in compliance with the provisions as per Art. 114, sub-para.7 of the TUF and Arts. 152-sexies et seq. of the Issuer's Regulations, the Board of Directors also resolved the adoption of the 'Procedure for the identification of Relevant People and for the communication of the operations effected by them, also through third parties, concerning shares issued by the company or other financial instruments connected to them ('INTERNAL DEALING PROCEDURE') which identifies the so-called 'relevant people' and disciplines the methods of disclosure to CONSOB and the public of the operations they have carried out concerning shares issued by the listed company or other financial instruments connected to these. The Internal Dealing Procedure was amended in the Board meeting of 11 February 2011 and, recently, by the meeting of 10 February 2012. In addition, in line with the provisions of Art. 2.2.3, sub-para. 3, (o) of the Stock Exchange Regulations, the Internal Dealing Procedure provides for a ban on 'relevant people' from carrying out operations on the shares and/or financial instruments of the company during the so-called blackout period, i.e. in the 15 days before the date set for the meeting of the Board of Directors of the company called to resolve on the approval of the draft financial statement of the financial year, the consolidated financial statements, the Interim Report, and the interim management report, further statements and anticipated final results.

6. INTERNAL COMMITTEES OF THE BOARD (ex Art. 123-bis, sub-para.2, (d), TUF).

Since the Board meeting of 27 June 2007, the Board has resolved to respect the principles and application criteria of Art. 5 of the Corporate Governance Code, thus establishing the institution of the Internal Control and Corporate Governance, and the Remuneration Committees, set up and operational pursuant to the Code. The principles and operational criteria of the two Committees, which were confirmed on 3 April 2009, are as following:
a) the Committees consist of not less than 3 members, all non-executive and the majority of whom independent; at least one of the members of the Internal Control Committee must have adequate experience in accounting and financial matters;
b) the Board can, with a subsequent resolution, integrate or amend the duties of the individual Committees indicated below in this resolution;
c) the meetings of each Committee must be minuted;
d) the Committees have the right to access the information and company functions necessary for the fulfilment of their functions as well as make use of external consultants, subject to the authorisation of the Board of Directors, in the performance of their functions;
e) people who are not members can take part in the meetings of the Committees, subject to the invitation of the Committee and limited to the individual points on the agenda;
f) attendance of the majority of the respective members in office is required for the validity of the resolutions of the Committees; resolutions are taken with the absolute majority of those present and, if the voting is equal, the vote of the person presiding will prevail; meetings are also validly constituted when held by means of videoconference or telephone conference call, on condition that all participants can be identified by the chairman and the others attending, that they are able to follow the discussion, speak in real time in the discussion on the subjects discussed, receive the documentation and then transmit it; in this case, the Committee is considered to be held at the place where the chairman is;
g) every year, the Board will advise the market on the institution and composition of the Committees, the contents of the assignment conferred on them, the work effectively carried out over the financial year with the details of the number of meetings held and the relative percentage of participation of each member, in the Corporate Governance Report.

On 3 April 2009, following the appointment of the new directors resolved on the same date by the Shareholders' Meeting, the Board confirmed the institution of the two Committees and appointed the new members of the Internal Control Committee and Remuneration Committee. At the date of preparation of this Report, the Board of Directors have not considered it necessary to set up a Committee within it for the appointments, considering, inter alia, the current structure of the body of shareholders.
Furthermore, in the meeting of 26 November 2010, the Board of Directors, implementing the Related Parties Regulation, attributed to the Internal Control Committee the role and relevant competences that the said Regulation attributes to committees consisting wholly or with a majority of independent directors, taking into consideration that Damiani S.p.A. is a 'smaller-sized company', as long as it can be qualified as such.

7. REMUNERATION COMMITTEE

Determination of the payment to be attributed to directors for their participation in the Board of Directors of the company is specifically reserved for the Shareholders' Meeting which, pursuant to Art. 23 of the Articles of Association, can likewise establish a Directors' Severance Indemnity in favour of each director; however, the task of establishing the remuneration of those directors who cover particular roles, pursuant to Article 2389, sub-para. 3, of the Civil Code, is the responsibility of the Board, on the basis of a proposal formulated on the matter by the Remuneration Committee and after consultation with the Board of Auditors.
In the Board meeting of 3 April 2009, the Board of Directors resolved, subject to a check of the requisites of being non-executive and independence in compliance with the application criteria of the Corporate Governance Code, to set up the Remuneration Committee, consisting of the following non-executive directors, two of whom are independent - Giancarlo Malerba (chairman), Roberta Benaglia and Fabrizio Redaelli - for the three years - 1.4.2009-31.3.2012.

Composition and operation of the Committee for Remuneration, Incentives and Appointments (ex Art. 123-bis, sub-para.2, (d), TUF).
The Remuneration Committee currently in office consists of three non-executive members, the majority of whom are independent, as indicated below:
Giancarlo Malerba (chairman),
Roberta Benaglia (independent),
Fabrizio Redaelli (independent).
During the financial year, the Committee met 3 (three) times and, for the current one, at least 3 meetings (of which 2 have already been held at the date of approval of this Report) are planned. The meetings of the Remuneration Committee held in the financial year to 31 March 2012 lasted 30 minutes on average with the regular and frequent participation of its members (the overall percentage of participation was 88.9%, while the percentage of participation of each member at the meetings held in the same period is indicated in Table 2 shown in the Appendix).

Over the financial year, the Committee consisted of three non-executive directors, the majority of whom independent; in addition, in compliance with Principle 7.P.3 of the Corporate Governance Code, at least one member of the Committee has adequate knowledge and experience in accounting and financial matters.

The directors do not take part in the meetings of the Committee if the proposals relating to their remuneration are formulated, in compliance with Application criterion 7.C.6 of the Corporate Governance Code.
People who are not members have taken part in the meetings of the Committee held throughout the financial year, at the invitation of the Committee and in relation to individual matters on the agenda from time to time.

Functions of the Remuneration Committee
In the session of 3 April 2009, the Board of Directors resolved, in compliance with Art. 7 of the Corporate Governance Code, to confirm the attribution of the functions pursuant to the framework resolution adopted by the Board on 24 June 2007 to the Remuneration Committee; in particular, the Remuneration Committee has the following duties:

a) to present proposals for the remuneration of the directors delegated and the other directors who cover particular roles, respectingthe application criteria recommended on this point by the Corporate Governance Code, to the Board and monitoring the application of the decisions adopted by the Board;
b) to assess annually the criteria adopted for the remuneration of senior managers with strategic responsibilities, supervising their application on the basis of the information supplied by the delegated directors; formulate the general recommendations on the subject to the Board.
Subsequently, in the Board meeting of 14 June 2012, in compliance with Principle 7.P.4 and application criterion 7.C.5 of the Code, the Board, inter alia, updated the competences of the Remuneration Committee and resolved to attribute the duties set out by the new Art. 7 of the Corporate Governance Code to it, as illustrated in detail in the Remuneration Report prepared pursuant to Art. 123-terof the TUF, to which reference is made in full, made available to the public in the manner set out by the current legislation with this Report.
It should be noted that, in the meeting of 23 May 2012, the Remuneration Committee approved its proposal for the definition of the remuneration policy of the executive directors, other directors with particular roles and senior managers with strategic responsibilities, submitted to the Board of Directors of 14 June 2012, which adopted the document denominated 'Remuneration Policies and Implementation Procedures of Damiani S.p.A.', illustrated, inter alia, in the cited Remuneration Report, to which reference is made.

During the financial year, the Remuneration Committee contributed to the implementation of a first tranche of the Stock Option Plan 2010, and a second tranche of the Stock Grant Plan 2009, as well as positively evaluating the opportunity to submit an amendment to the Stock Option Plan 2010 and Stock Grant Plan 2009 to the approval of the Shareholders' Meeting of 27 July 2011, subsequently proposed to the Board to amend the conditions of the first implementation cycle of the Stock Option Plan 2010 and the second one of the Stock

Grant Plan 2009, respecting the resolutions of the Meeting of 27 July 2011.

The meetings of the Remuneration Committee are duly minuted.
The Remuneration Committee has the right to access the information and company functions necessary for the fulfilment of its duties as well as make use of external consultants, subject to the authorisation of the Board of Directors, in the performance of its functions. It should be noted on this point that the Board of Directors did not make an ad hoc budget available to the Remuneration Committee, and that the company from time to time makes the resources necessary for the purpose for the fulfilment of its functions available to the Committee.

8. DIRECTORS' REMUNERATION

The company considered it opportune to conform to Art. 7 of the Corporate Governance Code after it became effective (not only Art. 7 of the Corporate Governance Code but also the new legal and regulatory provisions on remuneration of the directors of listed companies and at the conclusion of an internal procedural process, aimed at their adoption consistent with the Damiani structure and company culture; all, however, in good time to account for it in this Report and to prepare and publish the Remuneration Report pursuant to Art. 123-ter of the TUF. In particular, with the Board resolution of 14 June 2012, the Board of Directors defined the 'Remuneration Policies and Procedures for implementation in Damiani S.p.A.', at the proposal of the Remuneration Committee, respecting the legislation applicable and in compliance with the principles and application criteria of the Corporate Governance Code.
This document defines the guidelines that all corporate bodies involve must respect to determine the remuneration of directors, in particular executive directors and the others invested with particular positions, and senior managers with strategic responsibilities, also taking account of the remuneration perceived at group level, both at procedural level (process of definition and implementation of the remuneration policies) and at substantial level (criteria that must be respected in the definition of remuneration). The remuneration policies and procedures are shown in the first section of the Remuneration Report prepared pursuant to Art. 123-ter of the TUF, made available to the public jointly with this Report, to which reference in full should be made for information not contained in this Report, which is, inter alia, available at the registered office of the company and on the company website www.damiani.com.
It should be noted that, in compliance with the provisions of Art. 123-ter, sub-para.6, of the TUF, the next Shareholders' Meeting convened for 26-30 July 2012 will be called to a deliberate on the first section of the Remuneration Report, which illustrates the remuneration policy adopted by the company and the procedures used for its adoption and implementation, in a non-binding manner.

All information relating to current remuneration plans can be found in the Remuneration Report prepared pursuant to Art. 123-ter of the TUF and the disclosure documents drafted pursuant to Art. 84-bis of the Issuer's Regulation are available from the 'Investor Relations/ Shareholders/Shareholders' Meeting and 'Investor Relations/Financial Documents/Documents and Notices' section of the website www. damiani.com, to which reference is made in full hereto.

Indemnity of directors following resignation, dismissal or termination of the relationship also following a take-over bid (ex Art. 123-bis, sub-para.1, (i) of the TUF).
Pursuant to Art. 123-bis, sub-para.1, (i), of the TUF, please note that, at the date of approval of this Report:
a) there are no specific agreements between the Issuer and any of the directors which provide for the payment of an indemnity to directors following resignation, dismissal without just cause or termination of the relationship following a take-over bid;
b) there are no agreements that provide for the assignment or maintenance of non-monetary benefits in favour of people who have terminated their position (the so-called 'post-retirement perks'), or the signature of consultancy contracts for a period subsequent to the termination of the relationship;
c) there are no agreements that provide for fees for non-competition commitments.

9. COMMITTEE FOR INTERNAL CONTROL AND OPERATIONS WITH RELATED PARTIES

The Committee for Internal Control and Operations with Related Parties was appointed, subject to checks on the requisites of being non-executive and independence in compliance with the law and the application criteria of Art. 3 of the Corporate Governance Code, by the Board of Directors on 3 April 2009.

Composition and operation of the Internal Control Committee (ex Art. 123-bis, sub-para.2, (d), TUF)
The Committee for Internal Control and Operations with Related Parties currently in office consists of the directors:
- Mr Giancarlo Malerba, chairman (non-executive director);
- Mr Fabrizio Redaelli, (independent director and Lead Independent Director);
- Ms Roberta Benaglia, (independent director).

Over the financial year, the Committee met 6 (six) times and, for the current one, at least 5 meetings (of which 2 had already been held at the date of presentation of this Report) are planned. The meetings of the Committee held in the financial year to 31 March 2012 lasted an average of 55 minutes and were attended regularly and frequently by the members (the percentage of overall participation was 94.44%; the percentage of participation by each member at the meetings held in the same period is indicated in Table 2 shown in the Appendix).

Over the financial year, the Committee consisted of three non-executive directors, mostly independent; furthermore, in compliance with Principle 8.P.4 of the Corporate Governance Code, at least one member of the Committee has adequate knowledge and experience in accounting and financial matters. In addition to the chairman of the Board of Auditors (or another auditor designated by him), people who are not members took part in the meetings of the Committee held in the financial year, at the invitation of the chairman and in relation to individual matters on the agenda each time.

Functions attributed to the Committee for Internal Control and Operations with Related Parties
The following functions of a consultative and propositional nature, coinciding with those indicated by the Corporate Governance Code, except for (d) and (e) of application criterion 8.C.3, were conferred on the Committee by the Board on 3 April 2009:
a) assist the Board in the fulfilment of the duties indicated in application criterion 8.C.1 of the Corporate Governance Code;
b) assess, with the senior manager responsible for the drafting of the corporate accounting documents and the auditors, the correct use of the accounting principles and their homogeneity for drafting the consolidated financial statements;
c) at the request of the executive director appointed for the purpose, give opinions on specific aspects in relation to the identification of the main company risks ,and also the planning, creation and management of the internal control system;
d) examine the work plan prepared by the Internal Control Officer and also the periodic reports prepared by him;
e) refer to the Board on the work performed and the adequacy of the internal control system, at least every six months, at the approval of the balance sheet and the interim financial report.

The Board of Directors similarly attributed the role and relevant competences that the Related Parties Regulation and the OPC Procedure attribute to the committee consisting of non-executive directors with a majority of independent directors to the Internal Control Committee for all operations with related parties, in a Board resolution dated 26 November 2010 and in consideration of the qualification of 'smaller-sized company' of the Issuer.
Also in relation to Art. 8 of the Code, in compliance with the provisions of Arts. 13 and 19 of Legislative Decree 39/10, the Board of Auditors is responsible for the functions of: - assessing the proposals formulated by auditing firms to obtain the relative assignment of its mandate, and also the work plan prepared for the review and the results presented in the Report and any letter of recommendations. This choice appears consistent with the attribution of the task to propose the conferment of the assignment of statutory auditors to the Shareholders' Meeting by the Board of Auditors;
- supervise the effectiveness of the systems of internal control, internal audit, if applicable, and risk management;
- supervise the statutory auditing of the annual accounts and the consolidated financial statements;
- supervise the independence of the statutory auditor or company of statutory auditors, in particular in relation to the performance of non-auditing services to the Issuer;
- supervise the financial reporting process.

With reference to the individual functions attributed to it, it should be noted that, over the financial year, the Committee for Internal Control and Operations with Related Parties, inter alia:
- examined the periodic reports of the Internal Control Officer, to monitor the adequacy of the internal control system with due constancy and intervene, where necessary, to remedy any defects;
- examined the correct use of the accounting principles and their homogeneity for drafting the consolidated financial statements with the auditing company;
- examined the operations with related parties;
- supported the Board of Directors in identifying the criteria for evaluating the strategic relevance of subsidiaries of Damiani;
- gave its opinion in relation to the appointment of Mr Delucchi as Internal Control Officer.

Recently, is should be noted that, in the meeting of the Board of Directors of 14 June 2012, the chairman of the Internal Control Committee summarised the contents of the work performed by the Committee for the directors and, on the basis of the work also carried out by the Internal Control Officer, presented its findings on the overall state of adequacy, effectiveness and efficiency of the internal control system to the collegiate administrative body.

The members of the Board of Auditors also took part in the meetings of the Committee held during the financial year, in addition to its members; also in the light of Legislative Decree 39/2010, the Board of Auditors met in a joint session with the Committee, to ensure efficient co-ordination of the work and full and complete exchange of information.
In relation to the subjects on the agenda, the Internal Control Officer, the executive director responsible for the functioning of the internal control system and the senior manager responsible for drafting the corporate accounting documents, and also representatives of the statutory auditors took part in the meetings of the Committee.

In compliance with application criterion 5.C.1, (d) of the Code, the meetings of the Committee were duly minuted.
In compliance with application criterion 5.C.1, (e) of the Corporate Governance Code, the Committee has the right to access the information and company functions necessary for the fulfilment of its duties, as well as make use of external consultants subject to authorisation by the Board of Directors in the performance of its functions.
It should be noted on this point that the Board of Directors did not make an ad hoc budget available to the Committee, and that the company from time to time makes the resources necessary for the purpose for the fulfilment of its functions available to the Committee.

10. THE INTERNAL CONTROL SYSTEM

In the session of 13 June 2008, the Board of Directors of Damiani adopted its own Guidelines for the Internal Control System (the 'Guidelines') on the proposal of the director responsible for Internal Control and with the aid of the Internal Control and Corporate Governance Committee. These were amended and integrated by the Board of Directors on 11 June 2010, also in order to strengthen and optimise the Internal Control System both inside the company and also within the Damiani group overall, with particular reference to subsidiaries identified as 'strategically relevant' pursuant to Art. 1 of the Corporate Governance Code. The 'Guidelines' set out, inter alia, the powers and functions attributed to the **executive director responsible for supervising the functioning of the internal control system** (see paragraph 10.1 below for the description of these).
The 'Guidelines' attribute the definitive responsibility for the adequacy of internal control to the Board of Directors, setting out the detail of the relative duties.
In relation to Art. 8 of the Corporate Governance Code, the **Board of Directors** conferred the function of assessing the proposals made by the statutory auditors to obtain the engagement and also the work programme prepared for auditing and the results presented in the Report and any letter of recommendations, on the Board of Auditors on the session of 27 June 2007. This choice appears consistent with the attribution of the task of proposing conferment of the statutory auditing requirements and also the amendments introduced by Legislative Decree n. 39/2010 on the statutory auditing of accounts to the Shareholders' Meeting to the Board of Auditors.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS EXISTING IN RELATION TO THE PROCESS OF FINANCIAL, INCLUDING CONSOLIDATED, INFORMATION

INTRODUCTION

In compliance with the indications in the third edition of the Format published by Borsa Italiana S.p.A., it should be noted that the management and control system of the Damiani group concerning the risks related to the financial reporting process is an integral part and is included in the context of the wider Internal Control System of Damiani S.p.A. and the group, a system in which the main elements are:
- the Code of Ethics;
- the Organisation, management and control model pursuant to Legislative Decree n. 231/01;
- the 'Procedure for the identification of Relevant Persons and advice of the operations made by them, also through third parties, concerning shares issued by the company or other financial instruments connected to them' ('Internal Dealing Procedure');
- the principles and procedures for carrying out operations with related parties; the current Damiani S.p.A. procedure on operation with related parties was approved by the Board of Directors of the company on 26 November 2010 and subsequently updated on 10 February 2012, and is aligned with the provisions of the Related Parties Regulation' and subsequent amendments and integrations;
- the system of commissions and proxies;
- the organisation chart;
- the procedure for the management and disclosure to the market of privileged information;
- the accounting and administrative system, in turn consisting of a set of procedures and operational documents and instructions for budget and reporting work relative to the closure calendars.

The Board of Directors of Damiani S.p.A. maintains the central role for the co-ordination and guidance of the internal control system, defining the general lines of the organisational, administrative and accounting structures of the Issuer and the other companies of the group.

The internal control system of financial reporting is aimed at identifying and assessing actions and/or events that may compromise the trustworthiness, precision, reliability and timeliness of financial reporting, if they occurred. As a result, the system adopted by Damiani S.p.A. and the group aims at guaranteeing that the procedures prepared reasonably ensure the trustworthiness of the financial reporting, according to the Business Model which is a feature of the group, corporate structure (with the survey of strategically important companies), reference accounting principles and their evolution. The design approach in the construction of the Control Model was inspired by international standards and the best practices in the sector. It is periodically monitored to assess its full application and correspondence with the features of the group and its evolution.

DESCRIPTION OF THE MAIN FEATURES

Risk assessment, aimed at identifying and assessing the areas of risk in which, in the reference context, (business models, corporate and organisational structure, supply and distribution markets, current legislation and regulations), events may occur that compromise achievement of the reliability of the financial reporting, is at the base of the control system on the processes of financial reporting. This work has enabled identification of the group companies with strategic relevance on the basis of quantitative and qualitative parameters and the main company processes supplying the balance sheet documents of the companies and consolidated. In this way, a matrix of processes/ units to be checked and assessed by the existing Control System in relation to their typical risks referring to the preparation of official and public financial reporting has been defined.

The real balance sheet items and connected company processes supplying them for all the companies identified as of strategic relevance, whose control system overseeing the formation of the balance sheet is subject to specific assessment and monitoring, are selected so that the specific controls to perform can be identified to guarantee the typical objectives the Internal control system must follow in supplying the financial reporting.

ROLE AND FUNCTIONS INVOLVED

The system of management and control of financial reporting is managed by the senior manager responsible for drafting the accounting and corporate documents appointed by the Board of Directors in compliance with the current statutory provisions.
In the fulfilment of his duties, the senior manager responsible:

- interacts with Internal Audit which makes independent checks on the operation of the Control System and supports the senior manager responsible in his monitoring work;
- is supported by the managers of the various company functions (and, in particular, by the administrative managers) of group companies, who ensure the completeness, trustworthiness and timeliness of the information flows to the senior manager responsible who co-ordinates all the work for the preparation of the annual and interim financial reporting;
- sets up are reciprocal exchange of information with the Internal Control Committee and the Board of Directors, referring on the work performed;
- periodically informs the Board of Auditors on the events of particular relevance occurring with reference to the impact on financial reporting and the adequacy and reliability of the administrative-accounting system where they are recorded.

Monitoring of the effective application of the system of risk management relative to financial reporting is carried out continuously throughout the financial year by the senior manager responsible who has direct responsibility for the correct and timely performance of management in the administrative, accounting and financial spheres carried out by the groups' companies.
No risks or situations that were not already subject to monitoring by the company emerged from all the made checks.
The senior manager responsible for drafting the corporate accounting documents, with the chairman and managing director, make the certification set out by sub-para.5 of Art. 154-bis of the TUF.
In fulfilment of application criterion 8.C.1,(c) of the Corporate Governance Code, the Board assessed the adequacy of the organisational, administrative and general accounting structure of the Issuer and the subsidiaries with strategic relevance during the session of 14 June 2012; in particular, evaluation was made with the aid of the Internal Control Committee which, in the sphere of its meetings – in which the Internal Control Officer also took part (see below), was able to check continuously the effective operation of the internal control system of both the company and the group, with particular reference to companies of strategic relevance. On 14 June 2012, the Board of Directors, with the assistance of the Internal Control Committee, also positively evaluated the status of the internal control system, considering it overall adequate.

10.1 EXECUTIVE DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM

In compliance with application criterion 8.C.1, (b)of the Corporate Governance Code, the Damiani 'Guidelines' set out, inter alia, that the executive director responsible for supervising the functions of the Internal Control System:
a) takes care of the identification of the main company risks, taking account of the features of the business carried on by the Issuer and its subsidiaries, with particular attention to the companies with strategic relevance, and submits it to the Board of Directors at least once a year, usually at the meeting of the Board of Directors for the approval of the draft balance sheet and consolidated balance sheet for the financial year;
b) is responsible for planning, managing and monitoring an internal control system that, in conformity with the Guidelines, ensures efficient and effective supervision of company risks. In particular:
- identifies the risk factors for the Issuer or other Damiani group companies, with special attention on the strategically relevant companies – without prejudice to the primary responsibility of the respective directors delegated to the individual companies – also in the light of the changes in the internal and external conditions in which they operate, and also the trends in management, variations from the forecasts and the legislative and regulatory panorama in force at the time;
- defines the duties of the operational units on control functions, ensuring that the various tasks are directed by qualified staff, with specific experience and knowledge. In this sphere, the areas of potential conflict of interest must be identified and reduced to the minimum;
- establishes effective communication channels to ensure that all staff are aware of the policies and procedures relative their duties and responsibilities;

- defines the information flows aimed at ensuring full knowledge and governability of operations; inter alia, ensure that the Board of Directors identifies the significant operations of the group – perfected by the Issuer or its subsidiaries – which must be submitted for prior examination by the administrative body of the parent company;
c) submits the company risks and all the control processes implemented and planned for their prevention, reduction and effective and efficient management, to the examination and assessment of the Board of Directors, at least once a year, and usually at the meeting of the Board of Directors to approve the draft balance sheet, and also every time it is considered necessary or opportune, in relation to the circumstances, as when significant new risks arise or there are significant increases in the possibilities of risk, to enable the Board of Directors to take an informed and conscious decision on the management strategies and policies of the main risks of the Issuer and Gruppo Damiani S.p.A., with particular attention to companies of strategic relevance;
d) proposes the appointment, revocation and remuneration of the Internal Control Officer to the Board of Directors and ensures the independence and operational autonomy of each person responsible for and operational area, giving him the appropriate means to perform the duties entrusted to him effectively.

In the session of 3 April 2009, the Board of Directors confirmed Mr Stefano Graidi in the position of executive director responsible for supervising the operation of the Control System, attributing him with the competences and powers as per the 'Guidelines of the Internal Control System of the Damiani group' and, in particular:
i) be responsible for the identification of the main company risks (taking account of the features of the business carried out by the company and its subsidiaries) and periodically submit those principles to the examination of the Board of Directors, and also the Internal Control and Corporate Governance Committee;
ii) arrange for the planning, creation and management of the internal control system, constantly checking the overall adequacy, effectiveness and efficiency; adapt that system to the dynamics of the operational conditions and the legislative and regulatory panorama; in relation to this, where necessary, submit the updating of the Guidelines to the Internal Control System of the Damiani group to Board of Directors;
iii) propose the appointment, revocation and remuneration of the Internal Control Officers of the group to the Board of Directors, similarly informing the Internal Control and Corporate Governance Committee.
With reference to this last competence, it should be noted that, during the financial year to 31 March 2012, the executive director responsible for supervising the operation of the company Internal Control System proposed the appointment of Mr Francesco Delucchi as the new Internal Control Officer of the company following the resignation of Ms Lanzi Puglia from 15 September 2011, taking account, inter alia, of the experience and professionalism matured both in auditing companies and in the office responsible for drafting the accounting situations of the parent company.

10.2 THE INTERNAL CONTROL OFFICER

On 12 September 2007, the Board of Directors of the company appointed Ms **Luana Carlotta Lanzi Puglia** to the position o**f Internal Control Officer** of the company, at the suggestion of the executive director with responsibility for the operation of the Control System and having noted the favourable opinion of all members of the Internal Control and Corporate Governance Committee, attributing her with the functions of control and the obligations prescribed by the Corporate Governance Code and the framework resolution on Corporate Governance adopted by the Board of Directors on 27 June 2007.
It should be noted that, during the financial year, Ms Luana Carlotta Lanzi Puglia resigned from the position with effect from 15 September 2011.
On 15 September 2011, the Board of Directors therefore decided on the appointment of the new **Internal Control Officer** of the company, resolving on Mr **Francesco Delucchi,** as proposed by the executive director with responsibility for supervising the functioning of the Internal Control System and have noted the favourable opinion of all the members of the Internal Control Committee, and also the Board of Auditors. On 15 September 2011, on the proposal of the executive director with responsibility for supervising the functioning of the Internal Control System, with the opinion in favour of the Committee and having heard the Board of Auditors, the Board of Directors similarly defined the remuneration of the Internal Control Officer consistent with company policies.
Pursuant to the updated version of the 'Guidelines' approved by the Board of Directors in the meeting of 11 June 2010, the Internal Control Officer, whose independence and operational autonomy from each manager of an operational area subjected to his monitoring work is ensured:

- extends his control work to all the companies of the Damiani group, with special concern for the companies identified by the Board of Directors as having strategic relevance, and has access to all their work and the relative documentation; ;
- if certain checks are outsourced by the company or other companies in the group, he also has access to the documentation produced by the bodies appointed;
- he has, inter alia, the task of checking the suitability of the internal procedures for ensuring the adequate containment of the risks of the Issuer and Damiani

The duties of the Internal Control Officer are carried out by making random checks on the processes subject to check.
Furthermore, also pursuant to the 'Guidelines' approved by the Board of Directors in the meeting of 11 June 2010, the Internal Control Officer:
a) illustrates the draft annual programme of work to the director responsible for internal control, the Internal Control Committee and Board of Auditors for any suggestions they intend to make;
b) assists the director responsible for internal control in the planning, management and monitoring of the Internal Control System and the identification of the various risk factors;

c) plans and performs, consistent with the annual work plan, the direct and specific control work in the Issuer and group companies, with particular reference to the companies with strategic relevance, in order to find any deficiencies in the internal control system in the various areas of risk;

d) checks that the rules and procedures of the control processes are respected and that all those involved operate in conformity with the preset objectives. In particular:

- he checks the reliability of the information flows, also with reference to the administrative-accounting measurement systems;
- within his work programme, checks that the procedures adopted by the Issuer and group ensure respect, in particular, for the current legal and regulatory provisions;

e) he also performs assessment tasks on specific aspects, where he considers it opportune or at the request of the Board of Directors, Internal Control Committee or director responsible for internal control or the Board of Auditors;

f) he ascertains that the irregularities found in the operation and functions of controls have been removed, using the method considered most opportune;

g) he keeps all the documentation relating to the work performed in an orderly manner; this documentation is available to the people responsible for the processes of control, indicated in Art. 2 of the 'Guidelines', requesting it;

h) he transfers the results of his control work to special 'Audit Reports' transmitted to the director responsible for internal control and the Internal Control Committee, Board of Auditors and, if appropriate, the manager of the function checked; where the control work concerns group companies, the Audit Reports are also transmitted to the relative competent organs of the company concerned.

Furthermore, in the light of both the results of the checks made and the analysis of the company risks, he identifies any deficiencies in the Internal Control System and suggests any necessary operations on the system; the deficiencies identified and the operations proposed are shown in the relative Audit Reports;

i) at least twice a year, in good time to enable the Internal Control Committee and Board of Directors, and also the director responsible for internal control, to fulfil their respective duties at the Board meeting for the approval of the draft balance sheet and that for the approval of the half-yearly financial report, he prepares a half-yearly synthesis summarising the main points found during the reference half-year and throughout the whole year. The annual report compiled before the approval of the draft balance sheet also contains an update on the company risks subject to monitoring;

l) he reports on his work, transmitting all the reports as per (i) above, to the following bodies:

- the director responsible for internal control and any delegated bodies of the group company in which the control work was performed;
- the Internal Control Committee, whose meeting he attends at the invitation of the members of that committee;
- the Board of Auditors, whose meetings he attends at the invitation of the chairman;

m) he immediately advises the director responsible for internal control and the delegated bodies if there are critical points that suggest urgent intervention; in addition, if necessary, the Internal Control Committee and the Board of Auditors to update them on the results of his work.

In the financial year, the Internal Control Officer performed checks in the areas he is responsible for in conformity with the provisions of the Audit plans prepared and presented to the Internal Control Committee, in relation to the relevant periods. The main work carried out by the Internal Control Officer over the financial year in the fulfilment of his concerned work:

(i) the sphere of alignment with the legislation ex L. 262/05 and ex Legislative Decree 231/2001:

· completion of the work of updating the Organisational Model of the Issuer to align the contents with the new 'liable offences' introduced in the sphere of Legislative Decree 231/2001 from 2009;

· the review of the company procedures of the Issuer and group companies;

(ii): · operations of compliance audit concerning the Issuer and also other group companies;

· training on compliance matters aimed at ensuring the understanding and consequent implementation of the contents and objectives of the procedures by company functions

in the sphere of the Audit work.

Over the financial year, the Internal Control Officer accessed all the useful information for the period of his appointment and referred his work to the Control Committee and the chairman of the Board of Auditors, and also the director responsible for the operation of the Internal control system.

Pursuant to application criteria 8.C.7 and 8.C.8 of the Corporate Governance Code, it should be noted that the Internal Control Officer heads the Internal Audit function, which was not entrusted, not even by sector, to bodies outside the company, and is not hierarchically dependent on any manager of an operational area.

It should be noted that the Board of Directors did not allocate an ad hoc budget to the Internal Control Officer but the company makes the resources necessary to fulfil his functions available to the Officer each time.

10. 3 ORGANISATIONAL MODEL EX LEGISLATIVE DECREE 231/2001

In order to be aligned with the internal control systems set out by Legislative Decree 231/2001 and in conformity with the provisions of Article 2.2.3, sub-para.3, (j) of the Stock Exchange Regulations, the Board of Directors of the Issuer approved the organisation, management and control model set out by Art. 6, Legislative Decree 231/2001 (the 'Organisational Model') and the Code of Ethics.

The Organisational Model adopted by the Issuer is structured in the following parts:
General Part, which introduces the model and order the rules of governance, with particular reference to(i)recipients; (ii)composition, role and powers of the Supervisory Board (hereinafter, 'ODV'); (iii)role of the Board of Directors; (iv)information flows to the ODV; (v) penalty system; (vi)divulgation of the Model to recipients and training;
ten Special Parts, each of which identifies and orders the processes at risk and the rules of behaviour each recipient is required to respect in the performance of his business for the individual offences abstractly relevant for the company. Pursuant to the Organisational model, the offences abstractly relevant for the Issuer are: (i)offences against the Public Administration and obstruction of justice,(ii) corporate crimes,(iii)the administrative offences of market abuse,(iv)transnational offences,(v)offences concerning health and safety at work,(vi)the offences of receiving, recycling and using money, goods or assets of unlawful origin,(vii)IT crimes and the unlawful processing of data,(viii)offences against industry and trade and the crimes of forgery of instruments or signs of recognition,(ix)offences concerning breach of copyright, and (x)environmental offences.
Each Special Part then refers to specific Protocols ordering the operative and control method for the management of the process, relevant for preventive purposes with a view to '231' for the processes assessed as being at greater potential risk. The Model has been reviewed and integrated in order to align the contents with the new legislative items introduced since 2009.

A special Supervisory Board, with full economic independence, watches over the operation and respect of the Model. On 21 April 2011, the Supervisory Board was renewed and Ms Carlotta Lanzi Puglia and two consultants from outside the company, Mr Luca Pecoraro and Ms Rossella Zunino were called on to form part of it. On this point, it should be noted that, as a result of the resignation of Ms Lanzi Puglia from the position of Internal Control Officer and Internal Auditor of the company, during the financial year, it was necessary to replace her in the position of 'internal' member of the Supervisory Board of the Issuer. The Damiani S.p.A. Organisational Model specifically establishes that 'at least one of the members of the [ODV] is chosen from the internal members of the company and identified as the Internal Control Officer while the other two members are external to the body'. On 15 September 2011, the Board of Directors thus reintegrated the composition of the ODV appointing Mr Francesco Delucchi, the new Internal Control Officer, as the new 'internal' member, until expiry of the mandate of the Supervisory Board on 31 March 2014.
The Supervisory Board was attributed with all the powers to ensure punctual and efficient supervision of operation and respect for the Organisational Model adopted by the company, and also to check its efficiency and effectiveness with respect to the prevention and impediment of the commission of the offences currently set out by Legislative Decree 231/2001, with the possibility of formulating any proposals of updating and adaptation of the Organisational Model to the Board of Directors.

The Issuer's Code of Ethics has been published in the Investor Relations section of the company website: http://investorrelations.damiani.com.

Lastly, it is noted that, in the sphere of the group, the subsidiary company with strategic relevance Rocca S.p.A. has also adopted its own organisational, management and control model set out by Art. 6, Legislative Decree 231/2001 and the relative Code of Ethics.

10.4 INDEPENDENT AUDITORS

The independent auditors assigned to the auditing of DAMIANI S.p.A. and the other subsidiary companies Reconta Ernst & Young S.p.A., based in Via G.D. Romagnoli, 18/a, Rome, enrolled in the Register of Auditors. On 27 June 2007, the general Shareholders' Meeting of Damiani resolved to confer the independent auditors with the statutory audit for nine financial years, until approval of the balance sheet to 31 March 2016, pursuant to Art. 159 of the TUF.

10.5 SENIOR MANAGER RESPONSIBLE FOR DRAFTING CORPORATE DOCUMENTS

The senior manager responsible for drafting the corporate accounting documents is Mr Gilberto Frola, appointed by the Issuer's Board of Directors in the session of 12 September 2007 with effect from the admission to trading of the shares of the company on the screen-based stock exchange of Borsa Italiana S.p.A. and until revoked Pursuant to Art.27of the Articles of Association, the senior manager is chosen by the administrative body, subject to the compulsory but not binding opinion of the Board of Auditors, from people who have qualified experience of at least three years in accounting or administration in a company with listed shares or, however, with share capital of not less than one million Euros.

The Board of Directors conferred Mr Frola, the senior manager responsible, with all the powers necessary for the exercise of the tasks attributed by the law and the Articles of Association to him, and in particular:
- directly access all the information necessary for the production of the accounting data without the need for authorisation, undertaking (as with all the members of his office) to maintain the confidentiality of the documents and information acquired in the performance of his duties, in compliance with the current legal and regulatory applicable provisions;
- use internal communication channels that guarantee correct infra-company information;
- structure his office both with reference to the staff and the technical means (material, IT resources, etc.) in a fitting manner;
- arrange administrative and accounting procedures, being able to also have the co-operation of the offices participating in the production of the relevant information;
- arrange for external consultancy, where particular company requirements make this necessary;

- set up relationships and flows which ensure adequate monitoring of the correct operation of the procedures (auditors, internal control manager, etc.), in addition to the constant mapping of risks and processes, with the other persons responsible for control;
- with reference to the expenses considered necessary for the fulfilment of his duties, he can proceed, subject to authorisation by the Board of Directors and, on its behalf, the Internal Control Committee or, alternatively, the Chairman of the Board of Directors, with the requirement to make an annual report to the Board.

11. DIRECTORS' INTERESTS AND OPERATIONS WITH RELATED PARTIES

As recalled already, the Board of Directors, in compliance with the Related Parties Regulation and subject to the opinion of the independent directors on the Board, approved the 'Procedure on operations with related parties of Damiani S.p.A.' (also 'OPC Procedure) in the meeting of 26 November 2010, effective from 1 January 2011 (the whole text of the OPC Procedure, as updated in the Board meeting of 10 February 2012,is available on the web site www.damiani.com, in the 'Financial Documents', 'Documents and Notices' section).
The OPC Procedure, respecting the applicable regulatory provision, distinguishes operations with related parties according to their greater or lesser importance, identifying operations of greater relevance in conformity with the indices as per Appendix 3 to the Related Parties Regulation; nevertheless, in consideration of the status of 'smaller-sized company' of Damiani S.p.A., and as long as the Issuer can be qualified as such, the role and relevant competences that the Related Parties Regulation attributes to committees consisting wholly or mainly of independent directors, are attributed to the Internal Control Committee and, for the Corporate Governance of the Issuer, consisting of non executive and mainly independent directors - in conformity with the decision of the Board of Directors dated 26 November 2010, that Committee is therefore also called 'Committee for Internal Control and Operation with Related Parties' (in short 'Internal Control Committee').
Taking into account that the Issuer is 'a smaller-sized company', the OPC Procedure envisages a single general procedure of instruction and approval of operations with related parties, both of greater and lesser relevance; this general procedure, however, features a significant development of the role of independent directors, who – in the sphere of the Internal Control Committee –must always give a prior opinion which is not binding with respect to the proposed operation.
Conversely, with reference to the publishing obligations, the OPC Procedure sets out the requirement for an information document to be published for all operations of greater relevance with the opinions of the independent directors and, in essential elements, independent experts.
Furthermore, the OPC Procedure envisages, in accordance with what is permitted by the Related Parties Regulation, exclusion from the application of the new discipline of some categories of operations; in particular, 'small amount' operations, those made with and between subsidiary companies, operations with companies connected to the company (as long as there are no 'significant' interests of related parties of the company in the aforementioned companies), and also the other cases allowed by the Related Parties Regulation are excluded.
In the cases examined during the financial year, from the substantive point of view, the equivalence of the economic advantages for the DAMIANI group achieved were always assessed from the transaction considered with the related party each time with respect to the theoretical agreement with a third party; the Board was also always previously informed about any potential conflicts of interest in the individual operation, as set out by the law.
With particular regard to the operations with related parties, the group operated with both related parties within the consolidated companies and related parties external to it over the financial year.
In the financial year, the relationships with consolidated related parties were mainly commercial, consisting of the sale of jewellery or raw materials, matured in the sphere of the usual intra group operations conducted recurrently at market conditions. Relationships with related parties outside the group, in particular with Immobiliare Miralto S.r.l., were mainly of a non-commercial nature principally concerning property leasing contracts.

It should be noted that the Board of Directors did not consider the adoption of specific operational solutions suitable for facilitating the identification and adequate management of the situations where a director holds an interest both on his own account and on that of third parties necessary; on this point, the Board considered the existing supervision adequate under the requirements of Art. 2391 of the Civil Code ('Directors' interests', which orders that each director 'must advise the other directors and the Board of Auditors of every interest that he has, on his own behalf or that of third parties, in a determined operation of the company, specifying the nature, terms, origin and extent').

12. APPOINTMENT OF THE AUDITORS

12. APPOINTMENT OF THE AUDITORS
The appointment of the auditors and the Chairman of the Board of Auditors of the company is, as is known, the authority of the Shareholders' Meeting. The methods of presentation of the lists with the proposals for appointment and voting are regulated by the Articles of Association.
Art. 24 of the Articles of Association sets out that the Board of Auditors consists of three regular auditors and two alternate ones. The auditors stay in office for three financial years, and expire at the date of the Shareholders' Meeting convened for the approval of the balance sheet relating to the last financial year of their office; they can be re-elected. The same article of the Articles of Association is

aimed at ensuring that the Chairman of the Board of Auditors is appointed by the minority, taking him from the list that is second for number of votes.

In application of principle 10.P.1 of the Corporate Governance Code (which sets out that the appointment of the auditors occurs through a transparent proceeding that guarantees, inter alia, timely and adequate information on the personal and professional features of the candidates for the position),Art. 24 of Articles of Association of the Issuer provides that the election of regular and alternate members of the Board of Auditors takes place in the following ways:

(a) as many shareholders holding a participation at least equal to that determined by CONSOB for the appointment of directors, pursuant to the law and regulations – which, at the date of approval of this Report, corresponds to 2.5% (CONSOB resolution No. 18185 of 24 April 2012,and subsequently – in general – resolution No. 18214 of 9 May 2012 which, inter alia, amended Art. 144-quater of the Issuers Regulations) – can present a list of candidates ordered progressively by number, lodging it at the registered office of the company in the terms set out by Arts. 148, sub-para.2,and 147-ter, sub-para.1-bis, of the TUF, and that is at least 25 (twenty-five) days before the date set for the First Call of the Shareholders' Meeting, subject to revocation; each list is supplied with the information requested pursuant to the legal and regulatory provisions in force each time; the list in which the above rulings are not respected is considered as not to have been presented;

(b) a Shareholder can neither present nor vote in more than one list, even if through a third party or trust companies; shareholders belonging to the same group and those joining a shareholders' agreement - concerning shares of the company - cannot either present or vote more than one list, even if through a third party or trust companies;

(c) a candidate can only be in one list, at the risk of ineligibility; candidates who do not respect the limits of accumulation of position set out by the law and the relative implementation provisions in force each time cannot be included in the lists;

(d) if, at the date of expiry of the term at (a),just one list has been lodged, or only lists presented by shareholders who are connected pursuant to the current law and regulatory provisions, lists can be presented up to three days from that date; in this case, the thresholds set out pursuant to (a)are reduced by half.

On the basis of the same clause of the Articles of Association of Damiani S.p.A., the procedure for the election of the Board of Auditors is as follows:

(*i*) two (2) regular auditors and one (1) alternate auditor are taken from the list obtaining the highest number of votes, in the progressive order in which they are listed;

(*ii*) the remaining regular auditor and the second alternate auditor are taken from the list obtaining the second highest number of votes from those who are not connected - indirectly - with the shareholders who presented or voted the list with the highest number of votes, in the progressive order in which they are listed

The Chairman of the Board of Auditors is the regular auditor taken from the second list obtaining the highest number of votes. If an auditor is replaced, the alternate auditor from the same list as the one replaced substitutes him.

If the Chairman is replaced, the chairmanship is assumed by the alternate member who substitutes him.

The Meeting - called to reintegrate the Board of Auditors pursuant to the law - will act to ensure that the principle of representation of the minority is respected.

The past rulings on the election of members of the Board of Auditors and nomination of the Chairman - do not apply to the Shareholders' Meetings where a single list is presented only one list is voted; in such cases, the Meeting will act on a majority.

13. AUDITORS (ex Art. 123-bis, sub-para.2, (d) TUF).

The Board of Auditors in office was appointed by the Shareholders' Meeting of 21 July 2010 for three financial years, i.e. until the date of the Meeting convened for the approval of the balance sheet for the financial year to 31 March 2013.

All the regular and alternate members of the current Board of Auditors were appointed by the Meeting of the company on the basis of the only list lodged by the shareholder Leading Jewels S.A., with the vote in favour of 60,793,827 shares, equivalent to 99.99% of the participating and voting share capital. Its current composition is illustrated in Table shown in the appendix to this Report.

During the financial year which closed on 31 March 2012, the Board of Auditors in office met 10 (ten) times of which 6 (six) in a joint session with the Internal Control Committee; 8 meetings are planned in the current financial year of which 2 have already been held (both jointly with the Internal Control Committee). The meetings of the Board of Auditors held in the financial year lasted, on average, about 1 hour and 10 minutes and showed regular attendance by the auditors (the overall participation percentage is 96.67%, while the participation percentage of each member at meetings in the same period is indicated in Table 3 shown in the Appendix to this Report).

It should be noted that, from the date of closure of the financial year to the date of approval of this Report, there have not been changes in the composition of the Board of Auditors. The personal and professional features of each regular auditor currently in office are indicated below:

GIANLUCA BOLELLI – CHAIRMAN OF THE BOARD OF AUDITORS

He obtained a degree in Business Management from the Bocconi University, Milan.

He is enrolled in the Register of Chartered Accountants and the Register of Auditors. He started his professional career as auditor of

Deloitte and Touche and then consultant for KPMG. In March 1986, he started practising privately as a chartered accountant and is co-founder-member of Studio Bolelli, Sportelli, de Pietri, Tonelli. He is also a member of the Scientific Committee of AIDAF, external lecturer of the School of Management (SDA) of the Bocconi University and SUPSI, Lugano.

SIMONE CAVALLI – REGULAR AUDITOR

He holds a degree in Economics and Business, and enrolled in the Register of Auditors. He started his career in the auditing company Arthur Andersen in 1992 where he covered various managerial positions. In 2004, he became a partner in the Studio per il Controllo Contabile Analisi e Valutazione d'Azienda (Control of Accounting Analysis and Company Assessment), where he carries out the audit of financial and consolidated statements and accounting and financial due diligence for acquisition operations on behalf of corporate clients or Italian and international private equity companies.

FABIO MASSIMO MICALUDI – REGULAR AUDITOR

He holds a degree in Business Management from the Bocconi University, Milan, with specialisation in Administration and Control. He is enrolled in the Register of Chartered Accountants and the Register of Auditors. He started his professional career in Arthur Young & Company, now Ernst & Young. From 1990 to 1993 he was Administrative and Financial Director of the Sugar – Messaggerie Musicali publishing group. From 1993 to 1997, he was Financial and Control Director of Dia Distribuzione S.p.A. – Gruppo Promodes, now Carrefour. After this experience, he decided to devote himself to a professional career and started practising as a chartered accountant in Milan in 1997, becoming first partner in associated accountants' companies and then, in 2000, founder partner of Studio GMMPAV - Dottori Commercialisti Associati, specialised in consultancy on corporate, fiscal and balance sheet matters with special reference to extraordinary operations. He has been a member of the Finance and Management Control Commission of the Order of Chartered Accountants of Milan since 2008.
In January 2010, he was a founder partner of Studio MM & Associati Dottori Commercialisti, specialised in consultancy on corporate, fiscal and balance sheet matters with special reference to extraordinary operations, assessments and management control.

In implementation of application criterion 10.C.2 of the Corporate Governance Code, please note that the independence of the Auditors is considered to be already ensured by the respect for the applicable provisions of the law and the Articles and, as a result, the company has not considered it necessary to also apply the criteria of independence as per Art. 3 of the Corporate Governance Code to the Auditors. For this reason, for the purposes of the assessment of the permanency of the requisites of independence consistent with the position, the criteria of the law and the Articles were taken into consideration. In the application of these criteria, the Board of Auditors has checked the independence of its members after their appointment during the financial year, and recently on 14 June 2012.

In compliance with the application criterion 10.C.4 of the Corporate Governance Code, the auditor who, on his own behalf or that of third parties, has an interest in a certain operation of the Issuer must advise the other auditors and the Chairman of the Board of Directors in a detailed manner as soon as possible on the nature, terms, origin and extent of his interest.
In implementation of application criterion 10.C.5 of the Corporate Governance Code, the Board of Auditors has supervised the independence of the auditors, checking both respect for the legislative provisions on the subject and the nature and extent of the services other than accounting control supplied to the Issuer and its subsidiaries by the independent auditors and the entity belonging to its network.
Lastly, it should be noted that in performing its business, the Board of Auditors similarly co-ordinated with the Supervisor of Internal Control – exercising, inter alia, the function of Internal Audit, with which it has a constant exchange of information, and the Internal Control Committee, in whose meetings the Board of Auditors, or however, the Chairman of the Board of Auditors or another auditor designated by him, takes part.

14. RELATIONS WITH SHAREHOLDERS

The Issuer deems it to be in its own interests, in addition to being right and proper towards the market, to set up a continuous dialogue with its shareholders, based on the reciprocal understanding of the roles. The dialogue with shareholders must, however, respect the procedure for the external communication of company documents and information.

In compliance with the provisions of Art. 2.2.3, sub-para.3, (i)of the Rules of Borsa Italiana S.p.A., the company has arranged for the inclusion of a professionally qualified figure, the Investor Relator, in its structure who has, inter alia, the task of managing relationships with professional investors and other shareholders. To contact the Issuer's Investor Relations Officer, directed by Ms Paola Burzi:
Telephone: 0246716340
E-mail address: paolaburzi@damiani.it
Likewise, it should be noted that the company complies with the information requirements set out by the legislation, including regulatory obligations, in force with precision and timeliness, and has structured its website (www.damiani.com) so that access by the public to the information concerning the Issuer is easy.

15. SHAREHOLDERS' MEETINGS (ex Art. 123-bis, sub-para. 2, (c) TUF).

Pursuant to Art. 10 of the Articles of Association, both general and extraordinary Shareholders' Meetings are convened by a Notice of Call published in the terms and methods of the law and regulations. The second convocation can be established for another day in the same Notice; a third convocation may be set for extraordinary Shareholders' Meetings. The Meeting can also be convened and meet in a place other than the registered office, both in Italy and abroad, as long as its within countries of the European Union or Switzerland.
Please note that, at the date of approval of this Report, members with the right to vote for whom the company has received advice certifying the shares held, as Art. 83-sexies of the TUF, within the terms set out by current law, have the right to speak in the Meeting; the specific advice, according to the law, is made by an authorised intermediary in compliance with his accounting records on the basis of the relative evidence at the end of the accounting day of the seventh trading day preceding the date set for the first call of the Shareholder's Meeting; pursuant to current legislation, those who are holders of shares only after that date do not have the right to take part in and vote in the Meeting.
Art. 11 of the Articles of Association sets out that every shareholder with the right to speak at the Meeting can be represented by another person, including a non-shareholder, through a written proxy, under the terms and limitations of the law. The proxy can also be conferred electronically and can be advised to the company by certified e-mail, to the certified e-mail address specified each time in the Notice of Call.
The Shareholders' Meeting resolves on the matters within its jurisdiction pursuant to the current law, as further specific competences are not set out by the Articles of Association. It should be noted the Articles, in compliance with Art. 2365, sub-para.2, of the Civil Code, attributes the competence to resolve on mergers in the cases set out by Arts. 2505 and 2505-bis of the Civil Code, the establishment and closure of branches, the indication of who among the directors represents the company, the reduction of capital if the shareholders withdraw and the adaptation of the Articles to legislative provisions and the transfer of the registered office within Italy to the Board of Directors.
The current legal provisions apply for the validity of the constitution and resolutions of the Meeting, both general and extraordinary.

With reference to application criterion 11.C.5, it should be noted that the company has not considered it necessary to date to adopt Rules and Procedures for the Shareholders' Meeting.
In compliance with the provisions of Art. 11 of the Corporate Governance Code, all directors normally take part in the Shareholders' Meetings.
The Shareholders' Meetings are also opportunities to advise shareholders of Issuer's information, respecting the regulations on insider trading. In this context, the Board of Directors has always worked to ensure adequate information to the shareholders on the necessary elements so that they can take the decisions required by the meeting with the full knowledge of the facts; the Board has always referred the work carried out and planned to the Meeting for this purpose.
With reference to application criterion 11.C.6 of the Corporate Governance Code, it should also be noted that during the Financial Year, the variations in the market capitalisation of the Issuer's shares were in line with the trend in the market and substantial variations in the composition of the Issuer's shareholding structure did not occur.

16. CHANGES TO THE CLOSURE OF THE REFERENCE FINANCIAL YEAR

It should be noted that, after the closure of the financial year, but in good time to account for it in this Report and the preparation and publication of the Remuneration Report pursuant to Art. 123-ter of the TUF, the Board of Directors adopted the 'Remuneration policies and implementation procedures of Damiani S.p.A.', as illustrated, inter alia, in the Remuneration Report prepared pursuant to Art. 123-ter of the TUF and made available to the public with this Report in the manner set out by current legislation, to which full reference should be made.

Milan, 14 June 2012

Chairman of the Board of Directors
GUIDO GRASSI DAMIANI

TABLE 1: INFORMATION ON OWNERSHIP STRUCTURE

STRUCTURE OF THE SHARE CAPITAL				
	NO. SHARES	% COMPARED TO C.S.	LISTED(INDICATE MARKETS) / NOT LISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	82,600,000	100	Screen-based Stock Exchange, STAR sector, managed by Borsa Italiana S.p.A.	-
SHARES WITH LIMITED VOTING RIGHTS	-	-	-	-
SHARES WITHOUT VOTING RIGHTS	-	-	-	-

RELEVANT HOLDINGS OF CAPITAL			
DECLARANT	DIRECT SHAREHOLDER	QUOTA % OF ORDINARY CAPITAL	QUOTA % OF VOTING CAPITAL
DAMIANI S.P.A.	DAMIANI S.P.A.	6.74%	6.74%
GUIDO GRASSI DAMIANI	GUIDO GRASSI DAMIANI	5.89%	5.89%
GUIDO GRASSI DAMIANI	LEADING JEWELS S.A.	56.76%	56.76% (1)
GUIDO GRASSI DAMIANI	SPARKLING INV. S.A.	1.45%	1.45%
GIORGIO GRASSI DAMIANI	GIORGIO GRASSI DAMIANI	6.11%	6.11% (2)
SILVIA GRASSI DAMIANI	SILVIA GRASSI DAMIANI	5.31%	5.31% (3)
DGPA SGR S.P.A.	DGPA SGR S.P.A.	5.36%	5.36%

(1) Of which 616,379 in bare ownership with voting right.

(2) Of which 163,373 in bare ownership with voting right.

(3) Of which 163,373 in bare ownership with voting right.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS											INTERNAL CON-TROL COMMITTEE		REMUN. COMMITTEE		POSSIBLE APPOINT. COMMITTEE		POSSIBLE EXECUTIVE COMMITTEE		POSSIBLE OTHER COMMITTEE	
Position	Members	Appointed	In office until	List (M/m) *	Exec.	Non-esec	Indep. of Code	Indep. of TUF	(%) **	Number of other appointments ***	****	**	****	**	****	**	****	**	****	**
Chairman and M.D.	GUIDO GRASSI DAMIANI	03.04.2009	Approval Balance Sheet to 31.03.2012	M	X	-	-	-	100%	14	-	-	-	-	-	-	-	-	-	-
Deputy chairman	GIORGIO GRASSI DAMIANI	03.04.2009	Approval Balance Sheet to 31.03.2012	M	X	-	-	-	100%	10	-	-	-	-	-	-	-	-	-	-
Deputy chairman	SILVIA GRASSI DAMIANI	03.04.2009	Approval Balance Sheet to 31.03.2012	M	X	-	-	-	100%	2	-	-	-	-	-	-	-	-	-	-
Director	STEFANO GRAIDI	03.04.2009	Approval Balance Sheet to 31.03.2012	M	X	-	-	-	71.43%	14	-	-	-	-	-	-	-	-	-	-
Director	GIANCARLO MALERBA	03.04.2009	Approval Balance Sheet to 31.03.2012	M	-	X	-	-	100%	14	X	100%	X	100%	-	-	-	-	-	-
Director	ROBERTA BENAGLIA	03.04.2009	Approval Balance Sheet to 31.03.2012	m	-	X	X	X	85.71%	7	X	83.33%	X	66.67%	-	-	-	-	-	-
Lead Independent Director (L.I.D.)	FABRIZIO REDAELLI	03.04.2009	Approval Balance Sheet to 31.03.2012	M	-	X	X	X	100%	9	X	100%	X	100%	-	-	-	-	-	-
Director	FRANCESCO MINOLI	21.7.2010	Approval Balance Sheet to 31.03.2012	M	-	X	-	-	100%	2	-	-	-	-	-	-	-	-	-	-
DIRECTORS TERMINATING DURING THE REFERENCE FINANCIAL YEAR																				
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quorum required for the presentation of lists at the last appointment: 2.5%																				
No. meetings held during the reference Financial Year:						BOD: 7			CCI: 6			CR: 3								

NOTES
* This column indicates M/m according to whether the member was elected from the list voted by the majority (M) ora minority (m).
** This column indicates the percentage of participation of director sat meetings of the BOD and committees respectively (no. attendances/no. meetings held during the effective period of office of the person concerned).
*** This column indicates the number of appointment as director or auditor held by the person concerned in other companies listed in regulated markets, including foreign ones, financial, banking and insurance companies or those of significant size. The list of these companies is attached to the Report for each director, stating whether or not the company where the office is held is part of the group headed by the Issuer or of which it is part.
**** This column indicates membership of a committee by the Director with an 'X'.

TABLE 3: STRUCTURE OF THE BOARD OF AUDITORS

BOARD OF AUDITORS							
Position	Members	Appointed	In office until	List (M/m)*	Independence of Code	** (%)	Number of other appointments ***
Chairman	BOLELLI GIANLUCA	21.07.2010	Approval of Balance Sheet to 31.03.2013	M	X	100%	18
Regular auditor	CAVALLI SIMONE	21.07.2010	Approval of Balance Sheet to 31.03.2013	M	X	100%	12
Regular auditor	FABIO MASSIMO MICALUDI	21.07.2010	Approval of Balance Sheet to 31.03.2013	M	X	90%	15
Alternate auditor	PIETRO SPORTELLI	21.07.2010	Approval of Balance Sheet to 31.03.2013	M	X	-	-
Sindaco supplente	ALESSANDRO MADAU	21.07.2010	Approval of Balance Sheet to 31.03.2013	M	X	-	-
Quorum required for the presentation of lists at the last appointment:2.5%							
Number of meetings held during the reference Financial Year:						10	

NOTES

*All regular and alternate members of the current Board of Auditors were appointed by the Shareholders' Meeting on the basis of the only list lodged by the shareholder Leading Jewels S.A., with the vote in favour of 60,793,827 shares, 99.998% of the share capital participating and voting.

** This column indicates the percentage of participation of auditors in the meetings of the C.S. (no. of attendances/no. meetings held during the effective period of office of the person concerned).

***This column indicates the number of appointments as director or auditor held by the person concerned measured pursuant to Art. 148-bis TUF.

APPENDIX 'A' - LIST OF DIRECTORS' APPOINTMENTS

List of the appointments in other listed companies, financial, banking and insurance companies or those of significant size, as well as other companies in the Damiani group held by Directors on the Board of DAMIANI S.p.A. in office at the date of approval of this Report.

DIRECTOR	COMPANY	POSITION
GUIDO GRASSI DAMIANI	Rocca S.p.A.	Chairman of the BOD
	Alfieri & St. John S.p.A.	Chairman of the BOD and M.D
	New Mood S.p.A.	Chairman of the BOD and M.D
	Damiani Manufacturing S.r.l.	Director
	Damiani International B.V.	Director
	Damiani Japan K.K.	Chairman of the BOD and M.D
	Damiani USA Corp.	Chairman of the BOD
	Damiani Mexico S.A. de C.V.	Chairman
	Damiani Hong Kong L.t.d.	Director
	Damiani Macau L.t.d.	Director
	Leading Jewels S.A.	Director
	D Holding S.A.	Director
	Sparkling Inv. S.A.	Director
	Imm. Miralto S.r.l.	Director
GIORGIO GRASSI DAMIANI	Damiani Manufacturing S.r.l.	Chairman
	Laboratorio Damiani S.r.l.	Chairman
	New Mood S.p.A.	Director
	Rocca S.p.A.	Deputy Chairman of the BOD
	Damiani Japan K.K.	Director
	Damiani USA Corp.	Director
	Damiani International B.V.	Director
	Damiani France S.A.	Chairman of the BOD
	Immobiliare Miralto S.r.l.	Deputy Chairman of the BOD

DIRECTOR	COMPANY	POSITION
SILVIA GRASSI DAMIANI	Immobiliare Miralto S.r.l.	Director
	Damiani Usa Corp.	Deputy Chairman
STEFANO GRAIDI	Aprilia World Service B.V., Olanda	Director
	Carraro S.A. Lux	Legal Manager CH
	D. Holding S.A.	Director
	Damiani International B.V.	Director
	Damiani Hong Kong L.t.d.	Director
	Giovanni Rana S.A.	Director
	Leading Jewels S.A.	Director
	Sparkling Inv. S.A.	Director
	Damiani Macau L.t.d.	Director
	Talenture Advisory S.A.	Director
	Pasquale Bruni S.A.	Director
	Prada S.A.	Director
	Olivetti Eng. S.A.	Director
	Mind S.r.l.	Director
GIANCARLO MALERBA	EEMS Italia S.p.A.	Director
	Idra S.r.l.	Chairman C.S.
	Rodafin S.p.A.	Chairman C.S.
	Beltrame Holding S.p.A.	Chairman C.S.
	Perini Navi Group S.p.A.	Chairman C.S.
	Rodacciai S.p.A.	Chairman C.S.
	Rc Group S.p.A.	Chairman C.S.
	Sturdust Real Estate S.r.l.	Regular auditor
	Bolton Manitoba S.p.A.	Regular auditor
	Collistar S.p.A.	Regular auditor
	Cordifin S.p.A.	Regular auditor
	Rudra S.p.A.	Regular auditor
	IBF S.p.A.	Regular auditor
	Imm. Rodafin S.p.A	Regular auditor

CONSIGLIERE	SOCIETA'	CARICA
FABRIZIO REDAELLI	Screen Service Broadcasting Technologies S.p.A.	Chairman of the BOD
	Eagles Pictures S.p.A.	Chairman C.S.
	Kedrion S.p.A.	Chairman C.S.
	Vetrerie Riunite S.p.A.	Chairman C.S.
	Tod's S.p.A.	Chairman C.S.
	Fomas Hop S.p.A.	Chairman C.S.
	Caleffi S.p.A.	Regular auditor
	Prima TV S.p.A.	Regular auditor
	The Walt Disney Company S.p.A.	Regular auditor
ROBERTA BENAGLIA	DGPA SGR S.p.A.	Managing Director
	Light Force S.p.A.	Director
	Viterie Italia Centrale S.r.l.	Director
	Kickoff S.p.A.	Agent/Director
	Dipros S.r.l.	Director
	Vetrerie Riunite S.p.A.	Director
	Finvetro S.p.A.	Director
FRANCESCO MINOLI	Queriot de la Bougainville S.r.l.	Chairman and M.D.
	Mantero Finanziaria S.p.A.	Director

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