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**Borsa Italiana SpA**  
Piazza degli Affari, 6  
20123 MILAN

Milan, \_\_\_\_\_ 2007

Dear Sir,

**REPORT: COMPARISON OF THE CORPORATE GOVERNANCE SYSTEM OF DAMIANI SPA WITH THE RECOMMENDATIONS IN THE LISTED COMPANIES SELF-REGULATION CODE, MARCH 2006 EDITION (UNDER SECTION IA 1.1., SCHEDULE 1, ITEM 1.08, OF THE INSTRUCTIONS FOR THE GOVERNANCE OF MARKETS ORGANISED AND MANAGED BY BORSA ITALIANA SPA, THE “MARKET RULES”)**

*The following Explanatory Report compares the Corporate Governance System of Damiani SpA with the principles of corporate governance recommended in the Listed Companies Self-Regulation Code published on 14 March 2006 (“the Code”).*

*It has been thought advisable, in order to facilitate the comparison, to set out the Code’s principles and implementing criteria in the form of a table, entering in the left-hand and right-hand columns respectively the parts that had been implemented and not implemented as of the date when the listing application was submitted. Some explanatory notes have also been included.*

*I should first mention the following facts, again for the sake of greater clarity:*

*A) the General Meeting of Shareholders of Damiani SpA held on 27 June 2007 appointed a new Board of Directors including an appropriate number of non-executive directors and independent directors; its composition accordingly complies both with the relevant legal requirements (including those of Art. 147 ter (iv) of the Italian Financial Services Act, Legislative Order No. 58/98, which provides that Boards [of Directors] with more than seven members must include at least two directors who are “independent” for the purposes of Art. 148(iii) of the Act), and with the principles of corporate governance required under the Listed Companies Self-Regulation Code.*

*In our case, three of the eight directors are “non-executive” for the purposes of Art. 2 of the Self-Regulation Code, two of them being “independent” for the purposes of Art. 3.*

*The assessment of the directors’ “non-executive” or “independent” status was done by the Board of Directors, which first listed the companies of “strategic importance” within the Damiani Group, not least in order that it might properly verify compliance with the Code’s criteria for non-executive status (Art. 2.C.1) and independence (Art. 3.C.1).*

*B) The Board decided accordingly to set up two Board subcommittees, in accordance with Arts. 5, 7 and 8 of the Code: the Internal Control and Corporate Governance Committee and the Remunerations Committee.*

*Only non-executive directors (the majority of whom are also independent) have been appointed to sit on these two committees (with effect from the listing date of the company's shares). The following were appointed to both Committees: Dr. Giancarlo Malerba (non-executive); Dr. Fabrizio Redaelli (non-executive and independent); Prof. Lorenzo Pozza (non-executive and independent).*

*Both Committees have been set up and will be functioning under standing orders which conform to the principles laid down in Art. 5 of the Self-Regulation Code.*

*C) In relation to Arts. 1 and 8 of the Self-Regulation Code, it has been decided that the Board of Directors shall at all times retain direct control not only of those matters reserved to it by law and by the Articles of Association (and in accordance with the limits therein specified) but also of all powers and duties (even where formally included among delegated matters) that are prescribed by the Code's Implementing Criterion I.C.1, specifically including the approval of any significant transactions and any transactions with related parties. On this point, the Board has implemented the Code's Criterion I.C.1(f) by approving criteria for identifying transactions of significant amount (with related parties or not) which are to be reserved for decision by a meeting of the Board. Transactions with related parties (identified in accordance with the principles set out in the International Accounting Standards – IAS 24), are always subject to a specific approval procedure designed to ensure their propriety both as to procedure and in substance. These substantive and procedural rules are set out in the document "Guidelines for particularly significant transactions and transactions with related parties".*

*D) Concerning internal controls, the Board has appointed an Executive Director in charge of superintending the proper functioning of the internal control system: with the approval of the members of the forthcoming Internal Control and Corporate Governance Committee, Dr. Giulia De Luca was appointed Executive Director with the following powers:*

*a) to see to the identification of the main corporate risks (taking into account the characteristics of the activities carried out by the Company and its subsidiaries), and to submit these [principles - sic] for consideration by the Board of Directors and the Internal Control and Corporate Governance Committee;*

*b) to submit guidelines to the Board of Directors for the Damiani Group's internal control system, dealing with its design, set-up and running, and providing for constant verification that it is adequate, effective and efficient as a whole; to take steps to adapt the system to changes in operational conditions and in statutory and regulatory provisions;*

*c) to make proposals to the Board of Directors, also notifying the Internal Control and Corporate Governance Committee, for the appointment, revocation and remuneration of the Group's Internal Control Managers.*

*E) The Board of Directors has also approved the Damiani SpA Group's procedure for the internal handling and external disclosure of company information, with particular reference to privileged information, with a view to preserving the confidentiality of documents and information concerning the Damiani Group and ensuring that the public receives information that is accurate, complete, adequate and not selective.*

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*Dr. Guido Roberto Grassi Damiani,  
Chairman of the Board; legally-authorized representative*

**COMPARISON**  
**SELF-REGULATION CODE – DAMIANI SpA GOVERNANCE**

- 1. Role of the Board of Directors*
- 2. Composition of the Board of Directors*
- 3. Independent directors*
- 4. Handling of corporate information*
- 5. Establishment and functioning of Board subcommittees*
- 6. Appointment of directors*
- 7. Directors' remuneration*
- 8. Internal control system*
- 9. Directors' interests; transactions with related parties*
- 10. Members of the Board of Statutory Auditors*
- 11. Investor Relations*

1.	<b>ROLE OF THE BOARD OF DIRECTORS</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
1.P.1.	Listed companies shall be governed by a Board of Directors that meets at regular intervals and adopts an organisation and a modus operandi which enable it to perform its functions in an effective, efficient manner.	
1.P.2.	The Board of Directors shall act and pass resolutions with full knowledge of the facts and autonomously, pursuing the priority of creating value for the shareholders. Consistent with this goal, they shall also take into account the directives and policies defined for the group of which the issuer is a member, as well as the benefits deriving from being a member of a group.	
1.C.1.	<p>The Board of Directors shall:</p> <ul style="list-style-type: none"> <li>a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;</li> <li>b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and any subsidiaries of strategic importance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;</li> <li>c) delegate powers to the managing directors and to the executive committee</li> </ul>	

and revoke them; the Board shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the Board on the activities performed in the exercise of their delegated powers;

d) determine, after examining the proposals of the relevant committee and consulting the Board of Statutory Auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the General Meeting of shareholders has not already specified it, the distribution of the total amount to which the members of the Board are entitled;

e) evaluate the general performance of the company, paying particular attention to the information received from the bodies/officers with delegated powers, and periodically comparing the results achieved with those planned;

f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third

	<p>parties and, in more general terms, to transactions involving related parties; to this end, the Board shall establish general criteria for identifying transactions which might have a significant impact;</p> <p>g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, giving guidance on new officers whose presence on the Board it considers would be appropriate;</p> <p>h) provide information, in the Report on Corporate Governance, on the application of the present Article 1 and, in particular, on the number of meetings of the Board and of the Executive Committee, if any, held during the financial year, plus each member's percentage attendance.</p> <p><i>Note: as mentioned earlier in the introduction, the Board of Directors has reserved all powers and duties on the above matters to itself.</i></p>	
1.C.2.	<p>Directors shall accept directorships only if they consider that they can devote the necessary time to the diligent performance of their duties, also taking into account the number of directorships and/or memberships of Boards of Statutory Auditors in other companies listed on regulated markets (including foreign</p>	

	<p>markets), or in financial companies, banks, insurance companies or companies of considerable size..</p>	<p>The Board shall keep a record, annually updated on the basis of information received from the Directors, of the directorships or memberships of Boards of Auditors held by the Directors in companies of the above-mentioned kinds, and shall include this information in the Report on Corporate Governance.</p> <p><i>Note: the principle will naturally be applied once the company's shares are listed.</i></p>
1.C.3.		<p>The Board shall issue guidelines regarding the maximum number of directorships or memberships of Boards of Auditors of companies of the above-mentioned kinds that may be considered compatible with the effective performance of a Director's duties. To this end, the Board shall identify general criteria, differentiating these according to the commitment entailed by each role (executive, non-executive or independent director), as well as the nature and size of the companies in which the offices are performed, plus whether or not the companies are members of the issuer's group; it may also take into account the director's participation in Board subcommittees.</p>



		<p><b><i>Note: the Board has reserved the faculty of issuing such guidelines.</i></b></p>
		<p>If the General Meeting of shareholders, when dealing with organisational needs, authorises, on a general, preventive basis, derogations from the rule prohibiting competition, in accordance with Article 2390 of the Italian Civil Code, then the Board of Directors shall evaluate each such issue, reporting, at the next General Meeting of shareholders, on any critical ones. To this end, each Director shall inform the Board, upon accepting his/her appointment, of any activities exercised in competition with the issuer and of any material modifications thereafter.</p> <p><b><i>Note: not applicable at present.</i></b></p>

2.	<b>COMPOSITION OF THE BOARD OF DIRECTORS</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
2.P.1.	The Board of Directors shall be made up of Executive and Non-executive Directors.	
2.P.2.	Non-executive Directors shall bring their specific expertise to Board discussions and contribute to the taking of balanced decisions, paying particular attention to areas where conflicts of interest may exist.	
2.P.3.	The number, competence, authority and availability of non-executive Directors shall be such as to ensure that their judgement can have a significant impact on the taking of the Board's decisions.	
2.P.4.		It is appropriate to avoid the concentration of corporate offices in the hands of one individual.
2.P.5.		<p>Where the Board of Directors has delegated executive powers to the chairman, it shall disclose adequate information in the Report on Corporate Governance on the reasons for that organisational choice.</p> <p><i>Note: the principle will naturally be applied once the company's shares are listed.</i></p>
2.C.1.	<p>The following are deemed Executive Directors:</p> <ul style="list-style-type: none"> <li>• the Managing Directors of the issuer or any subsidiary of strategic importance, including their</li> </ul>	

	<p>chairmen when these are granted individual management powers and when they play a specific role in the definition of the business strategies;</p> <ul style="list-style-type: none"> <li>• Directors vested with management duties within the issuer or in one of its strategically important subsidiaries, or in a controlling company when that office concerns the issuer among other matters;</li> <li>• Directors who are members of the Executive Committee of the issuer, when no Managing Director is appointed or when the participation in the Executive Committee, taking into account the frequency of the meetings and the scope of the relevant resolutions, in fact entails systematic involvement of its members in the day-to-day management of the issuer.</li> </ul> <p>The granting of emergency powers to Directors who have not otherwise been granted executive powers is not enough, per se, to cause them to be identified as Executive Directors, unless such powers are in fact exercised with considerable frequency.</p>	
2.C.2.	Directors are required to know the duties and responsibilities relating to their office.	The chairman of the Board of Directors shall use his best efforts to see that

		<p>Directors participate in initiatives aimed at increasing their knowledge of the company's situation and its dynamics, also having regard to the relevant regulatory framework, so that they may carry out their duties effectively.</p>
2.C.3.		<p>In the event that the Chairman of the Board of Directors is the Chief Executive Officer of the company or the office of Chairman is held by the person who has a controlling interest in the issuer, the Board shall designate a Lead Independent Director as a point of reference and coordination for the requests and contributions of non-Executive Directors and, in particular, those who are independent as defined in Article 3 below.</p> <p><i>Note: the Board has decided that it is not at present necessary to appoint a Lead Independent Director in view of the number of [non-]Executive and Independent Directors, among other things.</i></p>

3.	<b>INDEPENDENT DIRECTORS</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
3.P.1.	An adequate number of non-Executive Directors shall be independent, in the sense that they do not maintain, nor have recently maintained, directly or indirectly, any business relationships with the issuer or persons linked to the issuer, of such a significance as to influence their autonomous judgement.	
3.P.2.	Directors' independence shall be periodically assessed by the Board of Directors.	<p>The results of the assessments of the Board shall be communicated to the market.</p> <p><i>Note: the principle will naturally be applied once the company's shares are listed.</i></p>
3.C.1.	<p>The Board of Directors shall evaluate the independence of its non-executive members having regard more to content than to form and keeping in mind that the following circumstances (as non-exhaustive examples) would normally be grounds for considering that a Director was not independent:</p> <p>a) if he/she controls the issuer directly or indirectly (including through subsidiaries, trustees or any intermediary), or is able to exercise dominant influence over the issuer, or is party to a shareholders' agreement through which one or more persons can exercise control or considerable influence over the issuer;</p>	

	<p>b) if he/she holds, or has held in the preceding three financial years, any important office in the issuer, a subsidiary of strategic importance or a company under common control with the issuer, or of a company or organization controlling the issuer or able to exercise over the same a considerable influence, whether alone or jointly with others through a shareholders' agreement;</p> <p>c) if he/she has, or had in the preceding financial year, directly or indirectly (e.g. through subsidiaries or companies in which he/she holds an important office, or as a partner of a professional firm or consultancy) a significant commercial, financial or professional relationship with any of the following:</p> <ul style="list-style-type: none"> <li>• the issuer, one of its subsidiaries, or any of its significant representatives;</li> <li>• any person who, jointly with others through a shareholders' agreement, controls the issuer; or, where this person is a company or other incorporated organization, the officers thereof;</li> </ul> <p>or is, or has been in the preceding three financial years, an employee of any of the foregoing;</p> <p>d) if he/she receives, or has received in the preceding three financial years, from the issuer or a subsidiary or holding company of the issuer, any significant remuneration in addition to that fixed for a non-executive</p>	
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	<p>director of the issuer, including participation in incentive plans linked to the company's performance, including stock option plans;</p> <p>e) if he/she has been a Director of the issuer for more than nine of the last twelve years;</p> <p>f) if he/she is an Executive Director in another company in which an Executive Director of the issuer holds a directorship;</p> <p>g) if he/she is a shareholder or director of any legal organization belonging to the same network as the company appointed to audit the issuer's accounts;</p> <p>h) if he/she is a close relative of any of the foregoing.</p>	
3.C.2.	<p>For the purpose of the above paragraphs, the legal representative, the Chairman of the organization, the Chairman of the Board of Directors, the Executive Directors and managers with strategic responsibilities in the relevant company or organization are to be regarded as the organization's "officers".</p>	
3.C.3.	<p>The number and qualifications of Independent Directors shall be adequate in relation to the size of the Board and the activity performed by the issuer; moreover, they must be such as to enable committees to be set up within the Board, according to the indications set out in the Code. If the issuer is subject to management and coordination activity by third parties or is controlled by a subject operating, directly or through other subsidiaries, in the same or a</p>	

	similar line of business, the composition of the Board of Directors of the issuer shall be such as to ensure adequately autonomous management and therefore the according of priority to the pursuit of the creation of value for the shareholders of the Issuer.	
3.C.4.	Upon the appointment of a Director who claims to be independent, and subsequently at least once a year, the Board of Directors shall evaluate, on the basis of the information provided by that Director or otherwise available to the issuer, any relationships which could be or appear to be such as to jeopardize the Director's autonomy of judgement. The Board of Directors shall disclose the result of its evaluations to the market, by means of a press release on the occasion of the appointment, and subsequently in the Report on Corporate Governance, specifying, with adequate reasons, whether any criteria have been adopted other than those indicated herein.	
3.C.5.	The Board of Statutory Auditors shall, as part of its statutory responsibilities, verify the proper application of the assessment criteria and procedures adopted by the Board for evaluating the independence of its members.	The outcome of such verification shall be disclosed to the market in the Report on Corporate Governance or in the AGM Report by the Board of Statutory Auditors.  <i>Note: the principle will naturally be applied once the company's shares are listed.</i>
3.C.6.		The Independent Directors shall meet at least once a year without the presence of the other Directors.



		<i>Note: the principle will naturally be applied during the current financial year.</i>
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<b>4.</b>	<b>HANDLING OF CORPORATE INFORMATION</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
4.P.1.	Directors and members of the Board of Statutory Auditors shall keep confidential the documents and information acquired in the performance of their duties, and shall comply with the procedure adopted by the issuer for the internal handling and disclosure to third parties of such documents and information.	
4.C.1.	The Managing Directors shall ensure the correct handling of corporate information; to this end they shall propose to the Board of Directors the adoption of a procedure for the internal handling and disclosure to third parties of documents and information concerning the issuer, having special regard to privileged information.	

5.	<b>ESTABLISHMENT AND FUNCTIONING OF BOARD SUBCOMMITTEES</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
5.P.1.	The Board of Directors shall establish one or more Board subcommittees to make proposals and provide advice, according to the provisions of the Articles below.	
5.C.1	<p>The establishment and functioning of Board subcommittees shall satisfy the following principles:</p> <p>a) committees shall be made up of at least three members. However, in those issuers whose Board of Directors is made up of no more than five members, committees may be made up of two directors only, provided that they are both independent;</p> <p>b) the duties of each committee are set by the terms of the resolution establishing it, which may or amended by a subsequent resolution of the Board of Directors;</p> <p>c) the functions that the Code attributes to various committees may be allocated otherwise or required of fewer committees than the Code envisages, provided that the rules for their composition which are prescribed from time to time by the Code are complied with and the attainment of the underlying objectives is ensured;</p> <p>d) the meetings of each committee shall be recorded in minutes;</p> <p>e) the committees shall have access to company information and company departments as necessary for the</p>	

	<p>performance of their duties, according to procedures established by the Board of Directors; they may also have recourse to external advisers.</p> <p>f) persons who are not members of the committee may participate in the meetings of each committee at its invitation, with reference to individual agenda items;</p>	<p>The issuer shall make adequate financial resources available to the committees for the performance of their duties, within the limits of the budget approved by the Board;</p> <p><i>Note: the Board has not yet given the members of the Committees spending powers; they do, however, have access to company information and company departments as necessary for the performance of their duties.</i></p> <p>g) in its Report on Corporate Governance, the issuer shall provide adequate information on the establishment and composition of committees, the content of their mandate and the activity actually performed during the financial year, stating the number of meetings held and each member's percentage attendance..</p> <p><i>Note: the principle will naturally be applied once the company's shares are listed.</i></p>
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6.	APPOINTMENT OF DIRECTORS	
	<i>Part implemented</i>	<i>Part not implemented</i>
6.P.1.	<p>Directors shall be appointed according to a transparent procedure which ensures, inter alia, timely and adequate information on the personal and professional qualifications of the candidates.</p> <p><i>Note: the principle has been implemented in the new Articles of Association, which are to come into effect as soon as the company's shares are listed.</i></p>	
6.P.2.		<p>The Board of Directors shall consider whether to set up a Board subcommittee for appointments (Appointments Committee) of which a majority shall be Independent Directors.</p> <p><i>Note: so far the Board has not considered it necessary to set up an appointments committee.</i></p>
6.C.1		<p>The lists of candidates for directorship, accompanied by full information on the personal and professional qualifications of the candidates with an indication where appropriate of their eligibility to qualify as Independent Directors as defined in Article 3, shall be deposited at the company's registered office at least fifteen (15) days before the date fixed for the General</p>

		<p>Meeting of shareholders. The lists, together with the details of the candidates' qualifications, shall be published in good time on the issuer's website.</p> <p><i>Note: the principle will be applied as soon as the company's shares are listed.</i></p>
6.C.2.		<p>Where an Appointments Committee is established, one or more of the following functions may be attributed to it:</p> <p>a) to propose candidates for directorship to the Board of Directors in the circumstances provided for by Article 2386(i) of the Italian Civil Code, when it is necessary to replace an independent director;</p> <p>b) to designate candidates for the position of Independent Director to be submitted to the General Meeting of shareholders of the issuer, taking into account any recommendation in this regard received from shareholders;</p> <p>c) to express opinions to the Board of Directors regarding the size and composition of the Board and, as necessary, regarding professional qualifications it considers should be represented on the Board.</p> <p><i>Note: see above</i></p>

7.	<b>DIRECTORS' REMUNERATION</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
7.P.1.	The remuneration of Directors shall be set at a sufficient amount to attract, maintain and motivate directors endowed with the professional skills necessary for managing the issuer successfully.	
7.P.2.		<p>The remuneration of Executive Directors shall be arranged in such a way as to align their interests with the pursuit of the priority objective of creating value for the shareholders over the medium/long term.</p> <p><i>Note: this principle will be applied when the company adopts incentive schemes covering the Executive Directors.</i></p>
7.P.3.	The Board of Directors shall set up a Board subcommittee (the Remuneration Committee), composed of non-executive directors, the majority being independent directors.	
7.C.1.	<p>and of managers with strategic responsibilities, shall be linked to the profits achieved by the issuer and/or to the achieving of specific objectives set beforehand by the Board of Directors or, in the case of the managers, by the Managing Directors.</p>	<p>A significant portion of the remuneration of Executive Directors,</p> <p><i>Note: this principle will be applied when the company adopts incentive schemes covering the Executive Directors.</i></p>
7.C.2.	The remuneration of non-Executive Directors shall be proportional to the degree	

	of commitment required of each, taking into account any participation in one or more committees. No more than an insignificant portion of their remuneration may be linked to the profits achieved by the issuer. Non-Executive Directors shall not be beneficiaries of stock option or equity-based remuneration schemes, unless the General Meeting of shareholders so decides, giving reasons.	
7.C.3.		<p>The Remunerations Committee shall:</p> <ul style="list-style-type: none"> <li>- make proposals to the Board for the remuneration of the Managing Directors and other Directors with particular duties, and monitor the application of decisions made by the Board;</li> <li>- periodically evaluate the criteria adopted for the remuneration of executives with strategic responsibilities, monitor their application on the basis of the information provided by the Managing Directors, and submit general recommendations on the matter to the Board of Directors.</li> </ul> <p><i>Note: the principle will be applied as soon as the company's shares are listed.</i></p>
7.C.4.	No Director shall participate in any meeting of the Remuneration Committee at which proposals to the Board relating to his/her own remuneration are formulated.	

<b>8.</b>	<b>INTERNAL CONTROL SYSTEM</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
8.P.1.	The internal control system is the set of	

	<p>rules, procedures and organizational structures aimed at making possible a sound and proper running of the company consistent with its set objectives, through adequate identification, measurement, management and monitoring of the main risks.</p>	
8.P.2.	<p>An effective internal control system shall help to ensure the company's assets, the efficiency and effectiveness of its business transactions, the reliability of its financial information, and its compliance with laws and regulations.</p>	
8.P.3.	<p>The Board of Directors shall evaluate the adequacy of the internal control system with respect to the characteristics of the business.</p> <p><i>Note: the Board meeting on 27 June 2007 resolved that the Board would assess the adequacy, efficiency and effective functioning of the control system, and approve the policies for managing the risks of the company and the Group, at least once a year.</i></p>	
8.P.4.	<p>The Board of Directors shall ensure that its evaluations and decisions relating to the internal control system, the approval of the Financial Statements and half yearly reports, and the relationships between the issuer and the external auditor are supported by adequate preparation. To that end the Board of Directors shall establish an</p>	



	<p>Internal Control Committee, made up of non-Executive Directors, the majority of whom shall be independent. If the issuer is controlled by another listed company, the Internal Control Committee shall be made up exclusively of Independent Directors. At least one member of the Committee must have adequate experience in accounting and finance, as assessed by the Board of Directors at the time of his/her appointment.</p>	
8.C.1.	<p>b) put a named Executive Director (usually</p>	<p>The Board of Directors shall, with the support of the Internal Control Committee:</p> <p>a) set guidelines for the internal control system, so that the main risks concerning the issuer and its subsidiaries are correctly identified as well as adequately measured, managed and monitored; and shall lay down criteria for determining whether such risks are compatible with a sound and proper management of the company;</p> <p><i>Note: the Board meeting on 27 June 2007 assigned the duty of submitting to the Board of Directors the guidelines for the internal control system of the Damiani Group to the Executive Director in charge of the proper functioning of the internal control system.</i></p>

	<p>one of the Managing Directors) in charge of supervising the proper functioning of the internal control system;</p> <p>c) evaluate the adequacy, efficiency and effective functioning of the internal control system at least once a year;</p> <p><i>Note: the Board meeting on 27 June 2007 resolved that the Board would assess the adequacy, efficiency and effective functioning of the control system, and approve the policies for managing the risks of the company and the Group, at least once a year</i></p>	<p>d) describe, in the Report on Corporate Governance, the essential elements of the internal control system, expressing its opinion of its overall adequacy..</p> <p><i>Note: the principle will naturally be applied once the company's shares are listed.</i></p> <p>Moreover, the Board of Directors shall, upon the proposal of the Executive Director in charge of supervising the proper functioning of the internal control system and after consulting the Internal Control Committee, appoint and revoke the appointment(s) of one or more Internal Control Managers and set his/her/their remuneration in line with company policy.</p>
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8.C.2.	<p>In exercising its functions relating to the internal control system the Board of Directors shall take the officially recommended models into due consideration, as well as national and international best practice. Particular attention shall be paid to the organization and management models adopted pursuant to Legislative Order no. 231 of 8th June 2001.</p>	
8.C.3.	<p>In addition to assisting the Board of Directors in the performance of its duties as set out in Criterion 8.C.1, the Internal Control Committee shall:</p>	<p>a) evaluate, together with the executive responsible for the preparation of the company's accounts and with the External Auditors, the correct utilization of the accounting principles and, in the case of groups, their consistency for the purpose of preparing the Consolidated Financial Statement;</p> <p><i>Note: the principle will be applied as soon as the company's shares are listed.</i></p>

		<p>b) at the request of the relevant Executive Director, express opinions on specific aspects relating to the identification of the principal risks for the company as well as on the design, implementation and management of the internal control system;</p> <p>c) review the work plan prepared by the Internal Control Manager(s) and their periodic reports;</p> <p>d) evaluate the bids submitted by auditing firms for appointment as External Auditor, and the Audit Plan, and the results described in the External Auditor’s Report and Letter of Recommendations, if any;</p> <p>e) monitor the validity of the accounting audit process;</p> <p>f) perform any additional duties assigned to it by the Board of Directors;</p>
8.C.4.		<p>g) report to the Board, at least once every six months on the occasion of the approval of the Financial Statement or the half yearly report, on its own activity and on the adequacy of the internal control system.</p> <p>The Chairman of the Board of Statutory Auditors, or another member of that Board designated by its Chairman, shall participate in the work of the Internal Control Committee.</p> <p><i>Note: the principle will be applied as soon</i></p>

		<i>as the company's shares are listed.</i>
8.C.5.		<p>The Executive Director in charge of superintending the proper functioning of the internal control system shall:</p> <p>a) identify the main business risks, taking into account the characteristics of the business carried on by the issuer and its subsidiaries, and submit these periodically for review by the Board of Directors;</p> <p>b) implement the guidelines defined by the Board of Directors in the design, implementation and management of the internal control system, constantly monitoring its overall adequacy, effectiveness and efficiency; moreover, he/she shall adjust the system to changes in operating conditions and in the legislative and regulatory framework;</p> <p>c) make proposals to the Board of Directors concerning the appointment, revocation and remuneration of one or more Internal Control Managers..</p> <p><i>Note: the Director in charge of internal control was nominated by the Board of Directors as part of the measures implementing the principles of the Listed Companies Self-Regulation Code.</i></p>
8.C.6.	Internal Control Managers shall:	
	a) be responsible for ensuring that the	

	<p>internal control system is always adequate, fully operational and effective;</p> <p>b) have no operational responsibility in any department, nor come under any manager of an operational department (the administration and finance departments included);</p> <p>c) have direct access to all information of use in the performance of their duties;</p> <p>d) have adequate resources for carrying out the functions assigned to them;</p> <p>e) report to the Internal Control Committee and the Board of Statutory Auditors;</p> <p>They may also be required to report to the Executive Director in charge of superintending the proper functioning of the internal control system.</p> <p>In particular, they shall report on the risk management procedures and risk containment plans, and give their assessment of the suitability of the internal control system for achieving an acceptable overall risk profile.</p> <p><b><i>Note: the Board has already determined the functions attributed to the Internal Control Manager, and these already include all the tasks described in the Code.</i></b></p>	
8.C.7.		<p>The issuer shall establish an Internal Audit function. The person responsible for the Internal Audit function shall usually be the Internal Control Manager.</p>

		<p><i>Note: the Board has already determined the functions attributed to the Internal Control Manager, and these already include all the tasks described in the Code. Once appointed, therefore, this manager will be responsible for the company's Internal Audit function.</i></p>
8.C.8.	<p>The Internal Audit function may be outsourced, as a whole or business unit by business unit, to contractors external to the issuer, provided, however, that such contractors have adequate professional qualifications and independence; such contractors may also act as Internal Control Manager. Any such organizational choice shall be disclosed to the shareholders and to the market in the Report on Corporate Governance, with a satisfactory statement of the reasons for it.</p>	

9.	<b>DIRECTORS' INTERESTS; TRANSACTIONS WITH RELATED PARTIES</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
9.P.1.	The Board of Directors shall adopt measures aimed at ensuring that the transactions in which a Director has an interest (whether on his/her own or another's behalf) and transactions with related parties are carried out in a transparent manner and meet the criteria for substantive and procedural propriety.	
9.C.1.	The Board of Directors shall, after consulting the Internal Control Committee, establish procedures for the approval and execution of transactions carried out by the issuer or its subsidiaries with related parties. It shall in particular define which transactions require approval following consultation with the Internal Control Committee and/or with the assistance of independent experts, or shall set criteria for identifying such transactions.	
9.C.2.	The Board of Directors shall adopt suitable operating arrangements for facilitating the identification and proper handling of those situations in which a Director has an interest, whether on his/her own or another's behalf.	



10.	BOARD OF STATUTORY AUDITORS	
	<i>Part implemented</i>	<i>Part not implemented</i>
10.P.1.	The Board of Statutory Auditors shall be appointed according to a transparent procedure which ensures, inter alia, timely and adequate information on the personal and professional qualifications of the candidates.	
10.P.2.	Members of the Board of Statutory Auditors shall act with autonomy, including independence of the shareholders which elected them.	
10.P.3.	The issuer shall adopt suitable measures to ensure effective performance of the duties of the Board of Statutory Auditors.	
10.C.1.		<p>The lists of candidates for membership of the Board of Statutory Auditors, accompanied by detailed information on the personal and professional qualifications of the candidates, shall be deposited at the company's registered office at least fifteen (15) days before the date fixed for the General Meeting of shareholders. The lists together with the details of the candidates' qualifications shall be published in good time through the issuer's website.</p> <p><i>Note: this principle will be implemented with the coming into force of the new Articles of Association, as soon as the company's shares are listed.</i></p>
10.C.2.		The Board of Statutory Auditors shall be composed of persons who qualify as

		<p>Independent, satisfying inter alia the Code's criteria for independence in the case of directors. The Board of Statutory Auditors itself shall verify compliance with these criteria upon each appointment and annually thereafter, including the result of such verification in the Report on Corporate Governance.</p> <p><i>Note: the law's requirements (Art. 148 of the Financial Services Act [TUF]) are considered sufficient at present for ensuring the independence of members of the Board of Statutory Auditors.</i></p>
10.C.3.	Members of the Board of Statutory Auditors shall only accept their appointment if they believe that they will be able to spare the time necessary for the diligent performance of their duties.	
10.C.4.	Any member of the Board of Statutory Auditors who has an interest, whether on his/her own or another's behalf, in a certain transaction by the issuer, shall promptly and fully inform the other members of the Board of Statutory Auditors and the Chairman of the Board of the nature, the terms, origin and extent of that interest.	
10.C.5.	The Board of Statutory Auditors shall monitor the independence of the External Auditors, verifying both their compliance with the relevant legal and regulatory provisions and the nature and extent of any services other than the auditing of the	

	accounts that are being provided to the issuer or its subsidiaries by the same audit company or by other organizations belonging to its network.	
10.C.6.	In the performance of its duties the Board of Statutory Auditors may require the Internal Audit function to audit specific transactions or operational units within the company.	
10.C.7.		<p>The Board of Statutory Auditors and the Internal Control Committee shall promptly share information with each other for the performance of their respective duties.</p> <p><i>Note: this principle will be implemented as soon as the company's shares are listed.</i></p>

<b>11.</b>	<b>INVESTOR RELATIONS</b>	
	<i>Part implemented</i>	<i>Part not implemented</i>
11.P.1.	The Board of Directors shall take steps to promote the members' broadest possible participation in General Meetings of shareholders and to facilitate the exercise of shareholders' rights.	
11.P.2.	The Board of Directors shall endeavour to establish an ongoing dialogue with the company's membership based on the understanding of the role of each vis-à-vis the other.	
11.C.1.	The Board of Directors shall make every effort to ensure that shareholders have	

	<p>timely and ready access to company information of importance to them for the informed exercise of their rights. The issuer shall set up a specific, readily identified and easily accessible section of its website for this purpose, providing such information and in particular referring to the procedures available for attendance and the exercise of voting rights at General Meetings, as well as providing documentation on the various agenda items for such meetings, including the lists of candidates for directorship or membership of the Board of Statutory Auditors, with an indication of the candidates' personal and professional qualifications.</p> <p><b><i>Note: the designing of a dedicated "Investor Relations" section of the Damiani website is already under way.</i></b></p>	
11.C.2.	<p>The Board of Directors shall ensure that a named individual is responsible for handling investor relations, and shall reassess from time to time the advisability of setting up a unit responsible for this function..</p> <p><b><i>Note: the Company has already nominated an Investor Report Manager.</i></b></p>	
11.C.3.	<p>The Board of Directors shall endeavour to mitigate any constraints or requirements which at present hinder members' participation in General Meetings or the</p>	

	exercise of their voting rights.	
11.C.4.	General Meetings shall normally be attended by all Directors. These meetings shall be, among other things, an opportunity for disclosing company information to the shareholders in compliance with the rules governing price-sensitive information. In particular, the Board of Directors shall report to the General Meeting on activities carried out and planned, and shall make every effort to ensure that the shareholders receive adequate information on all matters as necessary for them to take the decisions required of General Meetings in a properly informed manner.	
11.C.5.		<p>The Board of Directors shall submit draft Standing Orders for the approval of the General Meeting, providing for the orderly and effective conduct of General Meetings, ensuring each member's right to address the meeting on the agenda items.</p> <p><i>Note: the Company is currently considering whether to adopt Standing Orders for General Meetings, without prejudice to each member's right to address the meeting on the agenda items as required by law.</i></p>
11.C.6.		In the event of a significant change in the issuer's market capitalization or in the composition and/or number of shareholders, the Board of Directors shall

		<p>consider whether proposals should be submitted to the General Meeting to amend the Articles of Association as regards the percentage holdings required for the exercise of those actions and rights which are provided to protect minority interests.</p> <p><i>Note: not applicable at present.</i></p>
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Dr. Guido Roberto Grassi Damiani,  
Chairman of the Board,  
legally-authorized representative