

Yearly Corporate Governance  
Report of Damiani S.p.A.

Financial year from  
1 april 2008 to 31 march 2009

Prepared pursuant to articles 124 bis,  
of Legislative Decree 58/98  
(Consolidated Law on Finance),  
89 bis of CONSOB  
(Italian National Commission for Listed  
Companies and the Stock Exchange)  
Regulation 11971/99 and to  
article IA.2.6 of the Regulatory Instructions  
of the Italian Stock Exchange

Dear Shareholders,

pursuant to the applicable legislation and regulations as well as to the Instructions on the Italian Stock Exchange Regulation, and having taken into account the “Experimental format for the corporate governance report” issued by the Stock Exchange Management Company, the Board of Directors of Damiani S.p.A. provides you with a complete information on its system of “Corporate Governance”, with reference to the principles contained in the Corporate Governance Code (March 2006 edition; hereinafter also referred to as “Code”). This Report - approved by the Board of Directors during the meeting of 21 June 2009 – includes some information on the ownership structure of the Company pursuant to article 123 bis, second paragraph, of the Legislative Decree no. 58/1998 (in the version in force before the entrance into force of the Legislative Decree no. 173/2008, whose provisions will apply – according to article 6 of the same Decree – to any balance-sheets and reports concerning financial years starting after the entrance into force of the decree, i.e. 21 November 2008) and will be also made available in the section “Investor Relations - Corporate Governance” on the website [www.damiani.com](http://www.damiani.com), within the timeframes set forth by the applicable legislation.

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## **1. GENERAL CORPORATE GOVERNANCE STRUCTURE OF THE COMPANY (ISSUER'S PROFILE)**

### **1.1 The Company's System of Corporate Governance in general.**

The corporate governance system of Damiani S.p.A. is the traditional one, the so-called Latin model and, therefore, the corporate bodies of the company are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Board of Directors has two internal committees: the Internal Control and Corporate Governance Committee and the Remuneration Committee. Both committees play an advisory and proposing role, with the aim of facilitating the functionality and the activities of the Board.

#### **A) THE SHAREHOLDERS' MEETING**

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

#### **B) THE BOARD OF DIRECTORS**

The Board of Directors consists of a number of directors between five and fifteen, said number being set, from time to time, by the Shareholders' Meeting. The Board appoints a Chairman among its members and can also appoint one or more Vice Chairmen.

According to the Company's By-laws the Chairman, or the subject taking his place, legally acts on behalf of the Company, both towards third parties and in judicial proceedings, with single signature, being entitled to file suits and pleas as well as suits of annulment and appeal to the Supreme Court, to appoint lawyers and attorneys for disputes. Moreover, the legal representation is granted jointly, within the limits of the powers granted by the Board of Directors, to one or more members of the Board, also acting in the quality of managing directors.

As detailed below, the Board of Directors is provided with the most wide range of powers for the ordinary and extraordinary management of the Company (with the only exception of the powers reserved by the law to the approval by the Shareholders' Meeting), including the power to resolve upon mergers in cases described by articles 2505 and 2505 bis of the Italian Civil Code, to set up and terminate branch offices, to appoint the directors with the powers to legally represent the Company, to approve the reduction of Company's share capital in case of withdrawing by any shareholders, to conform the Company's By-law to any law provisions, and to approve the transfer of the registered office within the national territory.

#### **C) THE COMMITTEES**

Pursuant to the Corporate Governance Code, an Internal Control and Corporate Governance Committee and a Remuneration Committee - with advisory and proposing functions - are set within the Board of Directors. On the other hand, as of today it was not deemed necessary to set up a Nomination Committee.

#### **D) THE BOARD OF STATUTORY AUDITORS**

Consisting of three statutory members and two substitute members, it is the Company's control body. The Board is entrusted with the task of supervising on the compliance by the Company of the laws and Company's By-law, as well as of the standard principles of accounting and administration, also verifying that appropriate instructions are given by the Company to its internal bodies and subsidiary companies. The Board of Statutory Auditors must also supervise on the adequacy of the Company's organizational structure, on its internal control and accounting-administration systems, carrying out any necessary control with this purpose.

Furthermore, the Board must also supervise that the corporate governance rules provided for by the codes approved by the stock-exchanges managing companies and by trade associations and to which the Company publicly declares to comply with, are effectively complied by the Company.

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE ON THE DATE OF APPROVAL OF THIS REPORT (AS PER ARTICLE 123 BIS OF THE CONSOLIDATED LAW ON FINANCE)**

Please find below the information on the ownership structure of the Company as to the date of approval of this Report, pursuant to article 123 bis of the Consolidated Law on Finance and to the provisional regulations set forth by Legislative Decree 3 November 2008, no. 173.

**(A) SHARE CAPITAL STRUCTURE**

The entire share capital of Damiani S.p.A. consists of ordinary shares with voting right, listed on the computerized stock exchange, STAR segment (i.e. "Segmento Titoli Alta Rilevanza"), managed by Borsa Italiana S.p.A..

The current share capital of the Company is wholly subscribed and paid up, amounts to EUR 36,344,000.00 (thirtysixmillionthreehundredandfortyfourthousand) and it is divided into 82,600,000.00 (eightytwomillionsixhundredthousand) ordinary shares, having nominal value of EUR 0.44 (zeropointfortyfour) each.

On the date of approval of this Report the Board has resolved to propose to the Shareholders' Meeting the adoption of two incentive plans based on financial instruments: for any further details please make reference to the documents prepared pursuant to article 84 bis of CONSOB Regulation no. 11971/99, that will be made available within the "Investor Relation" section of the website [www.damiani.com](http://www.damiani.com).

**(B) RESTRICTION ON TRANSFER OF SHARES.**

The By-laws of Damiani S.p.A. neither set any restrictions on the transfers of shares or to the holding of shares, nor require the approval by any corporate bodies or shareholders for the admission of new shareholders.

**(C) SIGNIFICANT INTERESTS IN THE SHARE CAPITAL.**

Based on the entries in the Shareholders Register updated up to the date of approval of this Report, including any communication received by the Company as per article 120 of legislative Decree no. 58/98, as well as on the basis of any other available information, parties being, both directly or indirectly, owners of shareholdings exceeding 2% of the subscribed and paid up Share Capital are the following:

SHAREHOLDERS	ORDINARY SHARES	PERCENTAGE OF THE SHARE CAPITAL
<b>GUIDO GRASSI DAMIANI</b>	50,551,305 <sup>1</sup>	61.19%
of which:		
- directly	4,150,808	5.02%
- indirectly through Leading Jewels SA	46,400,497 <sup>1</sup>	56.18%
<b>GIORGIO GRASSI DAMIANI</b>	5,047,371 <sup>2</sup>	6.11 %
<b>SILVIA GRASSI DAMIANI</b>	4,687,371 <sup>2</sup>	5.68 %
<b>DGPA SGR</b>	4,430,000	5.36 %

**(D) OWNERS OF SHARES GRANTING SPECIAL RIGHTS OF CONTROL.**

The Company has not issued any shares granting special rights of control and the Company's By-laws ("By-laws") do not provide for any special powers for specific shareholders or for owners of particular kind of shares.

**(E) EMPLOYEES' SHAREHOLDING**

The By-laws of Damiani S.p.A. do not include any special provision regarding voting rights of the employees.

**(F) RESTRICTIONS ON VOTING RIGHT**

The By-laws of Damiani S.p.A. do not provide for any restrictions or limitations to the voting rights, and the financial rights pertaining to the shares are not separated from the ownership of the relevant shares.

**(G) SHAREHOLDERS' AGREEMENT PURSUANT TO ARTICLE 122 OF THE CONSOLIDATED LAW ON FINANCE**

As on the date of approval of this Report, one Shareholders' Agreement exists as per article 122 of Legislative Decree 58/1998 ("Consolidated Law on Finance"), entered into by and between the Damiani Siblings (Guido, Giorgio and Silvia) on 9 September 2007. Said agreement was published, pursuant to article 122 of the Consolidated Law on Finance and following amendments, in the daily newspaper "La Repubblica" on 18 November 2007 and it was registered with the Companies Register of Alessandria (AL) on 19 November 2007.

The companies whose shares are concerned by the Agreement are "D Holding S.A." and "Leading Jewels S.A.", the latter being the owner of a direct controlling interest in Damiani S.p.A.

<sup>1</sup> Of which 616,379 of bare ownership with voting rights.

<sup>2</sup> Of which 163,373 of bare ownership with voting rights.

For further information please make reference to the abstract of the agreement published on the CONSOB website [www.consob.it](http://www.consob.it).

#### **(H) APPOINTMENT AND REPLACEMENT OF DIRECTORS AND AMENDMENTS TO THE COMPANY'S BY-LAWS.**

As per by article 147 ter of the Consolidated Law on Finance, the Company's By-laws of Damiani S.p.A. (article 16) provide that the members of the Board of Directors are to be appointed by means of a voting-list procedure, granting to the second-ranked list the appointment of one director (all the other members of the Board being taken from the first-ranked list).

Shareholders owning a participation equal at least to the percentage set forth by CONSOB - as provided for by the law and regulations - have the right to present lists of candidates for the appointment of Directors. Furthermore, pursuant to the corporate governance principles the Company complies with, the candidates' curricula - including the statements and certificates provided by the law - must be registered at least fifteen days before the date of first call of the Shareholders' Meeting. By means of resolution no. 16872 of 21 April 2009, CONSOB fixed the relevant shareholding necessary in order to present minority lists in 2,5% of the company's share capital. Any replacement of directors is regulated according to the provisions of the law.

Any amendments of the Company's By-Laws will be implemented in compliance with the principles of law and regulations, taking into consideration the provisions of article 20 of the Company's By-Laws pursuant to which the Board of Directors is entitled to resolve upon the matters listed by article 2365, second paragraph, of the Italian Civil Code.

#### **(I) DELEGATED POWERS TO INCREASE THE COMPANY'S SHARE CAPITAL AND TO PURCHASE COMPANY'S OWN SHARES.**

The Ordinary Shareholders' Meeting of 22 February 2008 authorized the Board of Directors, pursuant to articles 2357 and followings of the Italian Civil Code, to purchase Company's own shares up to a maximum number of 8,250,000 (eightmilliontwohundredandfiftythousand) ordinary shares and, in any case, not exceeding one tenth of the Company's share capital, over a period of 18 months starting from the resolution hence expiring on 22 August 2009. The resolution also granted the power to dispose of the own shares eventually bought, without any time limit, in one or more lots, even prior to the completion of the purchase of the maximum number of own shares allowed.

Pursuant to article 132 of the Consolidated Law on Finance and article 144 bis of CONSOB Regulation no. 11971/99 - the purchases of shares can be made on regulated stock-exchange by means of modalities - set forth under the regulations of the same stock-exchanges - that do not allow a direct connection between specific purchase and sale offers, in order to ensure the same treatment to all the shareholders.

On 29 February 2008 the Board of Directors passed a resolution, in line with the abovementioned one, regarding a plan to purchase the Company's own shares up to a maximum number of 2,200,000 shares, at a maximum price of Euros 8,800,000, to be finalized - in compliance with the applicable laws and regulations - between 1 March 2008 and 9 June 2008.

By means of a press release issued on 29 May 2008 the Company informed the market that the share purchase transactions referring to the abovementioned plan were completed, specifying that:

- the purchase transactions started on 4 March 2008 and ended on 28 May 2008;
- during said period the Company bought a total amount of 2,200,000 ordinary shares, amounting to 2.663 % of its share capital, during no. 53 Stock-Exchange sessions;
- all the purchases were made on the Stock-Exchange at market prices and the weighted average unit price was Euros 2.1176 per share for an overall amount of Euro 4,658,758;
- the purchases were carried in compliance with the applicable laws and regulations.

Successively on 13 June 2008 the Board of Directors passed a resolution, in line with the abovementioned Shareholders' Meeting resolution, approving a further plan to purchase Company's own shares for a maximum number of 6,050,000 shares (therefore within the limits authorized by the same Shareholders' Meeting) which is still under implementation on the date of approval of this Report.

As on 12 June 2009, date of approval of this Report, the Company owns an overall amount of 4,777,271 shares in Damiani S.p.A..

#### **(L) CLAUSES ON CHANGE OF CONTROL.**

As of the date of publication of this Report the Company is party to two loan agreements which do not contain any clauses affecting their effectiveness or implying their termination in case of any change in the control of the Company (so called provisions of "change of control"), however granting to the bank the right of withdrawal in case of merger or split off of the Company. More specifically reference is made to:

- a loan agreement with Interbanca with effect as from 31.12.2005 and duration until 31.12.2010;
- a loan agreement with Medio Credito Centrale with effect as from 30.11.2005 and duration until 30.11.2010.

Clauses on change of control are included in some selective distribution agreements entered into by the subsidiary Rocca S.p.A. with Rolex Italia S.p.A., Patek Philippe S.A., Richemond Italia S.p.A. and Bulgari Italia S.p.A., in order for the Rocca's branches over the Italian territory to be qualified as "Authorized Dealers" of Rolex, Patek Philippe, Cartier, IWC, Baume & Mercier, Lange et Sohne, Bulgari brands.

More in particular, Rocca entered into:

- no. 7 selective distribution agreements with Rolex Italia S.p.A. for the distribution of Rolex products in the shops of Bari, Catania, Lecce, Milano Piazza Duomo, Padova, Porto Ercole and Taormina; each agreement includes a limit to the transfer of the "Authorized Dealer" qualification that also includes the change of the control of the company; the breach of said clause by one party entitles the other party to terminate the contract without need of any notice or intimation;
- no. 4 selective distribution agreements with Patek Philippe S.A. for the distribution of Patek Philippe products in the shops of Bari,

Mantova, Padova and Taormina; each agreement includes a clause binding the distributor to communicate to the seller the total or partial transfer of property or possession of the distributor's going concern with a three-month previous written notice; failing said communication or in case of opposition by the seller, the latter is entitled to terminate the contract without need of any notice and without any liability, terms and conditions;

- no. 4 selective distribution agreements with Richemond Italia S.p.A. for the distribution of Cartier products in the shops of Bari, Mantova, Milano Piazza Duomo and Portofino; articles 6 of each agreement (headed "Personality") entitles Richemond Italia to terminate the agreement with immediate effect should Mr Guido Grassi Damiani cease to manage Rocca S.p.A. also as a consequence of transfer of the same to another company;

- no. 2 selective distribution agreements with Richemond Italia S.p.A. for the distribution of IWC products in the shops of Milano and Torino; article 11 includes a limit to the possibility for the distributor to transfer, sell or negotiate the agreement, being the distributor otherwise entitled to terminate the agreement with no need of any notice;

- no. 3 selective distribution agreements again with Richemond Italia S.p.A. for the distribution of Baume & Mercier products in the shops of Milano, Padova and Torino; articles 6 of each agreement (headed "Personality") entitle Richemond Italia to terminate the agreement with immediate effect should Mr Guido Grassi Damiani cease to manage Rocca S.p.A. also as a consequence of transfer of the same to another company; the same articles also bind Mr Guido Grassi Damiani to promptly inform the seller should the same cease to control Rocca S.p.A., in such a case being the seller entitled to immediately terminate the agreement;

- no. 1 selective distribution agreement with Lange Uren GmVh for the distribution of A. Lange & Sohne products in the Padova shop, whose article 16 prevents the distributor from transferring, selling or negotiating the agreement, being the distributor otherwise entitled to terminate the agreement with no need of any notice; the same article also provides for the immediate termination of the agreement should Mr Guido Grassi Damiani cease to be a shareholder of Rocca S.p.A.;

- no. 8 selective distribution agreements with Bulgari Italia S.p.A. for the distribution of Bulgari products in the shops of Mantova, Milano Piazza Duomo, Pescara, Porto Ercole and Torino; article 10 of each agreement includes a limit to the transfer of the agreement without Bulgari's prior consent, that also applies in case of change in the shareholding of the company superior to 50% compared to the situation on the date of execution of the agreement.

#### **(M) INDEMNITIES IN FAVOUR OF DIRECTOR IN CASE OF THEIR RESIGNATION, DISMISSAL OR TERMINATION OF THE EMPLOYMENT AGREEMENT (ALSO AS RESULT OF A TAKEOVER BID).**

As of the date of this Report no agreements have been entered into between the Issuer and its Directors granting to the latter any indemnity in the event of resignation or termination of the employment relation without just cause. Furthermore, no provisions referring to cases of termination of the employment relation as a result of a takeover bid have been agreed.

### **3. ADOPTION OF THE PRINCIPLES OF THE CORPORATE GOVERNANCE CODE (MARCH 2006 EDITION)**

The Company believes that conforming its internal Corporate Governance structures to those recommended by the Corporate Governance Code is a efficient and important opportunity to consolidate its reliability before the market.

Therefore, as already explained in the last annual Report, on 27 June 2007 the Board of Directors passed a frame-resolution that, together with other resolutions, was meant to carry into effect the principles of the Corporate Governance Code as shown in detail below; such resolutions have been further implemented during the fiscal year ended on 31 March 2009.

Before describing the structure of the Issuer's Corporate Governance structure, please note that during the meeting of 12 February 2009 the Board of Directors of Damiani S.p.A. qualified Rocca S.p.A. and Damiani International B.V. as "subsidiary companies with strategic relevance"; according to the Board of Directors the Dutch nationality of Damiani International B.V. does not significantly affect the Issuer's structure of Corporate Governance.

### **4. MANAGEMENT AND COORDINATION ACTIVITIES**

Damiani S.p.A. is not subject to any management and coordination activity (as per articles 2497 and followings of the Italian Civil Code) neither by the direct parent company, Leading Jewels S.A., which holds 56.18% of the Issuer's share capital, nor by the indirect parent company D. Holding S.A.; on the other hand the Issuer manages and coordinates its own subsidiaries.

Pursuant to the principles of corporate governance - as detailed below - any transactions of particular strategic, economic and financial importance concerning the Damiani Group are subject to the examination and exclusive approval of the Issuer's Board of Directors which, as of 3 April 2009, includes 3 non-executive directors, two of whom are independent as per article 3 of the Corporate Governance Code.

It is deemed that the expertise and the reputation of the non-executive and independent directors and their significant importance in the Board's decisions are further guarantees that all the decisions of the Board of Directors are taken in the interest of Damiani S.p.A. only and that there are no directives or interferences by any third parties bearing interests different from those of the Group.

## 5. BOARD OF DIRECTORS

### 5.1 COMPOSITION

Before considering the composition of the managing body in office during the financial year ended on 31 March 2009, please note that the current Board of Directors was appointed by the Shareholders' Meeting of 3 April 2009, which also resolved the whole number of directors to be seven (7) and their office to end on the date of the Shareholders' Meeting called for the approval of the Financial Statement as to 31 March 2012.

We hereinafter provide a personal and professional profile of each director currently in office, also in accordance with Article 144 of CONSOB Regulation No. 11971/99.

1) **GUIDO ROBERTO GRASSI DAMIANI**, Chairman and Managing Director of the Company, joined the Company in 1994 and was entrusted both with the management of both the Italian sales network and marketing, introducing new strategies and contributing significantly to the development of the Group. He took the helm of Damiani Group in 1996.

Graduated with honours in Sociology, he also holds a diploma in Gemmology from the International Gemmological Institute. Before joining the family business, he had a successful real estate career.

2) **GIORGIO ANDREA GRASSI DAMIANI**, Vice President, is entrusted with the purchase of raw materials, product development and business relations, as well as with the office of Chairman and President of Damiani USA.

He joined the family business in 1990 immediately following to its graduation in a technical business high school. Within the Company he learned various profiles of the goldsmith art and got familiar in different business fields, especially focusing on the appraisal and acquisition of precious raw materials. Successively he was appointed Head of International Distribution, gathering a wide knowledge on foreign markets. Afterwards he managed the Raw Material Purchasing, the Creation and the Product Development Areas, being at the same time the Art Director. On 1994 he won the Diamonds International Award.

3) **SILVIA MARIA GRASSI DAMIANI**, Vice Chairman of Damiani Group entrusted with External Relations and Group Image, she held the role of Image and VIP Relations Manager, choosing many international celebrities as testimonials for the different trademarks. She won the Diamonds International Award in 1996. She also holds an MBA from IPSOA as well as a diploma in Gemmology from the International Gemmological Institute. She started her career in the family business in 1985, getting experienced in pearl purchasing and a long term experience in the creative department.

4) **STEFANO GRAIDI**, Executive Director of Damiani, entrusted with the supervision of the internal control system. Graduated in Political Economy at "Università Bocconi" of Milan. He is a Certified Public Accountant registered on the Roll of Accounting Auditors. He previously worked for Pirelli Group in various positions of responsibility in International Taxation before becoming Director of both Taxation and Operational Sectors. In addition, he gained significant experience in Switzerland in the areas of finance and administration of the listed company Pirelli International. He played an active role in both the restructuring of the tyre sector as well as in the listing of Tyre Holding on the Amsterdam Stock Exchange. A publicist and lecturer, he is currently a partner of Tax Advisors S.A. of Lugano.

5) **GIANCARLO MALERBA**, Non-Executive Director and Chairman of the Internal Control and Corporate Governance Committee as well as of the Remuneration Committee, holds a degree in Business Management at "Università Bocconi" of Milan. He started his career in 1986 in KPMG, where he played a managerial role in the banking and financial sectors. Certified Public Accountant, he is registered on the Roll of Accounting Auditors and is partner of Biscozzi Nobili Law Firm. He is an expert in the civil and tax law aspects of consolidated financial statements and he has frequently published articles in magazines and journals on taxation and financial reportings.

6) **ROBERTA BENAGLIA**, Non-Executive and Independent Director, member of the Internal Control and Corporate Governance Committee and of the Remuneration Committee. Graduated in Management Engineering at "Politecnico" of Milan. On 1999 she started working in the listing department of Borsa Italiana S.p.A.. Starting from 2001 she has cooperated with the advisory company Onetone Consulting in favour of Venture Capital Onetone, and held the office of Sole Director of Action Management Consulting, a company specialized in M&A and Financial Advisory. Starting from 2005 she has held the office of Managing Director of DGPA SGR S.p.A., a company of management of private equity funds, active in the study evaluation and selection of investments, business & financial due diligence, structuring, negotiation and completion of investment transactions.

7) **FABRIZIO REDAELLI**, Non-Executive and Independent Director, was appointed as Lead Independent Director by the Board of Directors initially on 12 September 2007 and successively on 3 April 2009. He is also a member of the Internal Control and Corporate Governance Committee as well as of the Remuneration Committee. He graduated in Business Management at Università Bocconi of Milan and is Certified Public Accountant also registered on the Roll of Accounting Auditors. He runs his own accounting firm, Studio Redadelli & Associati, in Milan and is also Senior Professor of Real Estate and Business Finance at the School of Business Management at "Università Bocconi" at Milan.

The existence of the abovementioned executive/non-executive as well as independent/non-independent requirements of the current Directors of the Company has been assessed by the Board of the Directors pursuant the criteria set forth by Articles 2 and 3 of the Corporate Governance Code of 14 March 2006 and most recently, during the Board Meeting of 3 April 2009; the Board of Auditors acknowledged the application of said criteria.



The Board of Directors holding the office during financial year ended on 31 March 2009 was composed by the current directors, Guido Grassi Damiani, Silvia Grassi Damiani, Giorgio Grassi Damiani, Stefano Graidi, Giancarlo Malerba and Fabrizio Redaelli, also by Professor Lorenzo Pozza and Giulia De Luca, whose curricula are hereinafter transcribed for completeness of information of this Report (regarding the financial year from 1° April 2008 to 31 March 2009).

• **LORENZO POZZA**, former non-executive and independent director of Damiani, as well as member of the Internal Control and Corporate Governance Committee and of the Remuneration Committee until 3 April 2009. Professor Pozza graduated in Business Economics at "Università Bocconi" of Milan and is a registered Accountant and Auditor. He is associate professor in Business Economics at "Università Bocconi" of Milan. Former director of the Master in Accounting and Auditing at "Università Bocconi", starting from 2003 he has held the office of director of the Specialist Degree in Business Economics and Legislation (CLELI-LS) at "Università Bocconi".

• **GIULIA DE LUCA**, former Executive Director in charge of supervising over internal control system until 6 August 2008, when she ceased to hold the offices of General Manager, CFO of the Group and Financial Director of the Company. Graduated in Politic Sciences, her professional career started in 1979 with roles of increasing responsibility. Initially she worked by a small business before moving to a professional firm. Over the years she has gained a wide range of managerial experiences in the areas of metal mechanics, plant engineering and large-scale retail, while working in administration, finance, audit, trade and human resources. She joined Damiani in 1999. Over the year she has held the office of director in some of the companies of the Group.

The existence of the abovementioned executive/non-executive as well as independent/non-independent requirements in respect of the two former directors, Lorenzo Pozza e Giulia De Luca, has been assessed by the Board of Directors of the Company pursuant to the criteria set forth by articles 2 and 3 of the Code - 14 march 2006 edition, lastly during the Board meeting of 13 June 2008.

In order to properly apply the principles of corporate governance, on 27 June 2007 the Board identified Damiani International B. V. as a "company of strategic importance" for Damiani Group S.p.A.; during the meeting of 12 February 2009 the Board of Directors of the Company also qualified Rocca S.p.A. as "company of strategic importance", also confirming the previous assessment in respect to Damiani International B.V..

The following table lists all relevant information pertaining each Director holding the office during the financial year ended on 31 March 2009 (please note that all the Directors holding the office in said period were appointed by the Shareholders' Meeting of 27 June 2007).

#### • BOARD OF DIRECTORS

POSITION	BOARD MEMBERS	IN OFFICE SINCE	EXECUTIVE	NON EXECUTIVE	INDEPENDENT	% MEETINGS	NO. OF RELEVANT APPOINTMENTS
Chairman and Managing Director	GUIDO GRASSI DAMIANI	27.06.07	YES	NO	NO	100%	see Att. A
Vice Chairman	GIORGIO GRASSI DAMIANI	27.06.07	YES	NO	NO	89%	see Att. A
Vice Chairman	SILVIAGRASSI DAMIANI	27.06.07	YES	NO	NO	100%	see Att. A
Director	GIULIA DE LUCA	27.06.07	YES	NO	NO	89%	see Att. A
Director	STEFANO GRAIDI	27.06.07	YES	NO	NO	89%	see Att. A
Director	GIANCARLO MALERBA	27.06.07	NO	YES	NO	100%	see Att. A
Director	LORENZO POZZA	27.06.07	NO	YES	YES	89%	see Att. A
Director	FABRIZIO REDAELLI	27.06.07	NO	YES	YES	89%	see Att. A

#### MEETINGS FREQUENCY

Board of Directors	9
Internal Control & Corporate Governance Committee	10
Remuneration Committee	1

## • COMMITTEES

MEMBERS	OFFICE	INTERNAL CONTROL COMMITTEE	% ICC	REMUNERATION COMMITTEE	% RC
GIANCARLO MALERBA	Chairman	X	100 %	X	100 %
LORENZO POZZA	Member	X	100 %	X	100 %
FABRIZIO REDAELLI	Member	X	100 %	X	100 %

As of the date of the present Report, Gabriella Colombo Damiani holds the title of Honorary President. Said honorary position does not have an expiration date, but since 1 October 2007 Ms. Colombo Damiani has not received any remuneration for such position.

### MAXIMUM NUMBER OF OFFICES HELD IN OTHER COMPANIES

In relation to Criterion 1.C.3. of the Code, please note that on the date of approval of this Report, the Board has not yet determined its position regarding the maximum number of offices of director and auditor that the directors of the company are allowed to hold, at the same time, in other listed companies as well as in financial, banking and insurance companies or in other companies of a relevant size. The Board, in its meetings of 13 June 2008 and 3 April 2009, examined on a case by case basis and in relation to the characteristics of the each Director (i.e. experience, offices, etc.) the compatibility of the offices held in other companies with the office of member of the Board of Directors.

Also in observance of the Criterion 1.C.2. of the New Code, the offices of director or auditor that are held, as of the approval date of this Report, in other companies listed on regulated markets (also foreign) and in financial, banking and insurance companies or in companies of a relevant size by the current directors and by directors holding the office during the financial year ended on 31 March 2009 are shown afterwards in the Scheme attached sub "A".

### 5.2 ROLE OF THE BOARD OF DIRECTORS

As already described in the Yearly Corporate Governance Report of the last year, the Board of Directors of Damiani S.p.A. plays a central role in fixing the strategic targets of the Issuer and of the Group.

During the financial year ended on 31 March 2009, the current Board of Directors met 9 (nine) times, whilst during the current financial year the new Board of Directors met 3 (three) times, so far, including the meeting for the approval of this Report.

Each meeting of the Board lasts about an hour and a half.

The directors have attended regularly and, in fact, the overall attendance of the meetings is 93.05%.

According to the Law and to the Company's By-Laws, the Board is granted with all the powers of ordinary and extraordinary administration, being entitled to make any act that the Law and the Company's By-Laws do not specifically reserve to the Shareholders' Meeting.

Article 20 of the Company's By-Laws grants to the Board the powers to resolve upon the matters listed under article 2365, second paragraph, of the Italian Civil Code: therefore the Board is entitled to resolve upon mergers in cases described by article 2505 and 2505 bis of the Italian Civil Code, the opening and closing of branches, the appointment of directors with legal representation of the Company, the reduction of the share capital in case of withdrawal by shareholders, the updating of the By-Laws following to any legislative amendments, as well as the transfer of the registered office within Italy.

Moreover, in relation to criteria 1.C.1. e 8.C.1 of the Code, the Board of Directors has decided to retain for its approval (in addition to those set forth by the law and the Company's By-laws) the following matters:

a) examination and approval of the strategic, industrial and financial plans of the Company and of the Group, as well as of the system of corporate governance of the Company and of the structure of the Group;

b) the identification - subject to the determination of the relevant criteria - of the subsidiary companies with strategic importance; the evaluation on of the adequacy of the organizational, administrative and general accounting structure of the Company and of its subsidiaries with strategic importance (set by the Managing Directors), with particular attention to the internal control system and to the treatment of conflicts of interests;

c) delegation and revocation of powers of the Managing Directors and of the Executive Committee, with definition of their limits and modalities of implementation; determination of the frequency of reporting by the Managing Directors to the Board on the activities performed in the exercise of the delegated powers, in any case to be not lower than once every quarter;

- d) after having considered the proposals of the special committee and consulted with the Board of Statutory Auditors, fixation the remuneration of the Managing Directors and of other directors with specific particular tasks, as well as fixing the allocation of the total remuneration of the Board members in case the Shareholders' Meeting has not resolved upon this matter;
- e) evaluation of the general performance of the Company, taking into specific account the information received from the delegated bodies, and periodical comparison of the actual results with the plans;
- f) examination and approval of transactions having strategic relevance or economic, patrimonial and financial importance for the Company, both when carried out by the Issuer and its subsidiaries, with particular attention to transactions in relation to which one or more directors holds a interest (also on behalf of third parties) and generally to transactions involving related parties. For this purpose the Board of Directors sets forth the general criteria to identify significant operations;
- g) evaluation – at least once a year – of the size, composition and functioning of the Board and of its committees, pointing out the types of professionals that would be opportune in the Board, checking the existence of executive/non-executive and independent/non-independent requirements pursuant to the Code;
- h) appointment of a lead independent director, when deemed appropriate also in relation to the number of non-executive and independent directors, with the following tasks:  
 -coordination of the activities of the non-executive directors in order to maximize their contribution to the activities and works of the Board;  
 -cooperation with the Chairman in order to ensure that all the directors are properly informed,  
 -convening meetings of the independent directors whenever deemed necessary in relation to his tasks and at least once a year;
- i) specification - to be included in the Report on Corporate Governance - of any information on the implementation of article 1 of the Code and, specifically, on the number of meetings held during the financial year by the Board of Directors and by the Executive Committee, with evidence of the percentages of attendance of each director;  
 as well as, with the assistance of the Internal Control Committee:
- l) definition of the guidelines for the internal control system, in order to properly identify, assess, manage and monitor the main risks of the Issuer and of its subsidiaries, also determining the criteria of compatibility between said risks and the correct and proper management of the Company;
- m) identification of an executive director to be entrusted with the supervision of the functionality of the internal control system;
- n) evaluation of the adequacy, effectiveness and functioning of the internal control system and approval of the Risk Management Policies of the Company and of the Group;
- o) description – to be included in the Corporate Governance Report – of the essential elements of the internal control system, indicating the assessment of adequacy;
- p) appointment, revocation and determination of the remuneration (to be consistent with the policy of the Company) of one or more persons in charge of the internal control, on proposal of the director in charge of supervising on the functionality of the internal control system and having considered the opinion of the Internal Control Committee.

With regard to article 1.C.1 of the Code, the Board reiterated - also in its "Framework Resolution" approved on 27 June 2007 - the principle of reporting by the delegated bodies to the Board on the implementation of the delegated powers, at least quarterly and in compliance with the applicable provisions.

In order to implement the principles and authorities described above, the Board of Directors:

**(A)** approved, on 27 June 2007, the "Guidelines on transaction of particular importance and with related parties of the Damiani Group" ("Guidelines"), including precise criteria for identifying operations with "particular relevance" as well as those entered into with third or related parties, also through subsidiary companies, falling within the competencies of the Board (even when delegated); in particular:

- are to be considered as "particularly important", being therefore always subjected to the prior examination and approval of the Board, the following transactions, regardless of the counterparty:
  - a) transactions that require the Company to make available to the public an information document drafted in accordance with the provisions of CONSOB;
  - b) passive financial transactions (such as mortgages and loans, as well as collateral and personal guarantees issuing) for amounts higher than Euro 15,000,000.00 for each transaction;
  - c) transactions of acquisition and disposal of trademarks;
  - d) trademark licenses for amounts higher than Euro 10,000,000.00 for each transaction;
  - e) transactions other than those listed under the previous points, whose value is higher than Euro 15,000,000.00 for each transaction.
- are to be qualified as "particularly important transaction with related parties" the transactions, also implemented through subsidiary companies, that:

- a) are "particularly important", pursuant to paragraph 2 above or that, in any case:
- b) are for an amount higher than Euro 5,000,000.00 for each transaction.

However, as an exception to provisions of letters a) and b) above, are not considered as "particularly important" and, therefore, are not necessarily subject to the prior examination and approval by the Board of Directors, the transactions with related parties that are typical or usual or at standard conditions.

Transactions are typical or usual when, because of their object, nature, features and conditions are part of the Company's normal business, as well as when do not contain any particular elements of criticality as to their features or to the risks related to the nature of the counterparty at the time when they take place: are normally included in said category the transactions between companies of the Damiani Group as long as they are carried out according to the normal arm's length market values.

Transaction are at standard conditions when are agreed at the same conditions as with any counterparty whatsoever.

Are to be considered transactions with "related parties" those meeting the requirements of the regulations applicable at the time when each operation is approved, being at the time of approval of this document those defined as such by IAS 24 adopted by means of the EEC Regulation 1725/2003 and their successive amendments and additions.

Regardless of the criteria of relevance, the Board of Directors has always been promptly updated on the transactions with related parties, also pursuant to article 22 of the By-laws and article 150 of the Legislative Decree no. 58/1998.

With specific reference to transactions with related parties, please note that during the financial year ended on 31 March 2009 the Group entered into transactions with related parties both included and not-included in the consolidation area.

The relations with related parties within the consolidation area were of commercial nature mainly, consisting of sales of jewelry or raw materials, and took place in the context of normal inter-company operations carried out at normal arm's length market conditions.

As to the relations with related parties outside the consolidation area, please note that on 15 September 2008 the Company purchased the entire share capital of Rocca S.p.A. from WJR Participations S.A., company held by the Damiani family.

Being a transaction with a related party subject to the same control as the Issuer, the acquisition was approved by the Board of Directors with the prior opinion of the Internal Control Committee and with the assistance of Euromobiliare SIM as financial advisor. On 29 September 2008 the Company made available to the public (at its registered office and Borsa Italiana) the informational document drafted pursuant to article 71 bis of the Issuers' Regulation and approved by the Board of Directors on 15 September 2008, the content of which was anticipated by means of press release on 18 September 2008.

The relations with the other related parties outside the consolidation area – and namely with Immobiliare Miralto S.r.l. – have been of non-commercial nature only and concerned real estate rental agreements solely.

The relations with related parties were examined and analyzed by the Internal Control Manager who, carrying out his functions, controlled that the same transactions took place at normal arm's length market conditions.

Moreover, the Board of Directors:

**(B)** evaluated the adequacy of the organizational, administrative and accounting structure (i) of the subsidiaries having strategic importance, during the meeting of 12 June 2009 and (ii) of the Issuer, during the meeting of 12 June 2009 convened for the approval of both the financial report as to 31 March 2009 and the draft financial statement as to 31 March 2009. More specifically, the evaluation was made with the support of the Internal Control Committee which, in the context of its own meetings and with the participation of the Internal Control Manager, has been able to continuously check the functioning of the internal control systems of both the Issuer and the other companies of the Group, with particular reference to the companies with strategic importance. With specific regard to said companies, please note that, during the meetings of 27 June 2007 and 12 February 2009, the Board of Directors of the parent company Damiani S.p.A. resolved to identify the "subsidiary companies having strategic importance" taking into account the following criteria listed in the "Guidelines of the Internal Control System of the Group":

- (i) the importance and complexity of the functions carried out by the subsidiary within the Group;
- (ii) the strategic importance of the subsidiary within the market;
- (iii) the invoicing volume of the subsidiary;
- (iv) the value of its assets;
- (v) the presence of an articulated organizational structure, with a significant presence of managers (other than directors) granted with management autonomy.

From the combination of the abovementioned parameters, during the meetings of 27 June 2007 and 13 June 2008, Damiani International B.V., a company incorporated under Dutch Law, was identified as a subsidiary company of Damiani S.p.A. having strategic importance; during the meeting of 12 February 2009, the same qualification was also attributed to Rocca S.p.A., a company entered into the Damiani Group in September 2009 following to the abovementioned acquisition of its entire share capital by the Issuer;

**(C)** fixed the remuneration of directors entrusted with particular duties, based on the proposals of the Compensation Committee and having considered the opinion of the Board of Statutory Auditors, on 27 June 2007 and 3 April 2009;

**(D)** on 12 June 2009, evaluated the general trend of the management, based on the information received from the delegated bodies and compared the actual results with the plans;

**(E)** again on 12 June 2009, carried out the evaluation of the size, composition and functioning of the Board and of its committees - the so-called self assessment - acknowledging that the current Board consists of 7 directors, 3 of which are non-executive and 2

independent according to the criteria set by the Code. The assessment, based on a report by the Internal Control Committee, confirmed the wide range of professional skills existing within the Board and, specifically, the expertise in economic, accounting, legal and/or financial matters of the non-executive directors.

As already pointed out in the Corporate Governance Report of the financial year ended on 31 March 2008, the evaluation on the “self assessment” of the Board of Directors holding the office during last financial year was carried out by the Board of Directors during the meeting 13 June 2008.

PLEASE NOTE THAT, AT THE APPOINTMENT OF THE CURRENT BOARD OF DIRECTORS, THE SHAREHOLDERS’ MEETING EXPRESSLY AUTHORIZED THE APPOINTED DIRECTORS TO HOLD OFFICES AND TO CARRY OUT ACTIVITIES PURSUANT TO ARTICLE 2390 OF ITALIAN CIVIL CODE. THE BOARD WILL ASSESS EACH PROBLEMATIC POSITION IN RELATION TO THE ABOVE; NO PROBLEMATIC POSITIONS HAVE BEEN REPORTED TO THE BOARD AS TO THE DATE OF APPROVAL OF THIS REPORT.

### 5.3 DELEGATED BODIES; DISTRIBUTION OF TASKS; EXECUTIVE DIRECTORS AND INDEPENDENT DIRECTORS.

#### (A) Managing Directors

The current Board of Directors performs its functions directly and collegially, as well as through:

- its Chairman, who has also been appointed Chief Executive Officer;
- two Vice-Chairmen;
- one further Executive Director besides the Chairman and Vice Chairmen.

The Board of Directors holding the office during the financial year ended on 31 March 2009 carried out its activity directly and collegially, as well as by means of:

- its Chairman, who was also appointed Managing Director;
- two Vice-Chairmen;
- two further executive directors besides the Chairman and Vice-Chairmen.

At least quarterly, the Chief Executive Officer and the other Executive Directors:

- report to the Board of Directors on transactions carried out exercising their powers (both on ordinary, atypical and particular transactions, as well as in connection with transactions – other than important ones –with related parties);
- submit to the Board for its approval important transactions with related parties which, in accordance with the “Guidelines” approved by the Board of Directors on 27 June 2007, are reserved to the Board of Directors.

As mentioned above, in relation to Article 1.C.1 of the Code, the Board has also formally confirmed (in its “Framework Resolution” approved on 27 June 2007) the principle that any bodies and officers granted with delegated powers must report to the Board - during the financial year the powers refer to - at least quarterly and in any case pursuant to the applicable law provisions.

Before the meetings of 27 June 2007 and 3 April 2009, the Board of Directors appointed **the CHAIRMAN, Mr Guido Grassi Damiani** also as Chief Executive Officer, confirming in favour of the same all the powers – including the powers to sign on behalf of and to represent the Company, pursuant to the Law and to the Company’s By-Laws vis-à-vis third parties and before any Courts – of ordinary and extraordinary management, with the exception of powers reserved to the Shareholders’ Meeting and to the Board of Directors by the Law or by the Company’s By-law or by the same Board of Directors pursuant to the principles of the Corporate Governance Code, together with the authority to appoint and revoke representatives and attorneys for single deeds or group of deeds, to take actions or judicial suite, also of annulment and before the Supreme Court, as well as to appoint lawyers and attorneys for disputes of any kind and degree of judgment.

During the same meetings the Board of Directors resolved the following:

- to entrust the **VICE-CHAIRMAN, Mr Giorgio Grassi Damiani** with the disjoint powers relating to the purchase of raw materials, product development and commercial relationships, namely:

**(i)** full powers to supervise the activities of the Company’s department dealing with the purchase of raw materials, to be exercised with disjoint signature and without any restrictions as to the amounts involved (with the sole exception of the matters reserved by the Company’s By-Laws or by the Board itself to the competence of the Board of Directors, pursuant to the Corporate Governance Code for Listed Companies); such powers include, for instance (but not limited to) the authority to negotiate and purchase raw materials and components necessary for the production of jewellery, watches and precious items in general; and

**(ii)** any powers to carry out any activity necessary for the development of new products, with single and disjoint signature and no limits of value, with the exception of the matters reserved to the Board of Directors by the Company’s By-Laws or by the Board itself pursuant to the Corporate Governance Code;

**(iii)** any powers necessary in order to take care of and develop relationships with the clients and suppliers of the Group, and more generally to develop the Company’s and the Damiani Group’s market and commercial communication, supporting the devoted departments, with single and disjoint signature and no limits of value, with the exception of the matters reserved to the Board of Directors by the Company’s By-laws or by the Board itself pursuant to the Corporate Governance Code;

- to entrust the other VICE-CHAIRMAN, MRS SILVIA GRASSI DAMIANI, with the external relations and image care of the Damiani Group, granting her – with single and disjoint signature - all the powers necessary to:

(i) take care of the image of the Company's and Group's products vis-à-vis its clients and, more in general, the public, as well as to take care of the relationships with celebrities, members of the national and international "jet set" and personalities from the world of fashion and entertainment, even by organizing and promoting events;

(ii) take care of and develop relations with the press and media in general;

(iii) take care and develop relations with testimonials, promoting their fidelity to the Group's brands;

all the above with the support of and in coordination with the devoted Company's departments; all the abovementioned powers can be exercised by means of her disjoint and single signature and without any limit as to the amounts involved, and with the exception of those matters reserved to the Board of Directors by the Company's By-Laws or by the Board itself pursuant to the applicable principles (also of "Self-Discipline").

Further to the resignation by Giulia De Luca from the office of General Director (as well as CFO of the Damiani Group), communicated on 31 May 2008 and due to personal reasons, her tasks have been distributed among the Chairman and CEO of the Company, Guido Grassi Damiani, and the management of the Company.

In relation to article 2 of the Code, please note that the Chairman of the Board of Directors, Guido Grassi Damiani, is the controlling shareholder of the Company as well as Chief Executive Officer and that therefore the Board of Directors has decided to adopt the suggestions concerning the appointment of a Lead Independent Director with the functions suggested by the Corporate Governance Code.

Furthermore it should be noted that, in relation to Principle 2.P.4 (suggestion to avoid concentration of more corporate offices in one person) and Principle 2.P.5 (reasons for delegating executive powers to the Chairman), the Board reconsidered said issue lastly on 12 June 2009 and reached the conclusion that the governance of Damiani S.p.Aa is fully in line with its corporate interests, despite such concentration of offices, also considering that: (i) the Chairman's position is not limited to institutional or representative functions, but it is fully operative and therefore essential to improve the performance of the Company; and (ii) executive powers have also been delegated to other Directors, in addition to the Chairman (with four Executive Directors appointed).

In compliance with Criterion 2.C.2 and with the suggestions included in the comment to Article 2, on 3 April 2009 the Board of Directors confirmed **Fabrizio Redaelli**, Independent Directors, as "**Lead Independent Director**", with the following functions:

- to coordinate the activities of the Non-Executive Directors in order to improve their contribution to the Board's activities and functioning;
- to cooperate with the Chairman to ensure that all Directors are promptly and fully informed;
- to convene meetings exclusively among Independent Directors whenever he deems it necessary and to ensure that the Independent Directors meet separately – i.e. without the other Directors - at least once a year.

In this regard please note that the Independent Directors holding the office during the financial year ended on 31 March 2009 met on 20 January 2009 to review the state of implementation of the principles of corporate governance set forth by the Corporate Governance Code.

In relation to the Directors holding the office during the financial year ended on 31 March 2009, it was pointed out that, besides Guido Grassi Damiani, Giorgio Grassi Damiani and Silvia Grassi Damiani, also Giulia De Luca and Stefano Graidì were Executive Directors pursuant to Article 2 of the Corporate Governance Code; in particular the latter Director held an executive role as executive officer of Damiani International BV, Group's subsidiary of strategic importance.

With regard to the current Directors, Guido Grassi Damiani, Giorgio Grassi Damiani, Silvia Grassi Damiani and Stefano Graidì are Executive directors, the latter continuing to be executive officer of Damiani International BV (subsidiary controlled by Damiani and having strategic importance) and, starting from 7 August 2008, having assumed a further role of executive director in charge of the functionality of the internal control system.

As already mentioned, the Board of Directors held on 13 June 2008 assessed, on the basis of the information provided by each Director, that the directors Lorenzo Pozza and Fabrizio Redaelli meet the requirement to be qualified as Independent directors.

Lastly, further to the appointment of the new Directors, on 3 April 2009 the Board of Directors assessed the information provided by each Director, confirming the existence of the independence requirements with Roberta Benaglia and Fabrizio Redaelli.

During the meetings of 13 June 2008 and 3 April 2009, the Board of Directors assessed the existence with its members of the independence requirements set forth under article 147-ter, forth paragraph, of the Legislative Decree no. 58/98 and under the principles of Self-Discipline, considering the same requirements to exist with regard to:

- Professor Lorenzo Pozza and Fabrizio Redaelli, as to the Directors holding the office during the financial year ended on 31 March 2009;
- Roberta Benaglia and Fabrizio Redaelli, as to the current Directors.

The Board of Statutory Auditors approved the criteria and procedures adopted by the Board of Directors in assessing the independence of directors.

## **6. TREATMENT OF CORPORATE INFORMATION (ARTICLE 4 OF THE CODE)**

The Code requires Directors and members of the Board of Statutory Auditors to keep confidential all documents and information acquired while performing their office, and to comply with the procedures adopted by the Company for the internal handling and external communication of such documents and information.



In compliance with said provisions and with those referred to under Articles 114, first a twelfth paragraphs, and 115bis of the (Italian) Consolidated Law on Finance, as well as by Articles 66 and followings and 152bis and followings of the Issuers Regulation, on 27 June 2007 the Board of Directors approved the "Procedure for the treatment and disclosure of privileged information" and on 12 September 2007 the "Procedure for the constitution, maintenance and update of the Group Register of the subjects having access to Damiani SpA privileged information".

The registers of the Company and of its subsidiaries have been duly constituted.

In compliance with the provisions set forth by Article 114, seventh paragraph, of the (Italian) Consolidated Law on Finance and by Articles 152-sexies and followings of the Issuers Regulation, on 12 September 2007 the Board of Directors also resolved upon the adoption of the "Procedure for identifying Relevant Persons and for the disclosure of transactions carried out by the same in Company's shares or equity-related securities, both directly and through an intermediary" (the "INTERNAL DEALING PROCEDURE"): such procedure identifies the so called "Relevant Persons" and focuses on how to inform CONSOB and the market of any transactions carried out by the same in the Company's shares or equity-related securities. During the meeting of 12 June 2009, the Board of Directors entrusted the Internal Control and Corporate Governance Committee with the drafting and approval of a new version of the Internal Dealing Procedure, updated in order to comply with the amendments and integrations made by CONSOB to the Issuers Regulation by means of the resolution no. 16850 of 1 April 2009, with specific reference to the modalities of communication of said transactions.

Both versions of the Internal Dealing Procedure – as per article 2.2.3, third paragraph, letter p, of the Stock-Exchange Regulation – forbids "Relevant Persons" to deal in the Company's shares or equity-related securities during the so-called "blackout periods", i.e. during the 15 days immediately previous to the Board's meetings convened to approve the draft annual Financial Statement, the consolidated Financial Statement, the half-year or quarterly reports or some other determined reports or budgets.

The Internal Dealing Procedure in force during the financial year ended on 31 March 2009 came into force starting from the trading of the company's shares in the STAR segment of the electronic market (MTA) managed and organised by Borsa Italiana S.p.A..

## 7. COMMITTEES INTERNAL TO THE BOARD (ARTICLES 5 AND 6 OF THE CODE)

On 27 June 2007 the Board resolved upon adopting the principles and criteria provided for by Article 5 of the Corporate Governance Code, and, accordingly, resolved upon the creation of a "Internal Control and Corporate Governance Committee" as well as a "Remuneration Committee", created and operating pursuant to the same Code. The working principles and criteria of the two Committees, both of which have been confirmed on 3 April 2009, are the followings:

- a) the Committees are composed of at least three members, all of them non-executive and most of which independent; at least one member of Internal Control Committee has to be specialized in accounting and finance;
- b) the Board may subsequently resolve upon adding or varying the tasks of the Committees as hereinafter indicated;
- c) each meeting of the committees must be entered in the minutes;
- d) while performing their activity, the Committees must have access to such information and Company's offices as it is necessary in order to carry out their functions; with the Board's prior authorisation, they may also seek for the advice of external consultants;
- e) non-members may take part in the meetings of the Committee, on the Committee's invitation and with limitation to specific items on the Agenda;
- f) resolutions of the Committees will only be valid if a majority of the Committee's current members are present; decisions are taken by absolute majority of the present members and in the event of a tie the Chairman has casting vote; meetings may also be held by videoconference or teleconference, provided that all the participants can be identified by the Chairman and by the other participants, are able to follow and participate in real time to the discussion on the Agenda, and are able to receive and transmit documents; in such cases the Committee is regarded as been held in the place where the Chairman is located;
- g) the Board's annual Report on Corporate Governance must inform the market of the Committees' establishment and composition, the terms of their tasks and the activities actually carried out during the financial period, specifying the number of meetings held and each member's percentage of attendance.

On 3 April 2009, following to the appointment of the new Directors resolved on the same date, the new Board confirmed the creation of the two Committees and appointed the new members of the Internal Control and Corporate Governance Committee and Remuneration Committee. As to the date of approval of this Report, the Board has not deemed necessary the creation of an Nominations Committee, considering the current ownership structure.

The principles of Corporate Governance (implemented by Damiani by means of the Board resolution of 27 June 2007) require in any case:

- that lists of candidates are registered at the Company's registered office no later than 15 days before the date of the Shareholders' Meeting convened to appoint Directors, together with sufficient details of each candidate's professional and personal qualifications, all the information required by law or by the Company's By-Laws as well as confirmation that the candidate meets the independence criteria under Article 3 of the Corporate Governance Code (if it is the case);
- that the lists, together with the candidate details listed above, are published in due course on the Company's website.

## **8. REMUNERATION COMMITTEE; REMUNERATION OF DIRECTORS (ARTICLE 7 OF THE CODE)**

### **8.1 REMUNERATION COMMITTEE**

Pursuant to Article 23 of the Company's By-laws, the determination of the remuneration of the Directors for their participation to the meetings of the Company's Board is reserved to the competence of the Shareholders' Meeting. Pursuant to the same Article:

- the Board has the power to determine the remuneration of the Executive Directors – i.e. directors with specific duties as per Article 2389, third paragraph, of the Italian Civil Code – on the basis of the recommendations issued by the Remuneration Committee;
- the Board is authorized to approve particular payments to any Director at the end of his/her office period.

During its meeting held on 27 June 2007 and after having verified that the individuals concerned met the non-executive and independent requirements in accordance with the principles provided for by the Corporate Governance Code, the Board decided to set up a Remuneration Committee composed of the following Non-Executive Directors (two of them being also Independent): Giancarlo Malerba (Chairman), Lorenzo Pozza and Fabrizio Redaelli. During that same meeting the Board of Directors also resolved upon granting to the Remuneration Committee the following tasks (in compliance with Article 7 of the Code):

- a) to make proposals to the Board concerning the remuneration of directors with delegated powers and of other directors with special tasks, in compliance with the relevant suggestions of the Code, and to supervise the application of the Board's resolutions;
- b) to annually review the criteria used for determining the remuneration of managers with strategic responsibilities, supervising the application of the same criteria on the basis of the information provided by the Executive Officers; as well as to give general recommendations to the Board on this matter.

During the financial year ended on 31 March 2009, the Committee met once (at the presence of all of its members), in order to examine the remunerations of the Executive-Directors and management of the Group.

On 3 April 2009, the Board of Directors appointed the current Remuneration Committee, composed of Giancarlo Malerba (Chairman), Roberta Benaglia and Fabrizio Redaelli (Independent directors). On the same date, the new Remuneration Committee met in order to examine the proposals of remuneration of the Executive Directors in relation with the assignment of special tasks. Afterwards the Committee met again on 11 June 2009.

### **8.2 REMUNERATION OF DIRECTORS (ARTICLE 7 OF THE CODE)**

It was assessed that the Directors' remuneration is sufficient to attract and motivate directors having professional standing required to manage the Company successfully.

With regard to Principle 7.P.2, please note that all the remunerations in favour of the Directors currently in office are fixed.

Please note that the Executive Director Stefano Graidì is one of the beneficiaries of the stock-option incentive scheme (the "Damiani Group S.p.A. 2007/2010 Stock Option Scheme for the allocation of options on up to 1,600,000 ordinary shares") described in the "Stock-Option Plan Information Document" drafted as per Article 84bis of CONSOB Regulation No. 11971/99, available at [www.damiani.com](http://www.damiani.com) under "Investor Relations – Financial Press Releases".

Please also note that before the date of presentation of this Report, the Board of Directors convened the Shareholders' Meeting in order to resolve upon inter alia two plans based on financial instruments in favour of the management of the Damiani Group.

The remunerations received by the Directors and by the General Manager during the financial year ended on 31 March 2009 are described in the table below.



First name and family name	Office	Duration of office(*)	Remuneration for offices held in the Company	Benefits in kind	Bonuses and other incentives	Other Remunerations(1)	Total Remuneration
GUIDO ROBERTO GRASSI DAMIANI	Chairman and Managing Director	Until 31.03.2012	918,000	12,750	-	154,000	1,084,750
GIORGIO ANDREA GRASSI DAMIANI	Vice- Chairman	Until 31.03.2012	330,000	10,210	-	98,667	438,877
SILVIA MARIA GRASSI DAMIANI	Vice- Chairman	Until 31.03.2012	330,000	4,974	-	-	334,974
GIULIA DE LUCA (**)	Director and General Manager	(**)	68,000	65,030	-	1,916,653	2,049,683
STEFANO GRAIDI	Director	Until 31.03.2012	40,000	-	-	22,000	62,000
GIANCARLO MALERBA	Director	Until 31.03.2012	30,000	-	-	5,500	35,500
FABRIZIO REDAELLI	Director	Until 31.03.2012	30,000	-	-	5,000	35,000
LORENZO POZZA	Director	(***)	30,000	-	-	5,500	35,500
GABRIELLA COLOMBO DAMIANI	Honorary President of Damiani Italia (****)	-	-	-	-	-	0

(1) Other remunerations include (i) fees received due to the office of member of the managing or controlling body in other subsidiaries, (ii) salary for employment (where existent) and (iii) further remunerations for other services.

(\*) On 3 April 2009 the Shareholders' Meeting of Damiani S.p.A. appointed the new Board of Directors that will hold the office until the approval of the financial statement as to 31 March 2012.

(\*\*) Ceased since 3 April 2009.

(\*\*\*) Ceased since 3 April 2009. Roberta Benaglia was appointed Director of Damiani S.p.A..

(\*\*\*\*) The honorary office is not for a limited duration and does not grant any remuneration.

The total remuneration paid to managers with strategic responsibilities during the financial period ended on 31 March 2009 amounted to € 554,287.38.

## 9. INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE; THE INTERNAL CONTROL SYSTEM (ARTICLE 8 OF THE CODE)

### 9.1 INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE

The Internal Control and Corporate Governance Committee holding the office during the financial year ended on 31 March 2009 – and appointed by the Board of Directors on 27 June 2007, with effect as from the date of admission of the Company's shares to the negotiations – was composed of Non-Executive Directors the majority of which were also independent. The following Directors used to sit on the Committee:

- Giancarlo Malerba – Chairman – (Non-Executive Director);
- Fabrizio Redaelli – (Independent Director and Lead Independent Director)
- Professor Lorenzo Pozza – (Independent Director).

The Internal Control and Corporate Governance Committee currently holding the office was appointed by the Board of Directors on 3 April 2009 with immediate effect and is composed of the following directors:

- Giancarlo Malerba – Chairman – (Non-Executive Director);
- Fabrizio Redaelli – (Independent Director and Lead Independent Director)
- Roberta Benaglia – (Independent Director)

The professional experiences of the current and previous Directors ensure the Committee a sufficient expertise in accounting and finance. The following functions of advice and proposal have been assigned by the Board on 27 June 2007 and, lastly, on 3 April 2009 to the Committee (they are identical to those listed in the Code with the exception of Criterion 8.C.3 (d) and (e)):

- a) to assist the Board with the tasks indicated in Criterion 8.C.1. of the Code;
- b) to assess, together with the Manager in charge of preparing company's financial reports and the auditors, the proper application of the accounting standards and their uniform application in drawing up the Consolidated Financial Statements;
- c) on request of the Executive Director in charge, to release opinions on the main risks existing within the Company, as well as on the project, implementation and management of the internal control system;
- d) to examine the schedule of work and periodic reports drafted by the Head of the Internal Control;
- e) to report to the Board on its activities and on the adequacy of the internal control system, periodically and at least every six months (at the approval of the Financial Statement and of the Half-Year interim Reports).

Pursuant to the Criterion 5.C.1, letter e), of the Code, the Committee is entitled to access to any information and offices as deemed necessary in order to carry out its functions, as well as to seek the advice of external consultants within the limits set forth by the Board.

During the financial period ending 31 March 2009 the Committee met 10 (ten) times, with a percentage of attendance by its members of 93,33%. Besides the Chairman of the Statutory Auditors and the Statutory Auditors, on invitation of the Chairman and for specific items of the Agenda the Head of Internal Control, the Executive-Director in charge of the functionality of the internal control system as well as the Manager in charge of preparing the Company's financial reports and some other managers of the Company participated to the meetings. During the current financial year the Committee met 2 (two) times, on 12 May and 4 June.

The meetings of the Committee were duly entered into the Committee Book of the Minutes.

In accordance with the Criterion 5.C.1)(e) of the Code, the Committee has access to any information and Company's officers necessary for carrying out its functions and can also seek the advice of external consultants, within the limits approved by the Board.

The current "Guidelines of the Internal Control system of Damiani S.p.A. Group" ("Guidelines") have been approved by the Board of Directors on 27 June 2007 also in order to strengthen and optimize the internal controls system of the Company and of the Group.

With reference to the functions entrusted, please note that the Internal Control and Corporate Governance Committee has inter alia:

- examined the periodical reports prepared by the Head of Internal Control, in order to constantly monitor the suitability of the internal control system and to intervene, where necessary, in order to fulfil any lack;
- carried out a deep investigation on relevant transactions with Related Parties and, in particular, on the acquisition of the entire share capital of Rocca S.p.A. from W.J.R. Participations S.A. (company entirely owned by the Damiani Siblings and controlled by Guido Grassi Damiani);
- examined together with the auditing company the proper use of the accounting standards and their homogenous application in view of the drafting of the consolidated financial statement.

Lastly, on 12 June 2009 the Chairman of the Internal Control and Corporate Governance Committee provided the Board of Directors with a summary of the activities carried out by the Committee and, also on the basis of the work carried out by the person responsible for internal control, expressed to the Board of Directors its assessment on the overall adequacy, effectiveness and efficiency of the Internal Control System.

## **9.2 THE INTERNAL CONTROL SYSTEM**

On proposal of the Executive Director in charge of supervising the Internal Control System and with the assistance of the Internal Control and Corporate Governance Committee, on 13 June 2008 the Board of Directors approved the guiding principles of the Internal Control System ("the Guiding Principles"), the purpose of which is to strengthen and optimize the internal control systems of both the Company and the Damiani Group as a whole, with particular reference to subsidiaries that qualifies as "strategically important" pursuant to Article 1 of the Code.

The Guiding Principles entrust the Executive Director in charge of supervising the Internal Control System with the following duties:

- a) to take care of the identification of the main corporate risks (taking into account the characteristics of the business carried out by the Company and by its subsidiaries), and to periodically submit said principles to the Board of Directors as well as to the Internal Control and Corporate Governance Committee;
- b) to submit the Damiani Group's Guiding Principles to the Board of Directors, carrying out the activities of structuring, implementation and management of the internal control system; to continuously monitor the overall adequacy, effectiveness and efficiency of the same system; to ensure that the system is kept updated to any changes in the operating conditions and legislative and regulatory context;
- c) to make proposals to the Board of Directors (also informing the Internal Control and Corporate Governance Committee) for the appointment, revoke and remuneration of the persons responsible for internal control of the Group.

At its meeting of 27 June 2007 the Company's Board of Directors entrusted the Board of Statutory Auditors with the evaluation of the offers received from the audit companies, as well as the audit-plans and the results showed in their reports and in the letter of suggestions: the entrustment of the Board of Statutory Auditors seems to be consistent with the duty of the same body of recommending an audit company to the General Meeting.

On the basis of the principles of independence of the activities carried out by the audit company, it was not deemed appropriate entrust the Committee with the task of "monitoring the effectiveness of the external audit process".

## **EXECUTIVE DIRECTOR IN CHARGE OF SUPERVISING THE INTERNAL CONTROL SYSTEM**

In accordance with Implementing Criterion 8.C.1)(b) of the Code, on 27 June 2007 the Board of Directors entrusted the Executive Director in charge of supervising the Internal Control System and granted the same the following powers:

- a) to take care of the identification of the main corporate risks (taking into account the characteristics of the business carried out by the Company and its subsidiaries) and to periodically submit such principles to the Board of Directors as well as to the Internal Control and Corporate Governance Committee;
- b) to submit to the Board of Directors the Guiding Principles for the Internal Control System of Damiani Group, carrying out the activities of structuring, implementation and management of the internal control system; to continuously monitor the overall adequacy, effectiveness and efficiency of the same; to ensure that the system is updated in the event of changes in the operating conditions and the legislative and regulatory context;
- c) to make proposals to the Board of Directors (also informing the Internal Control and Corporate Governance Committee) for the appointment dismissal and remuneration of the persons responsible for internal control of the Group.

Starting from 7 August 2008 Stefano Graidì has been appointed Executive Director in charge of supervising the Internal Control System with the same competences and powers granted by the Board to Giulia De Luca on 27 June 2008.

### **• PERSON RESPONSIBLE FOR INTERNAL CONTROL**

On 12 September 2007, on the proposal of the Executive Director in charge of supervising the Internal Control System and on the basis of the favourable opinion of all the members of the Internal Control and Corporate Governance Committee, the Board of Directors appointed Luana Carlotta Lanzi Puglia as Company's "person responsible for internal control" with all the supervisory functions and obligations provided for by the Corporate Governance Code and the Framework Corporate Governance Resolution adopted by the Board of Directors on 27 June 2007; more in detail, the company's person

responsible for internal control is entrusted with the following functions:

- a) to present the proposed annual work schedule to the Internal Control and Corporate Governance Committee in due time in order to allow the punctual performance of its functions and to formulate any recommendations deemed appropriate;
- b) to assist the Executive Director in charge of supervising the Internal Control System in planning, managing and supervising the internal control system and the identification of the various risk factors;
- c) to plan and to carry out, in line with the annual work schedule, direct and specific controls of the various departments of the Company and of the other companies of the Group, with particular regard to subsidiaries of strategic importance, in order to reveal any inadequacies in the internal control system in respect of the various areas of risk;
- d) to check, as part of that work schedule, that the procedures adopted by the Company and Group ensure in fact that the applicable statutory and regulatory provisions are complied with;
- e) to check that the rules and procedures of control are complied with and that all the people involved act according to the defined goals;
- f) to carry out investigations on specific irregularities, either on its own initiative or on request of the Board of Directors, the Internal Control and Corporate Governance Committee, the Executive Director in charge of supervising the Internal Control System or the Board of Statutory Auditors;
- g) to check, in any way deemed appropriate, that any anomalies noticed during the inspections have been corrected;
- h) to keep records of the activities carried out and to make such records available on request to the subjects in charge of the control procedures;
- i) to report on the results of the control activities in special "Audit Reports" to the Executive Director in charge of supervising the Internal Control System, to the Internal Control and Corporate Governance Committee and to the head of the department under inspection; in case of control of subsidiaries, the Control Reports are copied to the relevant bodies of the Company concerned. It is also entrusted with the task of identifying any inadequacies in the internal control system in the light of the results of the inspections and analysis of the corporate risk, and to recommend any measures to improve the same system; such inadequacies and the proposed remedies are to be included in the Control Reports;
- l) to draft, at least twice a year and in due course to enable the Internal Control and Corporate Governance Committee and the Board of Directors to carry out their respective tasks in preparation of the meetings held to approve the draft Financial Statements or the half-year interim reports, a summary of the main data relating to the last six months or the entire financial year, as the case may be. The summary drafted for the meeting convened to approve the draft of Financial Statements shall also include an updated account on corporate risks pointed out during the year;
- m) to report on its activities - providing copies of the Control Reports referred to under paragraph (i) above - to the following bodies:
  - the Executive Director in charge of supervising the Internal Control System and delegated bodies of any subsidiary which have been subject to the control activities;
  - the Internal Control and Corporate Governance Committee, also attending its meetings when required by its members. The Internal Control and Corporate Governance Committee checks that reports are forwarded to all the members the Board of Directors in connection with the items on the Agenda; the Board of Statutory Auditors examines said Reports during the meetings of the Internal Control and Corporate Governance Committee;
  - n) in case of critical situations requiring a prompt action, to promptly inform the Executive Director in charge of supervising the Internal Control System and the delegated bodies, as well as the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors on the results of their activity.

During the financial year ended on 31 March 2009, the person responsible for internal control monitored the areas under its control according to the provisions of the "Internal Audit Plan 2008/2009" drafted by the same and presented to the Internal Control and Corporate Governance Committee first on 13 February 2008 and afterwards, in a update version, on 26 November 2008. In particular, the main activities carried out by the person responsible for internal control during the financial year ended on 31 March 2009 concerned:

(i) as to the compliance with the provisions of Law no. 262/05 and Legislative Decree no. 231/01:

- the further improvement of the corporate procedures;
- the implementation of the organizational and control models required by Legislative Decree no. 231/01 for the Italian companies of the Group;
- the adjustment of the governance of Rocca Group and the creation of its organizational and control model, with specific regard to the procedures required by Law no. 262/05 and Legislative Decree no. 231/01;

(ii) as to the activity of "Internal Audit":

- the analysis of the commercial and non-commercial transactions (rental) with Related Parties;
- the monitoring of the commercial and non-commercial transactions (rental) with Related Parties;
- activities of compliance audit and operation audit in the companies of the Group, pursuant to the work plan approved by the Internal Control and Corporate Governance Committee.

The person responsible for internal control had access to any information needed for the proper performance of its duties, and reported to the Internal Control and Corporate Governance Committee and to the Chairman of the Board of Statutory Auditors on its activities, as well as to the Executive Director in charge of supervising the Internal Control System.

The person responsible for internal control is the head of the Internal Audit function and is not subject to the hierarchy of any heads of the operative areas.

## 10. MODEL OF ORGANISATION PURSUANT TO LEGISLATIVE DECREE NO. 231/2001

In order to ensure that the Group's internal control systems complies with the provisions of Legislative Decree no. 231/2001 and in accordance with Articles 2.2.3 (iii)(k) and 2.2.3bis of the Stock Exchange Regulation, on 27 March 2008 the Board of Directors approved the Model of Organisation, Management and Control as provided for by Article 6 of Legislative Decree no. 231/2001 (the "Organisation Model") and the Ethical Code. The Organisation Model adopted by the Company provides as follows:

1. one **General Section**, which introduces the model and set forth the rules concerning the governance, with particular reference to (i) the subjects concerned; (ii) the composition, role and powers of the Monitoring Body; (iii) the role of the Board of Directors; (iv) the reporting to the Monitoring Body; (v) the sanctions; (vi) divulgation of the Model among the subjects concerned and training.

2. six **Special Sections**, each one identifying and disciplining risky processes and the rules of conduct to be followed by the concerned subjects while carrying out the working activity. Pursuant to the Organisation Model, the followings are the crimes that could theoretically be relevant for the Issuer: (i) offences against Public Administration; (ii) corporate crimes; (iii) crimes and administrative offences on market abuse; (iv) transnational offences; (v) crimes on employment health and safety; (vi) money-laundering.

With regard to each area of risk the Special Section makes reference to specific Protocols governing the operational and monitoring procedure for managing the process with a view to the prevention of the "231 offences".

A specific Monitoring Body, with full financial autonomy, is entrusted with the control of the functioning of the Model. The Monitoring Body holding the office during the financial year ended on 31 March 2009 – appointed by the Board of Directors on 27 March 2008 – is composed of the person

responsible for internal control, Carlotta Lanzi Puglia, and by two external advisors, Luca Pecoraro and Francesco Satta.

The Monitoring Body has been granted with all the necessary powers in order to promptly and efficiently watch over the compliance with the Organisation Model approved by the Company, as well as in order to verify the adequacy of the same in order to promptly and efficiently prevent the criminal offences listed by the Legislative Decree no. 231/2001, with the possibility to make proposals to the Board of Directors for the updating and adjustment of the Organisation Model.

## 11. EXTERNAL AUDITING COMPANY

The Auditing Company entrusted with the external auditing of the accounts of Damiani S.p.A. and its subsidiaries is Reconta Ernst & Young S.p.A., with registered office in Rome, Via G.D. Romagnoli 18A, which is a firm of auditors registered under Article 161 of the (Italian) Consolidated Law on Finance (the "External Auditor").

Pursuant to Article 159 of the (Italian) Consolidated Law on Finance, on 27 June 2007 the Shareholders' Meeting of Damiani S.p.A. appointed said auditing company as External Auditor with duration of nine financial years, i.e. until the approval of the Financial Statements of the financial year ending on 31 March 2016.

## 12. MANAGER RESPONSIBLE FOR THE DRAWING-UP OF THE COMPANY'S FINANCIAL REPORTS

The Manager responsible for the drawing-up of the Company's financial reports is Gilberto Frola, who was appointed by the Issuer's Board of Directors during the meeting held on 12 September 2007 for an indefinite period of time, with effect from the date on which the shares of the Company were admitted to trading on the electronic market (MTA) of Borsa Italiana S.p.A..

Pursuant to Article 27 of the Company's By-laws said Manager has to be chosen by the Board of Directors with the previous opinion of the Board of Statutory Auditors, and his background must include at least a three-year experience as qualified accountant or business administrator in listed companies, or in companies whose capitalisation amounts to not less than 1 million Euro.

The Board of Directors granted to the Manager, Dr Frola, all the necessary powers for the fulfilment of his duties under the law and By-laws, including the followings:

- to have direct access, without need of any further authorisation, to any information required to produce the accounts, under the duty (together with all his staff) to keeping confidential all documents and details acquired in the course of his activities, in compliance with all relevant statutory and regulatory provisions in force from time to time;
- to use internal means of communication ensuring that the information transferred within the Group is accurate;
- to organize his own department in order for the latter to be adequate as to its human and technical resources (including equipment, software, etc.);
- to draft administrative and accounting procedures, with the assistance of the offices involved in the generation of the relevant information;
- to seek the advice of external consultants whenever required by particular needs;
- to establish reporting and notification procedures together with the other persons in charge of monitoring and auditing, so as to ensure a constantly updated mapping of risks and processes as well as adequate checks that the procedures themselves are working properly (External Auditor, person responsible for internal control, etc.);
- to make the expenses necessary to perform its duties and authorised by the Board of Directors, or by either the Internal Control and Corporate Governance Committee or the Chairman, on Board's behalf, with a duty of yearly report to the Board.

## 13. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

Principle 9 of the Code requires the Board to take all the necessary steps to ensure that transactions with related parties are carried out with transparency and in compliance with the principles of both formal and substantial correctness. A similar obligation is provided for by Article 2391-bis of the Italian Civil Code, pursuant to which the governing bodies of companies listed in stock-exchange must adopt proper rules and internal procedures in order to ensure transparency and accuracy of the same transactions, both from a formal and substantial point of view. The Public Authority is currently amending the regulations on this matter and, on 9 April 2008, the same Authority published a consultation document on the implementation of the abovementioned Article 2391 bis of the Italian Civil Code.

In accordance with the Code, as well as with the relevant provisions of the Civil Code, on 27 June 2007 the Board of Directors approved the "Damiani Group's Guidelines on Particularly Important Transactions and Transactions with Related Parties" ("the Guidelines"), which reserve to the competence of the Board of Directors all the "significant transactions" with any party as well as all the transactions with "related parties", including those carried out through subsidiaries, and specifies the rules for their approval and execution (the "Guidelines" are available on the website [www.damiani.com](http://www.damiani.com), under the "Investor Relations" section).

During the financial year the Board has always been promptly and effectively informed about plans for important transactions with related parties, and approved such transactions after assessing their procedural and substantive accuracy.

With specific regard to the acquisition by the Issuer of the entire share capital of Rocca S.p.A. owned by W.J.R. Participations S.A., on 26 June 2008 the Board of Directors of the Company approved - with the prior favourable opinion of the Internal Control and Corporate Governance Committee - the starting of a deep inspectional activity to be carried out by an internal work group, coordinated by a manager of the Company, acting in coordination with the Internal Control and Corporate Governance Committee, composed of Non-Executive directors the majority of which was also Independent, and joined by the Chairman of the Internal Control and Corporate Governance Committee, Giancarlo Marlerba.

The updates on the activities carried out by the work group and by the financial advisor Euromobiliare SIM were made available periodically to the Internal Control and Corporate Governance Committee (which met on 26 June 2008, 8 July 2008, 15 July 2008, 18 July 2008 and 4 September 2008).

On 15 September 2008 the Board of Directors of Damiani S.p.A., with the favourable prior opinion of the Internal Control and Corporate Governance Committee, entrusted Giancarlo Malerba with the powers to undersign the purchase agreement of the share in Rocca S.p.A..

The procedure followed by the Board of Directors for the purchase of the entire share capital of Rocca S.p.A. - transaction with related parties, being W.J.R. Participations S.A. a company entirely and indirectly owned by the Damiani Siblings and controlled by Guido Rossi Damiani - complied with the applicable regulations and was also in line with the regulation proposal drafted by CONSOB in its consultation document on the regulations implementing Article 2391 bis of the Italian Civil Code on transactions with related parties.

With respect to all the other transactions, the Board judged them bearing at least the same economic benefit to the Damiani Group than would have been achieved if the transaction had been negotiated with external counterparties; moreover, the Board has always been duly notified in advance - as required by the law - of any potential conflict of interests in any particular transaction. A summary of transactions with related parties can be found under paragraph 5.2 above.

## 14. APPOINTMENT OF STATUTORY AUDITORS

Pursuant to Article 24 of the Company's By-Laws, the Board of Statutory Auditors includes three standing and two substitute members. Auditors hold the office for three financial years, ending on the day of the Shareholder's Meeting convened to approve the Financial Statement relating to the last of the three financial years, and can be re-elected.

Pursuant to Principle 10.P.1 of the Code (which requires the Board of Statutory Auditors to be appointed according to a transparent procedure which guarantees, among other things, prompt information about the candidates' personal and professional qualifications), Article 24 of the Company's By-Laws provides for the standing and substitute members of the Board of Statutory Auditors to be appointed as follows:

(a) shareholders or groups of shareholders holding at least the interest specified by CONSOB for the appointment of Directors, in accordance with the law and regulations, are entitled to present a ranked and numbered list of candidates, by lodging the list at the Company's registered office no later than fifteen (15) days before the date set for the Shareholders' Meeting (first call). Each list must include the personal details required by the applicable statutory and regulatory provisions; lists not complying with the abovementioned provisions are disqualified;

(b) no shareholder is entitled to present or vote in favour of more than one list, either indirectly or through a fiduciary; members belonging to the same group or being parties to a shareholders' agreement are entitled to present and vote for no more than one list, either indirectly or through a fiduciary;

(c) no candidate can be included in more than one list, being otherwise ineligible; no person can be included in any lists of candidates in breach of the limitations on multiple-offices holding set by the applicable law and regulations;

(d) should only one list be presented within the deadline specified under (a) above, or every lists be presented by members which are to be considered as "related to each other" pursuant to the applicable laws and regulations, the deadline is postponed of five days and in such cases the holding's thresholds required under (a) above are halved.

According to the same article of Damiani's By-Laws, members of the Board of Statutory Auditors are elected as follows:

(i) two (2) standing members and one (1) substitute member of the Board of Statutory Auditors are drawn from the list with the highest number of votes, in the order in which they are ranked in that list;

(ii) the remaining standing and substitute members are drawn from the list with the second highest number of votes (provided that the same is not presented and voted by persons connected - even indirectly - with the members having presented or voted the winning list), again in the order in which they were ranked on the list.

The Chairman of the Board of Statutory Auditors is the standing member drawn from the second list.

Should a member of the Board of Statutory Auditors need to be replaced, the replacing member shall be the substitute member taken from the same list as the member to be replaced.

If the member to be replaced is the Chairman, the new Chairman is the substitute member who has replaced the replaced auditor.

Any General Meeting convened to integrate the Board of Statutory Auditors pursuant to the law shall proceed in such a way as to respect the principle of representation of minorities.

The regulations set out above for the election of the Board of Statutory Auditors and appointment of its Chairman shall not apply in case of presentation or voting of one list solely; in such cases the Shareholders' Meeting shall resolve upon majority of votes.

## 15. BOARD OF STATUTORY AUDITORS IN OFFICE

The Board of Statutory Auditors currently holding the office was appointed by the Shareholders' Meeting on 15 June 2007 for the duration of three financial years, i.e. until the date of the Shareholders' Meeting called to approve the financial statement as of 31 March 2010.

During the financial year ended on 31 March 2009, the Board of Statutory Auditors holding the office met 21 times, 9 of which in conjunction with the Internal Control and Corporate Governance Committee's meetings.

The members of the Board of Statutory Auditors currently in force are listed in the following table.

Pursuant to criteria 10.C.2 of the Code, the independence of the auditors is deemed to be guaranteed by the compliance with the applicable laws and regulations, following to the amendments to the Legislative Decree no. 58/98 made by the so called "Legge sul Risparmio". Please find below also the curricula of each auditor in office.

<b>NAME</b>	<b>POSITION</b>	<b>IN OFFICE SINCE</b>	<b>INDIPIPENDENT CODE</b>	<b>% PARTICIPATION</b>	<b>OTHER POSITIONS</b>	<b>Position</b>
					<b>Company</b>	
GIANLUCA BOLELLI	Chairman	15.06.07	SI	90%	Bart-Med S.r.l.	Director
					CFO SIM S.p.A.	Chairman of the Board of Directors
					Comifin S.p.A.	Director
					Edizioni Piemme S.p.A.	Standing Auditor
					Fiera Milano Congressi S.p.A.	Standing Auditor
					Immobiliare Mugiasca S.p.A.	Standing Auditor
					Impar S.r.l.	Sole Director
					La Provincia Editoriale S.p.A.	Standing Auditor
					Mid Industry Capital S.p.A.	Controlling Director
					Mondadori Retail	Standing Auditor
					Brugola Oeb Industriale S.p.A.	Director
					Oeb S.r.l.	Director
					Pierrel S.p.A.	Director
					Rubelli S.p.A.	Chairman of the Board of Statutory Auditors
					Sesto Siderservizi S.r.l.	Standing Auditor
					Si Lin Tsi S.r.l.	Standing Auditor
					Tre Laghi S.p.A.	Standing Auditor
Tesmec S.p.A.	Director					
SIMONE CAVALLI	Standing Auditor	15.06.07	SI	100%	Attijariwafa	
					Finanziaria S.p.A.	Standing Auditor
					Comitalia Compagnia	Standing
					Fiduciaria S.p.A.	External Auditor
					Coprosider IBF S.p.A.	Chairman of the Board of the Statutory Auditors
					Dynapac S.p.A.	Standing Auditor
					Finanziaria	Standing
					Immobiliare d'Este	External
					S.r.l.	Auditor
					Gianni Crespi	
					Foderami S.p.A.	Standing Auditor
					Hydroservice S.p.A.	Standing Auditor
					IBF S.p.A.	Standing Auditor
					Ilva S.p.A.	Standing Auditor
					Laboratorio Damiani S.p.A.	Standing Auditor
					Merati A. e C. –	
					Cartiera di Laveno	Standing
					S.p.A.	Auditor
					Misco Italy Computer	Standing
					Supplies S.p.A.	Auditor
					Perini Navi Group S.p.A.	Standing Auditor
					Sugarmusic S.p.A.	Standing
						External Auditor
					Gamma S.r.l.	Chairman of the Board of the Statutory Auditors

				Soller S.r.l.	Standing Auditor
				T.FIN S.r.l.	Standing Auditor
				TSP S.r.l.	Standing Auditor
FABIO					Chairman
MASSIMO					of the Board
MICALUDI	Standing Auditor	15.06. 07	SI	90%	Fantastic S.r.l.
					of the Statutory
					Auditors
					A & D - Gruppo Alimentare
					e Dietetico S.r.l.
					Standing Auditor
					B.S.M. S.r.l.
					Standing Auditor
					CFM Nilfisk – Advance S.p.A.
					Standing Auditor
					Gritti Gas Rete S.r.l.
					Standing Auditor
					Gritti Gas Srl
					Standing Auditor
					La Compagnia Finanziaria S.p.A.
					Standing Auditor
					Landi S.p.A.
					Standing Auditor
					Media Finanziaria
					di Partecipazione S.p.A.
					Standing Auditor
					Metallurgica Alta Brianza S.p.A.
					Standing Auditor
					Reddy Pharma Italia S.p.A.
					Standing Auditor
					Principio Attivo S.p.A.
					Standing Auditor
					Sesvanderhave Italia S.p.A.
					Standing Auditor
					Setrimex S.p.A.
					Standing Auditor
					Business Consulting S.r.l.
					Chairman
					of the Board
					of Directors
					Adlink Internet Media S.r.l.
					Standing Auditor
					Associazione Amici del FAI-
					Restauro Monumenti e
					Standing External
					Paesaggio Onlus
					Auditor

### **GIANLUCA BOLELLI – PRESIDENT OF THE BOARD OF STATUTORY AUDITORS**

Graduated in Economics at the Bocconi University in Milano. Registered with the Registries of Accountants and Auditors. He started his professional career as auditor with Deloitte and Touche and then as a consultant with KPMG. Since March 1986 he has been a self-employed accountant, being also a promoting partner of Bolelli, Sportelli, De Pietri, Tonelli Law Firm. He is a member of the Scientific Committee of AIDAF and external professor at "Scuola di Direzione Aziendale (SDA)" of Bocconi University in Milan and at "Supsi" in Lugano.

### **SIMONE CAVALLI – STANDING AUDITOR**

Graduated in Economics and registered with the Registry of Auditors. He started his professional career in Arthur Andersen in 1992, where he held several managerial roles. In 2004 he became a partner in the "Auditing, Analysis, Control and Companies Evaluation Firm" where he currently works as an accountant on yearly and consolidated financial statements, accounting and financial due diligence in view of acquisitions, on behalf of both corporate clients and Italian and international private equity firms.

### **FABIO MASSIMO MICALUDI – STANDING AUDITOR**

Graduated in Economics at Bocconi University in Milan, specialised in administration and control. He is registered with the Registries of Accountants and Auditors. He started his professional career with Arthur Young & Company, now Ernst & Young. From 1990 to 1993 he worked as Administrative and Financial Director of the Editing Group Sugar – Messaggerie Musicali. From 1993 to 1997 he worked as Financial and Control Director of Dia Distribuzione S.p.A. – Group Promodes, currently Carrefour. Afterwards he started to practice as self-employed professional, starting the activity of Accountant in Milan in 1997, becoming a partner at the "Studio Commercialisti Associati" and later, in 2000, a promoting partner at Galli – Madau – Micaludi – Persano – Adorno – Villa Associated Accountants, specializing in corporate, tax and accounting issues connected to extraordinary transactions. Since 2008 he is member of the Finance and Control Commission of the Role of Accountants of Milan.



## 16. RELATIONS WITH SHAREHOLDERS

The Company believes that it is in its best interest—further than its duty towards the market—to establish a continuous dialogue with its shareholders, based on a mutual understanding of the reciprocal roles. This dialogue, however, needs to comply with external communication procedures on corporate documentation and information.

Pursuant to Article 2.2.3, paragraph 3, letter J, of the Regulatory Instructions of the Italian Stock Exchange, the Company has included within its staff a professionally-qualified Investor Relator in charge of taking care of the Company's relations with the professional investors and other shareholders. Our Investor Relations Office is run by Dr. Paola Burzi, who may be contacted by calling 02/46716340 or by emailing her at [paolaburzi@damiani.it](mailto:paolaburzi@damiani.it).

## 17. SHAREHOLDERS' MEETINGS

In compliance with Article 11 of the Corporate Governance Code, all the Directors take part to the Shareholders' Meetings.

So far, the Company has not deemed it necessary to adopt a set of regulations for the Shareholders' Meetings.

In accordance with Article 11 of the Company's By-Laws, shareholders can only attend the Meetings upon providing the Company with the documentation proving their possession of shares as per Article 2370, second paragraph, of the Italian Civil Code not later than 2 (two) business days before the Meeting, as well as showing the relevant certification on the day of the Meeting.

Shareholders' Meetings also give the chance to inform the shareholders in compliance with the rules on privileged information. The Board of Directors particularly endeavours to provide shareholders with adequate information in order to allow them to take decisions on the basis of sufficient information.

During the financial year ended on March 31 2009, the Shareholders' Meeting was held once.

## 18. CHANGES OCCURED SINCE THE CLOSING DATE OF THE FINANCIAL YEAR

As already pointed out, from the last day of the financial year ended on March 31 2009 to the date of approval of this Report the following changes occurred in the Company's structure of governance:

- further to resignation by all the members of the Board of Directors in order to allow the Shareholders' Meeting to appoint a new managing body composed of a reduced number of directors (in order to streamline the structure and reduce the costs in the view of the future market challenges), on April 3 2009 the Shareholders' Meeting appointed the new Board of Directors composed of 7 members, 4 of which are Executive and 2 Independent;
- further to the appointment of the new directors, on the same date the Board of Directors appointed (i) Guido Grassi Damiani as Chairman, (ii) Giorgio Grassi Damiani and Silvia Grassi Damiani as Vice-Chairmen, (iii) Stefano Graidì as Executive Director in charge of supervising the Internal Control System; (iv) Fabrizio Redaelli as Lead Independent Director of the Company. In the same meeting the Board also appointed the new Internal Control and Corporate Governance Committee and the new Remuneration Committee, which are both currently composed by Giancarlo Malerba (Chairman), Fabrizio Redaelli (Independent Director) and Roberta Benaglia (Independent Director).

Milan, 12 June 2009

The Chairman of the Board of Directors  
GUIDO GRASSI DAMIANI



**ATTACHMENT "A"**

List of offices held in other listed companies, as well as in financial, banking, insurance and/or other large companies, in addition to their activities within the Damiani Group, by the members of the Board of Directors of DAMIANI S.p.A holding the office as to the date of approval of this Report as well as by the ones holding the office during the financial year ended on 31 March 2009.

<b>Director</b>	<b>Company</b>	<b>Title</b>
<b>GUIDO GRASSI DAMIANI</b>	Alfieri & St. John S.p.A.	Chairman of the Board
	New Mood S.P.A.	Chairman of the Board
	Damiani Manufacturing S.r.l.	Director
	Laboratorio Damiani S.r.l.	Chairman of the Board
	Damiani International B.V.	Director
	Damiani Japan KK	Chairman of the Board
	Damiani USA Corp.	Director
	Damiani Hong Kong	Director
	Damiani Service	Director
	D. Holding S.A.	Director
	Leading Jewels S.A.	Director
	Sparkling Investment S.A.	Director
	Rocca S.p.A.	Chairman of the Board
	Courmayeur Rocca S.r.l.	Chairman of the Board
Immobiliare Miralto S.r.l.	Director	
<b>GIORGIO GRASSI DAMIANI</b>	Alfieri & St. John S.p.A.	Director
	New Mood S.P.A.	Director
	Damiani Manufacturing S.r.l.	Chairman of the Board
	Damiani Japan KK	Director
	Damiani USA Corp.	Chairman and CEO
	Immobiliare Miralto S.r.l.	Chairman and President
	Damiani International B.V.	CEO
	D. Holding S.A.	Director
	Leading Jewels S.A.	Director
	Sparkling Investment S.A.	Director
	Damiani Service Unipessoal L.D.A.	Director
	Damiani France S.A.	Chairman of the Board
	Rocca S.p.A.	Vice-Chairman of the Board
<b>SILVIA GRASSI DAMIANI</b>	D. Holding S.A.	Director
	Leading Jewels S.A.	Director
	Sparkling Investment S.A.	Director
<b>GIULIA DE LUCA</b>		
<i>(in office until the approval of the financial statements as to 31 March 2009)</i>		
	No offices	
<b>STEFANO GRAIDI</b>	Aprilia World Service BV, Netherlands	Director
	Carraro S.A. Lux	Legal Responsible CH
	Chiorino Group S.A., Luxembourg	Director
	Chiorino Participations S.A, Luxembourg	Director
	D. Holding S.A.	Director
	Damiani International BV	Director
	Gen Del SA Geneva, Switzerland	Director
	Leading Jewels S.A.	Director
	Olivetti Engineering, Switzerland	Director
	Prada S.A. Lux	Legal Responsible CH
	Space S.A.	Director
	Sparkling Inv. S.A.	Director

**GIANCARLO MALERBA**

Ariete S.p.A.	Standing Auditor
Atlas Copco Finance S.r.l.	Standing Auditor
Bolton Manitoba S.p.A.	Standing Auditor
Collistar S.p.A.	Standing Auditor
Cordifin S.p.A.	Standing Auditor
De' Longhi Capital Services S.p.A.	Standing Auditor
IBF S.p.A.	Standing Auditor
Perini Navi Group S.p.A.	Chairman of the Board of Statutory Auditors
Rodacciai S.p.A.	Chairman of the Board of Statutory Auditors

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**LORENZO POZZA**

*(in office until the approval of the balance sheet  
as to 31 March 2009)*

Bracco Imaging S.p.A.	Standing Auditor
Euraleo S.r.l.	Standing Auditor
Terna S.p.A.	Standing Auditor

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**FABRIZIO REDAELLI**

Aedes S.p.A.	Director
The Walt Disney Company Italia S.p.A.	Standing Auditor
Tod's S.p.A.	Standing Auditor

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**ROBERTA BENAGLIA**

*(in office from 3 April 2009)*

DGPA SGR S.p.A.	Managing Director
Light Force S.p.A.	Director
Viterie Italia Centrale S.r.l.	Director
Kickoff S.p.A.	Attorney/Director
Naturservice S.r.l.	Director
Dipros S.r.l.	Director
Vetriere Riunite S.p.A.	Director

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