

# DAMIANI

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

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

(Traditional governance model)

Damiani S.p.A.

[www.damiani.com](http://www.damiani.com)

Financial year 1 April 2017-31 March 2018

Report approved by the Board of Directors of the company on 15 June 2018

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

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## GLOSSARY

**Code/Code of Conduct:** The Code of Conduct of listed companies approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civil Code/CC:** The Civil Code.

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

**Issuer /Company:** Damiani S.p.A.

**Financial year:** the financial year 1 April 2017-31 March 2018 to which this Report refers.

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

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

**Related Parties Regulations:** The Regulations issued by CONSOB with Resolution No. 17221 of 2010 (as subsequently amended) on Transactions with Related Parties.

**Report:** This report on the corporate governance and the ownership structure that the company is required to draft pursuant to Art. 123-*bis* TUF for the financial year.

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

## **1. ISSUER PROFILE**

The Corporate Governance system of Damiani S.p.A. is based on the traditional model (the 'Latin' model). The corporate bodies therefore include the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

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

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

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

The Board of Directors consists of between five and fifteen members, determined each time by the Meeting. The composition of the Board of Directors should, in any case, ensure the balance between genders in compliance with the rules and regulations in force at the time. The Board elects a chairperson from its members and, if necessary, one or more deputy chairpersons.

Pursuant to Art. 21 of the Articles of Association, the chairman has the legal representation of the company before third parties and in court as sole signing authority. He has the right to move legal action or petitions, also for revocation and Cassation sentences, appointing lawyers and attorneys of record. The legal representation is also separately entrusted to one or more of its members, within the limits of the powers conferred on them by the Board of Directors, also with the position of managing directors where appointed.

As shown in greater detail below, the Board of Directors is invested with full powers for the ordinary and extraordinary management of the company (excluding only what is reserved to the Shareholders' Meeting by the law), including the authority to resolve a merger in the cases set out by Arts. 2505 and 2505-*bis* of the Civil Code, the establishment and closure of secondary offices, the indication of which of the directors can represent the company, the reduction of the capital if shareholders withdraw, the adaptation of the Articles to legislative provisions and the transfer of the registered office within Italy.

### **C) COMMITTEE ON CONTROL, RISKS, REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES**

In compliance with the provisions of the Code of Conduct, the Committee on Control, Risks, Remuneration and Transactions with Related Parties has been set up within the context of the Board of Directors. It has been attributed with the function and competencies of the preceding Committees on Control, Risks and Transactions with Related Parties, and Remuneration. At the date of approval of this Report, the company did not consider it necessary to form a Nominations Committee.

As will be explained below, in implementing the Related Parties Regulation and in consideration of the qualification of the Issuer as 'a smaller-sized company', insofar as the company can be so defined, the role and relevant competences that the Related Parties Regulation attributes to the committees consisting wholly or mainly of independent directors with reference to all the Transactions with related parties, were attributed to the Committee on Control, Risks and Transactions with Related Parties (now the Committee on Control, Risks, Remuneration and Transactions with Related Parties).

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

The Board of Statutory Auditors, consisting of three statutory members, including the chairman, and two substitute members, is the supervisory body of the company. The composition of the Board of Statutory Auditors must, in any case, ensure gender balance in compliance with the rules and regulations in force at the time.

The Board is responsible for the supervision of the company, ensuring that it respects the law and Articles of Association, criteria of correct administration and gives adequate instructions to its internal bodies and subsidiaries in its work. For the aspects it is responsible for, the Board of Statutory Auditors must similarly supervise the adequacy of the organisational structure of the company, the internal control and administrative accounting systems, as well as the reliability of the latter in correctly representing management-related issues, making the necessary checks for the purpose.

It is also the responsibility of the Board to supervise the effective implementation of the corporate governance rules set out by the Codes of Conduct drawn up by the management companies of regulated markets or sector associations which the company states it respects through public disclosure. It also checks the adequacy of the provisions issued by the company to its subsidiaries so that they provide the company with all the information necessary for compliance with the notification requirements set out by the law. In compliance with Legislative Decree 39 of 27 January 2010, it should be noted that, the Board of Statutory Auditors (i) informs the company Board of Directors of the outcome of the independent audit and send it the additional report as per Article 11 of EU Reg. 537/2014, with any comments; (ii) monitors the financial information process and presents the recommendations or suggestions intended to guarantee its integrity; (iii) check the effectiveness of the internal quality control systems and risk management and, if applicable, the internal audit of financial information, without breaching the independence; (iv) monitors the statutory auditing of the annual accounts and, where necessary, the consolidated financial statements, also taking account of any results and conclusions checks on quality carried out by CONSOB as per Art. 26, paragraph 6, of EU Reg. 537/2014, where available; (v) checks and monitors the independence of the independent statutory auditor or auditing company as per Arts. 10, 10-bis, 10-ter, 10-quater and 17 of Legisl. Dec. 39/2010

and Art. 6 of EU Reg. 537/2014, with special reference to the provision of non-auditing services to the company, in compliance with Art. 5 of that Regulation; (vi) is responsible for the selection procedure of the independent statutory auditor or auditing company and recommends the independent statutory auditor or auditing company to designate pursuant to Art. 16 of EU Reg. 537/2014.

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-BIS, SUB-PARA. 1, TUF) AT 15 JUNE 2018**

The detailed information on the ownership structure at the date of approval of this Report on **15 June 2018**, is given below, in compliance with the provisions of Art. 123-bis, sub-para. 1, of the TUF.

### **(A) STRUCTURE OF THE SHARE CAPITAL (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (A) TUF)**

All the Damiani S.p.A. share capital consists of ordinary shares with voting rights, listed on the electronic Stock Exchange organised and managed by Borsa Italiana S.p.A. The current share capital, fully issued and paid up, is **Euro 36,344,000** (thirty-six million, three hundred and forty-four thousand) and is divided into **82,600,000** (eighty-two million, six hundred thousand) ordinary shares, with a nominal value of **Euro 0.44** (zero point forty-four) each. The following compensation plans based on financial instruments were in progress at the date of approval of this Report:

- the '*Stock Grant Plan 2014-2019*', approved by the Shareholders' Meeting on 24 July 2014, which sets out the free assignment of a maximum 1,000,000 Damiani shares for beneficiaries indicated by the Board of Directors, with the aid of the Remuneration Committee, among the directors, employees, and co-workers of companies in the Damiani group, which can be implemented in one or more tranches within five years of the date of approval by the Meeting. To date, this Plan has not been implemented. The description of the Plan is given in the '*Information document prepared pursuant to Art. 84 bis, sub-para. 1 of CONSOB regulation 11971/99 and subsequent amendments*' in the Management Report of Damiani S.p.A. dated 23 June 2014 and available in the '*Investors Relations/ Shareholders/Shareholders Meeting*' section of the website [www.damiani.com](http://www.damiani.com);

- the '*Stock Option Plan 2014-2019*', approved by the Shareholders' Meeting on 24 July 2014, which sets out the sale of options for the purchase of a maximum 3,500,000 Damiani shares (in the measure of one share per option assigned) to beneficiaries indicated by the Board of Directors, with the aid of the Remuneration Committee, within the management of companies in the Damiani group, which can be implemented in one or more tranches within

five years of the date of approval by the Meeting. To date, this Plan has not been implemented. The description of the Plan is given in the '*Information document prepared pursuant to Art. 84 bis, sub-para. 1 of CONSOB regulation 11971/99 and subsequent amendments*' in the Management Report of Damiani S.p.A. dated 23 June 2014 and available in the '*Investors Relations/ Shareholders/Shareholders Meeting*' section of the website [www.damiani.com](http://www.damiani.com);

- the '*Stock Option Plan 2015-2020*', approved by the Shareholders' Meeting on 23 July 2015, which sets out the free assignment of a maximum 3,500,000 options (in the measure of one share per option assigned) to beneficiaries indicated by the Board of Directors, with the aid of the Committee on Control, Risks, Remuneration and Transactions with Related Parties (or, if necessary, the independent directors on the Board), among executive directors, senior and middle managers, other employees, consultants and co-workers, including agents, of the company and companies in the Damiani group, which be implemented in one or more tranches within 5 years of the date of approval by the Meeting. To date, this Plan has not been implemented. The description of the Plan is given in the '*Information document prepared pursuant to Art. 84 bis, sub-para. 1 of CONSOB regulation 11971/99 and subsequent amendments*' in the Management Report of Damiani S.p.A. dated 12 June 2015 prepared pursuant to art. 125-ter of the TUF and available in the '*Investors Relations/ Shareholders/Shareholders Meeting*' section of the website [www.damiani.com](http://www.damiani.com).

In addition, the period of exercise of the options assigned with the third cycle of implementation of the '*Stock Option Plan 2010*', approved by the Shareholders' Meeting on 21 July 2010 and concerning the free assignment of options for the purchase of a maximum 3,500,000 Damiani shares (in the measure of one share per option assigned) to executive directors, senior managers, middle managers, other employees, consultants and co-workers, including the agents of the company and companies in the Damiani group, in one or more tranches, within five years of approval by the Meeting, expired at the date of approval of this Report. The description of the plan is given in '*Information Document prepared pursuant to Art. 84-bis, sub-para. 1 of CONSOB Regulation No. 11971/99 and subsequent amendments*' in the Directors' Report of Damiani S.p.A. dated 11 June 2010, and the subsequent supplementary information documents (the last of which is shown attached to the Remuneration Report of 15 June 2018), available in the '*Investor Relations/Shareholders/Shareholders Meeting*', '*Investor Relations/Financial Documents and Balance Sheets and Reports*' and '*Investor Relations/Financial Documents/Documents and Notices*' sections of [www.damiani.com](http://www.damiani.com).

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



It should be noted that the company has not issued other financial instruments that attribute the right to subscribe to newly issued shares.

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

The Articles of Association of Damiani S.p.A. do not provide for restrictions on the transfer of shares, limits to the shareholding, or the approval of corporate bodies or shareholders for the admission of shareholders to the company structure.

**(C) RELEVANT HOLDINGS IN THE CAPITAL (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (C) TUF)**

Based on the results of the Shareholders' Register and the updates available at the date of approval of this Report, including the notifications received by the company pursuant to Art. 120 of the TUF, as well as any other information available, the people who are directly or indirectly holders of equity interests of more than 5% of the share capital issued and paid up, taking account of the Issuer's status of SME pursuant to Art. 1, sub-para. 1 *w-quarter*.1 of the TUF, are those indicated in Table 1 shown in the Appendix to this Report.

**(D) SECURITIES WITH SPECIAL RIGHTS (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (D) TUF)**

The company has not issued securities that have special rights of control nor do the Articles of Association provide for special powers for some shareholders or holders of particular sectors of shares. The Articles of Association of the company do not provide for shares with increased or multiple voting rights.

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

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

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

There are no particular provisions determining restrictions or limitations on the right to vote in the Articles of Association or the separation of the financial rights connected to securities held.

**(G) AGREEMENTS AMONG SHAREHOLDERS (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (G) TUF)**

At the date of approval of this Report, there was a shareholders' agreement *pursuant to art. 122 of the TUF* signed between Guido, Giorgio and Silvia Grassi Damiani on 9 September 2007 with a duration of 3 years, tacitly renewed for a further period of 3 years until 9 September 2013, and subsequently tacitly renewed for periods of 3 years and lately tacitly renewed for a further period of 3 years until 9 September 2019. The said shareholders' agreement was published in the manner and terms set out by the legislation applicable.

The companies whose equity instruments are the subject of the shareholders' agreement are D Holding S.A. and Leading Jewels S.A., the latter holder of a controlling stake (direct) in Damiani S.p.A.

For further information, see the extract of the agreement published in the CONSOB website [www.consob.it](http://www.consob.it).

**(H) CLAUSES ON CHANGE OF CONTROL (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (H) TUF) AND STATUTORY PROVISIONS ON TENDER OFFERS (PURSUANT TO ARTS. 104, SUB-PARA. 1-TER AND 104-BIS, SUB-PARA. 1, TUF)**

The company has an agreement with *Società Italiana per le Imprese all'Estero - SIMEST S.p.A.* (Italian company for businesses abroad) which contains a 'change of control' clause. The contract is also on behalf of the Ministry of Economic Development which disciplines the holding of SIMEST S.p.A. in the capital of the subsidiary Damiani Hong Kong Ltd in support of the development of the company's business.

There are also 'change of control clauses' in some selective distribution contracts with Rolex Italia S.p.A., Patek Philippe S.A., Richemont Italia S.p.A. and Bulgari Italia S.p.A. relating to Rocca points of sale for the purpose of acquiring the position of Authorised Retailer for some Rocca points of sale throughout Italy for the brands of watches they represent.

It is noted that, on tender offers, the Articles of Association of the Issuer (i) do not depart from the provisions on the passivity rule set out by Art. 104 of the TUF, and (ii) do not provide for the application of the neutralisation rules under Art. 104-bis, sub-para. 2 and 3, of the TUF.

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

The Board of Directors has not been delegated by the Shareholders' Meeting to increase the share capital pursuant to Art. 2443 of the Civil Code.

After revoking the authorisation to purchase and dispose of treasury shares, resolved on by the session of 27 July 2017 as not used, the General Shareholders' Meeting of 21 July 2016 authorised the Board of Directors, pursuant to Articles 2357 et seq. of the Civil Code, and

also Art. 132 of the TUF, to purchase treasury shares in one or more solutions, provided that it does not amount to more than one-fifth of the share capital, and thus a maximum of 16,520,000 (sixteen million five hundred and twenty thousand) ordinary shares with a nominal value of Euro 0.44 each (taking account of the shares of the company and its subsidiaries); the aforesaid authorisation was resolved for a period of 18 months with effect from the date of the decision in the Meeting and thus until 27 January 2018.

The purchases, pursuant to Art. 132 of the TUF and Art. 144-*bis* of the Issuer Regulations, can be made in one or more solutions (i) through offers to purchase or exchange, (ii) in the market, in accordance with the operational methods established by the company managing the market, (iii) through the purchase and sale of derivative instruments traded in regulated markets which provide for the physical delivery of the underlying shares, in compliance with the regulatory provisions, (iv) through attribution to Shareholders of an option to sell to be exercised within 18 months of 27 July 2017 proportional to the shares held; (v) with the methods established by market practices permitted by CONSOB pursuant to Art. 13 of EU Regulation 596/2014 and, lastly, (vi) with the different methods permitted by the regulations, including European legislation (including EU Regulation 596/2014) in force at the time, taking account of the need to respect, in any case, the principle of equal treatment of Shareholders and also respect of all applicable legislation.

Except for non-money payments, the purchase price of each treasury share is set at an amount including the accessory purchase fees (a) no lower than 20% (twenty per cent) less than the official trading price recorded on the electronic Stock Exchange the day before the purchase, and (b) not more than 20% (twenty per cent) higher than the official trading price recorded on the electronic Stock Exchange the day before the purchase.

In the same session of 27 July 2017, the Shareholders' Meeting also authorised the disposal of treasury shares with no time limit, also before the purchases were completed.

Similarly, the Meeting ordered that the sale price of the shares to third parties must not be less than 90% of the average of the official prices recorded on the electronic Stock Exchange in the five days preceding the sale. This price limit can be derogated both in cases of exchanges or transfers of treasury shares (or the establishment of guarantees on them) in the fulfilment of industrial and/or commercial projects and/or however of interest to the Issuer or Group, and also for the assignment and/or transfer, free of charge or against payment, of shares or options against the same in relation to (i) payment plans based on financial instruments pursuant to Art. 114-*bis* of the TUF (in favour of, *inter alia*, directors, employees, co-workers, agents or consultants of the Damiani group) and also (ii) the issue of financial instruments convertible into shares, (iii) programmes of free assignment of shares to shareholders.

Disposals of acquired shares can be made one or more times, also before purchases are completed and, if necessary, the same shares can be repurchased in compliance with the limits and conditions established by the authorisation of the Shareholders' Meeting.

Over the financial year, the Board did not implement programmes for the purchase of treasury shares and, at the date of approval of this Report, the company held 5,556,409 Damiani S.p.A. shares overall amounting to 6.727% of the share capital of the Issuer.

The Articles of Association of Damiani S.p.A. do not permit the company to issue participating financial instruments.

#### **(J) MANAGEMENT AND CO-ORDINATION (PURSUANT TO ART. 2497 ET SEQ. OF THE CIVIL CODE)**

Damiani S.p.A. is not subject to management and co-ordination by either the direct holding company Leading Jewels S.A. (which holds 58.829% of the share capital of the Issuer) or indirectly by D. Holding S.A., pursuant to Articles 2497 et seq. of the Civil Code, and manages and co-ordinates its subsidiary companies.

In compliance with the principles of the Code of Conduct, as shown below, the transactions of particular strategic, economic, capital and financial importance of Gruppo Damiani S.p.A. are reserved for the collective examination and exclusive approval of the Board of Directors of the Issuer, in which - as recently checked on 12 June 2018 - there is a congruous number of directors with the requisites of not being executive and independence as per the application criteria established by Art. 3 of the Code of Conduct.

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

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It should be noted:

(A) the information required by Art. 123-bis, sub-para. 1 (i) of the TUF (*'agreements between the company and directors ... which set out indemnities for resignation or dismissal without just cause or if their employment relationship ceases following a tender offer'*) is shown in the Remuneration Report dated 15 June 2018 prepared pursuant to Art. 123-ter of the TUF;

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

### **3. COMPLIANCE (PURSUANT TO ART. 123-BIS, SUB-PARA. 2 (A), TUF)**

The company considers that the alignment of the internal Corporate Governance structure with that suggested by the Code of Conduct is a valid and indispensable opportunity to increase its reliability towards the market.

As a result, the Board of Directors of the Issuer has adopted a framework resolution and a series of resolutions aimed at the effective implementation of the principles of the Code of Conduct since 27 June 2007. Subsequently, the Board of Directors of the company adopted a new Framework Resolution on Corporate Governance on 23 July 2015 which made timely implementation of the principles and recommendations in the latest edition of the Code of Conduct dated July 2015. More detailed information will be given below on these resolutions, also in relation to the subjects relevant at the time.

It is specified that the Code of Conduct is accessible to the public at the website <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>. It should be noted that, as far as the statutory references are concerned, this Report refers to the Articles, as in force at its date of approval, in the version most recently amended by the Board of Directors on 12 June 2013 to adapt the content to Law 120/2011 and Art. 144-undecies. 1 of the Issuer Regulations on gender balance in management and supervisory bodies. The current Articles and this Report can be consulted on the company web site [www.damiani.com](http://www.damiani.com).

It is specified that, following the merger by incorporation of the strategically relevant subsidiary Rocca S.p.A. in Damiani S.p.A., the company today does not control any strategically relevant company; similarly, it should be noted that the company is not subject to legal provisions that are not Italian which influence the corporate governance structure of the Issuer.

## **4. BOARD OF DIRECTORS**

### **4.1 APPOINTMENT AND REPLACEMENT (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (L) TUF)**

Pursuant to Art. 16 of the Articles of Association, the Company is run by a Board of Directors consisting of a minimum of 5 (five) and a maximum of 15 (fifteen) members.

In compliance with Art. 147-ter of the TUF, Art. 16 of the Articles of Association sets out that the mechanism of voting a list is used for the election of the Board of Directors, respecting the regulations on gender balance in force at the time, with the attribution of a director to the list which is second for number of votes (the other members being taken from the list with the most votes).

Shareholders with a holding equal to that determined by CONSOB, pursuant to the law and the regulations, have the right to present lists of candidates for the division of directors to elect. At the date of approval of this Report, this figure corresponded to **2.5% of the Issuer's share capital**, as established by Art. 144-*quater* of the Issuer Regulations and **Resolution No. 1 of the head of the Corporate Governance Division, CONSOB, dated 7 June 2018**. Ownership of that minimum quota is determined pursuant to the law with regard to the shares registered to a shareholder on the day the lists are deposited with the Company.

In compliance with Art. 147-*ter*, sub-para.4, of the TUF, Art. 16 of the Articles of Damiani S.p.A. similarly sets out that *"at least two candidates, always indicated in at least the fourth and seventh places of each list, must have the requisites of independence established by Legislative Decree No. 58/1998"*.

The Articles of Association do not provide for additional **requisites of independence** with respect to those established for the auditors **pursuant to Art. 148, sub-para. 3 of the TUF**, nor requisites of integrity and/or professionalism different from and additional to those required by the law for the assumption of the position of director.

Each list, with effect from the first renewal of the Board of Directors after 12 August 2012, and for three consecutive mandates, containing three or more candidates should ensure that at least the minimum quota in the gender balance required by the rules, laws and regulations in force at the time is confirmed in the Board of Directors.

In compliance with Art. 147-*ter*, sub-para.1-*bis*, of the TUF and Art. 16 of the Articles of Association, the lists of candidates presented by the Shareholders must be lodged in the registered office by the twenty-fifth day preceding the date set for the first call of the Shareholders' Meeting. The lists must be accompanied by (i) the appropriate documentation issued by the qualified intermediaries proving that the necessary number of shares is held at the presentation of the lists, (ii) the CVs of the candidates with a detailed description of their personal and professional attributes, and (iii) the declarations and legal certifications referring to the acceptance of the candidature, that there are no causes of ineligibility and, if necessary, the possession of the requirements of independence established by the TUF. The documentation certifying possession of the minimum holding in the share capital can be produced subsequently, provided at least twenty-one days before the date of the Shareholders' Meeting. If a list is presented in a manner other than those indicated above, it will be considered as **not presented**.

Pursuant to Art. 16 of the Articles of Association, the procedure for election to the office of director is as follows:

(a) **all the directors to elect, except one**, are taken **from the list that obtained the highest number of votes** expressed by the shareholders in the progressive order in which they are on the list;

(b) the **remaining director** is taken from the list that obtained **the second highest number of votes, after the first list**, in the Meeting, and **which is not connected** in any way, even indirectly, with the shareholders who presented or voted the list which obtained the highest number of votes.

The Articles of Association set out that, for the purposes of the division of the directors to elect, no account is taken of the lists which did not achieve a percentage of votes of at least half those required by the Articles.

If, at the end of voting, the composition of the Board of Directors does not respect the gender balance set out by the legislation in force at the time, the candidate of the most represented gender elected last in progressive order in the list with the highest number of votes will be replaced by the first candidate of the least represented gender not elected in the same list in accordance with the progressive order, without prejudice to respect for the minimum number of directors with the requisites of independence established by law. If the said procedure does not ensure the result indicated above, the Shareholders' Meeting shall arrange for the necessary integrations with a resolution adopted by the legal majority.

If just one list is presented or accepted for voting, the candidates of the said list shall be appointed directors in the sphere of that list, according to the progressive number with which they were listed in it. If necessary, the replacement procedure described above shall be applied.

If no list is presented, the Shareholders' Meeting shall resolve with the legal majority, without respecting the above-mentioned procedure, in compliance with the rules and regulations *pro tempore* on gender balance in force at the time.

If there is a reduction of one or more members of the Board of Directors during the financial year, provision must be made pursuant to Article 2386 of the Civil Code, respecting the composition criteria of the Board of Directors set out by the law and Art. 16 of the Articles of Association.

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

### **Succession plans**

In relation to Application Criterion 5.C.2 of the Code of Conduct, it should be noted that, during the preliminary work on the approval of the annual Corporate Governance Report and the ownership structure, the Board of Directors periodically assesses whether to adopt a specific succession plan for executive directors. This was recently the subject of further analysis in the meetings of the Committee on Control, Risks, Remuneration and Transactions

with Related Parties and the Board of Directors, both held on 12 June 2018, during which the limited diffusion and popularity of succession plans in Italy and the rest of Europe were assessed on one hand and, on the other, the particular structure of the shareholding of the Company, and also the experience, skill and age of all the current executive directors involved in the management of the company. On the outcome of this assessment, and after discussions with the Committee and similar regard for the recommendations of the independent directors, and in order to guarantee business continuity, the Board resolved to plan that, in the event of early termination or impediment, even of a temporary nature, in the performance of his functions, the managing director should be replaced, *ad interim*, by the Chairman for the time necessary to allow the Board of Directors to choose the new managing director.

It should be noted that, in the event of early termination of a director with respect to the ordinary expiry of the position, the legal regulations of co-option set out by Art. 2386 of the Civil Code applies, always respecting the composition criteria of the Board of Directors set out by the law and Art. 16 of the Articles of Association apply.

#### **4.2 COMPOSITION (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (D) TUF)**

The current Board consists of 8 (eight) members, 3 (three) of whom independent, and will expire with the next Shareholders' Meeting convened for approval of the balance sheet relating to the financial year which closed on 31 March 2018.

In particular, it is noted that, 7 (seven) of the current members were appointed by the Shareholders' Meeting of 23 July 2015; election took place on the basis of **two lists** presented, respectively, by the majority shareholder **Leading Jewels S.A.** and the minority shareholder **DGPA S.G.R. S.p.A. - Fondo DGPA Capital** (it is noted that DGPA S.G.R. subsequently changed its name to Style Capital SGR S.p.A.). The list presented by the shareholder Leading Jewels S.A., which numbered the following, in order, among the candidates, Guido Roberto Grassi Damiani, Giorgio Andrea Grassi Damiani, Silvia Maria Grassi Damiani, Elena Angela Luigia Garavaglia, Giancarlo Malerba, Stefano Graidì and Valentina Trezzi, received a percentages of votes in favour of 93.0430% of the share capital represented in the Shareholders' Meeting, six members of the Board of Directors and, in detail, Guido Roberto Grassi Damiani, Giorgio Andrea Grassi Damiani, Silvia Maria Grassi Damiani, Elena Angela Luigia Garavaglia, Giancarlo Malerba and Stefano Graidì.

The list presented by the minority shareholder DGPA S.G.R. S.p.A. - Fondo DGPA Capital, which proposed just one candidate, Ms Roberta Benaglia, was given a percentage of votes in favour of 6.9540% of the share capital represented in the Shareholders' Meeting, one of the seven members of the Board of Directors.

The Shareholders' Meeting of 21 July 2016 appointed Ms Mirja Cartia d'Asero as the new member of the Board at the proposal of the majority shareholder Leading Jewels S.A. and



subject to the restatement of the number of members of the Board of Directors to 8 (eight); the appointment was made with a percentage of votes in favour of 99.5056% of the share capital represented in the Meeting.

It is noted that there have been no changes in the composition of the Board of Directors indicated above from the closure of the financial year to date.

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

1) **GUIDO ROBERTO GRASSI DAMIANI**, Executive Chairman of the company. He has an honours degree in Sociology, an honours degree in Organisation and Company Relations, and an *Istituto Gemmologico Italiano* (IGI - Italian Gemmological Institute) diploma in Gemmology. Before joining the family company, he followed a personal career in the real estate sector for a number of years achieving brilliant results.

He took over management of the company in the 1990s, introducing new marketing strategies and leading the development of the brands and group. The first Damiani single-brand shops, which now total 42 directly-managed and 13 Rocca shops, and overseas branches to manage the internationalisation of the group have been opened under his guidance. Guido Damiani personally led the IPO of Damiani S.p.A. on the Milan Stock Exchange in 2007.

He is a member of the *Comitato Leonardo*, an association created from the initiative of Confindustria and the *Istituto Nazionale per il Commercio Estero* (Overseas Trade Institute), which promotes the image of Italy as an economic system. He received the 'America 2013' award from the Fondazione Italia USA. The foundation awards top personalities distinguished for the contribution of their work favouring and promoting relations between Italy and the United States of America.

In 2015, Guido Damiani also received the *Premio Leonardo Qualità Italia* on 'Italian Quality Day', promoted by the *Comitato Leonardo* for companies promoting the image, style and excellence of made in Italy and Italy around the world.

2) **GIORGIO ANDREA GRASSI DAMIANI**, Deputy Chairman, Managing Director and director with responsibility for the Internal Control and Risk Management System of the Company. He joined the family company immediately after obtaining the High School diploma in 1990. He was trained in the different areas of the company, studying in particular the techniques of the valuation and purchase of precious components. Subsequently, he became international distribution manager, acquiring great knowledge of foreign markets. He then started managing the Raw Materials Supply and Product Creation and Development areas, covering the position of Art Director. In 1994, he won a Diamonds International Award.

He has developed important commercial relations with leading Italian brands such as Ferrari, Maserati and Ducati, and the fashion world, such as Ferré and Maison Martin Margiela for which he has developed and created jewelry collections.

His passion for design and the creation of jewels led to his winning a Diamonds International Award twice - in 1994 with the Hong Kong Lights necklace, and in 2000 with the Eden bracelet.

3) **SILVIA MARIA GRASSI DAMIANI**, non-executive Deputy Chairwoman of the Company and head of VIP Relations for the Damian Group and also image of group brands. She obtained diplomas in Business Management and Gemmology at the IGI. She started working in the family company in 1985, following the purchase of pearls and the work of the creative staff. She personally chose well-known international testimonials to represent the different brands of the group. In 1996, she won a Diamonds International Award for one of her creations - the Damiani Blue Moon earrings. In 1997, she wrote the book "*I Gioielli*" (Jewelry), published by Mondadori.

Ernst & Young named her 'Businesswoman of the Year 1999' and, in 2015, she was 'Businesswoman of the Year' for the international organisation *Femmes Chefs d'Entreprises Mondiales*.

Working with Microsoft and the United Nations, Silvia Damiani has actively supported the 'Pink Cloud' project, created to help young women start their career in the technical and scientific field.

On 4 June 2018, she received the '*Stella d'Italia*' (Star of Italy), awarded to her by Sergio Mattarella, President of the Republic of Italy, for valorising Italian heritage around the world.

Today, she lives in Lugano but spends a lot of time in Asia and the United States, supervising all aspects of Damiani Group communications and relations involving VIPs and testimonials.

4) **ELENA ANGELA LUIGIA GARAVAGLIA**, non-executive and independent director and also Chairwoman of the Committee on Control, Risks, Remuneration and Transactions with Related Parties. She graduated in Law at the State University of Milan and obtained a PhD in Company Law from the Bocconi University, Milan. She has been registered with the Professional Order of Lawyers of Milan since 2006 and worked as a freelance lawyer in leading law firms. She has worked with the Criminal and Commercial Criminal Law and the post-graduate programme for legal professions of the Bocconi University where she has also lectured. She is an expert in the administrative liability of bodies pursuant to Legislative Decree 231/2001 and is the Chairwoman of the Supervisory Body of various companies including A2A Energia S.p.A., A2A Smart City S.p.A., and Varese Risorse S.p.A. She is the

author of publications on criminal protection of corporate information and abuse of information and the liability of directors and provides legal consultancy on corporate governance and company compliance.

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

6) **STEFANO GRAIDI**, non-executive and non-independent director of the Company. He graduated in Economics from Bocconi University, Milan in 1978. He is a Chartered Accountant and is enrolled in the Register of Statutory Auditors. He worked for the Pirelli group, covering positions of responsibility in International Taxation. He is a founding partner of *Talenture Advisory SA*, Lugano, Switzerland, a company specialised in legal and corporate consultancy with special reference to multi-national corporate groups.

7) **ROBERTA BENAGLIA**, non-executive and independent director, and also member of the Committee on Control, Risks, Remuneration and Transactions with Related Parties and the Remuneration Committee. She graduated in Management Engineering from the *Politecnico di Milano*. Her career has developed since 1999 with a professional appointment at the listing department of the Borsa Italiana. She has worked with *Onetone Consulting*, an advisory company for the venture capital fund *Onetone* since 2001 and holds the position of Sole Director of *Action Management Consulting*, an M&A and financial advisory company. She has been a founding partner and managing director of DGPA SGR S.p.A. (now STYLE CAPITAL SGR S.p.A.), a company managing the private equity fund DGPA Capital (Euro 105 million totally invested in small and medium-sized companies in quality Italian products) and STYLE CAPITAL (total stock Euro 126 million), with special focus on fashion and Italian lifestyle, since March 2005. She has been actively involved in the management of the funds and their subsidiaries since then. In detail, she was a member of the Board of Directors of Light Force S.p.A. (a company producing and marketing women's clothing with the Twin Set brand) in 2008-2012 and managing director of Golden Goose S.p.A. (a company that produces and markets men's/women's shoes, clothing and accessories with the Golden Goose Deluxe brand).

Today, in addition to being majority shareholder and Managing Director of STYLE CAPITAL SGR S.p.A., she is Chairperson of Kickoff S.p.A., a company producing and marketing beachwear with the Sundek brand), member of the Board of Directors of Vetriere Riunite S.p.A. (a group specialised in the industrial processing of technical glass) and member of the Board of Directors of Production S.p.A. (a group specialised in components for rail transport), managing director of Forte\_Forte S.r.l. (a company producing and marketing women's clothing in the contemporary sector with the forte\_forte brand), managing director of the MSGM Group (which produces and markets men's/women's clothing and accessories in the contemporary sector with the MSGM brand).

8) **MIRJA CARTIA D'ASERO**, non-executive and independent director. She holds a degree in Law from the University of Catania. She started her professional career in 1994 in leading international law firms, specialising in the banking and finance sector. She is a member of the Professional Order of Lawyers. She covers the position of director in leading Italian companies. She is also founder and managing director of Restar S.r.l., a company that is mainly concerned with origination and asset management of property financing transactions.

It should be noted that the existence of the above-mentioned requisites of being/not being executive and independence/non-independence of the directors of the company has been hereby assessed by the Board of Directors of Damiani S.p.A. in compliance with the application criteria established by Articles 2 and 3 of the Code of Conduct, and recently in the Board meeting of 12 June 2018, and that the Board of Statutory Auditors acknowledged the correct implementation of those criteria on the same date.

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

The composition of the Board of Directors of the company and the relevant information for each director in office at the date of approval of this Report are shown in the Appendix in Table 2.

### **Diversity policies**

With the resolution of the Board of Directors of 12 June 2018, also based on the outcome of the periodic self-assessment, made annually pursuant to Art. 1.C.1 (g) of the Code of Conduct, the Company has adopted its own diversity policy in relation to the composition of its administrative body, implementing the provisions of Art. 123-bis, sub-paragraph 2 (d-bis) of the TUF. This policy intends to indicate the optimal features of the composition of

the Board of Directors so that it can perform its tasks in the most effective manner, taking decisions that can really benefit from the contribution of several qualified, heterogeneous points of view, able to examine the subjects under discussion from different perspectives.

The diversity policy of the Board of Directors of the Company provides, in particular, that:

- (i) the Board of Directors should mainly consist of non-executive directors who should fulfil an important dialectic function and contribute to monitoring the choices made by the executive directors;
- (ii) normally, one-third of the directors and, in any case, at least two directors should have the requisites of independence set out by the law and the Code of Conduct so that the internal Board committee can be set up (which should mainly consist of independent directors);
- (iii) in any case, the composition of the Board of Directors must ensure gender balance in compliance with the legal and statutory provisions in effect both at the time of appointment and during the mandate;
- (iv) a balanced combination of different age ranges should be ensured in the Board of Directors to allow a balance of perspectives and managerial and professional experiences;
- (v) Board members should be figures with a managerial and/or professional and/or academic and/or institutional profile such that a mix of different, complementary skills and experience is created. In particular:
  - a. managerial profiles should have gained skill and experience in positions of responsibility in the luxury business and jewelry sector or business sectors strictly pertinent to those of the Company and also have elevated orientation to strategies and results respecting the principles of correct corporate and business management;
  - b. professional profiles should have gained skill and experience in positions of responsibility in accredited professional firms, consultancy companies or other organisations and carried out their professional work in economic, accounting, legal (with special reference to the commercial, corporate, tax and financial market sectors) and financial matters and also in risk management and remuneration policies, with special pertinence to the business of the companies;
  - c. academic and/or institutional profiles should have gained skill and experience which can be useful for the consolidation of the Damiani Group business;
- (vi) the Chairperson should be a person with sufficient experience and authority to ensure the correct, efficient and effective management of the operation of the Board of Directors during the mandate. The Chairperson is responsible for creating a strong spirit of cohesion in the Board, at the same time being a guarantee for all shareholders and stakeholders. He or she should encourage participation of all directors in Board

discussions on an equal basis and have adequate experience in managing topics of strategic relevance in the Board in addition to specific managerial and business skills in the jewelry sector;

- (vii) the managing director should be a person with authority and also recognised strategic vision, with extensive knowledge of the jewelry sector, its dynamics and evolution, with special reference to overseas markets. He or she should likewise have recognised leadership and a management style oriented to the ability to create team spirit among co-workers.

It is considered essential that all directors ensure time availability sufficient for the diligent and responsible performance of their roles so that the Board of Directors of the Company can fulfil its functions in the most effective way. With reference to the implementation methods, the above-mentioned policy intends, first and foremost, to orient candidacies expressed by Shareholders during the renewal of the Board of Directors, ensuring adequate consideration at the time of the benefits that may arise from harmonic composition of the Board, aligned with the various diversity criteria indicated above. The Board of Directors shall also take account of the composition criteria set out by the policy described where one or more directors who have terminated during the mandate have to be replaced, without prejudice to respect for the composition criteria set out by the law and the Articles of Association.

#### **MAXIMUM ACCUMULATION OF POSITIONS COVERED IN OTHER COMPANIES**

In relation to application criterion 1.C.3 of the Code of Conduct, please note that, at the date of approval of the Report, (a) the Board of Directors did not consider it either necessary or opportune to establish general criteria to set the maximum number of positions as director or statutory auditor that can be considered compatible with effective performance of the position of director of the Issuer; (b) the lack of determination of a maximum number of positions essentially lies in the multiplicity of abstractly possible situations, which differ according to the attributes of each director, type, size and complexity and specific nature of the area of business of the companies in which the other positions are held, and also the specific role covered (executive, non-executive, or independent director, membership of committees, statutory auditor or chairperson of the Board of Statutory Auditors, etc.); (c) the aforementioned decision was taken by the Board of Directors at the Framework Resolution of 23 July 2015, and subsequently confirmed in the context of the annual self-assessment procedures, after which the Board confirmed the reasons described in (b) above on 12 June 2018; (d) as an alternative to setting a maximum number of positions, the Board of Directors considered it preferable to opt for an assessment of the individual cases, in relation, *inter alia*, to the features of each director and the companies in which other positions are held from which the compatibility of the positions held with the assumption

of the position on the Board of Directors of the Issuer can be inferred. It is understood that the management body can adopt different resolutions where considered opportune.

Also in compliance with application criterion 1.C.2 of the Code of Conduct, the positions of director or auditor held to date by the current directors in other companies listed in regulated markets, including foreign ones, financial, banking and insurance companies or those of relevant size, is shown schematically in the enclosure in the Appendix.

#### **INDUCTION PROGRAMME**

In relation to application criterion 2.C.2, please note that, every three months, the Chairman and Managing Director send the directors updated information, for the Board meetings and/or via a written note, in compliance with the current legal and statutory provisions relevant for company and group trends, constantly supplying, *inter alia*, information on the main updates in the relevant legislative framework and their impact on the company. The Board of Directors, in its entirety, has adequate knowledge of the sector in which the Company operates, the company dynamics and their evolution, the principles of correct management of risks and also the reference legislative and self-regulatory framework.

#### **4.3 ROLE OF THE BOARD OF DIRECTORS (PURSUANT TO ART. 123-BIS, SUB-PARA. 1 (D) TUF)**

The Board of Directors covers a central role in the determination of the strategic objectives of the Issuer and group. Over the financial year, the Board of Directors met 6 (six) times, and 4 (four) times in the current financial year, including the meeting approving this Report; at least 1 (one) other meeting is planned for the current financial year. On average, Board meetings last for about an hour.

There was regular and frequent participation of the directors in the meetings (the percentage of participation of each director is indicated in Table 2 in the Appendix).

Pre-meeting information is guaranteed through the distribution, reasonably in advance of the date of the meeting, of all the documentation relative to the points on the agenda. In particular, with reference to application criterion 1.C.5 of the Code of Conduct, it is noted that the Board of Directors decided not to set a strict time limit for sending pre-meeting information, considering opportunely that this time limit can reasonably vary each time, according to the individual cases and in relation to the appropriate documentation to be submitted to the Board. This decision was confirmed by the Board of Directors most recently in the meeting of 12 June 2018, at the outcome of the periodic self-assessment process. From this, *inter alia*, an overall positive judgement of all Board members on the completeness, clarity, use and promptness of the pre-meeting information emerged, which enables each director to prepare sufficiently for Board meetings and speak and act in an informed manner.

Board meetings are carried out with the effective contribution of all members of the Board of Directors, whose heterogeneous skills allow the subjects on the agenda to be analysed from different perspectives.

From time to time, people not on the Board took part in the Board meetings held during the financial year, invited in relation to the matters to be dealt with on the agenda.

In compliance with the Articles of Association, the Board is invested with all the powers of ordinary and extraordinary management, without limitations, and with the right to carry out all the acts considered opportune to fulfil the company's objectives, only excluding those that the law and the Articles of Association reserve for the Shareholders' Meeting.

As specified above, Art. 20 of the Articles of Association attributes the competence to resolve on the matters set out by Art. 2365, sub-para. 2, of the Civil Code to the Board.

Further, in relation to application criteria 1.C.1, 2.C.3 and 7.C.1 of the Code of Conduct, the Board of Directors decided, with the cited Framework Resolution dated 23 July 2015, to reserve the following subjects for its jurisdiction, in addition to those established by law and the Articles of Association (and respecting their limits):

- a) examination and approval of the strategic, industrial and financial plans of the company and Damiani group, periodically monitoring the implementation; definition of the corporate governance system of the company and the structure of the Damiani group;
- b) definition of the nature and level of risk compatible with the strategic objectives of Damiani S.p.A. and the Damiani group, including all the risks that may have importance from the point of view of sustainability of the company's business in the medium-long term;
- c) subject to determination of the relative criteria, indication of the subsidiary companies with strategic relevance; assessment of the adequacy of the organisational, administrative and accounting structure of the company as well as its subsidiaries with strategic relevance, with particular reference to the internal control system and management of risks;
- d) establishment of the frequency, not less than quarterly, with which the delegated bodies must refer to the Board on the work carried out in the exercise of their powers;
- e) assessment of the general trend of the management, taking into consideration the information received from the delegated bodies, in particular, and also periodically comparing the results obtained with those planned;
- f) resolution on the transactions with significant strategic, economic, capital or financial importance for the company, set up by it and its subsidiaries; for the purpose, establish general criteria to indicate significant transactions (the '*Guidelines for Significant Transactions*');
- g) at least once a year, carry out an assessment of the size, composition and operation of the Board and its committees, taking account of the professional attributes, experience, including managerial experience, and the gender of its members, and also their seniority of appointment ('self-assessment');



h) before the appointment of the new Board, provide guidelines to the shareholders on the professional figures considered appropriate for the Board;

i) provide information in the Report on Corporate Governance on: (1) its composition, indicating the title of each member (executive, non-executive or independent), the role covered on the Board, the main professional attributes as well as the seniority from the first appointment; (2) the methods of application of Art. 1 of the Code of Conduct and, in particular, on the number and average length of Board meetings, as well as the relative percentage of participation of each director; (3) how the 'self-assessment' process is carried out;

j) at the proposal of the Managing Director or Chairman of the Board of Directors, adopt a procedure for the internal management and external communication of documents and information on the company, with particular reference to privileged information;

k) designation of an independent director as Lead Independent Director;

l) indication of (i) one or more directors, entrusted with institution and maintenance of an effective system of internal control and risk management (the 'Director entrusted with the Internal Control System and Risk Management') from within the Board.

Similarly, subject to the opinion of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, the Board has decided to retain the following subjects for its competence, as better specified in the '*Guidelines of the Internal Control and Risk Management System of Gruppo Damiani S.p.A.*' (most recently amended in the Board meeting of 14 June 2016):

m) definition of the guidelines of the Internal Control and Risk Management System in order that the main risks related to the Issuer and its subsidiaries are correctly indicated, adequately measured, managed and monitored, also determining the level of compatibility of those risks with business management consistent with the strategic objectives indicated;

n) at least twice a year, assessment of the adequacy of the Internal Control and Risk Management System with respect to the features of the business and the risk profile assumed, as well as its effectiveness;

o) at least once a year, approval of the work programme prepared by the Internal Audit Manager, after discussion with the Board of Statutory Auditors and the director responsible for the Internal Control and Risk Management System;

p) description of the main features of the Internal Control and Risk Management System and the methods of co-ordination among the people involved, giving its assessment of its adequacy;

q) after discussion with the Board of Statutory Auditors, assess the results set out by the statutory auditor in any suggestion letter and the report on the fundamental questions emerging during the statutory audit; and also, at the suggestion of the director responsible

for the Internal Control and Risk Management System, subject to the favourable opinion of the Control and Risk Committee (or the single committee set up within it) and after discussion with the Board of Statutory Auditors:

- r) appoint and revoke the manager of the Internal Audit function;
- s) ensure that the manager has adequate resources to fulfil its responsibilities;
- t) define the remuneration consistently with company policies.

In relation to application criterion 1.C.1 of the Code of Conduct, the Board also formally confirmed (in the sphere of the 'Framework Resolution' adopted on 23 July 2015), the principle that the delegated bodies refer to the Board on the work performed in the financial year in the exercise of the powers conferred at least once a quarter, usually at the Board meetings for the approval of the balance sheet and the interim financial reports, in compliance with the current legal provisions. It should be noted that, in compliance with the Related Parties Regulation and the '*Procedure on Transactions with Related Parties of Damiani S.p.A.*', the delegated bodies similarly supply complete information on the performance of Transactions with Related Parties to the Board of Directors and Board of Statutory Auditors at least once a quarter.

In implementing the principles and competences described above, the Board of Directors has:

(A) as already specified in the Reports on previous financial years, approved the '*Guidelines on particularly significant transactions and with related parties of the Gruppo Damiani S.p.A.*' on 27 June 2007, subsequently redefined as '*Guidelines on particularly significant transactions*' ('Guidelines') on 11 February 2011, which contain precise identification criteria of 'particularly significant' and relevant transactions with third parties, also through subsidiaries, reserved for the jurisdiction of the Board (although falling within the subject concerned by the proxy), in particular the following transactions, with whomsoever they are performed, are '*particularly significant*' and, as a result, are always subject to prior examination and approval by the Board of the company:

- a) transactions that oblige the company to provide public disclosure on documents drafted in compliance with CONSOB provisions;
- b) financial purchase transactions (assumption of mortgages and loans in general, and also the issue of collateral securities or personal guarantees), for amounts higher than Euro 15,000,000.00 per individual transaction;
- c) trademark acquisition and disposal transactions;
- d) licensing of trademarks for amounts higher than Euro 10,000,000.00 per individual transaction;

e) other transactions, different from the points above, whose value is greater than Euro 15,000,000.00 per individual transaction.

If the financial terms of the transactions are determined, the value of the transaction is:

- i) for the elements in cash, the total paid to/by the contractual counterpart;
- ii) for the elements consisting of financial instruments, the fair value at the date of the transaction, determined in compliance with the IAS/IFRS accounting principles;
- iii) the maximum amount that can be distributed for transactions of financing or granting of guarantees;

**(B)** as already specified in the Reports on previous financial years, adopted the '*Procedure on Transactions with Related Parties of Damiani S.p.A.*' (hereinafter the '**OPC Procedure**') on 26 November 2010, in compliance with the provisions of the Related Parties Regulation, indicating the most relevant Transactions with Related Parties in compliance with the relevance thresholds set out by Appendix 3 to the Related Parties Regulation. It should be noted that, in respect of this Regulation and consideration of the qualification of the Issuer as a 'smaller-sized company', the role and relevant competences that the regulatory legislation attributes to the committees set up, wholly or mainly with independent directors, was attributed to the Committee for Internal Control and Transactions with Related Parties (now the Committee on Control, Risks, Remuneration and Transactions with Related Parties) of the Issuer, consisting of non-executive, mainly independent directors; the Transactions with Related Parties Procedure sets out that all Transactions with Related Parties (whether of greater or lesser relevance) are to be decided by the competent body each time, which resolves only after the issue of a motivated, non-binding opinion by the Committee on the Control, Risks, Remuneration and Transactions with Related Parties concerning the interests of the company in the completion of the operation, and also the benefit and substantial fairness of the conditions of the transaction.

The Board of Directors has always been immediately updated on Transactions with Related Parties, also pursuant to Art. 22 of the Articles of Association and Art. 150 of the TUF and the Related Parties Regulations.

The Board of Directors also:

**(C)** assessed the adequacy of the organisational, administrative and general accounting structure of the Issuer, most recently in the meeting of 15 June 2018 for the approval of the annual financial report to 31 March 2018. In particular, this assessment was adopted with the aid of the Committee on Control, Risks, Remuneration and Transactions with Related Parties which, in its meetings (in which the Internal Audit Manager also took part, see below), was able to continuously check the effective operation of the Internal Control and Risk Management System of both the Issuer and the group;

(D) on 15 June 2018, assessed the general trend in management on the basis of the information received from the delegated bodies, comparing the results achieved with those forecast;

(E) on 12 June 2018, made the assessment of the size, composition and operation of the Board and its committee (the self-assessment), acknowledging that the current Board consists of 8 directors of whom 6 non-executive, 3 of which are independent pursuant to the law and the Code of Conduct.

The self-assessment process by the management body was carried out through the use of special questionnaires, also implemented to take account of the recommendations of the Chairman of the Corporate Governance Committee of 13 December 2017, distributed before to the individual directors, and particularly concerned: (a) the adequacy of the size and composition of the Board for company transactions, with special reference to the relationship between executive and non-executive directors, from the point of view of representation of their gender, age and training and professional path; (b) the directors' knowledge of the sector the Company operates in, company dynamics and their evolution, the reference legislative and self-regulatory framework and the principles of correct management the risks the Company is exposed to; (c) the compatibility of the administration and control positions covered by each member of the administrative body with the effective fulfilment of the role of director of the Company; (d) the authority and availability of time of the non-executive directors and independent directors in relation to their contribution to making Board decisions; (e) the operation of the administrative body and Committee, with special reference to the frequency and duration of meetings, immediacy and completeness of the information and the documentation transmitted before each meeting, the adequacy of the further inquiries made by the Chairman of the Board during those meetings, the quality of the discussion and contribution of the Board to the definition of strategic plans; (f) the adequacy of the information received during Board meetings from the delegated bodies of the Company on the work performed in the exercise of the powers attributed and the transactions of most economic, financial and capital importance carried out by the Company, also with related parties, and also the information received from them for the valuation of the general trend in management and its foreseeable evolution; (g) the adequacy of the organisational, administrative and accounting structure of the company, with special reference to the Internal Control and Risk Management System; (h) the need or not to define a plan for the succession of executive directors or to set up a special Appointments Committee; (i) the adequacy of the remuneration of directors and senior managers with strategic responsibilities; (j) the expression of orientation in relation to the optimal composition of the Board of Directors, with a view to the approaching renewal of the body on the agenda at the next Shareholders' Meeting; and, lastly, (k) the evaluation of the requisites of independence based on both the provisions of the law and the Code of Conduct.

In the meeting of 12 June 2018, the Board of Directors examined the outcome of the self-assessment process considering, on one hand, the congruity of a Board consisting of eight members (of whom 6 non-executive, 3 of which independent) with respect to the operation and business of the company, and also the numerical congruity of the ratio between members of the Board and non-executive directors, who play an important dialectic role and make an effective contribution to monitoring the choices made by the executive directors. On the other, it examined the adequacy of the composition of the administrative body, also considering the age of the directors, gender representation and the professional skills and experience with respect to Company operations.

Similarly, the Board of Directors expressed its favourable opinion on the operation of the Board and Committee, also with a positive assessment of the independent directors, considering the information and documentation supplied before each of the relative meetings adequate, complete and timely, and assessed the information received from the delegated bodies during the Board meetings as adequate and satisfactory, both with reference to the general trend in management and the transactions performed with related parties. It also considered the contribution of the body to the definition of strategic plans and monitoring of the adequacy of the internal control and risk management systems.

It should also be noted that, in compliance with Application Criterion 1.C.1 (h) of the Code of Conduct, in the context of the Report on matters on the agenda drafted pursuant to the Art. 125-ter of the TUF, before the appointment of the current management body resolved by the Meeting of 23 July 2015, the previous Board expressed its guidelines to Shareholders on the professional figures whose presence in the management body was deemed appropriate, recommending:

- (i) the inclusion of a congruous number of candidates with adequate experience, also managerial, and skills in economic, accounting, legal and financial and risk management matters and/or remuneration policies;
- (ii) in lists with three or more candidates the inclusion of candidates of both genders so that the composition of the Board of Directors ensures gender balance to the extent set out by Art. 2 of Law 120/11 (the least represented gender should have a quota of at least one fifth of the elected directors);
- (iii) the inclusion in the lists of a sufficient number of candidates with the requisites of independence to permit respect for Art. 147-ter, last sub-para., of the T.U.F.

It is also noted that, in consideration of the approaching expiry of the mandate of the current directors, the Board also took into account the outcome of the self-assessment process made in the meeting of 12 June 2018, respecting Application Criterion 1.C.1 (h) of the Code. With respect to the diversity policy adopted by the administrative body on the same date, Shareholders were advised of the Board's orientation on the composition of that body in the

context of the Report items on the agenda prepared pursuant to Art. 125-*ter* of the TUF, recommending the following to Shareholders intending to present a list:

(i) the inclusion of a managerial and/or professional and/or academic and/or institutional profile in the list of candidates such that a mix of different, complementary skills and experiences is created. In particular:

a. the managerial profiles should have gained skills and experience in positions of responsibility in the luxury and jewelry business sectors or sectors closely related to the business of the Company, and also have significant orientation to strategies and results respecting the principles of correct corporate and business management;

b. the professional profiles should have gained skills and experience in positions of responsibility in the context of accredited professional firms, consultancy companies or other organisations and have carried out their professional career in economic, accounting, legal (with special reference to commercial, corporate and tax law, and financial markets) and financial matters and also in the management of risk and remuneration policies, with particular relevance to the business of the companies;

c. the academic and/or institutional profiles should have skills and experience which may be useful for the consolidation of the business of the Damiani Group;

(ii) the inclusion of an adequate number of candidates in the list with the requisites of independence so that at least two directors are independent;

(iii) the inclusion in the list of candidates of different ages so that a balanced multiplicity of perspectives and managerial and professional experience is obtained in the Board of Directors;

(iv) the inclusion of persons of both genders in each list containing more than three candidates so that the composition of the Board of Directors ensures a balance of genders as set out by Art. 147-*ter*, sub-para. 1-*ter*, TUF (the least represented gender must obtain a quota of at least one-third of the directors elected).

The Board of Directors believes the inclusion of persons with the aforesaid features among its members to be particularly opportune, in the conviction that the heterogeneous and highly qualified nature of the professionalisms called on to contribute to the work of the administrative body, and also the balanced combination of genders and ages, allows the various topics under discussion to be analysed from different perspectives, thus contributing to nurturing a mature, complete dialectic in the Board, the prerequisite of all pondered and conscious collective decisions.

Lastly, it is noted that the Shareholders' Meeting of 23 July 2015 and, referring to the director Cartia D'Asero, 21 July 2017, specifically authorised all the directors appointed to assume offices and perform business notwithstanding the prohibition as per Art. 2390 of the Civil Code. In compliance with application criterion 1.C.4 of the Code of Conduct, the Board of

Directors has the task of assessing the merits of each problem and reporting any critical points at the first possible meeting.

#### **4.4 DELEGATED BODIES**

The current Board of Directors expresses its work, not only directly and collectively, through:

- the chairman;
- two deputy chairpersons, one of whom holds the position of managing director.

It should be recalled that, in the meeting of 23 July 2015, the Board of Directors attributed the **DEPUTY CHAIRMAN Giorgio Andrea Grassi Damiani** with the position of **Managing Director** and conferred on him all the powers necessary to perform all the acts related to the management of the company and achievement of the company purpose, except for those reserved to the jurisdiction of the Shareholders' Meeting or Board of Directors by the law, the Articles of Association, company procedures or the Board of Directors itself in compliance with the applicable principles, also of the Code of Conduct, with the right to appoint and revoke representatives and proxies for individual acts or categories of acts, to move legal action or petitions, also for revocation and Cassation sentences, and also appoint lawyers and attorneys of record for every type or level of justice or proceedings, and with the power to sign and represent before third parties and in legal proceedings.

In greater detail, including but not limited to, the following powers were attributed to the Managing Director, with a single signature and the right to sub-delegate:

- representation of the company before states, ministers, regions, provinces, municipalities, public authorities, organisations, Italian, foreign, international and supranational bodies, administrations and financial and tax offices, central and peripheral, tax litigation bodies, etc., in any place and level, and with third parties, assuming the legal representation of the company for the purpose to issue and sign any type of application, request and petition and similarly issuing certificates and notifications in the name of the company;
- representation of the company in any type and level of justice, before any judiciary or arbitrator, freely or formally testifying, managing, mediating and settling disputes, also with the right to appoint and revoke representatives and proxies for individual acts or categories of acts, to move legal action or petitions, also for revocation and Cassation sentences and arbitration proceedings, and also appoint lawyers and attorneys of record, accept and stipulate arbitration and compromise clauses, appointing individual arbitrators and arbitration panels, whether statutory or equitable, also in equity, with any renunciation of appeal against the respective awards;

- representation of the company in Customs offices, Chambers of Commerce, transport and shipping companies, railways and post offices in relation to all the clearance operations, collection and despatch of material and goods, ensuring all compliance in relation to import and export operations, also with the right to sign and endorse invoices, movement certificates, certificates of origin, CITES, ATA carnets and any other relevant administrative act or document;
- representation of the company with the Ministry of Employment and the Regional Offices, the Employment Inspectorate, National Social Security Institute (INPS), the Health and Safety Executive (INAIL) and generally any body or welfare or social security institute, represent the company with trade unions for workers and employers;
- sign the notifications to the Financial and Tax Administration, Revenue Office and finance offices in general, ensuring respect for all the administrative and tax laws and requirements of the company, with the right to sign, inter alia, the periodic and annual statements for VAT purposes, the Unified Tax Return, form 770, tax payment forms, taxes, withholding taxes and contributions and also every statement, certification or deed in relation to the above;
- employ and dismiss employees, both fixed-term and open-ended, amend the relative economic and contractual conditions, to the fullest extent permitted by the law, including that of agreeing to settlements with the employee;
- recover claims, collect and withdraw money due to the company from anyone as a result of the business carried out, sign the correspondence with customers, make protests and apply for injunctions, carry out any preventive and enforcement measures including registrations, subordinations, subrogation, cancellations, recordings of mortgages and privileges for the company to the fullest extent permitted by the law, sign notifications/quittances intended for the cancellation of protests on debt instruments and, in general, confirmation that payment of the debt has been made by the customer, request and have statements of bankruptcy declared and move insolvency proceedings in general, with all the relevant rights, represent the company in bankruptcy proceedings, liquidation and settlements of debtor customers and also sign the deeds relating to proceedings for the judicial recovery of company debts with the right to accept or reject offers from debtors and the bodies in the proceedings, as well as make waivers and settlements;
- negotiate and sign deeds of purchase and sale and concession of use of real estate, including financial leasing contracts, negotiate and sign leasing contracts, rental or purchase agreements for companies or branches of companies, amending agreements of the aforesaid contracts, and any termination or resolution of them;



- purchase raw materials, components and finished jewellery, watchmaking and general products pertinent to the company business, also in the sphere of the production and development of new products;
- negotiate and sign contracts connected with the management of the company business for the purchase of goods and performance of services (including, by way of example, financial leasing contracts for moveable property, rental of software and hardware, POS equipment, conventions for credit card circuits, financial services, etc.), tenders, professional appointments, insurance contracts and policies;
- sign all the administrative files necessary for the management of company business, such as, for example, notifications for the performance of work to municipal authorities, Archaeological Office, Local Health Authority, etc., municipal declarations of the start and completion of work, refuse tax, vehicle entrances, administrative declarations and authorisation to empty, issue of SIAE (Italian Royalties Collection Society) authorisations, appointment of delegated persons and payment of the relative fees;
- represent the company (also via electronic means-internet) as the nominated person of the Public Safety Licence for trade in precious articles set out by the Consolidated Public Safety Law and relative implementing regulations, issued to the company for the main office at Piazza D. Grassi Damiani 1, Valenza (AL), assuming full responsibility for it with third parties; make the application for the authorisation to open branches and secondary offices with the relative appointment and revocation of the persons responsible for all the branches and secondary offices of the company and, in general, sign the correspondence and any act relative to the subject in question;
- enter into, amend and terminate agency and/or business procurement contracts; carry out all the transactions necessary to obtain licences and authorising acts in general for agents with Public Administrations, including the law enforcement authority and also their amendment or return;
- negotiate and conclude sales transactions with customers and also sign commercial contracts, agreeing terms and conditions, looking after and requiring compliance, collect moneys and issue quittances, sign the relative correspondence to customers;
- negotiate and conclude purchases for any reason, assignment, conferment and in general any act of disposal of shares, securities or interests in companies constituted or to be constituted and/or in joint ventures, also performed outside the consolidation scope of the Damiani group, carried out for the pursuit of the company purpose;
- negotiate and conclude contracts in the spheres of marketing, communications and Public Relations of the company, including contracts with testimonials and/or for

- accessorising famous people, also through the organisation and promotion of public events;
- open and close current accounts with banks and credit institutes, make credits and deposits, issue instructions for the current accounts of the company and carry out all related transactions within the limits of the credit lines granted;
  - effect assignments of credit with or without recourse, carry out actions such as hedges for foreign exchanges risks, negotiate and sign contracts for opening credit and loans of any type and durations, sign sureties and guarantees in general to cover the commitments assumed by the company or group companies;
  - manage all relationships with banks, payment institutes, insurances, leasing or factoring companies and any other intermediary or body operating in the financial sector with the right to fulfil, negotiate, manage and resolve any financial, insurance and banking operation, receivable and payable, with all the fullest powers, including that of issue liens and other guarantees, and without limitation of amount, similarly implementing any activity considered necessary or also simply opportune to formalise and manage the contracts (also financing ones), guarantees, third party undertakings (also of equity commitment), commissions letters, hedging contracts and any other document over time, exercising the rights and powers set out for the company and implementing them, with the right to negotiate, agree and sign every deed, declaration, document or certificate mentioned, required, connected, relative or also only ancillary to the contract (including, by way of example, requests for use and waiver);
  - appoint proxies for individual acts or categories of acts in general.

In that meeting of 23 July 2015, the Board of Directors indicated the Managing Director Mr **Giorgio Andrea Grassi Damiani** as the 'Employer', i.e. the person with all the powers for the health and safety of the workers, as per Legislative Decree 81 of 9 April 2008, and any other current or future law that, however, concerns the health and safety of workers, and, as Employer, attributed him with full decision-making powers, with the consequent unlimited power of expenses and with the full power to sub-delegate, for the implementation of the work on the health and safety of the workers listed below by way of example:

- designate the Head of the Health and Safety Department;
- in co-operation with the Head of the Health and Safety Department, indicate the risk factors and measures for the health and safety of the work areas;
- in co-operation with the Head of the Health and Safety Department, prepare the 'Risk Assessment' document on the place of work;
- appoint the company doctor;

- guarantee respect for the general measures of protection set out by Legislative Decree 81/2008, carrying out all that is necessary and adopting all the essential and opportune initiatives for the pursuit of the protection of the health and safety of the workers in the sphere of the place of work;
- create the preventive and protective measures whether individual or collective;
- purchase appliances, equipment and devices and the materials necessary to guarantee the correct fulfilment of the mandate;
- implement the health supervision of the workers and check the implementation of the protocol on the health supervision of the workers;
- prepare information and training programmes of the workers;
- if necessary, make use of resources with specific professional knowledge external to the company;
- represent the company in relations with the state administration, public and private bodies, carrying out all acts and transactions necessary to obtain concessions, licenses and authorisations in general;
- represent the company before the judicial and administrative authorities.

Furthermore, the Board of Directors confirmed full powers of functions for all the offices and operational units where the business of the company is developed in Italy on Mr **Giorgio Andrea Grassi Damiani** in order that, in the name and on behalf of the company, he is responsible for compliance with all obligations imposed by the rules and regulations on **the protection of the environment and area**, including, in particular, Legislative Decree 152/2006 and subsequent amendments (the 'Environmental Code'), with full powers, also of expenses, with reference to the management, organisation, leadership, supervision and control functions, with the full power of the law to sub-delegate.

By way of example, the Managing Director **Giorgio Andrea Grassi Damiani** shall be responsible for the following, with the most extensive managerial independence and without the requirement to obtain prior or expense authorisations, with the power to sub-delegate:

- the application of the environmental legislation and, in particular, Legislative Decree 152/2006 and subsequent amendments, in all branches, offices, business units and places pertaining to the company;
- the indication of the work or situations which, in the context of the company or the work in the workshops, require the planning of transactions (presentation of statements, applications for authorisations, technical transactions by persons competent in the subject, etc.);
- representation of the company before state administration, public and private bodies, the relevant judicial and administrative authorities and any other public authority with jurisdiction pursuant to the law, with the relative power to sign

- requests, appeals and applications aimed at the compliance set out and to receive the deeds of the same authorities in the name and on behalf of the company;
- the indication of company functions in the company and external bodies which, because of their professional technical skills and specific preparation, can aid it in the compliance with its obligations; for this purpose, he can give all directives, service orders, attribution of responsibilities and powers to the company functions identified and conclude consultancy contracts and/or performance of services with external bodies;
  - the information and training of managers of business units about the tasks entrusted to them for compliance with the obligations arising from the environmental legislation, including Legislative Decree 152/2006 and subsequent amendments;
  - the supervision of compliance with the obligations set out by the cited Legislative Decree 152/2006 and subsequent amendments and the organisational and technical directives given for the purpose by each delegate, also through company functions or third parties as per (4);
  - the completely independent adoption and with a single signature of all the decisions for expenses necessary for the correct application of Legislative Decree 152/2006 in the company and the environmental legislation in general;
  - the suspension and/or interruption of any work for the period considered absolutely necessary for the purposes of preventing significant risks not otherwise avoidable.

Also on 23 July 2015, the Board decided to **reserve the transactions to the exclusive competence of the Board of Directors** relating to the disposal of treasury shares by the Company and the sale of the brands owned (in addition to all the matters specifically reserved for its jurisdiction by the law, Articles of Association, company procedures or the same Board of Directors in compliance with the applicable principles, also of the Code of Conduct).

The Board of Directors appointed the managing director **Giorgio Andrea Grassi Damiani** to the position of **Director Responsible for the Internal Control and Risk Management System** in the Framework Resolution of 23 July 2015, conferring on him the functions indicated in the aforesaid Framework Resolution, as better detailed in the '*Guidelines for the Internal Control and Risk Management System of Gruppo Damiani S.p.A.*' and summarised in para. 9.1. Further, respecting Art. 2.C.5. of the Code of Conduct, it should be noted that the managing director **Giorgio Andrea Grassi Damiani** does not hold the position of director in other issuers not belonging to the Damiani group of which he is managing director and a director of the Company.

### **Chairman of the Board of Directors**

With reference to Art. 2 of the Code of Conduct, it should be noted that the Chairman of the Board of Directors Mr Guido Roberto Grassi Damiani is the controlling shareholder of the Issuer and did not have the position of Chief Executive Officer and did not receive management powers from the Board of Directors of the Issuer.

It is noted that the Chairman is directly involved in the internalisation process of the Damiani group.

### **Information to the Board**

At least once a quarter, the executive directors:

- must report to the Board of Directors on the transactions carried out in the exercise of the powers, both for ordinary transactions and the atypical and unusual transactions;
- provide full information on the performance of the Transactions with Related Parties to the Board of Directors and Board of Statutory Auditors;
- submit the significant transactions, whose exclusive competence is reserved to the Board of Directors, to the approval of the Board, in compliance with the '*Guidelines*', last updated by the Board of Directors on 11 February 2011 (following the specific approval of the procedure aimed at regulating the transactions of the group with related parties).

As already mentioned, in relation to application criterion 1.C.1 of the Code of Conduct, the Board reiterated the principle, also formally in the context of the multiple references to the Framework Resolution of 23 July 2015, that the delegated bodies refer to it on the work performed in the exercise of the powers conferred at least once a quarter, usually at the Board meetings to approve the annual and interim financial reports and/or written notes, in compliance with the current law and the Articles of Association.

### **4.5 OTHER EXECUTIVE DIRECTORS**

In reference to the directors currently in office, the chairman Guido Roberto Grassi Damiani (in consideration of his direct involvement in the internalisation process of the group) and Giorgio Andrea Grassi Damiani, deputy chairman, managing director and director responsible for the Internal Control and Risk Management System are executive pursuant to Art. 2 of the Code of Conduct.

#### 4.6 INDEPENDENT DIRECTORS

There are 3 (three) directors with the requisites of independence set out by Art. 148, sub-para. 3 of the TUF and Art. 3 of the Code of Conduct on the current Board of Directors; Elena Garavaglia, Roberta Benaglia and Mirja Cartia d'Asero.

On the first opportunity after its appointment, the Board of Directors checked the existence of the requisites of independence established by Art. 148, sub-para. 3, of the TUF and Art. 3 of the Code of Conduct, on the basis of the information given by each director. In compliance with application criterion 3.C.4 of the Code and Art. 144-*novies*, sub-para. 1-*bis* of the Issuer Regulations, the outcome of this assessment was made known to the market with the issue of a press release.

During the financial year, and most recently on 12 June 2018, the Board of Directors confirmed the requisites of independence pursuant to the law and Code of Conduct for the directors Elena Angela Luigia Garavaglia, Roberta Benaglia and Mirja Cartia d'Asero. The independence criteria taken into consideration are those set out by current law and Art. 3 of the Code of Conduct, which were applied with the following specification. In consideration of the fact that, as specifically set out by application criterion 3.C.1 of the Code, greater attention must be paid to the substance rather than the form in the assessment of independence and, as a result of the judgement of a high level of professionalism and independence of position unanimously shared on the person concerned, the circumstance of having held the position for more than 9 years in the last 12 was not considered to be a conditioning factor for the director Roberta Benaglia, representative of the minority shareholder Style Capital SGR S.p.A. - Fondo DGPA Capital.

In compliance with application criterion 3.C.5 of the Code of Conduct, the Board of Statutory Auditors considered the criteria and procedures adopted by the Board to assess the independence of its members correct.

Furthermore, in the implementation of application criterion 3.C.6 of the Code of Conduct, and pursuant to it, just the independent directors met during the financial year, without the other directors, on 27 February 2018, at the request of the Lead Independent Director. The purpose was to assess, *inter alia*, the compliance of the Company with the legislation on market abuse and the CONSOB guidelines on the management of inside information, the state of implementation of the principles of the Code of Conduct, also with regard to the letter of the Chairman of the Corporate Governance Committee dated 13 December 2017, and also the application of the discipline on non-financial information and diversity policies introduced by Legislative Decree 254/2016. Although there was no specific undertaking, all the independent directors, indicated as such at the time of appointment, have maintained their independence to date.

#### **4.7 LEAD INDEPENDENT DIRECTOR**

As specified above, the Chairman of the Board of Directors is the controlling shareholder of the Issuer. Therefore, respecting application criterion 2.C.3 of the Code of Conduct and the recommendation as per the comment relating to Article 2 of that Code, the Board appointed the (non-executive and) independent director **Elena Angela Luigia Garavaglia** as '*Lead Independent Director*' to whom the following functions were attributed:

- act as a reference and co-ordination point for the petitions and contributions of the non-executive directors and, in particular, the independent directors;
- co-operate with the Chairman of the Board of Directors to guarantee that all the directors receive complete and timely information flows;
- convene, independently or at the request of other directors, ad hoc meetings of just independent directors to discuss the topics considered of interest with respect to the operation of the Board or company management, guaranteeing, *inter alia*, that the independent directors meet without the other directors at least once a year.

During the financial year, the Lead Independent Director co-operated with the Chairman to ensure the completeness and timeliness of the information flow to all directors, and convened a specific meeting with just the independent directors.

#### **5. PROCESSING OF CORPORATE INFORMATION**

Respecting criterion 1.C.1 (j) of the Code, in addition to compliance with the provisions of EU Regulation 596/2014 (the 'Market Abuse Regulation'), the Company has adopted the '*Procedure for the internal management and disclosure to the market of documents and information on Damiani S.p.A.*' and the '*Procedure for the institution, management and updating of the group register of people with access to privileged information of Damiani S.p.A.*' which, were updated during the financial year to take account of the most recent orientations given by ESMA (final report and Q&A) and CONSOB (guidelines on the management of inside information). In compliance with the provisions of Art. 19 of the Market Abuse Regulation, Art. 114, seventh sub-para., of the TUF and Arts. 152-*quinquies.1* et seq. of the Issuer Regulations, the Company has also adopted the '*Procedure for the identification of Internal Dealing persons and notification of the transactions carried out by them (INTERNAL DEALING PROCEDURE)*' which indicates the 'relevant persons' and disciplines the methods of disclosure to CONSOB and the public of the transactions they have carried out concerning shares issued by the listed company or other financial instruments of the Company. The *Internal Dealing Procedure* was updated during the financial year to incorporate the new items introduced by CONSOB Resolution 19925 of 22 March 2017.

## **6. INTERNAL COMMITTEES OF THE BOARD (PURSUANT TO ART. 123-BIS, SUB-PARA. 2 (D) TUF)**

Most recently, in the Framework Resolution of 23 July 2015, respecting the principles and application criteria of Art. 4 of the Code of Conduct, the Board set up a single committee, named '**Committee on Control, Risks, Remuneration and Transactions with Related Parties**' (or, as appropriate, '**Committee**', '**Remuneration Committee**' or '**Control and Risk Committee**') to which the functions and competences of the Committee on Control, Risks and Transactions with Related Parties and the Remuneration Committee were attributed.

The principles and operational criteria of the Committee are as follows:

- a) the Committee normally consists of not less than 3 independent directors; alternatively, it can consist of non-executive directors, the majority of whom are independent, on condition that the chairman is chosen from the independent members; one of the members of the Committee must have adequate knowledge and experience in financial matters or retribution policies, to be assessed by the Board at the time of the appointment; one of the members of the Committee must have adequate experience in accounting and financial matters or risk management, to be assessed by the Board at the time of the appointment;
- b) the Board may, with a subsequent resolution, supplement or amend the duties of the Committee as attributed with the cited Framework Resolution of 23 July 2015, just as it can assess their distribution between several committees;
- c) the minutes of the Committee meetings must be prepared and the chairman of the Committee shall provide information at the first subsequent Board of Directors;
- d) the Committee has the right to access the information and company functions necessary for the fulfilment of their tasks as well as make use of external consultants, subject to the terms established each time by the Board; in relation to the tasks to be completed, the Committee can, from time to time, draw on the resources that the company makes available at its request, in the terms established by the Board of Directors, its Chairman, the Managing Director or the director responsible for the Internal Control and Risk Management System, without prejudice to the provisions on Transactions with Related Parties;
- e) people who are not members, including other members of the Board or the company structure, can take part in the meetings of the Committee, subject to the invitation of the Committee and limited to the individual points on the agenda; the Chairman of the Board of Statutory Auditors or another auditor designated by him (the other auditors can, in any case, participate) takes part in the meetings of the Committee; the meetings of the Committee are chaired by its chairman; if the chairman is absent, or however with the unanimous decision of its members, the meetings of the Committee can be chaired by another member;



f) attendance of the majority of the respective members in office is required for the validity of the resolutions of the Committee; resolutions are taken with the absolute majority of those present and, if the voting is equal, the vote of the person presiding will prevail; meetings are also validly constituted when held by means of videoconference or telephone conference call, on condition that all participants can be identified by the chairman of the meeting and the others attending, that they are able to follow the discussion, speak in real time in the discussion on the subjects discussed, receive the documentation and then transmit it; in this case, the Committee is considered to be held at the place where the chairman is.

It should be noted that the functions of committees set out in the Code were not reserved for the Board of Directors.

Up to the date of approval of this Report, the Board of Directors had not considered it opportune to set up a Nomination Committee within it, considering, *inter alia*, the current structure of the body of shareholders and taking into account that, as specifically set out in the comment to Art. 5 of the Code, *“the institution of the Nomination Committee arose historically in systems featuring a high level of dispersion of the shareholding ... and that, in particular, when there are widespread ownership structures, it carries out a function of special importance in finding candidates for the position of director”*.

The principles of the Code of Conduct acknowledged by the company require that proposals for appointment to the position of director, accompanied, *inter alia*, by adequate information on the personal and professional features of the candidates, with indication of their suitability to be qualified as independent pursuant to Art. 3 of the Code, are deposited in the headquarters in the terms set out by the rules and regulations, in force each time, and published in a timely manner on the company website.

Lastly, it should be noted that, with the resolution of 12 June 2018, the Board of Directors adopted its own diversity policy, in implementation of Art. 123-*bis*, sub-para. 2 (*d-bis*) of the TUF, which intends to indicate the optimal features of the composition of the Board of Directors.

## **7. COMMITTEE ON CONTROL, RISKS, REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES**

As mentioned, the Board of Directors resolved the establishment of a single committee within it, after checking the requisites of not being executive and independence in compliance with the Application Criteria of the Code of Conduct, in the Board meeting of 23 July 2015. The committee was named **‘Committee on Control, Risks, Remuneration and Transactions with Related Parties’** (or, as appropriate, **‘Committee’**, **‘Remuneration Committee’** or **‘Control and Risks Committee’**).

**Composition and operation of the Committee on Control, Risks, Remuneration and Transactions with Related Parties (pursuant to art. 123-bis, sub-para. 2, (d), TUF)**

The Committee on Control, Risks, Remuneration and Transactions with Related Parties currently in office consists of three non-executive members, the majority of whom are independent pursuant to the law and the Code of Conduct, as indicated below:

- **Elena Angela Luigia Garavaglia** (Chairman - independent),
- **Roberta Benaglia** (independent),
- **Giancarlo Malerba**.

During the financial year, co-ordinated by its chairman, the Committee met 6 (six) times; the meetings lasted on average about one hour and were attended assiduously by the members (the percentage of participation of each member is indicated in Table 2 shown in the Appendix);

It should be noted that, in the current financial year, the Committee has already met on 3 (three) occasions and at least another 3 (three) meetings are planned.

Minutes of the Committee meetings are duly prepared and the Chairman advises the Board at the first subsequent Board meeting.

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During the financial year, the Committee consisted of three non-executive directors, the majority of whom independent, and the chairman was chosen from them; in addition, in compliance with Principles 6.P.3 and 7.P.4 of the Code of Conduct, the professionalism of all the members of the Committee guarantees adequate knowledge and experience in financial matters or retribution policies and also in accounting and financial matters or risk management.

In compliance with Application Criterion 6.C.6 of the Code of Conduct, directors do not take part in the meetings of the Committee if proposals relating to their remuneration are formulated.

At the invitation of the Committee, and in relation to individual subjects on the Agenda, persons who are not members took part in the meeting of the Committee held during the financial year, in particular, the members of the Board of Statutory Auditors, the Internal Audit manager, the single-person Supervisory Body, the Director Responsible for the Internal Control and Risk Management system and the senior manager responsible for drafting the corporate accounting documents, and also representatives of the independent auditors.

**Functions of the Committee on Control, Risks, Remuneration and Transactions with Related Parties**

The following functions and tasks are the responsibility of the Committee on Control, Risks, Remuneration and Transactions with Related Parties.

#### Tasks and functions on remuneration

In compliance with the current *'Remuneration Policies and procedures for their implementation of Damiani S.p.A.'*, the Committee has the following tasks:

- a) present proposals to the Board for the remuneration of the executive directors, and those who cover special roles, and also, after discussions with the delegated bodies, the correct indication and setting of adequate performance objectives enabling the calculation of the variable component of their payment;
- b) formulate proposals to the Board of Directors on the adoption of the remuneration policy for directors, particularly executive directors and those who cover special roles, and the senior managers with strategic responsibilities;
- c) assist the Board of Directors in the preparation and implementation of the payment plans based on financial instruments;
- d) periodically assess the adequacy and real application of the remuneration policy, using the information provided by the delegated bodies where the assessment concerns the payments of senior managers with strategic responsibilities;
- e) formulate any proposal on remuneration matters to the Board of Directors;
- f) monitor the application of the decisions on remuneration adopted by the Board of Directors, assessing, among other items, the effective achievement of the performance targets; assess, where necessary, any application of the claw-back mechanisms;
- g) refer to shareholders on the methods of exercising their functions; for this purpose, the attendance of the Chairman of the Remuneration Committee or another member of the Committee is recommended at the Shareholders' Annual Meeting;
- h) if considered necessary or opportune for the fulfilment of the tasks attributed to it, use external consultants expert in retribution policies; the experts should be independent and, as a result, by way of example, should not exercise relevant activities for the Human Resources Department of Damiani S.p.A., any controlling shareholders of Damiani S.p.A. or the directors or senior managers with strategic responsibilities of Damiani S.p.A. The independence of external consultants is checked by the Remuneration Committee before the relative position is conferred.

#### Tasks and functions on Internal Control and Transactions with Related Parties

In compliance with the provisions of the Code of Conduct, and as better detailed in the *'Guidelines for the Internal Control and Risk Management System of Gruppo Damiani S.p.A.'*, and also the *'Procedure on Transactions with Related Parties of Damiani S.p.A.'*, the Committee is

responsible for the following consultative and propositional functions on internal control and risk management:

- a) express opinions to the Board of Directors in the cases set out by application criterion 7.C.1 of the Code of Conduct;
- b) assess, with the senior manager responsible for drafting the corporate accounting documents, and after discussion with the independent auditors and Board of Statutory Auditors, the correct use of the accounting principles and their homogeneity for drafting the consolidated financial statements;
- c) express opinions on specific aspects relevant to the indication of the main company risks;
- d) examine the periodic reports and those of special relevance prepared by the Internal Audit function;
- e) monitor the independence, adequacy and effectiveness of the Internal Audit function;
- f) if necessary, exercise the right to ask the Internal Audit function to perform checks on specific operational areas, advising the Chairman of the Board of Statutory Auditors at the same time;
- g) at least every six months, generally at the approval of the annual and interim financial reports, refer to the Board on the work performed and also the adequacy of the Internal Control and Risk Management System;
- h) with adequate preparatory work, support the assessments and decisions of the Board of Directors on risk management arising from default events of which the Board has been informed;
- i) carry out the tasks which, in compliance with the regulatory legislation in force at the time, are attributed to it pursuant to the '*Procedure in Transactions with Related Parties of Damiani S.p.A.*'

In consideration of the qualification of the Issuer as a 'smaller-sized company', the role and relevant competences that the Related Parties Regulation and Procedure attribute to the committee consisting of non-executive directors with a majority of independent directors referring to all the Transactions with Related Parties, were assigned to the Committee.

During the financial year, the Committee has, *inter alia*: (i) examined the periodic reports of the Internal Audit Manager to monitor the adequacy of the internal controls system with the rightful constancy and, where necessary, intervene to fill any lacunae; (ii) with the independent auditor, examined the correct use of the accounting principles and their homogeneity for the draft of the consolidated financial statement; (iii) expressed their opinion to the Board in relation to the work plan prepared by the Internal Audit Manager; (iv) expressed their favourable opinion on the adequacy of the Internal Control and Risk

Management System, with respect to the features of the business and the risk profile assumed, and also its effectiveness; (v) checked the real application of the Remuneration Policies adopted by the Company for the 2016/2017 financial year, assessing the adequacy with reference to the 2017/2018 financial year and, similarly, the honoraria of directors of Damiani Group companies; (vi) expressed a favourable opinion in relation to the fulfilment of some Transactions with Related Parties; (vii) favourably assessed the update of some company procedures (including the *'Procedure for the institution, management and update of the Group Register of the persons with access to inside information of Damiani S.p.A.'* and the *'Procedure for internal management and notification to the market of documents and information concerning Damiani S.p.A.'*); (viii) gave a favourable opinion on the suggestion of the director responsible for the internal control and risk management systems to appoint a new Internal Audit Manager.

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The Chairman of the Board of Statutory Auditors took part in the meetings of the Committee on Control, Risks, Remuneration and Transactions with Related Parties held during the financial year, as well as the other Statutory Auditors. Also in the light of Legislative Decree 39/2010, the Board of Statutory Auditors then met in a joint session with the Committee on Control, Risks, Remuneration and Transactions with Related Parties to ensure efficient coordination of the work and detailed and complete exchange of information.

The minutes of the Committee meetings on Control, Risks, Remuneration and Transactions with Related Parties were duly prepared.

The Committee has the right to access the information and company functions necessary for the fulfilment of its tasks as well as use external consultants, subject to authorisation by the Board of Directors, in relation to the tasks to be completed.

It should be noted that the Board of Directors has not allocated an ad hoc budget to the Committee and that, from time to time, the company makes the resources necessary for the fulfilment of its functions available to it, without prejudice to the provisions on Transactions with Related Parties.

## **8. DIRECTORS' REMUNERATION**

At the proposal of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, the Board of Directors of Damiani S.p.A. defined the *'Remuneration policies and procedures for implementation by Damiani S.p.A.'*, with a resolution of the Board on 14 June 2012, respecting the applicable legislation and in compliance with Principle 6.P.4 of the Code of Conduct. The Remuneration Policies and Procedures were subsequently updated on 12 June 2015 and, most recently, considered adequate on 15 June 2018. This document defines the guidelines that all corporate bodies involved have to respect in determining the remuneration of directors, especially executive directors and others with particular roles,

and senior managers with strategic responsibilities, also taking account of the remunerations perceived at group, procedural (path of definition and implementation of the remuneration policies) and substantial (criteria that must be respected in the definition of remunerations) levels.

The remuneration policies and procedures are set out in the first section of the Remuneration Report prepared pursuant to Art. 123-ter of the TUF, made available to the public at the registered office and on the company website [www.damiani.com](http://www.damiani.com) and the authorised eMarket Storage mechanism [www.emarketstorage.com](http://www.emarketstorage.com) in accordance with the law, to which reference should be made in full for all information not in this Report.

It should be noted that, in compliance with the provisions of Art. 123-ter, sub-para. 6, of the TUF, the next Shareholders' Meeting will be called on to make a non-binding resolution on the first section of the Remuneration Report, which illustrates the remuneration policy adopted by the company and the procedures used for its adoption and implementation.

#### **Remuneration plans based on shares**

As specified above, all information relating to the current remuneration plans is in the Remuneration Report prepared pursuant to Art. 123-ter of the TUF and the respective information documents drawn up pursuant to Art. 84-bis of the Issuers' Regulations available at [www.damiani.com](http://www.damiani.com), to which this section refers in full.

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#### **Indemnity of directors following resignation, dismissal or termination of the relationship also following a tender offer (pursuant to art. 123-bis, sub-para.1 (i) of the TUF).**

Pursuant to Art. 123-bis, sub-para.1 (i), of the TUF, please note that, at the date of approval of this Report, there are no specific agreements between the Issuer and any of the directors which provide for the payment of an indemnity to directors following resignation, dismissal/revocation without just cause or termination of the relationship following a take-over bid. Note that, during the financial year, no executive director terminated his/her position.

## **9. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

In the session of 13 June 2008, the Board of Directors of Damiani adopted its own '*Guidelines for the Internal Control System*' (the '*Guidelines*') at the proposal of the director responsible for Internal Control and with the aid of the then Internal Control and Corporate Governance Committee. These were then amended and supplemented by the Board of Directors, also to strengthen and optimise the internal control system both in the company and the Damiani

group overall. As specified above, the Board of Directors, at the proposal of the director responsible for the Internal Control and Risk Management system, and having noted the favourable opinion of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, and after discussions with the Board of Statutory Auditors, approved the new text of the *'Guidelines for the Internal Control and Risk Management System of Gruppo Damiani S.p.A.'*, adapting the content to the July 2015 edition of the Code of Conduct, also taking account of the amendments introduced by Legislative Decree 25 of 15 February 2016. According to the provisions of the Guidelines, the controls involve the bodies listed below, with different roles and in the sphere of the respective competences: (a) the Board of Directors, which has a role of guidance and assessment of the adequacy of the Internal Control and Risk Management System and, within it, indicates one or more directors entrusted with the institution and maintenance of an effective Internal Control and Risk Management System, as well as the Committee on Control, Risks, Remuneration and Transactions with Related Parties, with the task of supporting, with adequate investigation work, the assessments and decisions of the Board of Directors relating to the Internal Control and Risk Management System, and also that relating to the approval of the periodic financial reports; (b) the Internal Audit Manager, entrusted with checking that the Internal Control and Risk Management System is functioning and adequate; (c) other roles and company functions with specific Internal Control and Risk Management tasks, divided in relation to the size, complexity and risk profile of the company (the senior manager responsible for the corporate accounting documents and all the staff); (d) the Board of Statutory Auditors, which supervises the effectiveness of the Internal Control and Risk Management System; (e) the Supervisory Body and, lastly, (f) the directors and auditors of the Issuer's subsidiaries. All are required to respect the indications and principles in the Guidelines.

The Internal Control and Risk Management System of Damiani S.p.A. is aimed at:

- contributing to a management of the company consistent with the company objectives defined by the Board of Directors, favouring the assumption of conscious decisions;
- ensuring the necessary separation between the operational and control functions and, therefore, it must be structured so that conflicts of interest are avoided or reduced to the minimum in the assignment of the competences;
- facilitating the adequate indication, measurement, management and monitoring of the risks assumed by the Issuer and Gruppo Damiani, with particular reference, among others, to the companies with strategic relevance;
- establishing controls at every operational level and clearly indicating tasks and responsibilities, in particular in the supervision, intervention and correction of the irregularities found;
- ensuring reliable information systems and appropriate reporting processes at the various levels to which control functions are attributed;

- guaranteeing that the anomalies found are brought to the knowledge of adequate levels of the company in a timely manner;
- allowing the registration of every management fact and, in particular, every operation with a sufficient level of detail, ensuring the correct attribution from the time point of view.

The Internal Control and Risk Management System is subject to periodic examinations and checks, taking account of the evolution in company transactions and the reference context, as well as the existing national and international best practices.

An integral and essential part of the Internal Control and Risk Management System of the Damiani group consists of the existing risk management and internal control system relating to the process of financial information (administrative and accounting procedures for the preparation of the financial statement and consolidated balance sheet and the other reports and/or notifications of an economic, capital and financial nature prepared pursuant to the law and/or regulations, and also for monitoring their effective application) prepared with the co-ordination of the senior manager responsible for drafting the corporate accounting documents.

In implementation of application criterion 1.C.1 (b) of the Code of Conduct, it should be noted that, at the meeting of the Board of Directors of 15 June 2018, the Director Responsible for the Internal Control and Risk Management System submitted the report on the indication of the main risks involving the Issuer and its subsidiaries to the Board. Thus, the Board of Directors approved the risk monitoring policy with a view to compatibility with a healthy, correct management of the company and, subject to the opinion of the Committee, assessed that the Internal Control and Risk Management System of the Damiani group appears adequate and functional overall.

## **RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS EXISTING IN RELATION TO THE PROCESS OF FINANCIAL AND CONSOLIDATED INFORMATION**

### **INTRODUCTION**

In compliance with the indications included in the Format diffused by Borsa Italiana S.p.A., it should be noted that the management and control system of the Damiani group concerning the risks related to the financial reporting process is an integral part and is included in the context of the wider Internal Control System of Damiani S.p.A. and the group, a system in which the main elements are:

- the Code of Ethics;
- the Organisation, management and control model pursuant to Legislative Decree 231/01;
- the *'Procedure for the identification of Relevant Persons and notification of the transactions made by them'* ('Internal Dealing Procedure');



- the principles and procedures for carrying out Transactions with Related Parties; the current Damiani S.p.A. procedure on Transactions with Related Parties was approved by the Board of Directors of the company on 26 November 2010 and subsequently updated on 10 February 2012, and is aligned with the provisions of the Related Parties Regulations and subsequent amendments and integrations;
- the powers and proxies;
- the organisational chart;
- the procedure for the management and disclosure to the market of privileged information and the Insider Register;
- the accounting and administrative system, in turn consisting of a set of procedures and operational documents and instructions for budget and reporting work relative to the closure calendars.

The Board of Directors of Damiani S.p.A. maintains the central role for the co-ordination and guidance of the Internal Control and Risk Management System, defining the general lines of the organisational, administrative and accounting structures of the Issuer and the other companies of the group.

The internal control system of financial reporting is a set of activities aimed at indicating and assessing actions and/or events that may compromise the trustworthiness, precision, reliability and timeliness of financial reporting, if they occurred. As a result, the system adopted by Damiani S.p.A. and the group aims at guaranteeing that the procedures prepared reasonably ensure the trustworthiness of the financial reporting, in accordance with the Business Model which is a feature of the group, corporate structure (with the survey of strategically important companies), reference accounting principles and their evolution. The design approach followed in the construction of the Control Model was inspired by international standards and the best practices in the sector. It is periodically monitored to assess its full application and correspondence with the features of the group and its evolution.

#### **DESCRIPTION OF THE MAIN FEATURES OF THE EXISTING RISK MANAGEMENT AND INTERNAL CONTROLS SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS**

A) Steps in the existing risk management and internal controls systems in relation to the financial reporting process.

The control system relating to the financial reporting processes is based on risk assessment aimed at indicating and assessing the areas of risk in which events compromising achievement of the reliability of the financial reporting could occur in the reference context (business model, corporate and organisational structure, procurement and distribution markets, and current rules and regulations). This activity enabled the identification of the

only group company with strategic relevance on the basis of quantitative and qualitative parameters (Rocca S.p.A., subsequently incorporated by the Issuer) and the main company processes supplying the balance sheet and consolidated documents of the companies.

In this way, a matrix of processes/bodies to subject to the check and assessment of the existing control system in relation to their typical risks relating to the preparation of the official and public financial reporting was achieved.

The real balance sheet items and connected company processes supplying them are selected for any company indicated as having strategic relevance so that the specific controls to perform can be identified to guarantee the typical objectives the Internal Control System must pursue in providing the financial reporting.

#### B) Role and Functions involved

The financial reporting management and control system is managed by the senior manager responsible for drafting the accounting and corporate documents appointed by the Board of Directors in compliance with the current statutory provisions.

In the fulfilment of duties, the senior manager responsible:

- interacts with the Internal Audit manager who makes independent checks on the operation of the Control System and supports the senior manager responsible in his monitoring work;
- is supported by the managers of the various company functions (and, in particular, by the administrative managers) of group companies, who ensure the completeness, reliability and timeliness of the information flows to the senior manager responsible who co-ordinates all the work for the preparation of the annual and interim financial reporting;
- sets up a reciprocal exchange of information with the Committee on Control, Risks, Remuneration and Transactions with Related Parties and the Board of Directors, reporting on the work performed;
- periodically informs the Board of Statutory Auditors on the events of particular relevance occurring with reference to the impact on financial reporting and the adequacy and reliability of the administrative-accounting system where they are recorded.

Monitoring of the effective application of the system of risk management relative to financial reporting is carried out continuously throughout the financial year by the senior manager responsible who has direct responsibility for the correct and timely performance of management carried out by group companies in the administrative, accounting and financial spheres.

No risks or situations that were not already subject to monitoring by the company were disclosed by all the checks made.

The senior manager responsible for drafting the corporate accounting documents, with the Board of Directors, gives the certification set out by sub-para.5 of Art. 154-*bis* of the TUF.

As already mentioned in paragraph 4.3 of this Report, in fulfilment of application criterion 7.C.1 (b) of the Code of Conduct, the Board recently assessed the adequacy of the organisational, administrative and general accounting structure of the Issuer during the session of 15 June 2018; in particular, evaluation was adopted on the basis of the report of the Internal Audit manager and also the assessments of the Director Responsible for the Internal Control and Risk Management System subject to the opinion of the Committee which, in the sphere of its meetings, in which the Internal Audit manager also took part (see below), was able to check continuously the effective operation of the Internal Control and Risk Management System of both the company and the group.

The Board of Directors, also in the meeting of 15 June 2018, subject to the opinion of the Committee, positively evaluated the status of the Internal Control System, considering it adequate overall.

#### **9.1 DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

As mentioned, in compliance with Principle 7.P.3 (a), no. (i) of the Code of Conduct, the Board of Directors indicated a director responsible for the Internal Control and Risk Management System from within it. On 23 July 2015, the Board of Directors of the company appointed **Giorgio Andrea Grassi Damiani**, Deputy Chairman and Managing Director, as Director Responsible for the Internal Control and Risk Management System, on whom the functions indicated in the Framework Resolution of 23 July 2015, as better detailed in the current '*Guidelines of the Internal Control and Risk Management System of the Gruppo Damiani S.p.A.*', and in particular those of:

a) identifying the main company risks, taking account of the characteristics of the activity carried out by the company and its subsidiaries, with special attention to the companies with strategic relevance, and submitting them to the examination of the Board of Directors at least once a year, and usually during (or previous to) the meeting of the Board of Directors for the approval of the annual financial report;

b) implementing the guidelines of the Internal Control and Risk Management System defined by the Board, looking after the development, creation and management of the Internal Control and Risk Management System and constantly checking its adequacy and effectiveness. In particular:

- identifying the risk factors for the company or other Damiani group companies, with special attention to the strategically relevant companies - without prejudice to the primary

responsibility of the respective managing directors of the individual companies - also in the light of the changes in the internal and external conditions in which they operate, and also the trends in management, variations from the forecasts and the legislative and regulatory panorama in force at the time, including all the risks that may become significant with a view to sustainability of the company's business in the medium-long term;

- defining the duties of the operational units on control functions, ensuring that the various tasks are directed by qualified staff, with specific experience and knowledge. In this scope, the areas of potential conflict of interest must be identified and reduced to the minimum;

- establishing effective communication channels to ensure that all staff are aware of the policies and procedures relative to their duties and responsibilities;

- defining the information flows aimed at ensuring full knowledge and governability of company facts;

c) at least once a year, usually at (or before) the meeting of the Board of Directors for the approval of the annual financial report, and also every time it is considered necessary or opportune, in relation to the circumstances, as when significant new risks arise or there are significant increases in the possibilities of risk, submits the company risks and all the control processes implemented and planned for their prevention, reduction and effective and efficient management, to the examination and assessment of the Board of Directors, to enable it to take an informed and conscious decision on the management strategies and policies of the main risks of the company and Damiani group, with particular attention to companies of strategic relevance;

d) proposes the appointment, revocation and remuneration of the Internal Audit manager to the Board of Directors, *and ensures the independence and operational autonomy of each person responsible for an operational area, checking that they have the appropriate means to perform the duties entrusted to them effectively;*

e) submit the annual work programme prepared by the Internal Audit Manager, subject to the opinion of the Committee and after discussions with the Board of Statutory Auditors, to the Board of Directors;

f) be concerned with the adaptation of the Internal Control and Risk Management System to the dynamics of the operational conditions and the legislative and regulatory framework;

g) be able to ask the Internal Audit function to carry out checks on specific operational areas and the respect for the rules and internal procedures in the performance of company transactions, advising the Chairman of the Board of Directors, and the Chairman of the Committee and the Chairman of the Board of Statutory Auditors at the same time;

h) refer to the Committee (or the Board of Directors) in a timely manner on problems and critical points emerging in the performance of his work, or about which he becomes aware, so that the Committee (or Board) can take the opportune initiatives.

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In compliance with application criterion 7.C.4 (a) of the Code of Conduct, the Director responsible for the Internal Control and Risk Management System has identified the main company risks (strategic, operational, financial and compliance), taking account of the characteristics of the activity carried out by the company and its subsidiaries, and has submitted them for examination by the Board of Directors. Most recently, in the meeting to approve the annual financial report to 31 March 2018, he explained his own assessment and proposals on the identification and management policy of corporate risks (risk assessment) to the Board.

In compliance with application criterion 7.C.4 (b) of the Code of Conduct, the Director responsible for the Internal Control and Risk Management Systems implemented the guidelines, constantly checking the overall adequacy, effectiveness and efficiency of the Internal Control and Risk Management System.

In reference to the state of adequacy of the Internal Control and Risk Management System regarding the rules and regulations in force, information was given to the Board of Directors in the Board meeting of 15 June 2018, as referred above.

## **9.2 THE INTERNAL AUDIT MANAGER**

At the suggestion of the Director responsible for the Internal Control and Risk Management Systems, and subject to the prior favourable opinion of the Committee on Control, Risks, Remuneration and Transactions with Related Parties and discussion with the Board of Statutory Auditors, respecting the provisions of application criterion 7.C.6 of the Code of Conduct, the Board of Directors entrusted the work referred to the Internal Audit Department to an external person, appointing Mr **Luca Pecoraro** as Internal Audit Manager of the Company for the period 1 January-31 December 2018. The Internal Audit Manager until 31 December 2017 was Mr Francesco Delucchi, as noted in the Reports of past financial years.

Pursuant to the aforesaid Guidelines, the Internal Audit Manager:

- extends his control activity to all the companies of the Damiani group, with special regard for the companies indicated by the Board of Directors as having strategic relevance, and has access to all their work and the relative documentation; the Internal Audit Manager has direct access to all the information useful for the fulfilment of the role;
- if certain checks are outsourced by the company or other companies in the group, he also has access to the documentation produced by the bodies appointed;
- he has, *inter alia*, the task of checking the suitability of the internal procedures for ensuring the adequate containment of the risks of the Issuer and Damiani group, and assisting the group to identify and assess the greatest exposures to risk.

The duties of the Internal Audit Manager are carried out by making random checks on the processes subject to check. Furthermore, always pursuant to the Guidelines, the Internal Audit Manager:

- a)* prepares the annual work programme based on a structured process of analysis of the priorities of the main risks ('Audit Plan') and explains it to the Director responsible for the Internal Control and Risk Management System, the Committee on Control, Risks, Remuneration and Transactions with Related Parties and the Board of Statutory Auditors;
- b)* checks the operation and suitability of the Internal Control and Risk Management System, both continuously and in relation to specific needs, respecting international standards;
- c)* assists the Director responsible for the Internal Control and Risk Management System in looking after the planning, management and monitoring of the Internal Control and Risk Management System and in indicating the various risk factors, including all the risks that may assume relevance with a view to sustainability of the company's business in the medium-long term;
- d)* plans and carries out, consistent with the annual work programme, direct and specific checks in the Issuer and all other group companies, with special reference to the companies with strategic relevance, to note any defects in the Internal Control and Risk Management System in the various areas of risk;
- e)* within the scope of the Audit Plan, checks the reliability of the information systems, including the accounting survey systems;
- f)* checks that the rules and procedures of the control processes are respected and that all those involved operate in conformity with the pre-set objectives. In particular:
  - he checks the reliability of the information flows, including the automatic data processing systems and the administrative-accounting systems;
  - within the work programme, he checks that the procedures adopted by the Issuer and group ensure respect, in particular, for the current legal and regulatory provisions;
- g)* he also performs checks with regard to specific irregularities, where he considers opportune or at the request of the Board of Directors, Committee on Control, Risks, Remuneration and Transactions with Related Parties, the Director responsible for the Internal Control and Risk Management System or the Board of Statutory Auditors;
- h)* he ascertains that the irregularities found in the operation and functions of controls have been removed using the method considered most opportune;
- i)* he keeps all the documentation relating to the work performed in an orderly manner; this documentation is available, on request, to the people responsible for the control processes indicated in Art. 2 of the Guidelines;
- j)* he prepares periodic reports containing adequate information on his work, how the management of risks is conducted and also respect for the plans defined to contain them.

The periodic reports also contain an assessment of the suitability of the Control and Risk Management System.

Furthermore, in the light of both the results of the checks made and the analysis of the company risks, he identifies any deficiencies in the Internal Control and Risk Management System and suggests any necessary transactions on the system; the deficiencies identified and the transactions proposed are shown in the relative internal audit reports;

*k)* where necessary, prepares timely reports on events of special relevance;

*l)* transmits the reports as per points *(j)* and *(k)* to the Director responsible for the Internal Control and Risk Management System, and also the Chairman of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, the Board of Directors and the Board of Statutory Auditors; where the checks concern companies in the group, the reports are also sent, if necessary, to the relative competent bodies of the company involved;

*m)* at least twice a year, giving time to enable the Committee on Control, Risks, Remuneration and Transactions with Related Parties and the Board of Directors, as well as the Director responsible for the Internal Control and Risk Management System, to perform their respective tasks for (or before) the Board meetings to approve the annual and interim financial reports, prepares a six-monthly summary of the main points emerging during the reference period and throughout the year;

*n)* he immediately advises the Director responsible for the Internal Control and Risk Management System and the delegated bodies if there are critical points that suggest urgent intervention, and also the Chairman of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, Board of Directors and the Board of Statutory Auditors to update them on the results of his work.

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In the financial year, the Internal Audit Manager (Francesco Delucchi until 31 December 2017 and Luca Pecoraro from 1 January 2018) performed checks in the areas he is responsible for in conformity with the provisions of the Audit Plan for the financial year. In addition, in compliance with the provisions of the aforesaid Guidelines, the Internal Audit Manager has, over the financial year, in detail:

1) continuously checked the operation and suitability of the Internal Control and Risk Management System;

2) prepared periodic reports containing adequate information on his work, how the management of risks is conducted and also respect for the plans defined to contain them; the reports are then sent to the Director responsible for the Internal Control and Risk Management System, and also the Chairman of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, the Board of Directors and the Board of Statutory Auditors (where the checks concern group companies, the reports are also sent,

if necessary, to the relative competent bodies of the company involved). Also in consideration of the reports of the Internal Audit Manager, the Board of Directors has expressed its positive and favourable judgement on the adequacy and effectiveness of the Internal Control and Risk Management System, as last said on 15 June 2018;

3) had access to all the information useful for the performance of the office;

4) submitted the Audit Plan for the financial year to the attention of the Committee on Control, Risks, Remuneration and Transactions with Related Parties, subsequently approved by the Board of Directors after hearing the opinion of the Board of Statutory Auditors and the director responsible for the internal control and risk management system, with the favourable opinion of the aforesaid Committee;

5) checked the reliability of the information systems in the sphere of the Audit Plan, including the systems of accounting survey.

In reference to the specific activity carried out throughout the financial year by the Internal Audit Manager in the performance of his duties, it should be noted that, in the scope of the Audit activity, they particularly concerned, *inter alia*:

- compliance audits concerning the Issuer and also the other companies in the group;
- training on compliance aimed at ensuring understanding and the consequent implementation of the contents and objectives of the procedures by company functions, and also respect for the anti-money laundering legislation.

The Board of Directors has not allocated an ad hoc budget to the Internal Audit Manager. However, from time to time, the company makes the resources necessary available to the Internal Audit Manager for the fulfilment of his functions.

\* \* \*

Pursuant to application criterion 7.C.6 of the Code of Conduct, it should be noted that, from 1 January 2018, the Internal Audit Department has been entrusted to a person external to the Company, Luca Pecoraro, who has adequate requisites of professionalism, independence and organisation. Mr Pecoraro has the consolidated experience necessary for the performance of Internal Auditor; he does not have corporate links with the Company.

### **9.3 ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001**

The Board of Directors of the Issuer approved the organisation, management and control model set out by Art. 6, Legislative Decree 231/2001 (the '**Organisational Model**') and the Code of Ethics so that it is aligned with the internal control systems set out by Legislative Decree 231/2001.

The Organisational Model adopted by the Issuer, most recently amended by the Board of Directors of the company on 16 June 2017, is structured in the following parts:



▪ a **General Part**, which introduces the model and orders the rules of governance, with particular reference to (i) recipients; (ii) composition, role and powers of the Supervisory Board (hereinafter, 'ODV'); (iii) role of the Board of Directors; (iv) information flows to the ODV; (v) penalty system; (vi) divulgation of the Model to recipients and training;

▪ **eleven Special Parts**, each of which indicates and orders the processes at risk and the rules of behaviour each recipient is required to respect in the performance of his business for the individual offences abstractly relevant for the company. Pursuant to the Organisational model, the offences abstractly relevant for the Issuer are: (i) offences against the Public Administration and obstruction of justice, (ii) corporate crimes, (iii) the administrative offences of market abuse, (iv) transnational offences, (v) offences concerning health and safety at work, (vi) the offences of receiving, recycling and using money, goods or assets of unlawful origin and self-laundering, (vii) IT crimes and the unlawful processing of data, (viii) offences against industry and trade and the crimes of forgery of instruments or distinctive signs, (ix) offences concerning breach of copyright, (x) environmental offences, and (xi) the offence of employing illegal immigrants from non-EU countries.

Each Special Part then refers to specific Protocols ordering the operative and control method for the management of the process, relevant for preventive purposes with a view to '231' for the processes assessed as being at greater potential risk.

A special Supervisory Board, with full economic independence, supervises the operation and respect of the Model. In the meeting of 29 May 2014, the Board of Directors of the company appointed a single person Supervisory Board, consisting of Mr Francesco Delucchi. In the meeting of 16 June 2017, the Board of Directors appointed a new single person Supervisory Board, valid for three years which will expire with the approval of the annual Financial Report to 31 March 2020; Mr **Luca Pecoraro**, lawyer, has the requisites of eligibility, independence, professionalism and integrity set out by the Organisational Model adopted by the Company.

The Supervisory Board was attributed with all the powers to ensure punctual and efficient supervision of operation and respect for the Organisational Model adopted by the company, and also to check its efficiency and effectiveness with respect to the prevention and impediment of the commission of the offences currently set out by Legislative Decree 231/2001, with the possibility of formulating any proposals of updating and adaptation of the Organisational Model to the Board of Directors.

The Issuer's Code of Ethics is published in the '*Investor relations/Corporate Governance*' section of the company website [www.damiani.com](http://www.damiani.com).

#### **9.4 INDEPENDENT AUDITORS**

The independent auditors assigned to the auditing of DAMIANI S.p.A. and the other subsidiary companies is BDO Italia S.p.A., based at Viale Abruzzi 94, Milan, enrolled in the Register of Auditors.

On 21 July 2016, the general Shareholders' Meeting of company resolved to confer the independent auditors with the statutory audit for nine financial years, until approval of the balance sheet to 31 March 2025.

#### **9.5 SENIOR MANAGER RESPONSIBLE FOR DRAFTING CORPORATE ACCOUNTING DOCUMENTS AND OTHER COMPANY ROLES AND FUNCTIONS**

The senior manager responsible for drafting the corporate accounting documents is Mr **Gilberto Frola**, appointed by the Issuer's Board of Directors in the session of **12 September 2007** with effect from the admission to trading of the company shares on the electronic Stock Exchange of Borsa Italiana S.p.A. and until revoked.

Pursuant to Art. 27 of the Articles of Association, the senior manager is chosen by the management body, subject to the compulsory but not binding opinion of the Board of Statutory Auditors, from people who have qualified experience of at least three years in accounting or administration in a company with listed shares or, however, with share capital of not less than one million Euros.

The Board of Directors conferred Mr Frola, the senior manager responsible, with all the powers necessary for the exercise of the tasks attributed by the law and the Articles of Association to him, also contained in the aforesaid Guidelines, and in particular:

- direct access to all the information necessary for the production of the accounting data without the need for authorisation, undertaking (as with all the members of his office) to maintain the confidentiality of the documents and information acquired in the performance of his duties, in compliance with the current applicable legal and regulatory provisions;
- use of internal communication channels that guarantee correct infra-company information;
- structure his office in an appropriate manner, with reference to both the staff and the technical means (material, IT resources, etc.);
- arrange administrative and accounting procedures, also having the co-operation of the offices involved in the production of the relevant information;
- arrange for external consultancy, where particular company requirements make this necessary, drawing on the budget allocated to him;
- set up relationships and flows with the other persons responsible for control (auditors, Internal Audit Manager, etc.) which ensure adequate monitoring of the

correct operation of the procedures, in addition to the constant mapping of risks and processes;

- with reference to the expenses considered necessary for the fulfilment of his duties, he can proceed, subject to authorisation by the Board of Directors and, on its behalf, the Control and Risk Committee, or, alternatively, the Chairman of the Board of Directors, with mandatory annual reporting to the Board.

## **9.6 CO-ORDINATION BETWEEN BODIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS**

In compliance with both Principle 7.P.3 of the Code of Conduct, and also the best practices of listed companies, the company has set out co-ordination methods between the various bodies involved in the internal control and risk management system. In particular, periodic meetings are planned to be held jointly with the different bodies assigned to internal control and risk management (Control and Risk Committee, Board of Statutory Auditors, Supervisory Body and Internal Audit function) to indicate the areas of operation and analysis of each body, starting from the company processes set out in the Audit Plan prepared by the Internal Audit Manager, and, for each of these, taking account of the respective competences, to indicate the different point of view of examination for the same topics, so that superimpositions of functions and/or duplications of activity can be avoided, and implement a unitary system of 'compliance' in the company and the Damiani group.

As already extensively specified, it is also, *inter alia*, set out that: (i) the entire Board of Statutory Auditors, or at least the Chairman or another statutory auditor designated by him, will normally take part in the meetings of the Committee; (ii) the reports of the Internal Audit Manager must be sent to the Director responsible for the Internal Control and Risk Management System, the Chairpersons of the Board of Statutory Auditors, Committee and Board of Directors as well as, where the control activity concerns other group companies, also the relative competent bodies of the company involved, usually at the same time; (iii) at least annually, the independent auditors will meet jointly with the Committee, Board of Statutory Auditors and the senior manager responsible for drafting corporate accounting documents, to assess, amongst other items, the correct use of the accounting principles and their homogeneity for the purposes of drafting the consolidated balance sheet.

## **10. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES**

The Board of Directors, in compliance with the Related Parties Regulation and subject to the opinion of the independent directors on the Board, approved the '*Procedure on Transactions with Related Parties of Damiani S.p.A.*' (also 'ORP Procedure') in the meeting of 26 November

2010, effective from 1 January 2011 (the whole text of the ORP Procedure, as updated in the Board meeting of 10 February 2012, is available in the 'Financial Documents' - 'Documents and Notices' section of the web site [www.damiani.com](http://www.damiani.com)).

The ORP Procedure, respecting the applicable regulatory provision, distinguishes Transactions with Related Parties according to their greater or lesser importance, identifying significant transactions in conformity with the indices as per Appendix 3 to the Related Parties Regulation; nevertheless, in consideration of the status of 'smaller-sized company' of Damiani S.p.A., and as long as the Issuer can be qualified as such, the role and relevant competences that the Related Parties Regulation attributes to committees consisting wholly or mainly of independent directors, are attributed to the Committee on Control, Risks, Remuneration and Transactions with Related Parties, consisting of non-executive Directors, the majority of whom are independent.

Taking into account that the Issuer is 'a smaller-sized company', the ORP Procedure provides for a single general procedure of instruction and approval of Transactions with Related Parties, both of greater and lesser relevance; this general procedure, however, features a significant valorisation of the role of independent directors, who - in the Committee on Control, Risks, Remuneration and Transactions with Related Parties - must always express a prior opinion which is not binding with respect to the proposed transaction.

Conversely, with reference to the publishing obligations, the ORP Procedure sets out the requirement for an information document to be published for all significant transactions with the opinions of the independent directors and, in essential elements, independent experts.

Further, the ORP Procedure provides for, in accordance with what is permitted by the Related Parties Regulation, exclusion from the application of the new discipline of some categories of transactions; in particular, 'small amount' transactions, 'ordinary' transactions concluded "at conditions equivalent to those of the market", transactions carried out with and between subsidiary companies, transactions with companies connected to the company (as long as there are no 'significant' interests of related parties of the company in the aforementioned companies), and also the other cases allowed by the Related Parties Regulation.

In the cases examined during the financial year, from the substantive point of view, the equivalence of the economic advantages for the Damiani group arising from the transaction considered with the related party each time with respect to the theoretical agreement with a third party were always assessed; the Board was also always previously informed about any potential conflicts of interest in the individual transaction, as set out by the law.

The group, with special regard to the Transactions with Related Parties, carried out transactions both with related parties within the consolidated companies and related parties external to it over the financial year.

In the financial year, the relationships with consolidated related parties were mainly commercial, consisting of the sale of jewellery or raw materials, matured in the context of the usual intra group transactions conducted recurrently at market conditions.

Relationships with related parties outside the group, in particular with Immobiliare Miralto S.r.l., were mainly of a non-commercial nature principally concerning property leasing contracts. Relations of a financial nature, consisting of the contribution of monetary resources by the majority shareholder Leading Jewels S.A., remunerated at market conditions and the advance in the date of repayment of the non-convertible bonds fully subscribed by the directors and majority shareholders Guido, Giorgio and Silvia Grassi Damiani, should be added to these.

It should be noted that the Board of Directors did not consider necessary the adoption of specific operational solutions suitable for facilitating the identification and adequate management of the situations where a director holds an interest both on his own account and that of third parties; in this regard, the Board considered the existing supervision adequate under the requirements of Art. 2391 of the Civil Code (*'Directors' interests'*, which orders that each director *"shall advise the other directors and the Board of Statutory Auditors of every interest that he has, on his own behalf or that of third parties, in a determined transaction of the company, specifying the nature, terms, origin and extent"*).

## **11. APPOINTMENT OF THE STATUTORY AUDITORS**

The appointment of the statutory auditors and the Chairman of the Board of Statutory Auditors of the company is, as is known, the responsibility of the Shareholders' Meeting. The methods of presentation of the lists with the proposals for appointment and voting are regulated by the Articles of Association.

Art. 24 of the Articles of Association sets out that the Board of Statutory Auditors consists of three statutory auditors and two substitute auditors. The statutory auditors stay in office for three financial years, and terminate at the date of the Shareholders' Meeting convened for the approval of the balance sheet relating to the last financial year of their office; they can be re-elected. The composition of the Board of Statutory Auditors must, in any case, ensure gender balance in compliance with the rules and regulations in force each time. The same article of the Articles of Association is aimed at ensuring that the Chairman of the Board of Statutory Auditors is appointed by the minority, taking him from the list that is second for number of votes.

Art. 24 of the Articles of Association of the Issuer provides that the election of statutory and

substitute members of the Board of Statutory Auditors takes place in the following ways:

- (a) as many shareholders holding a participation at least equal to that determined by CONSOB for the appointment of directors, pursuant to the law and regulations - which, at the date of approval of this Report, corresponds to **2.5%** (as established by Art. 144-*quater* of the Issuer Regulations and **CONSOB resolution 1 of 7 June 2018** of the **Head of the CONSOB Corporate Governance Division**) - can present a list of candidates ordered progressively by number, filing it at the registered office of the company in the terms set out by Arts. 148, sub-para.2, and 147-*ter*, sub-para.1-*bis*, of the TUF, and that is at least twenty-five days before the date set for the First Call of the Shareholders' Meeting, under penalty of invalidity; each list is supplied with the information requested pursuant to the legal and regulatory provisions in force each time; each list containing three or more candidates must be made up so that the gender balance is at the least equal to the minimum quota required by the legal and regulatory provisions in force each time is ensured within the Board of Statutory Auditors for three consecutive mandates from the first renewal of the Board of Statutory Auditors subsequent to 12 August 2012; the list for which the above rulings are not respected is considered as not having been presented;
- (b) a Shareholder can neither present nor vote in more than one list, even if through a third party or trust companies; shareholders belonging to the same group and those joining a shareholders' agreement - concerning shares of the company - cannot either present or vote more than one list, even if through a third party or trust companies;
- (c) a candidate can only be in one list, at the risk of ineligibility; candidates that do not respect the limits of accumulation of positions set out by the law and the relative implementation provisions in force each time cannot be included in the lists;
- (d) if, at the date of expiry of the term at (a), just one list has been filed, or only lists presented by shareholders that are connected pursuant to the current law and regulatory provisions, lists can be presented up to three days from that date; in this case, the thresholds set out pursuant to (a) are reduced by half.

On the basis of the same clause of the Articles of Association of Damiani S.p.A., the procedure for the election of the Board of Statutory Auditors is as follows:

- (i) **two statutory auditors and one alternate auditor** are taken from the list obtaining the **highest number of votes**, in the progressive order in which they are listed;
- (ii) the **remaining statutory auditor** and **second alternate auditor** are taken from the list obtaining the **second highest number** of votes from those **which are not connected** - not even indirectly - with the shareholders who presented or voted the list with the highest number of votes, in the progressive order in which they are listed.

At the end of voting, if the composition of the Board of Statutory Auditors does not respect the gender balance set out by the legislation in force at the time, the second statutory and/or substitute auditor on the list with the highest number of votes will be replaced by the next

candidate for the same appointment of the least represented gender in the same list. If the said procedure does not allow compliance with the law in force at the time on the composition of the Board of Statutory Auditors, the Shareholders' Meeting shall make provisions for the necessary replacements with a resolution adopted with the legal majority. The Chairman of the Board of Statutory Auditors is the statutory auditor taken from the second list who obtains the highest number of votes.

If an auditor is replaced, the substitute is taken from the same list as the person replaced, without prejudice, however, where possible, to the regulations in force at the time on the composition of the Board of Statutory Auditors. If the replacement does not allow respect for the legislation in force at the time on gender balance, the Shareholders' Meeting shall be convened without delay to ensure compliance with it.

If the Chairman is replaced, the chairmanship is assumed by the substitute member from the same list as the chairman was taken from.

When called on to reintegrate the Board of Statutory Auditors pursuant to the law, the Meeting shall act so that the principle of representation of the minority, and also the rules and regulations on gender balance in force at the time are respected.

The rulings above on the election of members of the Board of Statutory Auditors and the designation of the Chairman do not apply to Meetings for which a single list is presented or voted; in these cases, the Meeting acts by majority, also in compliance with the rules and regulations on gender balance in force at the time.

## **12. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (PURSUANT TO ART. 123-BIS, SUB-PARA. 2 (D) TUF)**

The composition of the Board of Statutory Auditors in office at the closure of the financial year was as follows:

1. **Gianluca Bolelli** (Chairman);
2. **Simone Cavalli** (Statutory Auditor);
3. **Laura Braga** (Statutory Auditor);
4. **Paola Mignani** (Alternate Auditor);
5. **Fabio Massimo Micaludi** (Alternate Auditor).

The Board of Statutory Auditors in office was appointed by the Shareholders' Meeting of **21 July 2016** for three financial years, i.e. until the date of the Meeting convened for the approval of the balance sheet for the financial year to 31 March 2019.

The election of the current Board of Statutory Auditors took place on the basis of **two lists** presented respectively by the majority shareholder **Leading Jewels S.A.** and the minority shareholder **Style Capital SGR S.p.A. - Fondo DGPA Capital.**

The list presented by the shareholder Leading Jewels S.A. contained the following, in order, among the candidates: Simone Cavalli, Laura Braga and Stefania Rusconi as Statutory Auditors and Paola Mignani and Pietro Sportelli as Substitute Auditors. The Statutory Auditors Simone Cavalli and Laura Braga, and the Substitute Auditor Paola Mignani, obtained a percentage of votes in favour of 92.964% of the share capital represented in the Shareholders' Meeting.

The list presented by the minority shareholder Style Capital SGR S.p.A. - Fondo DGPA Capital, proposed Gianluca Bolelli as candidate Statutory Auditor and Fabio Massimo Micaludi as candidate Substitute Auditor. The Chairman of the Board of Statutory Auditors, Gianluca Bolelli, and the Substitute Auditor Fabio Massimo Micaludi were obtained with a percentage of votes in favour of 7.035% of the share capital represented in the Shareholders' Meeting.

It is noted that there were no changes in the composition of the above Board of Statutory Auditors from the closure of the financial year to the date of approval of the Report.

During the financial year, the Board of Statutory Auditors met 14 (fourteen) times, 6 (six) of which jointly with the Control, Risks, Remuneration and Transactions with Related Parties Committee.

A total of 10 (ten) meetings are planned for the current financial year of which 5 (five) have already been held (3 in joint session with the Control, Risks, Remuneration and Transactions with Related Parties Committee).

The meetings of the Board of Statutory Auditors held during the financial year lasted on average one hour and showed regular attendance by the statutory auditors (the percentage of participation of each member in the meetings held in the same period is indicated in Table 3 shown in the Appendix to this Report).

The personal and professional attributes of each statutory auditor currently in office are indicated below:

**GIANLUCA BOLELLI - CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS**

He obtained a degree in Business Management from the Bocconi University, Milan. He is enrolled in the Register of Chartered Accountants and the Register of Auditors. He started his professional career as auditor of *Deloitte and Touche* and then consultant for *KPMG*. In March 1986, he started practising privately as a chartered accountant and is co-founder-member of Studio Bolelli, Sportelli, de Pietri, Tonelli.

He is an external lecturer of the School of Management (SDA) of the Bocconi University.



**SIMONE CAVALLI - STATUTORY AUDITOR**

Born in Verona in 1965, he graduated in Business and Economics from the University of Bergamo in 1992. He has been enrolled in the Register of Auditors since 2003. He started his career in the auditing company Arthur Andersen S.p.A., until becoming a senior manager and member of Transaction Advisory Services in 1999. In 2004, he became a partner in Studio Controllo Contabile - Analisi e Valutazioni d'Azienda, where he carries out the audit of financial and consolidated statements and accounting and financial due diligence, company valuations and consultancy in the administration, finance and control area.

**LAURA BRAGA - STATUTORY AUDITOR**

She has a degree in Administration, Finance and Control from the Bocconi University, Milan. After a professional experience while studying in the auditing sector of KPMG, she started her experience immediately after her degree working with *Studio Controllo Contabile - Analisi e Valutazioni d'Azienda* where she was concerned with the auditing of statutory and consolidated financial accounts, accounting and financial due diligence, company valuations and consultancy in the administration, finance and control area. She has been registered in the order of Certified Auditors and Accounting Professionals and Register of Statutory Auditors since 2013.

**PAOLA MIGNANI - ALTERNATE AUDITOR**

She graduated in Business Management at the Bocconi University, Milan. She is enrolled in the Register of Chartered Accountants and the Register of Auditors. She started her career as accountant in a leading firm in Milan, gaining experience in the field of restructuring and liquidating companies and the insolvency proceedings sector. She is a member of the Board of Statutory Auditors of various companies, operating in both financial and industrial sectors. She has been a consultant with leading company consultancy firms since 2004, specialising in the valuation of companies and the business units of companies, technical consultancy, corporate restructuring and, more generally, advisory work for extraordinary transactions. She is the author of various publications.

**FABIO MASSIMO MICALUDI - ALTERNATE AUDITOR**

He holds a degree in Business Management from the Bocconi University, Milan, with specialisation in Administration and Control. He is enrolled in the Register of Chartered Accountants and the Register of Auditors. He started his professional career in Arthur Young & Company, now Ernst & Young. After experience with leading companies as CFO, he decided to focus on a professional career and started practising as a chartered accountant in Milan in 1997, becoming first a partner in *Studio Commercialisti Associati* and then, in 2010, founder partner of *Studio MM & Associati - Dottori Commercialisti*, specialised in corporate,

tax, assessment and management control. He was founder partner of *Studio Muscato Micaludi - Dottori Commercialisti*, specialised in corporate, tax and balance sheet matters with special reference to extraordinary transactions and assessments. Company consultancy and management control complete the firm's range of business.

He holds the position of auditor in various companies operating in both industrial sectors and services, and works professionally in both Italian and English. He is also a freelance lecturer at the Italian Association of Accountants (AIDC).

He has been a member of the Finance and Management Control Commission of the Order of Chartered Accountants of Milan since 2008.

He has been a member of the Capital Protection Commission of the Order of Chartered Accountants of Milan since 2017.

### **Diversity policy**

In implementation of the provisions of Art. 123-bis, sub-paragraph 2 (*d-bis*), TUF, the Board of Statutory Auditors adopted a diversity policy in relation to the composition of the control body of Damiani S.p.A. with a decision made on 12 June 2018. This policy intends to indicate the optimal features of the composition of the Board of Statutory Auditors so that it can perform its supervisory tasks in the most effective manner, taking decisions that can really benefit from the contribution of several qualified, heterogeneous points of view, able to examine the subjects under discussion from different perspectives.

The diversity policy of the Board of Statutory Auditors provides, in particular, that the optimal composition of the control body of the Company should satisfy the following requisites, in addition to those of integrity, professionalism and independence required by law:

- (i) the effective auditors should mainly be independent statutory auditors entered in the appropriate register;
- (ii) the composition of the Board of Statutory Auditors must, in any case, ensure a gender balance in compliance with the legal and statutory provisions in force at the time, both at the time of appointment and during the mandate;
- (iii) a balanced combination of different age ranges is to be hoped for in the Board of Statutory Auditors to permit a balanced multiplicity of perspectives and experiences;
- (iv) the Board of Statutory Auditors should mainly consist of auditors skilled in the luxury business and jewelry sectors or business sectors extremely close to those of the Company and indicated in the Articles of Association;
- (v) the auditors should be represented by figures with professional and/or academic and/or institutional profile such that a mix of different, complementary skills and experience is created and that, for their features, can allow an optimal fulfilment of the supervisory functions required of the Board of Statutory Auditors. In particular:

- a. the professional profiles should have gained skill and experience in positions of responsibility in accredited professional firms, consultancy companies or other organisations and carried out their professional work in economic, accounting, legal (with special reference to the commercial, corporate, tax and financial market sectors) and financial matters and also in risk management and remuneration policies, with special pertinence to the business of the companies;
  - b. the academic and/or institutional profiles should have gained skill and experience which, for their features, can allow an optimal fulfilment of the supervisory functions required of the Board of Statutory Auditors;
- (vi) the Chairperson should be a person with experience and authority to ensure adequate co-ordination of the work of the Board of Statutory Auditors during the mandate with the work performed by the other persons involved in the internal control and risk management systems of the Company for various reasons so that the effectiveness and efficiency of internal controls are maximised and the duplication of work reduced. The Chairperson should ensure the correct, efficient and effective management of the operation of the Board of Statutory Auditors within which s/he has the task of creating a strong spirit of cohesion, at the same time being a guarantee for all shareholders and stakeholders.

In order for the Board of Statutory Auditors of the Company to carry out its supervisory tasks in the most effective manner, it is considered essential that, in addition to the requisites of diversity indicated above, all auditors guarantee sufficient availability of time for the diligent and responsible performance of their tasks, taking account of the number and type of positions held in the administration and control bodies of other companies, respecting the law in force.

The above-mentioned policy intends to orient candidacies formulated by Shareholders during the renewal of the Board of Statutory Auditors, ensuring adequate consideration at the time of the benefits that can arise from the harmonious composition of the control body, aligned with the various diversity criteria indicated above.

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In relation to application criterion 8.C.1 of the Code of Conduct, it should be noted that the independence of the Statutory Auditors is considered to be already ensured by the respect for the existing legal provisions and the Articles, and, as a result, the company has not considered it necessary to also apply the criteria of independence as per Art. 3 of the Code of Conduct to the Statutory Auditors. For this reason, for the purposes of the assessment of the permanency of the requisites of independence consistent with the position, the criteria of the law and the Articles were taken into consideration. In application of these criteria, the Board of Statutory Auditors checked the independence of its members after their appointment, during the financial year and, most recently, on 12 June 2018. The outcome of

the checks made immediately after their appointment were promptly sent to the Board of Directors which published them in a notification to the market.

In relation to application criterion 2.C.2 of the Code of Conduct, it should be noted that the members of the Board of Statutory Auditors have profound knowledge of the situation and business dynamics of the company and the group, and that the number of meetings of the Board, as well as the participation of the members of the Board in the meetings of the Board of Directors and the Committee on Control, Risks, Remuneration and Transactions with Related Parties guarantee continuous updating of the Statutory Auditors on the situation of the company and the market. In addition, during the meetings of the Board of Directors, the delegated bodies explain what they find for the purposes of the trend of the company and the group, constantly supplying, *inter alia*, information on the main updates of the legislative framework concerned and its impact on the company.

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In compliance with application criterion 8.C.3 of the Code of Conduct, the remuneration of the auditors is commensurate with the commitment required of them, the relevance of the role covered and also the size and sector characteristics of the company.

Respecting application criterion 8.C.4 of the Code of Conduct, the statutory auditor who, on his own behalf or that of third parties, has an interest in a certain transaction of the Issuer, must advise the other statutory auditors and the Chairman of the Board of Directors in a detailed manner as soon as possible on the nature, terms, origin and extent of his interest.

In compliance with application criteria 8.C.5 and 8.C.6 of the Code of Conduct, it is specified that the Board of Statutory Auditors is similarly co-ordinated with the Internal Audit Manager, with whom it has a constant exchange of information, and the Committee, in whose meetings the Chairman of the Board of Statutory Auditors, or another statutory auditor designated by him, takes part.

### **13. RELATIONS WITH SHAREHOLDERS**

The Issuer deems it to be in its own interests, as well as a duty towards the market, to set up a continuous dialogue with its shareholders, based on the reciprocal understanding of the roles. The dialogue with shareholders must, however, respect the procedure for the external communication of company documents and information.

The Company has set up a special section in its website [www.damiani.it](http://www.damiani.it) named '*Investor Relations*', easy to find and access, in which the information concerning the Company of importance for its Shareholders (for example, press releases, information on the composition of company bodies, and corporate events, periodic information, etc.) is made available. Both the main economic-financial information relating to the accounting data for the period and the governance documents of the Company are made available promptly and can be consulted in this section.

In compliance with the provisions of Application Criterion 9.C.1 of the Code of Conduct, the company has indicated an Investor Relator who has, *inter alia*, the responsibility for managing relations with professional investors and the other shareholders. The contact details of the Investor Relations Officer of the Issuer, directed by Mr Gilberto Frola, are as follows:

Telephone: 0131/929674

e-mail address: [investor@damiani.com](mailto:investor@damiani.com)

It should also be noted that the company complies with the disclosure requirements set out by the rules and regulations in force in a precise and timely manner, and has structured its web site ([www.damiani.com](http://www.damiani.com)) in order that the public may have simple access to the information concerning the Issuer.

#### **14. SHAREHOLDERS' MEETINGS (PURSUANT TO ART. 123-BIS, SUB-PARA. 2 (C) TUF)**

Pursuant to Art. 10 of the Articles of Association, both general and extraordinary Shareholders' Meetings are convened by a Notice of Call published with the terms and procedures under the law and regulations. The second call can be established for another day in the same Notice; a third call may be set for extraordinary Shareholders' Meetings. The Meeting can also be convened in a place other than the registered office, both in Italy and abroad, provided it is within countries of the European Union or Switzerland.

It should be noted that, at the date of approval of this Report, subjects with the right to vote for whom the company has received notice certifying the shares held, as per Art. 83-*sexies* of the TUF, within the terms set out by current law, have the right to speak in the Meeting; the specific notice, according to the law, is sent by an authorised intermediary in compliance with the accounting records on the basis of the relative evidence at the end of the accounting day of the seventh trading day preceding the date set for the first call of the Shareholder's Meeting; pursuant to current legislation, holders of shares only after that date do not have the right to take part in and vote in the Meeting.

Art. 11 of the Articles of Association sets out that every shareholder with the right to speak at the Meeting can be represented by another person, including a non-shareholder, through a written proxy, under the terms and limitations of the law. The proxy can also be conferred electronically and can be notified to the company by certified e-mail, to the certified e-mail address specified each time in the Notice of Call.

The Shareholders' Meeting resolves on the matters within its jurisdiction pursuant to the current law, as further specific competences are not set out by the Articles of Association. It should be noted the Articles, in compliance with Art. 2365, sub-para.2, of the Civil Code, attribute the competence to resolve on mergers in the cases set out by Arts. 2505 and 2505-*bis* of the Civil Code, the establishment and closure of secondary offices, the indication of

the directors that represent the company, the reduction of capital if the shareholders withdraw and the adaptation of the Articles to legislative provisions and the transfer of the registered office within Italy to the Board of Directors.

The current legal provisions apply for the validity of the constitution and resolutions of the Meeting, both general and extraordinary.

It is specified that, at the date of approval of this Report, the existence of shares with multiple votes is not provided for nor has the company, to date, introduced the institution of the supplement of the vote set out by Art. 127-*quinquies* of the TUF.

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At the Shareholders' Meeting of 21 July 2016 which, *inter alia*, renewed the Board of Statutory Auditors, it was recalled that with appropriate notice, the controlling shareholder advised the public of the proposals to resolve with regard to the recompense for the statutory auditors; this proposal was included in the context of the list deposited, as recommended by the Board of Directors in the Report explaining the matters on the Agenda.

In reference to application criterion 9.C.3, it should be noted that, to date, the company has not considered it necessary to adopt Regulations for the Shareholders' Meeting.

In compliance with the provisions of application criterion 9.C.2 of the Code of Conduct, all directors normally take part in the Shareholders' Meetings.

The Shareholders' Meetings are also opportunities to advise shareholders of Issuer's information, respecting the regulations on insider trading. In this context, the Board of Directors has always worked to ensure adequate information to the shareholders on the necessary elements so that they can take the decisions required by the meeting with the full knowledge of the facts; the Board has always referred the work carried out and planned to the Meeting for this purpose.

\*\*\*

Shareholders are regularly informed on how the functions of the Committee are exercised, both through this Report and through the information in the Remuneration Report, prepared pursuant to Art. 123-*ter* of the TUF.

\*\*\*

In reference to application criterion 9.C.4 of the Code of Conduct, it should also be specified that, during the financial year, substantial variations did not occur in the composition of the body of shareholders of the Issuer and the capitalisation of the company's shares - as shown by *Borsa Italiana* - raised from Euro 89.75 million at 31 March 2017 to Euro 76.03 million at 29 March 2018.

## **15. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (PURSUANT TO ART. 123-BIS, SUB-PARA. 2 (A), TUF)**

The Issuer does not apply additional corporate governance practices other than those described in the points above of this Report.

## **16. CHANGES AFTER THE CLOSURE OF THE REFERENCE FINANCIAL YEAR**

No changes occurred in the governance structure of the company from the date of closure of the financial year to the date of approval of this Report.

## **17. CONSIDERATIONS ON THE LETTER OF THE CORPORATE GOVERNANCE COMMITTEE CHAIRMAN OF 13 DECEMBER 2017**

On 15 December 2017, the company received a letter from the Chairman of the Corporate Governance Committee dated 13 December 2017 which was brought to the attention of all directors and auditors.

The recommendations in the aforesaid letter were examined and specifically considered by the Board both as self-assessment (in the meeting of 12 June 2018) and for the approval of this Report (in the meeting of 15 June 2018), in the Committee on Control, Risks, Remuneration and Transaction with Related Parties (in the meetings of 19 February 2018 and 12 June 2018), and the independent directors (in the meeting of 27 February 2018). As already referred in the preceding paragraphs, it is specified that:

- with reference to the opportunity of setting out a term for pre-meeting information, the Board of Directors decided not to set a fixed term for the despatch of pre-meeting documentation, considering appropriately that such a term can reasonably vary each time, depending on the individual cases and in relation to the specific documentation to be submitted to the Board. This decision was confirmed most recently by the Board of Directors in the meeting of 12 June 2018, at the outcome of the periodic self-assessment process from which, inter alia, an overall positive judgement was given by all directors on the completeness, clarity, availability and promptness of the pre-meeting information which enables each director to prepare adequately for the Board meetings and speak and act in an informed manner;
- with reference to the recommendations on remuneration, the Board of Directors has for some time set out claw-back mechanisms, and also principles and criteria for the assignment of any end of office indemnity, in its remuneration policy. For a precise description, see the Remuneration Report prepared pursuant to Art. 123-ter, TUF;
- most recently, in the meeting of 12 June 2018, the Board of Directors confirmed that, at the outcome of the annual self-assessment process, it does not deem formation of a special

Appointments Committee within it appropriate to at present, in consideration of the current structure of the shareholding, which features a significant level of concentration of ownership and taking account of the approaching expiry of the mandate of the current administrative body;

- in relation to criterion 5.C.2 of the Code of Conduct, it is noted that the Board of Directors periodically assesses whether to adopt a specific plan for the succession of the executive directors in the context of the preliminary work on the approval of the annual Report on Corporate Governance and the ownership structure. This was most recently further analysed in the meetings of the Committee on Control, Risks, Remuneration and Transaction with Related Parties of 12 June 2018 and the Board of Directors of the same date, during which the limited diffusion and popularity of succession plans in Italy and the rest of Europe were assessed on one hand and, on the other, the particular structure of the shareholding of the Company, and also the experience, skill and age of all the current executive directors involved in the management of the company. On the outcome of this assessment, and after discussions with the Committee and similar regard for the recommendations of the independent directors, and in order to guarantee business continuity, the Board resolved to plan that, in the event of early termination or impediment, even of a temporary nature, in the performance of his functions, the managing director should be replaced, *ad interim*, by the Chairman for the time necessary to allow the Board of Directors to choose the new managing director;
- with reference to the topic of independence, the Board of Directors shares the importance of a balanced existence of non-executive and independent directors in the administrative body as they have an important dialectic function and contribute to monitoring the choices made by the executive directors. This is why, as specified moreover in paragraphs 4.3 and 4.6 above, the Board periodically checks the continuation of the requisites of independence set out by Art. 148, sub-para. 3, TUF, and Art. 3 of the Code of Conduct of its independent members. The criteria of the above Articles have been applied with the specification referred to in paragraph 4.6, with respect to the principle of the prevalence of substance over form;
- the Board Review is carried out periodically by the Board of Directors, after completion of the detailed process described in paragraph 4.3, through the use of special questionnaires periodically submitted to all directors, and includes assessments on the effectiveness of the collective operation (also in terms of contribution to the administrative body in the definition of strategic plans and the constant monitoring of the general trend in the management and adequacy of the organisational, administrative and accounting structure of the Company prepared by the delegated bodies referring to the internal control and risk management systems).



15 June 2018

Giorgio Grassi Damiani

Managing Director

For the Board of Directors

**TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES**

<i>STRUCTURE OF THE SHARE CAPITAL</i>				
	<b>NO. SHARES</b>	<b>% COMPARED TO S.C.</b>	<b>LISTED (INDICATE THE MARKETS) /NOT LISTED</b>	<b>RIGHTS AND OBLIGATIONS</b>
<b>ORDINARY SHARES</b>	82,600,000	100	Electronic Stock Exchange managed by Borsa Italiana S.p.A.	–
<b>SHARES WITH MULTIPLE VOTING RIGHT</b>	–	–	–	–
<b>SHARES WITH LIMITED VOTING RIGHT</b>	–	–	–	–
<b>SHARES WITHOUT VOTING RIGHT</b>	–	–	–	–
<b>OTHER</b>	–	–	–	–

<i>RELEVANT HOLDINGS IN THE CAPITAL</i>			
<b>DECLARANT</b>	<b>DIRECT SHAREHOLDER</b>	<b>% QUOTA OF ORDINARY CAPITAL</b>	<b>% QUOTA OF VOTING CAPITAL</b>
<b>DAMIANI S.P.A.</b>	<b>DAMIANI S.P.A.</b>	<b>6.73%</b>	<b>6.73%</b>
<b>GUIDO GRASSI DAMIANI</b>	<b>GUIDO GRASSI DAMIANI</b>	<b>6.11%</b>	<b>6.11%</b>
<b>GUIDO GRASSI DAMIANI</b>	<b>LEADING JEWELS SA</b>	<b>58.83%</b>	<b>58.83%</b>
<b>GIORGIO GRASSI DAMIANI</b>	<b>GIORGIO GRASSI DAMIANI</b>	<b>6.11%</b>	<b>6.11%</b>
<b>SILVIA GRASSI DAMIANI</b>	<b>SILVIA GRASSI DAMIANI</b>	<b>5.30%</b>	<b>5.30%</b>
<b>DGPA SGR S.P.A. (NOW STYLE CAPITAL SGR S.P.A.)</b>	<b>DGPA SGR S.P.A. (NOW STYLE CAPITAL SGR S.P.A.)</b>	<b>5.36 %</b>	<b>5.36%</b>

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES**

<b>Board of Directors</b>													<b>Control, Risks, Remuneration &amp; Transactions with Related Parties Committee*</b>		<b>Nom. Cttee</b>		<b>Possible Exec. Cttee</b>	
<b>Position</b>	<b>Members</b>	<b>Year of birth</b>	<b>Date of first apptment*</b>	<b>In office since</b>	<b>In office until</b>	<b>List (M/m)</b>	<b>Exec.</b>	<b>Non-exec.</b>	<b>Indep. Code</b>	<b>Indep. TUF</b>	<b>No. other positions ***</b>	<b>**</b>	<b>****</b>	<b>**</b>	<b>****</b>	<b>**</b>	<b>****</b>	<b>**</b>
<b>Chairman</b>	Guido Roberto Grassi Damiani	1968	26/02/1996	23/07/2015	Approval Accounts as at 31.03.2018	M	x					66%						
<i>Deputy chairman, MD and responsible for the internal control and risk management system</i>	Giorgio Andrea Grassi Damiani	1971	26/02/1996	23/07/2015	Approval Accounts as at 31.03.2018	M	x					100%						
<i>Deputy chairwoman</i>	Silvia Maria Grassi Damiani	1966	26/02/1996	23/07/2015	Approval Accounts as at 31.03.2018	M		x				33%						
<b>Director</b>	Roberta Benaglia	1973	03/04/2009	23/07/2015	Approval Accounts as at 31.03.2018	m		x	x	x	8	83%	x	50%				
<b>Director</b>	Giancarlo Malerba	1961	27/06/2007	23/07/2015	Approval Accounts as at 31.03.2018	M		x				100%	x	100%				
<b>Director</b>	Stefano Graidi	1954	28/29/2005	23/07/2015	Approval Accounts as at 31.03.2018	M		x				100%						
<b>Director &amp; L.I.D.</b>	Elena Angela Luigia Garavaglia	1979	23/07/2015	23/07/2015	Approval Accounts as at 31.03.2018	M		x	x	x	1	100%	x	100%				
<b>Director</b>	Mirja Cartia d'Asero	1969	21/07/2016	21/07/2016	Approval Accounts as at 31.03.2018	M		x	x	x	2	100%						

<b>No. meetings held during the reference financial year:</b>	Committee: 6	BOD: 6
<b>Indicate the quorum required for the presentation of lists by minorities for the election of one or more members (pursuant to art. 147-ter TUF): 2.5%</b>		

NOTES

\* M/m is indicated in this column according to whether the member was elected from the list voted by the majority (M) or a minority (m).

\*\* The percentage of participation of directors in the meetings of the BOD and committees respectively is indicated in this column (No. attendances/No. meetings held during the effective period in office of the person concerned).

\*\*\* The number of director or statutory auditor positions held by the person concerned in other companies listed in regulated markets, including foreign ones, financial companies, banks, insurance companies or companies of a relevant size. The list of these companies, referring to each director, specifying whether the company in which the position is held is part or not of the group the Issuer is head of or is part of is enclosed with the Report.

\*\*\*\* An 'X' in this column indicates whether the Board member is part of the Committee.

**TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

<b>Board of Statutory Auditors</b>									
<b>Position</b>	<b>Members</b>	<b>Year of birth</b>	<b>Date of first apptment</b>	<b>In office since</b>	<b>In office until</b>	<b>List</b>	<b>Indep. Code</b>	<b>Participation in Board meetings *</b>	<b>No. other positions **</b>
<b>Chairman</b>	Gianluca Bolelli	1959	15/06/2007	21/07/2016	Approval of Accounts as at 31.03.2019	m	-	100%	18
<b>Statutory auditor</b>	Simone Cavalli	1965	15/09/2005	21/07/2016	Approval of Accounts as at 31.03.2019	M	-	100%	8
<b>Statutory auditor</b>	Laura Braga	1984	23/07/2015	21/07/2016	Approval of Accounts as at 31.03.2019	M	-	100%	1
<b>Substitute auditor</b>	Paola Mignani	1966	26/07/2013	21/07/2016	Approval of Accounts as at 31.03.2019	M	-	-	-
<b>Substitute auditor</b>	Fabio Massimo Micaludi	1961	15/06/2007	21/07/2016	Approval of Accounts as at 31.03.2019	m	-	-	-
<b>Number meetings held during the reference financial year: 14*</b>									
<b>Indicate the quorum required for the presentation of lists by minorities for the election of one or more members (pursuant to art. 148 TUF): 2.5%</b>									

NOTES

\* This column indicates the percentage participation of statutory auditors in the meetings of the Board of Statutory Auditors (BOA) (No. attendances/No. meetings held during the effective period in office of the person concerned).

\*\* This column indicates the number of relevant positions as director or statutory auditor held by the person concerned pursuant to Art. 148-bis TUF.

## APPENDIX 'A': LIST OF POSITIONS OF THE DIRECTORS

List of the positions held by the directors of the Board of DAMIANI S.p.A. in office at the date of approval of this Report in other listed companies, financial companies, banks and insurances or companies of significant size.

Director	Company	Position
<b>ROBERTA BENAGLIA</b>	STYLE CAPITAL SGR S.p.A.	Managing Director and Director
	Vetriere Riunite S.p.A.	Director
	Finanziaria del Vetro S.p.A.	Director and Chairperson
	Kickoff S.p.A.	Director
	Production Group S.r.l.	MD and Chairwoman BOD (position held since May 2017)
	Forte Forte S.r.l.	
	MSGM S.r.l.	MD and deputy chairperson
	Paoloni S.r.l.	MD and deputy chairperson
<b>MIRJA CARTIA D'ASERO</b>	Italmobiliare S.p.A.	Director, Chairwoman of the Risk Committee and member of the Related Parties Committee
	FNM S.p.A.	Independent director Member of Remuneration Committee Member of Corporate Social Responsibility and Ethics Committee

<b>ELENA GARAVAGLIA</b>	OVS S.p.A.  Independent director (since 20 June 2018) Member of Appointments and Remuneration Committee Member of Transactions with Related Parties Committee Member of Control, Risks and Sustainability Committee
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