

REPORT
ON CORPORATE GOVERNANCE

pursuant to art. 124 bis of the TUF, art. 89 bis of Consob's Issuers' Regulations, and art. LA.2.6 of the related Market Instructions

Issuer: **Aeffe S.p.A.**

Website: www.aeffe.com

Year covered by the Report: 2007

Date of approval of the Report: 28th March 2008

CONTENTS

1. PROFILE OF THE ISSUER	4
2. Information on the ownership structure (<i>pursuant to art. 123-bis of the TUF</i>) as of 28th March 2008	5
3. Compliance	12
4. Management and coordination.....	13
5. BOARD OF DIRECTORS	14
5.1 <i>Composition</i>	14
5.2 <i>Role of the Board of Directors</i>	15
5.3 <i>Empowered bodies</i>	18
5.4 <i>Other executive directors</i>	22
5.5 <i>Independent directors</i>	22
5.6 <i>Lead independent director</i>	23
6. Dealing with corporate information.....	24
7. Board Committees.....	25
8. Nominations Committee.....	26
9. Compensation Committee	27
10. Remuneration of directors	28
11. Internal Audit Committee.....	31
12. System of Internal Controls.....	33
12.1 <i>Executive director responsible for the system of internal controls</i>	33
12.2 <i>Internal control manager</i>	33
12.3 <i>Organisational model pursuant to Decree 231/2001</i>	33
12.4 <i>Independent Auditors</i>	34
12.5 <i>Executive responsible for preparing the company's accounting documentation</i>	34
13. Directors' interests and transactions with related parties	36
14. APPOINTMENT OF STATUTORY AUDITORS.....	37
15. Statutory Auditors	40
16. Relations with the Shareholders.....	41
17. Shareholders' meetings	42
18. Changes subsequent to year end.....	43

GLOSSARY

Board: the Issuer's board of directors.

Civil Code: the Italian civil code.

Code: the Code of Self-Regulation approved in March 2006 by the Committee for the Corporate Governance of Listed Companies and promoted by Borsa Italiana S.p.A.

Consob's Issuers' Regulations: the Regulations issued by Consob in resolution 11971/1999 and subsequent additions and amendments relating to Issuers.

Consob's Market Regulations: the Regulations issued by Consob in resolution 16191/2007/2007 and subsequent additions and amendments relating to market matters.

Issuer: Aeffe S.p.A., with registered offices at via delle Querce 51, San Giovanni in Marignano (Rimini), share capital € 26,840,626.00 fully paid, recorded on the Rimini Companies Register with tax code no. 01928480407, Rimini business register (R.E.A.) no. 227228

Market Instructions: the Instructions to the Regulations for Markets Organised and Managed by Borsa Italiana S.p.A.

Market Regulations: the Regulations for Markets Organised and Managed by Borsa Italiana S.p.A.

MTA: the Screen-traded Market organised and managed by Borsa Italiana S.p.A.

Report: the report on corporate governance that companies are required to prepare pursuant to art. 124 *bis* of the TUF, art. 89 bis of Consob's Issuers' Regulations, and art. IA.2.6. of the related Market Instructions.

TUF: Decree 58 dated 24th February 1998 (Consolidated Finance Law) and subsequent additions and amendments.

Year: the financial year covered by the Report.

1. PROFILE OF THE ISSUER

The Aeffe Group operates at an international level in the fashion and luxury sector, producing and distributing a wide range of products that include prêt-à-porter, footwear and leather goods, lingerie and beachwear. With a constant focus on uniqueness and exclusivity, the Group designs, produces and distributes collections for both its house brands, including “Alberta Ferretti”, “Moschino” and “Pollini”, and for licensed brands, including “Jean Paul Gaultier”, “Blugirl” and “Authier”. In addition, the Group has licensed the production and distribution of additional accessories and products to leading partners, in order to complete its range (perfumes, kids and junior lines, watches and eyewear).

The various product lines and brands presented by the Aeffe Group are divided into two segments: The Prêt-à-porter Division, which comprises Aeffe, Moschino and Velmar, essentially creates, produces and distributes collections of luxury prêt-à-porter clothing and collections of lingerie, beachwear and loungewear, in addition to managing the distribution of all the Division's products via both the retail channel and the wholesale channel. This division also manages the licences granted to non-Group companies for the production of lines under the brands owned by Aeffe e Moschino. The Footwear and leather goods Division, comprising Pollini and its subsidiaries, mainly operates in the creation, production and distribution of footwear, small leather goods, bags and coordinated accessories, using exclusive-quality materials. It is also responsible for managing the licence contracts granted to non-Group companies for the creation of product lines branded Pollini and Studio Pollini.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-BIS OF THE TUF) AS OF 28TH MARCH 2008

(A) Share capital structure

The Issuer's issued and fully-paid share capital amounts to EUR 26,840,626.00, represented by 107,362,504 ordinary shares, par value EUR 0.25 each, listed solely on the MTA - STAR segment.

The Issuer has not issued financial instruments giving the right to subscribe for new shares, except for the options granted to certain directors and employees under the share incentive plans implemented by the Group.

In order to service these share incentive plans (and any future incentive plans that may be adopted by the Issuer), the extraordinary meeting of the Issuer's shareholders held on 26th March 2007 approved a divisible share capital increase, pursuant to art. 2439.2 of the Civil Code, by up to EUR 1,480,000.00, via the issue of a maximum of 5,920,000 ordinary shares, to be subscribed for on one or more occasions by 31st December 2022, at the latest.

Information on these plans is provided in the financial statements (page 46) and in the explanatory documents prepared pursuant to art. 84-*bis* of Consob's Issuers' Regulations, which can be found on the Issuer's website: www.aeffe.com/governance.

(B) Restrictions on the transfer of securities

The Articles of Association do not envisage restrictions on the transfer of securities.

(C) Significant interests in share capital

Based on the communications made pursuant to art. 120 of the TUF dated 28th March 2008, the following significant, direct or indirect interests are held in the Issuer's share capital.

Declarant	Name	Nature of ownership	% of voting capital	% of ordinary capital	of
JP MORGAN ASSET MANAGEMENT (UK) LIMITED	JP MORGAN ASSET MANAGEMENT (UK) LIMITED	Fund management	4.927	4.927	
		<i>Total</i>	4.927	4.927	
	Total		4.927	4.927	
MEDIOBANCA SPA	MEDIOBANCA SPA	Owner	2.060	2.060	
		<i>Total</i>	2.060	2.060	
	Total		2.060	2.060	
MORGAN STANLEY CORP	MORGAN STANLEY & CO INTERNATIONAL PLC	Owner	2.165	2.165	
		<i>Total</i>	2.165	2.165	
	Total		2.165	2.165	
JULIUS BAER INVESTMENT MANAGEMENT LLC (as manager of inter alia the JULIUS BAER INTERNATIONAL EQUITY FUND which holds 2.063%)	JULIUS BAER INVESTMENT MANAGEMENT LLC	Fund management	3.260	3.260	
		<i>Total</i>	3.260	3.260	
	Total		3.260	3.260	
TULLIO BADIOLI	TULLIO BADIOLI	Owner	2.235	2.235	
		<i>Total</i>	2.235	2.235	
	Total		2.235	2.235	
HENDERSON GLOBAL INVESTORS LIMITED	HENDERSON GLOBAL INVESTORS LIMITED	Fund management	2.980	2.980	
		<i>Total</i>	2.980	2.980	
	Total		2.980	2.980	
FRATELLI FERRETTI HOLDING SRL	I.M. FASHION SA	Owner	24.410	24.410	
		<i>Total</i>	24.410	24.410	
	FRATELLI FERRETTI	Owner	37.387	37.387	

Declarant	Name	Nature of ownership	% of voting capital	% of ordinary capital	of
	HOLDING SRL	<i>Total</i>	37.387	37.387	
	Total		61.797	61.797	

(D) Securities carrying special rights

The Issuer has not issued securities special rights of control.

(E) Share ownership by employees: mechanism for the exercise of voting rights

Employees who own shares in the capital of the Issuer exercise their voting rights directly, in accordance with the provisions of the Articles of Association.

(F) Restrictions on voting rights

At the date of this Report, there are no restrictions and/or limitations on voting rights in relation to the Issuer's shares.

(G) Shareholders' agreements

Pursuant to art. 122 of the TUF, as subsequently amended, and to the best of the Issuer's knowledge, there are no shareholders' agreements in force at the date of this Report.

(H) Appointment and replacement of directors and changes to the Articles of Association

Pursuant to art. 14 of the Articles of Association, the Board of Directors comprises 7 (seven) members, who need not be shareholders. The Board includes both executive and non-executive directors. In all cases, at least one member of the Board must satisfy the independence requirements established in art. 148.3 of the TUF. The directors remain in office for three financial years and their appointments expire on the date of the Meeting called to approve the financial statements for the final year of their mandate; they may be re-elected.

As required by Code application criterion 6.C.1, it is confirmed that the mandate of the current Board terminates on approval of the financial statements as of 31st December 2007 and that the Shareholders' Meeting called to resolve on the approval of the draft financial statements must also appoint a new Board.

Pursuant to art. 15 of the Articles of Association, the ordinary shareholders' meeting is

responsible for appointing the members of the Board, from the lists of candidates presented by the shareholders, following the methodology described below.

Shareholders have the right to present lists of candidates if, individually or collectively, they represent at least 2.5% (two point five percent) of the shares with voting rights at ordinary meetings, or such different percentage of the Issuer's share capital as is established by current and applicable laws and/or regulations (Consob resolution 16319/2008 fixed this percentage as 2.5%).

The lists of candidates signed by the shareholders presenting them, or by the shareholder appointed to present them, and accompanied by the documentation required by the Articles of Association, must be filed at the registered offices of the Issuer at least fifteen (15) calendar days prior to the date fixed for the Meeting in first calling. The filed lists of candidates will be valid for subsequent callings of the same Meeting, if applicable.

In order to demonstrate ownership of the number of shares necessary for the presentation of a list, each nominating shareholder must file at the registered offices, together with the list and by the above deadline, a communication confirming such ownership released by the authorised intermediary pursuant to art. 2370.2 of the Italian Civil Code.

Each list must contain at least two candidates. The candidates must be listed in consecutive numerical order.

At least one candidate on each list must satisfy the independence requirements established in art. 148.3 of the TUF and subsequent amendments.

For the purposes of appointing directors, no account is taken of lists that do not receive at least half the percentage of votes required by art. 15.2 of the Articles of Association (2.5%) for the presentation of such lists.

If no lists are presented, the Meeting resolves by a majority of the votes cast, in accordance with current legislation.

If just one list is presented, all the members of the Board are drawn from that list.

If, on the other hand, two or more lists are presented, the Board is appointed in the following manner:

- (a) all the candidates on the list that obtains the majority of the votes cast by the shareholders, up to a maximum of six, are appointed as directors in the numerical order in which they are presented on that list;

- (b) the remaining number of candidates to be elected is drawn from the list that obtains the second-largest number of votes and appointed as directors in the numerical order in which they are presented on that list, on condition that such list is not linked in any way, directly or indirectly, with the shareholders who presented or voted for the list that obtained the largest number of votes;
- (c) the directors to be elected who satisfy the independence requirements established in the Articles of Association are drawn from the list that obtains the largest number of votes cast by the shareholders or, to the extent that this is not possible, from that which obtains the second-largest number of votes;
- (d) in the event of a voting tie between two or more lists, the candidates on the list presented by shareholders with the greatest total equity interest or, failing this, by the largest number of shareholders, are elected.

If, during the year, one or more directors drawn from the list that obtained the largest number of votes (the “Majority Directors”) cease to serve for any reason, they are replaced as follows on condition that the majority of the directors elected at the Meeting continues to serve:

- (a) the Board replaces the Majority Directors who have ceased to serve by co-opting new directors, pursuant to art. 2386 of the Civil Code, having regard for the requirement that independent directors must be co-opted if one or more of the Majority Directors who have ceased to serve were independent directors;
- (b) the co-opted directors remain in office until the next Shareholders' Meeting which either confirms or replaces them in the usual manner with the normal majorities, without recourse to the system of list voting.

If, during the year, one or more directors drawn from the list that obtained the second-largest number of votes (the “Minority Directors”) cease to serve for any reason, they are replaced as follows:

- (c) the Board replaces the Minority Directors who have ceased to serve by the first unelected candidates on the same list, on condition that they are still eligible and willing to accept the appointment, or, otherwise, by the first eligible and willing candidates drawn in order from that list or, failing this, from the first subsequent list by number of votes cast that achieved the voting quorum; the mandates of these replacements expire at the same time as those of the directors who were serving when they joined the Board;

- (d) if one or more of the Minority Directors who ceased to serve was an independent director, they must be replaced by other independent directors;
- (e) if it is not possible to proceed on the basis described above, due to a lack of candidates on the lists or their unwillingness to serve, the Board co-opts a new director, pursuant to art. 2386 of the Civil Code, who is selected by the Board using the criteria established by law. The director co-opted on this basis remains in office until the next Shareholders' Meeting which will either confirm or replace him in the usual manner with the normal majorities, without recourse to the system of list voting.

If for any reason the appointment or replacement of one or more directors cannot be accomplished using the above procedure, the legislation governing the appointment of directors is applied without following it. In this case, the candidates must have accepted their nominations and confirmed, under their personal responsibility, the absence of reasons for which they would be ineligible or incompatible, and that they satisfy the requirements established by the applicable regulations and the Articles of Association.

(I) Mandates to increase share capital and authorisations to purchase treasury shares

The Board has no mandate to increase share capital pursuant to art. 2443 of the Civil Code or to issue participating financial instruments.

The shareholders' meeting did not authorise the Board to purchase any treasury shares during 2007. The Issuer did not hold any treasury shares as of 31st December 2007.

On 3rd March 2008, the shareholders' meeting authorised the Board to purchase and make use of treasury shares pursuant to art. 2357 et seq. of the Civil Code. See section 18 below in relation to this authorisation.

(J) Change of control clauses

At the date of this Report, the Issuer and its subsidiaries have not signed significant agreements that would become effective or would be modified or terminated upon a change in control over the contracting party.

(K) Directors' indemnities upon resignation, dismissal or termination following a public offer for the purchase of shares

At the date of this Report, no agreements have been signed between the Issuer and the directors that envisage the recognition of indemnities upon resignation or on

dismissal/termination without just cause; in addition, their termination following a public offer for the purchase of shares is not envisaged.

3. COMPLIANCE

The Issuer has adopted the Code.

Neither the Issuer nor its subsidiaries with strategic significance are subject to non-Italian legislation that would influence the way the Issuer's corporate governance is organised.

4. MANAGEMENT AND COORDINATION

At the date of this Report, Fratelli Ferretti Holding S.r.l., a company jointly owned by Massimo Ferretti and Alberta Ferretti, directly holds 40,140,000 ordinary shares, 37.387%, and indirectly holds, via I.M. Fashion S.A., 26,207,690 ordinary shares, 24.410%, together totalling 66,347,690 ordinary shares representing 61.797% of the Issuer's share capital.

Although art. 2497-*sexies* of the Civil Code states that “*in the absence of evidence to the contrary, a company is deemed to be subject to the management and coordination of the company or body required to consolidate its financial statements or which controls it pursuant to art. 2359*”, the Issuer believes that Fratelli Ferretti Holding S.r.l. has never carried out management and coordination activities since (i) Fratelli Ferretti Holding S.r.l. does not give instructions to its subsidiary and (ii) there is no significant organisational - functional link between the two companies. Consequently, the Issuer considers that it operates, now and in the past, with full corporate and entrepreneurial autonomy with respect to its parent company, Fratelli Ferretti Holding S.r.l. Relations with the latter are, in fact, limited solely to:

- (a) the routine exercise by Fratelli Ferretti Holding of the administrative and equity rights deriving from its status as a shareholder (voting at meetings, collection of dividends);
- (b) receipt by the governing bodies of Fratelli Ferretti Holding of the information provided by the Issuer pursuant to art. 2381.5 of the Civil Code.

5. BOARD OF DIRECTORS

5.1 Composition

At the date of this Report, the Board of the Issuer comprises the following Directors:

Name Surname	Position	Appointed on	List	Executive	Non-executive	Independent	Ind. Con. Fin. Law	% Board attendance
Massimo Ferretti	Chairman	20th May 2005	N.A.	X				100%
Alberta Ferretti	Deputy Chairman	20th May 2005	N.A.	X				40%
Simone Badioli	Chief Executive Officer	20th May 2005	N.A.	X				93%
Marcello Tassinari	Director Managing Director	20th May 2005	N.A.	X				100%
Gianfranco Vanzini	Director	20th May 2005	N.A.		X	X		91%
Roberto Lugano	Director	23rd May 2007	N.A.		X	X	X	90%
Umberto Paolucci	Director	20th May 2005	N.A.		X	X	X	90%

At the date of this report, the following directors hold appointments with other companies listed in regulated markets:

Name	Position	Executive Committee	% Executive Committee	Compensation committee	% Compensation committee	Internal audit committee	% Internal audit committee
Umberto Paolucci	Director of Datalogic S.p.A.	X	89%			X	100%
Umberto Paolucci	Director of Geox S.p.A.	X	94%				
Umberto Paolucci	Chairman of Microsoft Italia	X	N/A				
Roberto Lugano	Director of Snam Rete Gas S.p.A.	X	71%	X	50%	X	86%

Six members of the Issuer's Board were appointed at the meeting of the Issuer's shareholders held on 20th May 2005. The shareholders' meeting held on 23rd May 2007 resolved to increase the number of directors to 7 (consistent with the new text of the Articles of Association), and appointed Roberto Lugano, who satisfies the independence requirements envisaged in the

Code of Self-Regulation and the Market Regulations, as a director in order to ensure the presence on the Board of an adequate number of independent directors. No directors ceased to serve during the year. Roberto Lugano took office from the start of trading in the ordinary shares of the Issuer on the Screen-traded Market organised and managed by Borsa Italiana (24/07/07).

In conformity with the combined requirements of arts. 147 *quinquies* and 148 of the TUF, the members of the Board satisfy the honourability requirements established for members of management boards in Regulation 162 dated 30th March 2000, issued by the Justice Minister, as well as professionalism and experience requirements needed in order to carry out their mandate effectively and efficiently.

The members of the current Board will remain in office until approval of the financial statements for the year ended 31st December 2007.

(A) Maximum number of appointments held in other companies

Having regard for the forthcoming expiry of the current Board's mandate, the Board has not established general criteria for the maximum number of appointments held in companies listed in regulated markets, banks, finance companies, insurance companies or other large companies, that is deemed compatible with the work performed by its directors and statutory auditors. Nevertheless, the Board has identified such appointments based on the declarations made by the Issuer's directors and statutory auditors.

5.2 Role of the Board of Directors

The Board met 9 (nine) times during the year. The average duration of a Board meeting is an hour and a half.

At least 8 (eight) Board meetings are planned for 2008, three of which (14th February 2008, 6th March 2008 and 28th March 2008) have already been held.

Pursuant to art. 20.1 of the Articles of Association, the Board exercises the widest powers for the administration of the Company, without any exceptions, and has the right to perform all deeds deemed appropriate for the pursuit and achievement of the company's objects, with the sole exclusion of those reserved by law for the shareholders' meeting.

Pursuant to art. 20.6 of the Articles of Association, the following resolutions cannot be delegated and must be adopted by the Board pursuant to art. 2436 of the Italian Civil Code:

- mergers or spin-offs pursuant to arts. 2505, 2505-*bis* and 2506-*ter* of the Civil Code;

- opening or closure of secondary offices;
- transfer of the registered offices elsewhere in Italy;
- indication of which directors are the Issuer's legal representatives;
- reduction of capital following withdrawal by a shareholder;
- alignment of the articles of association to reflect compulsory regulatory requirements,

without prejudice to the fact that such resolutions can, in any case, also be adopted at an extraordinary shareholders' meeting.

In application of Criterion 1.C.1 of the Code, the Board meeting held on 26th March 2007 resolved to reserve for itself the following functions:

- examination and approval of the strategic, industrial and financial plans of the Issuer and the group which it leads, the Issuer's system of corporate governance and the structure of the group;
- assessment of the adequacy of the organisation, administrative and financial accounting systems of the Issuer, and those of subsidiaries of strategic importance, prepared by the managing directors, with particular reference to the system of internal controls and the management of conflicts of interest;
- granting and revoking the mandates of the Managing Directors, establishing the limits on their powers and how they may be exercised;
- determination, having examined the proposals made by the relevant committee and heard the opinion of the Board of Statutory Auditors, of the remuneration of the Managing Directors and the other directors with special duties, as well as the allocation of the total remuneration due to members of the Board, if not already decided at the shareholders' meeting;
- assessment of the general results of operations, having regard in particular for the information received from bodies with delegated powers, and periodically comparing the results achieved against budget;
- acquisition of firms and equity investments and merger and spin-off transactions and other special operations that may have strategic, economic or financial importance for the Issuer.

The Issuer complies via informal operating practices with the requirements of Principle 1.P.2 of the Code regarding the obligation on members of the Board to act and resolve in an informed and independent manner, pursuing the objective of creating value for the shareholders.

The remuneration of the directors is decided at the Shareholders' Meeting. Pursuant to art. 22.2 of the Articles of Association, the Board has established the remuneration of directors with special duties, based on a proposal from the Compensation Committee and after hearing the opinion of the Board of Statutory Auditors. The Board has also allocated the total remuneration due to its members.

At its meetings, the Board assesses the general results of operations, having regard in particular for the information received from the directors and committees, and periodically compares the results achieved against budget.

In application of Criterion 1.C.1.f), the Board has resolved to retain the following activities for itself: acquisition of firms and equity investments, merger and spin-off transactions and other special operations that may have strategic, economic or financial importance for the Issuer.

In accordance with Principle 9 of the Code, the Board has adopted measures designed to ensure that transactions with related parties are carried out in a transparent manner and comply with the criteria requiring substantial and procedural propriety. A similar requirement is contained in art. 2391-*bis* of the Civil Code, under which the administrative bodies of companies that make recourse to the market for risk capital must adopt specific internal regulations and procedures to govern transactions with related parties, including those conducted via their subsidiaries, thus ensuring their transparency and substantial and procedural propriety ("Code on Transactions with Related Parties").

The Chairman explained the contents of the above requirements to the Board at the meeting held on 26th March 2007. The Chairman also explained the definition of relevant "related party" for the purposes of the above requirements, which is that envisaged in IAS/IFRS 24 and referred to in art. 2.h) of the Issuers' Regulations.

Consistent with the requirements referred to above, on 26th March 2007 the Board adopted a Code on Transactions with Related Parties containing the rules to follow for transactions carried out by the Issuer with parties covered by the definition of a "related party". The Code

establishes that such transactions shall normally be approved by the Board of the company concerned, subject to the ability to delegate to a director the performance of Ordinary Transactions (defined in the Code as transactions carried out in the ordinary course of business activities, as well as transactions with related parties which, over the year, do not total more than EUR 2,500,000). In any case, it is not possible to delegate transactions with related parties that are deemed to be extraordinary or significant (being, respectively, transactions with related parties that are not conducted in the ordinary course of the business of the companies concerned, and those extraordinary transactions whose nature, amount, method or timing might impact on the safeguarding of the group's assets, or on the completeness and accuracy of the accounting and other information provided in relation to the Issuer).

With regard to transactions in which directors have a personal interest, the group applies the rules established by law, since these are considered by the Issuer to provide adequate protection for the group's interests. This is because art. 2391 of the Civil Code, applicable to the Issuer and the group's principal subsidiaries, envisages that (i) managing directors must abstain from carrying out transactions in which their interest is not solely for the benefit of the company; and that (ii) each director must inform the Board of all their interests in a given transaction.

Following the expansion of the Board on 23rd March 2007, the Board meeting held on that date assessed the independence of its non-executive directors and the accounting and financial skills of the members of the internal audit committee. Since the company has been listed on the stock exchange for less than one year, the Board has not deemed it necessary to assess the size, composition and functioning of the Board and its committees pursuant to Criterion 1.C.1.g) of the Code. Such assessments will be made during 2008.

The shareholders' meeting has granted the Issuer's directors advance relief from the no-competition requirements laid down in art. 2390 of the Civil Code.

5.3 Empowered bodies

(A) Managing Directors

On 26th March 2007, the Board granted the Chairman, Massimo Ferretti, all the widest powers of ordinary and extraordinary administration, to be exercised as sole signatory without any limitation on the amount or expenditure, except for the (i) purchase, sale, exchange or contribution of property subject to registration with the land registry; (ii) purchase, sale,

exchange or contribution of lines of business that include property subject to registration with the land registry; (iii) purchase and sale of trademarks used in the pursuit of the company's objects; (iv) purchase, sale, exchange or contribution of lines of business or equity investments in companies with a value in excess of EUR 2,000,000.

On 26th March 2007, the Board granted Alberta Ferretti the widest powers of ordinary and extraordinary administration, to be exercised as sole signatory without any limit on the amount or expenditure, except for the i) purchase, sale, exchange or contribution of property subject to registration with the land registry; (ii) purchase, sale, exchange or contribution of lines of business that include property subject to registration with the land registry; (iii) purchase and sale of trademarks used in the pursuit of the company's objects; (iv) purchase, sale, exchange or contribution of lines of business or equity investments in companies with a value in excess of EUR 2,000,000.

On 26th March 2007, the Board granted the Chief Executive Officer, Simone Badioli, the widest powers of ordinary and extraordinary administration, to be exercised as sole signatory without any limit on the amount or expenditure, except for the i) purchase, sale, exchange or contribution of property subject to registration with the land registry; (ii) purchase, sale, exchange or contribution of lines of business that include property subject to registration with the land registry; (iii) purchase and sale of trademarks used in the pursuit of the company's objects; (iv) purchase, sale, exchange or contribution of lines of business or equity investments in companies with a value in excess of EUR 2,000,000.

By a resolution adopted on 26th March 2007, the Board granted Marcello Tassinari, director and Managing Director of the Aeffe Group, the following powers to be exercised as sole signatory without any limitation on the amount or expenditure:

- (a) represent the Company in relations with banks, customers, suppliers, agents and third parties in general, sign correspondence, pay accounts and invoices and make any related settlements;
- (b) sign with all appropriate clauses, including arbitration clauses, amend and rescind contracts and agreements for rentals, transport, outsourcing, free use, supply, works and services of all kinds, mediation, commission, shipping, agency and concessions for sale and storage, with the State Administration, public and private bodies and, in particular, with the Administration of the National Railways;
- (c) sign with appropriate clauses, including arbitration clauses, amend and rescind, transfer and acquire on disposal contracts for the purchase, sale or exchange of patent rights,

know-how, secrets and research, including designs, plant and engineering works in general;

- (d) carry out all the deeds necessary to register patents including, by way of example, applications for corrections, amendments, extensions to the secret, divisions, propose or resist administrative objections, interference, administrative appeals, carry out in general all other deeds that may be necessary and useful for requesting, obtaining and maintaining patents, sign all deeds necessary for the exercise of the above powers, appointing for this purpose patent correspondents in Italy and abroad and granting them the related powers;
- (e) carry out with the Public Administration, public bodies and offices all the deeds and transactions necessary to obtain concessions, licenses and authorisations in general, set down and sign regulations, conventions, acts of submission and all other preparatory deeds for such measures; fulfil all the related requirements, including those concerning taxes on production and consumption, land and monopoly levies;
- (f) sign the currency declarations for import and export transactions issued by the Bank of Italy and authorised banks, arranged for the related currency settlements and, in particular, sign the forms requesting the application of simplified customs procedures;
- (g) transfer currency amounts and payments received from abroad from bank to bank, give instructions to banks for the use of such amounts and for the processing of currency declarations regarding export transactions;
- (h) carry out, in any currency, the transactions described below with banks and finance companies in general; pay in any amounts to the Company's current accounts with any bank or finance company; issue cheques with or with special clauses or restrictions; use in any way the amounts to the credit of the Company or otherwise available in such accounts, whether by drawing sums against a simple receipt, by the issue of cheques, including cheques for the benefit of the Company, by payment orders or requests for the issue of bankers' drafts; overdraw the Company's current accounts to the extent of agreed lines of credit; cash drafts and cheques of all kinds and in any currency, with the usual reservations; request and collect blank cheque books for current accounts opened in the Company's name, giving receipts; order the sale and purchase of currency for all import and export transactions;
- (i) arrange insurance contracts of all kinds, signing the related policies with the right to agree and demand, in the event of losses, the related indemnities, giving receipt to

those that require it and agreeing in settlement all other indemnities due to third parties for any losses arising;

- (j) make deposits for any reason and withdraw them from post and telegraph offices, banks, central banks, the tax authorities, the central and branch offices of Cassa Depositi e Prestiti, customs, the national and private railways, transport and shipping firms etc.; collect from post and telegraph offices, customs, railways, transport and shipping firms and, in general, from any public offices and any company or premises, payment orders, packages, letters including registered and insured letters declaring their value, goods, cash etc., giving receipts and releases from responsibility;
- (k) represent the Company in dealings with local or sector industrial associations, taking part in meetings with the right to reach and sign agreements with them;
- (l) demand and give receipts for amounts, credits, earnings, interest, dividends, cheques and payment orders issued by whosoever in favour of the Company, endorse such securities over to banks, protest amounts not honoured and arrange for recalls;
- (m) represent the Company before civil, administrative and judicial authorities and bodies at all levels, as well as before the tax and registration authorities and before the tax commissioners at all levels, with the power to sign appeals, propose and accept settlements, promote legal claims, appear as plaintiff or defendant, proposing all appropriate deeds and represent the Company in creditors' meetings, make proposals or obtain registration of amounts due in bankruptcy and other court supervised procedures; accept creditors' arrangements and demand the related amounts, settle any amounts or cases outstanding, agree to arbitration and mediation, including those with unappealable rulings, ensure the enforcement of judgments, defer, refer and accept sworn oaths, promote the attachment or seizure of assets or other forms of credit protection in relation to debtors and third parties, and revoke the same, appoint solicitors, lawyers and experts, revoke such appointments and elect domicile;
- (n) sign declarations of the remuneration subject to withholding taxes to be given to third parties pursuant to and for the effects of art. 3.1 of Decree 600 dated 29th September 1973;
- (o) represent the Company with the State Tax Authorities, the central and branch offices of Cassa Depositi e Prestiti, the State, Regional, Provincial and Municipal Treasuries, so that in the name of and on behalf of the Company he may carry out any transaction involving the payment of release of provisional and final guarantee deposits, collect

payment mandates for whatever reason issued or to be issued in favour of the Company by State or near-State entities, giving good receipt without any limitation of amount, exonerating the above administrations from all responsibility, stating that the Company reserves the right to and agrees to communicate to the above competent authorities any changes in this mandate, exonerating them from any responsibility for the untimely notification of any changes to it;

- (p) arrange to hire and dismiss clerical and factory workers in areas under his responsibility, adopting in relation to employees all the measures deemed necessary and useful, sign employment contracts and determine remuneration levels;
- (q) request, negotiate and sign contracts for bank lines of credit and all other contracts relating to loans requested from third parties;
- (r) request, negotiate and sign contracts for the sale of receivables to factoring companies and/or third parties operating in the same sector.

(B) Chairman

The granting of operational powers to the Chairman reflects the central importance of the person and role of Mr Ferretti within the organisational structure of the Company and the Aeffe Group. Massimo Ferretti has always promoted the family brandname and is principally responsible, together with Alberta Ferretti, for the growth strategy of Aeffe and the creation of the Aeffe Group.

The Chairman is not the party that controls the Issuer pursuant to art. 93 of the TUF. The Issuer is controlled by Fratelli Ferretti Holding S.r.l., a company jointly owned by Massimo Ferretti and Alberta Ferretti.

(C) Information provided to the Board

At the Board meetings held at least every quarter, the executive directors report to the Board on the work performed under the mandates granted to them.

5.4 Other executive directors

There are no directors who perform executive activities, other than the persons indicated as executive directors in section 5.3 above.

5.5 Independent directors

Roberto Lugano and Umberto Paolucci are non-executive directors since they do not hold

operational mandates and/or perform executive functions within the business. Consistent with Principle 2.P.2 of the Code, the non-executive directors bring their specific skills to Board discussions, contributing to the making of balanced decisions and taking special care in the areas where conflicts of interest may arise.

Umberto Paolucci and Roberto Lugano are also independent directors, since they satisfy the requirements envisaged in Code Criterion 3.C.1 and the criteria laid down in arts. 2.2.3.3.(l) (l) of the Market Regulations and IA.2.13.6, Section IA.2.13, Chapter IA.2, of the Market Instructions, as determined at the Board meeting held on 26th March 2007 in relation to Mr Paolucci and on 23rd May 2007 concerning Mr Lugano.

In particular, the above directors do not have and have not recently had any direct or indirect relations with the Company, or parties related to it, that might currently influence the independence of their judgment, nor do they find themselves in any of the situations whereby a non-executive director may not be deemed independent.

In conformity with the combined requirements of arts. 147 *quinquies* and 148 of the TUF, the members of the Board satisfy the honourability requirements established for members of management boards in Regulation 162 dated 30th March 2000, issued by the Justice Minister, as well as professionalism and experience requirements needed in order to carry out their mandate effectively and efficiently.

At the meeting held on 26th May 2007, the Board of Statutory Auditors verified the proper application of the above assessment criteria and the procedures adopted by the Board for checking the independence of its members.

The independent directors did not deem it necessary to meet in the absence of the other directors during the year.

5.6 Lead independent director

On 23rd May 2007, the Board appointed Umberto Paolucci as the lead independent director pursuant to Criterion 2.C.3 of the Code.

6. DEALING WITH CORPORATE INFORMATION

The Code envisages that directors and statutory auditors must keep confidential the documents and information obtained in the performance of their duties, and comply with the procedures adopted by the Issuer for the internal management and external communication of such documents and information.

Consistent with this requirement and in accordance with the requirements of the first and twelfth paragraphs of art. 114 and art. 115 *bis* of the TUF, as well as arts. 66 et seq. and art. 152 *bis* et seq. of the Issuers' Regulations, on 26th March 2007, the Board approved the adoption of a code of conduct in relation to privileged information (the “Code on Privileged Information”), and the creation of a special register of persons who, in view of their working or professional activities, have access to privileged information. Registers have been suitably created for both the Issuer and its subsidiaries.

In accordance with art. 114.7 of the TUF and arts. 152-sexies et seq. of the Issuers' Regulations, on 26th March 2007, the Board also approved the adoption of a code of conduct on internal dealing 2007(the “Code on Internal Dealing”), which identifies the so-called “relevant persons” and governs the way their transactions in shares issued by the Issuer, or other related financial instruments, are communicated to Consob and the general public. In addition, consistent with art. 2.2.3.3.(p) of the Market Regulations, the Code also prohibits the “relevant parties” from carrying out transactions in the Issuer's shares and/or financial instruments during the so-called black-out periods i.e. during the 30 calendar days prior to communicating to the public approval of the draft financial statements and the six-monthly report, and during the 15 calendar days prior to the approval of quarterly reports. The Code on Internal Dealing took effect from the start of trading of the Issuer's shares on the Screen-traded Market organised and managed by Borsa Italiana.

In order to fully implement the Code on Privileged Information and pursuant to art. 2.6.1, Chapter 2.6 of the Market Regulation, at the meeting held on 26th March 2007 the Board appointed Giulia Degano as Contact Officer, and Annalisa Androvandi as her deputy, and tasked them to comply with the legislative and regulatory requirements for Contact Officers, with particular reference to the matters of internal dealing and the communication of privileged information, as well as the requirements for communications to the market described in Chapter 2.6 of the Market Regulations and, more generally, the requirements of the Code on Internal Dealing and the Code on Privileged Information.

7. BOARD COMMITTEES

On 26th March 2007, the Board resolved to establish a Compensation Committee and an Internal Audit Committee, consistent with the requirements of, respectively, Principles 7 and 8 of the Code and art. 2.2.3.3, letters m), n) and o), of the Market Regulations. As envisaged in art. 5 of the Code, these Committees are internal to the Board and carry out a consultative role and/or make recommendations, thereby improving the functioning of the Board and its ability to provide strategic guidance.

On 23rd March 2007, the Board adopted the regulations for both Committees and appointed their respective members.

8. NOMINATIONS COMMITTEE

At the date of this Report, the Board has not established an internal Nominations Committee, since this is not deemed necessary. This decision reflects the fact that the current and applicable regulatory requirements and the provisions of the Articles of Association - including, in particular, the mechanism of nominations via a list voting system - ensure a suitable level of transparency for the procedure of selecting and nominating candidates.

9. COMPENSATION COMMITTEE

The Compensation Committee comprises non-executive directors, the majority of whom are independent. Its members are:

- Umberto Paolucci - Chairman (independent director);
- Roberto Lugano (independent director);
- Gianfranco Vanzini (non-executive director).

The role of the Compensation Committee is to make proposals to the Board, in the absence of the directors involved, concerning the remuneration of the managing directors and those with special duties, as well as - at the request of the managing directors - to establish criteria for the remuneration of the Company's senior managers, including any stock-option plans or allocations of shares.

In compliance with Application Criterion 7.C.3, the Compensation Committee periodically checks the criteria adopted for the remuneration of executives with strategic responsibilities, monitors their application based on information provided by the managing directors and makes general recommendations to the Board on this subject.

The Committee met twice during the year. The Committee meetings are properly minuted; the minutes are recorded in the related minute book.

10. REMUNERATION OF DIRECTORS

(A) Directors' emoluments

The emoluments of the directors are decided at the Shareholders' Meeting. Pursuant to art. 22.2 of the Articles of Association, the remuneration of directors with special duties is determined by the Board, acting on a proposal from the Compensation Committee, if appointed, and after hearing the opinion of the Board of Statutory Auditors.

As previously mentioned, the Issuer has established a Compensation Committee which makes proposals regarding the remuneration of the executive directors and executives with strategic responsibilities.

The members of the Issuer's Board received the following remuneration during the year ended 31st December 2007.

(in thousands of euro)

Name and Surname	Position	Remuneration from the Issuer	Other remuneration
Massimo Ferretti	Chairman of the Board	604	253
Alberta Ferretti	Deputy Chairman of the Board	455	110
Simone Badioli	Chief Executive Officer	253	100
Marcello Tassinari	Director	272*	85
	Managing Director		
Gianfranco Vanzini	Director	30	—
Umberto Paolucci	Director	60	—
Roberto Lugano	Director		—

In accordance with art. 2.2.3.3.(n) of the Market Regulations, the Issuer has devised a system of directors' remuneration that is consistent with the Application Principles and Criteria envisaged by art. 7 of the Code. With particular regard to the remuneration of executive directors and executives with strategic responsibilities, Application Criterion 7.C.1 of the Code, established that a significant part of their remuneration must be linked with the economic results achieved by the Issuer and/or with the achievement of specific objectives established in advance by the Board or, in the case of executives with strategic responsibilities, by the managing directors.

In application of this Criterion, the extraordinary meeting of the Issuer's shareholders held on

* of which 30 thousand as a director and the remainder as an executive of the company

26th March 2007, acting on a recommendation from the Board, approved the guidelines for a stock-option plan (since adopted and implemented by the Board) proposed by the Compensation Committee for the benefit of executive directors and employees of the Company who have significant roles or functions within the Company, and which is linked to the achievement of pre-determined personal and/or corporate performance objectives.

The system of incentive remuneration came into effect by resolution of the Board meeting held on 23rd October 2007; this meeting also prepared the Regulations for the stock option plan.

Further information on this plan is contained in the documentation prepared pursuant to art. 84-*bis* of Consob's Issuers' Regulations, which can be found on the Issuer's website: www.aeffe.com/governance.

An objectives-based incentive system for the annual remuneration of Simone Badioli and Marcello Tassinari has also been established, in addition to their basic remuneration as managing directors.

In particular, for 2007 and all subsequent years, Simone Badioli and Marcello Tassinari will receive a percentage of the increase in Ebitda with respect to the prior year (absolute amount, normalised*, reported in the consolidated financial statements), up to a maximum gross amount payable of EUR 250,000.00.

The Ebitda calculation must take account of all costs relating to both the above performance bonuses and those granted to other employees and directors. The bonus will be paid during the first month after approval of the consolidated financial statements; in the event of termination as a director during the second half of the year but prior to year end, the bonus will be paid - again during the first month after approval of the Aeffe Group's consolidated financial statements - in proportion to the number of months actually worked.

Consistent with Code Application Criterion 7.C.2, the remuneration of non-executive directors is not tied to the results achieved by the Issuer and there are no share-based incentive plans for these persons.

(B) Remuneration and benefits paid to the Managing Director and key personnel within the Group

The gross remuneration (including any bonuses and fringe benefits, but excluding the provision

* Normalisation means the inclusion of operating costs and revenues, even if not recorded in the financial statements approved by the Board, as well as the elimination of extraordinary or non-recurring costs and revenues, even if recorded in the financial statements approved by the Board

for severance indemnities) paid to key personnel within the group during 2007 totalled EUR 875 thousand*. The remuneration of the group's Managing Director, Marcello Tassinari, was indicated earlier.

* comprises three executives

11. INTERNAL AUDIT COMMITTEE

The Internal Audit Committee comprises non-executive directors, the majority of whom are independent. Its members are:

- Roberto Lugano - Chairman (independent director expert in accounting and financial matters);
- Umberto Paolucci (independent director);
- Gianfranco Vanzini (non-executive director).

The Internal Audit Committee has a consultative function and make recommendations to the Board concerning:

- (a) the definition of guidelines for the system of internal controls so that the principal risks faced by the Company and the Group are properly identified and adequately measured, managed and monitored, establishing also criteria for the compatibility of such risks with the healthy and proper management of the business;
- (b) the identification of the executive director responsible for supervising the functioning of the system of internal controls;
- (c) the assessment, each year or more frequently, of the effective and proper functioning of the system of internal controls;
- (d) the description in the report on corporate governance of the key elements of the system of internal controls.

The Internal Audit Committee also:

- (a) assesses, together with the manager responsible for preparation of the Issuer's accounting documentation and the auditing firm, the proper application of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- (b) on request from the Chairman, expresses opinions on specific matters concerning identification of the principal business risks, as well as on the design, implementation and management of the system of internal controls;
- (c) examines the work programs prepared by the internal control manager and the periodic

reports prepared by him;

- (d) assesses the proposals presented by auditing firms with a view to obtaining the related appointment, and assesses the plan of the audit and the results set out in the auditors' report and any letter of recommendations;
- (e) monitors the effectiveness of the auditing process.

The Internal Audit Committee coordinates its work with the Board of Statutory Auditors and the internal control managers, reporting at least every six months to the Board at the time of approving the annual financial statements and the six-monthly report. The meetings of the Internal Control Committee are attended by the Chairman of the Board of Statutory Auditors or by another serving auditor designated by him.

Together with the appointment of the Committee members, the Board also appointed the internal control manager, Stefano di Biase, who reports periodically to the Internal Control Committee (and to the Board of Directors) on the work performed and helps the Committee to carry out its functions and duties.

The Committee met 4 (four) times during the year. On an invitation from the Chairman, the meeting held on 6th February 2008 was attended by Mazars & Guérard S.p.A., the independent auditing firm appointed by the Issuer. The Chairman of the Issuer's Board of Statutory Auditors attended all the meetings.

The Committee meetings are properly minuted; the minutes are recorded in the related minute book.

The Internal Audit Committee has right of access to the information and corporate functions necessary for the performance of its tasks, and may make use of external consultants, to the extent established by the Board (*Application Criterion 5.C.1.e*).

The Committee reports to the Board on its activities every six months.

12. SYSTEM OF INTERNAL CONTROLS

12.1 Executive director responsible for the system of internal controls

The Board has appointed an executive director responsible for supervising the functioning of the system of internal controls (*Application Criterion 8.C.1. b*). The name of this director is Simone Badioli.

12.2 Internal control manager

The Board has appointed Stefano Di Biase as the internal control manager, acting on a recommendation from the executive director responsible for supervising the functioning of the system of internal controls.

Consistent with corporate policy, the Board has not allocated any specific remuneration to the internal control manager.

The internal control manager has access to all information useful for the performance of his tasks (*Application Criterion 8.C.6.c*); reports on his activities to the Internal Audit Committee and the Board of Statutory Auditors (*Application Criterion 8.C.6.e*); and also reports on his activities to the executive director responsible for supervising the functioning of the system of internal controls (*Application Criterion 8.C.6.e*).

The internal control manager is on the staff of the Director of Administration, Finance and Control and is also the manager of the Management Control Office. The Issuer has not established a specific internal audit function because the group structure and the scale of foreign subsidiaries have not yet reached a size where such a function would be operationally effective and economically justifiable; it was also decided not to burden the organisation by employing an auditor on an *ad hoc* basis.

12.3 Organisational model pursuant to Decree 231/2001

On 26th March 2007, the Issuers' Board resolved to commence the procedures for the adoption of the organisation, management and control model required by art. of Decree 231 dated 8th June 2001, in accordance with arts. 2.2.3.3.(k) and 2.2.3 2.2.3.3.(k) and 2.2.3 *bis* of the Market Regulations.

Among the requirements for obtaining and maintaining the STAR status, the Market

Regulations envisage adoption of the organisation, management and control model referred to in art. 6 of Decree 231/2001 (the “**Organisation Model**”). One of the effects of adopting the Organisation Model is to exclude sanctions against the entity if its senior management carry out certain types of illegal act, specified in the related Decree, in the interests of or for the benefit of the entity; such acts currently include corporate crimes and crimes involving market abuses (in addition to bribery and corruption, certain types of falsification, crimes related to terrorism and insurrection, and crimes against the individual).

The Organisation Model was presented to and approved by the Board on 28th March 2008 and is available on the Issuer's website: www.aeffe.com/governance.

12.4 Independent Auditors

The auditing firm appointed by the Issuer is “Mazars & Guérard S.p.A.”, with registered offices at Corso di Porta Vigentina 35, Milan, tax code 01507630489. On 26th March 2007, this firm was appointed pursuant to art. 159 of the TUF to (i) audit the individual and consolidated financial statements of the Issuer and its significant subsidiaries for all the financial years from 31st December 2007 to 31st December 2015, (ii) perform limited examinations of the consolidated half-year reports for all the periods from 30th June 2007 to 30th June 2015, and (iii) check that the accounting records are properly kept and fairly record the results of operations during the financial years from 2007 to 2015.

12.5 Executive responsible for preparing the company's accounting documentation

The executive responsible for preparing the company's accounting documentation is Marcello Tassinari, director of Aeffe and Managing Director of the Aeffe Group.

The articles of association envisage that the Board, having heard the required but not binding opinion of the Board of Statutory Auditors, appoints an executive responsible for preparing the company's accounting documentation and fixes the related remuneration.

Persons who do not satisfy the following professionalism requirements cannot be appointed as Responsible executive and, if already appointed, their mandates lapse:

- (a) degree in economics, finance or business management and systems;
- (b) at least three years' experience in total of:
 - administration and control activities or senior management responsibilities within a limited liability company, or
 - administrative or management functions or appointments as auditor or consultant,

such as registered accountant, for entities operating in the banking, financial and insurance sectors, or in any case sectors that are closely connected with and related to the activities of the company, that involved the management of economic - financial resources.

In addition, persons who do not satisfy the honourability requirements established in art. 147-quinquies of Decree 58 dated 24th February 1998 cannot be appointed as Responsible executive and, if already appointed, their mandates lapse .

If the Responsible executive ceases to serve, the Board arranges without delay to replace him by appointing a new Responsible executive, having heard the required but not binding opinion of the Board of Statutory Auditors. Termination of the employment relationship between the Responsible executive and the Issuer is a reason for ceasing to serve.

The Responsible executive exercises the powers and performs the tasks attributed to him in accordance with the provisions of art. 154-bis of Decree 58 dated 24th February 1998, and the related enabling regulations. For this purpose, the Board has granted the Responsible executive adequate powers and resources to accomplish the tasks attributed to him.

The Responsible executive attends those Board meetings that envisage the discussion of matters relevant to his activities.

13. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

In accordance with Principle 9 of the Code, the Board adopts measures designed to ensure that transactions with related parties are carried out in a transparent manner and comply with the criteria requiring substantial and procedural propriety. A similar requirement is contained in art. 2391-*bis* of the Civil Code, under which the administrative bodies of companies that make recourse to the market for risk capital must adopt specific internal regulations and procedures to govern transactions with related parties, including those conducted via their subsidiaries, thus ensuring their transparency and substantial and procedural propriety (“Code on Transactions with Related Parties”). See section 5.2

14. APPOINTMENT OF STATUTORY AUDITORS

Principle 10.P.1 of the Code envisages that the appointment of statutory auditors shall follow a transparent procedure that guarantees, among other matters, the provision of timely and adequate information on the personal and professional characteristics of the candidates.

The Board of Statutory Auditors comprises three serving auditors and two alternate auditors. The statutory auditors remain in office for three financial years and their appointments expire on the date of the Meeting called to approve the financial statements for the final year of their mandate; they may be re-elected.

The current Board of Statutory Auditors was appointed at the Shareholders' Meeting held on 20th May 2005, and will remain in office until the date of approval of the financial statements as of 31st December 2007.

With regard to the criteria and basis for the appointment of statutory auditors, art. 22 of the Articles of Association envisages the use of a list voting system. Shareholders have the right to present lists if, alone or together with other shareholders, they represent at least 2.5% (two point five percent) of the shares with voting rights at ordinary meetings, or such different percentage of the company's share capital as is established by current and applicable laws and/or regulations. Each list must comprise two sections: one for the appointment of serving auditors and the other for the appointment of alternate auditors. The lists must indicate in consecutive numerical order at least one candidate for serving auditor but, in any case, not more candidates than the number of statutory auditors to be elected. Each candidate can appear on just one list, or will be ineligible for election. In accordance with the above-mentioned Principle 10.P.1 of the Code, the lists signed by the shareholders presenting them, or by the shareholder appointed to present them, and accompanied by the documentation required by the articles of association, must be filed at the registered offices at least 15 (fifteen) days prior to the date fixed for the Meeting in first calling. The following information must also be filed, together with each list, by the deadline indicated above: (i) declarations from each candidate accepting their nomination and confirming, under their personal responsibility, the absence of the absence of reasons for which they would be ineligible or for which their appointment would lapse by law, and that they satisfy the honourability and professionalism requirements established by law and applicable to such appointments; (ii) complete information on their personal and professional characteristics (curriculum vitae); (iii) the list of appointments as director or auditor held by candidate statutory auditors in other companies or bodies, if relevant under current regulations to the limit on the total number of appointments allowed by these articles of association or by the current and applicable laws and/or

regulations; (iv) the list of shareholders presenting the list, specifying their personal or company name, address, company registration number or similar and the total percentage of share capital held by them.

Candidates must satisfy the requirements of eligibility, honourability and professionalism established by law, and must not hold a number of appointments as directors or auditors of other companies or entities that exceeds the maximum allowed by current and applicable laws and/or regulations.

If no lists are presented, the Meeting appoints the Board of Statutory Auditors and its Chairman by a majority of the votes cast, in accordance with current legislation. If only one list is presented, the Board of Statutory Auditors is drawn entirely from that list and the first candidate on the list is appointed as Chairman.

If, on the other hand, two or more lists are presented, the Board of Statutory Auditors is appointed in the following manner:

- (a) the following candidates will be appointed, in the numerical order in which they appear, from the list that obtains the majority of the votes cast by the shareholders: (i) the first two candidates for the office of serving auditor and (ii) the first candidate for the office of alternate auditor;
- (b) the following candidates will be appointed, in the numerical order in which they appear, from the list that obtains the second-largest number of votes, on condition that such list is not linked, directly or indirectly, with the shareholders who presented or voted for the list that obtained the largest number of votes: (i) the first candidate for the office of serving auditor, who will also be appointed as Chairman of the Board of Statutory Auditors, and (ii) the first candidate for the office of alternate auditor, if available; otherwise, the alternate auditor will be the first candidate for this office on the first list obtaining the next-largest number of votes that is not linked, directly or indirectly, with the shareholders who presented or voted for the list that obtained the largest number of votes.

The Board of Statutory Auditors monitors compliance with the law and the Articles of Association, and respect for the principles of proper administration including, in particular, the adequacy of the organisation, administrative and accounting systems adopted by the Company and the way they function in practice, as well as how the corporate governance rules envisaged by the related regulations are applied in practical terms.

Lastly, the Articles of Association envisage that the Board of Statutory Auditors shall meet at

least every ninety days at the request of any its members.

The mechanism of appointment using the list voting system ensure transparency and the provision of timely and adequate information on the personal and professional characteristics of the candidates.

15. STATUTORY AUDITORS

Name	Position	In office from	List	Percentage attendance Board of Statutory Auditors	Other appointments
Romano Del Bianco	Chairman	20th May 2005	N.A.	100%	7
Vittorio Baiocchi	Serving Auditor	20th May 2005	N.A.	100%	10
Bruno Piccioni	Serving Auditor	20th May 2005	N.A.	100%	10
Pierfrancesco Gamberini	Alternate Auditor	20th May 2005	N.A.		5
Andrea Moretti	Alternate Auditor	23rd May 2007	N.A.		6

The Board of Statutory Auditors met 7 (seven) times during the year. The average duration of a meeting of the Board of Statutory Auditors is one hour.

16. RELATIONS WITH THE SHAREHOLDERS

The Issuer believes that it is in its specific interests – as well as a duty towards the market – to establish, right from the time of listing, an ongoing dialogue with all shareholders based on a mutual understanding of the respective roles; this dialogue must be carried forward in compliance with the procedures established for the external communication of business documents and information. In compliance with art. art. 2.2.3.3.(j) (j) of the Market Regulations, the Issuer has identified a professionally-qualified person within the organisation (the investor relations officer) who is specifically responsible for managing relations with the investors.

The Issuer has also established an easily identifiable and accessible section within its website www.aeffe.com dedicated to the provision of information about the Issuer of particular significance to the shareholders.

17. SHAREHOLDERS' MEETINGS

In order for shareholders to attend meetings, the Issuer requires the advance communication envisaged in art. 2370.2 of the Civil Code, which must be received at least two working days prior to the date fixed for the meeting.

The shares covered by the communication envisaged in art. 2370.2 of the Civil Code are restricted until the meeting has taken place.

The shareholders who are entitled to attend the Meeting may be represented by another person, who need not be a shareholder, bearing a written proxy prepared in accordance with legal requirements.

By resolution of the Board meeting held on 26th March 2007, the Issuer adopted the text of the meeting regulations which are available for consultation in their entirety on the Issuer's website: *www.aeffe.com/governance*. The meeting regulations establish rules of conduct at meetings intended to guarantee the right of each shareholder to speak on the matters under discussion.

18. CHANGES SUBSEQUENT TO YEAR END

On 28th March 2008, the Board approved the Organisation Model pursuant to Decree 231/2001, which is available on the Issuer's website: www.aeffe.com/governance.

For completeness, it is also confirmed that the shareholders' meeting held on 3rd March 2008 authorised the purchase of the Issuer's treasury shares pursuant to arts. 2357 et seq. of the Civil Code. In particular, the meeting authorised pursuant to and for the effects of art. 2357 of the Civil Code:

- (a) the purchase, on one or more occasions, of up to a maximum of 10,736,250 ordinary shares, determined on a revolving basis (being the maximum number of treasury shares held at any one time), or such different number that represents 10% of share capital in the event of capital increases and/or reductions authorised and implemented during the authorisation period, taking account of any shares that may be held at any time by the Issuer's subsidiaries and, in any case, of the related legal limits, for the purposes described in the Board's report and on the following terms and conditions:
- the shares can be purchased until the end of the eighteen month following the date of the resolution adopted on 3rd March 2008;
 - purchases can be made in one of the ways envisaged by the combined provisions of art. 132 of the TUF, and art. 144 bis of Consob Resolution 11971/1999, taking account, where applicable, of the specific exemption envisaged in art. 132.3 of Decree 58/1998 and, in any case, in all other ways allowed by the relevant laws and regulations;
 - the unit price paid for the shares may not be more than 10% higher or lower than the reference price established for them in trading session immediately prior to each transaction;
 - the purchase and sales of treasury shares must be made by the Board in a manner and with the timing that does not prevent the Issuer from maintaining the minimum float required for STAR status;
- (b) the use, on one or more occasions, of the treasury shares purchased and held from time to time by the Issuer, in accordance with the laws and regulations in force from time to time, for the purposes described in the Board's report to the shareholders and on the following terms and conditions:

- the shares may be sold or otherwise transferred at any time without restriction;
 - uses may be made even before all the purchases have been made and may take place on one or more occasions in the market, in blocks or via sale or exchange (including by offer to the shareholders or to the public or to the directors, employees or collaborators of the Issuer or its subsidiaries, whether as part of share incentive plans or otherwise), or as consideration for exchanges, swaps, contributions, transfers or other dispositions of treasury shares as part of the purchase of equity investments or the implementation of industrial projects or other special financing transactions that involve the granting or availability of treasury shares (such as mergers, spin-offs, the issue of convertible bonds or warrants, etc.), as well as in any other way allowed by current laws and regulations, at the Board's discretion;
 - the unit price for the disposal of the shares may not be more than 10% lower than the reference price established for them in trading session immediately prior to each disposal transaction. This limit on the consideration does not apply in the event of disposals to the directors, employees and/or collaborators of the Issuer and/or its subsidiaries as part of share incentive plans, or in the case of disposals other than by sale including, in particular, disposals in the form of exchanges, swaps, contributions or other dispositions as part of the purchase of equity investments or the implementation of industrial projects or other special financing transactions that involve the granting or availability of treasury shares (such as mergers, spin-offs, the issue of convertible bonds or warrants, etc.);
- (c) the Board, with specific powers to delegate, to exercise all the widest powers that are necessary or appropriate for the implementation of this resolution, including approval for each and every transaction that is part of the share purchase programme.

At the date of this Report, the Issuer holds 60,500 treasury shares.

* * *

San Giovanni in Marignano, 28th March 2008

for the Board of Directors

The Chairman

Massimo Ferretti

