

**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](http://www.aeffe.com)

Year covered by the Report: 2008

Date of approval of the Report: 12th March 2009

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## 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 and 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 12TH MARCH 2009**

**(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 39) 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](http://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 12th March 2009, 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
MEDIOBANCA SPA	MEDIOBANCA SPA	Owner	2.060	2.060	
		<i>Total</i>	2.060	2.060	
	<i>Total</i>		<b>2.060</b>	<b>2.060</b>	
TULLIO BADIOLI	TULLIO BADIOLI	Owner	2.235	2.235	
		<i>Total</i>	2.235	2.235	
	<i>Total</i>		<b>2.235</b>	<b>2.235</b>	
HENDERSON INVESTORS LIMITED GLOBAL	HENDERSON GLOBAL INVESTORS LIMITED	Fund management	2.980	2.980	
		<i>Total</i>	2.980	2.980	
	<i>Total</i>		<b>2.980</b>	<b>2.980</b>	
FRATELLI FERRETTI HOLDING SRL	I.M. FASHION SA	Owner	24.410	24.410	
		<i>Total</i>	24.410	24.410	
	FRATELLI FERRETTI HOLDING SRL	Owner	37.387	37.387	
		<i>Total</i>	37.387	37.387	
	AIEFFE SPA	Owner	2.003	2.003	
		<i>Total</i>	2.003	2.003	
	<i>Total</i>		<b>63.800</b>	<b>63.800</b>	

**(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 and 148.4 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.

It is specified that the mandate of the current Board terminates on approval of the financial statements as of 31st December 2010.

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.

The shareholders' meeting of April 29, 2008, appointed the Board of Directors of Aeffe on the basis of the list presented by the partner Fratelli Ferretti Holding, as the minority shareholder did not present lists to the company.

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

The Board was not given the power to increase the share capital, pursuant to art. 2443 of the Italian civil code, or to issue participating financial instruments.

We report that the shareholders' meeting, in its meeting of March 3, 2008, had authorized the purchase of treasury shares issued pursuant to art. 2357 and thereafter of the Italian Civil Code. In particular, the meeting authorized, pursuant to and by the effects of art. 2357 of the Italian civil code:

- (f) the purchase, in one or more installments, of a maximum number, on a rotating basis (meaning by this the maximum quantity of treasury shares held each time in the portfolio), of 10,736,250 ordinary shares, or another number that will represent 10% of the share capital in case of resolutions to increase and/or reduce the capital during the period of validity of the authorization, also taking account of the shares that could be held at any time by the subsidiaries of the issuer, and in any case in respect of the legal limits, for the pursuit of the purposes outlined in the Management Report and at the following terms and conditions:
- the shares can be purchased until the end of the eighteenth month from the date of the resolution on March 3, 2008;
  - the purchase can be made in one of the ways foreseen by the combined provisions of art. 132 TUF, no. 58 and art. 144a of Consob resolution no. 11971/1999, taking account, if possible, of the specific exemption foreseen by clause 3 of the above art. 132 of Legislative Decree no. 58/1998 and, in any case, of any other method permitted by the provisions of law and regulations on the subject;
  - the unit price paid for share purchases may not be more than 10% higher or lower than the reference price recorded for the share on the stock market the day before each purchase transaction;
  - purchase and sale transactions of treasury shares must be made by the Board of

Directors in times and ways that will not endanger maintenance by the company of the floating minimum required for star qualification;

- (g) the acts of disposal, in one or more times, of the treasury shares purchase and held in the portfolio at any given time, shall be made in respect of the provisions of law and regulations in force at the time, for the pursuit of the aims described in the management report to the shareholders and at the following terms and conditions:
- the shares can be sold or transferred in other ways at any time and without time limit;
  - transactions for disposal can be made even before completing the purchases and can be made in one or more sales on the market, in block or by sale or exchange (also with offers to the shareholders or public, managers or employees/cooperators of the company or its subsidiaries, also as part of possible plans of stock incentives), or as payment in case of exchanges, trades, conferrals, transfer or other act of disposal of treasury shares made in the sphere of acquisitions of equity investments or the implementation of industrial projects or other extraordinary financial transactions involving the assignment or disposal of treasury shares (such as, for example, mergers, splits, issuance of convertible bonds or warrants, etc.), and in any other way permitted by the legislations and regulations in force, at the Board's discretion;
  - the unit price charged for share sales may not be more than 10% higher or lower than the reference price recorded for the share on the stock market the day before each sale transaction; This price limit does not apply in case of sales to directors, employees and/or cooperators of the company and/or its subsidiaries in the sphere of stock incentive plans, or in case of other types of transfer, such as, in particular, in case of transfer by exchange, conferral or other act of disposal in the sphere of equity investments, or the implementation of industrial projects or other extraordinary financial transactions (such as, for example, mergers, splits, issuance of convertible bonds or warrants, etc.);
- (h) the attribution to the Board, with the express right to appoint proxies, of all the broadest powers to act on this resolution, also approving any and every executive order of the relative purchase program.

On the date of this report, the issuer possessed 5,278,821 treasury shares as of 24/02/2009.

**(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, paragraph 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 1	Executive	Non-executive	Independent	Ind. Con. Fin. Law	% Board attendance
Massimo Ferretti	Chairman	29th April 2008	1	X				100%
Alberta Ferretti	Deputy Chairman	29th April 2008	1	X				10%
Simone Badioli	Chief Executive Officer	29th April 2008	1	X				89%
Marcello Tassinari	Director Managing Director	29th April 2008	1	X				100%
PierFrancesco Giustiniani	Director	29th April 2008	1		X			80%
Roberto Lugano	Director	29th April 2008	1		X	X	X	78%
Umberto Paolucci	Director	29th April 2008	1		X	X	X	100%

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				
Umberto Paolucci	Director of Pirelli & C. S.p.A.			X		X	
Roberto Lugano	Director of Snam Rete Gas S.p.A.	X	71%	X	50%	X	86%

The current members in office of the Board of Directors were appointed by the shareholders' meeting on April 29, 2008.

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 2010.

**(A) Maximum number of appointments held in other companies**

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 5 (five) Board meetings are planned for 2009, one of which (12th March 2009) has 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 has the following exclusive 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. 21.2 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.

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”).

Consistent with the requirements referred to above, the Issuer 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).

During the meeting of November 14, 2008, in view of the presence of new directors on the Board and a new Chairman of the Board of Auditors, the Chairman provided to give all the members of the Board of Directors the Code on transactions with related parties and to illustrate the definition of “related parties” relevant to the purposes of the aforementioned provisions, which is the definition provided by accounting principle IAS/IFRS no. 24, as cited in art. 2, letter h) of the Issuing Regulation.

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.

For the appointment of the Board of Directors, the shareholders who presented lists provided to indicate which directors were independent.

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 2<sup>nd</sup> May 2008, 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 2<sup>nd</sup> May 2008, 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 2<sup>nd</sup> May 2008, 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 2<sup>nd</sup> May 2008, 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) by signing the communication to the Business Registry, the Chamber of Commerce, the Bank of Italy, the Consob, the Authority Guarantor of Competition and the Market, the Currency Exchange, the Ministry and other Organizations and public and private offices, concerning the obligations of officers of the company by law, regulations or standard and administrative provisions, to sign and present declarations and communications on the subject of the Added Value Tax, Registration Tax, Income Tax, Regional Tax and every other direct and indirect tax, property declarations, INVIM reports, and any and every enclosure or certification connected with such documents;
- (c) 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;

- (d) 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;
- (e) 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;
- (f) 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;
- (g) 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;
- (h) 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;
- (i) 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;

- (j) 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;
- (k) 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;
- (l) 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;
- (m) 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;
- (n) to represent the company before civil, administrative or judicial authorities at any level, and before the tax and registration offices; to represent the company in any and every fiscal dispute, with any authority and office including the tax commissions at every degree, census and customs authorities and boards of experts, with the duty of signing petitions, proposing and accepting settlements, undertaking lawsuits, appearing as defendant or appellant, 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;

- (o) 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;
- (p) 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;
- (q) arrange to hire and dismiss clerical and factory workers, adopting in relation to employees all the measures deemed necessary and useful, sign employment contracts and determine remuneration levels;
- (r) to request, negotiate and sign contracts with banks for lines of credit and any and all contracts having to do with loan applications;
- (s) to request, negotiate and sign contracts for the transfer of receivables to factoring companies and/or others operating in the same sector as them.

By resolution of November 14, 2008, the Board, to guarantee the General Director the maximum operating power and make company management more effective, revoke the powers previously granted to Dr. Marcello Tassinari and endowed him with the following powers, to be exercised with free and separate signature and without expense limits:

- a. to stipulate, with all the appropriate clauses, including arbitration clauses, to change, extend and terminate every contract of any kind, necessary or useful for the development of the company's industry and trade such, as, by way of example but without limitation, contracts and agreements for rental, transport, subcontracting, free use, administration, supply, lease and rental, rental of company divisions, franchising, works and having as their subject the performance of services in general, with the sole exclusion of transactions involving (i) the purchase, sale, trade and conferral of real

estate subject to cadastral registration; (ii) purchase, sale, trade and conferral of company divisions including real estate subject to cadastral registration; (iii) contracts for the license and sale of brands used in the sphere of the company business (iv) purchase, sale, trade and conferral of company divisions or equity investments in companies whose value exceeds Euro 2,000,000; to stipulate the above contracts also with government offices, public and private organizations and in particular with the State Railroad company;

- b. to represent the company in relations with banks, clients, suppliers, agents and others in general, sign the correspondence, pay accounts and invoices also by way of settlement;
- c. to sign communications to the Business Registry, the Chamber of Commerce, the Bank of Italy, the Consob, the Authority Guarantor of Competition and the Market, the Currency Exchange, the Ministry and other Organizations and public and private offices, concerning the obligations of officers of the company by law, regulations or standard and administrative provisions, to sign and present declarations and communications on the subject of the Added Value Tax, Registration Tax, Income Tax, Regional Tax and every other direct and indirect tax, property declarations, INVIM reports, and any and every enclosure or certification connected with such documents;
- d. to stipulate with the appropriate clauses, including the arbitration clause, change, terminate, transfer and acquire by transfer contracts for the purchase, sale and trade of know-how, trade secrets and research, also including projects, installations and works of engineering in general;
- e. to perform all actions necessary for patent procedures such as, for example, filing requests for correction, amendments, extension of secrecy, divisions, proposing or resisting administrative opposition, interference, administrative appeals, and perform in general any other action necessary and useful to apply for, obtain and maintain patents and/or trademarks held by the company, to all the necessary documents for implementation of the above rights and appoint for the purpose patent agents in Italy and abroad, endowing them with the relative mandates;
- f. to perform with public authorities, organizations and offices all actions and operations necessary to obtain concessions, licenses and authoritative acts in general, to stipulate and sign releases, agreements, acts of submission and any other document preparatory



- to such provisions; to provide for all the relative actions, including those connected with industrial taxes, utilities, tax rights and monopolies;
- g. to sign the currency declarations relative to import and export transactions issued by the Bank of Italy and authorized banks, to make provisions for the currency regulations relative to such transactions and, in particular, to sign forms required for simplified customs procedures;
  - h. to order the transfer from bank to bank of currency and wire transfers from abroad, to give instructions to the banks for the use of such liquidity for the discharge of currency declarations relative to export transactions;
  - i. to perform, in any currency, the following operations with banks and financial companies in general: to perform any transactions of deposit to the credit of the company's current accounts at any bank and finance company; to issue checks with or without special or limiting clauses; to dispose in any way of the amounts to the credit of the company or in any case available in its accounts, by withdrawal against simple receipt, issuing checks, also to order to the principal company, or by orders of payment or requests of banker's checks; to dispose, also overdrawing them, of the company's current accounts within the limits of the credit granted; to negotiate money orders and checks of any kind and in any currency, expressed with the reservations of the case; to request and withdraw blank checkbooks for use with the current accounts opened in the name of the company, issuing receipts for them; to order the sale and purchase of currency relative to all import-export transactions;
  - j. to stipulate insurance contracts of any kind, sign the relative policies with the right also to liquidate and demand, in case of damage, the relative indemnities, issuing receipt to the proper persons, or liquidation by settlement all other indemnities due to others for any accidental damage;
  - k. to make deposits for any reason and withdraw them at post and telegraph offices, banks, credit institutions, finance authorities, the central and peripheral office of the saving and loan bank, customs, the state and private railroads, shipping and navigations companies, etc.; to collect from the post and telegraph offices, customs, railroads, shipping and navigation companies and in general from any public office, from any company or plant, money orders, packages, letters including registered and insured letters with declaration of value, goods, cash, etc., issuing receipt and discharge;
  - l. to represent the company before the local or category Industrial Associations,

- participating in meetings, with the right to stipulate and sign agreements with them;
- m. to demand and receipt amounts, receivables, income, interest, dividends, checks and payment orders issued by anyone in favor of the company, to endorse such securities to banks, order protest and recall;
  - n. to represent the company before civil, administrative or judicial authorities at any level, and before the tax offices; to represent the company in any and every fiscal dispute, with any authority and office including the tax commissions at every degree, census and customs authorities and boards of experts, with the duty of signing petitions, signing and presenting declarations and communications on the subject of income tax, regional tax, VAT, registration tax and every other direct and indirect tax, property declarations and any and every enclosure connected with such documents, proposing and accepting settlements, undertaking lawsuits, appearing as defendant or appellant, proposing all the necessary deeds and representing the company at meetings of creditors, making proposals or participating as creditor in bankruptcies and other settlement procedures; to accept settlements and demand the relative amounts, forego any amount or suit, compromise in arbitration and amicable agreements, also in the absence of appeals, attend to the performance of judgments, defer, refer, accept oaths also when decisive, promote seizures and destraints or other conservative acts in the hands of debtors and others, and attend to their revocation, appoint attorneys for litigation, lawyers and experts, revoke them and elect domicile;
  - o. to sign declarations of compensation subject to withholding tax to be issued to others, pursuant to and by the effects of Presidential Decree no. 600 of September 29, 1973 art. 3, first clause;
  - p. to represent the company before the financial administration of the government, the central and peripheral offices of the saving and loan bank the state treasury, the regional, provincial and municipal treasuries, so that in the name and on behalf of the company he may perform any transaction inherent to the establishment and release of security deposits, collection of payment orders issued for any reason or to be issued in favor of the company by government and other organizations, issuing receipts and releases without limitation as to the amount, exonerating the aforementioned administrations of every responsibility, acknowledging that the company agrees to communicate to the aforementioned offices any changes in this mandate, exonerating them of any responsibility in case of failure to inform them promptly of any changes;

- q. providing to employ and dismiss employees, office staff and laborers, taking all measures deemed necessary and appropriate toward them; to stipulate contracts of employment and decide remuneration;
- r. request, negotiate and sign contracts for bank lines of credit and all other contracts relating to loans requested from third parties;
- s. 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**

For the appointment of the Board of Directors, the shareholders who presented lists provided to indicate which directors were independent.

Roberto Lugano, Umberto Paolucci and Pier Francesco Giustiniani 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 Stock Market Instructions, as indicated by the shareholders who presented the relative list and confirmed by the shareholders' meeting of April 29, 2008 and by the Board of Directors.

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.

During the year, the independent directors met only once on December 17, 2008.

#### **5.6 *Lead independent director***

On 2<sup>nd</sup> May 2008, 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, the Issuer has adopted 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.

In order to fully implement the Code on Privileged Information and pursuant to art. 2.6.1, Chapter 2.6 of the Market Regulation, 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**

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.

In compliance with the provisions of Principles 7 and 8 of the Code and art. 2.2.3 comma 3 m), n) and o), of the Stock Exchange Regulations, the Board on May 2, 2008 created the committees and provided to appoint the 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);
- Pier Francesco Giustiniani (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 three times 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

Pursuant to art. 21 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.

Remuneration of the independent and non-executive Board members was resolved by the shareholders' meeting on 29/04/2008 and divided among the directors at the meeting of the Board of Directors on 13/05/2008.

The members of the Issuer's Board received the following remuneration during the year ended 31st December 2008.

*(in thousands of euro)*

<b>Name and Surname</b>	<b>Position</b>	<b>Remuneration from the Issuer</b>	<b>Other remuneration</b>
Massimo Ferretti	Chairman of the Board	600	255
Alberta Ferretti	Deputy Chairman of the Board	450	110
Simone Badioli	Chief Executive Officer	250	101
Marcello Tassinari	Director	268	86
PierFrancesco Giustiniani	Managing Director	20	–
Umberto Paolucci	Director	60	–
Roberto Lugano	Director	40	2

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 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](http://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 2008 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 for severance indemnities) paid to key personnel within the group during 2008 totalled EUR

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\* 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

981 thousand\*. The remuneration of the group's Managing Director, Marcello Tassinari, was indicated earlier.

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\* 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);
- PierFrancesco Giustiniani (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 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**

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](http://www.aeffe.com/governance).

In the meeting of the Board on March 28, 2008, the following persons were appointed to the Monitoring Committee: Roberto Lugano, Fernando Ciotti and Stefano Di Biase.

#### **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 29th April 2008, and will remain in office until the date of approval of the financial statements as of 31st December 2010.

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
Fernando Ciotti	Chairman	29 <sup>th</sup> April 2008	1	100%	11
Romano Del Bianco	Serving Auditor	29 <sup>th</sup> April 2008	1	100%	8
Bruno Piccioni	Serving Auditor	29 <sup>th</sup> April 2008	1	100%	14
Pierfrancesco Gamberini	Alternate Auditor	29 <sup>th</sup> April 2008	1	0%	5
Andrea Moretti	Alternate Auditor	29 <sup>th</sup> April 2008	1	0%	6

The Board of Statutory Auditors met 5 (five) times during the year. The average duration of a meeting of the Board of Statutory Auditors is two hours and half.

## **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](http://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](http://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**

There have been no significant changes since the end of the year of reference.

\* \* \*

San Giovanni in Marignano, 12<sup>th</sup> March 2009

for the Board of Directors

The Chairman

*Massimo Ferretti*

A handwritten signature in black ink, appearing to read 'Massimo Ferretti', is written over the printed name. The signature is stylized and cursive.