

REPORT
ON CORPORATE GOVERNANCE

pursuant to art. 123 bis of the TUF

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

Website: www.aeffe.com

Year covered by the Report: 2009

Date of approval of the Report: 11th March 2010

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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. 123 *bis* of the TUF.

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 “Cacharel”. 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 11TH MARCH 2010

(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 share categories are listed in the following schedule.

SHARE CAPITAL STRUCTURE				
	SHARE NUMBER	% ON SHARE CAPITAL	LISTED ON STAR SEGMENT	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	107,362,504	100%	107,362,504	RIGHTS AND OBLIGATIONS LINKED TO ORDINARY SHARES
SHARES WITH LIMITED VOTE RIGHTS	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE
SHARES WITH NO VOTE RIGHTS	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE

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 48), in the consolidated financial statement (page 25) 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 11th March 2010, the following significant, direct or indirect interests are held in the Issuer's share capital.

SIGNIFICANT INTERESTS IN SHARE CAPITAL			
DECLARANT	DIRECT SHAREHOLDER	% ON ORDINARY SHARE CAPITAL	% ON SHARES WITH VOTE RIGHTS
Fratelli Ferretti Holding S.r.l.	I.M. Fashion SA	24,410	24,410
	Fratelli Ferretti Holding S.r.l.	37,387	37,387
	Total	61,697	61,697
Aeffe S.p.A.	Aeffe S.p.A.	5,473	5,473
Henderson Global Investor Limited	Savings fund	2,980	2,980
Tullio Badioli	Tullio Badioli	2,235	2,235
Mediobanca S.p.A.	Mediobanca S.p.A.	2,060	2,060

(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) 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.

(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.

Realizing the resolution of the shareholders' meeting of March 3, 2008, the Issuer purchased and owns, to this day, 5,876,878 treasury shares, equal to 5.473% of the share capital. The authorization to purchase the treasury shares expired on 4th September 2009.

(J) 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.

The information requested by article 123 bis, first comma, letter i), are explained in the section of the Report concerning the remuneration of director, while the information requested by article 123 bis, first comma, letter l), are explained in the section of the Report concerning the Board.

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. BOARD OF DIRECTORS

4.1 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:

- (c) 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;
- (d) 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;
- (e) 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;
- (f) 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 company Fratelli Ferretti Holding, as the minority shareholder did not present lists to the company.

Possible modifications to the bylaw can be executed according to the provisions of the Law.

4.2 Composition

At the date of this Report, the Board of the Issuer is illustrated by the schedule enclosed to this Report as Exhibit 1.

At the date of this Report, Mr. Umberto Paolucci and Mr. Roberto Lugano hold appointments with other companies listed in regulated markets. In particular:

Umberto Paolucci

- Director and member of the Compensation Committee of Pirelli S.p.A.;
- Director Banca Profilo S.p.A.;

- Director Geox S.p.A.

Roberto Lugano

- Director and member of the Internal Audit Committee of Snam Rete Gas S.p.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.

4.3 Role of the Board of Directors

The Board met 5 (five) times during the year. The average duration of a Board meeting is an hour and a half.

At least 4 (four) Board meetings are planned for 2010, one of which (11st March 2010) has already been held.

To grant that the member of the Board are duly informed and to grant that they have all necessary documents to finalize their decision, the President Office transmits to the directors, in advance, the documentation concerning the arguments indicated in the agenda.

If necessary, the Board ask for the participation to its meeting of the managers in order to provide the directors with the technical support and the appropriate clarifications.

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).

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.

4.4 Empowered bodies

Managing Directors

On 2nd 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 2nd 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 2nd 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 2nd 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 exports, 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 detrans 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.

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.

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.

Other executive directors

There are no directors who perform executive activities, other than the persons indicated as executive directors in section 4.4 above.

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.

In addition to the evaluation done after the appointment as independent directors in year 2008, the Board, during the meeting of 12nd March 2009 and with reference to the non-executive directors Umberto Paolucci and Roberto Lugano, verified the subsistence and the conservation of the requirements to be appointed as independent directors, respecting the provisions of article 147. ter, comma 4 of Decree 58 dated 24th February 1998 and the provision of the Code and of the Market Instructions.

during the meeting of 31st March 2009, the Board of Auditors, verifying the correct application of methods and procedures used by the Board to evaluate the independence of its above mentioned members, stated that the Board applied correctly the above mentioned methods and procedures, as indicated in the following sentence of the annual relation of the Board of Auditors to shareholders meeting:

“ The Board of Auditors verified the correct application of methods and procedures adopted by the Board of Directors in order to evaluate the independence of its members, taking into consideration the requirements stated by the Code done by the Corporate Governance Committee of Borsa Italiana”.

During the year, the independent directors did not meet formally without the presence of other directors; as a matter of fact, the independent directors are part of the Committee for the Internal Audit and of the Compensation Committee; therefore, they have the possibility to constantly discuss and to confront each other at the end of Committee's meeting; for this reason, they did not call any formal meeting.

4.5 *Lead independent director*

On 2nd May 2008, the Board appointed Umberto Paolucci as the lead independent director pursuant to Criterion 2.C.3 of the Code. In his appointment, Umberto Paolucci, during the year, coordinated the requests done by non executive and independence directors to the Board, assuring that the above mentioned requests were kept into consideration; Umberto Paolucci, even on behalf of Internal Audit Committee (that expressed this needs trough its President Roberto Lugano), drew the attention of the Board on the need to examine the relationship

born during the year between related parties and their economical evaluation; to this aim, the Issuer ask for an independent expert evaluation, to assure the correspondence with the market price.

5. 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.

6. 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.

The composition and the functioning of the Committees are illustrated in Sections 8 and 10 of the Report.

7. 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.

8. 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 one time during the year. The average duration of the Committee meeting is an hour. All members of the Committee were present at meeting on 31st July 2009.

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

9. REMUNERATION OF DIRECTORS

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 2009.

(in thousands of euro)

Name and Surname	Position	Remuneration from the Issuer	Other remuneration
Massimo Ferretti	Chairman of the Board	600	255
Alberta Ferretti	Deputy Chairman of the Board	450	110
Simone Badioli	Chief Executive Officer	250	102
Marcello Tassinari	Director - Managing Director	321**	87
PierFrancesco Giustiniani	Director	30	–
Umberto Paolucci	Director	60	–
Roberto Lugano	Director	27	3

*** 30 thousands of euro as compensation for the director appointment and the rest as employee of the Issuer.*

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.

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.

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 2009 totalled EUR 1,243 thousand*. The remuneration of the group's Managing Director, Marcello Tassinari, was indicated earlier.

* 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

* includes four executives

10. 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 met four times during the year. The average duration of the Committee meeting is an hour and half. Mr. Lugano and Mr. Paolucci attended all meetings of the Committee, while Mr. Giustiniani attended two times.

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.

11. SYSTEM OF INTERNAL CONTROL

The Board of the Issuer is aware that the system of risk management must be considered together with the internal control system related to the financial reporting process.

11.1 Accounting control

At the date of the Report, the Issuer, through the Responsible Executive (see below, Section 11.6), has put in place operating procedures aiming at ensuring the reliability, accuracy, trustworthiness and timeliness of financial reporting. These procedures have not been codified in a separate document yet but they are constantly applied in business management; the Responsible Executive assures their proper implementation.

In order to identify the relevant areas, the Responsible Executive has made use of risk assessment done by the person in charge of the internal control in conjunction with the Internal Audit Committee.

In particular, the role and responsibilities of the Responsible Executive include the checking of the proper functioning of the internal processes / flows of managerial accounting falling within the managing responsibility of the above mentioned manager, the completeness and reliability of information flows, and the adequacy and actual implementation of controls; the Responsible Executive carries out the verification activities of all the documents and information containing data accounting statements concerning the economic and financial assets.

The internal accounting controls is composed of the following elements

- Operational instructions aimed at a clear and proper establishment and dissemination of accounting information;
- identification of the main risks related to the accounting information and of the key-controls linked to the possible risks that may occur in relevant areas for the accounting information and financial information, the standard control assets;
- a process of internal communication carried over by the heads of corporate functions as well as by the directors of the companies belonging to the perimeter of direction and coordination of the Issuer, highlighting the effectiveness of controls and the results of the evaluations;

As far as the certificates concerning the financial accounting are concerned, once the Responsible Executive has received the confirmation by the representatives of the relevant offices that the required checks have been made, he makes a further check with the administrative management as regards the information concerning accounts, liabilities or financial records; finally, he issues the certificate of conformity of the document results, books and accounting records to company's accounting documentation.

The Executive Manager is due to periodically report to the Internal Audit Committee, to the Statutory Auditors and to the Monitoring Committee about the process of the internal control evaluation system and in relation to the results of assessments to support the certificates or statements issued.

In particular, the Responsible Executive implements an exchange of information, even informally, with the Statutory Auditors and the Monitoring Committee of the Issuer, in order to verify that the control environment, risk assessment, control activities, information systems and communication flows, as well as the monitoring activities, will operate, in relation to their characteristics, in terms of organizational entity (group, sector, company) and / or level of operational / administrative process (transactional, assessment, or properly, the balance sheet), in this light, the system of internal control is also applied to the process of financial reporting.

As a matter of fact, the Issuer's goal is to ensure that financial reporting and accounting-also consolidated- are correctly and duly represented to the final market users, thus allowing the issuing of the necessary certification and statements requested by the Law and concerning the correspondence between the communications directed to the market and the documents results, books and accounting records of the Issuer (also semi-annual report). Furthermore, they have to certify the adequacy and actual implementation of administrative and accounting procedures during the period covered by the records in accordance with the applicable international accounting standards.

In this context, the Issuer has assigned the role of Responsible Executive to the Chief Financial Office and General Manager of the Group, which, considering of the role and position held, has all the appropriate powers of management and a significant financial autonomy (see paragraph 11.6).

11.2 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.

11.3 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.e*) ; 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.

11.4 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.

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.

11.5 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.

11.6 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.

12. 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 4.3

13. 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.

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.

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

14. STATUTORY AUDITORS

The current Board of Statutory Auditors is composed as follows:

Name	Position	In office from	In office until	M/m	Independence from Code	Percentage attendance Board of Statutory Auditors	Other appointments
Fernando Ciotti	Chairman	29 th April 2008	Meeting of shareholders called to approve the balance sheet closet on 31 December 2010	M	X	100	11
Romano Bianco	Del Serving Auditor	29 th April 2008	Meeting of shareholders called to approve the balance sheet closet on 31 December 2010	M	X	100	6
Bruno Piccioni	Serving Auditor	29 th April 2008	Meeting of shareholders called to approve the balance sheet closet on 31 December 2010	M	X	100	17
Pierfrancesco Gamberini	Alternate Auditor	29 th April 2008	Meeting of shareholders called to approve the balance sheet closet on 31 December 2010	M	X	-	5
Andrea Moretti	Alternate Auditor	29 th April 2008	Meeting of shareholders called to approve the balance sheet closet on 31 December 2010	M	X	-	6

During the shareholders meeting called to appoint Board of Statutory Auditors, the Shareholders had the right to present lists if, alone or together with other shareholders, they represented at least 2.5% (two point five percent) of the shares with voting rights at ordinary meetings.

The schedule of the appointment in other companies of members of the Board of Statutory Auditors is enclosed to the report on control activities issued by the Board of Statutory Auditors subject article 153.1, of TUF.

Concerning the professional and personal characteristics of each auditors, it is represented the following:

Fernando Ciotti

He was born in Castelluccio dei Sauri, Foggia, Italy, on 13 June 1956. Graduated in law from the University of Rome "La Sapienza", achieved at the same University a doctorate in Political Science. He is member of the Order of Certified Accountants and he is registered in the Register of Accountants and Auditors; assistant professor of Economics at the Faculty of

Corporate Law Center LUISS - Libera Università Internazionale degli Studi Sociali "Guido Carli" - Rome. He is currently teaching Tax Law at the "Libera Università San Pio V" in Rome. He has worked as a publicist to the period of tax information "Il Fisco", directed by Pasquale Marino. He owns Studio "Ciotti & Partners" in Rome, Via Marche 54, where he carries out his own private practice.

Romano del Bianco

He was born in Riccione, Rimini, Italy, on September 21, 1942. He is a qualified accountant (*ragioniere*) and also a certified public accountant (*revisore dei conti*) with his own private practice based in Misano Adriatico.

Bruno Piccioni

He was born in Riccione, Rimini, Italy, on January 22, 1942 and graduated in Economics from the University of Bologna. He is the chairman of the Qualified Professional Accountants Association (*Ordine dei Dottori Commercialisti*) of Rimini, where in the past he was also the Treasurer. He has worked as a certified public accountant (*revisore dei conti*) for local companies in Riccione and for the Town Council of Riccione as well as being the chairman of the board of certified public accountants of the Town Council of San Giovanni in Marignano.

Pier Francesco Gamberini

He was born in Misano Adriatico, Rimini, Italy, on November 7, 1938. He is a qualified accountant (*ragioniere*) and since 1967 also a certified public accountant (*revisore dei conti*) with his own private practice based in Misano Adriatico.

Andrea Moretti

He was born in Rimini, Italy, on September 21, 1964 and graduated in Economics from the University of Bologna in 1990. He has been a qualified Italian professional accountant (*dottore commercialista*) since 1992 and a certified public accountant (*revisore dei conti*) since 1995. Since 1992, he has worked for Arthur Andersen S.p.A. in its Bologna branch, specializing in accounting, due diligence for acquisition transactions, assessment of internal audit proceedings and risk management. Since 1996, he has also been a partner of Skema-Associated Firms of Professional Accountants and has participated as speaker at conferences, workshops and courses on accounting, programming, planning and auditing matters. He is also a Committee member of "Non-Profit Making Organizations" and "Education and Public Health" for the Italian National Council of Professional Accountants

The Board of Statutory Auditors met 8 (eight) times during the year. The average duration of a meeting of the Board of Statutory Auditors is two hours and twenty minutes.

For the year 2010, the Board of Auditors scheduled 6 meetings, 2 of which are already done. The Board of Auditors has verified the independence of its members and the permanence of the independence requirements for the year 2010 at its meeting on February 3, 2010. During the above mentioned meeting, applying the criteria contained in Article 148, third paragraph, of Legislative Decree no. 58/98, The Board of Auditors, verbalized the following:

"The Board of Auditors, for the purposes of Article 148 third paragraph of Legislative Decree no. 58/98, states that all members of the Board of Auditors are independent from the company; they have not relationships (different from the appointment as Statutory Auditor) as employees with other subsidiaries or affiliates companies; they are not related in any way to the directors of the company; they have not family relationships with the directors. The Board of Auditors states that there are not causes of revocation under Article 2382 of the Civil Code and / or Article 13, paragraph 2, of Legislative Decree 58/98".

In its above mentioned evaluations, the Board of Auditors has applied all the criteria required by the Code. The members of the Board of Auditors are submitted to the application of the Code on Transactions with Related Parties of the Issuer; the contents of the latter are illustrated in sections 4.3 and 12 of the Report. During the meeting of 3 February 2010, the Board of Auditors verified the independence of the auditing firm, verifying both compliance with the provisions of existing legislation as the nature and extent of non-audit services rendered to the Issuer and its subsidiaries by the auditing firm and by the entities belonging to the same network.

Finally, in performing its duties, the Board of Auditors has coordinated with the functions of Internal Audit and the Internal Audit Committee (the President of the Board of Auditors attended all meetings of the Internal Audit Committee). In particular, during the meeting of 23 July 2007, the Board of Auditors interviewed the internal auditor, Stefano Di Biase, to verify the internal control processes, particularly the reporting processes.

The Chairman of the Board attended all meetings of the Audit Committee, verifying the effectiveness of the procedures adopted and contributing to indicate areas of greater sensitivity in the company.

15. 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.

16. SHAREHOLDERS' MEETINGS

Shareholders' meetings are either ordinary or extraordinary, as defined by law.

Shareholders' meetings are called at the registered offices or elsewhere in Italy by a notice published, within the timescales envisaged by current legislation, in the Italian Official Gazette or, at the discretion of the administrative body, in at least one of the following daily newspapers:

- *“Il Corriere della Sera”*,
- *“Il Sole 24 Ore”*,
- *“Milano Finanza”*,
- *“La Repubblica”*.

The ordinary meeting is called in the circumstances envisaged by law and every time deemed appropriate by the administrative body. The shareholders' meeting is also called by the Board of Directors at the request of shareholders representing at least one tenth of the share capital, to the extent allowed by the final paragraph of art. 2367 of the Italian Civil Code, or by the Board of Statutory Auditors, or by at least 2 (two) of its members.

Shareholders' meetings competences are as defined by law. In the ByLaw, there are not present quorum constituting and deliberative different than those required by current legislation

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.

All 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.

Ordinary and extraordinary meetings can be held in multiple locations, either adjoining or distant, that are linked by audio/video communications, on condition that the collegiate method and the principles of good faith and equal treatment for all shareholders are respected.

In particular, it is necessary that:

- (i) the Chairman of the Meeting, with support from the chairman's office or otherwise, is able to determine the identity and legitimacy of those attending, govern the conduct of the meeting, and determine and proclaim the results of voting;
- (ii) the person responsible for taking the minutes is able to follow adequately the meeting events to be minuted;
- (iii) those attending are able to take part in the discussions and in simultaneous voting on the matters on the agenda;

(iv) the notice of meeting specifies the locations equipped with audio/video communications provided by the company, where shareholders may gather; the meeting will be deemed to be held in the location where both the Chairman and the person responsible for taking the minutes are present.

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.

In particular, shareholders wishing to speak have to make a request to the President after reading the item that has been put on the agenda to which refers the request of intervention but before that the President has declared the closure of the debate on the discussion.

If the President has not fixed that the requests have to be written, the request must be made by show of hands. In case of show of hands, the President allows to speak to those who have raised their hand first; where it is impracticable to determine this accurately, the President gives the floor to the order established by him at his discretion. In case of written requests, the President gave the floor in the order of entry of applicants.

The President and / or, at his invitation, the directors and auditors, as to their competence or deemed necessary by the President in relation to the matters to be dealt with, respond to legitimate to intervention after the intervention of each of them, or a after exhausting all actions on any matter on the agenda, as set by the President. Shareholders have the right to intervene only once on each item on the agenda, unless any reply and an explanation of vote, each lasting no longer than five minutes. The President, taking into account the purpose and importance of individual items on the agenda, indicates the time available to for each shareholder to make a speech (normally not less than 5 (five) minutes and not more than 10 (ten) minutes).-

The Board relates in the Shareholders' meetings on its activities. The Board, by publication on the website of the Issuer and on the site of the Italian Stock Exchange and by deposit at Issuer's registered office, ensures the disclosure of evidence necessary for the formation of the shareholder resolution.

There have been no significant changes in the composition of the social structure of the Issuer during the year of reference.

17. MORE CORPORATE GOVERNANCE PRACTICES

The Issuer does not apply corporate governance practices different from those indicated in the report and the reporting requirements of legislation and regulations.

18. CHANGES SUBSEQUENT TO YEAR END

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

* * *

San Giovanni in Marignano, 11th March 2010

for the Board of Directors

The Chairman

Massimo Ferretti


EXHIBIT 1 Board of Directors														
Position	Member	In office from	In office until	List M/m	Esec.	Non Esec.	Indip. from TUF	Indip. da TUF	% Partecip.	Numbers of other appointments				
President	Massimo Ferretti	29 April 2008	Approval of balance sheet closet on 31/12/2010	M	X				100	-				
Vice President	Alberta Ferretti	29 April 2008	Approval of balance sheet closet on 31/12/2010	M	X				100	-				
C.E.O.	Simone Badioli	29 April 2008	Approval of balance sheet closet on 31/12/2010	M	X				100	-				
Director and Managing Director	Marcello Tassinari	29 April 2008	Approval of balance sheet closet on 31/12/2010	M	X				100	-	Internal Audit Committee		Compensation Committee	
											% participation		% participation	
Director LID	Umberto Paolucci	29 April 2008	Approval of balance sheet closet on 31/12/2010	M		X	X	X	100	4	X	100	X	100
Director	Roberto Lugano	29 April 2008	Approval of balance sheet closet on 31/12/2010	M		X	X	X	60	1	X	100	X	100
Director	Pierfrancesco Giustiniani	29 April 2008	Approval of balance sheet closet on 31/12/2010	M		X			100	-	X	50	X	100
n. of the meeting done during the year:				Board: 5			Internal Audit Committee: 4				Compensation Committee: 1			