



DAMIANI

DAMIANI

ANNUAL REPORT 2012/2013



DAMIANI

HANDMADE IN ITALY SINCE 1924

MILAN: VIA MONTENAPOLEONE • PARIS: PLACE VENDÔME • LONDON: OLD BOND STREET • LOS ANGELES: BEVERLY HILLS, RODEO DRIVE • TOKYO: GINZA
BOLOGNA • FLORENCE • GENOA • NAPLES • PORTO CERVO • PORTOFINO • ROME • TURIN • VENICE • VERONA
MOSCOW • KIEV • ODESSA • HONOLULU • MONTERREY • OSAKA • SEOUL • TAIPEI • BEIJING • CHENGDU • NINGBO • SHANGHAI
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THE D.LACE COLLECTION DAMIANI.COM

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SHAREHOLDERS' LETTER



GUIDO GRASSI DAMIANI
President & CEO

Dear Shareholders,

The fiscal year closes in a more complicated and difficult context than our Group has had to face and which has strongly influenced the results we have reached. However, the determination with which we continued throughout this past year, combined with carrying out the strategic programme initiated during the previous fiscal year and the positive signs registered, allow us to face the immediate future with reasonable optimism.

Our choice to invest energy and resources in some foreign areas with elevated potential and, specifically, in the retail segment with the Damiani brand, together with completing an activity to internally rationalise the logistics and distribution processes, is proving to be accurate with results that are in line with forecasts.

During the fiscal year, revenues in our directly managed mono-brand Damiani boutiques in Italy and abroad grew +22% as a whole. Also the multi-brand Rocca reported a satisfying increase. The retail channel continuously shows growth as of the last four fiscal years, a testimony to the appreciation our proposals have generated with the end customer, both in Italy and abroad. Further reinforced by these positive confirmations, we have continued to invest in Greater China where we have 9 stores, amongst which are the recently inaugurated Beijing and Shanghai boutiques, and we will reach 12 by the end of this fiscal year. We have opened a new boutique in Russia, on Stolesnikov in Moscow, the street where the best international luxury brands are found, and the destination for exclusive shopping and for high-end tourism. Furthermore, this initiative is an important step towards our additional expansion into an area in which we have operated for a few years to discover a gradually increasing visibility and appreciation.

Also in Japan, the partnership with Itochu that started during the previous fiscal year and the increased trend towards retail is having the results we expected: the growth in revenues of the overseas branch has been +30% compared to the previous fiscal year.

Additionally in the Italian wholesale channel that has suffered most because of the prolonged stagnation of luxury good consumption, we believe that because of a diffe-

rent mix of proposals, with collections that have a lower entry price, and for the beneficial consequences resulting from flows of tourists bringing international customers with a growing interest in our brands, that they were able to learn about and appreciate in our country of origin, sales may return to registering positive performances.

As mentioned, during the fiscal year we completed a series of projects aimed at rationalising internal processes to generate a reduction in operational costs, whose benefits, partially visible in the fiscal year just concluded, will be fully carried out in the new fiscal period.

All the cited activities, which have also resulted in our using of financial resources, have not undermined the patrimonial balance of the Group which has been maintained at more than sustainable levels and that, in spite of the well-known difficulties tied to accessing the credit market, allows us to continue on our path of growth with indispensable financial solidity.

It is important to observe that our Group intends to reinforce our national and international prestige by maintaining its strong Italian overtone, embellished by a consolidated "Made in Italy" quality of the product, to successfully export worldwide. Although this is an overtone that, in many cases, risks being diminished wherever new proprietary structures take over, on the contrary for us, it constitutes an undisputable strong point that, I firmly believe as majority shareholder, we have always defended and which we will also defend in the future. Our customers have always increasingly appreciated this and, as a result, it is a support that is incorporated into our growth strategy in the global market of luxury goods that is becoming more oriented towards brands, such as ours, which denote quality and a unique tradition.

In conclusion, I would like to thank our collaborators, who have acted with diligence and dedication although within an ever-complicated context, and who have been essential to the success of the projects to rationalise our internal processes, an indispensable position to follow for the future expansion of the group.

Guido Grassi Damiani

- 1924 The Group is established
- 1976 The Group wins the first of 18 Diamond International Awards
- 1986 The product portfolio expands with the creation of the Salvini brand
- 1996 The third generation of the Damiani family entered the company
- 1997 The internationalization process starts with the construction of foreign subsidiaries
- 1998 Acquisition of Alfieri St John S.p.A.
- 2000 Creation of the Bliss brand
- 2001 Voluntary auditing of annual reports. ERP/SAP implementation
- 2006 The brand portfolio extends further with the acquisition of the Calderoni brand
- 2007 Damiani at the Milan Stock Exchange
- 2008 Acquisition of Rocca 1794, the high-end jewellery and watch retail chain leader in Italy
- 2012 Partnership with Itochu in Japan and commercial agreements in Far East
- 2013 Opening of new direct and franchising boutiques abroad

1924. The origins.

The Damiani history started in Valenza in 1924, in the heart of the goldsmith centre considered the world excellence for the production of jewellery. Because of his ability as a master goldsmith, Enrico, the founder, soon became the jeweller that leading families of the time contacted for the production of unique pieces, true masterpieces of fine craftsmanship. The fact that Damiani has always been a producer of jewellery, unlike competitors who started as retailers, makes the company truly unique. Being part of the Valenza area, where all the big names gradually established their production, for generations, is an important added value for the company. Damiani is the only Italian goldsmith company to design and produce jewellery from its foundation.

1960s.

Industrial growth and commercial expansion.

In 1934, Enrico's son Damiano Grassi Damiani was born. In the 1960s, he started a process of industrial growth and commercial expansion and promoted research into design and technical innovation, which would have a profound effect on the evolution of the company. Damiani jewellery also became increasingly famous through the idea, revolutionary at the time, of guaranteeing the price to customers and creating catalogues with all the collections.

1970s.

The first *Diamonds International Award*.

In 1976, Damiani received the first *Diamonds International Award*, the most important recognition in the sector, which gives a prize to the best design and best creation of jewellery with diamonds. The first time, it was awarded to Shark, a bracelet in yellow gold and platinum illuminated by more than 41 carats of white diamond pavé. Over the years, Damiani was to win the sought-after award 17 times, to which the four won by Calderoni can be added.

1980s. The first testimonials.

Between the end of the 1980s and the

1990s, Damiani successfully designed and created a new style of communication that associates the image of the jewellery with very famous people. Damiani, one of the leading jewellery companies in the world, introduced the use of testimonials. Personalities from show business, chosen by Damiani, were captured in portraits by internationally famous photographers for high impact advertising campaigns, winners of awards and recognitions for the innovative style of communication.

In 1986, the new brand Salvini was launched.

1990s.

The third generation and international expansion.

The third generation entered the company in the early 1990s. Silvia Grassi Damiani, born in 1966, was involved in the purchase of pearls and also responsible for communication; her brother Giorgio, born in 1971, started working in exports and Guido, born in 1968, became Sales Director, Italy. Damiano Grassi Damiani died in an accident in 1996 and management of the company, which already employed 200 people, passed definitively into the hands of his wife and children. Gabriella, his wife, now Honorary Chairman, was President at the time. Guido Grassi Damiani was appointed Chief Executive Officer, a position he still holds as well as that of President. Silvia, currently Vice President, was responsible for purchasing and communication at the time. Giorgio, now Vice President, was responsible for creation and development of the collections and the purchase of precious stones. At the end of the 1990s, the Damiani group opened the first international branches in Switzerland, the United States and Japan with the aim of supervising distribution in the main overseas markets. In 1998, the group acquired the jewellery brand Alfieri & St. John.

2000s

From family company to listing on the Stock Exchange.

At the end of the 1990s, Damiani transformed from a family company to a listed company. In 2000, the Bliss brand was created and launched.

In 2001, the passage to the IT system ERP/SAP was made operative with the aim of optimising processes and supporting the development of the group.

With effect from 2001, the group's financial statements were subjected to voluntary certification.

During 2006, the group acquired the brand Calderoni, a historic Milanese brand of high-end jewellery.

In November 2007, the Damiani group was listed on the Milan Stock Exchange. This project was the great desire of the family and, today, Damiani is one of the very few high-end jewellery groups in the world to have achieved this objective.

In September 2008, the group acquired full control of Rocca, the high-end jewellery and watch chain, which thus became the first distribution brand of the group.

During 2009, the group signed agreements with leading brands operating in the luxury sector for the design, creation and distribution of jewellery licences.

2010s. Internationalisation.

Numerous new stores were opened, above all in Asia, in addition to signing new commercial agreements.

Specifically, the group has continued to invest in Greater China. During the course of the last financial period, a new store was inaugurated in Hong Kong, a new store in the Peninsula Hotel in Shanghai, and a new franchised Damiani boutique in Suzhou, a metropolis of over 4 million inhabitants situated in eastern China with a strong touristic calling. Also during the 2012-2013 year, the first mono brand Damiani boutique was opened in New Delhi inside the luxurious Oberoi Hotel where prestigious international luxury brands are already present. This opening represents the start of the Group's entrance into the Indian marketplace, characterised by importance and elevated potential at a worldwide level.

Finally the new franchised Damiani boutique was inaugurated on the Stolesnikov in Moscow, the main street for luxury in the Russian capital confirming the Group's expansion in the area and appreciation of its products.



GUIDO GRASSI DAMIANI
President & CEO



SILVIA GRASSI DAMIANI
Vice President



GIORGIO GRASSI DAMIANI
Vice President

THE DAMIANI FAMILY

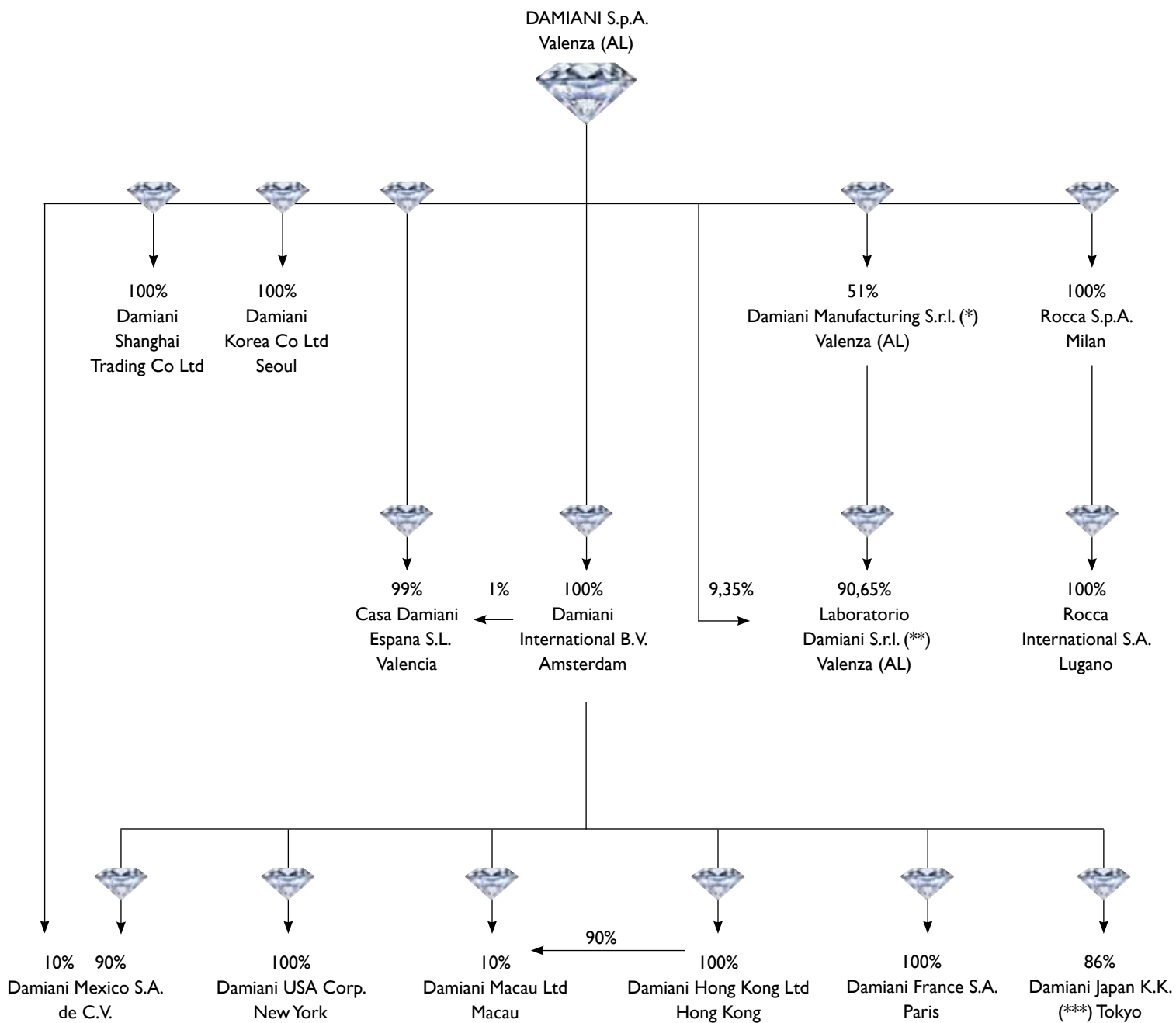


GABRIELLA GRASSI DAMIANI
Honorary President

Creativity, design and entrepreneurship are the main elements which distinguish the Damiani family. The third generation of the family, currently running the group, also characterizes the great passion for a job that has been passed on from father to son.

Guido Damiani holds the positions of President and Chief Executive Officer of the group while brother and sister Giorgio and Silvia Damiani are both Vice Presidents. Their mother, Gabriella, a solid link between the second and third generations, is Honorary Chairman. The three Damiani literally grew up amongst the jewellery and work tools that, on more than one occasion, replaced toys, living the passion of the family company from the earliest years. They have gained experience in the craftsman production of jewellery over the years in addition to purchasing gold, diamonds and pearls.

After the early death of their father in 1996, the three Damiani's have continued running the company covering the different responsibilities in synergy, entrusting the leadership to the current President and CEO.



(*) 49% is held by Christian and Simone Rizzetto, both currently Damiani Manufacturing S.r.l. directors.

(**) 90.65% is held by Damiani Manufacturing S.r.l. and 9.35% is held by Damiani S.p.A.. Overall Damiani S.p.A. holds 55.58% of the share capital of Laboratorio Damiani S.r.l.

(***) 14% of Damiani Japan is held by Itochu Corporation

THE GROUP

Damiani S.p.A., the parent company of the Damiani group, is a historic leading company in the Italian market for the production and marketing of high-end designer jewellery with brands like Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni. In addition, there is Rocca, the prestigious jewellery and watches' chain.

Today, the Damiani group can be found in Italy and leading countries around the world through an extensive, organised distribution network with subsidiary companies which oversee the European, American and Asian markets - Damiani International BV, Damiani USA Corp., Damiani Japan K.K., Damiani Hong Kong, Damiani Shanghai Trading Co. Ltd and Damiani Mexico S.A. de C.V..

The Damiani group has its own production facility and also produces through outsourcing, mainly in the Valenza area.

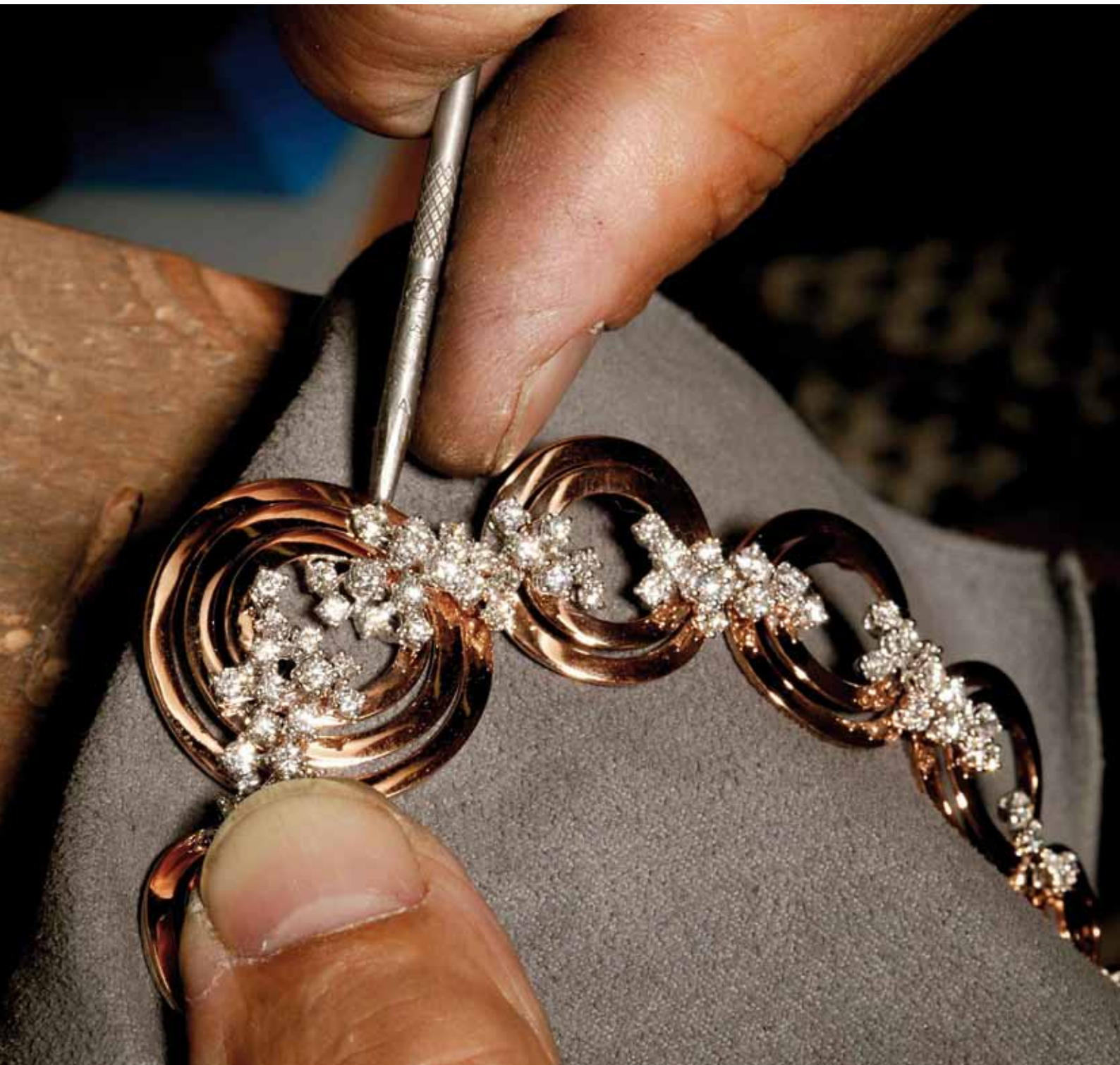
The distinctive features of the Damiani group include:

- the almost century-old tradition in the jewellery sector developed in the goldsmiths' area of Valenza with which the group has always maintained very strong links;
- the uniqueness of starting as producers of jewellery and not retailers, unlike competitors;
- the founding family's controlling interest guarantees unaltered quality over time and a continuity of its tradition;

- direct presence in the Valenza territory which allows the group to both make use of its own facility and external production units, ensuring the greatest production flexibility;
- the great fame of the Damiani brand, to be found in the main cities of the world through a network of mono-brand shops;
- the strong complementary nature of the five brands in the portfolio - Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni - which enables most of the market sectors to be covered and the requests of different types of consumers to be satisfied;
- the renowned quality of the products and the raw materials used;
- the exclusive, recognisable design of the collections;
- the innovative marketing and communication strategy.

Since 2008 the group also owns Rocca, the high-end jewellery and watch chain, a unique company in Italy distributing quality and prestige watches and jewels. Rocca was founded in 1794 and was the official supplier to the Casa Savoia (Italian royal family).

Currently, Rocca has shops in the most important Italian cities.



TRADITION

Each Damiani creation is the result of an almost 100-year-old history developed in the goldsmith area of Valenza. All the jewellery of the group is the expression of a tradition that remains unchanged: from design to creation, from the search of the stones to production, from quality control to distribution.

QUALITY AND SAVOIR FAIRE

The main value of a Damiani jewel in the intrinsic quality it shows - the impeccable certificated raw materials (gold, stones and pearls) and the exceptional quality of the manual processing of the high-end goldsmith's art. All the jewels, entirely made by hand with the greatest care for detail are true masterpieces of the goldsmith's art. Damiani's craftsman savoir-faire appears in the Masterpieces, unique pieces of great value, as in each piece of jewellery. Each Damiani jewel goes through four quality control checks.

DESIGN

Very high-level design is a feature of each piece of Damiani jewellery. Aesthetic, modern and innovative taste make each creation unique and unmistakable.

ETHICS

All Damiani group suppliers belong to a small group of highly selected companies that respect the UN resolutions on the certification of the origin of the diamonds. Adhering to the Kimberley Process to purchase diamonds as well as a strong attention to obtain a certified origin for each stone shows how ethics are essential for Damiani. Damiani also requires ethics in the working world and respect for all the persons involved, at every stage of manufacturing process.



AUTONOMY

Damiani has maintained the DNA of a family company and, today, is led by the third generation - Guido, Giorgio and Silvia Grassi Damiani, the founder's grandchildren. The Damiani group is still one of the few 100% Italian companies which has kept its independence, history and philosophy intact.

INNOVATION

Damiani jewellery is classic yet contemporary. The creative team favours innovation in design, as in production, while remaining linked to a strong craftsman tradition that ensures exceptional quality.

EXCLUSIVITY

Owning a piece of Damiani jewellery doesn't just mean having something precious but, in particular, something exclusive or even unique. Alongside the collections, Damiani creates Limited Editions and unique Masterpieces which are sometimes created or personalised at the customer's request. Of these, the Damiani Masterpieces are true expressions of the goldsmith's art at an exceptional level which, over the years, have obtained prestigious awards and recognitions.

TREASURING

Each Damiani jewel is a value to hand down through the generations and which creates an indissoluble link between past and future; a heritage, also sentimental, to keep forever. Damiani offers a further guarantee of quality - diamonds of more than 0.3 carats have a minuscule laser engraving with the Damiani logo and the certification number on the stone's side.



GROUP BRANDS

Damiani

Damiani was founded in 1924 and asserted itself in Italian and international markets as an Italian brand synonymous with high-end jewellery, tradition, quality and craftsmanship. Damiani is for a refined, elegant woman who wants the best for herself.

Every piece of Damiani jewellery is the result, entirely handmade, of an exclusive design, with great attention to the quality of raw materials and perfect workmanship.

Damiani also produces watches. The range of Damiani watches is inspired by the jewellery collections of the brand, like the Belle Epoque range that offers jewel-watches as well as ceramics versions for everyday wear.



Salvini

Salvini started in 1986 and soon gained a strong identity both in terms of product and communication. The brand offers classic jewellery for the contemporary woman with Italian taste and great attention to quality. Salvini revisits tradition from a modern point of view.

The actress Eva Longoria is actually testimonial for Salvini.

ALFIERI & ST. JOHN

Alfieri & St. John, founded in 1977, was acquired by the Damiani group in 1998 with the aim of enlarging the brand portfolio. The brand targets young, modern, fashion-conscious women. Alfieri & St. John offers a vast range of jewellery and presents itself as a young versatile brand.

bliss

Bliss, launched by the Damiani group in 2000, is for a wide, transversal target, offering modern, elegant jewellery which interprets current trends. Bliss jewellery is made from precious materials, such as gold and silver, but also steel and other innovative materials, like carbon.

Bliss products aim to reach a public of young curious consumers.





Calderoni was founded in 1840 under the arcades of Piazza Duomo and, for decades, was the main jeweller of Milan, becoming a supplier to the Royal Family and serving the nobility and high society of the time, and also passing through maharajahs and sultans. Calderoni high-end jewels have always featured impeccable balance between originality and tradition, classicity and modernity.

Calderoni has won four *International Diamond Awards*.

The Rocca family started as master watch-makers in 1794. Rocca soon became one of the Italian importers of Swiss watches and, over the years, customers have included famous personalities such as Cavour, Garibaldi, d'Annunzio, Verdi and Pirandello.

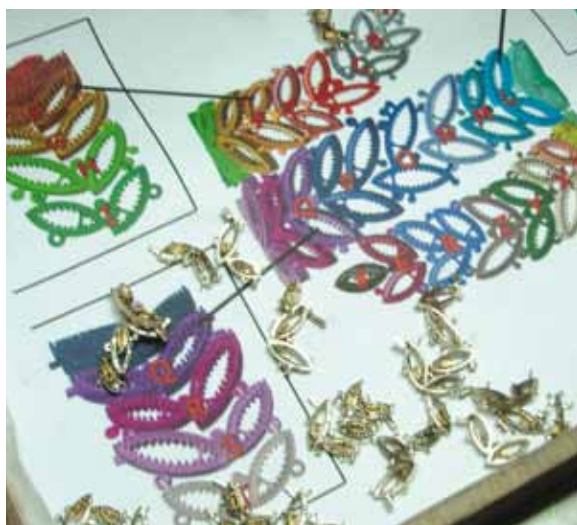
Today, Rocca is a unique chain of high-end watches and jewels in Italy and exclusive in the world.



THE ORGANIZATIONAL MODEL



Laboratorio Damiani in Valenza



Damiani group's products are designed, created and marketed following a management model common to all its' companies which feature strict controls of the chain value. The organisational model for each brand can be divided into the following stages:

Market analysis and product creation

Analysis of the market is the preliminary work carried out by the group to identify the market's product needs.

The process of creation and development of each jewel starts on the basis of these results. This stage, carried out by the Marketing department, means the creation of drawings which are transformed into prototypes.

After a careful selection and review, the CEO is called to approve the prototypes that will be put into production and marketed. At this stage, the Marketing division defines the selling price and the prototype is consigned to the production and logistics division. The company has a special software to support this work at all stages.



Purchase of raw materials

The Damiani group has significant experience in the selection of raw materials which includes diamonds, precious stones, pearls, gold and platinum.



Precious stones

The group strictly uses 'conflict free' rubies, emeralds, sapphires and diamonds.

Gold

Damiani purchases gold only at banks.

Pearls

The main pearl production areas are Japan, Australia and Polynesia. In particular, the Damiani group has a long standing commercial relationship with Japanese farm-owner suppliers.

Production

The group uses both its own workshop in Valenza and external production units. The production of Damiani, Salvini and Alfieri & St. John jewellery is in the goldsmiths' area of Valenza while for the Bliss brand, part of the jewellery and the steel are produced in Asia.

Quality control

The Damiani group pays special attention to the quality of its jewellery. A special internal team is responsible for making constant checks to guarantee the indispensable Damiani quality standard.



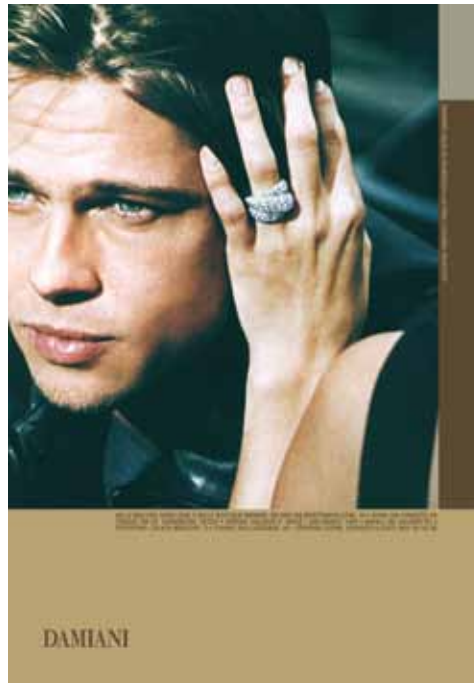
Distribution

The Damiani group mainly distributes its products through two channels. Retail has 52 mono and multibrand points of sale directly managed by the group while wholesale manages 17 monobrand franchised boutiques, independent multi-brand jewelers, jewellery chains, department stores and distributors.

The Damiani group sells its products through 2,500 wholesale resellers around the world.



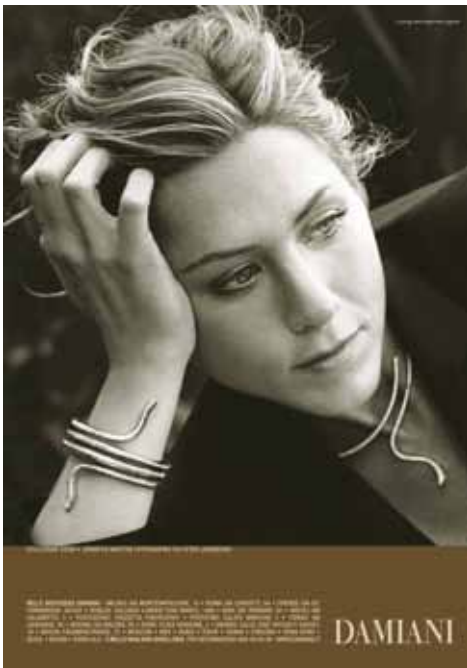
Isabella Rossellini 1999



Brad Pitt 2000



Chiara Mastroianni 2001



Jennifer Aniston 2002



Gwyneth Paltrow 2006



Gwyneth Paltrow 2006

COMMUNICATION

Damiani historical adv campaigns

In the early Eighties, Damiani was one of the first Italian companies already renowned as the ambassadors of a luxury brand. Since then, Damiani has worked with people like Mila Jovovich, Jennifer Aniston, Isabella Rossellini, Natassja Kinski, Sophia Loren, Chiara Mastroianni, Brad Pitt, Gwyneth Paltrow and Sharon Stone, to mention only a few. Francesca Neri, Raul Bova, Luis e Helene Figo, Eva Longoria, Vasco Rossi, Alessandro Del Piero, Paris Hilton have represented other brands of the Group.



Milla Jovovich 2001



Natassia Kinski 2001



Sharon Stone 2008



Sharon Stone 2011



Baci

Gomitolo



Gaia

Juliette



COMMUNICATION

The new DAMIANI Fall Winter 2012-13 advertising campaign

Last May, photographer Greg Williams shot the new Damiani campaign at Eltham Palace, an aristocratic mansion outside London. Under Silvia Damiani's artistic supervision, Greg Williams and Art Director Paul Barry created intimate spaces, in order to get a mysterious movie atmosphere, thanks to warm lights and strong shadows.

The campaign follows a woman during her day, when she wears different jewels from the morning to the evening. A woman who is always elegant, at every moment.

Her Damiani jewel becomes her faithful companion as well as the main protagonists

of the campaign, thanks to a still life Polaroid of every jewel set on each picture.

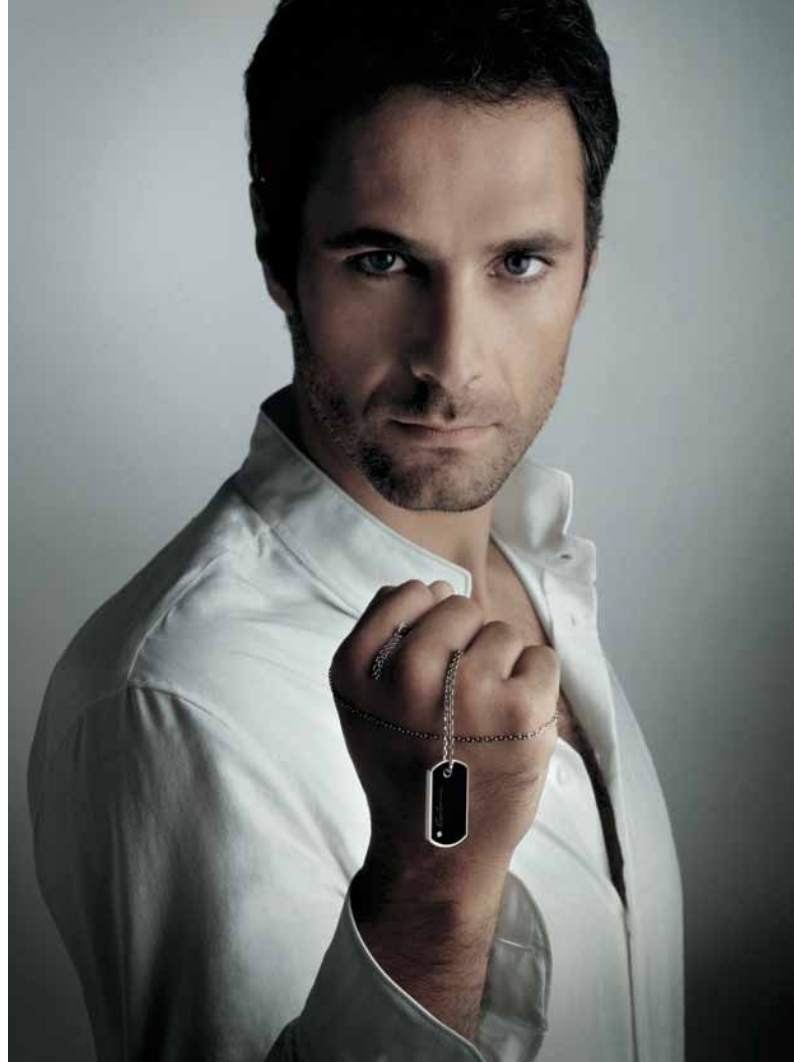
Graphics were also edited, becoming more elegant and contemporary, to express better the values of one of the most important brands in luxury.

In October 2012, a TV commercial was made with the same cinematographic atmosphere. It showed the story of a woman's day with Damiani D.I.con jewels as protagonists, from morning to evening. From ceramic to gold with full pavè of diamonds.





Francesca Neri for Salvini - 2004



Raoul Bova for Salvini - 2007

Alessandro Del Piero for Bliss - 2005



Alessandro and Sonia Del Piero for Bliss - 2006





Eva Longoria for Salvini - 2012

Paris Hilton for Bliss - 2007



COMMUNICATION

Salvini and Bliss adv campaigns



Livia Firth and his husband Colin Farrell at Golden Globes 2012



Milla Jovovich – 66th Cannes Film Festival



Paz Vega – 66th Cannes Film Festival

CELEBRITIES WHO WORE DAMIANI



Eva Longoria - 66th Cannes Film Festival



Simona Ventura - X Factor 2012



Dita Von Teese - 66th Cannes Film Festival



Madalina Ghenea at Los Angeles the Vanity Fair party after the ceremony of the Academy Awards 2013

**Damiani at the exhibition
“Exhibitally – Italian Excellence”
in Moscow**



In November 2012, Damiani participated in the exhibition “Exhibitally – Italian Excellence” in Moscow for the second appointment dedicated to the excellence of “Made in Italy”. Sponsored by the Prime Ministers and conceived from the collaboration of the two governments, Exhibitally is a project with the goal of relating the Italian approach to entrepreneurship, which combines, within itself, innovation, attention to the environment, culture and style - a project that was divided into four main appointments dedicated to design, fashion, technology and finally cuisine. Damiani was invited for the second exhibition, dedicated to fashion, called “Nation of Design” where the art and industry of luxury was displayed, as the emblem of supremacy that sets apart the Italian manufacturing system. Damiani was presented with two jewellery “Oscars” at the exhibition: the Blue Moon earrings and the Onda Marina bracelet.

**Damiani partner of Confindustria at
the 43rd Meeting of Young Entrepreneurs
at Santa Margherita Ligure**

Damiani participated as partner of the 43rd meeting of Confindustria’s Young Entrepreneurs, which took place in June 2012 at Santa Margherita Ligure - an appointment



which confirmed the Damiani Group’s proximity to the world of entrepreneurs with its sensitivity to the role that young entrepreneurs could have in the economic growth of the country.

**Damiani wins the Robb report award
for best of the best 2012**

Another international award for Damiani that, in July 2012, was one of the few brands chosen by the Robb Report as “Best of the Best 2012”. The Damiani Burlesque bracelet, a masterpiece in white gold, white and black diamonds, and rubies was awarded as the winner. The world of Burlesque becomes a source of inspiration for this masterpiece, which reminds us of a corset and its laces.



The bracelet’s closure is made of two chains that intersect each other, like the laces of a corset, to regulate the size. The outcome is an extremely elaborate piece of jewellery, although flexible to wear. The visual effect is that of a rigid bracelet which is in reality completely agile and perfectly adaptable to any wrist. This was another international recognition for Damiani, appreciated worldwide for the style and design of its jewellery.

**Damiani for Emilia - Damiani
supports the population hit by the
earthquake**

Damiani promoted the charity to benefit the population in Emilia Romagna who were victims of the earthquake, with the goal of collecting funds to support the non-profit humanitarian association called “Vola nel Cuore” in aid of children. The operation, that took place in July and August 2012, involved the Damiani boutiques throughout Italy: Milan, Rome, Turin, Genoa, Bologna, Florence, Naples, Portofino, Porto Cervo, Venice and Verona. Each store presented a selection of the collections and the Damiani “must haves”, on sale only for that limited period at exceptional prices. Damiani contributed a portion of the proceeds to “Vola nel Cuore” for paediatric interventions in the areas hit by the earthquake.





Damiani and Sophia Loren together in the Netherlands

In November 2012, at Nordwijk am Zee in The Netherlands, Damiani presented its new collections and, with the occasion, introduced Sophia Loren to the Dutch press. The actress had wanted to baptise this new Damiani launch in The Netherlands.

The famous Italian star, who had received two Academy Awards, five Golden Globes in addition to a multitude of other awards, is not only the ambassador of the brand, but has been a friend of the Damiani family for some time and which had dedicated a collection to her called "Sophia Loren".





Onda Marina 1988

INTERNATIONAL AWARDS



Eden 2000

Damiani is the only goldsmith company in the world to have received 18 *Diamond International Awards*, the international jewelry Oscar, an unequalled record. Bocca di Squalo, a bracelet designed by Gabriella Damiani in 1976, won the first *Diamond International Award*. Calderoni won 4 others of these awards.

To quote only a few, Damiani also won two *Tahitian Pearl Trophies*, a *Haute Couture Design Award*, a *Vogue Joyas* and lots of others awards in the entrepreneurship and communication fields.



Bocca di squalo 1976



Blue Moon 1996



Spaziale 1988



Sahara 1996



The Well 1998



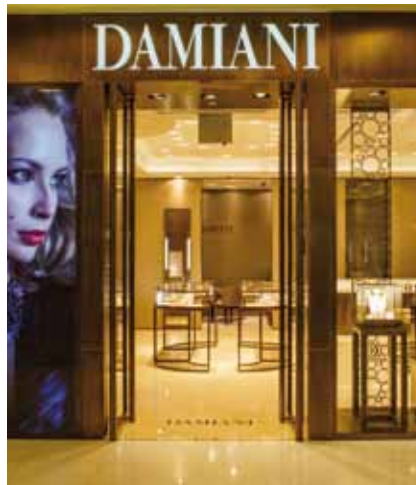
Flash 1992

THE DAMIANI GROUP AROUND THE WORLD

The distribution network

The Damiani group mainly distributes its products through two distribution channels:

- the retail channel, consisting of 52 mono-brand and multi-brand points of sale run directly by the group. Damiani has created an international flagship stores, multibrand and mono-brand shops network.
- the wholesale channel includes 17 franchised mono-brand boutiques in addition to independent multi-brand jeweller's, jewellery chains, department stores, franchisees and distributors. The group distributes its products around the world through more than 2,500 retailers.



1



2



3



4



5



6

1. Singapore
2. Tokyo
3. Hong Kong

4. Osaka
5. Beijing
6. Paris



7



8



9



10



11



12

BOUTIQUES DAMIANI

BOLOGNA
FLORENCE
MILAN
NAPLES
PORTOCERVO
PORTOFINO
ROME
TURIN
VENICE
VERONA
LONDON
PARIS
MOSCOW
KIEV
ODESSA
LOS ANGELES
HONOLULU
MEXICO CITY
MONTERREY
OSAKA
KYOTO
SAPPORO
TOKYO
YOKOHAMA
SEOUL
BEIJING
HONG KONG
CHENGDU
HANGZHOU
MACAO
NINGBO
SHANGHAI
SINGAPORE
SUZHOU
TAIPEI
ALMATY
ASTANA
BAKU
DUBAI
KUWAIT CITY
NEW DELHI

- 7. Moscow
- 8. Los Angeles - Beverly Hills
- 9. Dubai

- 10. New Delhi
- 11. London
- 12. Shanghai

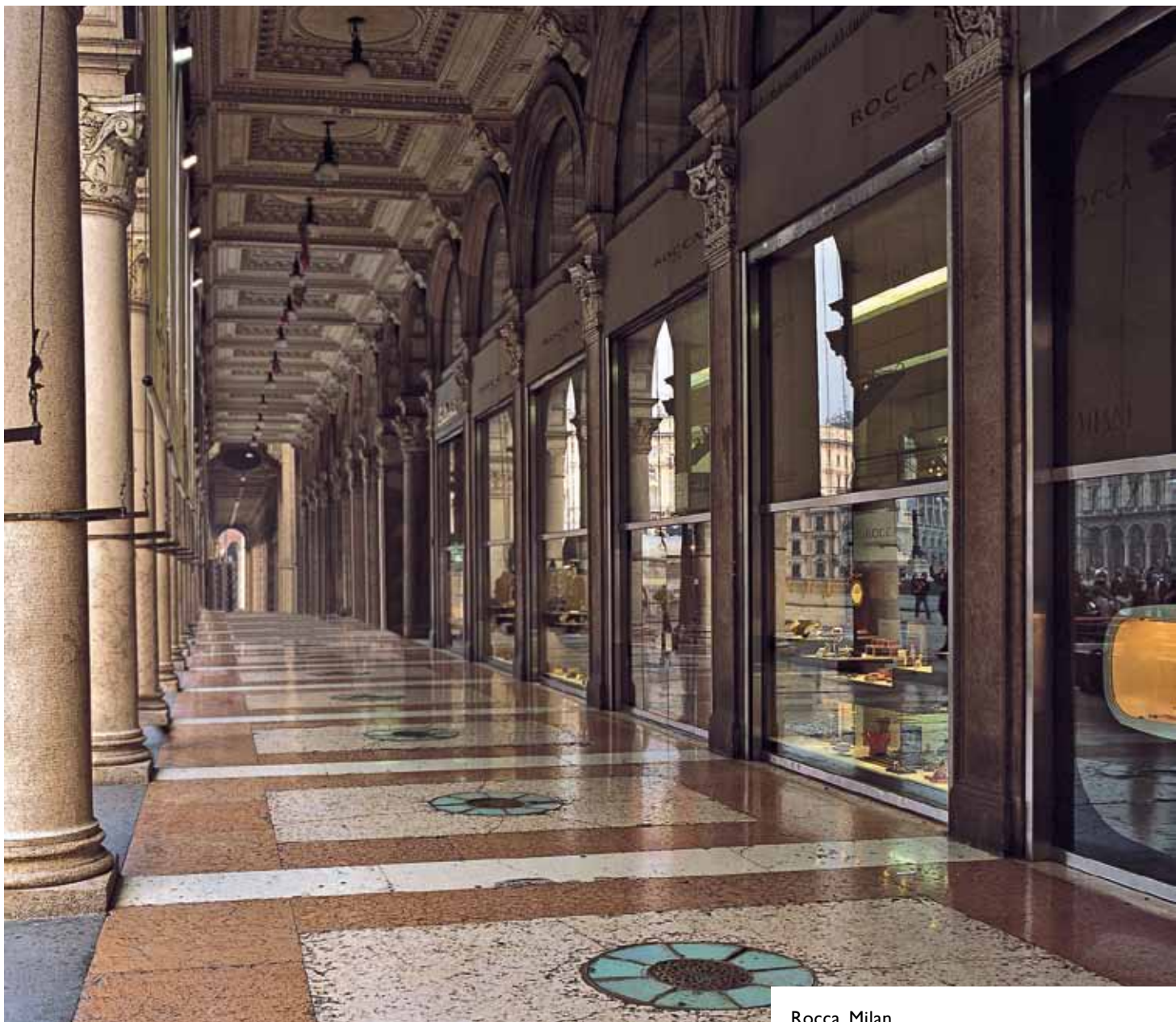




The Damiani boutique in Montenapoleone Street

BOUTIQUES ROCCA

BARI
CATANIA
LECCE
LUGANO
MANTOVA
MILAN
PADOVA
PESCARA
ROME
TAORMINA
TURIN
VENICE



Rocca, Milan



Rocca, Lugano



Rocca, Catania



Board of Directors

President & CEO	Guido Grassi Damiani
Vice President	Giorgio Grassi Damiani
Vice President	Silvia Grassi Damiani
Board Director	Roberta Benaglia
Board Director	Stefano Graidi
Board Director	Giancarlo Malerba
Board Director	Francesco Minoli^(*)
Board Director	Fabrizio Redaelli

Board of Statutory Auditors

President	Gianluca Bolelli
Statutory Auditor	Simone Cavalli
Statutory Auditor	Fabio Massimo Micaludi
Statutory Auditor	Pietro Sportelli
Statutory Auditor	Pietro Michele Villa

External Auditors	Ernst & Young S.p.A.
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Internal Control and Corporate Governance Committee

President	Fabrizio Redaelli
	Roberta Benaglia
	Giancarlo Malerba

Remuneration Committee

President	Fabrizio Redaelli
	Roberta Benaglia
	Giancarlo Malerba

^(*) On 14 June 2013, the Director gave in his resignation with effect from the date of the Shareholders' Meeting that on 26 July 2013 approved the balance sheet as at 31 March 2013.

FINANCIAL HIGHLIGHTS

At march 31 2013 Damiani group reached total revenues of 137.8 millions Euro, ebitda of -2.7 millions Euro, Operating result (Ebit) of -6.3 milions Euro and Net result of -8.6 milions Euro.

Revenues breakdown by distribution channel at March 31 2013:

- wholesale: 63.6%
- retail: 36.4%

Revenues breakdown by regions at March 31 2013:

- Italy 70.0%
- Japan 9.1%
- Americas 3.8%
- Rest of the World 17.1%

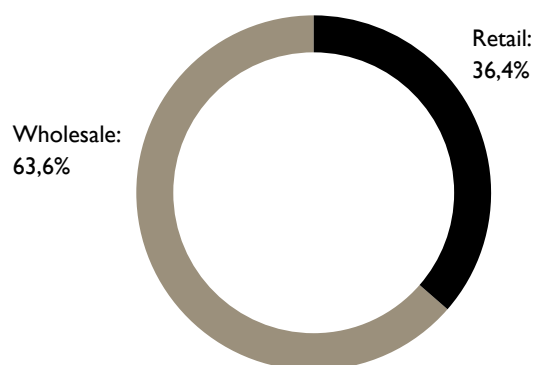
More than half of the Damiani brand revenues derive from foreign markets.

Revenues breakdown by distribution channel (FY2012/13 at March 31, 2013)

Total revenues from sales and services: 137.6 mln Euro

Wholesale: 87.5 mln Euro

Retail: 50.1 mln Euro



Revenues breakdown by region (FY2012/13 at March 31, 2013)

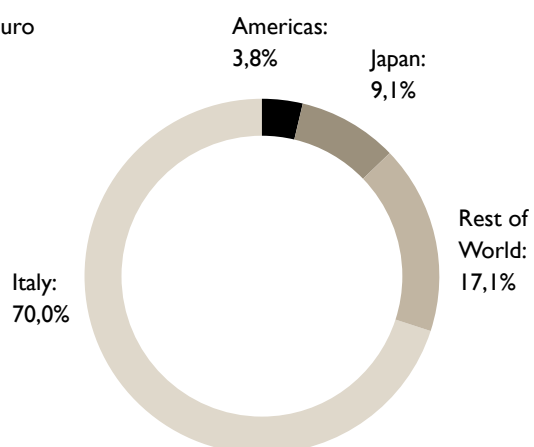
Total revenues from sales and services: 137.6 mln Euro

Italy: 96.2 mln Euro

Americas: 5.3 mln Euro

Japan: 12.6 mln Euro

Rest of World: 23.5 mln Euro



TREND IN THE SHARE PRICE ON THE STOCK EXCHANGE

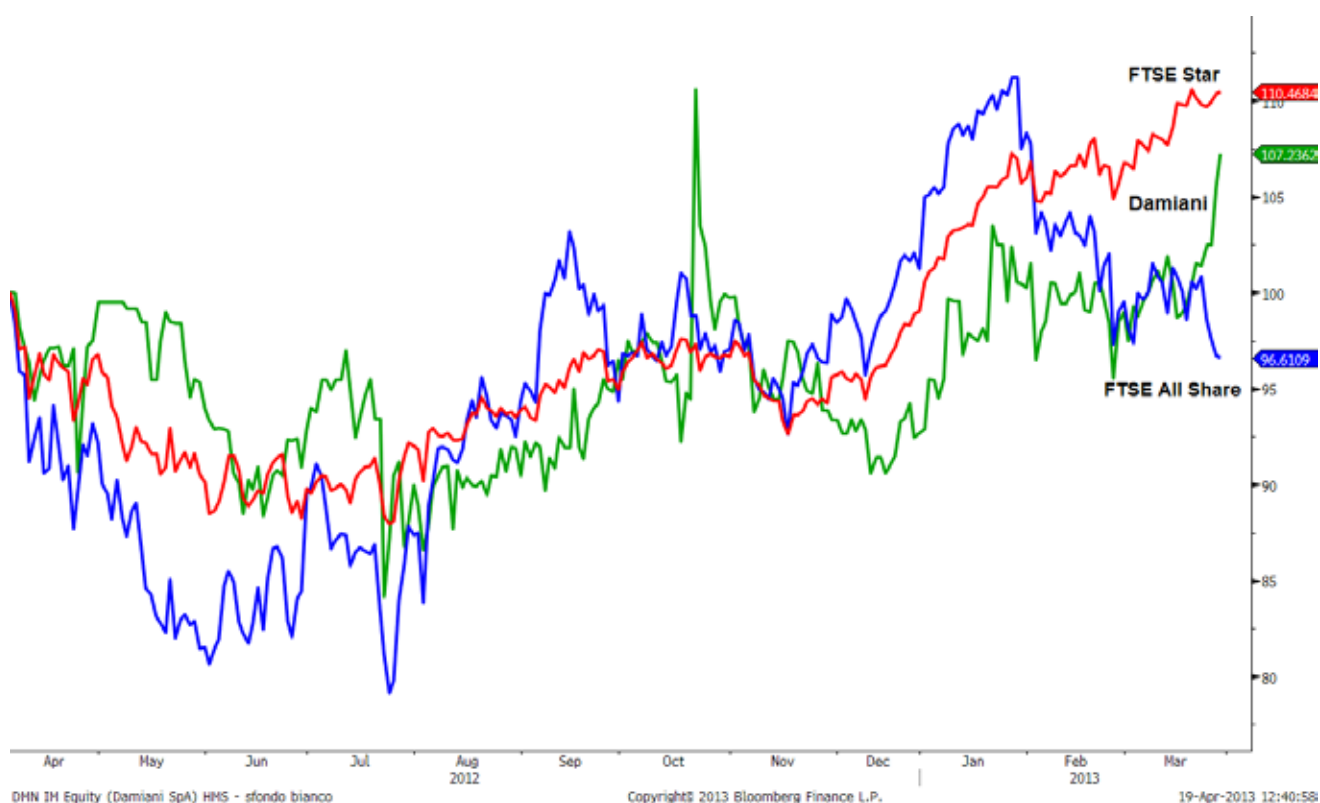
The chart shows the trend of the price of Damiani S.p.A in the period from and including 2 April 2012 to 28 March 2013, by comparing the progress of the main market indexes (FTSE Italia All Share Index and FTSE Italia Star Index).

During the course of the 2012-2013 fiscal period, Damiani registered an increase of 7.24% from 2 April 2012 to 28 March 2013 (FTSE Italia All Share Index -3.39%; FTSE Italia Star Index +10.47%).

As at 28 March 2013 (the last day of negotiations for the closing financial period), the Damiani shares reported an official listing of EUR 1.0838; the relative stock exchange capitalisation was equal to EUR 89.5 million.

The table below summarises the main share and market data for the year closed as at 31 March 2013.

The main Stock Market data for the year to 31 March 2013.

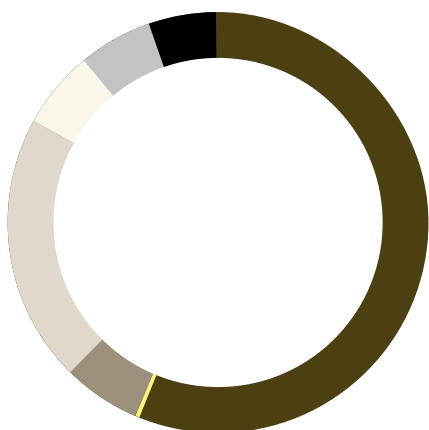


Source: Bloomberg

Damiani in the Sock Market*

Price on April, 2nd 2012 (euro)	0.973
Price on March 28 2013 (euro)	1.0838
Maximum price (euro)	1.10 (on 22nd October 2012)
Minimum price (euro)	0.8375 (on 23th July 2012)
Average volumes	21,210
Maximum volumes	208,824 (on 22nd October 2012)
Minimum volumes	2 (on 11st May 2012)
N° shares Company capital	82.600.000
Market capitalisation at March 28 2013 (euro mln)	89.5

Shareholders**



Leading Jewels***	58.5%
Guido Damiani	5.9%
Giorgio Damiani	6.1%
Silvia Damiani	5.3%
Market	17.2%
Own shares****	6.7%
Sparkling Investment S.A.***	0.3%

Note:

*The Table above summarises the main share data to 28 March 2013

**Shareholding at 28 March 2013

***Controlled by Guido Damiani

****Includes purchase of 5,556,409 treasury shares

Source: Bloomberg

CONSOLIDATED
FINANCIAL STATEMENTS OF THE
DAMIANI GROUP
AS OF AND FOR THE YEAR ENDED MARCH 31 2013

Prepared in accordance with
IAS/IFRS accounting standards

Damiani S.p.A.



Report on operations
of the consolidated financial statements
as of March 31 2013

REPORT ON OPERATIONS ⁽¹⁾

Structure of the Damiani Group

Damiani S.p.A., besides carrying out productive and commercial activities directly, also acts for strategic direction and coordination of the Group and technical, financial and administrative assistance both in the production and in the commercial operations carried out by its subsidiaries, directly and indirectly controlled.

The consolidated financial statements for the financial year ended March 31, 2013 include the financial statements of the parent company, Damiani S.p.A. and those of the companies which it controls, either directly or indirectly, as per article 2359 of the Civil Code.

The subsidiaries included in the consolidation area at March 31, 2013, and therefore consolidated using line-by-line method, are listed below:

COMPANY NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (local currency)	HELD BY	% DIRECT (*)	% OF THE GROUP
Damiani Manufacturing S.r.l.	Valenza (AL), Italy	EUR	850,000	Damiani S.p.A.	51.00%	51.00%
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	EUR	2,140,000	Damiani Manufacturing S.r.l.	9.35%	55.58%
Damiani International B.V.	Amsterdam, Netherland	EUR	193,850	Damiani S.p.A.	100.00%	100.00%
Damiani Japan K.K.	Tokio, Japan	JPY	495,000,000	Damiani International B.V.	0.00%	86.00%
Damiani USA, Corp.	New York, USA	USD	900,000	Damiani International B.V.	0.00%	100.00%
Casa Damiani Espana S.L.	Valencia, Spain	EUR	721,200	Damiani S.p.A.	99.00%	100.00%
Damiani Hong Kong Ltd.	Hong Kong	HKD	2,500,000	Damiani International B.V.	0.00%	100.00%
Damiani France S.A.	Parigi, France	EUR	38,500	Damiani International B.V.	0.00%	100.00%
Damiani Macau Ltd.	Macau	MOP	2,200,000	Damiani Hong Kong Ltd.	0.00%	100.00%
Rocca S.p.A.	Valenza (AL), Italy	EUR	4,680,000	Damiani S.p.A.	100.00%	100.00%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Rocca S.p.A.	0.00%	100.00%
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	MXN	3,000,000	Damiani International B.V.	10.00%	100.00%
Damiani Shanghai Trading Co. Ltd.	Shanghai, China	CNY	30,000,000	Damiani S.p.A.	100.00%	100.00%
Damiani Korea Co. Ltd.	Seoul, Sud Korea	KRW	500,000,000	Damiani S.p.A.	100.00%	100.00%

(*) It's the share directly held by Damiani S.p.A.

Compared to the annual report ended March 31, 2012, the consolidation area at March 31, 2013 changed as follows:

- In August 2012 the Chinese subsidiary Damiani Shanghai Trading Co. Ltd, wholly owned by Damiani S.p.A., was established with registered office in Shanghai, Pudong New Area. The share capital of this new company initially of 15,000,000 of Renminbi (CNY), was subsequently increased to 30,000,000 of Renminbi (CNY) through a capital increase (at year-end exchange value is approximately Euro 3,769 thousands). The company's purpose is to import and distribute in China jewelry and watches. At March 31, 2013 the subsidiary manages two mono-brand Damiani stores in Shanghai and Ningbo.
- On December 20, 2012 the merger of the companies New Mood S.p.A. and Alfieri & St. John S.p.A. in the parent company Damiani S.p.A. (who owned 100% of the capital stock of both subsidiaries) was finalized, and became effective from January 1, 2013. The merger, which requires compliance with a formal process and the fulfillment of a number of obligations aimed at satisfying the information needs and the protection of all classes of interest on the basis of the provisions of the company law (articles 2501 – 2505 quater of the Italian Civil Code) and by the tax law (Presidential Decree 917/86), was launched on July 26, 2012 with the approval by the Board of Directors of Damiani S.p.A. Such mergers, which did not result in any capital increase nor are subject to the Procedure for transactions with related parties pursuant to Consob Regulation n. 17221/2010, were approved by the respective Boards of Directors of the companies involved on October 8, 2012. The related accounting and tax effects are backdated to April 1, 2012.
- On March 13, 2013 the Korean subsidiary Damiani Korea Co. Ltd, wholly owned by Damiani S.p.A. was established, with registered office in Seoul, International Finance Center One IFC Building. The share capital of the new company is 500,000,000 of Won (KRW), equal to around Euro 351 thousands. The company's purpose is to import and distribute jewelry and watches in South Korea. At March 31, 2013 the subsidiary was not operational yet.

The Damiani Group, which is focused on producing and distributing top quality jewelry both in Italy and abroad, offers wide coverage

⁽¹⁾ The Damiani Group ends its financial year on March 31. Therefore the consolidated financial statements at March 31, 2013 cover the period April 1, 2012 – March 31, 2013 (henceforth referred to as Financial year ended on March 31, 2013 or Financial Year 2012/2013). For comparative purposes are shown also the figures related to the previous period April 1, 2011 – March 31, 2012 (henceforth Financial year ended on March 31, 2012 or Financial Year 2011/2012).

of the main market segments and thanks to its different brands provides customers with a large range of differently priced jewelry. The Group's portfolio is made up of five brands: Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni.

Furthermore, through the fully owned network Rocca, the Group distributes prestigious third party brands, mainly in the timepiece sectors. The distribution of the Group products takes place through two different channels in Italy and abroad:

- the wholesale channel, consisting of independent multi-brands jewelers, department stores, franchisees and distributors;
- the retail channel consisting of the store directly managed by the Group (boutiques and shop-in-shop). As of March 31, 2013 the Point of Sales ("POS") in Italy and abroad were 49, whose 31 under the Damiani brand, two single-brand Bliss and 16 multi-brand Rocca. In geographical terms, the network of directly operated stores of the Group is as follows:

BOUTIQUES AND CORNER	ITALY	REST OF THE WORLD	JAPAN	AMERICAS	TOTAL
Mono-brand Damiani	9	7	10	5	31
Mono-brand Bliss	2	-	-	-	2
Mono-brand Rocca	15	1	-	-	16
Total	26	8	10	5	49

Corporate Governance

The governance system of Damiani S.p.A. is the so-called "latin" or "traditional" form: the corporate bodies are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Board of Directors of the parent company was renewed on July 26, 2012 by the Shareholders' Meeting, which confirmed for a further three years period, until the approval of the Financial statements as of March 31, 2015 of Damiani S.p.A., the 8 Directors expiring. On June 14, 2013 the Director Francesco Minoli (non-executive and independent) resigned for personal reasons, effective from the date of the Shareholders' Meeting to be held on July 26, 2013 for the approval of the Financial statements at March 31, 2013.

The composition of the Board of Directors complies with the applicable regulations (as per articles 147-ter and 148, paragraph 3, of the Legislative Decree n. 58/1998) and the principles of corporate governance contained in the Self-Regulation Code for Listed companies. The new Board of Directors of Damiani S.p.A. on July 26, 2012 appointed Guido Grassi Damiani as President and CEO, Giorgio and Silvia Grassi Damiani as Vice-President, Stefano Graidi as Director responsible for the internal control system and risk management and Fabrizio Redaelli as Lead Independent Director.

Following the verification of the requirements of non-executive and independent directors, pursuant to article 148 of the Legislative Decree n. 58/1998 and article 3 of the Self-Regulation Code for Listed companies, the Directors Fabrizio Redaelli, Roberta Benaglia and Giancarlo Malerba were designated to form the Remuneration Committee and the Risk Committee.

Damiani S.p.A. and the Italian subsidiaries Laboratorio Damiani S.r.l. and Rocca S.p.A. adopted a Code of Ethics and the Organizational Model prescribed by the Legislative Decree n. 231/2001. The Code of Ethics of each company refers to the values the Damiani Group adheres to when carrying out its activities and contains the ethical principles and rules that must guide the conduct of the individuals for whom it is meant. The Code of Ethics is applicable to all directors, employees, suppliers, consultants, agents and business partners and in general all those individuals who operate on behalf of the company.

The Organizational Model adopted in its current version by the Board of Directors of Damiani S.p.A. on February 8, 2013, is a set of specific regulations dealing with conduct and operational procedures and it is designed to prevent unlawful conduct within those areas of business activities where there is a potential risk.

The Supervisory Body under Legislative Decree n. 231/2001 supervises to ensure the correct application of the Organizational Model and Code of Ethics. The Supervisory Body is collegial and includes the Internal Auditor and two external consultants, paid for the job done. This structure assures that the Supervisory Body is composed of individuals who represent all the expertise necessary to oversee the company's management and at the same time to meet the criteria of autonomy and independence required by law.

The Supervisory Body has been assigned all the powers and resources (with a budget periodically revised) necessary for ensuring the Organizational Model adopted by the company is effectively implemented and observed and that is efficient and effective in preventing the offences currently specified in Legislative Decree n. 231/2001. The Supervisory Body has the possibility to make recommendations to the Board of Directors about updating or adjustments of the Organizational Model.

The Supervisory Body of Damiani S.p.A. met 7 times during the Financial Year 2012/2013.

For further details about the corporate governance system of the parent company, together with information on the company structure per article 123-bis of Legislative Decree n. 58/1998, see the Annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relation section of the website www.damiani.com.

About the obligation under Title VI of the Regulation of Legislative Decree n. 58 of February 24, 1998 concerning market discipline (Market Regulations), states that Damiani S.p.A. controls indirectly two companies which are not part of the European Union and which are relevant as per article 151 of the Market Regulations. According to article 36 of Market Regulations, states that:

- the companies have, in the opinion of the Issuer Damiani S.p.A., an administrative and reporting system suitable for regular reporting to the Corporate of Damiani S.p.A. of economic and financial figures necessary to prepare the consolidated financial statements and to carry out the statutory audit;
- the Issuer has the Statute and knows the composition of the Corporate bodies, and their powers, of the above mentioned companies, and it is advised of any modifications in a timely fashion;
- the reporting package of the two companies, prepared for the purpose of consolidated financial statements of the Damiani Group, are provided in the manner and terms established by law.

Share buy-back program

The Shareholders' Meeting of July 26, 2012 resolved to authorize – subject to revocation, for the part non executed of the resolution adopted by the Shareholders' Meeting of July 27, 2011 – the purchase and disposal of own shares under co-joined articles 2357 and 2357 ter of the Civil Code and article 132 of the Legislative Decree n. 58/1998.

The authorization to purchase treasury shares is structured as follows:

- Damiani S.p.A. may purchase a maximum of ordinary shares whose nominal value does not exceed the limit of the law, up to a maximum of n. 16,250,000 ordinary shares, at a nominal value of 0.44 euro each, also keeping in consideration the shares held by the Company and, in case, by the subsidiaries;
- The authorization was granted for a period of 18 months starting from the Shareholders' Meeting date and lasting until the date of January 26, 2014;
- The purchase price of each share, including additional expenses of purchase, must be as a minimum not less than 20% and a maximum not more than 20% of the official price registered by the share in the trading session before each exchange transaction;
- The purchase transactions will be conducted on regulated markets in accordance with local regulations (article 132 of the Legislative Decree n. 58/1998; article 144-bis of Consob Regulation n. 11971/1999) and respecting the principle of equal treatment of Shareholders and any other regulations, including Community rules.

As of March 31, 2013 the own shares in portfolio were n. 5,556,409 (equal to 6.73% of the share capital) and the total expense for the buy-back plan, started with the resolution of the Shareholders' Meeting of Damiani S.p.A. on February 22, 2008 was Euro 8,134 thousands at an average price for the purchase of Euro 1.464 per share. Between April 1, 2012 and March 31, 2013 no additional own shares have been purchased.

Directors' fees

The fees for the financial year 2012/2013 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A., also with reference to what is perceived to similar functions performed within other Group companies are reported in the Annual report on remuneration, prepared pursuant to article 123-ter of the Legislative Decree n. 58/1998 and article 84-quater of Consob Regulation n. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2013/2014, and the procedures used for the adoption and implementation of this policy, and contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of the Legislative Decree n. 58/1998.

In this regard it should be noted that the Board of Directors of Damiani S.p.A. of July 26, 2012 confirmed the waiver of fees for the financial year 2012/2013 of Directors Guido Grassi Damiani (President and CEO), Giorgio Grassi Damiani (Vice President) and Silvia Grassi Damiani (Vice President). This waiver was also confirmed for the financial year 2013/2014, and then for the third year in a row, and it is related to annual fees previously paid for a total of Euro 1.3 million.

The Remuneration report is made available to the public, together with the annual statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website www.damiani.com

Reorganization projects of the Damiani Group

In order to recover efficiency and flexibility in the management of production and distribution processes, the Group achieved during the financial year 2012/2013 a series of reorganization plans, mainly concentrated on the companies established and operating in Italy, already defined in its guidelines in the previous year.

In detail, these actions include: i) the reorganization of commercial and logistic activities for the foreign market made by the subsidiary Damiani International B.V. (the operating Swiss branch) now concentrated in Damiani S.p.A., obtaining a greater efficiency; ii) the centra-

lization at Valenza of all administrative and logistic activities previously based on several separate places (above all the transfer of Rocca S.p.A. headquarter from Milan); iii) the merger of the wholly owned subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. in the parent company Damiani S.p.A., described above.

These actions will generate benefits for the Group in terms of saving in operating costs which will be fully visible in the financial year 2013/2014.

Research and development

The products offered, together with the reputation and image of the brands sold, has always represented the key to the Group's success, which over the years has been able to provide innovations in style and design in the collections offered to customers. Our internal staff specifically dedicated to develop the product operates with this goal. During the financial year 2012/2013 the total cost for product development was equal to Euro 1,107 thousand.

Main risks and uncertainties for the Damiani Group

Macroeconomic risks and market of luxury goods risks

The earnings and financial performance of the Group is influenced by the macroeconomic situation of the countries in which it is directly present and by the various factors that make up the general economic environment (GDP trends, confidence of consumers and companies, interest rates, unemployment rates), and that also affect the market of luxury goods. Increasing globalization and integration not only for the financial flows but also for the real economy with trade in goods and consumer products more and more intense and a greater flow of people (business and tourism) that generate higher volume of transactions for purchase of goods of various kinds outside the domestic borders have an increasing impact on the overall performance of the Group, which for some years has been started a complex process of internationalization.

Since 2008 the world economic system, however, was marked by a highly volatility with significant impacts on all markets, including the luxury goods.

In particular, in 2012, there has been a general slowdown in the economy compared to the trend of previous year⁽²⁾. But the crisis has manifested itself primarily in the Euro Area, with a decrease of GDP of -0.6%, while globally it is up 3.2%, compared to +4.0% in 2011. In some large countries there was an improvement compared to 2011: in the U.S. + 2.2% in 2012 compared to +1.8% in the previous year; in Japan +2.0% in 2012 compared to a negative -0.6% in 2011 due to the natural disasters that hit the country in the first half of the year. In other countries where there has been a slowdown, the growth rates of 2012, however, are still largely satisfactory: in Russia +3.4% (+4.3% in 2011), in China +7.8% (+9.3% in 2011). In this scenario, characterized by lights and shadows, Italy among major economies in the world is the country with the worst performances: GDP reduced by -2.4% in 2012 after the already low growth in 2011 (+0.4%). As a result of this general trend of the world economies, inflation was under control, with the prices increased on average less than the previous year (+2.5% in the Euro Area vs. +2.7% in 2011; +2.1% in the U.S. compared to +3.2% in 2011), but for concern is the growth of the unemployment rate reached 11.4% in the Euro Area (was 10.2% in 2011), with peaks of 25% in Spain. In Italy the unemployment rate reached 10.6%, more than two percentage points higher than the previous year. The policies implemented by western governments, including sovereign debts that remain dangerously high and expensive and generate a tax burden unsustainable for companies and consumers, rising unemployment rates and low flow of financial resources to the manufacturing sector, currently do not seem to be able to start a virtuous circle of medium/log-term sustained growth of the production and consumption system, with consequent beneficial effects on the macro-economic indicators. In the Eurozone the forecasts remain negative even for 2013: GDP -0.3% (-1.5% in Italy) and the unemployment rate to increase further to 12.3% (12.0% in Italy). Best GDP forecasts for the other areas: UK +0.7%, Japan +1.6%, the U.S. +1.9%, Korea +2.8%, Mexico +3.4%, Russia +3.7%, India +5.7% and China +8.0%, with unemployment rates stable or in slight improvement. The geographic areas mention have a high relevance such as markets for luxury goods, in some cases strengthened over time (the U.S., Japan, Western Europe), in others more recent development (Russia and above all China) and with growth rates in the near future is likely to lead to subvert positions that until a few years ago seemed unchangeable. In a global market for luxury goods that in 2012 reached a total value of approximately Euro 212 billion, the segment hard luxury (jewelry and watches) is worth approximately Euro 50 billion (23% of the total).

Spending on luxury goods in 2012 showed a trend of lower growth in Europe (around 5%) but in emerging countries (Asia and some Latin American countries) the increases greatly exceed the 10% up to China peak which has registered a growth of about 20% at current rate⁽³⁾. The Damiani Group during the financial year 2012/2013 increased its presence in international markets, but still operates in countries and areas highlighted above with a strongly inhomogeneous weight: its presence has been consolidated in the economically advanced countries (Italy, Japan and the U.S.), which while still maintaining a significant role in the luxury sector recorded performance designed to progressively compress their global weight for the benefit of developing countries, among which China and Russia, where the Group is focusing a significant portion of its investments but currently still have a limited role in terms of turnover.

Therefore, if the macroeconomic environment has a negative impact on performance of the Group during the year, due to the contraction of the markets where it is more rooted (especially Italy), on the other hand it is an opportunity to develop both the wholesale channel that the retail sector in those developing countries in which has focused a substantial flow of resources (financial and human) and where the pay-back period of the investments is accelerated.

² The data are taken from the World Economic Outlook of April 2013 of the International Monetary Fund.

³ The data relating to market luxury goods are taken from the Worldwide Luxury Markets Monitor of May 2013 at Bain & Company and Fondazione Altagamma.

Price fluctuations' risk and availability of raw materials

Among its raw materials the Damiani Group mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors such as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2012/2013 the average price of gold, which is normally considered as being a shelter-good in times of economic and financial crisis and subject to much speculation, continued to record wide fluctuations: in April 2012 the average monthly value was 40.3 euros per gram, then increased to about 43.6 euros per gram in September 2012 and down to 39.5 euros per gram in March 2013. The annual average was 41.3 euros per gram, compared to an annual average in the previous financial year 2011/2012 which was equal to 38.5 euros per gram, an increase of 7.2%.

In the following months (April-May 2013) gold prices significantly decreased, returning to the levels of mid-2011 (values around 35-36 euros per gram) and recording strong daily fluctuations dictated by massive sales. In this context it is difficult to identify the causes and consequently formulate reliable forecasts for the coming months.

The risks related to the price of raw materials and to the strong and sudden fluctuations are amplified by movements in the exchange rate, because some materials have official prices in currencies other than Euro and the same purchases are settled in U.S. dollars (diamonds) and Yen (pearls), while the Group's functional currency is the Euro.

The Damiani Group mitigates this risks as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2013 active contracts relating to purchases of gold were 6 for a total quantity of 102 kilograms and an agreed equivalent of Euro 4,204 thousands); b) purchases finished products from suppliers with a well established relationships and defined agreements for a medium-term time that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the retail price is increased (usually annually) in relation to the increase in the production costs. A medium-long term upward trend in the price of raw materials used in the manufacturing process would inevitably result in a reduction of margins for the Group, as it is not possible to fully pass on the price the increase of the purchase cost.

Exchange rate risks

The Damiani Group's functional currency is the Euro and, therefore, the transactions in other currencies are subject to exchange rate fluctuations, mainly of the US Dollar and Japanese Yen, which are the currencies of financial statements of the foreign subsidiaries located outside the Eurozone. The fluctuations in exchange rates affect the financial result and the financial position of the Group.

Furthermore, some purchases of raw materials and finished products, as described above, are made in US Dollar and Japanese Yen, which exposes them to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk. The notional amount of the currency forward purchases made by the Group during the financial year amounted to a total of Euro 6,863 thousands.

At March 31, 2013 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 2,344 thousands. At March 31, 2012 contracts within the Group were instead equal to a total of Euro 1,735 thousands.

Interest rate risks

Interest rate changes may affect the Group's profitability, implying higher costs for interest on debt.

In order to limit the risk of exposure to fluctuations in interest rates, the Group signed in the past (June 2009) medium-long term loans (for a maximum period of 6 years) for a total amount of Euro 25,000 thousands at a fixed rate (between 4% and 4.5%) and without any additional guarantees and covenants. The residual value at March 31, 2013 of such funding signed by Damiani S.p.A. was Euro 10,000 thousands.

In addition, the Group uses other form of short-term financing (lines of credit and factoring) to cover its financial requirements. These short-term loans are more exposed to fluctuations in interest rates and the credit crunch that may occur in times of crisis like the present. The use of short-term loans during the financial year 2012/2013 is, however, occurred at average rates lower than 3% per year, lower than those paid on medium-long term financing existing (around 4.2%)

To re-balance the overall structure of the debt, the Group is evaluating with leading banks forms of medium-long term financing.

In April 2013, the subsidiary Rocca S.p.A. signed with a national bank a loan agreement to three years (repayable in 36 monthly instalments) for Euro 2,000 thousands, with a rate Euribor 3-months plus a spread of 3%, for the coverage of investment in its retail business. In February 2013, was also signed a loan with Simest S.p.A. for Euro 3,012 thousands at a subsidized rate (in addition to costs related to the underlying bank guarantee required for the amount financed) for the implementation of development programs in China (to cover investments and operating costs to be incurred in the 24 months following the date of conclusion of the contract). The contract provides for reimbursement in seven years (after the first two-year grace period), in half-yearly installments. On June 14, 2013 was granted an interim financing equal to 30% of the total.

Liquidity risk

The financial equilibrium of the Group is mainly linked, on one hand, to the strict control of the financial resources that are absorbed by the working capital linked to operational activities in turn strongly influenced by widespread seasonality with over 40% of the annual revenues concentrated within the third quarter of the financial year, i.e. from October to December, and to a lesser extent, investments made and on the other hand the renewal of debt maturities and the related conditions in the credit market.

The Group manages the liquidity risk through the strict control of the operating working capital, consisting of stock, trade receivables and payables. During the financial year Damiani S.p.A. mainly transferred receivables “pro-solvendo”, for the purpose of optimizing the costs related to the different forms of possible financing. Compared to current use, the Damiani Group has bank credit lines much broader and equal to around Euro 64 million.

As part of the proper balance between resources generated or used by operating activities also includes assessment made by management to bring the inventories to better dimensions related to the current business volumes. These assessments have led the Group to achieve during the financial year some scrapping operations with recovery of valuable raw materials. The actions, in the current market situation, can be beneficial both in terms of brand equity and control of liquidity risk and optimization in the management of working capital.

Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.

With reference to the dealership, the Group deals with a customer base consisting mainly of jewelry shops and distributors and therefore collaterals are not generally required. The Group carries out preliminary information surveys to customers through a specific information company and monitors all customers with the attribution of a specific trust; an automatic control is also operating with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection.

Where there are critical situations with the customers, the credit management department formalizes plans to return while generating a lengthening of the average collection times, minimizes the risk of loss.

This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged (mostly domestically), and the difficult to access to credit can impact the solvency of some clients. The Group shall conduct timely assessment of risks both in the closing of the financial year as well as when preparing the interim reports.

For more details see note 40. Management of the financial risks in the Consolidated financial statements.

Uncertainties

With regard to the dispute between the Tax Agency in Milan and the subsidiary New Mood S.p.A., jointly with the parent company Damiani S.p.A. who opted for the tax consolidation (please note that on December 20, 2012 was formalized by notarial deed, the merger by incorporation of the New Mood S.p.A. in the parent company Damiani S.p.A.), which has been disclosed in the previous financial statements from the year 2009/2010, it provides a further update.

The tax assessment for the year 2004 challenged the tax deductibility of costs of approximately Euro 8,000 thousands relating to the purchase of goods from supplier companies resident in Hong Kong, because it was unconvinced as the conditions of exemption provided for by article 110 paragraph 11 Income Tax Code. On June 28, 2012 the Regional Tax Commission of Milan filed on appeal, confirming the position favorable to the taxpayer New Mood S.p.A. and then the correct deductibility of costs recorded in the year 2004. The judgment became final March 14, 2013, with no further appeals from the Tax Agency.

Since March 2010, the liability was qualified as “possible”, and consequently had never proceeded to book any provisions in the financial statements.

On September 26, 2012 the Provincial Directorate of Como of the Tax Agency has notified the Italian Tax Representative of Damiani International B.V. notice of assessment on the control on value added tax for the year 2007. This check started on March 14, 2012.

The observations in the assessment mainly relate to the non-deductibility of VAT on a lease, in addition to other minor points, resulting in a higher tax, in addition to administrative penalties, for an amount of Euro 155 thousands. In this regard, tax advisors believe unfounded the findings of the Tax Agency and consequently on March 18, 2013 Damiani International B.V. filed an appeal in the Provincial Tax Commission of Como for the cancellation of the assessment. On 17 and 22 May 2013 the Provincial Directorate of Como of the Tax Agency sent a notice of assessment on the same subject (non-deductibility of VAT on lease contracts) with reference to the years 2008, 2009 and 2010. Tax advisors confirm unfounded the findings and therefore the liability has been qualified as “possible” and in the financial statements for the year 2012/2013 has not proceeded to book any provisions.

Human resources and environment

During the twelve months period closed at March 31, 2013 the average number of employees of the Damiani Group was 567 people, in slight reduction compared to the previous financial year in which they were equal to 573.5, divided as follows by category and by geographic area:

LABOUR CATEGORIES	FINANCIAL YEAR 2012/2013	% ON TOTAL	FINANCIAL YEAR 2011/2012	% ON TOTAL	Δ
Executives and Managers	52.0	9.2	57.0	9.9	-5
Clerks	413.0	72.8	407.0	71.0	6
Workers	102.0	18.0	109.5	19.1	-7.5
Total	567.0		573.5		-6.5

EMPLOYEES BY GEOGRAPHICAL AREA	FINANCIAL YEAR 2012/2013	% ON TOTAL	FINANCIAL YEAR 2011/2012	% ON TOTAL	Δ
Italy	445.5	78.6	453.0	79.0	-7.5
Americas	17.5	3.1	23.0	4.0	-5.5
Japan	68.0	12.6	53.0	9.2	15
Rest of the World	36.0	6.3	44.5	7.8	-8.5
Total	567.0		573.5		-6.5

The workforce at March 31, 2013 was made of 69.1% women (including n. 14 executives and managers) and the average age of the human resources was 41 years.

During the financial year there were not recorded any cases of workplace accidents that resulted in serious or extremely serious injuries to personnel nor there have been any complaints or claims regarding work-related illnesses involving employees or former employees or any legal proceedings for mobbing for which the Group has been declared responsible.

The actions taken during the financial year 2012/2013 which affected the staff were previously shared, where necessary, with the trade unions.

With regard to the environment, the activities of Damiani Group do not entail significant impact on the habitat.

Key Data

SHARE CAPITAL	March 31 2013	March 31 2012
Number of shares issued	82,600,000	82,600,000
Par value per share	0.44	0.44
Share capital	36,344,000	36,344,000
OWNERSHIP	% on shares issued	% on shares issued
Leading Jewels S.A. (1)	58.49%	56.76%
Sparkling Investment S.A. (1)	0.32%	1.45%
Guido Grassi Damiani	5.99%	5.89%
Giorgio Grassi Damiani	6.11%	6.11%
Silvia Grassi Damiani	5.30%	5.31%
Damiani S.p.A. (own shares) (2)	6.73%	6.74%
Market	17.06%	17.74%

Shares held by the subjects indicated by art. 79 Legislative Decree n. 58/98		
INDIVIDUAL	OFFICE HELD	NUMBER OF SHARES
Guido Grassi Damiani (total n. 59,078,736) (3)	Director	4,943,850
Giorgio Grassi Damiani	Director	5,047,371
Silvia Grassi Damiani	Director	4,379,371
Strategic executives		12,000

(1) Companies traceable to Damiani Family

(2) The Shareholders' Meeting of July 26, 2012 approved the authorization, for the part not executed of the resolution of the Shareholders' Meeting of July 27, 2011, for the purchase of own shares up to a maximum of n. 16,250,000 ordinary shares of Damiani S.p.A., within a period of 18 months from the date of the Shareholders' resolution. As of March 31, 2013 the own shares in portfolio were n. 5,556,409, equal to 6.73% of the share capital.

(3) As controlling shareholder to Mr. Guido Grassi Damiani are traceable the shares owned by: Leading Jewels S.A., Sparkling Investment S.A. and the own shares of Damiani S.p.A.

Consolidated economic/financial data

MAIN ECONOMIC DATA (in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012	CHANGE	CHANGE %
Revenues from sales and services	137,605	151,308	(13,703)	-9.1%
Total revenues	137,823	151,599	(13,776)	-9.1%
Cost of production	(140,554)	(155,908)	15,354	-9.8%
EBITDA (*)	(2,731)	(4,309)	1,578	36.6%
EBITDA %	-2.0%	-2.8%		
Depreciation and amortization	(3,575)	(3,047)	(528)	-17.3%
Operating income	(6,306)	(7,356)	1,050	14.3%
Operating income %	-4.6%	-4.9%		
Net financial incomes (expenses)	(2,220)	(2,112)	(108)	-5.1%
Result before taxes	(8,526)	(9,468)	942	9.9%
Net result of the Group	(8,563)	(11,939)	3,376	28.3%
Basic Earnings (Losses) per Share	(0.11)	(0.15)		
Personnel cost	(27,251)	(26,054)	(1,197)	-4.6%
Average number of employees (**)	567.0	573.5	(6.5)	-1.1%

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure. Therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

(**) Average number of employees for the financial year 2012/2013 and 2011/2012.

BALANCE SHEET DATA (In thousands of Euro)	Situation at March 31 2013	Situation at March 31 2012	CHANGE
Fixed Assets	49,191	50,015	(824)
Net working capital	67,553	71,956	(4,403)
Non current Liabilities	(6,622)	(7,205)	583
Net Capital Invested	110,122	114,766	(4,644)
Shareholders' Equity	77,159	86,178	(9,019)
Net Financial position (*)	32,963	28,588	4,375
Sources of Financing	110,122	114,766	(4,644)

(*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

In the following table there is given the reconciliation between the result for the financial year closed at March 31, 2013 and the net equity at March 31, 2013 of the Group parent company with the same figure in the consolidated accounts:

(in thousands of Euro)	Situation at March 31 2013	
DESCRIPTION	NET EQUITY	NET RESULT
Shareholders' Equity of Damiani S.p.A.	100,009	(3,241)
1. Elimination of the book value of consolidated investments: - Difference between book value and shareholders' equity	(11,160)	(7,387)
TOTALE	(11,160)	(7,387)
2. Elimination of the transaction between consolidated companies: Infra-group profits included in the value of inventories		
- Gross value	(18,320)	3,011
+ Deferred taxes	4,048	(946)
TOTAL	(14,272)	2,065
Shareholders' Equity and net profit belonging to the Group	74,577	(8,563)
Shareholders' Equity and net profit belonging to the Minorities	2,582	(199)
Shareholders' Equity and net profit belonging to the Shareholders	77,159	(8,762)

Comments on the main economic and financial data of the Group

The consolidated financial statements at March 31, 2013 have been prepared on a going concern basis because, despite the difficulties reflected by the economic loss, the Group believes that there is no uncertainty about the ability to continue its activity for the foreseeable future, even considering the actions taken, the full implementation of which is underway, to adapt to changing trends of the target market. In particular, the Group has increased its presence in the emerging countries, in both the wholesale and the retail channel, in order to benefit from the high growth rates in the market of luxury goods that these countries are experiencing while on the contrary, the more mature markets including Italy, are stagnating. At the same time, the internal review of all processes, production and distribution, accomplished through reorganization measures implemented during the financial year, generated structural efficiencies in operating costs that have occurred already partially during the second half of the financial year 2012/2013 and whose full benefits will be visible in the next financial year 2013/2014.

In the following table is shown the consolidated income statement for the financial year 2012/2013 and for comparison to the financial year 2011/2012:

INCOME STATEMENT (in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012	CHANGE	CHANGE %
Revenues from sales and services	137,605	151,308	(13,703)	-9.1%
Other revenues	218	291	(73)	-25.1%
Total revenues	137,823	151,599	(13,776)	-9.1%
Cost of production	(140,554)	(155,908)	15,354	-9.8%
EBITDA*	(2,731)	(4,309)	1,578	36.6%
EBITDA %	-2.0%	-2.8%		
Depreciation and amortization	(3,575)	(3,047)	(528)	-17.3%
Operating income	(6,306)	(7,356)	1,050	14.3%
Operating income %	-4.6%	-4.9%		
Net financial incomes (losses)	(2,220)	(2,112)	(108)	-5.1%
Result before taxes	(8,526)	(9,468)	942	9.9%
Result before taxes %	-6.2%	-6.2%		
Taxes	(236)	(2,608)	2,372	91.0%
Net result	(8,762)	(12,076)	3,314	27.4%
Net result %	-6.4%	-8.0%		
Minorities Interests	(199)	(137)	(62)	n.m.
Net result of the Group	(8,563)	(11,939)	3,376	28.3%
Net result of the Group %	-6.2%	-7.9%		

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure. Therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

In detail, the components of the financial statements recorded the trends described below:

REVENUES

Consolidated revenues from sales and services for financial year 2012/2013 decreased of Euro 13,703 thousands (-9.1%) compared to the financial year 2011/2012, from Euro 151,308 thousands to Euro 137,605 thousands.

The trend in consolidated revenues is attributable to the increase in the retail channel (+8.2%), and in particular the very positive performance recorded by Damiani single-brand boutiques in Italy and abroad (overall +21.7%), demonstrating the appreciation by the end consumer of our collections, as the contraction of the wholesale channel (-16.7%), mainly affected by lower sales in the domestic market, in which the retailer is very cautious in purchasing persisting great uncertainty about the trend in consumption.

The table below shows the total revenues divided by sales channel.

REVENUES BY SALES CHANNEL (In thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012	CHANGE	CHANGE %
Retail	50,142	46,330	3,812	8.2%
Percentage on total revenues	36.4%	30.6%		
Wholesale	87,462	104,978	(17,516)	-16.7%
Percentage on total revenues	63.5%	69.2%		
Total revenues from sales and services	137,605	151,308	(13,703)	-9.1%
Percentage on total revenues	99.8%	99.8%		
Other revenues	218	291	(73)	-25.1%
Percentage on total revenues	0.2%	0.2%		
Total Revenues	137,823	151,599	(13,776)	-9.1%

The share of retail revenues increases with a percentage of 36.4%, six percentage points more than in the previous financial year. Even at constant exchange rates, revenues from consolidated sales decrease (-9.6%), with the two channels which respectively record: retail +7.3% and wholesale -17.0%.

In the fourth quarter (January-March 2013) revenues amounted to Euro 30,122 thousands, a decrease of 8.9% compared to the corresponding quarter of the previous financial year (Euro 33,078 thousands), in line with the yearly trend.

Cost of production

Overall the total net costs of production for the financial year ended March 31, 2013 were equal to Euro 140,554 thousands, a decrease of Euro 15,354 thousands (-9.8%) compared to the financial year ended March 31, 2012 (Euro 155,908 thousands).

In detail, the trend of costs in the financial year 2012/2013 was the following:

- Cost of raw materials and other materials, including purchase of finished products, was Euro 75,284 thousands, a decrease of -12.1% compared to the twelve period ended March 31, 2012 (Euro 85,687 thousands). The reduction is related to lower revenues recorded in the financial year 2012/2013, and the different mix of sales by channel and by product category (Group brands and third party brands) which correspond to different acquisition costs and margins.
- Costs for services amounted to Euro 40,713 thousands, a decrease of -10.4% compared to the previous financial year (Euro 45,445 thousands); the trend of these costs is influenced by a generalized contraction on the different components as a result of the savings resulting from the completion of the aforementioned reorganization actions. These structural efficiencies will manifest their full effect in the financial year 2013/2014.
- Personnel costs amounted to Euro 27,251 thousands an increase of +4.6% compared to the previous financial year (Euro 26,054 thousands), as a result of the actions needed to support business areas in development (particularly retail and abroad) that have requested the addition of new resources with an higher average pro-capita cost. In the financial year ended March 31, 2013 the average number of Group employees was of 567 units, in slight decrease compared to the previous financial year (573.5 units), as a result of the implementation of the aforementioned reorganization projects.
- The Other net operating incomes of Euro 2,694 thousands compared to a positive balance of Euro 1,278 thousands in the financial year 2011/2012. The balance of the financial year 2012/2013 includes both the allowance for loss of the commercial goodwill that Damiani S.p.A. received for the issuance of a store, as well as the net effects of the provisions for returns on revenues, given the drop in the volume of returns from wholesale customers. Even the balance for the financial year ended March 31, 2012 included a net positive impact related to a similar adjustment to the provision for returns on revenues. In addition, in both years compared to the item includes provisions for risks and charges for litigation and reorganization.

EBITDA

The trend of revenues and costs of production described above results in a negative EBITDA for the financial year ended March 31, 2013 of Euro 2,731 thousands, an improvement compared to the operating gross result of the previous financial year (loss of Euro 4,309 thousands) to Euro 1,578 thousands..

Depreciation, amortization and devaluation

In the financial year ended March 31, 2013, the amortization and write-downs amounted to Euro 3,575 thousands, an increase of Euro 528 thousands compared to the previous twelve-months period (Euro 3,047 thousands). This increase is attributable to Euro 406 thousands to the impairment of the net book values of fixed assets related to a directly managed store closed during the year because it was unprofitable and non-strategic for the Group.

Operating result

In the financial year closed at March 31, 2013, due to the factors described above, the operating result was negative for Euro 6,306 thousands compared to a loss for Euro 7,356 thousands in the financial year 2011/2012, resulting in an improvement of Euro 1,050 thousands.

Net financial incomes (expenses)

For the financial year ended March 31, 2013 net financial expenses amounted to Euro 2,220 thousands, an increase compared to the prior year when net financial expenses amounted to Euro 2,112 thousands. This increase is mainly due to higher foreign exchange losses.

Result before taxes

In the financial year ended March 31, 2013 the pre-tax result was negative and amounted to Euro 8,526 thousands, an improvement over the twelve months period ended March 31, 2012 of Euro 942 thousands (pre-tax loss in the previous year was equal to Euro 9,468 thousands).

Current, prepaid and deferred taxes

In the financial year ended March 31, 2013 income taxes had a negative impact on the consolidated result of Euro 236 thousands, while in the financial year 2011/2012 the negative impact was equal to Euro 2,608 thousands. The lowest value in the financial year 2012/2013 compared to the previous year is mainly due to the more limited release of deferred tax assets recognized in prior years in respect of temporary differences between the book value and the tax value.

With reference to the provisions of Legislative Decree n. 344 of December 12, 2003 which introduced the tax regime of the Group called "fiscal consolidation", Damiani S.p.A. formalized on September 14, 2012 to the electronic service of the Tax Agency the renewal of the national consolidated taxation for the period 2013-2015 which includes its subsidiaries New Mood S.p.A., Alfieri & St. John S.p.A., Rocca S.p.A., Damiani Manufacturing S.r.l. and Laboratorio Damiani S.r.l. After the completion of the merger of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. in Damiani S.p.A., on January 4, 2013 we reported to the Tax Agency the cessation of activity of the merged companies. We also note that from January 1, 2013 has been activated the regime of Group VAT (Damiani S.p.A., Rocca S.p.A. and Laboratorio Damiani S.r.l.) pursuant to Presidential Decree 633/72 article 73, paragraph 3, DM 13/12/1979.

Net Result

The consolidated net result attributable to the Group for the financial year closed at March 31, 2013 was negative for Euro 8,563 thousands, an improvement of Euro 3,376 thousands compared to the financial year ended March 31, 2012 (net loss of Euro 11,939 thousands).

Balance sheet and financial situation

The following table shows the consolidated balance sheet of Damiani Group at March 31, 2013 compared to March 31, 2012.

BALANCE SHEET DATA (In thousands of Euro)	Situation at March 31 2013	Situation at March 31 2012	CHANGE
Fixed Assets	49,191	50,015	(824)
Net working capital	67,553	71,956	(4,403)
Non current Liabilities	(6,622)	(7,205)	583
Net Capital Invested	110,122	114,766	(4,644)
Shareholders' Equity	77,159	86,178	(9,019)
Net Financial position (*)	32,963	28,588	4,375
Sources of Financing	110,122	114,766	(4,644)

(*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

Fixed Assets

At March 31, 2013 the Consolidated fixed assets amounted to Euro 49,191 thousands, a decrease compared to March 31, 2012 of Euro 824 thousands. The change was mainly due to drop in the values of the intangible and tangible fixed assets as a consequence of the amortization process (and impairment losses), for a total of Euro 3,575 thousands, compared to Euro 3,385 thousands of industrial investments.

Net Working Capital

At March 31, 2013 the Net working capital amounted to Euro 67,553 thousands, a decrease compared to March 31, 2012 of Euro 4,403 thousands. The change was mainly due to a better balance of the components of working capital with significant decreases in both trade receivables and inventories.

Non-current liabilities

At March 31, 2013 the non-current liabilities amounted to Euro 6,622 thousands, a decrease of Euro 583 thousands compared to March 31, 2012, mainly to the use of provisions booked in previous years.

Net equity

At March 31, 2013 the Net Equity amounted to Euro 77,159 thousands, a decrease of Euro 9,019 thousands compared to March 31, 2012. The change was due to the following items:

- Net loss of the financial year for Euro 8,762 thousands (including minorities);
- Increase of stock option reserve for the provision under IFRS 2 related to the stock option plan implemented on April 2011 for Euro 191 thousands;
- Other negative changes in reserves for a total of Euro 462 thousands, mainly due to translation differences;
- Net transfer of treasury shares for a total of Euro 15 thousands.

Net financial position

The following table shows the composition of net financial position at March 31, 2013 and its evolution in relation to March 31, 2012:

NET FINANCIAL POSITION ^(*) (in thousands of Euro)	Situation at March 31 2013	Situation at March 31 2012	CHANGE
Current portion of loans and financing	5,500	6,075	(575)
Drawdown of credit lines, short term financing and others	21,493	8,617	12,876
Current portion of loans and financing with related parties	1,042	975	67
Current financial indebtedness	28,035	15,667	12,368
Non current portion of loans and financing	4,500	10,000	(5,500)
Non current portion of loans and financing with related parties	8,263	9,579	(1,316)
Non current financial indebtedness	12,763	19,579	(6,816)
Total gross financial indebtedness	40,798	35,246	5,552
Financial current assets	(147)	-	(147)
Cash and cash equivalents	(7,688)	(6,658)	(1,030)
Net Financial Position ^(*)	32,963	28,588	4,375

(*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

The Group at March 31, 2013 has a net debt of Euro 32,963 thousands. Compared to December 31, 2012 (the date of the third quarter of the financial year) the net financial position shows an improvement of Euro 3,769 thousands, while it is down by Euro 4,375 thousands compared to the amount at the end of the previous financial year when the balance was Euro 28,588 thousands.

It should be noted that the net financial position at March 31, 2013 includes Euro 9,305 thousands as a financial debt to related parties for real estate transactions accounted as sale and lease-back.

Capital Expenditures

During the financial year ended March 31, 2013 the Group carried out capital expenditures of Euro 3,385 thousands compared to Euro 2,423 thousands booked in the previous financial year.

These investments were mainly directed to the retail channel, even for new stores abroad activated.

Key economic data by geographical segments

Damiani Group operates in a single operating segment in which there aren't any significant differences that could be considered as a basis for constituting separate business units. Therefore, the geographical dimension, featuring by the segments described afterwards, is subject of periodic observation and revision by the Directors as well as within the operational responsibilities of Group management. In accordance with this operating model, the segment information is provided, in compliance with the IFRS 8. The segments include:

- i) The Italy segment includes revenues and operating costs of the parent company Damiani S.p.A. and its direct subsidiaries that operate in Italy;
- ii) The Americas segment includes revenues and operating costs of the subsidiary Damiani USA Corp. based in New York and that distributes the Group products in the whole continent and the Mexican subsidiary Damiani Mexico S.A. de CV;
- iii) The Japan segment includes revenues and operating costs of the subsidiary Damiani Japan K.K. that operates in Japan;
- iv) The Rest of the World segment includes revenues and operating costs of the other subsidiaries that operate and sell in all those other countries which are not included in the geographical areas that are listed above.

During the financial year 2012/2013 Damiani Group implemented reorganizational actions that resulted in the reallocation of operational activities within the Italian and foreign subsidiaries. In order to maintain comparability between periods in the economic information by geographical segments we proceed also using data taken from internal management systems of the Group, in order to properly allocate revenues and operating costs on the geographical areas that receive/use these components.

In the following table are shown revenues by geographical sectors in the financial year ended March 31, 2013 and in the previous financial year.

REVENUES BY GEOGRAPHICAL AREA (In thousands of Euro)	FINANCIAL YEAR 2012/2013	% OF TOTAL	FINANCIAL YEAR 2011/2012	% OF TOTAL	CHANGE %
ITALY	96,366	69.9%	108,423	71.5%	-11.1%
Revenues from sales and services	96,179		108,171		
Other revenues	186		252		
REST OF THE WORLD	23,561	17.1%	26,615	17.6%	-11.5%
Revenues from sales and services	23,541		26,579		
Other revenues	20		36		
JAPAN	12,597	9.1%	9,666	6.4%	30.3%
Revenues from sales and services	12,585		9,663		
Other revenues	12		3		
AMERICAS	5,299	3.8%	6,895	4.5%	-23.1%
Revenues from sales and services	5,299		6,895		
Other revenues	-		-		
Total revenues	137,823	100.0%	151,599	100.0%	-9.1%

Compared to the previous financial year revenues in **Italy** decreased (-11.1%), affected by the economic downturn which has characterized the entire period and that generates in the wholesale channel (-18% compared to the previous financial year) a very cautious approach in purchases by retailers, compared to a positive trend in the retail channel (overall +4%, but in the single-brand Damiani stores the growth was +26%), which demonstrates once again the appreciation from the final consumers of the Group's offer.

Abroad, there has been a significant increase in revenues in **Japan**, +30.3% (+27.3% at constant exchange rates), which recognizes the strategic orientation adopted by greater presence in the retail segment for the brand Damiani, that amplifies its visibility.

Revenues in the **Rest of the World** decreased, -11.5% (-12.1% at constant exchange rates), affected by the activities of renewal of distribution agreements with a number of partners, which has temporarily slowed down activities, and the closure of other agreements as part of the review of the development strategy in some countries.

More pronounced was the reduction in the **Americas**, -23.1% (-28.2% at constant exchange rates), as a result of the reorganization of the subsidiary which led to a strong reduction of customer served, with the aim of gaining efficiency in financial terms.

Overall in the financial year 2012/2013 the foreign revenues reached 30% of the total, with an increasing weight of around 1.5 percentage points compared to the previous financial year.

The following table shows the EBITDA breakdown by geographical areas in the financial year ended March 31, 2013 and in the previous financial year.

The following table shows the EBITDA breakdown by geographical areas in the financial year ended March 31, 2013 and in the previous financial year.

EBITDA BY GEOGRAPHICAL AREA (in thousands of Euro)	FINANCIAL YEAR 2012/2013	% OF TOTAL	FINANCIAL YEAR 2011/2012	% OF TOTAL	CHANGE
ITALY	136	-5.0%	2,716	-63.0%	(2,580)
REST OF THE WORLD	1,533	-56.1%	154	-3.6%	1,379
JAPAN	(2,544)	93.2%	(2,623)	60.9%	79
AMERICAS	(1,856)	68.0%	(4,556)	105.7%	2,700
Consolidated EBITDA	(2,731)	100.0%	(4,309)	100.0%	1,578
% on Revenues	-2.0%		-2.8%		

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure. Therefore it must not be considered as an alternative measure for evaluating Group's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

In terms of EBITDA, **Italy** recorded a decrease of Euro 2,580 thousands related to the reduction of sales in the wholesale channel, only partially offset by the savings in the cost structure.

EBITDA in the **Rest of the World** increased as a result of the action of cost saving.

Gross operating result of **Japan** recorded a slight improvement as the sustained growth in revenues was necessarily supported by a corresponding increase in costs.

In the **Americas** the restructuring actions led to an improvement in EBITDA, although penalizing the total turnover.

Related parties transactions

The operations carried out by the Damiani Group with related parties are mainly of real estate nature (property leasing for shops and offices). Data concerning dealings of the Group with related parties in the financial year ended March 31, 2013 and the previous financial year are displayed hereunder (for further details see note 33 – Related parties transactions).

(in thousands of Euro)	FINANCIAL YEAR 2012/2013		BALANCE AT MARCH 31 2013		
	NET OPERATING COSTS	FINANCIAL EXPENSES	OTHER CURRENT ASSETS	FINANCIAL DEBTS (INCLUDING LEASING)	TRADE PAYABLES
Total with related parties	881	(911)	788	(9,305)	(3,263)
Total from Financial Statements	(144,129)	(2,534)	10,799	(40,798)	(45,604)
% age weight	-1%	36%	7%	23%	7%

(in thousands of Euro)	FINANCIAL YEAR 2011/2012		BALANCE AT MARCH 31 2012		
	NET OPERATING COSTS	FINANCIAL EXPENSES	OTHER CURRENT ASSETS	FINANCIAL DEBTS (INCLUDING LEASING)	TRADE PAYABLES
Total with related parties	(2,433)	(1,012)	1,166	(10,554)	(761)
Total from Financial Statements	(158,955)	(2,487)	11,788	(35,246)	(51,180)
% age weight	2%	41%	10%	30%	1%

Non-recurring, atypical and/or unusual transactions

In the financial year 2012/2013 there were no positions or transactions deriving from atypical and/or unusual operations as defined in the Consob ruling n. 15519 as of July 27, 2006.

As non-recurring operation it should be noted:

- Compensation for loss of goodwill pursuant to article 34 of law 392/78 received by Damiani S.p.A. for the issuance of commercial premises in Milan, owned by related party, for an amount of Euro 1,955 thousands (gross of the related tax effects). The amount was recorded in other operating income.

Significant events during the financial year

During the financial year 2012/2013 there have been some relevant facts for the Damiani Group in terms of organization and corporate structure. These facts have been already described in detail previously and are listed below: i) establishment of the Chinese subsidiary Damiani Shanghai Trading Co. Ltd, fully owned by Damiani S.p.A. (August 2012); ii) the merger of the subsidiaries New Mood S.p.A. and Alfieri & St. John S.p.A. in the parent company Damiani S.p.A. (December 2012); iii) establishment of the Korean subsidiary Damiani Korea Co. Ltd, fully owned by Damiani S.p.A. (March 2013).

Other significant events that have characterized the activity of the Damiani Group for the financial year ended March 31, 2013 are listed below.

In May it has been opened the first mono-brand Damiani boutique in New Delhi inside the luxury Oberoi Hotel, where there are already international prestigious brands of luxury. This opening is also the start for the Group's penetration of the Indian market, characterized by high relief and potential worldwide.

From July 1 until August 31, 2012 Damiani started a charitable activity to help the people victims of the earthquake in Emilia, with the aim of raising funds to support the no profit organization "Vola nel Cuore", an association that helps children. The payment of the amount generated by the initiative happened in November 2012.

In July Damiani won the international prix Robb Robert Best of the best 2012 with the bracelet Burlesque, a masterpiece in white gold, white and black diamonds and rubies.

In September, the Group started operations of a new store Damiani in Hong Kong in Pacific Place in the Harvey Nichols luxury mall. For the Group is the second opening in Hong Kong after the first store in the shopping mall Elements.

On October 14, 2012 the new spot Damiani was broadcast on TV, on the main national networks. The spot offers the same atmosphere that also characterized the press campaign.

From 7 to 26 November 2012 Damiani participated in the exhibition "Exhibitaly – Italian Excellence" in Moscow, sponsored by the Presidency of Council on the excellence of Made in Italy. The project is divided into four events dedicated to the design, fashion, technology and food.

Damiani participates in the section on design with two jewelry that won two Oscars in the past: the earrings Blue Moon and the bracelet Onda Marina.

Damiani has created the necklace "Aro necklace" that appears in the second part of the saga Twilight – The breaking dawn 2.

With effect from October (and in some cases from November), some leases relating to buildings used by the Group (in particular office in Milan and Valenza), owned by related parties, have been resolved in advance. Such actions fall within the scope of the reorganization being implemented within the Group, which will lead to a concentration of facilities in a smaller number of properties in order to generate efficiencies in processes and cost savings.

In December 2012 a flagship Damiani in Singapore Scotts Square, the shopping center in the city where there are major international luxury brand, was opened in franchising.

In January 2013, a new store Damiani in franchising was opened in Suzhou, the metropolis of more than 4 million people located in Eastern China with a strong tourism. The boutique is located within Suzhou Tower shopping Mall, the most important and prestigious mall of the city, where there are large international luxury brands. With this opening, the Group continues its expansion in Greater China and to Suzhou represents the seventh store.

Cruciani and Damiani, two maison of the excellence of made in Italy, collaborated during the second half of the financial year for the production of bracelets for Valentine's Day, limited edition, embellished with diamonds and silver.

On March 6, 2013 was inaugurated the new Damiani boutique in franchising in Moscow Stolesnikov, main street of the luxury of the Russian capital, confirming the Group's expansion in the area and the appreciation of its products.

Significant events after the end of the financial year

After having obtained the authorization by the Indian competent body in November 2012, on April 15, 2013 resulted in the transfer of 51% of the share capital of Damiani India Pvt. Ltd from the Indian partner, owner of all the shares, to Damiani International B.V., a subsidiary 100% owned by Damiani S.p.A. The transfer of n. 357,000 shares (at a price of 10 Indian Rupees each) resulted in the Group an outlay of Indian Rupees (INR) of 3,570,000, amounting to approximately Euro 51 thousands. In the following days Damiani International B.V. subscribed to a capital increase, the share of its competence, which resulted in an additional outlay of INR 14,779,800 (equivalent to approximately Euro 210 thousands). The Indian company currently operates a flagship store Damiani in New Delhi at the prestigious Oberoi Hotel.

From 14 to 20 April 2013 the Damiani Group has organized, with the prestigious collaboration of the diva Sophia Loren, four important events in Singapore, Beijing, Shanghai and Honk Kong to promote the Damiani brand and its prestigious collections, excellence of Made in Italy, in Asia, meeting with clients, and local media and personalities and getting general appreciation.

In May 2013 Damiani won the Andrea Palladio International Jewellery Award for Best communication campaign 2012/2013, sponsored by the Vicenza Fair and dedicated to excellence in design, production and communication in jewelry.

In May 2013 Damiani opened its first DOS in Beijing, at Beijing Charter, the new mall dedicated to luxury located in the west of Chinese metropolis.

Also in May has been opened in Turin, in the central Via Roma, a new store with the signboard Rocca Tr3nd, the new young retail concept that savor the luxury (jewelry and watches) in an accessible way. After the recent openings within the Coin department stores in Milan and Rome, Turin is the third store in Italy, and the first on the road, with the signboard Rocca Tr3nd.

On 17 and 22 May 2013, the Provincial Directorate of Como Tax Agency sent a notice of assessment to Damiani International B.V. with respect to a tax audit initiated in early 2012 in the field of non-deductible VAT on leases, for the years 2008, 2009 and 2010. The tax advisors believe to be unfounded the findings of the Tax Agency and therefore the liability is qualified as "possible" and in the financial statements 2012/2013 has not proceeded to book any provisions.

Business Outlook

The performance of the Damiani Group in the financial year 2012/2013 is a direct result of weak demand on the wholesale channel in Italy, the main market of the Group's. This negative trend contrasts with the positive performance in the retail channel, both in Italy and abroad, as well as encouraging signs from foreign countries in which the Group has strategically focused its investments. These signals, generally in line with expectations, bode well for the near future of the Group but to their relative weight, have not yet been able, during the financial year ended, to fully offset the adverse consequences arising from the crisis of the domestic consumption which has expressed its full gravity at wholesale customers, discouraging purchases.

In addition, the actions carried out during the financial year 2012/2013 to make logistic and administrative processes more efficient, simplifying and shortening the chain of production-distribution of the Group have not yet shown the full benefits at the level of the consolidated income statement.

The further implementation of the distribution strategy, geared more to the retail channel and to foreign markets, and the full evidence of structural actions on the operating costs, even confirmed in the start of the new financial year, leads us to believe that in 2013/2014 the Damiani Group will also see appreciable financial results as well as achieved in commercial, product and market.

Under article 3 of Consob Resolution n. 18079 of January 20, 2012 we inform you that Damiani S.p.A. uses the derogation provided for article 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation n. 11971/99 and subsequent changes and additions.

Milan, June 14, 2013

For the Board of Directors
President & CEO
Mr. Guido Grassi Damiani

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)	NOTE	March 31, 2013	March 31, 2012
NON-CURRENT ASSETS			
Goodwill	4	4,984	4,984
Other Intangible Assets	5	4,930	5,227
Property, plant and equipment	6	16,907	17,460
Investments	7	167	167
Financial receivables and other non current assets	8	4,349	3,924
Deferred tax assets	9	17,854	18,253
TOTAL NON CURRENT ASSETS		49,191	50,015
CURRENT ASSETS			
Inventories	10	83,434	87,791
Trade receivables	11	25,126	29,320
Tax receivables	12	1,373	1,769
Other current assets	13	10,799	11,788
<i>of which towards related parties</i>		788	1,166
Current financial assets	14	147	-
Cash and cash equivalents	15	7,688	6,658
TOTAL CURRENT ASSETS		128,567	137,326
TOTAL ASSETS		177,758	187,341
GROUP SHAREHOLDERS' EQUITY			
Share Capital		36,344	36,344
Reserves		46,796	58,906
Group net income (loss) for the period		(8,563)	(11,939)
TOTAL GROUP SHAREHOLDERS' EQUITY		74,577	83,311
NON CONTROLLING INTEREST			
Non controlling interest share capital and reserves		2,781	3,004
Non controlling interest net income (loss) for the period		(199)	(137)
TOTAL NON CONTROLLING INTEREST		2,582	2,867
TOTAL SHAREHOLDERS' EQUITY	16	77,159	86,178
NON CURRENT LIABILITIES			
Finanziamenti a medio-lungo termine	17	12,763	19,579
<i>of which towards related parties</i>		8,263	9,579
Employees' Termination Indemnities	18	4,208	4,011
Deferred Tax liabilities	9	547	843
Provision for risks and charges	19	1,296	1,819
Other non current liabilities	20	571	532
TOTAL NON CURRENT LIABILITIES		19,385	26,784
CURRENT LIABILITIES			
Current portion of long term financial debts	17	6,542	7,050
<i>of which towards related parties</i>		1,042	975
Trade payables	21	45,604	51,180
<i>of which towards related parties</i>		3,263	761
Short term borrowings	22	21,493	8,617
Income tax payables	23	1,993	2,151
Other current liabilities	24	5,582	5,381
TOTAL CURRENT LIABILITIES		81,214	74,379
TOTAL LIABILITIES		100,599	101,163
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		177,758	187,341

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)	NOTE	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Revenues from sales and services		137,605	151,308
Other revenues		218	291
TOTAL REVENUES	25	137,823	151,599
Cost for raw materials and consumables	26	(75,284)	(85,687)
Cost of services	27	(40,713)	(45,445)
<i>of which towards related parties</i>		(1,092)	(2,197)
Personnel cost	28	(27,251)	(26,054)
Other net operating (charges) incomes	29	2,694	1,278
<i>of which towards related parties</i>		1,973	(236)
<i>of which not recurring</i>		1,955	-
Amortization, depreciation and write downs	30	(3,575)	(3,047)
TOTAL OPERATING EXPENSES		(144,129)	(158,955)
OPERATING INCOME (LOSS)		(6,306)	(7,356)
Financial Expenses	31	(2,534)	(2,487)
<i>of which towards related parties</i>		(911)	(1,012)
Financial Incomes	31	314	375
INCOME (LOSS) BEFORE INCOME TAXES		(8,526)	(9,468)
Income Taxes	32	(236)	(2,608)
NET INCOME (LOSS) FOR THE PERIOD		(8,762)	(12,076)
Attributable to:			
Equity holders of the parent		(8,563)	(11,939)
Non controlling interests		(199)	(137)
Basic Earnings (Losses) per Share (*)		(0.11)	(0.15)
Diluted Earnings (Losses) per Share (*)		(0.11)	(0.15)

(*) Earnings (losses) per share are calculated by dividing the net result for the period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares in circulation during the period.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Net income (Loss) for the period	(8,762)	(12,076)
Gain (Losses) on cash flow hedges	3	20
Tax Effect	(1)	(6)
Gain (Losses) on exchange differences on translating foreign operations	(673)	529
Tax Effect	208	411
Total Comprehensive Income (loss) for the period	(9,225)	(11,122)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Euro)	Share Capital	Share Premium Reserve	Legal Reserve	Cash flow hedging reserve	Shareholders payment reserve	Stock option reserve	Own Shares	Other reserves	Net income (Loss) for the period	Group shareholder's equity	Minorities shareholder's equity	Total shareholder's equity
Balances at March 31, 2011	36,344	69,858	2,434	(16)	8,618	92	(8,225)	(871)	(14,525)	93,709	1,397	95,106
Allocation of the result for the period									14,525	-		-
Other comprehensive income(loss)				14				940	(11,939)	(10,985)	(137)	(11,122)
Stock option						182				182		182
Capital increase												
(Purchase)/Sale of own shares						(10)	76			339	1,607	1,946
										66		66
Balances at March 31, 2012	36,344	69,858	2,434	(2)	8,618	264	(8,149)	(14,117)	(11,939)	83,311	2,867	86,178
(in thousands of Euro)	Share Capital	Share Premium Reserve	Legal Reserve	Cash flow hedging reserve	Shareholders payment reserve	Stock option reserve	Own Shares	Other reserves	Net income (Loss) for the period	Group shareholder's equity	Minorities shareholder's equity	Total shareholder's equity
Balances at March 31, 2012	36,344	69,858	2,434	(2)	8,618	264	(8,149)	(14,117)	(11,939)	83,311	2,867	86,178
Allocation of the result for the period								(11,939)	11,939	-		-
Other comprehensive income(loss)				2				(379)	(8,563)	(8,940)	(285)	(9,225)
Stock option						191				191		191
(Purchase)/Sale of own shares							15			15		15
Balances at March 31, 2013	36,344	69,858	2,434	0	8,618	455	(8,134)	(26,434)	(8,563)	74,577	2,582	77,159

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousand of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES		
Net income (loss) for the period	(8,762)	(12,076)
<i>Adjustments to reconcile the income (loss) for the period to the cash flow generated (absorbed) by operations:</i>		
Amortization, depreciation and write downs	3,575	3,047
Costs/(revenues) for stock option	206	248
(Gains)/Losses from sale of non current assets	105	(1)
Accrual (releases) of allowance for doubtful accounts	247	892
Accrual (releases) of provision for risks and charges	325	388
Changes in the fair value of financial instruments	(71)	(202)
Accrual to employees' termination indemnity	503	430
Employees' termination indemnity payments	(306)	(744)
Changes in the deferred tax assets and liabilities	103	1,313
	(4,075)	(6,705)
<i>Changes on operating assets and liabilities</i>		
Trade receivables	3,947	1,020
Inventories	4,357	8,401
Trade payables	(5,576)	(3,493)
Tax receivables	183	1,019
Income tax payables	(158)	(274)
Provision for risks and charges	(848)	-
Other current assets and current and non current liabilities	1,153	1,447
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES (A)	(1,017)	1,415
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES		
Disposal of intangible assests and property, plant and equipment	9	35
Purchase of property, plant and equipment	(2,891)	(2,319)
Purchase of intangible assets	(494)	(104)
Net change in the other non current assets	218	(431)
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)	(3,158)	(2,819)
CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		
Repayment of long term loans	(7,324)	(7,548)
Net change in short-term financial liabilities	12,876	2,652
Other	-	1,946
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES (C)	5,552	(2,950)
TOTAL CASH FLOW (D=A+B+C)	1,377	(4,354)
Effect of exchange rates on cash and cash equivalents	(347)	795
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD (E)	6,658	10,217
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (F=D+E)	7,688	6,658

EXPLANATORY NOTES

1. COMPANY INFORMATION AND BASIS OF PRESENTATION

Company information

The Damiani Group has been engaged for several years in the production and distribution of jewelry products through both wholesale and retail channels. In particular, the Group offers five prestigious jewelry brands, such as Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni. Moreover, through the Rocca network, the Damiani Group also distributes prestigious third-party brands in multi-brand boutiques, in particular regarding timepieces.

The registered office of the parent company Damiani S.p.A. is located in Piazza Damiano Grassi Damiani 1, Valenza (AL), Italy. Damiani S.p.A. is controlled by Leading Jewels S.A. (due to the family Grassi Damiani) which owns 58.49% of share capital.

Declaration of conformity to the International Accounting Standards (IFRS)

The Damiani Group prepared its consolidated financial statement as of and for the year ended March 31, 2013 in accordance with IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and adopted by the European Community, the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) and with the measures implementing article 9 of Legislative Decree 38/2005.

Basis of presentation

The present consolidated Financial Statements of the Damiani Group as of and for the year ended March 31, 2013 which cover the period April 1, 2012 – March 31, 2013, and includes the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and the explanatory notes (hereafter, the "Consolidated Financial Statements") was approved by the Board of Directors of Damiani S.p.A. on June 14, 2013.

The statements comply with the provisions of IAS 1 – (Revised) Presentation of Financial Statements.

The structure of the statement of financial position follows the classification by "current assets" and "non-current assets" while, the income statement classifies by nature. The cash flow statement has been prepared using the indirect method.

In accordance with Consob (Italian SEC) resolution no. 15519 dated July 27, 2006, the effects of transactions with related parties are presented in the statement of financial position as well as in the income statement. Transactions with related parties are identified in accordance with the extended definition laid down by IAS 24, i.e. including relations with the administrative and control bodies as well as those executives who have strategic responsibilities. See also note 33. Transactions with related parties.

The Consolidated Financial Statements were prepared in thousands of euros. All amounts included in the tables presented below are shown in thousands of Euros, unless otherwise indicated.

2. ACCOUNTING POLICIES

Criteria used

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the European Union and include the Financial Statements of Damiani S.p.A. and of the Italian and foreign subsidiaries, directly or indirectly, controlled by the Company determining their financial and management decisions and obtaining the corresponding benefits. Financial statements and equivalent accounts of Italian and foreign subsidiaries prepared following local GAAP were adjusted in order to be consolidated under IFRS.

These Consolidated financial statements have been prepared on a going concern basis. Despite the difficulties originated by the economic downturn, the Group believes there is no doubt about the ability to continue its activity for the foreseeable future, taking also into consideration that important actions are being implemented in order to adapt to the market's changing trends.

The income statement, changes in shareholders' equity and the cash flow statement for the financial year ended March 31, 2013, are compared to the figures for the corresponding prior year period. The statement of financial position figures as of March 31, 2013 are compared to those as of March 31, 2012.

Subsidiaries are fully consolidated from the date of the acquisition of the control by the Group and they cease being consolidated from the date when such control ceases.

The following subsidiaries are included within the scope of consolidation on March 31, 2013:

COMPANY NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (local currency)	HELD BY	% DIRECT (*)	% OF THE GROUP
Damiani Manufacturing S.r.l.	Valenza (AL), Italy	EUR	850,000	Damiani S.p.A.	51.00%	51.00%
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	EUR	2,140,000	Damiani Manufacturing S.r.l.	9.35%	55.58%
Damiani International B.V.	Amsterdam, Netherlands	EUR	193,850	Damiani S.p.A.	100.00%	100.00%
Damiani Japan K.K.	Tokio, Japan	JPY	495,000,000	Damiani International B.V.	0.00%	86.00%
Damiani USA, Corp.	New York, USA	USD	900,000	Damiani International B.V.	0.00%	100.00%
Casa Damiani Espana S.L.	Valencia, Spain	EUR	721,200	Damiani S.p.A.	99.00%	100.00%
Damiani Hong Kong Ltd.	Hong Kong	HKD	2,500,000	Damiani International B.V.	0.00%	100.00%
Damiani France S.A.	Parigi, France	EUR	38,500	Damiani International B.V.	0.00%	100.00%
Damiani Macau Ltd.	Macau	MOP	2,200,000	Damiani Hong Kong Ltd.	0.00%	100.00%
Rocca S.p.A.	Valenza (AL), Italy	EUR	4,680,000	Damiani S.p.A.	100.00%	100.00%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Rocca S.p.A.	0.00%	100.00%
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	MXN	3,000,000	Damiani International B.V.	10.00%	100.00%
Damiani Shanghai Trading Co. Ltd.	Shanghai, China	CNY	30,000,000	Damiani S.p.A.	100.00%	100.00%
Damiani Korea Co. Ltd.	Seoul, Sud Korea	KRW	500,000,000	Damiani S.p.A.	100.00%	100.00%

(*) It's the share directly held by Damiani S.p.A.

Compared to the previous year the consolidation area at March 31, 2013 changed as follows:

- On August 2012 the Chinese subsidiary Damiani Shanghai Trading Co. Ltd, wholly owned by Damiani S.p.A., was established with registered office in Shanghai, Pudong New Area. Initially, the share capital of this new company was 15,000,000 Renmimbi (CNY), and was subsequently raised to 30,000,000 Renmimbi (CNY) through a capital increase (at year-end exchange value is approximately Euro 3,769 thousands). The company's purpose is to import and distribute jewelry and watches in China. At March 31, 2013 the subsidiary manages two single-brand Damiani stores in Shanghai and Ningbo.
- On December 20, 2012 the merger of the companies New Mood S.p.A. and Alfieri & St. John S.p.A. in the parent company Damiani S.p.A. (who owned 100% of the capital stock of both subsidiaries) was formalized, and become effective from January 1, 2013. The merger, which requires compliance with a formal process and the fulfillment of several obligations in favour of stakeholders, as provided for by the company law (articles 2501 – 2505 quater of the Italian Civil Code) and by the tax law (Presidential Decree 917/86), was launched on July 26, 2012 with the approval of the Board of Directors of Damiani S.p.A. Such mergers, which did not result in any increase in capital nor are they subject to the Procedure for transactions with related parties pursuant to Consob Regulation n. 17221/2010, were approved by the respective Boards of Directors of the companies involved on October 8, 2012. The related accounting and tax effects are backdated to April 1, 2012.
- On March 13, 2013 the Korean subsidiary Damiani Korea Co. Ltd, wholly owned by Damiani S.p.A., was established with registered office in Seoul, International Finance Center One IFC Building. The share capital of the new company is 500,000,000 of Won (KRW), equivalent to around Euro 351 thousands. The company's purpose is to import and distribute jewelry and watches in South Korea. At March 31, 2013 the subsidiary was not yet operational.

Associated companies

Associated companies are those in which the Group owns at least 20% of voting rights or exercises significant influence, but not control, over financial and operating policies.

At March 31, 2013, the Group had no interests in associated companies.

Other investments

The following table includes information regarding investments in other companies held by Damiani Group as of March 31, 2013, whose total value was Euros 167 thousand. See the "Main Accounting principles" paragraph below for details regarding the evaluation criteria of the other investments.

COMPANY NAME	CURRENCY	SHARE CAPITAL (in thousands of Euro)	BOOK VALUE (in thousands of Euro)	HELD BY	% OWNED DIRECTLY	% OWNED BY WHOLE GROUP
Fin-or-val S.r.l. ⁽¹⁾	Euro	2,966	126	Damiani S.p.A.	4.36%	4.36%
Banca d'Alba ⁽¹⁾	Euro	44,137	41	Damiani S.p.A.	0.50%	0.50%

⁽¹⁾ Share capital at December 31, 2011

Consolidation

In the preparation of the consolidated financial statement the assets, liabilities, costs and revenues were consolidated using the line by line method, while "non-controlling" interests (in shareholders' equity and in the net result for the period) are accounted for separately in the statement of financial position and income statement. The carrying amount of the investment in each of subsidiary annulled against the corresponding portion of shareholders' equity in the same subsidiary, taking into consideration any fair value adjustments of its assets and liabilities, at the acquisition date, and allocating to goodwill any residual difference.

All balances and transactions within the Group, including any unrealized gains arising from intra-Group relations, are netted out. Likewise all profits and losses on trade with associate companies, to the extent of the Group's share. Intra-group losses are also netted out, except impairments.

Translation of financial statements expressed in foreign currencies different from euro

The consolidated financial statements are expressed in Euro, which is also the functional currency in which most of the Group companies operate.

The statement of financial position and the income statement figures for companies operating in currency other than Euro are translated into Euro, by applying: (i) the spot exchange rates at year end, for statement of financial position items; (ii) the historical exchange rates, for shareholders' equity items; (iii) the yearly average rates, for income statement items.

Exchange rate translation differences arising from the application of different exchange rates for assets and liabilities, shareholders' equity and the income statement are recognized in the consolidated shareholders' equity item "Foreign currency conversion reserve" for the portion attributable to the Group, and in the item "Non-controlling interests share capital and reserves" for the portion attributable to non-controlling interests.

The statement of financial position and income statement figures translated into Euro are those denominated in the functional currency. Goodwill and fair value adjustments generated when recognizing the purchase cost of a foreign company are recognized in the currency in which they were paid and are translated using the exchange rate at the end of the financial period.

Accounting standards

The Consolidated financial statements were prepared in accordance with international accounting standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Community and regulations implementing article 9 of the Legislative Decree n. 38/2005. IFRS include revised international accounting standards ("IAS"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as Standing Interpretations Committee ("SIC").

New accounting standards to be adopted from April 1, 2012

The following standards, amendments, improvements and interpretations applicable from the financial year beginning April 1, 2012 and refers to cases that have no impact on the financial statements at March 31, 2013 of the Damiani Group:

- Amendment to IFRS 7 – Financial instruments: supplementary information for the understanding of transfer transactions of financial assets.

New accounting standards not yet effective and not early adopted by the Group

New accounting standards, interpretations and amendments issued by the IASB and applicable to the company financial statements for periods beginning on or after April 1, 2012 and not early adopted by the Group include:

- Amendment to IAS 12 – Income taxes which clarifies the accounting for deferred tax on investment property measured at fair value.
- Amendment to IAS 19 – Employee benefits that eliminates the option of deferring the recognition of gains and losses under the corridor method, which has never been applied by the Group. The amendment, which requires the separate recognition in the income statement of the cost components relating to service and net financial expenses and the recognition of actuarial gains and losses in the comprehensive income, is applicable in periods beginning after January 1, 2013.
- IFRS 10 – Consolidated financial statements (compulsorily applicable to financial years beginning after January 1, 2014).

- IFRS 11 – Partnership agreements (compulsorily applicable to financial years beginning after January 1, 2014).
- IFRS 12 – Additional information on shareholdings in other companies (compulsorily applicable to financial years beginning after January 1, 2014).
- IFRS 13 – Measuring of fair value (applicable to financial years beginning after January 1, 2013).
- Amendment to IAS 1 – Presentation of financial statements (applicable to financial years beginning after July 1, 2012).
- Amendment to IAS 32 – Financial instruments: Presentation (applicable to financial years beginning after January 1, 2014).

It is also noted that the IASB issued the following standards and interpretations whose approval process is still in progress by the European Union.

- IFRS 9 – Financial instruments.

Use of estimates

The preparation of the financial statements and the explanatory notes under the IFRSs requires the Group to make estimates and assumptions which affect the values of the assets and liabilities stated in the consolidated financial statements and the reporting of potential assets and liabilities. Final results could differ from these estimates which are used to measure provisions for credit risk, returns, inventory obsolescence, determining the useful life of property, plant and equipment and intangible assets in the calculation of depreciation, asset impairments, employee benefits, provisions for risks and charges and the assessment of taxable income for the purposes of determining the recoverability of deferred tax assets. These estimates and assumptions are reviewed periodically, and the effects of any change are booked directly to the income statement.

The main valuation processes for which the Group has used estimates regard the analysis of recoverability of goodwill and value of investments in the financial statements (impairment test), valuation of expected future returns, determination of trade receivable and inventory write-downs, and determination of risk reserves for which at the reporting date there are obligations for which are likely to use resources to satisfy them.

The current economic and financial environment has a great volatility and uncertainty. Therefore, assumptions regarding future trends are characterized by high randomness and results of upcoming financial periods may be significantly different from those estimated, calling for adjustment of their respective valuations, which cannot be estimated or foreseen at this time. The financial statements items that may be affected are the funds for return on sales, the allowance for doubtful accounts and the inventory obsolescence reserve.

Additional details on the estimates are found in the specific notes to the financial statements.

Summary of the main accounting policies

Goodwill

Goodwill acquired in a business combination is defined as the amount by which the cost of the combination is exceeded by the combined Group's share of its total shareholders' equity at current values as calculated from the values of the identifiable assets, liabilities and potential liabilities that have been acquired. Following the initial entry, goodwill is valued at cost less any accrued impairment. Goodwill is subjected to an impairment test, either annually or more often if events or changes occur that might give rise to any impairment.

For the purposes of these impairment tests, the goodwill acquired with business combinations is allocated, from the acquisition date onwards, to each of the cash-generating units (or groups of units) which are believed to profit from the synergistic effects of the acquisition, regardless of the allocation of any other assets or liabilities acquired. Each unit or group of units to which goodwill is allocated:

- represents the lowest level within the Group at which goodwill is monitored for internal management purposes;
- is no greater than an operating segment of the Group as defined in the operating segments chart under IFRS 8.

Impairment is determined by defining the recoverable value of the cash generating unit (or group of units) to which the goodwill is allocated. If this recoverable value of the CGU (or group of CGUs) is lower than the book value, an impairment loss is recognized. Where goodwill has been attributed to a CGU (or group of CGUs) whose assets are partially disposed of, the goodwill associated with the asset disposed of is taken into account for the purposes of calculating any capital gain (or loss) arising from the transaction. In these circumstances the goodwill transferred is measured on the basis of the amount of the sold asset in proportion to the asset still held by the same unit.

Intangible assets

Intangible assets acquired separately are recognized at cost, while those acquired through business combinations are recognized at fair value at the acquisition date. After initial recognition, intangible assets are booked at cost, net of accumulated amortization and any accumulated impairments. Intangible assets generated internally are not capitalized, but are recognized in the income statement for the period in which the cost of generating them was incurred.

The useful life expectancy of intangible assets is assessed as finite or indefinite. Intangible assets with a finite useful life are amortized over their estimated useful life and subjected to impairment tests whenever there are reasons to suspect a possible impairment. The amortization period and method applied to them is reviewed at the end of each financial period, or more often if necessary. Changes in the expected useful life or in the way the future financial rewards connected with the intangible asset are reaped by the Group are recognized by modifying the amortization period or method, and treated as changes in the accounting estimates. The amortization rates for intangible assets with a finite life are recognized in the income statement in the cost category consistent with the intangible asset's function.

Intangible assets with an indefinite useful life are subjected annually to an impairment test at the individual level or at the cash-generating unit level. These assets are not amortized at all. The useful life of an intangible asset with an indefinite useful life is reviewed each year to check that the conditions for this classification are still met. If not, the change from indefinite to finite useful life is done prospectively. Gains or losses arising on disposal of an intangible asset are measured as the difference between the net revenue from the sale and the net book value of the asset, and are recognized in the income statement at the time of the sale.

In the case of intangible assets with a finite life expectancy, the annual amortization rates applied are as follows:

CATEGORY	RATE
Industrial rights and patents	from 10% to 20%
Software licences	from 20% to 33%
Key Money (indemnities paid for renewal of shop rental contracts)	duration of contract
Other deferred charges	from 14% to 20%

Research and development costs

Research costs are directly recognized in the income statement in the financial year when they are incurred.

Development expenditures on a particular project are capitalized only when the Group can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or sale, the intention of completing it for in-house use or for sale to third parties, the generation of probable financial benefits in future, the availability of technical, financial and other resources needed to complete development, the ability to reliably evaluate the cost of the asset during its development and the existence of a market for the products and/or services that will arise from the asset and/or its usefulness for internal purposes can be demonstrated.

Following initial recognition, development costs are booked net of accumulated amortization and of any impairment losses recognized as previously described for intangible fixed assets with a finite useful life.

As of March 31, 2013 there are no capitalized development costs in the consolidated financial statements.

Property, plant and equipment

Buildings, plant and machinery acquired separately – based on purchase or lease agreements – are recognized at purchase cost, while those acquired through business combination transactions are recognized on the basis of the fair value determined at the acquisition date. Buildings, plant and machinery are recognized at cost, including the ancillary costs directly attributable and necessary for the asset's deployment in the function for which it was purchased, plus (if relevant and where obligations are incurred immediately), the present value of the estimated expense of dismantling and removing the asset. If significant portions of these tangible assets have different useful lives, these items are accounted for separately. Land, whether undeveloped or built up, are not depreciated since their useful life is unlimited. The carrying amount of property, plant and equipment is reviewed whenever events or changes take place which give reason to believe that the carrying amount, as established under the amortization plan, might not be recoverable. If such reason exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units to which the assets have been allocated are written down to their recoverable value.

The carrying value of the assets, their useful lives and the methods applied are reviewed annually and, if necessary, they are adjusted at the end of each period.

The depreciation rates applied are as follows:

CATEGORY	RATE
Buildings	from 2% to 3%
Plant and machinery	from 12% to 25%
Industrial and commercial equipments	from 7% to 35%
Other assets	from 12% to 25%
Leasehold improvements	Duration of lease contract

Leased assets

The finance leases, which essentially transfer all the risks and rewards arising from ownership of the leased asset to the Group, are booked, as of the lease commencement date, at the leased asset's fair value or, if lower, at the current lease value. The rental amounts are divided into a capital portion and an interest portion in such a way as to give a constant rate of interest on the remaining balance of the liability. Borrowing costs are charged directly to the income statement.

The capitalized leased assets are depreciated over the shorter of the asset's useful life expectancy or the lease period, unless it is reasonably certain that the Group will become the owner of the asset at the end of the contract.

Rental amounts on operating leases are booked to the income statement for the duration of the lease.

Impairment test

At the closing date of each period the Group assesses whether there has been a decrease in the value of its intangible assets with a finite useful life, its property, plant and equipment and its leased assets. If such a decrease has occurred, an impairment test is carried out. Goodwill and other intangible assets with indefinite useful lives are subjected to impairment test every year, whether or not there is any reason to suspect a loss in value.

Recoverable value is determined as the greater of the fair value of an asset or cash-generating unit (net of selling costs) and its value in use, and it is calculated asset by asset, except where the asset generates income which is not fully independent of that generated by other assets or asset groups, in which case the Group estimates the recoverable value of the cash-generating unit to which the asset belongs. In particular, since goodwill does not generate any income independently of other assets or asset groups, the impairment test is conducted on the unit or group of units to which the goodwill has been allocated.

In determining value in use, the Group discounts at the current value the estimated future cash flow, using a pre-tax discount rate which reflects the market's evaluation of the temporal value of the money and any specific risks pertaining to the asset.

In order to estimate the value in use, future cash flows are derived from the business plans drawn up by the Corporate of the parent company and approved by its Board of Directors, since these represent the Group's best forecast of the economic conditions over the period of the plan.

Such forecasts are normally reflected over three years period; long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the relevant industry, country or market. Future cash flows are estimated on the basis of current conditions, therefore estimates do not take into account any benefits arising from future restructuring to which the company is not yet committed, nor any future capital expenditures that aim to enhance or optimize the asset or unit or significantly modify it.

If the carrying amount of an asset or cash-generating unit exceeds its recoverable value, that asset has lost value and is consequently written down to its recoverable amount.

All impairment loss of operating assets are recognized in the income statement under the cost items relating to the asset that had lost value. Moreover, at the closing date of each period the Group assesses whether there is any reason to suspect that losses previously recognized may now be excessive and if this is the case, a new estimate of the fair value is made. The value of a previously written-down asset (except for goodwill) may only be restored if there have been changes in the estimates used to determine the asset's fair value after the most recent recognition of an impairment loss. In that case the asset's book value is revised to its recoverable value, though the revised value may never exceed the level which the book value would have been (net of any depreciation) if no impairment loss had been recognized in previous years. When a value is restored it is booked as income in the income statement and the adjusted carrying value of the asset is depreciated on a straight-line basis over the remaining useful life, net of any remaining values.

In no circumstances the value of goodwill can be restored after it has been written down.

Investments

Investments in associated companies are valued using the net equity method.

Investments in companies other than associated and subsidiary companies (in general, those where the Group owns less than 20% of the stock), are classified, at the time of purchase, as either "financial assets available for sale" or "financial assets at fair value through profit and loss" whether non-current or current assets. In accordance with the provisions of IAS 39, such shareholdings are valued at fair value or, in the case of unlisted shareholdings or those for which a fair value cannot be reliably determined, at cost, adjusted to take into account the reduction of value.

Changes in the fair value of investments classified as "assets available for sale" are accounted for in the shareholders' equity and subsequently, when the asset is sold or there is a loss in its value, recognized in the income statement. Changes in the fair value of investments classified as "financial assets at fair value through profit and loss" are directly recognized in the income statement.

Inventories

Inventories are booked at the lower of their purchase or production cost and their net realizable value, this being the amount which the company expects to obtain from their sale in the normal course of business. The cost configuration used is the weighted average cost method, which includes all ancillary charges accruing in relation to the purchase of these stocks during the period. Inventory valuations include both the direct cost of materials and labor and the indirect cost of production.

Inventories also include the production costs relating to returns expected in future years from deliveries already made, estimated on the basis of the sale value minus the average applied margin.

In order to calculate the net value of future realizable, the value of eventual obsolete or slow-moving goods is written down in relation to an estimate of future net use/realizable value, by means of a specific adjustment reserve for the reduction of the value of the inventories.

Trade receivables and other current assets

Trade receivables and other current assets are booked at their fair value, which is the nominal value that is subsequently reduced to take into account any eventual loss in value by means of the creation of a specific provision for doubtful accounts, amending the value of the asset. Trade receivables are booked to the financial statements net of the estimated reserve for products that the Group expects to be returned by clients. The above mentioned reserve is related to the amounts invoiced on dispatch of the goods where it is reasonable, in the light of experience and on the probable percentage relating to sales in future years, to expect that not all significant risks and benefits connected to ownership of the assets have been definitively transferred at the balance sheet date.

Trade receivables and other current assets which neither bear interests nor are expected to be settled within normal commercial terms are discounted.

Financial instruments

The financial instruments held by the Group may be grouped as follows:

- Non-current assets: include investments, non-current loans and receivables and other non-current financial assets;
- Current assets: include trade receivables, other current financial assets and cash and cash equivalents;
- Current liabilities: include financial liabilities, other financial liabilities, trade payables and other payables.

The described above assets and liabilities are accounted for in accordance with IAS 39.

Initially all financial instruments are recognized at fair value, plus ancillary charges in the case of assets that are not at fair value in the income statement. The Group classifies its financial assets after they have been initially recognized and, when appropriate and permitted, reviews this classification at the end of each financial year.

All purchases and disposals of financial instruments are booked to their transaction date, which is the date on which the Group undertakes to buy the asset.

Subsequent to initial recognition, the financial instruments available for sale and held for trading are measured at fair value. If the market price is not available, the fair value of the financial instruments available for sale is measured using the most appropriate valuation methods such as the discounted cash flow analysis, carried out with the market information available at the date of the financial statement. Gains and losses on financial assets available for sale are recognized directly in shareholders' equity until the financial asset is sold or impaired; when the asset is sold, the related gains or losses, are recognized in the income statement for the period; when the asset is impaired the accumulated losses are included in the income statement. Gains and losses arising from changes in fair value on financial instruments classified as held for trading are recognized in the income statement for the period.

Loans and receivables not held for trading purposes and which are not listed in an active market are recognized if they have a fixed maturity according to the amortized cost using the effective interest rate method. Otherwise, they are valued at acquisition cost. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or when there is a loss of value, as well as through the amortization process.

With the exception of derivative financial instruments, the financial liabilities are measured at amortized cost using the effective interest method.

The financial assets and liabilities hedged by derivative instruments are measured in accordance with hedge accounting principles applicable to fair value hedges: gains and losses arising from remeasurement at fair value, due to changes of the relative risks, are recognized in the income statement.

Hedge accounting

For the purposes of hedge accounting, hedges are classified as:

(i) fair value hedges, if they hedge the exposure to changes in the fair value of the underlying assets or liabilities; or if they are a firm commitment (in the exceptional case of currency hedges); or (ii) cash flow hedges, if they hedge the exposure to variability of cash flow which is either attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction, or if they hedge the currency risk of a firm commitment; (iii) hedging of a net investment in a foreign company (net investment hedges).

When a hedge transaction is launched, the Group formally designates and documents it as such, stating its objectives in terms of the strategy pursued and the exposure hedged. This documentation identifies the hedge instrument, the element or transaction hedged, the nature of the risk and the way the company intends to assess the hedge's effectiveness in covering exposure to changes in the fair value of the element covered or in the cash flow linked to the hedged risk.

Changes in the fair value of the hedge are booked to the income statement. The change in the fair value of the hedged asset attributable to the risk hedged against is recognized as part of the book value of the asset itself, with a counter-entry in the income statement.

As for fair value hedges of assets valued at amortized cost, the adjustment to the book value is amortized in the income statement for all the period remaining up until maturity. Any adjustments to the book value of a hedged financial instrument valued using the effective discount rates are amortized in the income statement.

Any profits and losses resulting from changes in the fair value of derivatives not suitable for hedge accounting are booked directly to the income statement for the period.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or a group of similar financial assets) is derecognized when:

- the rights to receive the financial flows expire;
- the Group keeps the right to receive the asset's financial flows, but has the contractual obligation to transfer them without delay to a third party;
- the Group has transferred the right to receive the asset's financial flows and (i) it has essentially transferred all the risks and benefits of ownership of the financial asset, or (ii) it has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control of it.

In case the Group has transferred the right to receive the financial flows from an asset and has not transferred or retained all the risks and benefits of the asset nor lost control of it, the asset is recognized in the Group's financial statements to the extent of the Group's remaining involvement in that asset. A "remaining involvement" which takes the form of a guarantee in respect of the transferred asset is valued at the lesser of the asset's initial book value and the maximum amount which the Group might be required to pay.

A financial liability is derecognized from the financial statements when the underlying obligation is extinguished, annulled or fulfilled.

Where an existing financial liability is replaced by another from the same lender on materially different terms, or the terms of an existing financial liability are materially modified, this difference or modification is treated as a de-recognition of the original liability in the accounts and the recognition of a new one and any difference in the book values is booked to the income statement.

Cash and cash equivalent

Cash and cash equivalent are booked at their par value, depending on their nature.

Financial liabilities

Financial liabilities include financial debt and financial liabilities relating to derivative instruments. Financial liabilities other than derivatives are initially booked at fair value plus transaction costs, while thereafter they are valued at amortized cost, i.e. the initial value less any capital repayments already made, adjusted (up or down) by the amortization (at the effective interest rate) of any differences between the initial value and the value at maturity.

Employee benefits

Guaranteed employee benefits paid on or after termination of employment under defined-benefits schemes (for Italian companies, this is the known as "TFR" or severance indemnities) are recognized in the period in which the rights are accrued.

Those liabilities relating to a defined-benefits scheme, net of any assets held to service the plan, are determined on the basis of actuarial assumptions and recognized on an accrual basis consistent with the employment services necessary for obtaining the benefits; liabilities are valued by an independent actuary.

Profits and losses arising from the actuarial calculations are booked to the income statement in each period as labor costs.

Other employee benefits

In accordance with IFRS 2 (Payments based on shares), stock options in favor of employees are valued by an external evaluator at their fair value at the grant date according to an appropriate model.

If the right can be exercisable after a certain period and/or when certain performance conditions take place, i.e. the vesting period, the overall fair value of the options is split equally over time during the said period and booked to a specific item in the net equity while a corresponding amount is booked to the income statement as "personnel costs" (since it is a payment in kind paid to the employee) and as "costs of services" (in relation to the directors and agents who are beneficiaries of the options).

During the vesting period the fair value of the option that has been previously calculated is not reviewed or updated, but the estimated number of options that will mature at the due date is continually updated and, therefore, the number of beneficiaries with the right to

exercise the options. The change in estimates is treated as an increase or a reduction in the net equity item referred to while a corresponding amount is booked to the income statement as “personnel costs” and “costs of services”.

When the option date expires, the amount booked to the net equity item referred to is reclassified as follows: the amount of the shareholders’ equity referring to the exercised options is booked under “Share premium reserve”, while the part referring to the options that have not been exercised is reclassified under “Other reserves”.

Trade payables and other current liabilities

Trade payables and other current liabilities, whose due date fall under normal trade and contractual terms, are not booked to their net present value but to their par value.

Provision for risks and charges

Provision for risks and charges refer to costs and charges that are of determined nature and are of either certain or probable and for which it was not possible to calculate the amount or contingency date at the end of the financial year. Provisions for risks and charges are booked when the Group must meet an obligation that derives from a past event if resources will probably have to be used to meet the obligation and the amount required can be reliably estimated.

When the Group believes that a provision will be either totally or partly reimbursed (insurance policy cover risks), if the reimbursement is practically certain, it is booked under a specific item under assets, in which case the provision is booked net of the reimbursement in the income statement.

The amount of provisions is based on the best estimate of the amount that is to be paid in order to meet the obligation or to transfer it to a third party, and is booked at the end of the financial year.

Revenues from sales and services

Revenues and income shown net of discounts, allowances and returns are booked at their fair value as far as it is possible to calculate it and it is likely to enjoy the related financial benefits.

Revenues from the sale of goods are recognized when all the following conditions are met:

- the significant risks and benefits connected to the goods are transferred to the purchaser;
- the usual operations associated with ownership of the goods are no longer carried out and effective control of the goods is no longer exercised;
- the amount of the revenues can be reliably calculated;
- it is likely that any future financial benefits will be enjoyed;
- the costs incurred, or to be incurred can be reliably estimated.

In some cases the Group accepts from customers, for commercial reasons and in line with the usual practices of the sector, returns of goods that have already been delivered, including goods delivered in previous financial years. In such cases, the Group adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of historical experience, it is possible to reasonably estimate that at the date of the financial statements not all the significant risks and benefits associated with ownership of the goods will be transferred to the new owner. Returns that are calculated in this manner are booked to the income statement as a reduction of revenues and in the balance sheet under a specific adjustment reserve for receivables from customers, while the relative estimated production cost is included under inventories.

Barter transactions

Sales of goods in return for the purchases of publicity and advertising services are booked separately in the financial statements under “revenues from sales” and “costs of services”. Revenues from the sale of goods is calculated at the fair value of the publicity and advertising services received, adjusted to take into account any cash payments or equivalents, and they are booked at the time the goods are shipped.

Other revenues and income

The other revenues include financial benefits during the period from operations connected to the company’s ordinary business activities. Key monies received as a result of the disposal of leasing contracts before their due date for the commercial usage of premises are booked under other operational incomes when the amounts are received, which coincides with the date the original leasing contract is cancelled.

Costs

Costs are accounted for on the accrual basis. In particular:

Costs for advertising campaigns and testimonials

Commission due to advertising agencies and the cost of producing advertising campaigns (television commercials and photo shoots), are booked to the income statement at the time they are incurred.

Costs relating to advertising campaigns and promotional activities are recognized in the income statement for each period the services were received (advertising already broadcast, published or transmitted, testimonial appearances already made).

Any advances paid for services still to be received are booked at the period when the services are provided.

Financial income and expenses

Financial incomes are recognized after an assessment has been carried out on the interest earned in the relevant period. This assessment is carried out using the effective interest rate method, represented by the rate used to discount the cash flow estimated on the basis of the life expectancy of the financial instrument.

Financial expenses are booked to the income statement in accordance with the accruals system and for the amount of the effective interest.

Dividends

Dividends are booked when the shareholders' right to receive payment comes into force, coinciding with the moment in which they are declared.

Income taxes

Current taxes

Current taxes are calculated on the basis of the taxable income for the period. Taxable income differs from the financial result shown in the income statement because it excludes items (positive or negative) that will be taxable or deductible in other financial years and that will never be taxable or deductible. Current tax payables are calculated on the basis of the tax rates in force at the time the financial statements are prepared.

Deferred and prepaid taxes

Deferred and prepaid taxes are calculated on the temporary differences between the book value of the assets and liabilities in the financial statements and the corresponding fiscal value used in calculating taxable income, accounted for using the balance sheet liability method. Deferred tax liabilities are recognized in the case of all such taxable temporary differences, with the exception of the following:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect either on the profit for the period calculated for the purposes of the financial statements, nor on the profit or loss calculated for tax purposes;
- in the case of taxable temporary differences linked to investments in subsidiary and associated companies and joint ventures, where the reversal of these temporary differences can be verified and it is likely that they will not in fact be reversed in the foreseeable future.

Deferred tax assets are recognized to the extent that it is thought likely that there will be sufficient taxable profits in future to enable the temporary differences to be deducted, except:

- where the prepaid tax derives from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, had no effect either on the profit for the period calculated for the purposes of the financial statements nor on the profit or loss calculated for tax purposes.

The value assigned to the deferred tax assets is re-examined at the end of every financial period and reduced in accordance with the likelihood that in the year in which the temporary difference is expected to be reversed there might not be sufficient taxable income to enable its full or partial recovery. Any previously unrecognized taxes paid in advance are re-examined each year at the end of the financial period and are then recognized in relation to the probability of their recovery.

Both prepaid and deferred taxes are calculated on the basis of the tax rates which are expected to be in force during the financial period in which the tax asset is realized or the tax liability is settled, in accordance with the tax law in force at the time covered by the financial statements.

Deferred taxes (liabilities and assets) are booked to the income statement, with the exception of amounts relating to items recognized directly in shareholders' equity for which the relative deferred and advance taxes are directly booked without being entered in the income statement.

Prepaid tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

Foreign currency translation

The Damiani Group's functional and presentation currency is the euro.

Transactions in other currencies are translated and booked at the rate in force at the time of the transaction. Any foreign currency based assets and liabilities are translated into euros using the rate in force at the reporting date of the financial statements. All exchange differences resulting from transactions in foreign currencies with third parties are booked to the income statement. Non-monetary items valued at their historical cost in foreign currencies are converted using the exchange rate in force at the date the transaction is recognized. Non-monetary items booked at their fair value in foreign currencies are converted using the exchange rate in force on the date the fair value is calculated.

Treasury shares

Treasury shares are classified as a direct reduction of shareholders' equity. The original cost of treasury shares and gain from any subsequent sale of it is shown as changes in shareholders' equity.

Earnings (losses) per share

Earnings (losses) per share are calculated by dividing the net result for the period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares in circulation during the period. It should be noted that when calculating the earnings per share for the financial period ending March 31, 2013 and for the financial period ending March 31, 2012, the average number of shares in circulation in each period was based on the changes in the company capital in each of those financial periods. The Company's diluted earnings (losses) per share are calculated by taking into account the effects produced by the treasury share purchase plan approved by the Shareholders' Meetings of February 22, 2008, July 22, 2009, July 21, 2010, July 27, 2011 and July 26, 2012.

Business combination

Business combinations are accounted for by using the purchase cost method, whereby the costs of business combinations are allocated by recognizing the fair value of the assets and liabilities purchased, together with any identifiable potential liabilities and any equity instruments issued on or after the date of the transaction, and the costs directly attributable to the purchase.

Any positive difference between the purchase cost and the share of the fair value of the assets, liabilities and identifiable potential liabilities of the purchase is recognized as goodwill in the assets and is subject to an impairment test at least once a year. Any negative difference is either booked directly to the income statement or booked as a liability in a special risk reserve if it represents future losses.

Purchase transactions between parties controlled by the same entities, which take the form of transactions between companies "under common control", are not currently regulated by IFRS and so, in line with IFRS recommendations, similar accounting procedures and principles are used for these business combinations. On the basis of such criteria, the purchase is booked at its historic values and any difference between the historic value and the price paid recognized in the financial statements of the purchased company is regarded as received or distributed capital to/from the controlling shareholders.

3. SEGMENT INFORMATION

Damiani Group operates in a single business segment where no differences between products that would require the setting up of separate business units exist.

Therefore, the basis on which the Directors set the goals and attribute responsibilities and according to which company management operates is geographical segments, which are broken down as already shown in the Report on Operations.

During the financial year 2012/2013 reorganizational actions in the Damiani Group have been implemented that resulted in the reallocation of operational activities within the Italian and foreign subsidiaries. In order to maintain comparability between periods in the economic information by geographical area we proceed, therefore, to also use data taken from internal management systems of the Group companies, in order to properly allocate revenues and operating expenses on the geographical areas that benefit/use these components. The following tables provide the operating results for the financial year ended March 31, 2013 and 2012, for comparative purposes.

Information by geographical areas (financial year ended March 31 2013)

FINANCIAL YEAR 2012/2013 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	CONSOLIDATED
Net Sales to third party customers	96,179	5,299	12,585	23,541	137,605
Other revenues	186	-	12	20	218
Total net sales	96,366	5,299	12,597	23,561	137,823
Operating Costs	(98,796)	(7,392)	(15,401)	(22,540)	(144,129)
Operating profit (loss)	(2,430)	(2,093)	(2,804)	1,021	(6,306)

SITUATION AT MARCH 31 2013 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	CONSOLIDATED
Capex	1.844	9	226	1.306	3.385

Information by geographical areas (financial year ended March 31 2012)

FINANCIAL YEAR 2011/2012 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	CONSOLIDATED
Net Sales to third party customers	108,171	6,895	9,663	26,579	151,308
Other revenues	252	-	3	36	291
Total net sales	108,423	6,895	9,666	26,615	151,599
Operating Costs	(107,915)	(11,778)	(12,481)	(26,781)	(158,955)
Operating profit (loss)	508	(4,883)	(2,815)	(166)	(7,356)

SITUATION AT MARCH 31 2012 (in thousands of Euro)	ITALY	AMERICAS	JAPAN	REST OF THE WORLD	CONSOLIDA- TED
Capex	394	124	829	1.076	2.423

The assets and liabilities are all managed at Group level and are therefore not presented separately by geographical segments.

NOTES ON ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

4. GOODWILL

The following provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Goodwill, boutiques	726	726
Goodwill, Alfieri & St. John	4,258	4,258
Total goodwill	4,984	4,984

This item refers to Euros 4,258 thousands of goodwill from the purchase in 1998 of 100% of the company shares of Alfieri & St. John S.p.A. (merged with Damiani S.p.A. in 2012/2013) and Euros 726 thousands of goodwill paid by the Parent company in 1996, 2002, 2007 and 2009 for the purchase of four single-brand shops directly run by the Damiani Group. With regard to the situation at March 31, 2012, no changes occurred.

Impairment test on intangible assets with an indefinite useful life

Since goodwill is an asset with an indefinite useful life and is booked under non-current assets for the financial years closed at March 31, 2013 and at March 31, 2012, it was subject to an impairment test.

Impairment tests are carried out at least once a year on the cash generating units (CGU) to which the goodwill is charged.

More specifically, the goodwill related to Alfieri & St. John S.p.A. was allocated to the Alfieri & St. John CGU, as a result of the merger by incorporation of the parent company Damiani S.p.A. during the financial year 2012/2013 and, is represented by the line of business Alfieri & St. John, while the goodwill for the boutiques was allocated to the Damiani CGU, another branch of business included in the legal entity Damiani S.p.A..

The recoverable value was calculated using the value in use, which was calculated by using the following data and assumptions in the impairment test:

- the financial data were taken from the 2013-2016 business plan drawn up by the companies (which include all the Cash Generating Unit– CGU of the Group) and reviewed at Corporate level by Damiani S.p.A. in order to develop Group synergy. The business plan was approved by the Board of Directors of Damiani S.p.A. on May 22, 2013;
- the cash flow was calculated using the EBITDA for each CGU minus the amounts referring to investments and to changes in net working capital;
- the cash flows were discounted at WACC (weighted average cost of capital), including tax expense, calculated according to the following benchmarks:
 - risk free rate: yield on ten-years emissions in the countries in which the CGUs operate
 - beta: determined as the average debt/equity in a panel of comparable
 - market premium: yield spread between the risk free rate and the equity compensation of the industry in the geographical context in which the CGUs operate
 - rate of average debt: cost related to sources of financing by third parties of the CGU

With specific reference to Alfieri & St. John CGU, cash flows were discounted at WACC of 8.7% net of the related tax effect, determined on the basis of conservative assumptions of the quantitative parameters (in particular with regard to the expected growth rate “g” after the three-year period covered by the business plan to be used to calculate the terminal value, which was assumed to be zero). The impairment test led to confirm the recoverability of the carrying value of goodwill.

In developing the sensitivity analysis, we point out that the recoverable amount of goodwill is substantially in line with its carrying value and, consequently, a reduction of 0.5% points in the growth rate of long term (g) or alternatively an increase in WACC would result in a lower recoverable amount of Euro 250 thousand compared to the book value.

5. OTHER INTANGIBLE ASSETS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Industrial rights and patents	249	393
Key Money	4,195	4,782
Intangible assets under construction	486	53
Total other intangible fixed assets	4,930	5,227

The items Industrial rights and patents and Key money decreased by amortization of the financial year and by the write-down of the carrying amount of the assets relating to a shop closed during the financial year as unprofitable and non-strategic for the Group.

The increase in intangible asset under construction was mainly due to investments for the development of the retail network.

Key money are depreciated on the basis of the residual duration of the leasing contract.

The following table shows the changes in intangible assets during the period:

(in thousands of Euro)	INDUSTRIAL RIGHTS AND PATENTS	KEY MONEY	INTANGIBLE ASSETS UNDER CONSTRUCTION	TOTAL
Net book value at March 31, 2012	393	4,782	53	5,227
Purchases	20	-	474	494
Disposals	-	-	(54)	(54)
Write downs	(5)	(344)	-	(349)
Amortization	(160)	(234)	-	(394)
Exchange differences	1	(8)	14	7
Net book value at March 31, 2013	249	4,195	486	4,930

6. PROPERTY, PLANT AND EQUIPMENT

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euros)	March 31 2013	March 31 2012
Land and buildings	9,439	10,616
Plant and machinery	790	714
Industrial and commercial equipment	370	521
Other assets	6,304	5,266
Assets under construction	4	343
Total property, plant and equipment	16,907	17,460

Property, plant and equipment decreased of Euro 553 thousands compared to the previous financial year.

Investments increase (Euro 2,891 thousands) is mainly represented by the investments for the development of the retail channel abroad and for the refurbishment of some stores directly managed in Italy, including the flagship store Damiani in Milan.

Land and buildings item also includes the residual value of properties subject to sale and lease back, which related parties have bought from Group's subsidiaries in prior financial years and then leased for commercial use to the same (for details see note 33. Transactions with related parties).

Sale and lease back assets value is Euro 8,014 thousands at March 31, 2013 and Euro 9,011 thousands at March 31, 2012.

The item Other assets includes furniture, furnishings, office equipment and vehicles, and leasehold improvements (costs incurred to adapt/ refurbish the boutiques).

The following table shows the changes in property, plant and equipment during the period:

(in thousands of Euros)	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
Net book value at March 31, 2012	10,616	714	521	5,266	343	17,460
Purchases	2	310	36	2,542	2	2,891
Disposals	(2)	(12)	(6)	(94)	(122)	(236)
Write downs	-	-	-	(57)	-	(57)
Elimination financial Leasing	(250)	-	-	-	-	(250)
Reclassification	-	21	-	193	(218)	(4)
Depreciation	(927)	(245)	(178)	(1,425)	-	(2,775)
Exchange differences	-	1	(3)	(121)	-	(122)
Net book value at March 31, 2013	9,439	790	370	6,304	4	16,907

Property, plant and equipment do not include assets subject to revaluations, as per the special laws contained in article 10 of Law 72/1983.

7. INVESTMENTS

At March 31, 2013 this item was referred exclusively to non-controlling interests in Fin.Or.Val S.r.l. and Banca d'Alba for a total of Euro 167 thousands. There were no changes compared to March 31, 2012.

The amounts recognized in the financial statements are aligned to the fair value based on the latest available financial statements of the two companies.

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euros)	March 31 2013	March 31 2012
Guarantee deposits	4,085	3,873
Other receivables	264	51
Total financial receivables and non current assets	4,349	3,924

The increase in guarantee deposits of Euro 212 thousands compared to the previous financial year was mainly due to the signing of new leases for the direct operated outlets abroad.

The increase in other receivables is due to overpayment for IRAP deductibility of personnel cost from IRES for previous tax periods. The value of Euro 213 thousands is booked under non-current assets because of the difficulty in estimating the timing of reimbursement.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and Deferred tax liabilities for the financial year ended March 31, 2013 and financial year ended March 31, 2012 are detailed in the table below; the descriptions indicate the nature of temporary differences:

(in thousands of Euros)	March 31 2013	March 31 2012
Deferred tax assets:		
Net Impact of the returns reserve	2,068	2,208
Write off on intercompany inventory margins	4,108	5,252
Exchange loss differences	331	97
Provision for doubtful accounts not deductible	910	958
Write downs of inventories	2,233	1,807
Loss on Barter Receivables	187	41
Provisions on lawsuits	128	174
Financial interests in excess	1,689	1,545
Fiscal losses	1,960	1,984
Write off of intercompany gains on brand transfer	3,557	3,557
Other timing differences of a taxation nature	683	630
Total deferred tax assets	17,854	18,253
Deferred tax liabilities:		
Exchange differences	19	44
Other timing differences of a taxation nature	479	725
Deferred taxation on capital gains	49	74
Total deferred tax liabilities	547	843

The main differences were due to: i) release of deferred tax assets to the extent related to the partial release of the returns reserve made on March 31, 2013 that was in excess compared to the estimated future returns, given the contraction of the volume of products returned by customers; ii) reduction in deferred tax assets related to the eliminations of margins on intercompany inventory; iii) increase of deferred tax assets related to the provision for inventory write-downs.

Deferred tax assets on tax losses and financial charges in excess booked in the financial statements refer to the Italian companies participating in the Group taxation system and are deemed recoverable taking into account the benefits derived from this consolidation regime and, therefore, the estimate of future taxable income of the subsidiaries. In the financial year 2012/2013, in accordance with the tax Legislative Decree 98/2011 which introduced the new system of carry forward tax losses (article n. 84 of the Income Tax Code), making them temporally unlimited even if with annual numerical limitations, and in continuity with the approach used in the previous financial year, we proceeded to detect deferred tax assets arising from tax losses of the subsidiary Rocca S.p.A. for which future plans support the recoverability of the values and that recorded a positive taxable income in the financial year 2011/2012, for a total amount of Euro 70 thousands. On the contrary, and in relation to an accurate interpretation of the wording of IAS 12 it has not proceed to record deferred tax assets related to Damiani S.p.A. that in the financial year 2012/2013 recorded a negative taxable income. The cumulative amount of deferred tax assets not recorded is equal to Euro 4,025 thousands.

10. INVENTORIES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euros)	March 31 2013	March 31 2012
Raw materials, semi-finished goods and advance payments	13,354	14,509
Finished products and goods	70,080	73,282
Total inventories	83,434	87,791

Net value of inventories at March 31, 2013 showed a decrease of Euro 4,357 thousands compared to the values of the previous year. This contraction was also affected by the devaluation of inventories, assessed by the management with reference to the stock of any types of goods which is excessive for the current marketing conditions and for the effects of the operations of destruction and transformation by fusion of products of jewelry.

The provision for inventory write-down amounted to Euro 2,053 thousands and it has been estimated based on the value of the potential

loss arising from transactions involving the disposal of finished products outside the ordinary channels of distribution. During the financial year the fund was used for Euro 1,657 thousands for destruction of jewelry products and destocking carried out at the various Group companies which generated losses in line or below the values set aside.

Total inventory write-down amounted to Euro 9,735 thousands at March 2013 (Euro 9,339 thousands at March 31, 2012).

Please note that on March 31, 2013 the item Finished product and goods includes for Euro 8,055 thousands (Euro 9,132 thousands at March 31, 2012) finished goods delivered to customers but for which at the end of the financial year were not met the conditions for the recognition of related revenues.

11. TRADE RECEIVABLES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euros)	March 31 2013	March 31 2012
Trade receivables, gross	46,870	53,445
Provision for doubtful accounts	(5,091)	(5,229)
Fund for returns on sales from customers	(16,619)	(18,861)
Impact of Net Present Value calculation of receivables	(34)	(35)
Total net trade receivables	25,126	29,320

The decrease of net trade receivables by Euro 4,194 thousands was mainly due to the reduction of sales with deferred collection on the wholesale channel, as well as to a partial release of the fund for returns. The balance at March 31, 2013 was shown net of allowance for doubtful receivables and fund for returns, and the effect of discounting receivables represented by reissued bank effects with maturity over the period.

The following table shows the changes in the bad debts reserve and in the fund for returns on sales during the financial year ended March 31, 2013.

(in thousands of Euros)	FUND FOR RETURNS ON SALES FROM CUSTOMERS	PROVISION FOR DOUBTFUL ACCOUNTS
Book value at March 31 2012	(18,861)	(5,229)
Accrual	(4,853)	(247)
Utilization	7,095	385
Book value at March 31 2013	(16,619)	(5,091)

There are no receivables with contractual terms exceeding five years.

12. TAX RECEIVABLES

The balance at March 31, 2013 amounted to Euro 1,373 thousands compared to Euro 1,769 thousands at March 31, 2012. The decrease was due to a lower tax credit of the Parent company and partial offset by tax credits in place.

13. OTHER CURRENT ASSETS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euros)	March 31 2013	March 31 2012
VAT receivables from the Tax Authorities	7,424	5,394
Prepayments on exchanges of goods	-	1,730
Deposits to suppliers	426	1,966
Prepayments	2,247	1,990
Receivables from other	702	708
Total other current assets	10,799	11,788

The change in Other current assets was mainly due to the following causes which move opposite sign to the item: i) increase the VAT credit especially in the subsidiary Rocca S.p.A.; ii) reset of prepayment on exchanges of goods in respect of purchase of advertising space for the complete use of the same; iii) minor advances paid to suppliers of services.

14. CURRENT FINANCIAL RECEIVABLES

The item includes Euro 147 thousands relating to payments made via POS at retail network Rocca, whose accreditation has occurred in the first days of April 2013.

15. CASH AND CASH EQUIVALENTS

The following table provides a breakdown as of March 31, 2013 and 2012::

(in thousands of Euros)	March 31 2013	March 31 2012
Bank and post accounts	7,501	6,431
Cash on hand	187	227
Total cash and cash equivalents	7,688	6,658

The cash balance represents the bank accounts and post office and the existence of cash on hand at the end of the financial year.

16. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2013, gross of treasury stock amounted to Euro 36,344 thousands and is made up of 82,600,000 ordinary shares a par value of Euro 0.44 each.

No dividends were distributed during the financial year 2012/2013. On June 14, 2013 the Board of Directors did not propose to the Shareholders' Meeting any dividend payment for the financial year 2012/2013.

The number of treasury stock held in the portfolio amounted to 5,556,409 equivalent to Euro 8,134 thousands. This amount is booked as a direct reduction in shareholders' equity.

The number of shares in circulation at the beginning of the financial year amounted to n. 14,651,862 while at March 31, 2013 they were n. 14,094,522.

The changes in shareholders' equity in the financial year ended March 31, 2013 (and illustrated in details in the statement of changes in equity) were as follows:

- loss for the financial year of Euro 8,762 thousands (including minorities);
- negative effects due to converting financial statements prepared in non-euro currencies for Euro 464 thousands;
- increase of cash flow hedging reserve for Euro 2 thousands;
- increase of stock option reserve for Euro 191 thousands, for the annual share related to the fair value valuation of the stock option plan 2010 (implemented in April 2011), according to the IFRS 2;
- free distribution to employees of own shares for Euro 15 thousands.

17. FINANCIAL LIABILITIES: CURRENT AND NON-CURRENT PORTION

The current and non-current portion of financial liabilities was made up as follows at March 31, 2013 and 2012:

(in thousands of Euros)	March 31 2013	March 31 2012	NOTE
Non current portion			
Loan A	4,500	7,500	a
Loan B	-	2,500	b
Financial Leasing	8,263	9,579	f
Total non current portion of medium/long term financial debt	12,763	19,579	
Current portion			
Loan A	3,000	3,000	a
Loan B	2,500	2,500	b
Loan C	-	101	c
Loan D	-	167	d
Loan E	-	307	e
Financial Leasing	1,042	975	f
Total current portion of medium/long term financial debt	6,542	7,050	
Total medium/long term financial debt	19,305	26,629	

The following is a breakdown of key information relating to loans granted by banks at March 31, 2013:

- Loan A was originally granted to Damiani S.p.A. in June 2009 for a total of Euro 15,000 thousands with a repayment plan based on constant six-monthly installments for the period from December 31, 2010 to June 30, 2015 at an interest rate of 4.40% per year;
- Loan B was originally granted to Damiani S.p.A. in June 2009 for a total of Euro 10,000 thousands with a repayment plan based on constant three-monthly installments for the period from June 30, 2010 to March 31, 2014 at an interest rate of 4% per year;

- c) Loan C was granted to Rocca S.p.A. in December 2007 for a total of Euro 600 thousands with a repayment plan based on quarterly installments that has been concluded at December 31, 2012;
- d) Loan D was granted to Rocca S.p.A. in December 2007 for a total of Euro 2,000 thousands with a repayment plan based on constant quarterly installments that has been concluded at June 30, 2012;
- e) Loan E was granted to Rocca S.p.A. in March 2008 for a total of Euro 1,000 thousands with a repayment plan based on constant quarterly installments that has been concluded at March 31, 2013.

Moreover, the point f) reports the leasing debts on buildings for a total of Euro 9,305 thousands and are relative to three contracts for the sale of real estates to related party, which are treated as a sale and leaseback arrangement under IAS 17. Real estate units are Damiani and Rocca store locations.

The table below shows the detail of Net financial position at March 31, 2013 and 2012:

NET FINANCIAL POSITION (*) (in thousands of Euro)	Situation at March 31 2013	Situation at March 31 2012
Current portion of loans and financing	5,500	6,075
Drawdown of credit lines, short term financing and others	21,493	8,617
Current portion of loans and financing with related parties	1,042	975
Current financial indebtedness	28,035	15,667
Non current portion of loans and financing	4,500	10,000
Non current portion of loans and financing with related parties	8,263	9,579
Non current financial indebtedness	12,763	19,579
Total gross financial indebtedness	40,798	35,246
Financial current assets	(147)	0
Cash and cash equivalents	(7,688)	(6,658)
Net Financial Position (*)	32,963	28,588

(*) The net financial position was calculated on the basis of the indications contained in Consob communication DEM/6064923 of July 28, 2006.

At March 31, 2013 the Group had a net financial debt equal to Euro 32,963 thousands, worsening compared to March 31, 2012 that was equal to Euro 28,588 thousands. The change was due to the negative operating performance and to the requirements for the investments required for the retail development, mainly abroad.

The constant and careful monitoring of the operating working capital partially offset the increase in net debt related to the two factors mentioned above.

18. EMPLOYEES' TERMINATION INDEMNITIES

In the twelve-months period closed at March 31, 2013 the following changes took place on Termination indemnities:

(in thousands of Euro)	
Termination Indemnities at March 31 2012	4,011
Cost related to current work performed	67
Financial expenses	198
Paid benefits	(306)
Actuarial Loss (Profit)	238
Termination Indemnities at March 31 2013	4,208

The changes during the period reflect the provisions and the outlays, including advances, implemented during the financial year. Employees' termination indemnities are part of a defined benefits plan.

Liabilities were calculated using the Project Unit Cost method based on the following:

- A series of financial assumptions were used (increases in the cost of living, pay increases, etc.) to calculate the potential payments that will have to be made to each employee in the event of retirement, death, invalidity, resignation and so on. This estimate of future payments includes the increases due to further years of service experience and the expected growth rate of pay received at the valuation date;
- It has been calculated the average present value of future benefits on the basis of the annual interest rate used and the probability that each service has to be effectively delivered at the financial statements date;
- It has been defined the liability for the Group identifying the share of the average present value of future benefits that refers to the service already accrued by the employee at the date of valuation;
- It has been established, on the basis of the liability determined in the previous paragraph and the reserve set aside in the financial statements as per the Italian law, the IRFS reserve.

Details of the assumptions adopted are as follows:

FINANCIAL HYPOTHESES	
Annual rate for the Net Present Value	4.40%
Annual inflation rate	2.00%
DEMOGRAPHIC HYPOTHESES	
Mortality	RG 48 (RGS table 48)
Inability	INPS tables by age and sex
Pensionable age	Reaching 100% of the mandatory social security requirements

Gains and losses deriving from actuarial calculations are booked to the income statement in each period as labor costs.

19. PROVISIONS FOR RISKS AND CHARGES

At March 31, 2013 risk reserves amounted to Euro 1,296 thousands (at March 31, 2012 it was equal to Euro 1,819 thousands), to cover estimated costs of litigation for Euro 606 thousands and for Euro 690 thousands to reorganization measures in progress at several foreign subsidiaries. The value of the fund for litigation decreased from Euro 1,129 thousands at March 31, 2012 to Euro 606 thousands at March 31, 2013 due to: i) provisions for Euro 325 thousands made in the period; ii) use of Euro 848 thousands. The reorganization fund remains unchanged at Euro 690 thousands pending completion of the restructuring processes taking place in the foreign subsidiaries.

20. OTHER NON CURRENT LIABILITIES

The amount of the item increased from Euro 532 thousands at March 31, 2012 to Euro 571 thousands at March 31, 2013. The amount is mainly made up of the termination indemnities of directors.

21. TRADE PAYABLES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Trade payables due in less than 12 months	44,601	50,405
Bill payable, other credit securities and advances	1,003	775
Total trade payables	45,604	51,180

Trade payables' decrease is related to the reduction of operating expenses towards third parties (in order to purchase services, raw materials and finished goods) booked in the financial year 2012/2013.

22. SHORT TERM BORROWINGS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Usages of short term credit lines and bank loans	21,490	8,614
Fair value of financial derivatives	3	3
Total short term borrowings	21,493	8,617

The use of short-term lines of credit are intended to finance working capital.

The increased exposure in the short term compared to March 31, 2012 (also related to the gradual repayment of medium/long term loans) did not result in adverse effects in terms of burden (interest rates paid on short-term debt are currently lower than those paid on medium/long term) and short-term credit lines available are underutilized.

23. TAX PAYABLES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
VAT payables	-	198
Taxes withheld from employees (IRPEF)	330	346
Current income tax payables (IRES and IRAP)	1,615	1,546
Other tax payables	48	61
Total tax payables	1,993	2,151

There were not significant changes from the previous year.

24. OTHER CURRENT LIABILITIES

The following table provides a breakdown as of March 31, 2013 and 2012::

(in thousands of Euro)	March 31 2013	March 31 2012
Payables to social security institutions	1,132	1,176
Payables to employees	2,873	2,953
Other liabilities	464	411
Deferred income	1,113	841
Total other current liabilities	5,582	5,381

Payables to social security institutions included the debt for social security and social contributions and insurance.

The item payables to employees included liabilities for vacation and leave not enjoyed as well as the amount accrued and not yet delivered by 13-th and 14-th monthly.

The increase in accrued liabilities was primarily related to deferred income for rents.

25. REVENUES

The table below shows the consolidated revenues for the financial year ended March 31, 2013 and the financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Revenues from sales and services	137,605	151,308
Other revenues	218	291
Total revenues	137,823	151,599

The breakdown of revenues by sales channel is the following:

REVENUES BY SALES CHANNEL (In thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Retail	50,142	46,330
Percentage on total sales	36.4%	30.6%
Wholesale	87,462	104,978
Percentage on total sales	63.5%	69.2%
Total revenues from sales and services	137,605	151,308
Percentage on total sales	99.8%	99.8%
Other revenues	218	291
Percentage on total sales	0.2%	0.2%
Total Revenues	137,823	151,599

Consolidated revenues for the financial year ended March 31, 2013 amounted to Euro 137,823 thousands, compared to Euro 151,599 thousands in the financial year ended March 31, 2012, a decrease equal to Euro 13,776 thousands (-9.1%).

The following is a breakdown of other income for the financial year ended March 31, 2013 and that ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Leases and rentals	167	262
Royalties	36	-
Franchising	9	25
Revenue from sale of advertising material	6	4
Total other revenues	218	291

26. COST OF RAW MATERIALS AND CONSUMABLES

The table below shows the cost of raw materials and consumables (including purchases of finished products) for the financial year ended March 31, 2013 and the financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Purchases	71,916	80,741
Change in inventory of finished products	1,825	7,694
Change in inventory of raw materials and consumables	1,543	(2,748)
Total cost of raw materials and consumables	75,284	85,687

The decrease of Euro 10,403 thousands is related to lower revenues recorded in the financial year 2012/2013, and the different mix of sales by channel and by product category (Group brands and third-party brands) which correspond to different costs of purchasing and margins.

27. COST OF SERVICES

The breakdown of the item for the financial year ended March 31, 2013 and the financial year ended March 31, 2012 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Functional expenses	8,314	9,176
Advertising expenses	9,800	10,216
Other commercial expenses	2,397	3,499
Production costs	3,033	2,693
Consultancy	3,466	4,032
Travel/transport expenses	3,412	4,126
Directors' Fees	919	1,217
Use of third party assets	9,372	10,485
Total cost of services	40,713	45,445

The cost of services decreased of Euro 4,732 thousands compared to the previous year and this trend has been affected by the general reduction of cost components (excluding the costs of production associated with the outsourcing contract work), as a result of the costs savings resulting from the reorganization plan which has already illustrated in the Report on operations. These structural efficiencies will fully manifest their positive impact in the financial year 2013/2014.

28. PERSONNEL COST

The breakdown of the item for the financial year ended March 31, 2013 and the financial year ended March 31, 2012 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Wages and salaries	20,203	19,415
Social security costs	5,378	5,292
Termination indemnity	1,392	1,052
Other personnel costs	278	295
Total personnel cost	27,251	26,054

The increase in cost equal to Euro 1,197 thousands compared to the previous year was due to the actions needed to support business areas in development (especially abroad) which have requested new resources with an higher average per capita cost. In the financial year ended March 31, 2013 the average number of employees of the Group was n. 567 units, in slight contraction compared to the previous financial year (n. 573.5 units), as a result of the above mentioned reorganization projects.

The table below shows the average number of employees of the Group by categories, in the financial year ended March 31, 2013 and the financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Executives and Managers	52.0	57.0
Clerks	413.0	407.0
Workers	102.0	109.5
Total	567.0	573.5

29. OTHER NET OPERATING (CHARGES) INCOMES

The breakdown of the item for the financial year ended March 31, 2013 and the financial year ended March 31, 2012 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Other operating (charges) incomes	3,479	2,472
Allowance for doubtful accounts	(785)	(1,194)
Total other net operating (charges) incomes	2,694	1,278

The positive net balance in both financial years (increase of Euro 1,416 thousands), includes in addition to write-downs and losses on receivables, the following components:

In the financial year 2012/2013:

- 1) Compensation for loss of commercial goodwill that Damiani S.p.A. has received for the issuance of a shop (it was managed by the subsidiary New Mood S.p.A., merged in Damiani S.p.A. in the financial year 2012/2013), owned by a related party (the amount of compensation was equal to Euro 1,955 thousands);
- 2) The net effects of the restatement of the fund that cover possible returns from customers, allocated in previous years and which resulted in excess at the Group level, given the drop in the volume of returns from customers (net incomes of Euro 995 thousands);
- 3) Provisions for risks and charges in order to cover expected liabilities for Euro 325 thousands.

In the financial year 2011/2012:

- 1) The release of funds to cover expected returns by customers, that has been made in previous financial years and that at March 31, 2012 were in excess based on the update of the estimates and as a consequence of less use of this sale incentive to support the development of sales. The positive net effect was equal to Euro 3,338 thousands;
- 2) Provisions for risks and charges made to cover expected liabilities for Euro 1,151 thousands.

30. AMORTIZATION, DEPRECIATION AND WRITE DOWNS

The breakdown of the item for the financial year ended March 31, 2013 and the financial year ended March 31, 2012 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Amortization of intangible assets	394	496
Depreciation of property, plant and equipment	2,775	2,551
Write downs of property, plant and equipment and intangible assets	406	-
Total Amortization, depreciation and write downs	3,575	3,047

The item increased by Euro 528 thousands compared to the previous twelve months period. This increase, as shown above, was due to the devaluation of Euro 406 thousands of the net book value of fixed assets related to a shop closed during the financial year because it was unprofitable and non-strategic for the Group.

31. FINANCIAL (EXPENSES) AND INCOMES

The breakdown of the item for the financial year ended March 31, 2013 and the financial year ended March 31, 2012 is the following:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Net exchange charges	(509)	(200)
Other financial charges	(2,025)	(2,287)
Other financial revenues	314	375
Total financial (expenses) and incomes	(2,220)	(2,112)

Item decreases of Euro 108 thousands compared to the previous financial year: it was mainly related to the major foreign exchange losses generated during the financial year 2012/2013 on foreign currency items, which resulted in increase of Euro 309 thousands.

The growing use of short-term debt does not negatively affected the other financial charges, as burdened by interest rates lower than those paid on medium/long term, that for the repayment of installments have been progressively reduced.

32. INCOME TAXES

Income taxes amounted to Euro 236 thousands in the financial year ended March 31, 2013 while in the financial year ended March 31, 2012 they had an impact of Euro 2,608 thousands.

The decrease was mainly due to the minor effects resulting from the release of deferred tax assets recorded in prior years with respect to temporary differences between book value and tax value. In the financial year 2011/2012, major release of reserve for returns on sales and margins on stocks generated from intercompany sales determined an higher tax effect.

Furthermore, in accordance with the Legislative decree 98/2011 which amended the rules for tax losses carried forward (article 84 of the Income Tax Code), making them temporally unlimited even if with quantitative limits, it is proceeded to recognized deferred tax assets arising from the loss of the previous financial year 2012/2013 with reference to the subsidiaries Rocca S.p.A., which future plans support the recoverability of the values and that have already reached a positive taxable income in the financial year 2011/2012, for a total of Euro 70 thousands. Moreover, in compliance with IAS 12 was not undertaken to book the deferred tax assets related to Damiani S.p.A., that since the law 98/2011 was amended, has registered negative taxable incomes.

The current and deferred taxes recognized directly in equity are active and equal to Euro 207 thousands.

The reconciliation between taxes from the consolidated financial statements and theoretical tax calculated on the basis of IRES rate applicable to Damiani S.p.A. in the financial year ended March 31, 2013 and the financial year ended March 31, 2012 is presented below:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Result before taxes	(8,526)	(9,468)
IRES (Corporate) tax rate for the period	27.5%	27.5%
Theoretical tax burden	2,345	2,604
Not recoverable subsidiary losses	(1,885)	(2,506)
IRAP (Regional tax on productive activities) effect	(240)	(392)
Differences in tax rates	(38)	33
Changes in the tax rates	-	(267)
Other non deductible costs	(418)	(2,080)
Total differences	(2,581)	(5,212)
Total taxes for Income statements	(236)	(2,608)
Total taxes for Income statements	2.8%	27.5%

33. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes the relationships between the companies of the Damiani Group and the related parties as defined in IAS 24 and by Consob Regulation n. 17221/2010 and subsequent amendments and additions, for the financial years ended March 31, 2013 and March 31, 2012, highlighting the impact on the consolidated economic and financial values.

Dealings with related parties are almost exclusively related to real estates and financial (leases, sale and lease-back transactions, rental of a business unit).

The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2013.

(in thousand of Euro)	Financial Year 2012/2013		Balance at March 31 2013		
	Net Operating costs	Financial expenses	Other current assets	Financial debts (including leasing)	Trade payables
D. Holding S.A.	(170)	-	-	-	(680)
Imm.re Miralto S.r.l.	1,323	(771)	777	(263)	(1,946)
Montenapo 13 S.r.l.	6	-	7	-	-
Roof Garden S.A.	-	-	-	-	(169)
Executives with strategic responsibilities	(166)	-	-	-	(116)
Montenapoleone 10 S.r.l.	(114)	(104)	1	(2,502)	(258)
Magenta 82 S.r.l.	1	-	1	-	-
Duomo 25 S.r.l.	1	(36)	1	(6,540)	(94)
Total with related parties	881	(911)	788	(9,305)	(3,263)
Total from Financial Statements	(144,129)	(2,534)	10,799	(40,798)	(45,604)
% age weight	-1%	36%	7%	23%	7%

- The costs of Euro 170 thousands to D.Holding S.A. refer to rental payment made by the subsidiary Damiani International B.V. for the use at special events of the masterpieces that won the *Diamonds International Awards*, and are owned by the related party.
- The net operating costs to Immobiliare Miralto S.r.l. include the compensation for loss of goodwill pursuant to article 34 of law 392/78 received by the Group for the issuance of commercial premises in Milan, owned by related party, for an amount of Euro 1,955 thousands (gross of the related tax effects). The amount was booked in other operating income. The costs to Immobiliare Miralto S.r.l., Montenapoleone 10 S.r.l., Magenta 82 S.r.l. and Duomo 25 S.r.l. refer to rental payments for the premises in Milan, in Turin and in Valenza (AL). Moreover, in the period there are also financial expenses for Euro 911 thousands, that are interest on the financial debt with related parties for sale and lease-back operations relating to real estates in Milan, Padova and Taormina (up to September 30, 2012) where boutiques Damiani and Rocca are located. The outstanding financial debt on March 31, 2013 amounts to Euro 9,305 thousands. Compared to the previous financial year the total costs incurred to related parties for the use of space decrease due to the reduction of the buildings as a result of the rationalizations. Other current assets include the prepaid expense initially paid by Rocca S.p.A. in the financial year 2010/2011 when the lease contract related to the Turin boutique was signed (the value at March 31, 2013 was equal to Euro 777 thousands).
- Costs to Montenapo 13 s.r.l. refer to rents paid by the subsidiary Rocca S.p.A. for a store in Italy.
- Trade payables to Roof Garden S.A. refer to rents, accrued in prior years, for a premises in New York used by the subsidiary Damiani Usa Corp. During the financial year 2012/2013 the lease terminated.
- The costs to executives with strategic responsibilities were related to services which fall under the ordinary operations of the Group.

The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2012.

- The costs of Euro 170 thousands to D.Holding S.A. refer to rental payment made by the subsidiary Damiani International B.V. for the use at special events of the masterpieces that won the *Diamonds International Awards*, and are owned by the related party;
- The costs to Immobiliare Miralto S.r.l. refer to rental payments for the premises in Milan, in Turin and in Valenza (AL). Moreover, in

(in thousand of Euro)	Financial Year 2011/2012		Balance at March 31 2012		
	Operating costs	Financial expenses	Other current assets	Financial debts (including leasing)	Trade payables
D. Holding S.A.	(170)	-	-	-	(510)
Imm.re Miralto S.r.l.	(1,836)	(1,012)	1,166	(10,554)	(2)
Montenapo 13 S.r.l.	(30)	-	-	-	-
Roof Garden S.A.	(90)	-	-	-	(185)
Executives with strategic responsibilities	(307)	-	-	-	(64)
Total with related parties	(2,433)	(1,012)	1,166	(10,554)	(761)
Total from Financial Statements	(158,955)	(2,487)	11,788	(35,246)	(51,180)
% age weight	2%	41%	10%	30%	1%

the period there are also additional financial expenses for Euro 1,012 thousands, that correspond to the interest on the financial debt with related party for sale and lease-back operations relating to four real estates in Milan, Padova e Taormina where boutiques Damiani and Rocca are located. The outstanding financial debt at March 31, 2012 amounts to Euro 10,554 thousands. The other current assets include: i) the prepaid expense initially paid by Rocca S.p.A. in the previous financial year when the lease contract related to the Turin boutique was signed (the value at March 31, 2012 of this current asset is equal to Euro 742 thousands); ii) the deposit paid by Damiani S.p.A. to the related party in respect to the expenses incurred by him to restore the premises in Milan where will be transferred the marketing department Damiani during the financial year 2012/2013;

- Costs to Montenapo 13 s.r.l. refer to rents paid by the subsidiary Rocca S.p.A. for a store in Italy;
- Costs to Roof Garden S.A. refer to rents for a premises in New York used by the subsidiary Damiani Usa Corp.;
- The costs to executives with strategic responsibilities were related to services which fall under the ordinary operations of the Group.

In both periods are also outstanding loans agreements between the Parent company and certain subsidiaries negotiated at arm's.

34. COMMITMENTS AND CONTINGENT LIABILITIES

There are outstanding commitments and liabilities arising from obligations under way and which is likely the use of resources to fulfill the obligation, which are not already reflected in the values of the financial statements at March 31, 2013.

With regard to the dispute between the Tax Agency – Office of Milan and the subsidiary New Mood S.p.A., together with the parent company Damiani S.p.A. who has opted for the tax consolidation system (please note that on December 20, 2012 was formalized by notarial deed the merger by incorporation of the New Mood S.p.A. in the parent company Damiani S.p.A.), which has been disclosed in the previous financial statements from the financial year 2009/2010, it provides a further update.

The assessment notice for the tax year 2004 contested the fiscal deductibility of costs for about Euro 8,000 thousands relating the purchases of goods from supplier companies resident in Hong Kong, maintaining that for these companies did not exist the tax exemption conditions laid down by article no. 110, paragraph 11 of the TUIR (Consolidated Income Tax Act). On June 28, 2012 the Regional Tax Commission of Milan filed on appeal, confirming the position favorable to the taxpayer New Mood S.p.A. and then the correct deductibility of costs recorded in the 2004 tax year. That judgment became final March 14, 2013 with no further appeals by the Tax Agency. Since March 2010, the liability was qualified as “possible”, and consequently had never proceeded to make provisions in the annual financial statements. On September 26, 2012, the Provincial Tax Commission of Como has notified the Italian Tax Representative of the subsidiary Damiani International B.V. notice of assessment on the control in the field of value added tax for the year 2007. This check was initiated on March 14, 2012. The findings presented in the notice of assessment mainly refer to the non-deductibility of VAT on a lease, and other minor elements, for an amount due, including penalties, for about Euro 155 thousands. In this regard the tax advisors believe to be unfounded what detected by the Tax Agency and consequently on March 18, 2013 the company Damiani International B.V. filed an appeal in the Provincial Tax Commission of Como for the annulment of the assessment. On 17 and 22 May 2013, the Provincial Directorate of the Tax Agency of Como sent a notice of assessment on the same subject (non-deductibility of VAT on lease contracts) with reference to the year 2008, 2009 and 2010. The tax advisors confirm what has already been supported and therefore the liability is qualified as “possible” and in the financial statements of the year 2012/2013 has not proceeded to make specific provisions.

35. ATYPICAL AND/OR UNUSUAL AND NON-RECURRING TRANSACTIONS

In the financial year 2012/2013 there were no positions or transactions deriving from atypical and/or unusual operations as defined in the Consob ruling n. 15519 as of July 27, 2006.

As non-recurring operation it should be noted:

- Compensation for loss of goodwill pursuant to article 34 of law 392/78 received by Damiani S.p.A. for the issuance of commercial premises in Milan, owned by related party, for an amount of Euro 1,955 thousands (gross of the related tax effects). The amount was recorded in other operating income.

36. EARNINGS (LOSSES) PER SHARE

The basic earnings (losses) per share was calculated dividing the net result for the financial year attributable to the ordinary shareholders of the Issuer Damiani S.p.A. by the weighted average number of shares in circulation during the period. For the calculation of earnings (losses) per share was determined by the weighted average number of shares in circulation considering also the effects arising from the purchase of own shares starting from March 2008, following the resolutions approved by the Shareholders' Meeting on February 22, 2008, July 22, 2009, July 21, 2010, July 27, 2011 and July 26, 2012.

The following section provides information on the shares used in calculating basic and diluting earnings/(losses) per shares:

BASIC EARNINGS (LOSSES) PER SHARE	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Number of ordinary shares at the beginning of the period	82,600,000	82,600,000
Number of ordinary shares at the end of the period	82,600,000	82,600,000
Weighted average number of ordinary shares for computation of basic earnings per share	77,648,818	77,800,445
Basic Earnings per Share (amount in Euro)	(0.11)	(0.15)

DILUTED EARNINGS (LOSSES) PER SHARE	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Number of ordinary shares at the beginning and at the end of the period	82,600,000	82,600,000
Weighted average number of ordinary shares for computation of diluted earnings per share	77,648,818	77,800,445
Weighted average number of ordinary shares for computation of basic earnings per share	77,648,818	77,800,445
Diluted Earnings per Share (amount in Euro)	(0.11)	(0.15)

37. DIRECTORS' FEES

The fees for the financial year 2012/2013 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A. also with reference to what is perceived to similar functions performed within other Group companies are reported in the Annual report on remuneration, prepared pursuant to article 123-ter of Legislative Decree n. 58/1998 and article 84-quater of Consob Regulation n. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2013/2014 and the procedures used for the adoption and implementation of this policy, and contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of Legislative Decree n. 58/1999.

The Remuneration report is made available to the public, together with the annual financial statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website www.damiani.com.

38. STOCK OPTION PLANS

The Board of Directors of Damiani S.p.A. on July 26, 2012 voted to continue the implementation of the Stock Option Plan 2009, initially approved by the Shareholders' Meeting of July 22, 2009 and implemented by the Board of Directors of September 24, 2009 and concerning the sale of options to the management of the Damiani Group for the purchase of maximum n. 3,500,000 Damiani shares. The options can now be performed from September 13, 2014 to September 30, 2014 (or, alternatively, in the period between September 13, 2015 to September 30, 2015) at a strike price of Euro 1.45 per share. The value of the option has been set at Euro 0.0202 (or Euro 0.0405 for the alternative period of exercise), determined by the Board of Directors and by the Remuneration Committee with the support of Equita SIM S.p.A. n. 10 beneficiaries acceded to the Plan for a total of n. 315,000 options.

At the date of approval of this annual financial report are ongoing three different plans based on financial instruments under article 114-bis of the Legislative Decree n. 58/1998. In addition to the Stock Option Plan 2009 also:

- Stock Grant Plan 2009, approved by the Shareholders' Meeting of July 22, 2009 and concerning the free allocation of a maximum of n. 1,000,000 Damiani shares to employees and certain directors of the Damiani Group, in one or more tranches, within five years from the date of approval; such a plan has been the focus of two cycles of implementation approved by the Board of Directors on September 10, 2009 and June 10, 2011.
- Stock Option Plan 2010, approved by the Shareholders' Meeting of July 21, 2010 and concerning the free allocation of a maximum of n. 3,500,000 Damiani shares to directors, executives, managers, other employees, consultants and contributors, including agents, of the Damiani Group in one or more tranches within five years from the date of approval. Such a plan has been the focus of a single cycle of implementation approved by the Board of Directors on April 21, 2011 which has three different maturity dates. The failure to achieve the expected performance on March 31, 2013 does not permit the exercise of stock option for the first period of maturation.

For more information see the Remuneration report, prepared by the Board of Directors of Damiani S.p.A. under the article 123-ter of the Legislative Decree n. 58/1998 and the article 84-quater of the Consob Regulation n. 11971/1999 and available on the website www.damiani.com.

39. CAPITAL MANAGEMENT

The primary objective of the Damiani Group is to guarantee, even in period of economic crisis and financial stress, the best possible balance between assets and liabilities (solvency ratio). Starting from this principle the Group is committed, even in a not positive market environment, to maintain an high capital strength and to limit debt to the banking system (also trying to minimize the related cost in terms of interest expenses) in order to maximize its credit rating and therefore support the expansion plans of the Group in the best possible financial conditions.

The Group manages its capital structure and changes it according to the changes in economic conditions and in the targets of its strategic plans.

40. FINANCIAL RISK MANAGEMENT

At March 31, 2013 the Damiani Group had a negative net financial position of about Euro 33 million, increasing by Euro 4.4 million in respect of March 31, 2012. This trend is related to the non-positive earnings performance and the requirements for the investments required, attenuated by a constant monitoring of the operating working capital.

The Group adjusted its policy of financial risk management at the existing situation and at the specific projects which in turn intended to develop.

In the following paragraphs are described the main financial risks to which the Damiani Group is exposed and that are constantly monitored in order to identify appropriate actions to mitigate them, listing them in descending order of importance.

Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.

With reference to the dealership, the Group deals with a customer base consisting mainly of jewelry shops and distributors and therefore are not generally required collateral. The Group carries out a preliminary information surveys to customers through a specific information company and monitors all customers with the attribution of a specific trust; for all is also operating an automatic control with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection.

Where there are critical situations with the customers, the credit management department formalizes plans to return while generating a lengthening of the average collection times, minimizes the risk of loss.

This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged (mostly domestically), and the difficult to access to credit can impact the solvency of some clients. The Group shall conduct timely assessment of risks both in the closing of the financial year that during the same, when preparing the interim reports.

The table below shows the maximum potential exposure to the credit risk at March 31, 2013 and at March 31, 2012.

(in thousands of Euro)	March 31 2013	March 31 2012
Current financial receivables	147	-
Cash and cash equivalent	7,501	6,431
Trade receivables	25,126	29,320
Other non current assets	4,349	3,924
Other current assets	12,172	13,557
Total maximum exposure to the credit risk	49,295	53,232

In relation to trade receivables the exposure reported in the table has already been appropriately adjusted to reflect the estimated realizable value at the date of the financial statements based on the assessment and the findings reported in note 11.

Liquidity risk

The financial equilibrium of the Group is mainly linked, on one hand, to the strict control of the financial resources that are absorbed by the working capital linked to operational activities in turn strongly influenced by widespread seasonal with over 40% of the annual revenues concentrated within the third quarter of the financial year, i.e. from October to December; and to a lesser extent, investments made and on the other hand the renewal of debt maturities and the related conditions in the credit market.

The Group manages the liquidity risk through the strict control of the operating working capital, consisting of stock and trade receivables and payables. During the financial year Damiani S.p.A. has mainly transferred receivables "pro-solvendo", for the purpose of optimizing the costs related to the different forms of possible financing. Compared to current use, the Damiani Group has bank credit lines much broader and equal to around Euro 64 million.

As part of the proper balance between resources generated or used by operating activities also includes assessment made by management to bring the inventories to better dimensions related to the current business volumes. These assessments have led the Group to achieve during the financial year some scrapping operations with recovery of valuable raw materials. The actions, in the current market situation, can be beneficial both in terms of brand equity and control of liquidity risk and optimization in the management of working capital. The table below shows the detail of the liquidity risk:

ANALYSIS OF THE DUE DATE AT MARCH 31 2013				
(in thousand of Euro)	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	45,604	-	-	45,604
Long term financial debts	5,500	4,500	-	10,000
Debts for financial leasing	1,042	4,168	4,095	9,305
Short term borrowings	21,493	-	-	21,493
Other current liabilities	7,575	-	-	7,575
Total exposure	81,214	8,668	4,095	93,977

ANALYSIS OF THE DUE DATE AT MARCH 31 2012				
(in thousand of Euro)	WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	51,180	-	-	51,180
Long term financial debts	6,075	10,000	-	16,075
Debts for financial leasing	975	3,900	5,679	10,554
Short term borrowings	8,617	-	-	8,617
Other current liabilities	7,532	-	-	7,532
Total exposure	74,379	13,900	5,679	93,958

Raw materials price fluctuations' risks

Among its raw materials the Damiani Group mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors such as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2012/2013 the average price of gold, which is normally considered as being a shelter-good in times of economic and financial crisis and subject to much speculation, continued to record wide fluctuations: in April 2012 the average monthly value was 40.3 euros per gram, then increased to about 43.6 euros per gram in September 2012 and down to 39.5 euros per gram in March 2013. The annual average was 41.3 euros per gram, compared to an annual average in the previous financial year 2011/2012 which was equal to 38.5 euros per gram, an increase of 7.2%.

In the following months (April-May 2013) gold prices have undergone a rapid and significant decrease, returning to the levels of mid-2011 (values around 35-36 euros per gram) and recording strong daily fluctuations dictated by massive sales. In this context it is difficult to identify the causes and consequently formulate reliable forecasts for the coming months.

The risks related to the price of raw materials and to the strong and sudden fluctuations are amplified for effect of movements in the exchange rate, because some materials have official prices in currencies other than Euro and the same purchases are settled in U.S. dollars (diamonds) and Yen (pearls), while the Group's functional currency is the Euro.

The Damiani Group mitigates this risks as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2013 active contracts relating to purchases of gold were 6 for a total quantity of 102 kilograms and an agreed equivalent of Euro 4,204 thousands); b) purchases finished products from suppliers with who there exist well established relationships and defined agreements for a medium-term time that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the retail price is increased (usually annually) in relation to the increase in the production costs.

A medium-long term upward trend in the price of raw materials used in the manufacturing process would inevitably result in a reduction of margins for the Group, as it is not possible to fully pass on the price the increase of the purchase cost.

Interest rate risk

Interest rate changes may affect the Group's profitability, implying higher costs for interest on debt.

In order to limit the risk of exposure to fluctuations in interest rates, the Group signed in the past (June 2009) medium-long term loans (for a maximum period of 6 years) for a total amount of Euro 25,000 thousands at a fixed rate (between 4% and 4.5%) and without any additional guarantees and covenants. The residual value at March 31, 2013 of such funding signed by Damiani S.p.A. was Euro 10,000 thousands.

In addition, the Group uses other form of short-term financing (lines of credit and factoring) to cover its financial requirements. These short-term loans are more exposed to fluctuations in interest rates and the credit crunch that may occur in times of crisis like the present. The use of short-term loans during the financial year 2012/2013 is, however, occurred at average rates lower than 3% per year, lower than those paid on medium-long term financing existing (around 4.2%)

To re-balance the overall structure of the debt, the Group is evaluating with leading banks forms of medium-long term financing.

In April 2013, the subsidiary Rocca S.p.A. signed with a national bank a loan agreement to three years (repayable in 36 monthly instalments) for Euro 2,000 thousands, with a rate Euribor 3-months plus a spread of 3%, for the coverage of investment in its retail business. In February 2013, was also signed a loan with Simest S.p.A. for Euro 3,012 thousands at a subsidized rate (in addition to costs related to the underlying bank guarantee required for the amount financed) for the implementation of development programs in China (to cover investments and operating costs to be incurred in the 24 months following the date of conclusion of the contract). The contract provides for reimbursement in seven years (after the first two-year grace period), in half-yearly installments. On June 14, 2013 was granted an interim financing equal to 30% of the total.

Exchange rate risk

The Damiani Group's functional currency is the Euro and, therefore, the transactions that originate in other currencies are subject to exchange rate fluctuations, mainly of the US Dollar and Japanese Yen, which are the currencies in which are prepared the financial statements of the foreign subsidiaries located outside the Eurozone. When converting the fluctuations in exchange rates affect the financial result and the financial position of the Group.

Furthermore, some purchases of raw materials and finished products, as described above, are made in US Dollar and Japanese Yen, which exposes them to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk. The notional amount of the currency forward purchases made by the Group during the financial year amounted to a total of Euro 6,863 thousands.

At March 31, 2013 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 2,344 thousands. At March 31, 2012 contracts within the Group were instead equal to a total of Euro 1,735 thousands.

Financial instruments at fair value and relative valuation hierarchy levels

The table below gives details of assets and liabilities valued at fair value. No significant differences emerge from a comparison of the book value and fair value of the different categories of financial instruments used by the Group and booked to the financial statements.

(in thousand of Euro)	BOOK VALUE						FAIR VALUE	
	Total		current		non current			
	March 31 2013	March 31 2012	March 31 2013	March 31 2012	March 31 2013	March 31 2012	March 31 2013	March 31 2012
Cash and cash equivalent	7,688	6,658	7,688	6,658	-	-	7,688	6,658
Current financial receivables	147	-	147	-	-	-	147	-
Trade receivables	25,126	29,320	25,126	29,320	-	-	25,126	29,320
Other financial assets	16,521	17,481	12,172	13,557	4,349	3,924	16,521	17,481
Total financial assets	49,482	53,459	45,133	49,535	4,349	3,924	49,482	53,459
Trade liabilities	45,604	51,180	45,604	51,180	-	-	45,604	51,180
Financial debts	40,798	35,246	28,035	15,667	12,763	19,579	40,798	35,246
Other liabilities	7,575	7,532	7,575	7,532	-	-	7,575	7,532
Total financial liabilities	93,977	93,958	81,214	74,379	12,763	19,579	93,977	93,958

With regard to the financial instruments booked at fair value, IFRS 7 requires these values to be classified on the basis of hierarchy levels that reflect the significance of the method used to calculate the fair value. These levels are as follows:

- level 1: financial instrument listed on an active market;
- level 2: fair value is measured on the basis of valuation techniques that are based on observable market data, different from the listing;
- level 3: fair value is calculated on the basis of valuation techniques that are not based on observable market data.

All assets and liabilities valued at fair value at March 31, 2013 are classified at level 2 and during the financial year 2012/2013 there were no transfer from level 1 or 3 to level 2.

41. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

After having obtained the authorization by the Indian competent body in November 2012, on April 15, 2013 resulted in the transfer of 51% of the share capital of Damiani India Pvt. Ltd from the Indian partner, owner of all the shares, to Damiani International B.V., a subsidiary 100% owned by Damiani S.p.A. The transfer of n. 357,000 shares (at a price of 10 Indian Rupees each) resulted in the Group an outlay of Indian Rupees (INR) of 3,570,000, amounting to approximately Euro 51 thousands. In the days following Damiani International B.V. subscribed to a capital increase, the share of its competence, which resulted in an additional outlay of INR 14,779,800 (equivalent to approximately Euro 210 thousands). The Indian company currently operates a flagship store Damiani in New Delhi at the prestigious Oberoi Hotel.

On 17 and 22 May 2013, the Provincial Directorate of Como Tax Agency sent a notice of assessment to Damiani International B.V. with respect to a tax audit initiated in early 2012 in the field of non-deductible VAT on leases, for the years 2008, 2009 and 2010. The tax advisors believe to be unfounded the findings of the Tax Agency and therefore the liability is qualified as "possible" and in the financial statements 2012/2013 has not proceeded to carry out specific provisions.

42. AUDIT COSTS

The following table, prepared in accordance with article 149-duodecies of Consob Issuers' Regulation, shows the contractual fees accrued in the financial year ended March 31, 2013 for services provided by the independent audit company and by entities belonging to the same network.

The independent auditors provided only the following audit services:

1. Audit of financial statements of the Parent company Damiani S.p.A. and its subsidiaries;
2. Audit of consolidated financial statements;
3. Limited review of the interim condensed consolidated financial report as of and for the six months ended September 2012.

The costs of these services are summarized in the table below:

(in thousand of Euro)				
TYPE OF SERVICES	SERVICE PROVIDER	SERVICE PROVIDED TO	SERVICES	FEES
Audit	Reconta Emst & Young S.p.A.	Parent company	Professional fees	225
		Parent company	Other expenses	36
Audit	Reconta Emst & Young S.p.A.	Subsidiaries	Professional fees	145
		Subsidiaries	Other expenses	15
		Total		421

43. EXCHANGE RATES

The exchange rates at March 31, 2013 and at March 31, 2012 used for the translation of financial statements in foreign currencies were the following:

CURRENCY	AVERAGE 2012/2013	SPOT MARCH 31, 2013	AVERAGE 2011/2012	SPOT MARCH 31, 2012
U.S. Dollar	1.287	1.281	1.378	1.336
Japanese Yen	106.360	120.870	108.804	109.560
Swiss franc	1.210	1.220	1.213	1.205
G.B.Pound	0.815	0.846	0.863	0.834
Hong Kong Dollar	9.981	9.942	10.714	10.371
Pataca Macau	10.280	10.240	11.030	10.676
Mexican Peso	16.824	15.815	17.727	17.022
Renminbi Chinese	8.157	7.960	N/A	N/A
Won Republic of Korea	1,430.309	1,425.030	N/A	N/A

For the Board of Directors
President & CEO
Mr. Guido Grassi Damiani

Attestation regarding the Consolidated Financial Statements, pursuant to article 154 bis of the Legislative Decree 58/1998

I. The undersigned Mr. Guido Grassi Damiani, President and CEO, and Mr. Gilberto Frola, Executive in charge of drawing up the accounting documents of Damiani S.p.A., also considering the provisions of article 154-bis, paragraph 3 and 4, of the Legislative Decree n. 58 of February 24, 1998, certify:

- The adequacy in relation to the characteristics of the company and
- The effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements as of March 31, 2013.

2. Furthermore it is certified that the consolidated financial statements:

- a) Are prepared in conformity with the International Accounting Standards as endorsed by the European Union pursuant to the EC regulation n. 1606/2002 of the European Parliament and Council dated July 19, 2002;
- b) Agree with the contents of the accounting books and entries;
- c) Provide a true and fair representation of the economic and financial position of the Issuer and the companies included in the consolidation area;
- d) The report on operations contains a reliable analysis of the results of operations, and the situation of the Group, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 14, 2013

Guido Grassi Damiani
President and CEO

Gilberto Frola
Executive in charge of drawing up the
accounting documents

Independent auditors' report

pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Damiani S.p.A.

1. We have audited the consolidated financial statements of Damiani S.p.A. and its subsidiaries, (the "Damiani Group") as of 31 March 2013 and for the year then ended, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Damiani S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.
For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 28 June 2012.
3. In our opinion, the consolidated financial statements of Damiani Group at 31 March 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Damiani Group for the year then ended.
4. The Directors of Damiani S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and the Ownership Structure of Damiani S.p.A. published in the section "investor relation" of Damiani S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Ownership Structure of Damiani S.p.A., as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, are consistent with the consolidated financial statements of Damiani Group at 31 March 2013.

Milan, 28 June 2013

Reconta Ernst & Young S.p.A.
Signed by: Fabio Mischi, partner

This report has been translated into the English language solely for the convenience of international readers.

FINANCIAL STATEMENTS OF
DAMIANI S.P.A.
AS OF AND FOR THE YEAR
ENDED MARCH 31 2013

Prepared in accordance with
IAS / IFRS Accounting standards

Damiani S.p.A.

Report on operations
as of March 31 2013

Damiani S.p.A. business activities

As a result of the reorganization implemented in the financial year 2012/2013, aimed at making more efficient business processes, the activity of Damiani S.p.A., parent company of the Damiani Group, has assumed a different configuration than in previous years.

In fact, with regard to the distribution of jewelry on the national territory, Damiani S.p.A. has added to the historic marketing of brands Damiani and Salvini also one of the brands Alfieri & St. John and Bliss as a result of the merger of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. ⁽²⁾, which previously operated as autonomous entities in Italy. The two subsidiaries were controlled at 100% and the accounting effects of the merger were backdated to April 1, 2012; in the report on operations and in note 3 "Information on comparative data", in order to make the data of the previous year comparable to the financial statements at March 31, 2013, were presented, in addition to historical financial information of the previous financial year, the "revised" data to have the effects that would have occurred in the separate financial statements in the event that the operation of merger had occurred with effect from April 1, 2011.

During the financial year 2012/2013, since June 2012, Damiani S.p.A. has initiated direct marketing of the Group's brands to overseas markets previously managed by the Dutch subsidiary Damiani International B.V., which operated through its Swiss branch. The Dutch subsidiary has retained ownership of the trademarks for the international markets but no longer performs the operational activities related to distribution, which were centralized in Italy. On direct sales to foreign counterparts (third and Group), Damiani S.p.A. pays royalties to Damiani International B.V., according to specific contracts between the two parties and diversified by brands.

Finally, and in line with the previous financial year the Company shall meet the requirements of products from the Italian subsidiary Rocca S.p.A. which oversees the domestic market through its network of multi-brand boutiques located in major Italian cities.

Damiani S.p.A. markets the Group's brands through two distribution channels:

- wholesale channel, made up of multi-brand independent jewelry shops, franchisees, and stockists;
- retail channel made up of mono-brand points of sale managed directly by the Company. At March 31, 2013 Damiani DOS were n. 6 (Milan, Rome, Bologna, Florence, Naples and Porto Cervo). In addition, there was also the Bliss shop of Turin (in May 2013 it has been transformed into the multi-brand called the name Rocca Tr3nd).

The jewelry products are manufactured by the in-house production unit, supplied by the subsidiary Laboratorio Damiani S.r.l., as well as from third-party producers located mainly in the district of Valenza (AL), international center of excellence in the manufacture of high value and quality jewelry craftsmanship.

Corporate Governance

The system of governance of Damiani S.p.A. is the so-called "Latin" or "traditional" form: the corporate bodies are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Board of Directors of Damiani S.p.A. was renewed on July 26, 2012 by the Shareholders' Meeting, which confirmed for a further three years period, until the approval of the Financial statements as of March 31, 2015 of Damiani S.p.A., the 8 expiring Directors. On June 14, 2013 the Director Francesco Minoli (non-executive and independent Director) has resigned for personal reasons, with effect from the date of the Shareholders' Meeting that on July 26, 2013 will approve the Financial statements at March 31, 2013.

The composition of the Board of Directors complies with the applicable regulations (as per articles 147-ter and 148, paragraph 3, of the Legislative Decree n. 58/1998) and the principles of corporate governance contained in the Self-Regulation Code for Listed companies. On July 26, 2012 the new Board of Directors of Damiani S.p.A. appointed Guido Grassi Damiani as President and CEO, Giorgio and Silvia Grassi Damiani as Vice-President, Stefano Graidi as Director responsible for the internal control system and risk management and Fabrizio Redaelli as Lead Independent Director.

After verification of the requirements of non-executive and independent directors, pursuant to article 148 of the Legislative Decree n. 58/1998 and article 3 of the Self-Regulation Code for Listed companies, the Directors Fabrizio Redaelli, Roberta Benaglia and Giancarlo Malerba were called to form the Remuneration Committee and the Audit and Risk Committee.

Damiani S.p.A. adopted a Code of Ethics and the Organizational Model prescribed by the Legislative Decree n. 231/2001. The Code of Ethics refers to the values Damiani S.p.A. adheres to when carrying out its activities and contains the ethical principles and rules that

⁽¹⁾ Damiani S.p.A. ends its financial year at March 31, therefore the Financial statements at March 31 2013 cover the period April 1, 2012 – March 31, 2013 (hereafter Financial year ended March 31, 2013 or Financial year 2012/2013). For comparative purposes are exposed the data relating to the period April 1, 2011 – March 31, 2012 (hereafter Financial year ended March 31, 2012 or Financial year 2011/2012). In order to improve the comparability between the two years, data for the financial year 2011/2012 have been adjusted to estimate the impacts related to the reorganization described in the financial statements, already in the prior year to that of effective implementation.

⁽²⁾ The mergers by incorporation have been described in the report on operations of the consolidated financial statements, to which we refer for more details.

must guide the conduct of the individuals for whom it is meant. The Code of Ethics is applicable to all directors, employees, suppliers, consultants, agents and business partners and in general all those individuals who operate on behalf of the Company.

The Organizational Model adopted in its current version by the Board of Directors of Damiani S.p.A. on February 8, 2013, is a set of specific regulations dealing with conduct and operational procedures and it is designed to prevent unlawful conduct within those areas of business activities where there is a potential risk.

The Supervisory Body under Legislative Decree n. 231/2001 supervises to ensure the correct application of the Organizational Model and Code of Ethics. The Supervisory Body is collegial and includes the Internal Auditor and two external consultants, paid for the job done. This structure assures that the Supervisory Body is composed of individuals who represent all the expertise necessary to oversee the Company's management and at the same time to meet the criteria of autonomy and independence required by law.

The Supervisory Body has been assigned all the powers and resources (with a budget periodically revised) necessary for ensuring the Organizational Model adopted by the Company is effectively implemented and observed and that is efficient and effective in preventing the offences currently specified in Legislative Decree n. 231/2001. The Supervisory Body has the possibility to make recommendations to the Board of Directors about updating or adjustments of the Organizational Model.

The Supervisory Body of Damiani S.p.A. met 7 times during the Financial Year 2012/2013.

For further details about the system of corporate governance of the parent company, together with information on the company structure per article 123-bis of Legislative Decree n. 58/1998, see the Annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relation section of the website www.damiani.com.

About the obligation under Title VI of the Regulation of Legislative Decree n. 58 of February 24, 1998 concerning market discipline (Market Regulations), states that Damiani S.p.A. controls indirectly two companies which are not part of the European Union and which are relevant as per article 151 of the Market Regulations. According to article 36 of Market Regulations, states that:

- the companies have, in the opinion of the Issuer Damiani S.p.A., an administrative and reporting system suitable for regular reporting to the Corporate of Damiani S.p.A. of economic and financial figures necessary to prepare the consolidated financial statements and to carry out the statutory audit;
- the Issuer has the Statute and knows the composition of the Corporate bodies, and their powers, of the above mentioned companies, and it is advised of any modifications in a timely fashion;
- the reporting packages of the two companies, prepared for consolidation purposes, are provided in the manner and terms established by law.

Share buy-back program

On July 26, 2012 the Shareholders' Meeting resolved to authorize – subject to revocation, for the part non executed of the resolution adopted by the Shareholders' Meeting of July 27, 2011 – the purchase and disposal of own shares under co-joined articles 2357 and 2357 ter of the Civil Code and article 132 of the Legislative Decree n. 58/1998.

The authorization to purchase treasury shares is structured as follows:

- Damiani S.p.A. may purchase a maximum of ordinary shares whose nominal value does not exceed the limit of the law, up to a maximum of n. 16,520,000 ordinary shares, at a nominal value of 0.44 euro each, also keeping in consideration the shares held by the Company and, in case, by the subsidiaries;
- The authorization was granted for a period of 18 months starting from the Shareholders' Meeting date and lasting until the date of January 26, 2014;
- The purchase price of each share, including additional expenses of purchase, must be as a minimum not less than 20% and a maximum not more than 20% of the official price registered by the share in the trading session before each exchange transaction;
- The purchase transactions will be conducted on regulated markets in accordance with local regulations (article 132 of the Legislative Decree n. 58/1998; article 144-bis of Consob Regulation n. 11971/1999) and respecting the principle of equal treatment of shareholders and any other regulations, including Community rules.

As of March 31, 2013 the own shares in portfolio were n. 5,556,409 (equal to 6.73% of the share capital) and the total expense for the buy-back plan, started with the resolution of the Shareholders' Meeting of Damiani S.p.A. on February 22, 2008 was Euro 8,134 thousands at an average price for the purchase of Euro 1.464 per share. From April 1, 2012 to March 31, 2013 no additional own shares have been purchased.

Directors' fees

The fees for the financial year 2012/2013 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A., also with reference to what is perceived to similar functions performed within other Group companies are reported in the Annual report on remuneration, prepared pursuant to article 123-ter of the Legislative Decree n. 58/1998 and article 84-quater of Consob Regulation n. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2013/2014, and the procedures used for the adoption and implementation of this policy, and contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of the Legislative Decree n. 58/1998.

In this regard it should be noted that the Board of Directors of Damiani S.p.A. of July 26, 2012 ratified the waiver of fees for the financial year 2012/2013 of Directors Guido Grassi Damiani (President and CEO), Giorgio Grassi Damiani (Vice President) and Silvia Grassi Damiani (Vice President). This waiver was also confirmed for the financial year 2013/2014, and then for the third year in a row, and it is related to annual fees previously paid for a total of Euro 1.3 million.

The Remuneration report is made available to the public, together with the annual statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website www.damiani.com

Research and development

The products offered, together with the reputation and image of the brands sold, has always represented the key to the Group's success, which over the years has been able to provide innovations in style and design in the collections offered to customers. Our internal staff specifically dedicated to develop the product operates with this goal. During the financial year 2012/2013 the total cost in Damiani S.p.A. for product development was equal to Euro 857 thousand.

Main risks and uncertainties for Damiani S.p.A.

For market risks affecting the Company and which are strongly related to the current economic environment, characterized even by the financial crisis, which generates negative effects on the industrial system and a generally high level of uncertainty in forecasting consumer trends, see as already indicated in the report of operations of the consolidated financial statements.

The financial risk management is part of the wider policies for managing the Group financial structure. For specific details see note 35. Financial risk management.

For commitments and contingencies which affect Damiani S.p.A. see note 32. Commitments and potential liabilities.

Human resources and environment

For details please see the report on operations of the Consolidated financial statements.

Key Data

SHARE CAPITAL	March 31 2013	March 31 2012
Number of shares issued	82,600,000	82,600,000
Par value per share	0.44	0.44
Share capital	36,344,000	36,344,000
OWNERSHIP	% on shares issued	% on shares issued
Leading Jewels S.A. (1)	58.49%	56.76%
Sparkling Investment S.A. (1)	0.32%	1.45%
Guido Grassi Damiani	5.99%	5.89%
Giorgio Grassi Damiani	6.11%	6.11%
Silvia Grassi Damiani	5.30%	5.31%
Damiani S.p.A. (own shares) (2)	6.73%	6.74%
Market	17.06%	17.74%

Shares held by the subjects indicated by art. 79 Legislative Decree n. 58/98		
INDIVIDUAL	OFFICE HELD	NUMBER OF SHARES
Guido Grassi Damiani (total n. 59,078,736) (3)	Director	4,943,850
Giorgio Grassi Damiani	Director	5,047,371
Silvia Grassi Damiani	Director	4,379,371
Strategic executives		12,000

(1) Companies traceable to Damiani Family

(2) The Shareholders' Meeting of July 26, 2012 approved the authorization, for the part not executed of the resolution of the Shareholders' Meeting of July 27, 2011, for the purchase of own shares up to a maximum of n. 16,250,000 ordinary shares of Damiani S.p.A., within a period of 18 months from the date of the Shareholders' resolution. As of March 31, 2013 the own shares in portfolio were n. 5,556,409, equal to 6.73% of the share capital.

(3) As controlling shareholder to Mr. Guido Grassi Damiani are traceable the shares owned by: Leading Jewels S.A., Sparkling Investment S.A. and the own shares of Damiani S.p.A.

Economic/financial data

MAIN ECONOMIC DATA (in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012	Change	Change %
Revenues from sales and services	78,500	64,793	13,707	21.2%
Total revenues	78,500	64,793	13,707	21.2%
Cost of production	(80,188)	(68,532)	(11,656)	17.0%
EBITDA (*)	(1,688)	(3,739)	2,051	54.9%
EBITDA %	-2.2%	-5.8%		
Depreciation and amortization	(853)	(705)	(148)	21.0%
Operating income	(2,541)	(4,444)	1,903	42.8%
Operating income %	-3.2%	-6.9%		
Net financial incomes (expenses)	(1,221)	(686)	(535)	-78.0%
Result before taxes	(3,762)	(5,130)	1,368	26.7%
Net result	(3,241)	(5,959)	2,718	45.6%
Average number of employees (**)	272	225	47	20.9%

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Group's result. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

(**) Average number of employees for the financial year 2012/2013 and 2011/2012.

BALANCE SHEET DATA (in thousands of Euro)	Situation at March 31 2013	Situation at March 31 2012	Change
Fixed assets	81,261	74,552	6,709
Net working capital	49,479	55,786	(6,307)
Non current liabilities	(3,706)	(3,074)	(632)
Net capital invested	127,034	127,264	(230)
Shareholders' Equity	100,009	108,600	(8,591)
Net financial position (*)	27,025	18,664	8,361
Sources of financing	127,034	127,264	(230)

(*) The net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

Comments on the main economic and financial data of Damiani S.p.A.

Total revenues' trend and profitability of Damiani S.p.A. in the financial year ended March 31, 2013 was affected by the reorganization implemented during the year and previously described.

In fact, as a result of the merger of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A., the Company Damiani S.p.A. marketed whole year in Italy and abroad the two brands Alfieri & St. John and Bliss, recording the revenues and related costs. In addition, as of June 1, 2012 has started direct marketing abroad of the Group's brands to both third customers and to the Group's subsidiaries that directly manage their markets.

Previously this position was held by the subsidiary Damiani International B.V., owner of the trademarks for the foreign markets, which now perceives royalties by Damiani S.p.A., according to the new license agreements signed by the two parts.

To make it easier to compare the financial results for the financial year 2012/2013 with the year before we proceeded to adjust the values for the financial year 2011/2012, noting the retroactive effects of mergers (the recalculation mode are described in detail at the next explanatory note 3. Information on the comparative data). In the following table shows the comparisons between the economic data for the financial year 2012/2013 and the previous year, even in the "restated" version.

MAIN ECONOMIC DATA (in thousands of Euro)	Financial Year 2012/2013	Financial Year 2011/2012	Change	Restated Financial Year 2011/2012	Change
Revenues from sales and services	78,500	64,793	13,707	85,184	(6,684)
Total revenues	78,500	64,793	13,707	85,195	(6,695)
Cost of production	(80,188)	(68,532)	(11,656)	(88,426)	8,238
EBITDA (*)	(1,688)	(3,739)	2,051	(3,231)	1,543
EBITDA %	-2.2%	-5.8%		-3.8%	
Depreciation and amortization	(853)	(705)	(148)	(839)	(14)
Operating income	(2,541)	(4,444)	1,903	(4,071)	1,530
Operating income %	-3.2%	-6.9%		-4.8%	
Net financial incomes (expenses)	(1,221)	(686)	(535)	(803)	(418)
Result before taxes	(3,762)	(5,130)	1,368	(4,874)	1,112
Net result	(3,241)	(5,959)	2,718	(6,180)	2,939

(*) EBITDA represents the operating result gross of depreciation and amortization. EBITDA thus defined is used by the Group's management to monitor and evaluate the Group's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Group's result. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

In detail, revenues from sales by channel were as follows:

REVENUES BY SALES CHANNEL (in thousands of Euro)	Financial Year 2012/2013	Financial Year 2011/2012	Change	Restated Financial Year 2011/2012	Change
Third parties Wholesale	51,972	37,710	14,262	56,107	(4,135)
Percentage on total revenues	66.2%	58.2%		65.9%	
Third parties Retail	8,953	6,933	2,020	7,325	1,628
Percentage on total revenues	11.4%	10.7%		8.6%	
Total wholesale and retail revenues	60,926	44,643	16,283	63,432	(2,506)
Percentage on total revenues	77.6%	68.9%		74.5%	
Intercompany sales	17,574	20,150	(2,576)	21,752	(4,178)
Percentage on total revenues	22.4%	31.1%		25.5%	
Total Revenues	78,500	64,793	13,707	85,184	(6,684)

Compared to the restated financial year 2011/2012, the **Revenues** decreased by Euro 6,684 thousands (-7.8%), due both to lower sales to third parties in Italy in the wholesale channel, penalized by a very cautious attitude in purchases from the retailers, especially for brands Alfieri & St. John and Bliss, and to lower intercompany sales to foreign subsidiaries in view of the fact that in 2012/2013 the Company sells directly to the third-party customers in some foreign markets (business that in the previous financial year was made by Damiani International B.V., sourcing the products required by Damiani S.p.A.)

A perimeter unchanged, there was instead an increase in revenues from sales in boutiques directly managed of Euro 1,628 thousands (+22%), reflecting the appreciation of our collections by the end customer.

EBITDA for the financial year ended March 31, 2013 was negative for Euro 1,688 thousands, but an improvement of Euro 1,543 thousands compared to the restated year ended March 31, 2012. The improvement is a direct result of both the lower costs of goods sold, related to the reduction in sales, and saving actions realized on some components of services costs.

Net Result for the period was negative for Euro 3,241 thousands, but an improvement of Euro 2,939 thousands compared to the previous restated financial year. The recovery is the result of better operating performance and lower tax impact, set against net financial expense increase of Euro 418 thousands, for negative exchange rates effects.

Balance sheet

The following table shows the comparisons between the balance sheet at March 31, 2013 and at March 31, 2012, also in the restated version.

BALANCE SHEET DATA (in thousands of Euro)	Situation at March 31 2013	Situation at March 31 2012	Change	Restated Situation at March 31 2012	Change
Fixed assets	81,261	74,552	6,709	62,108	19,153
Net working capital	49,479	55,786	(6,307)	62,761	(13,282)
Non current liabilities	(3,706)	(3,074)	(632)	(3,831)	125
Net capital invested	127,034	127,264	(230)	121,039	5,996
Shareholders' Equity	100,009	108,600	(8,591)	103,044	(3,035)
Net financial position (*)	27,025	18,664	8,361	17,995	9,031
Sources of financing	127,034	127,264	(230)	121,039	5,996

(*) The net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

At March 31, 2013 the **Net invested capital** of Damiani S.p.A. amounted to Euro 127,034 thousands, an increase of Euro 5,996 thousands compared to the situation restated at March 31, 2012. This growth is primarily due to capital contributions of Euro 3,433 thousands for new foreign subsidiaries Damiani Shanghai Trading Co. Ltd and Damiani Korea Co. Ltd, established during the financial year 2012/2013, and the net increase in property, plant and equipment for support the development. The different disclosure between non-current and current assets is mainly due to the reclassification of trade receivables from the subsidiary Damiani International B.V., dating back to periods prior to March 31, 2012, as financial fixed assets given the uncertainty on the timing of collection. Interest receivable, equal to Euro 527 thousands are accrued on such assets during the financial year 2012/2013.

At March 31, 2013 Damiani S.p.A. had a **Net debt** of Euro 27,025 thousands, down by Euro 9,031 thousands compared to the value of the previous year restated. The change compared to the previous year is due to the negative performance of the Company and the financial resources necessary to support the development of the Group, also abroad.

Transactions with related parties

Damiani S.p.A.'s dealings with related parties are commercial (sales of jewelry products of the Group brands), in connection with its core business, and real estate transactions (rental of shops and offices).

For the specific figures and descriptions of the nature of dealings with related parties, please see note 31. Transactions with related parties, in the explanatory notes of the financial statements.

Significant events during the financial year

From July 1 until August 31, 2012 Damiani started a charitable activity to help the people victims of the earthquake in Emilia, with the aim of raising funds to support the no profit organization "Vola nel Cuore", an association that helps children. The payment of the amount generated by the initiative happened in the month of November 2012.

In August 2012 the Chinese subsidiary Damiani Shanghai Trading Co. Ltd, wholly owned by Damiani S.p.A., was established with registered office in Shanghai, Pudong New Area. The share capital of this new company initially of 15,000,000 of Renminbi (CNY), was subsequently led to 30,000,000 of Renminbi (CNY) with an increase in capital (at year-end exchange value is approximately Euro 3,769 thousands). The company's purpose is the import and distribution of jewelry and watches in China. At March 31, 2013 the subsidiary manages two mono-brand Damiani stores in Shanghai and Ningbo.

On October 14, 2012 the new spot Damiani was broadcast on TV, on the main national networks. The spot offers the same atmosphere that also characterized the press campaign.

From October (and in some cases from November), some leases relating to buildings used by the Group (in particular office in Milan and Valenza), owned by related parties, have been resolved in advance. These actions are included in the reorganization implemented within

the Group, in order to generate efficiencies in processes and cost savings.

Cruciani and Damiani, two maison of the excellence of made in Italy, collaborated during the second half of the financial year for the production of bracelets for Valentine's Day, limited edition, embellished with diamonds and silver.

On December 20, 2012 was formalized, by notarial act, the merger of the companies New Mood S.p.A. and Alfieri & St. John S.p.A. in the parent company Damiani S.p.A. (who owned 100% of the capital stock of both subsidiaries), with effect towards third parties from January 1, 2013. The proposed merger, which did not result in any increase in capital nor are they subject to the Procedure for transactions with related parties pursuant to Consob Regulation n. 17221/2010, were approved by the respective Boards of Directors of the companies involved on October 8, 2012. The related accounting and tax effects are backdated to April 1, 2012.

On March 13, 2013 the Korean subsidiary Damiani Korea Co. Ltd, wholly owned by Damiani S.p.A. was established, with registered office in Seoul, International Finance Center One IFC Building. The share capital of the new company is 500,000,000 of Won (KRW), equal to around Euro 351 thousands. The company's purpose is to import and distribute jewelry and watches in South Korea. On March 31, 2013 the subsidiary was not yet operational.

Significant events after the end of the financial year

In May 2013 Damiani won the Andrea Palladio International Jewellery Award for Best communication campaign 2012/2013, sponsored by the Vicenza Fair and dedicated to excellence in design, production and communication in jewelry.

Business outlook

The financial results achieved by Damiani S.p.A. in the financial year 2012/2013 are the consequence of the reorganization previously described, aimed at improving efficiency in the business and in the logistic/administrative processes, whose benefits will be fully visible in the next financial year, as well as a situation in the domestic market that continues to record a stagnation in consumption, not only for luxury goods.

Given the greater organizational efficiency achieved and the positive signals from the foreign markets directly supplied by the Company, and the confirmation in the first months of the new financial year of an encouraging sales growth in the single-brand Damiani boutiques, it is believed that the overall economic performance of the Company in the financial year 2013/2014 will mark an improvement that adequately reflects the business opportunities.

Proposed resolution on Damiani S.p.A.'s results for the financial year ended March 31, 2013

Shareholders,

to conclude our report, and trusting in your approval of the form and criteria used in preparing the financial statements at March 31, 2013, we propose:

1. To approve the financial statements of Damiani S.p.A. as of March 31 2013;
2. To balance this financial year's loss for Euro 3,241,254 using the Extraordinary reserve for Euro 1,171,789 and the Share premium reserve for the excess of Euro 2,069,465.

Milan, June 14 2013

For the Board of Directors
President & CEO
Mr. Guido Grassi Damiani

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STATEMENT OF FINANCIAL POSITION

(in Euro)	Note	March 31 2013	March 31 2012
NON-CURRENT ASSETS			
Goodwill	4	726,704	726,704
Other intangible assets	5	802,667	559,954
Property plant and equipment	6	5,320,544	4,461,598
Investments	7	27,345,905	37,682,632
Other investments	7	166,930	150,103
Financial receivables and other non current assets	8	38,701,537	25,101,037
of which towards related parties		38,329,562	24,935,690
Deferred tax assets	9	8,197,012	5,870,024
TOTAL NON CURRENT ASSETS		81,261,299	74,552,053
CURRENT ASSETS			
Inventories	10	46,048,893	38,903,867
Trade receivables	11	42,459,216	54,512,488
of which towards related parties		20,603,279	37,314,107
Tax receivables	12	1,056,022	1,549,758
Other current assets	13	2,427,213	2,639,005
of which towards related parties		658,923	755,678
Cash and cash equivalents	14	254,089	703,153
TOTAL CURRENT ASSETS		92,245,433	98,308,271
TOTAL ASSETS		173,506,732	172,860,324
SHAREHOLDERS' EQUITY			
Share capital		36,344,000	36,344,000
Reserves		66,906,222	78,214,994
Net result for the period		(3,241,254)	(5,959,066)
TOTAL SHAREHOLDERS' EQUITY	15	100,008,968	108,599,929
NON CURRENT LIABILITIES			
Long term financial debt	16	6,694,000	12,502,000
of which towards related parties		2,194,000	2,502,000
Employees' Termination Indemnities	17	3,190,517	2,343,971
Deferred tax liabilities	9	242,599	169,627
Provision for risks and charges	18	272,597	560,581
TOTAL NON CURRENT LIABILITIES		10,399,713	15,576,179
CURRENT LIABILITIES			
Current portion of long term financial debt	16	5,808,000	5,769,000
of which towards related parties		308,000	269,000
Trade payables	19	38,413,697	39,214,011
of which towards related parties		12,545,678	14,420,657
Short term borrowings	20	14,777,315	1,096,243
Tax payables	21	488,896	228,891
Other current liabilities	22	3,610,143	2,376,071
of which towards related parties		810,155	128,889
TOTAL CURRENT LIABILITIES		63,098,051	48,684,217
TOTAL LIABILITIES		73,497,764	64,260,395
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		173,506,732	172,860,324

INCOME STATEMENT

(in Euro)	Note	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Revenues from sales and services		78,499,816	64,793,143
of which towards related parties		17,574,300	20,150,076
Other revenues		-	-
TOTAL REVENUES	23	78,499,816	64,793,143
Cost of raw materials and consumables	24	(45,603,747)	(39,435,583)
of which towards related parties		(10,583,038)	(8,285,701)
Cost of services	25	(23,363,065)	(20,110,325)
of which towards related parties		(4,592,068)	(5,085,643)
Personnel cost	26	(13,600,285)	(10,779,493)
Other net operating (charges) incomes	27	2,378,995	1,793,361
of which towards related parties		2,895,140	2,022,393
Amortization and depreciation	28	(853,121)	(705,144)
TOTAL OPERATING EXPENSES		(81,041,223)	(69,237,184)
OPERATING INCOME (LOSS)		(2,541,408)	(4,444,041)
Financial expenses	29	(2,313,031)	(1,323,569)
of which towards related parties		(431,000)	(464,000)
Financial incomes	29	1,091,700	637,753
of which towards related parties		893,573	495,893
INCOME (LOSS) BEFORE INCOME TAXES		(3,762,739)	(5,129,856)
Income taxes	30	521,485	(829,209)
NET INCOME (LOSS) FOR THE PERIOD		(3,241,254)	(5,959,066)

STATEMENT OF COMPREHENSIVE INCOME

(in Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Net income (loss) for the period	(3,241,254)	(5,959,066)
Other movements	-	-
Total comprehensive income (loss) for the period	(3,241,254)	(5,959,066)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in Euro)	Share capital	Share Premium Reserve	Legal Reserve	Stock option reserve	Treasury shares	Other reserves	Net income (loss) for the period	Total shareholders' equity
Balances at March 31, 2011	36,344,000	69,857,285	2,433,705	82,461	(8,225,347)	19,123,904	(5,301,765)	114,314,243
Allocation of the result for the period						(5,301,765)	5,301,765	-
Comprehensive income (loss)							(5,959,066)	(5,959,066)
Stock option				178,870				178,870
Other movements				(9,955)	75,837			65,882
Balances at March 31, 2012	36,344,000	69,857,285	2,433,705	251,376	(8,149,510)	13,822,139	(5,959,066)	108,599,929
(in Euro)	Share capital	Share Premium Reserve	Legal Reserve	Stock option reserve	Treasury shares	Other reserves	Net income (loss) for the period	Total shareholders' equity
Balances at March 31, 2012	36,344,000	69,857,285	2,433,705	251,376	(8,149,510)	13,822,139	(5,959,066)	108,599,929
Allocation of the result for the period						(5,959,066)	5,959,066	
Comprehensive income (loss)							(3,241,254)	(3,241,254)
Stock option				191,492				191,492
Net deficit of merger		(2,248,316)				(3,307,670)		(5,555,986)
Other movements					14,786			14,786
Balances at March 31, 2013	36,344,000	67,608,969	2,433,705	442,868	(8,134,724)	4,555,403	(3,241,254)	100,008,968

STATEMENT OF CASH FLOW

(in Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES		
Net income /(Loss) for the period	(3,241,254)	(5,959,066)
Adjustments to reconcile the profit (loss) for the period to the cash flow generated (absorbed) by operations:		
Amortization and depreciation	853,121	705,144
Costs/(Revenues) for stock option	206,278	244,751
(Gains)/Losses from disposals	(10)	(5)
Changes in the fair value of financial instruments	(70,793)	(161,857)
Accruals (release) of allowance for doubtful accounts	15,694	697,195
Accruals to employees for termination indemnities	378,277	114,716
Employees termination indemnities payments	(144,306)	(224,942)
Accruals (release) of provision for risks and charges	287,984	301,653
Changes in the deferred tax assets and liabilities	(669,207)	850,048
	(2,384,217)	(3,432,363)
<i>Changes on operating assets and liabilities</i>		
Trade receivables	18,635,493	4,107,974
Inventories	2,367,705	(2,147,769)
Trade payables	(10,797,478)	1,290,714
Tax receivables	602,198	715,064
Tax payables	168,916	(187,574)
Other current assets and current and non current liabilities	1,816,925	(323,778)
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES (A)	10,409,542	22,268
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES		
Disposals of intangible assets and property, plant and equipment	10	5
Purchase of property, plant and equipment	(1,408,231)	(56,935)
Purchase of intangible assets	(8,750)	(1,130)
Disposal of property	33,548	-
(Purchase)/Sale of investments	(3,433,360)	(114,933)
Net changes in other non current assets	(14,584,360)	2,250,721
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES (B)	(19,401,143)	2,077,728
CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		
Repayment of long-term debt	(5,808,000)	(5,736,000)
Net change in short term financial liabilities	13,294,742	923,933
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES (C)	7,486,742	(4,812,067)
TOTAL CASH FLOW (D=A+B+C)	(1,504,859)	(2,712,070)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (E)	703,153	3,415,223
Cash acquired as a result of the merger	1,055,795	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E)	254,089	703,153

EXPLANATORY NOTES

1. COMPANY INFORMATION AND BASIS OF PRESENTATION

Company Information

The Company Damiani S.p.A. works with experience in the production and in the distribution of jewelry products through both wholesale and retail channels with reference to its brands Damiani, Salvini, and from April 1, 2012 Alfieri & St. John and Bliss.

The Company's registered office is located at Valenza (AL), Piazza Damiano Grassi Damiani n. 1.

Declaration of conformity to the International Accounting Standards (IFRS)

Damiani S.p.A. prepared its separate financial statement as of and for the year ended March 31, 2013 in accordance with IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and adopted by the European Community, the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC), and with the measures implementing article n. 9 of Legislative Decree 38/2005.

Basis of presentation

The financial statements of Damiani S.p.A. as of and for the year ended March 31, 2013 which cover the period April 1, 2012 – March 31, 2013, consisting of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes (hereafter, the "Financial statements") was approved by the Board of Directors of Damiani S.p.A. on June 14, 2013.

The statements comply with the provisions of IAS 1 - (Revised) Presentation of Financial statements.

The structure of the statement of financial position follows the classification by "current assets" and "non-current assets", while the income statement classified by nature.

The statement of cash flows was prepared using the indirect method.

In accordance with Consob (Italian SEC) resolution n. 15519 dated July 27, 2006, the effects of transactions with related parties are presented in the statement of financial position as well as in the income statement. Transactions with related parties are identified in accordance with the extended definition laid down by IAS 24, i.e. including relations with the administrative and control bodies as well as those executives who have strategic responsibilities. See also note 31. Transactions with related parties.

The Financial statements were prepared in Euros. All amounts included in the tables presented below are shown in thousands of Euro, unless otherwise indicated.

2. ACCOUNTING POLICIES

Criteria used

The Financial statements of Damiani S.p.A. have been prepared in accordance with IFRS adopted by the European Union.

The Financial statements at March 31, 2013 have been prepared on a going concern basis. Despite the difficulties originated by the economic downturn, the Directors believe there is no uncertainty about the ability to continue the activity for the foreseeable future, taking also into consideration that important actions are being implemented in order to adapt to the market's changing trends.

These actions, aimed at achieving greater efficiency in internal processes (both in terms of administrative and logistical and business sectors), came to fruition with the merger of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A., which previously operated independently in Italy distributing their brands, and with the direct marketing of the Group's brands to overseas markets previously manned by the Dutch subsidiary Damiani International B.V., which operated through its Swiss branch, shortening and simplifying in this way the distribution process.

The income statement, the changes in equity and the cash flows for the financial year ended March 31, 2013 (or Financial year 2012/2013) are compared to those relating to the period April 1, 2011 – March 31, 2012 (or Financial year 2011/2012). The statement of financial position at March 31, 2013 is compared to those at March 31, 2012. Given the change in the scope of activity of Damiani S.p.A. that was realized in the financial year 2012/2013 as a result of the merger by incorporation of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A., as previously described, and the start of the direct management of operational activities previously developed by the foreign subsidiary Damiani International B.V. a comparison with the economic and financial data of the prior year ended March 31, 2012 was partial. Note 3. Information on the comparative data, shows the data adjusted for the financial year 2011/2012 restating the effects of mergers in the event that these had occurred on April 1, 2012. The comparison with restated operating and financial data has been briefly provided in the previous report on operations.

Accounting standards

The financial statements as of March 31, 2013 were prepared in accordance with international accounting standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Community and regulations implementing article 9 of the Legislative Decree n. 38/2005. IFRS are all the revised international accounting standards ("IAS"), all the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") previously known as Standing Interpretations Committee ("SIC").

New accounting standards to be adopted from April 1, 2012

The following standards, amendments, improvements and interpretations applicable from the financial year beginning April 1, 2012 and refers to cases that have no impact on the financial statements at March 31, 2013 of Damiani S.p.A.:

- Amendment to IFRS 7 – Financial instruments: supplementary information for the understanding of transfer transactions of financial assets.

New accounting standards not yet effective and not early adopted by the Group

New accounting standards, interpretations and amendments issued by the IASB and applicable to the company financial statements for periods beginning on or after April 1, 2012 and not early adopted by the Company include:

- Amendment to IAS 12 – Income taxes which clarifies the accounting for deferred tax on investment property measured at fair value.
- Amendment to IAS 19 – Employee benefits that eliminates the option of deferring the recognition of gains and losses under the corridor method, which has never been applied by the Group. The amendment, which requires the separate recognition in the income statement of the cost components relating to service and net financial expenses and the recognition of actuarial gains and losses in the comprehensive income, is applicable in periods beginning after January 1, 2013.
- IFRS 10 – Consolidated financial statements (compulsorily applicable to financial years beginning after January 1, 2014).
- IFRS 11 – Partnership agreements (compulsorily applicable to financial years beginning after January 1, 2014).
- IFRS 12 – Additional information on shareholdings in other companies (compulsorily applicable to financial years beginning after January 1, 2014).
- IFRS 13 – Measuring of fair value (applicable to financial years beginning after January 1, 2013).
- Amendment to IAS 1 – Presentation of financial statements (applicable to financial years beginning after July 1, 2012).
- Amendment to IAS 32 – Financial instruments: Presentation (applicable to financial years beginning after January 1, 2014).

It is also noted that the IASB issued the following standards and interpretations whose approval process is still in progress by the European Union.

- IFRS 9 – Financial instruments.

Use of estimates

The preparation of the financial statements and explanatory notes under IFRSs requires Damiani S.p.A. to make estimates and assumptions which affect the values of the assets and liabilities stated in the financial statements and the reporting of potential assets and liabilities. Final results could differ from these estimates which are used to measure provisions for credit risk, returns, inventory obsolescence, determining the useful life of tangible and intangible assets in the calculation of depreciation, asset impairments, employee benefits, provisions for risks and charges. These estimates and assumptions are reviewed periodically, and the effects of any change are booked directly to the income statement.

The main valuation processes for which the Group has used estimates regard audits of the recoverability of goodwill and value of investments in the financial statements (impairment test), valuation of expected future returns, determination of trade receivable and inventory write-downs, and determination of risk reserves for which at the reporting date there are obligations for which are likely to use resources to satisfy them.

The current economic and financial environment has a great volatility and uncertainty. Therefore, assumptions regarding future trends are characterized by high randomness and results of upcoming financial periods may be significantly different from those estimated, calling for adjustment of their respective valuations, which cannot be estimated or foreseen at this time. Financial statement entries most affected by these situations of uncertainty are the funds for return on sales and the bad debt and inventory write-down reserve.

Additional details on the estimates are found in the specific notes to the financial statements.

Summary of the main accounting policies

Goodwill

Goodwill acquired in a business combination is defined as the amount by which the cost of the combination is exceeded by the combined Group's share of its total shareholders' equity at current values as calculated from the values of the identifiable assets, liabilities and

potential liabilities that have been acquired. Following the initial entry, goodwill is valued at cost less any accrued impairment. Goodwill is subjected to an impairment test, either annually or more often if events or changes occur that might give rise to any impairment.

For the purposes of these impairment tests, the goodwill acquired with business combinations is allocated, from the acquisition date onwards, to each of the cash-generating units (or groups of units) which are believed to profit from the synergistic effects of the acquisition, regardless of the allocation of any other assets or liabilities acquired. Each unit or group of units to which goodwill is allocated:

- represents the lowest level within the Company at which goodwill is monitored for internal management purposes;
- is no greater than an operating segment of the Company as defined in the operating segments chart under IFRS 8.

Impairment is determined by defining the recoverable value of the cash generating unit (or group of units) to which the goodwill is allocated. If this recoverable value of the CGU (or group of CGUs) is lower than the book value, an impairment loss is recognized. Where goodwill has been attributed to a CGU (or group of CGUs) whose assets are partially disposed of, the goodwill associated with the asset disposed of is taken into account for the purposes of calculating any capital gain (or loss) arising from the transaction. In these circumstances the goodwill transferred is measured on the basis of the amount of the sold asset in proportion to the asset still held by the same unit.

Intangible assets

Intangible assets acquired separately are recognized at cost, while those acquired through business combinations are recognized at fair value at the acquisition date. After initial recognition, intangible assets are booked at cost, net of accumulated amortization and any accumulated impairments. Intangible assets generated internally are not capitalized, but are recognized in the income statement for the period in which the cost of generating them was incurred.

The useful life expectancy of intangible assets is assessed as finite or indefinite. Intangible assets with a finite useful life are amortized over their estimated useful life and subjected to impairment tests whenever there are reasons to suspect a possible impairment. The amortization period and method applied to them is reviewed at the end of each financial period, or more often if necessary. Changes in the expected useful life or in the way the future financial rewards connected with the intangible asset are reaped by Damiani S.p.A. are recognized by modifying the amortization period or method, and treated as changes in the accounting estimates. The amortization rates for intangible assets with a finite life are recognized in the income statement in the cost category consistent with the intangible asset's function.

Intangible assets with an indefinite useful life are subjected annually to an impairment test at the individual level or at the cash-generating unit level. These assets are not amortized at all. The useful life of an intangible asset with an indefinite useful life is reviewed each year to check that the conditions for this classification are still met. If not, the change from indefinite to finite useful life is done prospectively.

Gains or losses arising on disposal of an intangible asset are measured as the difference between the net revenue from the sale and the net book value of the asset, and are recognized in the income statement at the time of the sale.

In the case of intangible assets with a finite life expectancy, the annual amortization rates applied are as follows:

CATEGORY	Rate
Software licences	20%
Key Money (Indemnities paid for renewal of shop rental contracts)	Duration of contract

Research and development costs

Research costs are directly booked in to the income statement in the financial year in which they are incurred.

Development expenditures on a particular project are capitalized only when the Group can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or sale, the intention of completing it for in-house use or for sale to third parties, the generation of probable financial benefits in future, the availability of the technical, financial and other resources needed to complete development, the ability to reliably evaluate the cost of the asset during its development and the existence of a market for the products and/or services that will arise from the asset and/or its usefulness for internal purposes can be demonstrated.

Following initial recognition, development costs are booked net of accumulated amortization and of any impairment losses recognized as previously described for intangible fixed assets with a finite useful life.

As of March 31, 2013 there are no capitalized development costs in the financial statements.

Property, plant and equipment

Buildings, plant and machinery acquired separately – based on purchase or lease agreements – are recognized at purchase cost, while those acquired through business combination transactions are recognized on the basis of the fair value determined at the acquisition date. Buildings, plant and machinery are recognized at cost, including the ancillary costs directly attributable and necessary for the asset's deployment in the function for which it was purchased, plus (if relevant and where obligations are incurred immediately), the present value of the estimated expense of dismantling and removing the asset. If significant portions of these property, plant and equipment have different useful lives, these items are accounted for separately. Land, whether undeveloped or built up, are not depreciated since their useful life is unlimited.

The book value of property, plant and equipment is reviewed whenever events or changes take place which give reason to believe that

the book value, as established under the amortization plan, might not be recoverable. If such reason exists, and if the book value exceeds the estimated recoverable amount, the assets or cash-generating units to which the assets have been allocated are written down to their recoverable value.

The carrying value of the assets, their useful lives and the methods applied are reviewed annually and, if necessary, they are adjusted at the end of each period.

The depreciation rates applied are as follows:

CATEGORY	Rate
Buildings	3%
Plant and machinery	12.5%
Industrial and commercial equipment	From 12% to 35%
Other assets	From 12% to 25%
Leasehold improvements	Duration of contract

Leased assets

The finance leases, which essentially transfer all the risks and rewards arising from ownership of the leased asset to Damiani S.p.A., are booked, as of the lease commencement date, at the leased asset's fair value or, if lower, at the current lease value. The rental amounts are divided into a capital portion and an interest portion in such a way as to give a constant rate of interest on the remaining balance of the liability. Borrowing costs are charged directly to the income statement.

The capitalized leased assets are depreciated over the shorter of the asset's useful life expectancy or the lease period, unless it is reasonably certain that Damiani S.p.A. will become the owner of the asset at the end of the contract.

Rental amounts on operating leases are booked to the income statement for the duration of the lease.

Investments

Investments in subsidiaries and other companies are recorded at cost adjusted for impairment losses, determined on the basis of a separate impairment test.

Impairment test

At the closing date of each period Damiani S.p.A. assesses whether there is any reason to believe that there has been a decrease in the value of its intangible fixed assets with a finite useful life, its tangible fixed assets and its leased assets and its investments. If such a decrease has occurred, an impairment test is carried out.

Goodwill and the other intangible fixed assets with indefinite useful lives are subjected to an impairment test every year, whether or not there is any reason to suspect a loss in value.

Recoverable value is determined as the greater of the fair value of an asset or cash-generating unit (net of selling costs) and its value in use, and it is calculated asset by asset, except where the asset generates income which is not fully independent of that generated by other assets or asset groups, in which case Damiani S.p.A. estimates the recoverable value of the cash-generating unit to which the asset belongs. In particular, since goodwill does not generate any income independently of other assets or asset groups, the impairment test is conducted on the unit or group of units to which the goodwill has been allocated.

In determining value in use, Damiani S.p.A. discounts at the current value the estimated future cash flow, using a pre-tax discount rate which reflects the market's evaluation of the temporal value of the money and any specific risks pertaining to the asset.

In order to estimate the value in use, future cash flows are derived from the business plans drawn up by the Corporate of the parent company and approved by its Board of Directors, since these represent the Company's best forecast of the economic conditions over the period of the plan.

Such forecasts are normally reflected over three years period; long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the relevant industry, country or market. Future cash flows are estimated on the basis of current conditions and strategic actions already underway at the time of the plan.

If the book value of an asset or cash-generating unit exceeds its recoverable value, that asset has lost value and is consequently written down to its recoverable amount.

All impairment loss of operating assets is recognized in the income statement under the cost items relating to the asset that had lost value. Moreover, at the closing date of each period Damiani S.p.A. assesses whether there is any reason to believe that previously recognized losses may now result as excessive and if this is the case, a new estimate of the fair value is made. The value of a previously written-down asset (except for goodwill) may only be restored if there have been changes in the estimates used to determine the asset's fair value after the most recent recognition of an impairment loss. In that case the asset's book value is revised to its recoverable value, though the revised value may never exceed the level which the book value would have been (net of any depreciation) if no impairment loss had been recognized in previous years. When a value is restored it is booked as income in the income statement and the adjusted carrying value of the asset is depreciated on a straight-line basis over the remaining useful life, net of any remaining values.

In no circumstances the value of goodwill can be restored after it has been written down.

Inventories

Inventories are booked at the lower of their purchase or production cost and their net realizable value, this being the amount which the company expects to obtain from their sale in the normal course of business. The cost configuration used is the weighted average cost method, which includes all ancillary charges accruing in relation to the purchase of these stocks during the period. Inventory valuations include both the direct cost of materials and labor and the indirect cost of production.

Inventories also include the production costs relating to returns expected in future years from deliveries already made, estimated on the basis of the sale value minus the average applied margin.

In order to calculate the net value of future realizable, the value of eventual obsolete or slow-moving goods is written down in relation to an estimate of future net use/realizable value, by means of a specific adjustment reserve for the reduction of the value of the inventories.

Trade receivables and other current assets

Trade receivables and other current assets are booked at their fair value, which is the nominal value that is subsequently reduced to take into account any eventual loss in value by means of the creation of a specific bad debt reserve, amending the value of the asset. Trade receivables are booked to the financial statements net of an adjustment reserve for products that according to Damiani S.p.A. estimates will be returned by clients. That reserve is related to the amounts invoiced on dispatch of the goods where it is reasonable, in the light of experience and on the probable percentage relating to sales in future years, to expect that not all significant risks and benefits connected to ownership of the assets have been definitively transferred at the financial statements date.

Trade receivables and other current assets which neither bear interests nor are expected to be settled within normal commercial terms are discounted.

Financial instruments

The financial instruments held by Damiani S.p.A. are included in the following statement of financial position items:

- Non-current financial assets: include investments, non-current loans and receivables and other non-current financial assets available for sale;
- Current financial assets: include trade receivables, other current assets and cash and cash equivalent;
- Financial liabilities include financial liabilities, other financial liabilities, trade payables and other payables.

The non-current financial assets as well as the current financial assets and the financial liabilities are accounted for in accordance with IAS 39. Initially all financial assets are recognized at fair value, plus ancillary charges in the case of assets that are not at fair value in the income statement. Damiani S.p.A. classifies its financial assets after they have been initially recognized and, when appropriate and permitted, reviews this classification at the end of each financial year.

All purchases and disposals of financial assets are booked to their transaction date, which is the date on which Damiani S.p.A. undertakes to buy the asset.

Subsequent to initial recognition, the financial instruments available for sale and held for trading are measured at fair value. If the market price is not available, the fair value of the financial instruments available for sale is measured using the most appropriate valuation methods such as the discounted cash flow analysis, carried out with the market information available at the date of the financial statement. Gains and losses on financial assets available for sale are recognized directly in equity until the financial asset is sold or impaired; when the asset is sold, the gains or losses, including those previously recognized in equity are included in the income statement for the period; when the asset is impaired the accumulated losses are included in the income statement. Gains and losses arising from changes in fair value on financial instruments classified as held for trading are recognized in the income statement for the period.

Loans and receivables not held for trading purposes and which are not listed in an active market are recognized if they have a fixed maturity according to the amortized cost using the effective interest rate method. Otherwise, they are valued at acquisition cost. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or when there is a loss of value, as well as through the amortization process.

With the exception of derivative financial instruments, the financial liabilities are measured at amortized cost using the effective interest method.

The financial assets and liabilities hedged by derivative instruments are measured in accordance with hedge accounting principles applicable to fair value hedges: gains and losses arising from remeasurement at fair value, due to changes of the relative risks, are recognized in the income statement.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or a group of similar financial assets) is derecognized when:

- the rights to receive the financial flows expire;
- Damiani S.p.A. keeps the right to receive the asset's financial flows, but has the contractual obligation to transfer them without delay to a third party;

- Damiani S.p.A. has transferred the right to receive the asset's financial flows and (i) it has essentially transferred all the risks and benefits of ownership of the financial asset, or (ii) it has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control of it.

In case Damiani S.p.A. has transferred the right to receive the financial flows from an asset and has not transferred or retained all the risks and benefits of the asset nor lost control of it, the asset is recognized in Damiani S.p.A.'s financial statements to the extent of the Company's remaining involvement in that asset. A "remaining involvement" which takes the form of a guarantee in respect of the transferred asset is valued at the lesser of the asset's initial book value and the maximum amount which Damiani S.p.A. might be required to pay. A financial liability is derecognized from the financial statements when the underlying obligation is extinguished, annulled or fulfilled.

Where an existing financial liability is replaced by another from the same lender on materially different terms, or the terms of an existing financial liability are materially modified, this difference or modification is treated as a de-recognition of the original liability in the accounts and the recognition of a new one and any difference in the book values is booked to the income statement.

Cash and cash equivalent

Cash and cash equivalent are booked at their par value, depending on their nature.

Financial liabilities

Financial liabilities include financial debt and financial liabilities relating to derivative instruments. Financial liabilities other than derivatives are initially booked at fair value plus transaction costs, while thereafter they are valued at amortized cost, i.e. the initial value less any capital repayments already made, adjusted (up or down) by the amortization (at the effective interest rate) of any differences between the initial value and the value at maturity.

Employee benefits

Guaranteed employee benefits paid on or after termination of employment under defined-benefits schemes (for Italian companies, this is the known as "TFR" or severance indemnities) are recognized in the period in which the rights are accrued.

Those liabilities relating to a defined-benefits scheme, net of any assets held to service the plan, are determined on the basis of actuarial assumptions and recognized on an accrual basis consistent with the employment services necessary for obtaining the benefits; liabilities are valued by an independent actuary.

Profits and losses arising from the actuarial calculations are booked to the income statement in each period as labor costs.

Other employee benefits

In accordance with IFRS 2 (Payments based on shares), stock options in favor of employees are valued by an external evaluator at their fair value at the grant date according to an appropriate model.

If the right can be exercisable after a certain period and/or when certain performance conditions take place, i.e. the vesting period, the overall fair value of the options is split equally over time during the said period and booked to a specific item in the net equity while a corresponding amount is booked to the income statement as "personnel costs" (since it is a payment in kind paid to the employee) and as "costs of services" (in relation to the directors and agents who are beneficiaries of the options).

During the vesting period the fair value of the option that has been previously calculated is not reviewed or updated, but the estimated number of options that will mature at the due date is continually updated and, therefore, the number of beneficiaries with the right to exercise the options. The change in estimates is treated as an increase or a reduction in the net equity item referred to while a corresponding amount is booked to the income statement as "personnel costs" and "costs of services".

When the option date expires, the amount booked to the net equity item referred to is reclassified as follows: the amount of the net equity referring to the exercised options is booked under "Share premium reserve", while the part referring to the options that have not been exercised is reclassified under "Other reserves".

Trade payables and other current liabilities

Trade payables and other current liabilities, whose due date fall under normal trade and contractual terms, are not booked to their net present value but to their par value.

Provision for risks and charges

Provisions for risks and charges refer to costs and charges that are of determined nature and are of either certain or probable and for which it was not possible to calculate the amount or contingency date at the end of the financial year. Provisions for risks and charges are booked when the Company must meet an obligation that derives from a past event if resources will probably have to be used to meet the obligation and the amount required can be reliably estimated.

When the Company believes that a provision will be either totally or partly reimbursed (insurance policy cover risks), if the reimbursement is practically certain, it is booked under a specific item under assets, in which case the provision is booked net of the reimbursement in the income statement.

The amount of provisions is based on the best estimate of the amount that is to be paid in order to meet the obligation or to transfer it

to a third party, and is booked at the end of the financial year.

Revenues from sales and services

Revenues and income shown net of discounts, allowances and returns are booked at their fair value as far as it is possible to calculate it and it is likely to enjoy the related financial benefits.

Revenues from the sale of goods are recognized when all the following conditions are met:

- the significant risks and benefits connected to the goods are transferred to the purchaser;
- the usual operations associated with ownership of the goods are no longer carried out and effective control of the goods is no longer exercised;
- the amount of the revenues can be reliably calculated;
- it is likely that any future financial benefits will be enjoyed;
- the costs incurred, or to be incurred can be reliably estimated.

In some cases Damiani S.p.A. accepts from customers, for commercial reasons and in line with the usual practices of the sector, returns of goods that have already been delivered, including goods delivered in previous financial years. In such cases, Damiani S.p.A. adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of historical experience, it is possible to reasonably estimate that at the date of the financial statements not all the significant risks and benefits associated with ownership of the goods will be transferred to the new owner. Returns that are calculated in this manner are booked to the income statement as a reduction of revenues and in the statement of financial position under a specific adjustment reserve for receivables from customers, while the relative estimated production cost is included under inventories.

Barter transactions

Sales of goods in return for the purchases of publicity and advertising services are booked separately in the financial statements under "revenues from sales" and "costs of services". Revenues from the sale of goods are calculated at the fair value of the publicity and advertising services received, adjusted to take into account any cash payments or equivalents, and they are booked at the time the goods are shipped.

Other revenues and income

The other revenues include financial benefits during the period from operations connected to the company's ordinary business activities.

Costs

Costs are accounted for on accrual basis system. In particular:

Costs for advertising campaigns and testimonials

Commission due to advertising agencies and the cost of producing advertising campaigns (television commercials and photo shoots), are booked to the income statement at the time they are incurred.

Costs relating to advertising campaigns and promotional activities are recognized in the income statement for each period the services were received (advertising already broadcast, published or transmitted, testimonial appearances already made).

Any advances paid for services still to be received are booked at the period when the services are provided.

Financial income and expenses

Financial incomes are recognized after an assessment has been carried out on the interest earned in the relevant period. This assessment is carried out using the effective interest rate method, represented by the rate used to discount the cash flow estimated on the basis of the life expectancy of the financial instrument.

Financial expenses are booked to the income statement in accordance with the accruals system and for the amount of the effective interest.

Dividends

Dividends are booked when the shareholders' right to receive payment comes into force, coinciding with the moment in which they are declared.

Income taxes

Current taxes

Current taxes are calculated on the basis of the taxable income for the period. Taxable income differs from the financial result shown in the income statement because it excludes items (positive or negative) that will be taxable or deductible in other financial years and that will never be taxable or deductible. Current tax payables are calculated on the basis of the tax rates in force at the time the financial statements are prepared.

Deferred and prepaid taxes

Deferred and prepaid taxes are calculated on the temporary differences between the book value of the assets and liabilities in the financial statements and the corresponding fiscal value used in calculating taxable income, accounted for using the liability method. Deferred tax liabilities are recognized in the case of all such taxable temporary differences, with the exception of the following:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect either on the profit for the period calculated for the purposes of the financial statements, nor on the profit or loss calculated for tax purposes;
- in the case of taxable temporary differences linked to investments in subsidiary and associated companies and joint ventures, where the reversal of these temporary differences can be verified and it is likely that they will not in fact be reversed in the foreseeable future.

Deferred tax assets are recognized to the extent that it is thought likely that there will be sufficient taxable profits in future to enable the temporary differences to be deducted, except:

- where the prepaid tax derives from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, had no effect either on the profit for the period calculated for the purposes of the financial statements or on the profit or loss calculated for tax purposes.

The value assigned to the deferred tax assets is re-examined at the end of every financial period and reduced in accordance with the likelihood that in the year in which the temporary difference is expected to be reversed there might not be sufficient taxable income to enable its full or partial recovery. Any previously unrecognized taxes paid in advance are re-examined each year at the end of the financial period and are then recognized in relation to the probability of their recovery.

Both prepaid and deferred taxes are calculated on the basis of the tax rates which are expected to be in force during the financial period in which the tax asset is realized or the tax liability is settled, in accordance with the tax law in force at the time covered by the financial statements.

Deferred taxes (liabilities and assets) are booked to the income statement, with the exception of amounts relating to items recognized directly in shareholders' equity for which the relative deferred and advance taxes are directly booked without being entered in the income statement.

Prepaid tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

With reference to the provisions of Legislative Decree n. 344 of December 12, 2003 which introduced the tax regime of the Group called "fiscal consolidation", Damiani S.p.A. formalized on September 14, 2012 to the electronic service of the Tax Agency the renewal of the national consolidated taxation for the period 2013-2015 which includes its subsidiaries New Mood S.p.A., Alfieri & St. John S.p.A., Rocca S.p.A., Damiani Manufacturing S.r.l. and Laboratorio Damiani S.r.l. Following the completion of the merger of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. in Damiani S.p.A., on January 4, 2013 we proceeded to report to the Tax Agency the cessation of activity of the merged companies. We also note that from January 1, 2013 has been activated the regime of Group VAT (Damiani S.p.A., Rocca S.p.A. and Laboratorio Damiani S.r.l.) pursuant to Presidential Decree 633/72 article 73, paragraph 3, DM 13/12/1979.

Foreign currency translation

Damiani S.p.A.'s functional and presentation currency is the euro.

Transactions in other currencies are translated and booked at the rate in force at the time of the transaction. Any foreign currency based assets and liabilities are translated to euros using the rate in force at the reporting date of the financial statements. All exchange differences resulting from transactions in foreign currencies with third parties are recognized in the income statement. Non-monetary items valued at their historical cost in foreign currencies are converted using the exchange rate in force at the date the transaction is recognized. Non-monetary items booked at their fair value in foreign currencies are translated using the exchange rate in force on the date the fair value is calculated.

Treasury shares

Treasury shares are classified as a direct reduction of shareholders' equity. The original cost of treasury shares and gain from any subsequent sale of it is shown as changes in shareholders' equity.

3. INFORMATION ON THE COMPARATIVE DATA AS OF MARCH 31 2012

On December 20, 2012 the merger of the companies New Mood S.p.A. and Alfieri & St. John S.p.A. in the parent company Damiani S.p.A. (who owned 100% of the capital stock of both subsidiaries), was formalized, by notarial act, with effect towards third parties from January 1, 2013. The project for the merger, in accordance with the standards of corporate and tax law, was launched on July 26, 2012 with the approval of proposed merger by the Board of Directors of Damiani S.p.A. The proposed mergers, which did not result in any increase in capital nor are they subject to the Procedure for transactions with related parties pursuant to Consob Regulation n. 17221/2010, were approved by the respective Boards of Directors of the companies involved on October 8, 2012.

The related accounting and tax effects are backdated to April 1, 2012. In order to better compare the figures in the financial statements as of March 31, 2013 with the previous year have been presented in this note, in addition to the historical financial data of the previous year, also the financial data "revised" to present the effects that would have occurred in the separate financial statements in the event that the merger had intervened with effect from April 1, 2011. To this end we have used the financial statements of the three companies

involved in the merger: the merging company Damiani S.p.A. and the incorporated Alfieri & St. John S.p.A. and New Mood S.p.A., which were prepared under the same international accounting standards IAS/IFRS and audited. The table shows the values of original financial statements as of March 31, 2012, the values of Damiani S.p.A. adjusted on the same date and those of Damiani S.p.A. at March 31, 2013. The comparative values are discussed in the report on operations to the Financial statements.

MAIN ECONOMIC DATA (in Euro)	Financial year 2011/2012					Financial year 2012/2013	Change
	Damiani S.p.A.	New Mood S.p.A.	Alfieri & St. John S.p.A.	Eliminations	Damiani S.p.A. Restated	Damiani S.p.A.	
Revenues from sales and services	64,793,143	9,546,594	11,913,496	(1,068,796)	85,184,437	78,499,815	(6,684,622)
Other revenues		10,084			10,084		(10,084)
TOTAL REVENUES	64,793,143	9,556,678	11,913,496	(1,068,796)	85,194,521	78,499,815	(6,694,706)
Cost of raw materials and consumables	(39,435,583)	(6,347,483)	(8,482,063)	2,011,117	(52,254,012)	(45,603,747)	6,650,265
Cost of services	(20,110,325)	(3,128,544)	(2,779,311)	647,852	(25,370,328)	(23,363,065)	2,007,263
Personnel cost	(10,779,493)	(1,033,262)	(957,510)	0	(12,770,265)	(13,600,285)	(830,021)
Other net operating (charges) incomes	1,793,361	573,750	1,191,731	(1,590,173)	1,968,669	2,378,984	410,315
Amortization and depreciation	(705,144)	(112,420)	(21,710)	0	(839,274)	(853,121)	(13,848)
TOTAL OPERATING EXPENSES	(69,237,184)	(10,047,958)	(11,048,863)	1,068,796	(89,265,209)	(81,041,234)	8,223,975
OPERATING INCOME (LOSS)	(4,444,041)	(491,280)	864,633	0	(4,070,688)	(2,541,419)	1,529,269
Net financial incomes (expenses)	(685,816)	(137,067)	19,706	0	(803,177)	(1,221,333)	(418,156)
INCOME (LOSS) BEFORE INCOME TAXES	(5,129,857)	(628,347)	884,339	0	(4,873,865)	(3,762,752)	1,111,113
Income taxes	(829,209)	(141,552)	(335,572)	0	(1,306,333)	521,485	1,827,818
NET INCOME (LOSS) FOR THE PERIOD	(5,959,066)	(769,899)	548,767	0	(6,180,198)	(3,241,267)	2,938,931

STATEMENT OF FINANCIAL POSITION (in Euro)	Financial year 2011/2012					Financial year 2012/2013	Change
	Damiani S.p.A.	New Mood S.p.A.	Alfieri & St. John S.p.A.	Eliminations	Damiani S.p.A. Restated	Damiani S.p.A.	
Fixed assets	74,552,053	1,631,780	694,415	(14,770,087)	62,108,161	81,261,299	19,153,138
Net working capital	55,786,145	1,753,008	5,221,817	0	62,760,970	49,504,287	(13,256,683)
Non current liabilities	(3,074,179)	(212,547)	(543,834)	0	(3,830,560)	(3,731,392)	99,168
Net capital invested	127,264,019	3,172,241	5,372,398	(14,770,087)	121,038,571	127,034,194	5,995,623
Shareholders' Equity	108,599,929	2,237,236	5,976,868	(13,770,087)	103,043,946	100,008,968	(3,034,978)
Net financial position	18,664,090	935,005	(604,470)	(1,000,000)	17,994,625	27,025,226	9,030,601
Sources of financing	127,264,019	3,172,241	5,372,398	(14,770,087)	121,038,571	127,034,194	5,995,623

The adjustments in the tables mainly refer to:

- For the values of the income statement in raw materials and finished products traded between the three companies as part of the normal process of production/distribution, as well as the services performed centrally by the Parent company Damiani S.p.A. for the benefit of its subsidiaries and recharged on the basis of contracts concluded between the parties.
- For the statement of financial position refers to the values of the investments recorded in the financial statements of the parent company of Euro 13,770 thousands and an outstanding loan of Euro 1,000 thousands by Damiani S.p.A. to New Mood S.p.A..

NOTES ON ITEMS OF THE FINANCIAL STATEMENTS

Individual items of statement of financial position and income statement are explained below.

4. GOODWILL

At March 31, 2013 goodwill amounted to Euro 727 thousands and was the same as of March 31, 2012.

The item refers to goodwill paid by Damiani S.p.A. for the purchase of four single-brand shops directly run.

Impairment test on intangible assets with an indefinite useful life

Since goodwill is an asset with an indefinite useful life and is booked under non-current assets for the financial years closed at March 31,

2013 and at March 31, 2012, it was subject to an impairment test.

Impairment tests are carried out at least once a year on the cash generating units (CGU) to which the goodwill is charged.

The method utilised is described in note 7, with reference to the impairment test carried out to verify the recoverability of the investments' book value.

5. OTHER INTANGIBLE ASSETS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Industrial rights and patents	12	33
Key money	791	527
Total other intangible fixed assets	803	560

The item "key money" refers to the amount paid for the purchase of the leasing contracts in Naples and Turin for the mono-brand Damiani and Bliss directly managed boutiques. Before the merger the Bliss point of sale was managed by the subsidiary New Mood S.p.A. and the value was Euro 363 thousands. Such amounts are amortized on the basis of the residual duration of the leasing contract.

The "Industrial rights and patents" refer to software licenses.

In the financial year 2012/2013 the changes in intangible assets, including the effect related to the merger of subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A., were the following:

(in thousands of Euro)	INDUSTRIAL RIGHTS AND PATENTS	KEY MONEY	TOTAL
Net book value at March 31, 2012	33	527	560
Values resulting from the merger	4	363	367
Purchases	9	-	9
Amortization	(33)	(99)	(133)
Net book value at March 31, 2013	12	791	803

6. PROPERTY, PLANT AND EQUIPMENT

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Land and buildings	3,255	3,598
Plant and machinery	302	203
Industrial and commercial equipments	39	39
Leasehold improvements	403	-
Other assets	1,322	622
Total property, plant and equipment	5,321	4,462

The Land and buildings item also includes the residual value of a property subject to sale and lease back, which a related party has bought from Damiani S.p.A. in prior financial year and then leased for commercial use to Parent company. This sale and lease back asset amounted to Euro 1,865 thousands at March 31, 2013 and to Euro 2,176 thousands at March 31, 2012.

The item Other assets mainly includes furniture, furnishings, office equipment and vehicles.

The following table shows the changes in Property, plant and equipment in the financial year ended March 31, 2013.

(in thousands of Euro)	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENTS	LEASEHOLD IMPROVEMENTS	OTHER ASSETS	TOTAL
Historical cost	7,830	1,868	461	-	13,297	23,456
Depreciation reserve at March 31 2012	(4,231)	(1,665)	(422)	-	(12,676)	(18,994)
Net book value at March 31 2012	3,598	203	39	0	622	4,462
Values resulting from the merger	-	16	-	-	189	205
Purchases	-	156	17	430	804	1,408
Disposals	-	-	-	-	(33)	(33)
Depreciation	(343)	(73)	(17)	(27)	(260)	(720)
Net book value at March 31 2013	3,255	302	39	403	1,322	5,321

The increases for the purchase in the financial year mainly relate to the store restructuring and to the close Damiani show room in Milan. Property, plant and equipment do not include assets subject to revaluations, as per the special laws contained in article 10 of Law 72/1983.

7. INVESTMENTS

The following provides a breakdown of March 31, 2013 and March 31, 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Investments in subsidiaries	27,346	37,683
Investments in other companies	167	150
Total investments	27,513	37,833

The changes are related to: i) cancellation of the value of investments in Alfieri & St. John S.p.A. and New Mood S.p.A. as a result of the merger of the two companies into the Parent company (at March 31, 2012 the value of these investments was a total of Euro 13,770 thousands); ii) value of the establishment of the two new foreign subsidiaries Damiani Shanghai Trading Co. Ltd and Damiani Korea Co. Ltd, for a total value of Euro 3,434 thousands.

The table below provides details of investments in subsidiaries at March 31, 2013.

(in thousands of Euro) COMPANY NAME	REGISTERED OFFICE	SHARE CAPITAL	NET EQUITY	PROFIT/ (LOSS)	% OWNED	NET EQUITY OWNED	BOOK VALUE	NOTE
Casa Damiani Espana S.L.	Valencia (Spain)	721	835	(1)	99%	826	330	2)
Damiani International B.V.	Amsterdam (Netherlands)	194	46,246	(23,065)	100%	46,246	9,894	2)
Damiani Manufacturing S.r.l.	Valenza (Italy)	850	3,147	64	51%	1,605	467	2)
Laboratorio Damiani S.r.l. 1)	Valenza (Italy)	2,140	3,575	342	9.35%	334	1,250	2)
Rocca S.p.A.	Valenza (Italy)	4,680	6,252	(1,334)	100%	6,252	11,943	2)
Damiani Mexico S.A.	Mexico D.F. (Mexico)	190	237	(65)	10%	24	29	2)
Damiani Shanghai Trading Co. Ltd.	Shanghai (China)	3,769	2,863	(278)	100%	2,863	3,080	2)
Damiani Korea Co. Ltd.	Seoul (Sud Korea)	351	351	0	100%	351	354	2)
Total							27,346	

1) The share capital of Laboratorio Damiani S.r.l. is owned by Damiani S.p.A. (9.35%) and by Damiani Manufacturing S.r.l. (90.65%). Overall the share held by Damiani S.p.A. is equal to 55.58%.

2) Financial statements prepared in accordance with local accounting standards

Impairment tests carried out on the impairment loss of investments

Investments, constituting Cash generating units (CGU), are subject to impairment tests, when the book value is higher than the share of shareholders' equity.

The recoverable value was calculated using the value in use, which in turn was calculated by using the discounted cash flow method that involves estimating the future cash flow and discounting this by using a rate coinciding with the weighted average cost of the capital (WACC). To the value in use thus obtained is subtracted the value of the financial debt of the company and the resulting value (equity value) is compared with the book value of the investment. The verification of the value of investments, which in turn owns other investments was made on the basis of the sum of the parts that reflects the "equity value" of the respective subsidiaries. In order to execute such impairments have been used the following data and made the following assumptions:

- the financial data were taken from the 2013-2016 (April 1, 2013 – March 31, 2016) business plan drawn up by the companies (which include all the Cash Generating Unit– CGU of the Group). The business plan was approved by the Board of Directors of Damiani S.p.A. on May 22, 2013;
- the cash flow was calculated from the EBITDA for each CGU minus the amounts referring to investments and to changes in net working capital;
- the cash flows were discounted at WACC (weighted average cost of capital), including tax expense, calculated according to the following benchmarks:
 - risk free rate: yield on ten-years emissions in the countries in which the CGUs operate
 - beta: determined as the average debt/equity in a panel of comparables
 - market premium: yield spread between the risk free rate and the equity compensation of the industry in the geographical context in which the CGUs operate

- rate of average debt: cost related to sources of financing by third parties of the CGU

The cash flows were discounted using a WACC specific to each direct and indirect participation (from 6.64% to 8.30%), net of the related tax effect, consistent with the individual parameters listed above and related to each investment. In particular, the expected growth rate “g” after the three-years period covered by the business plan, to be used for the determination of the terminal value, was assumed to be zero, with the exception of Rocca S.p.A. for which the “g” rate is 1%, in line with the curve of the projections of its business plan and lower than the rate of growth of the sector.

The impairment tests led to confirm the recoverability of the carrying amount of the investments in the financial statements of Damiani S.p.A., with recoverable amounts substantially in line with the carrying amount.

Developing the sensitivity analysis, we point out that the recoverable amount of the subsidiary Damiani International B.V., is poorly sensitive to a reduction of 0.5 points in the growth rate of long-term (g) or alternatively an increase in WACC of 0.5 points; regarding the subsidiary Rocca S.p.A. the recoverable amount is substantially in line with its carrying value and consequently a reduction of 0.5% rate of long-term growth (g) or alternatively an increase in WACC would result in a lower recoverable amount of approximately Euro 1.5 million compared to the carrying value.

The following table details the investments in other companies.

(in thousands of Euro)	March 31 2013
Fin-Or-Val S.r.l.	126
Banca d'Alba	41
Total investments in other companies	167

The increase of Euro 17 thousands compared to March 31, 2012 was due to the minority in Fin-or-val S.r.l. brought by Alfieri & St. John S.p.A. on the merger.

The amounts booked in the financial statements are aligned to the fair value based on the latest available financial statements of the two companies.

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Receivables towards subsidiaries	38,330	24,936
Receivables towards others	372	165
Total financial receivables	38,702	25,101

Financial receivables from subsidiaries increased during the financial year to Euro 13,394 thousands due to the reclassification of trade receivables from Damiani International B.V., for the supply before the financial year 2012/2013 for Euro 22,537 thousands, to be recovered primarily through royalties payable by the parent company on foreign sales. On such financial receivables Damiani S.p.A. accrued interest income of Euro 527 thousands. Receivables from Damiani International B.V. existing and recognized in the financial statements at March 31, 2012 were instead largely reimbursed, except for a residual financing of Euro 1,500 thousands.

At March 31, 2013 these financial receivables from subsidiaries were as follows:

(in thousands of Euro)	March 31 2013	March 31 2012
Rocca S.p.A.	11,000	11,000
New Mood S.p.A.	-	1,000
Damiani International B.V.	24,037	10,596
Laboratorio Damiani S.r.l.	3,293	2,340
Total	38,330	24,936

The loans to subsidiaries provide for interest expense on the basis of Euribor (three or six months) plus a spread.

Other receivables include receivables from tax authorities for Euro 213 thousands relating to the recoverability IRES (income tax) of the IRAP (regional tax) relating to non-deductible expenses of employees with respect to prior years. These receivables have been accounted as non-current given the uncertainty on the timing of recovery.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Deferred tax assets:		
Net impact of the returns reserve	2,068	1,612
Financial interests in excess	927	717
Fiscal losses	1,275	1,257
Provision for doubtful accounts not deductible	910	718
Provisions on lawsuits	74	140
Write downs of inventories	2,072	1,032
Foreign exchange rate loss	331	95
Loss on barter receivables	187	41
Other timing differences of a taxation nature	353	258
Total deferred tax assets	8,197	5,870

(in thousands of Euro)	March 31 2013	March 31 2012
Deferred tax liabilities:		
Exchange differences	19	44
Other timing differences of a taxation nature	224	126
Total deferred tax liabilities	243	170

The increase in deferred tax assets compared to March 31, 2012 was mainly due to the tax effects related to the revision of the estimates made on fund for return on sales, on provision for doubtful accounts and write-downs of stock non-deductible in the financial year. Deferred tax assets on tax losses and financial charges exceeding booked in the financial statements in prior years are considered recoverable based on future plans, taking into account both the benefits arising from the fiscal consolidation and for both amendments introduced by the law 98/2011 which introduced the new system of tax losses carry forward, making them temporally unlimited albeit with quantitative limitation on an annual basis. In the current financial year, and in line with the previous year, given the continued existence of a pre-tax loss were not accounted further deferred tax assets calculated on the loss of the year. The amount of deferred tax assets on tax losses not recognized in the financial statements amounted to Euro 4,025 thousands at March 31, 2013.

10. INVENTORIES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Raw materials, semi-finished goods and advance payments	11,506	11,790
Finished products and goods	34,543	27,114
Total inventories	46,049	38,904

Finished goods at March 31, 2013 includes:

- Euro 6,760 thousands (Euro 5,138 thousands at March 31, 2012) of finished products delivered to customers but for which the conditions for the recognition of the related revenues were not met; the increase is related to the absorption of the returns funds that at March 31, 2012 was recognized in the financial statements of the merged companies.
- Euro 7,535 thousands (Euro 3,754 thousands at March 31, 2012) for inventory write-down in order to cover the risk of obsolescence, determined according to estimates by the management of the Company. The fund was the subject of the new estimate in the light of the different composition of inventories of finished goods generated as a result of the different scope of operations of the Company and of the consequent wider target market. It is therefore recognized a provision for additional Euro 1,628 thousands, compared to the estimated fund at March 31, 2012 integrated for the contribution arising from the merged companies (a total of Euro 2,806 thousands). During the financial year the fund was used to Euro 653 thousands, compared to operations of destruction and transformation and destocking.

11. TRADE RECEIVABLES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Trade receivables towards clients	39,438	30,664
Trade receivables towards subsidiaries	20,581	37,314
Trade receivables, gross	60,019	67,978
Provision for doubtful accounts	(3,574)	(2,765)
Fund for returns on sales	(13,952)	(10,673)
Net present value calculation of receivables	(34)	(28)
Total trade receivables	42,459	54,512

Trade receivables is net of allowance for doubtful accounts and fund for return on sales, as well as net of the effects of discounting the receivables represented by bank receipts that have been reissued and have due dates that go beyond the accounting period.

The following table shows the details of trade receivables from Group companies in the two periods compared.

(in thousands of Euro)	March 31 2013	March 31 2012
Rocca S.p.A.	1,320	1,885
New Mood S.p.A.	-	1,132
Alfieri & St John S.p.A.	-	1,334
Damiani International B.V.	4,747	30,767
Laboratorio Damiani S.r.l.	822	298
Damiani Usa Corp.	2,316	590
Damiani Japan K.K.	8,525	1,308
Damiani France S.A.	295	-
Rocca International S.A.	155	-
Damiani Hong Kong L.t.d.	1,330	-
Damiani Macau L.t.d.	455	-
Damiani Mexico S.A. de C.V.	108	-
Damiani Shanghai Trading Co. L.t.d.	508	-
Total	20,581	37,314

The different composition of trade receivables from subsidiaries compared to March 31, 2012 is the direct result of the change in the scope of activity of Damiani S.p.A. following the completion of reorganization projects of the Group. Direct sales to foreign subsidiaries that oversee the markets of their direct attribution originate new trade receivables; on the contrary, the merger of Alfieri & St. John S.p.A. and New Mood S.p.A. has led to the elimination of the corresponding receivables at March 31, 2012. Finally, the already described reclassification of trade receivables from Damiani International B.V. (see previous note 8. Financial receivables and other non-current assets) resulted in a significant reduction in exposure to the subsidiary.

The following table shows the changes in the provision for doubtful accounts and in the fund for returns on sales happened during the financial year ended March 31, 2013.

(in thousands of Euro)	Fund for returns on sales	Provision for doubtful accounts
Book value at March 31 2012	10,673	2,765
Values resulting from the merger	3,378	794
Values resulting from Damiani international B.V.	2,018	-
Accrual	2,903	191
Utilization	(5,020)	(176)
Book value at March 31 2013	13,952	3,574

Both funds shown in the table also show the impact of the merger of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. which at March 31, 2012 had in their statement of financial position specific provisions to adjust the gross trade receivables due from customers. In addition, the passage of the direct management of the foreign customers to Damiani S.p.A. also led to the transfer of the corresponding fund for returns on sales estimated in the past on the subsidiary Damiani International B.V. who ran that business relationship.

There are no trade receivables with a duration of more than five years. At March 31, 2013 the composition of gross trade receivables from customers by maturity is as follows:

(in thousands of Euro)	Not overdue	Overdue 0-90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue over 365 days	Total
Gross value of trade receivables	21,791	4,630	3,133	1,674	8,203	39,431

12. TAX RECEIVABLES

The tax credits, related to advance payments for income taxes, decreased from Euro 1,550 thousands at March 31, 2012 to Euro 1,056 thousands at March 31, 2013 as a consequence of lower down payments on direct taxes and partial compensation of tax credits in place.

13. OTHER CURRENT ASSETS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
VAT receivables from the Tax Authorities	478	321
Prepayments	714	1,126
Accrued income towards subsidiaries	546	48
Prepayments towards subsidiaries	-	263
Advances to suppliers	250	633
Receivables from others	438	248
Total other current assets	2,427	2,639

Prepaid expenses include barter contracts to acquire advertising services that will be used in future financial years. In the financial year ended March 31, 2013 a barter credit for which it appeared unlikely to be used before the expiry date of the contract was written down by Euro 469 thousands.

Accrued income from subsidiaries includes Euro 527 thousands from Damiani International B.V. of interest income accrued on loans receivables.

Advances to suppliers decreased due to the completion of the renovation work at the headquarters in Via Montenapoleone in Milan (in which the show room was transferred during the year) made by the related party Immobiliare Miralto S.r.l. (lessor of the space) to which in the previous year had been paid an advance of Euro 424 thousands.

14. CASH AND CASH EQUIVALENTS

The following provides a breakdown of the item at March 31, 2013 and at March 31, 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Bank and post accounts	231	671
Cash on hand	23	32
Total cash and cash equivalents	254	703

The balance represents the existing cash on bank accounts and post office, and the existence of cash and cash equivalents at the end of the period.

15. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2013 amounted to Euro 36,344 thousands, gross of treasury shares, and was made up of n. 82,600,000 shares with a par value of Euro 0.44 each.

It should be noted that no dividends were paid during the financial year. The Board of Directors on June 14, 2013 did not propose to the Shareholders' Meeting any dividend payment for the financial year 2012/2013.

The number of treasury shares held in the portfolio amounted to n. 5,556,409 (6.73% of the share capital) for a total value of Euro 8,134 thousands. Such amount was booked as a direct reduction in equity.

The number of shares in circulation at the beginning of the financial year amounted to n. 14,651,862 while at March 31, 2013 it amounted to n. 14,094,522.

The changes in equity in the financial year ended March 31, 2013 were as follows:

- Negative net result for Euro 3,241 thousands.
- Net change in the stock option reserve for Euro 191 thousands, on the amount accrued in the period of the stock option and stock grant plans approved by the Shareholders' Meeting on July 22, 2009 and by the Shareholders' Meeting on July 21, 2010 (and implemented by the Board of Directors on April 21, 2011).
- Disposal of treasury shares for Euro 15 thousands.
- Effects arising from the registration of deficit/surplus of merger for the incorporation of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. for Euro 5,556 thousands.

Details of the utilization and availability of the reserves are given below:

DESCRIPTION	AMOUNT	USAGE	SHARE AVAILABLE	USAGE IN THE THREE PREVIOUS FINANCIAL YEARS	
				to cover losses	for other uses
Share capital	36,344				
Share premium reserve	67,609	1) 2) 3)	67,609 (*)		2,248
Legal reserve	2,434	2)			
Other reserves:					
shareholders payment reserve	3,383	1) 2) 3)	3,383		
extraordinary reserve	1,172	1) 2) 3)	1,172	22,467	3,308
stock option and stock grant reserve	443	1) 2)			
own shares	(8,135)				
Total	103,250		72,164	22,467	5,556

1) for share capital increase

2) to cover losses

3) to be distributed to shareholders

(*) For position 3) distribution to shareholders, the share premium reserve is used for 65,022 thousands euro

16. FINANCIAL LIABILITIES: CURRENT AND NON CURRENT PORTION

The current and non-current portion of financial liabilities at March 31, 2013 and at March 31, 2012 were made up as follows:

(in thousands of Euro)	March 31 2013	March 31 2012	note
Non current portion			
Loan A	4,500	7,500	a
Loan B	-	2,500	b
Financial leasing	2,194	2,502	c
Total non current portion of medium/long term financial debt	6,694	12,502	
Current portion			
Loan A	3,000	3,000	a
Loan B	2,500	2,500	b
Financial leasing	308	269	c
Total current portion of medium/long term financial debt	5,808	5,769	
Total medium/long term financial debt	12,502	18,271	

Details of the loans granted to Damiani S.p.A. by banks are given below:

- Loan A was originally granted in June 2009 for a total of Euro 15,000,000 with a repayment plan based on constant six-monthly installments for the period from December 31, 2010 to June 30, 2015 at an interest rate of 4.40%, per year;
- Loan B was originally granted in June 2009 for a total of Euro 10,000,000 with a repayment plan based on constant three-monthly installments for the period from June 30, 2010 to March 31, 2014; therefore, it will be fully repaid by the end of the financial year 2013/2014 and was then recorded under current liabilities. On this loan interest is paid at a rate equal to 4%, per year;

Moreover, in the point c) is highlighted the debt to finance lease on a property regarding a Damiani shop, classified as sale and lease back with related party, pursuant to IAS 17.

The change of this item compared to March 31, 2012 for Euro 5,769 thousands was due to the payments of installments according to loan amortization plans for Euro 5,500 thousands and payments for leaseback operation for Euro 269 thousands.

The following table shows the details of the net financial position at March 31, 2013 and at March 31, 2012:

NET FINANCIAL POSITION (*) (in thousands of Euro)	March 31 2013	March 31 2012
Current portion of loans and financing	5,500	5,500
Current portion of loans and financing with related parties	308	269
Short term borrowings	14,777	1,096
Current financial indebtedness	20,585	6,865
Non current portion of loans and financing	4,500	10,000
Non current portion of loans and financing with related parties	2,194	2,502
Non Current financial indebtedness	6,694	12,502
Total gross financial indebtedness	27,279	19,367
Bank and post accounts	(231)	(671)
Cash on hand	(23)	(32)
Net financial position (*)	27,025	18,664

(*) The net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

The net financial position of Damiani S.p.A. at March 31, 2013 had a negative balance for Euro 27,025 thousands, in worsening of Euro 8,361 thousands compared to the value at the end of the previous financial year when the balance was Euro 18,664 thousands.

The negative change was due to the negative result of the period and to the investments made to support the Group's development.

17. EMPLOYEES' TERMINATION INDEMNITIES

In the financial year ended March 31, 2013 the following changes took place on Employees' Termination indemnities (TFR):

(in thousands of Euro)	March 31 2013	March 31 2012
Termination indemnities at the beginning of the period	2,344	2,454
Values resulting from the merger	613	-
Financial expenses	149	120
Paid benefits	(145)	(225)
Actuarial Loss (Profit)	230	(5)
Termination indemnities at the end of the period	3,191	2,344

The changes of the period reflect accruals and disbursements, included advances made during the financial year ended March 31, 2013, and the value resulting from the incorporation of Alfieri & St. John S.p.A. and New Mood S.p.A..

Employees' termination indemnities are part of a defined benefits plan.

Liabilities were calculated using the Project Unit Cost method based on the following:

- A series of financial assumptions were used (increases in the cost of living, pay increases, etc.) to calculate the potential payments that will have to be made to each employee in the event of retirement, death, invalidity, resignation and so on. This estimate of future payments includes the increases due to further years of service experience and the expected growth rate of pay received at the valuation date;
- It has been calculated the average present value of future benefits on the basis of the annual interest rate used and the probability that each service has to be effectively delivered at the financial statements date;

- It has been defined the liability for the Company identifying the share of the average present value of future benefits that refers to the service already accrued by the employee at the date of valuation;
- It has been established, on the basis of the liability determined in the previous paragraph and the reserve set aside in the financial statements as per the Italian law, the IRFS reserve.

The assumptions adopted are as follows:

FINANCIAL HYPOTHESES	March 31 2013	March 31 2012
Annual rate for the Net present value	4.40%	5.00%
Annual inflation rate	2.00%	2.00%

DEMOGRAPHIC HYPOTHESES	
Mortality	RG48 (RGS table 48)
Inability	INPS tables by age and sex
Pensionable Age	Reaching 100% of the mandatory social security requirements

Gains and losses from actuarial calculations are booked on the income statements in each period as labor cost.

18. PROVISION FOR RISKS AND CHARGES

Risk reserve is booked to face the litigation. The value of the reserve is changed from Euro 561 thousands in the financial year ended March 31, 2012 to Euro 273 thousands in the financial year ended March 31, 2013 per effect of: i) utilizations for Euro 411 thousands including Euro 302 thousands for the closure of a legal dispute with a former foreign customer; ii) provisions for Euro 122 thousands, to face litigations for which at March 31, 2013 the Company had already incurred probable obligations.

19. TRADE PAYABLES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Trade payables due in less than 12 months	2,884	24,761
Trade payables towards subsidiaries within 12 months	11,250	14,402
Bill payable, other credit securities and advances	280	51
Total trade payables	38,414	39,214

Details of trade payables to subsidiaries were as follows:

(in thousands of Euro)	March 31 2013	March 31 2012
New Mood S.p.A.	-	1,714
Laboratorio Damiani S.r.l.	8,086	6,226
Rocca S.p.A.	122	344
Damiani International BV	1,819	3,482
Casa Damiani Espana S.L.	721	721
Alfieri & St John S.p.A.	-	1,915
Damiani Usa Corp.	56	-
Damiani Japan K.K.	21	-
Damiani France S.A.	425	-
Total	11,250	14,402

20. SHORT TERM BORROWINGS

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Current debts towards banks	14,679	960
Accrued expenses related to interest on loans	98	136
Total short term borrowings	14,777	1,096

The short term debts towards banks are generated from the requirements linked to the operational management of working capital. The increased exposure in the short term compared to March 31, 2012 is related to the gradual repayment of medium/long term loans and the resulting financial needs of the Company and its subsidiaries. The greater use of short-term sources did not result in adverse effects in terms of burden, since interest rates paid on short-term debt (average 2.5%) was lower than those paid on medium/long term (4.3%).

21. TAX PAYABLES

At March 31, 2013 the item amounted to Euro 489 thousands compared to a balance of Euro 229 thousands at March 31, 2012, mainly due to the increase in current tax liabilities.

22. OTHER CURRENT LIABILITIES

The following table provides a breakdown as of March 31, 2013 and 2012:

(in thousands of Euro)	March 31 2013	March 31 2012
Payables to social security institutions	807	696
Payables to employees	1,798	1,459
Other liabilities towards subsidiaries	810	129
Other liabilities	195	92
Total other current liabilities	3,610	2,376

Payables to employees include liabilities for vacation and leave not enjoyed as well as the amount accrued and not yet delivered by 13-th and 14-th monthly.

The amount of liabilities towards subsidiaries was as follows:

(in thousands of Euro)	March 31 2013	March 31 2012
Damiani International B.V.	63	86
New Mood S.p.A.	-	9
Laboratorio Damiani S.r.l.	9	9
Alfieri & St John S.p.A.	-	4
Rocca S.p.A.	738	21
Total	810	129

The increase of Rocca S.p.A. debt refers to the transfer of the VAT credit from the tax authority due to the subsidiary, as part of the activation of the regime of Group VAT from January 2013, pursuant to Law 633/72 article 73, paragraph 3, DM 13/12/1979.

23. REVENUES

In the financial year 2012/2013 total revenues amounted to Euro 78,500 thousands and recorded an increase by Euro 13,707 thousands (+21.2%) compared to the previous financial year (Euro 64,793 thousands). This increase was due to the different scope of activities developed from the Company, in Italy and abroad, compared to the prior year, as described in the report on operations and in the note 3. Information on the comparative data as of March 31 2012.

The following table shows breakdown by sales channels.

REVENUES BY SALES CHANNEL (in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Third parties Wholesale	51,972	37,710
Percentage on total revenues	66.2%	58.2%
Third parties Retail	8,953	6,933
Percentage on total revenues	11.4%	10.7%
Total wholesale and retail revenues	60,926	44,643
Percentage on total revenues	77.6%	68.9%
Intercompany sales	17,574	20,150
Percentage on total revenues	22.4%	31.1%
Total Revenues	78,500	64,793

24. COST OF RAW MATERIALS AND CONSUMABLES

In the financial year 2012/2013 the costs of raw materials and consumables (including purchases of finished goods) were Euro 45,604 thousands, an increase by Euro 6,168 thousands compared to the financial year ended March 31, 2012 (Euro 39,436 thousands).

The growth was directly linked to the increase in revenues with a growing trend less than proportional due to the different mix in revenues, with an increasing weight of the components with higher marginality to which correspond costs production and purchases consequently lower.

25. COST OF SERVICES

The following table shows the costs of services in the financial year ended March 31, 2013 and in the prior financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Functional expenses	5,650	3,567
Advertising expenses	6,560	4,101
Other commercial expenses	2,305	2,933
Production costs	3,341	3,182
Consultancy	1,748	1,920
Travel/transport expenses	1,623	1,153
Directors' fees	199	139
Use of third parties assets	1,937	3,115
Total cost of services	23,363	20,110

The costs of services showed an increase by Euro 3,253 thousands compared to the previous financial year. This growth was mainly due to the effect of two opposing trends: i) increase of the costs directly linked to sales and then to the wider scope of operations of the Company compared to the prior year (advertising expenses, production and transport expenses and functional expenses); ii) reduction in the indirect costs on which we have done savings during the year and the full benefits of which will be recognized in the financial year 2013/2014.

26. PERSONNEL COSTS

The following table shows the details of the item in the financial year ended March 31, 2013 and in the prior financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Wages and salaries	9,477	7,517
Social security costs	2,946	2,461
Termination indemnity	938	564
Other personnel costs	239	237
Total personnel cost	13,600	10,779

The personnel cost increased by Euro 2,821 thousands due to the incorporation of the staff of the subsidiaries Alfieri & St. John S.p.A. and New Mood S.p.A. and of part of the employees of Damiani International B.V. after the transfer of the activities in Italy (mainly administrative and logistic). At the same time the reorganization of certain processes to recover a greater efficiency were implemented. The positive benefit of such reorganization, in terms of cost reduction, is expected in the next financial year. The following table shows the average number of employees of the Company in the financial year ended March 31, 2013 and in the prior financial year, with an increase of n. 47 units employed in the two periods (+21%) due to the integrations above described:

LABOUR CATEGORY	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Executives and managers	32	28
Clerks	221	180
Workers	19	17
Total	272	225

27. OTHER NET OPERATING (CHARGES) INCOMES

The following table shows the details of the item in the financial year ended March 31, 2013 and in the prior financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Other operating (charges) incomes	2,692	2,792
Allowance for doubtful accounts	(191)	(697)
Provision for lawsuits	(122)	(302)
Total other net operating (charges)/incomes	2,379	1,793

Item balance was positive in the two periods and showed an improvement by Euro 586 thousands. In the financial year 2012/2013 both the provisions for doubtful accounts and to the risk reserve for lawsuits were lower. The other operating incomes include: i) compensation for loss of commercial goodwill pursuant article 34 of the law 392/78 that the Company has received for the issuance of a shop in Milan (it was managed by the subsidiary New Mood S.p.A.), owned by a related party, for an amount equals to Euro 1,955 thousands (gross of tax effects); ii) the net effects of the restatement of the fund that cover possible returns from customers, allocated in previous years and which resulted in excess at March 31, 2013, given the drop in the volume of returns on sales. This positive effect amounted to Euro 995 thousands. Even in the financial year ended March 31, 2012 we recorded similar net income related to the partial release of the fund for returns on sales for Euro 1,173 thousands.

28. AMORTIZATION, DEPRECIATION AND WRITE DOWNS

The amortization and depreciation of tangible and intangible assets in the financial year ended March 31, 2013 amounted to Euro 853 thousands, in increase by Euro 148 thousands compared to the previous financial year (Euro 705 thousands). The change is due to the higher value of the depreciable stock, both for the increase in the non-current assets deriving from the mergers and for the capital expenditure of the financial year (equal to Euro 1,417 thousands).

29. FINANCIAL (EXPENSES) AND INCOMES

The following table shows the financial expenses and incomes in the financial year ended March 31, 2013 and in the prior financial year ended March 31, 2012.

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Exchange differences	(1,078)	(5)
(Financial charges)	(1,235)	(1,319)
Financial incomes	1,092	638
Total financial (expenses) and incomes	(1,221)	(686)

Financial expenses increased in the current financial year as a consequence of higher charges from exchange differences only partially offset by the increase in incomes, due to the positive interests (for Euro 527 thousands) deriving from financial receivables to Damiani International B.V. following the reclassification described in note 8. Financial receivables and other non-current assets.

Overall, the financial incomes generated by intercompany loans in the financial year 2012/2013 were Euro 894 thousands (were Euro 496 thousands in the prior financial year).

30. INCOME TAXES

The following table shows the details of the item in the financial year ended March 31, 2013 and in the prior financial year ended March 31, 2012:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Current taxes	148	46
Deferred tax (assets)/liabilities	(669)	783
Total income taxes	(521)	829

The current taxes include taxes on income IRAP (regional tax) for the period.

The reconciliation between fiscal charges in the financial statements and theoretical fiscal charges calculated on the basis of the IRES (income tax) tax rate applicable to Damiani S.p.A. for the financial year ended March 31, 2013 and for the prior financial year was as follows:

(in thousands of Euro)	FINANCIAL YEAR 2012/2013	FINANCIAL YEAR 2011/2012
Result before taxes	(3,763)	(5,130)
IRES (Corporate) tax rate for the period	27.5%	27.5%
Theoretical tax burden	1,035	1,411
IRAP (Regional tax on productive activities) effect	(148)	(46)
Other non deductible costs	(366)	(2,194)
Total differences	(514)	(2,240)
Total taxes for income statements	521	(829)
Effective tax rate	13.8%	-16.2%

31. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes the relationships between Damiani S.p.A., subsidiaries and related parties during the financial year ended March 31, 2013 and the prior financial year, highlighting the impact on economic and financial values of the Company.

Such relationships with related parties are of real estate nature (rents, sale and lease back transactions, rental of business units), mainly with the Immobiliare Miralto S.r.l. and Montenapoleone 10 S.r.l. and of commercial nature (sale of jewelry products, cooperation agreement), with the various subsidiaries of the Group which distribute the products in their fields of competence.

The following table shows the details of these relationships in the financial year ended March 31, 2013.

Financial Year 2012/2013							Balance at March 31 2013					
(in Euro)	Revenues	Other operating incomes (charges)	Financial incomes	Costs of raw materials	Costs of services	Financial expenses	Financial receivables	Trade receivables	Other current assets	Financial debt (including leasing)	Trade payables	Other current liabilities
Damiani International B.V.	569,801	3,196	572,964	(2,505,517)	(1,788,715)	-	24,036,879	4,747,210	549,084	-	(1,818,971)	(63,138)
Damiani Manufacturing S.r.l.	-	-	-	-	-	-	-	-	-	-	-	(10)
Damiani Japan K.K.	8,316,201	-	-	-	(3,092)	-	-	8,525,930	-	-	(20,877)	-
Damiani Usa Corp.	1,946,863	73,528	-	-	-	-	-	2,316,131	-	-	(55,772)	-
Casa Damiani Espana S.L.	-	-	-	-	-	-	-	-	-	-	(721,480)	-
Rocca S.p.A.	2,409,682	694,910	249,644	(467,709)	(83,641)	-	11,000,000	1,319,522	35,157	-	(122,309)	(737,854)
Laboratorio Damiani S.r.l.	1,946,458	150,506	70,965	(7,609,812)	(2,278,299)	-	3,292,683	821,823	74,682	-	(8,085,094)	(9,153)
Damiani France S.A.	(130,455)	-	-	-	-	-	-	294,683	-	-	(425,137)	-
Rocca International S.A.	155,476	-	-	-	-	-	-	155,476	-	-	-	-
Damiani Hong Kong L.t.d.	1,316,552	-	-	-	-	-	-	1,329,716	-	-	-	-
Damiani Macau L.t.d.	448,524	-	-	-	-	-	-	454,987	-	-	-	-
Damiani Mexico S.A. de C.V.	104,422	-	-	-	-	-	-	108,285	-	-	-	-
Damiani Shanghai Trading Co. L.t.d.	490,776	-	-	-	-	-	-	507,736	-	-	-	-
Imm.re Miralto S.r.l.	-	1,964,000	-	-	(285,254)	(327,000)	-	10,890	-	-	(1,026,330)	-
Montenapo 13 s.r.l.	-	6,000	-	-	-	-	-	7,260	-	-	-	-
Montenapoleone 10 S.r.l.	-	1,000	-	-	(114,837)	(104,000)	-	1,210	-	(2,502,000)	(258,265)	-
Magenta 82 S.r.l.	-	1,000	-	-	-	-	-	1,210	-	-	-	-
Duomo 25 S.r.l.	-	1,000	-	-	-	-	-	1,210	-	-	-	-
Executives with strategic responsibilities	-	-	-	-	(38,230)	-	-	-	-	-	(11,443)	-
Total with related parties	17,574,300	2,895,140	893,573	(10,583,038)	(4,592,068)	(431,000)	38,329,562	20,603,279	658,923	(2,502,000)	(12,545,678)	(810,155)
Total from financial statements	78,499,816	2,378,995	1,091,700	(45,603,747)	(23,363,065)	(2,313,031)	38,701,537	42,459,216	2,427,213	(27,279,315)	(38,413,697)	(3,610,143)
% age weight	22%	n.m.	82%	23%	20%	19%	99%	49%	27%	9%	33%	22%

- The net revenues from subsidiaries include sale of jewelry products of Group brands and of raw materials (to which correspond the trade receivables); compared to the previous financial year the widest variety of counterparties is derived from the difference in the scope of activity of the Company that directly meet the demands of products from all the Group companies that oversee the various markets.
- Other operating incomes from subsidiaries Damiani International B.V., Damiani Usa Corp., Rocca S.p.A. and Laboratorio Damiani S.r.l. include the re-charge, according to the agreements between the parties, of services and management fees drawn up centrally and enjoyed by subsidiaries and the re-charge of seconded staff; income from Immobiliare Miralto S.r.l. includes the compensation for loss of goodwill pursuant to article 34 of law 392/78 received for the issuance of commercial premises in Milan (in the past managed by New Mood S.p.A.), owned by related party, for an amount of Euro 1,955 thousands (gross of the related tax effects).
- Financial incomes from subsidiaries Damiani International B.V., Laboratorio Damiani S.r.l. and Rocca S.p.A. are related to the interest rates paid on the financings to those companies.
- Costs from subsidiaries Damiani International B.V., Rocca S.p.A. and Laboratorio Damiani S.r.l. are related to the purchases of goods and services (repairs, production costs) to which correspond the trade payables; between the costs for services towards Damiani International B.V. are also included the royalties and the commissions earned on foreign sales done during the financial year 2012/2013.

- Costs towards Immobiliare Miralto S.r.l. and Montenapoleone 10 S.r.l. are related to rental fees paid for the premises in Milan and Valenza (AL). Moreover, there are financial charges of Euro 431 thousands, corresponding to the portion of interest for the repayment of debt for a sale and lease back transaction for a building in Milan where is located a Damiani boutique (until December 31, 2012 the counterparty is Immobiliare Miralto S.r.l.; from January 1, 2013 is Montenapoleone 10 S.r.l., took over the lease). The outstanding debt at March 31, 2013 amounts to Euro 2,502 thousands.
- Costs from strategic executives refer to services received which are among the Company's ordinary operations.

The following table shows the details of these relationships in the financial year ended March 31, 2012.

Financial Year 2011/2012							Balance at March 31 2012					
(in Euro)	Revenues	Other operating incomes (charges)	Financial incomes	Costs of raw materials	Costs of services	Financial expenses	Financial receivables	Trade receivables	Other current assets	Financial debt (including leasing)	Trade payables	Other current liabilities
Damiani International B.V.	14,297,811	413,299	48,463	(2,394,958)	-	-	10,596,255	30,766,814	48,463	-	(3,482,279)	(86,000)
Alfieri & St John S.p.A.	260,523	487,476	-	(759,979)	(77,976)	-	-	1,333,551	60,090	-	(1,914,795)	(3,797)
Damiani Manufacturing S.r.l.	-	-	-	-	-	-	-	-	-	-	-	(9)
New Mood S.p.A.	-	437,921	32,990	(20,205)	(525,985)	-	1,000,000	1,132,473	20,800	-	(1,714,449)	(8,905)
Damiani Japan K.K.	-	28,075	-	-	-	-	-	1,308,468	-	-	-	-
Damiani Usa Corp.	-	87,370	-	-	(107)	-	-	590,246	-	-	-	-
Casa Damiani Espana S.L.	-	-	-	-	-	-	-	-	-	-	(721,480)	-
Rocca S.p.A.	3,809,174	426,599	349,189	(45,000)	(332,800)	-	11,000,000	1,884,970	202,325	-	(343,843)	(21,045)
Laboratorio Damiani S.r.l.	1,782,568	141,653	65,251	(5,065,558)	(2,671,682)	-	2,339,434	297,585	-	-	(6,225,027)	(9,134)
Imm.re Miralto S.r.l.	-	-	-	-	(1,314,481)	(464,000)	-	-	424,000	(2,771,000)	(2,185)	-
Dirigenti con responsabilità strategiche	-	-	-	-	(162,611)	-	-	-	-	-	(16,600)	-
Total with related parties	20,150,076	2,022,393	495,893	(8,285,701)	(5,085,643)	(464,000)	24,935,690	37,314,107	755,678	(2,771,000)	(14,420,657)	(128,889)
Total from financial statements	64,793,143	1,793,361	637,753	(39,435,583)	(20,110,325)	(1,323,569)	25,101,037	54,512,488	2,639,005	(19,367,243)	(39,214,011)	(2,376,071)
%age weight	31%	n. m.	78%	21%	25%	35%	99%	68%	29%	14%	37%	5%

- Revenues from subsidiaries Damiani International B.V., Alfieri & St John S.p.A., Rocca S.p.A. and Laboratorio Damiani S.r.l. include sale of jewelry products of Damiani and Salvini brands and of raw materials (which correspond to trade receivables).
- Other operating incomes from subsidiaries Damiani International B.V., Alfieri & St John S.p.A., New Mood S.p.A., Damiani Japan K.K., Damiani Usa Corp., Rocca S.p.A. and Laboratorio Damiani S.r.l. include the re-charge, according to the agreements between the parties, of services and management fees drawn up centrally and enjoyed by subsidiaries and the re-charge of seconded staff.
- Financial incomes from subsidiaries Damiani International B.V., New Mood S.p.A., Laboratorio Damiani S.r.l. and Rocca S.p.A. are related to the interest rates paid on the financings to those companies.
- Costs from subsidiaries Alfieri & St John S.p.A., Damiani International B.V., New Mood S.p.A. and Laboratorio Damiani S.r.l. are related to the purchases of goods and services (repairs and production costs) to which correspond the trade payables.
- Costs from Rocca S.p.A. are mainly due to the rental fees related to the boutique in Turin (a mono-brand Damiani), managed on behalf of Damiani S.p.A.
- Other current assets/(liabilities) from subsidiaries relating to the fiscal consolidation achieved in Damiani S.p.A.
- Costs from Immobiliare Miralto S.r.l. are related to the rental fees paid for the premises in Milan and Valenza (AL). Moreover, there are also financial charges of Euro 464 thousands corresponding to the portion of interest for the repayment of borrowings to the related party for a sale and lease back transaction for a building in Milan where is located a Damiani boutique. The outstanding debt at March 31, 2012 amounts to Euro 2,771 thousands.
- Costs from strategic executives refer to services received within the Company's ordinary operations.

In both periods there are also loans contracts between Damiani S.p.A. and a number of subsidiaries, negotiated at market conditions and described in the previous notes.

32. COMMITMENTS AND CONTINGENT LIABILITIES

With regard to the dispute between the Tax Agency in Milan and the subsidiary New Mood S.p.A., together with the parent company Damiani S.p.A. who has opted for the tax consolidation (please note that on December 20, 2012 was formalized by notarial deed, the merger by incorporation of New Mood S.p.A. in the parent company Damiani S.p.A.), which has been disclosed in previous financial statements from the year 2009/2010, it provides a further update. The assessment for the tax year 2004 challenged the tax deductibility of costs of approximately Euro 8,000 thousands relating to the purchase of goods from supplier companies resident in Hong Kong, was unconvinced as the conditions of exemption provided for by article 110 paragraph 11 of TUIR. On June 28, 2012 the Regional Tax Commission of Milan filed on appeal, confirming the position favorable to the taxpayer New Mood S.p.A. and then the correct deductibility of costs recorded in the tax period 2004. That judgment became final March 14, 2013, with no further appeals from the Tax Agency. Since March 2010 the liability was qualified as "possible", and consequently had never proceeded to book any provision in the financial statements.

33. ATYPICAL AND/OR UNUSUAL AND NON-RECURRING TRANSACTIONS

There were no positions or transactions deriving from atypical and/or unusual item as defined by Consob resolution n. 15519 of July 27, 2006 and by Consob communication DEM 6064293 of July 28, 2006.

As non-recurring operation of the financial year 2012/2013 it should be noted:

- Compensation for loss of goodwill pursuant to article 34 of law 392/78 received by the Company for the issuance of commercial premises in Milan (in the past managed by New Mood S.p.A.), owned by related party, for an amount of Euro 1,955 thousands (gross of the related tax effects). The amount was recorded in other operating income.

34. CAPITAL MANAGEMENT

The primary goal of Damiani S.p.A. is to guarantee, even in periods of economic crisis and financial stress, the best possible balance between assets and liabilities (solvency ratio) also from an overall view of the Group. Starting from this principle the Company is committed, even in a not positive market environment, to maintain an high capital strength and to limit debt to the banking system (optimizing the cost that consists in the interest rate paid) in order to maximize its credit rating and therefore support the expansion plans of the Group in the best possible financial conditions.

Damiani S.p.A. manages its capital structure and changes it according to the alterations in economic conditions and in the targets of its strategic plans.

35. FINANCIAL RISK MANAGEMENT

At March 31, 2013 Damiani S.p.A. had a negative net financial position of about Euro 27 million, in worsening of Euro 8.4 million compared to March 31, 2012, due to the negative net result of the period and to the needs required to support the development of the Group. In a market context (even from a strictly financial profile) that continues to be characterized by great uncertainty, the Company shall adjust its policy of financial risk management to the situation in which the specific projects from time to time it sought to develop.

In the following paragraphs are described the main financial risks to which the Company is exposed and that are part of a wider management at Group level (described in the consolidated report on operations and in the notes of the consolidated financial statements) constantly monitored in order to identify appropriate actions to mitigate them, listing them in descending order of importance.

Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.

With reference to the dealership, the Company deals with a customer base consisting mainly of jewelry shops and distributors and therefore are not generally required collateral. The Company carries out a preliminary information surveys to customers through a specific information company and monitors all customers with the attribution of a specific trust; for all is also operating an automatic control with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection.

This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged. The deterioration in market conditions and the difficult to access to credit can impact the solvency of some clients, in respect of which the Company carries out constant monitoring to protect their interests and then proceeding in a timely assessment of risks in the closing of the financial year.

With regard to trade and financial receivables from subsidiaries, the Company has in place a monitoring on the results of the subsidiaries and believes that these receivables are recoverable in relation to the forecasts of the subsidiaries included in their business plans.

The table below shows the maximum potential exposure to the credit risk at March 31, 2013 and at March 31, 2012.

(in thousands of Euro)	March 31 2013	March 31 2012
Deposits	231	671
Trade receivables	42,459	54,512
Financial receivables towards subsidiaries	38,330	24,936
Other non current assets	372	165
Other current assets	3,483	4,189
Total maximum exposure to the credit risk	84,875	84,473

Liquidity risk

The exposure of Damiani S.p.A. is mainly represented by trade payables related to supply transactions and borrowings from the banking system. The overall exposure increased by Euro 8,606 thousands in the financial year 2012/2013 with the progressive increase of the short-term debt to the banking system as a result of the repayment of long-term loans and to cover the needs originated from development projects of the Group. In order to rebalance the sources of funding in terms of duration, the Company has recently begun negotiations with leading banks to access forms of financing in the medium term, considering the market conditions proposals. The table below shows the detail of the liquidity risk:

Analysis of the due date at March 31 2013				
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	38,414	-	-	38,414
Long term financial debts to banks	5,500	4,500	-	10,000
Long term financial debt to leasing	308	1,749	445	2,502
Short term borrowings	14,777	-	-	14,777
Other current liabilities	4,099	-	-	4,099
Total exposure	63,098	6,249	445	69,792

Analysis of the due date at March 31 2012				
(in thousands of Euro)	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	39,214	-	-	39,214
Long term financial debts to banks	5,500	10,000	-	15,500
Long term financial debt to leasing	269	1,076	1,426	2,771
Short term borrowings	1,096	-	-	1,096
Other current liabilities	2,605	-	-	2,605
Total exposure	48,684	11,076	1,426	61,186

Price fluctuations' risks and raw materials' availability

Among its raw materials Damiani S.p.A. mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors such as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2012/2013 the average price of gold, which is normally considered as being a shelter-good in times of economic and financial crisis and subject to much speculation, continued to record wide fluctuations: in April 2012 the average monthly value was 40.3 euros per gram, then increased to about 43.6 euros per gram in September 2012 and down to 39.5 euros per gram in March 2013. The annual average was 41.3 euros per gram, compared to an annual average in the previous financial year 2011/2012 which was equal to 38.5 euros per gram, an increase of 7.2%.

In the following months (April-May 2013) gold prices have undergone a rapid and significant decrease, returning to the levels of mid-2011 (values around 35-36 euros per gram) and recording strong daily fluctuations dictated by massive sales. In this context it is difficult to identify the causes and consequently formulate reliable forecasts for the coming months.

The risks related to the price of raw materials and to the strong and sudden fluctuations are amplified for effect of movements in the exchange rate, because some materials have official prices in currencies other than Euro and the same purchases are settled in U.S. dollars (diamonds) and Yen (pearls), while the Group's functional currency is the Euro.

Damiani S.p.A. mitigates this risks as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2013 active contracts relating to purchases of gold were 6 for a total quantity of 102 kilograms and an agreed equivalent of Euro 4,204 thousands); b) purchases finished products from suppliers with who there exist well established relationships and defined agreements for a medium-term time that enable to mitigate the effects

associated with rapid and frequent price fluctuations; c) the retail price is increased (usually annually) in relation to the increase in the production costs.

A medium-long term upward trend in the price of raw materials used in the manufacturing process would inevitably result in a reduction of margins for the Company, as it is not possible to fully pass on the price the increase of the purchase cost.

Exchange rate risk

The Company carries out some purchases of raw materials and finished products in US Dollar and Japanese Yen, which exposes it to the consequent exchange rate risk. If this risk is considered to be significant, specific currency forward contracts are signed, in order to hedge the exchange rate risk.

At March 31, 2013 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 2,344 thousands. At March 31, 2012 instead there were outstanding currency forward contracts for a total of Euro 1,603 thousands.

Interest rate risk

Interest rate changes may affect Damiani S.p.A.'s profitability, implying higher costs for interest on debt.

In order to limit the risk of exposure to fluctuations in interest rates, in the past (June 2009) Damiani S.p.A. signed medium-long term loans (for a maximum period of 6 years) for a total amount of Euro 25,000 thousands at a fixed rate (between 4% and 4.5%) and without any additional guarantees and covenants. The residual value at March 31, 2013 of such funding was Euro 10,000 thousands.

In addition, the Company uses other form of short-term financing (lines of credit and factoring) to cover its financial requirements. These short-term loans are more exposed to fluctuations in interest rates and the credit crunch that may occur in times of crisis like the present. The use of short-term loans during the financial year 2012/2013 is, however, occurred at average rates lower than 3% per year, lower than those paid on medium-long term financing existing (around 4.2%)

To re-balance the overall structure of the debt, the Company is evaluating with leading banks forms of medium-long term financing.

In February 2013, a loan with Simest S.p.A. was signed for Euro 3,012 thousands at a subsidized rate (in addition to costs related to the underlying bank guarantee required for the amount financed) for the implementation of development programs in China (to cover investments and operating costs to be incurred in the 24 months following the date of conclusion of the contract). The contract provides for reimbursement in seven years (after the first two-year grace period), in half-yearly installments. On June 14, 2013 was granted an interim financing equal to 30% of the total.

Financial instruments at fair value and relative valuation hierarchy levels

The table below gives details of assets and liabilities valued at fair value. No significant differences emerge from a comparison of the book value and fair value on the different categories of financial instruments used by the Company and booked to the financial statements.

(in thousands of Euro)	BOOK VALUE						FAIR VALUE	
	Total		current		non current			
	March 31 2013	March 31 2012	March 31 2013	March 31 2012	March 31 2013	March 31 2012	March 31 2013	March 31 2012
Cash and cash equivalent	254	703	254	703	-	-	254	703
Trade receivables	42,459	54,512	42,459	54,512	-	-	42,459	54,512
Other financial assets	3,855	4,354	3,483	4,189	372	165	3,855	4,354
Financial receivables to subsidiaries	38,330	24,936	38,330	24,936	-	-	38,330	24,936
Total financial assets	84,898	84,505	84,526	84,340	372	165	84,898	84,505

Trade payables	38,414	39,214	38,414	39,214	-	-	38,414	39,214
Payables to banks and other financial liabilities	27,279	19,367	20,585	6,865	6,694	12,502	27,279	19,367
Other liabilities	4,099	2,605	4,099	2,605	-	-	4,099	2,605
Total financial liabilities	69,792	61,186	63,098	48,684	6,694	12,502	69,792	61,186

With regard to the financial instruments booked at fair value, IFRS 7 requires these values to be classified on the basis of hierarchy levels that reflect the significance of the method used to calculate the fair value.

These levels are as follows:

- level 1: financial instrument listed on an active market;
- level 2: fair value is measured on the basis of valuation techniques that are based on observable market data, different from the listing;
- level 3: fair value is calculated on the basis of valuation techniques that are not based on observable market data.

All assets and liabilities valued at fair value at March 31, 2013 are classified at level 2 and during the financial year 2012/2013 there were no transfer from level 1 or 3 to level 2.

36. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

There were no significant events after the end of the financial year.

37. AUDIT COSTS

The following table, prepared pursuant to article 149-duodecies of the Consob Issuer Regulations, shows the contractual amounts for the financial year ended March 31, 2013 for services rendered by the independent auditors and entities belonging to its network.

(in thousands of Euro)			
Type of service	Service provider	Services	Fees
Audit	Reconta Ernst & Young S.p.A.	Professional fees	225
		Other expenses	36
Total			261

For the Board of Directors
President & CEO
Mr. Guido Grassi Damiani

ANNEX I

Key data of subsidiaries

Damiani Manufacturing S.r.l. Registered office		Valenza (AL), Italy
Key figures (in thousands of Euro)		FY closed at March 31 2013
Share capital		850
Revenues from sales and services		30
Operating result		13
Net result		64
Total assets		3,164
Shareholders' equity		3,147
Total liabilities		17
Financial report according to local GAAP		

Laboratorio Damiani S.r.l. Registered office		Valenza (AL), Italy
Key figures (in thousands of Euro)		FY closed at March 31 2013
Share capital		2,140
Revenues from sales and services		10,769
Operating result		623
Net result		342
Total assets		12,411
Shareholders' equity		3,575
Total liabilities		8,836
Financial report according to local GAAP		

Damiani International B.V. Registered office		Amsterdam, Netherlands
Key figures (in thousands of Euro)		FY closed at March 31 2013
Share capital		194
Revenues from sales and services		18,190
Operating result		(801)
Net result		(23,065)
Total assets		80,586
Shareholders' equity		46,246
Total liabilities		34,340
Financial report according to local GAAP		

Damiani Japan K.K. Registered office		Tokio, Japan
Key figures (in millions of Jpy)		FY closed at March 31 2013
Share capital		495,000
Revenues from sales and services		1,338,543
Operating result		582,322
Net result		(322,595)
Total assets		2,541,583
Shareholders' equity		976,111
Total liabilities		1,565,472
Average exchange rate 2011/2012		Euro/Jpy 106,360
Exchange rate at March 31 2012		Euro/Jpy 120,870
Financial report according to local GAAP		

Damiani USA, Corp. Registered office		New York, USA
Key figures (in thousands of Usd)		FY closed at March 31 2013
Share capital		900
Revenues from sales and services		7,195
Operating result		(2,593)
Net result		(2,625)
Total assets		16,029
Shareholders' equity		(3,110)
Total liabilities		19,139
Average exchange rate 2011/2012		Euro/Usd 1,287
Exchange rate at March 31 2012		Euro/Usd 1,281
Financial report according to local GAAP		

Casa Damiani Espana S.L. Registered office		Valencia, Spain
Key figures (in thousands of Euro)		FY closed at March 31 2013
Share capital		721
Revenues from sales and services		-
Operating result		(1)
Net result		(1)
Total assets		835
Shareholders' equity		835
Total liabilities		-
Financial report according to local GAAP		

Damiani Hong Kong Ltd. Registered office		Hong Kong, Hong Kong
Key figures (in thousands of Hkd)		FY closed at March 31 2013
Share capital		2,500
Revenues from sales and services		19,147
Operating result		8,351
Net result		(10,627)
Total assets		39,907
Shareholders' equity		(30,495)
Total liabilities		70,402
Average exchange rate 2012/2013		Euro/Hkd 9,981
Exchange rate at March 31 2013		Euro/Hkd 9,942
Financial report according to local GAAP		

Damiani France S.A. Registered office		Paris, France
Key figures (in thousands of Euro)		FY closed at March 31 2013
Share capital		39
Revenues from sales and services		1,674
Operating result		(223)
Net result		(223)
Total assets		2,964
Shareholders' equity		(4,319)
Total liabilities		7,283
Financial report according to local GAAP		

Damiani Macau Ltd. Registered office		Macau
Key figures (in thousands of Pataca)		FY closed at March 31 2013
Share capital		2,200
Revenues from sales and services		8,219
Operating result		(2,169)
Net result		(2,182)
Total assets		21,466
Shareholders' equity		(2,443)
Total liabilities		23,909
Average exchange rate 2011/2012		Euro/Pataca 10,280
Exchange rate at March 31 2012		Euro/Pataca 10,240
Financial report according to local GAAP		

Rocca S.p.A. Registered office		Valenza (AL), Italy
Key figures (in thousands of Euro)		FY closed at March 31 2013
Share capital		4,680
Revenues from sales and services		46,946
Operating result		(1,308)
Net result		(1,334)
Total assets		37,683
Shareholders' equity		6,252
Total liabilities		31,431
Financial report according to local GAAP		

Rocca International S.A. Registered office		Lugano, Switzerland
Key figures (in thousands of Chf)		FY closed at March 31 2013
Share capital		600
Revenues from sales and services		1,940
Operating result		65
Net result		22
Total assets		3,719
Shareholders' equity		1,157
Total liabilities		2,562
Average exchange rate 2012/2013		Euro/Chf 1,210
Exchange rate at March 31 2013		Euro/Chf 1,220
Financial report according to local GAAP		

Damiani Mexico S.A. Registered office		Mexico - Distrito Federal, Mexico
Key figures (in thousands of Mxn)		FY closed at March 31 2013
Share capital		3,000
Revenues from sales and services		2,842
Operating result		(873)
Net result		(1,026)
Total assets		14,144
Shareholders' equity		3,747
Total liabilities		10,398
Average exchange rate 2012/2013		Euro/Mxn 16,824
Exchange rate at March 31 2013		Euro/Mxn 15,815
Financial report according to local GAAP		

Damiani Shanghai Trading Co. Ltd. Registered office		Shanghai, Cina
Key figures (in thousands of Cny)		FY closed at March 31 2013
Share capital		30,000
Revenues from sales and services		640
Operating result		(2,220)
Net result		(2,213)
Total assets		29,903
Shareholders' equity		22,787
Total liabilities		7,117
Average exchange rate 2012/2013		Euro/Cny 8,157
Exchange rate at March 31 2013		Euro/Cny 7,960
Financial report according to local GAAP		

Damiani Korea Co. Ltd. Registered office		Seoul, South Korea
Key figures (in thousands of Krw)		FY closed at March 31 2013
Share capital		500,000
Revenues from sales and services		-
Operating result		-
Net result		-
Total assets		500,000
Shareholders' equity		500,000
Total liabilities		-
Average exchange rate 2012/2013		Euro/Krw 1.430,309
Exchange rate at March 31 2013		Euro/Krw 1.425,030
Financial report according to local GAAP		

For the Board of Directors
President & CEO
Mr. Guido Grassi Damiani

Attestation regarding the Financial statements of Damiani S.p.A., pursuant to article 154 bis of the Legislative Decree 58/98

- I. The undersigned Mr. Guido Grassi Damiani, President and CEO, and Mr. Gilberto Frola, Executive in charge of drawing up the accounting documents of Damiani S.p.A., also considering the provisions of article 154-bis, paragraph 3 and 4, of the Legislative Decree n. 58 of February 24, 1998, certify:
 - the adequacy in relation to the characteristics of the Company
 - the effective application of the administrative and accounting procedures for the preparation of the financial statement as of March 31, 2013.
2. Furthermore it is certified that the financial statements:
 - are prepared in conformity with the International Accounting Standards as endorsed by the European Union pursuant to the EC regulation n. 1606/2002 of the European Parliament and Council dated July 19, 2002;
 - agree with the contents of the accounting books and entries;
 - provide a true and fair representation of the economic and financial position of the Issuer;
 - the report on operations contains a reliable analysis of the results of operations, and the situation of the Company, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 14, 2013

Guido Grassi Damiani
President and CEO

Gilberto Frola
Executive in charge of drawing up the
accounting documents

DAMIANI S.p.A.
Registered Office in Valenza (AL), Piazza Damiano Grassi Damiani, n. 1
Share Capital Euros 36,344,000 fully paid up
Vat Number and Tax Code 01457570065

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS'

MEETING OF DAMIANI S.P.A. PURSUANT TO ARTICLE 153

OF THE LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429

OF THE ITALIAN CIVIL CODE

FINANCIAL STATEMENT MARCH 31ST 2013

Dear Shareholders,

in the financial year closed at 31 March 2013, we discharged the supervisory activities required by Law, in accordance with the rules of conduct for the Board of Statutory Auditors as provided for by the Italian Board of Professional Accountants and Auditors, attending the meeting of corporate organs, carrying out the periodic checks and meeting with the Independent Auditors' managers of Reconta Ernst & Young, the Company's Internal Control managers, the members of the Supervisory Body established pursuant to Legislative Decree no. 231/2001, the main executives of the several company's functions and the Executive in charge of drawing up of the company's accounting documents, to exchange information on the activities undertaken by them, and to assess the timetable of scheduled internal control operations.

Pursuant to article 153 of the Legislative Decree no. 58/1998 and article 2429 of the Italian Civil Code, as well as taking into account the indications supplied by Consob notice no. DEM/1025564 of 6 April 2001, as further amended and extended, we report the following:

- we have supervised and checked compliance with the law and the Company's by-laws;
- the Directors provided us, with the required periodicity, information on the activities undertaken by them, and on the most significant economic, financial and capital transactions carried out by the Company and its subsidiaries, ensuring us that the same were in accordance with the Law and the Company's by-laws and were not manifestly imprudent or risky, in potential conflict of interest, in breach of the resolutions passed by the Shareholders' Meeting or susceptible of compromising the integrity of the Company's assets and equity;
- we have received from the Board of Directors, the half-year financial report and the quarterly report, according to the law;
- we have not found nor received information from the Board of Directors, the Independent Auditors or the Internal Auditing and Corporate Governance Committee regarding the existence of atypical and / or unusual transactions carried out with third parties, Group companies or related parties;
- the Directors have illustrated, in their Reports on Operations attached to the Financial Statements of Damiani S.p.A. and to the Consolidated Financial Statements of the Damiani Group and in the explanatory notes to them, the normal business operations carried out during the financial year with related parties or with companies belonging to the Group. We ask you to make reference to these documents regarding the matters that fall within our competencies and, specifically, regarding the description of the characteristics of the operations and their relative economic and equity impacts. With regard to such transactions, with the support of the Board of Directors and the Internal Auditing and Corporate Governance Committee, we have checked on the existence and the observance of procedures that are suitable for ensuring that these operations are carried out at market conditions and in the Company's interest. Moreover we have supervised the conformity to the principles required by art. 4, paragraph 1, of the Consob regulation adopted with resolution no. 17221 of 12 March 2010 (and successively modified with the

resolution no. 17389 of 23 June 2010) concerning the procedure on transactions with related parties approved by the Board of Directors of Damiani S.p.A. of 26 November 2010;

- the information pertaining to transactions with group companies and / or related parties, contained, in particular, in the paragraphs “Transactions with related parties” in the explanatory notes attached to the IAS/IFRS statutory and consolidated financial statements of the Damiani Group and Casa Damiani S.p.A. and in the “Transaction with related parties” in the respective report on operations are adequate in light of the Company’s size and structure;
- no complaints, pursuant to article 2408 of the Italian Civil Code, and no reports were received during the course of the financial year;
- the information received from the Independent Auditors indicates that, in the financial year, Damiani S.p.A. did not confer to them or to other subjects belonging to the “network” other appointments in addition to those pertaining to the auditing of the financial statements;
- we have received notice confirming the independence of the Independent Auditors responsible for the statutory audit according to article 17, paragraph 9, letter a), of the Legislative Decree no. 39/2010. We did not find situation that have compromised the independence or the occurrence of incompatibility. In addition, we have discussed with the Independent Auditors about their independency and the measures taken to mitigate those risks;
- we have received from the Independent Auditors the report required by article 19, Section 3, of the Legislative Decree no. 39/2010 dated 28 June 2013, which shows that, based on the work performed, no “fundamental issue” or “material shortcomings in the system of internal controls concerning the financial disclosure process” were identified even related to controlled subsidiaries outside the European Union;
- we have monitored the effectiveness of the auditing process, reviewing the audit plan and discussing the work performed;

- the Independent Auditors issued on 28 June 2013 their opinions on the statutory and consolidated financial statements. These opinions are unqualified and do not contain any matter of emphasis;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of Consolidated Law on Finance and 84-quarter of the Issuers' Regulation and we have no special observations to make;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we verified that independence requirements of the Statutory Auditors remain valid, already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- during the course of financial year we rendered our opinions as provided for by Law;
- during the course of financial year we have attended 9 meetings of the Board of Directors and 3 meetings of the Remuneration Committee. In the same period the Board of Statutory Auditors met 10 times, 6 of which were in joint meetings with the Internal Auditing and Corporate Governance Committee;
- we have acquired knowledge and watched over, insofar as this falls within our competencies, that the principles of correct administration have been observed, the adequacy of the organizational structure and the directives issued by the Company to its subsidiaries, pursuant to article 114, paragraph 2, of the Legislative Decree 58/1998, through direct observations, getting information from the managers of the company functions involved and meetings with the Independent Auditors, with the Executive in charge of drawing up the Company's accounting documents and with the Internal Audit Manager for the purposes of a reciprocal exchange of relevant data and information;

- we ensured that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts;
- we have acquired knowledge and have watched over, insofar this falls within our competencies, also pursuant to art. 19 of Legislative Decree no. 39 /2010, regarding the adequacy of the internal controls system and of the risk management system, the activities of the relative Managers and the administration/accounting system, as well as on the dependability of this latter to correctly reflect operational events, by obtaining information from functional managers, by examining the company documents and the work carried out by the Independent Auditors, by attending the meetings with the Internal Auditing and Corporate Governance Committee and through meetings with the Executive in charge of drawing up the company's accounting documents, as well as with the Internal Controls Manager and the Director entrusted with the functionality of the internal controls system;
- no significant aspects or issues worthy of mention arose during the meetings held with the same bodies in the subsidiary companies;
- no significant aspects or issues worthy of mention arose during the meeting held with the Independent Auditors pursuant to article 150, paragraph 3, of the Legislative Decree no. 58/1998;
- we checked the procedures for the proper implementation of the rules of corporate governance entrenched in the new edition of the Self-Regulation Code for listed companies adopted by the Board of Directors in the meeting of 27 June 2007. We confirm compliance with the regulations provided by the above Code. This compliance was covered in the Corporate Governance report and ownership structures of Damiani S.p.A. relating to the financial year April 1st 2012 - March 31st 2013 that is available in the forms provided. We outline that the Board of Directors of Damiani S.p.A. confirmed and identified as "strategically significant subsidiary" Rocca S.p.A. and Damiani International B.V., a company incorporated under Dutch Law;

- through direct checks and information obtained from the Independent Auditors and the Executive in charge of drawing up the Company's accounting documents, we oversaw compliance with statutory provisions pertaining to the preparation and layout of the Consolidated Financial Statements of the Damiani Group, the Financial Statements of Damiani S.p.A. and the related Reports on Operations. Our oversight activities did not reveal any facts warranting a report to internal control organs or worthy of mention in this report;
- the Company is provided with the organizational, management and control model contained as ruled by Legislative Decree no. 231/2001 and with the Code of Ethics. The Supervisory Body reported on the activities carried out without pointing out matters that could be subject to sanction or specific violations of the Model;

Considering what has been referred to above, within the matters falling within our purview, we have not found any reasons hindering the approval of the Financial Statements for the year closed at 31 March 2013 and we propose to the shareholders' meeting to approve the financial statement of Damiani S.p.A. and the report on operations as presented by the Board of Directors and we agree to their proposal relating the cover of the loss of the year.

We thank you for the trust received and we remind you that with the approval of the financial statement at 31 March 2013 our appointment as Statutory Auditors has expired and we invite the Shareholder meeting to decide upon.

Milan, 28 June 2013

The Board of Statutory Auditors

Gianluca Bolelli - Chairman

Simone Cavalli – Active Statutory Auditor

Fabio Massimo Micaludi – Active Statutory Auditor

Independent auditors' report

pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Damiani S.p.A.

1. We have audited the financial statements of Damiani S.p.A. as of 31 March 2013 and for the year then ended, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Damiani S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 28 June 2012.

3. In our opinion, the financial statements of Damiani S.p.A. at 31 March 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Damiani S.p.A. for the year then ended.
4. The Directors of Damiani S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and the Ownership Structure of Damiani S.p.A. published in the section "investor relation" of Damiani S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Ownership Structure of Damiani S.p.A., as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, are consistent with the consolidated financial statements of Damiani S.p.A. at 31 March 2013.

Milan, 28 June 2013

Reconta Ernst & Young S.p.A.
Signed by: Fabio Mischi, partner

This report has been translated into the English language solely for the convenience of international readers.

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

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

(Traditional model of governance)

Damiani S.p.A.

Website www.damiani.com

Company financial year 1 April 2012–31 March 2013

Report approved by the Board of Directors of the company on 14 June 2013

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

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GLOSSARY

Code/Corporate Governance Code: The Corporate Governance Code of listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code/CC: The Civil Code.

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

Issuer /Company: Damiani S.p.A.

Financial Year: the financial year 1 April 2012–31 March 2013 to which this Report refers.

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

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

Related Parties Regulation: The Regulation issued by CONSOB with Resolution No. 17221 of 2010 (as subsequently amended) on operations with related parties.

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

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

I. PROFILE OF THE ISSUER

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

The Board of Directors is divided into two internal committees - the Committee on Control, Risks and Operations with Related Parties, and the Remuneration Committee. Both committees have a role of consultation and proposal, with the aim of facilitating the function and work of the Board.

A) THE SHAREHOLDERS' MEETING

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

B) THE BOARD OF DIRECTORS

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

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

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

C) THE COMMITTEES

In compliance with the provisions of the Corporate Governance Code, the Committee on Control, Risks and Operations with Related Parties, and the Remuneration Committee are set up within the sphere of the Board of Directors; as illustrated in greater detail below, both Committees have roles of consultation and proposal. At the date of approval of this Report, the company did not consider it necessary to form an Appointments Committee.

As will be explained below, in implementing the Related Parties Regulation and in consideration of the qualification of the Issuer as 'a smaller-sized company', the role and relevant competences that the Related Parties Regulation attributes to the committee consisting of non-executive, mainly independent directors with reference to all the operations with related parties have been attributed to the Committee for Control, Risks and Operations with Related Parties.

D) THE BOARD OF STATUTORY AUDITORS

This consists of three regular and two alternate members and is the control body of the company. The composition of the Board of Statutory Auditors must, in any case, guarantee the equilibrium between kinds in compliance with the rules and regulations, in force at the time. The Board is responsible for the supervision of the company and ensuring that, in its work, it respects the law and the Articles of Association, criteria of correct administration and gives adequate instructions to its internal apparatus and subsidiaries. For the aspects of competence, the Board of Statutory Auditors must similarly supervise the adequacy of the organisational structure of the company, the internal control and administrative accounting systems, as well as the reliability of the latter in correctly representing management-related issues, making the necessary checks for the purpose.

It is also the responsibility of the Board to supervise the effective implementation of the rules of corporate governance set out by the Codes of Conduct drawn up by the management companies of regulated markets or sector associations which the company states it belongs to through information given to the public. It also checks the adequacy of the provisions issued by the company to its subsidiaries so that they give it all the news necessary for compliance with the communication requirements set out by the law. In compliance with Legislative Decree 39 of 27 January 2010, it should be noted that the Board of Statutory Auditors supervises, in particular, the process of financial reporting, the effectiveness of the internal control systems, internal audit, if applicable, and risk management, the statutory auditing of the annual accounts and consolidated financial statements, and the independence of the independent auditor or legal auditing company, especially with reference to the provision of non-auditing services to the Issuer.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (EX ART. 123-BIS, SUB-PARA. 1, TUF)

The detailed information on the ownership structure at the date of approval of this Report on 14 June 2013 is given below, in compliance with the provisions of Art. 123-bis, sub-para. 1, of the TUF.

(A) STRUCTURE OF THE SHARE CAPITAL (EX ART. 123-BIS, SUB-PARA. 1 (A) TUF)

The whole Damiani S.p.A. share capital consists of ordinary shares with voting rights, listed on the screen-based Stock Exchange, STAR segment, organised and managed by Borsa Italiana S.p.A. The current share capital, fully issued and paid up, is **Euro 36,344,000** (thirty-six million, three hundred and forty-four thousand) and is divided into **82,600,000** (eighty-two million, six hundred thousand) ordinary shares, with a nominal value of **Euro 0.44** (zero point forty-four) each.

There were three plans based on financial instruments in progress at the date of approval of this Report. In detail:

- the **'Stock Grant Plan 2009'**, approved by the Shareholders' Meeting on 22 July 2009 and concerning the free assignment of a maximum 1,000,000 Damiani shares to employees and some directors of the Damiani group in one or more tranches, within five years of approval by the Meeting. The description of the plan is given in the *'Information Document prepared pursuant to Art. 84-bis, sub-para. 1 of CONSOB Regulation No. 11971/99 and subsequent amendments'* in the Directors' Report of Damiani S.p.A. of 12 June 2009, and the subsequent supplementary documents (the last of which is shown attached to the Remuneration Report dated 14 June 2012), available in the *'Investor Relations/ Shareholders/Shareholders' Meeting'*, *'Investor Relations/ Financial Documents/Balance Sheets and Reports'* and *'Investor Relations/ Financial Documents/Financial Documents and Notices'* sections of the website www.damiani.com;

- the **'Stock Option Plan 2009'**, approved by the Shareholders' Meeting on 22 July 2009 and concerning the sale of options for the purchase of a maximum 3,500,000 Damiani shares (in the measure of one share per option sold) to the Management of the Damiani group, in one or more tranches, within five years of approval by the Shareholders' Meeting; the description of the plan is shown in the *'Information Document prepared pursuant to Art. 84-bis, sub-para. 1 of CONSOB Regulation No. 11971/99 and subsequent amendments'* in the Directors' Report of Damiani S.p.A. dated 12 June 2009, and the subsequent supplementary information documents (the last of which is shown attached to the Remuneration Report dated 14 June 2013) available in the *'Investor Relations/Shareholders/Shareholders Meeting'*, *'Investor Relations/ Financial Documents/Financial Reports'* and *'Investor Relations/Financial Documents/Documents and Notices'* sections of the website www.damiani.com;

- the **'Stock Option Plan 2010'**, approved by the Shareholders' Meeting on 21 July 2010 and concerning the free assignment of options for the purchase of a maximum 3,500,000 Damiani shares (in the measure of one share per option assigned) to executive directors, senior managers, middle managers, other employees, consultants and co-workers, including the agents of the company and companies in the Damiani group, in one or more tranches, within five years of approval by the Shareholders' Meeting. The description of the plan is given in *'Information Document prepared pursuant to Art. 84-bis, sub-para. 1 of CONSOB Regulation No. 11971/99 and subsequent amendments'* in the Directors' Report of Damiani S.p.A. dated 11 June 2010, and the subsequent supplementary information documents (the last of which is shown attached to the Remuneration Report of 14 June 2013) available in the *'Investor Relations/Shareholders/Shareholders Meeting'*, *'Investor Relations/ Financial Documents/Financial Reports'* and *'Investor Relations/Financial Documents/Documents and Notices'* sections of the website www.damiani.com.

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

Please note that the company has not issued other financial instruments that attribute the right to subscribe to newly issued shares.

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

The Articles of Association of Damiani S.p.A. do not envisage restrictions on the transfer of shares, nor limits to the shareholding, or the approval of corporate bodies or shareholders for the admission of shareholders to the body of shareholders.

(C) RELEVANT HOLDINGS OF CAPITAL (EX ART. 123-BIS, SUB-PARA. 1, (C) TUF)

Based on the results of the Shareholders' Register and the updates available at the date of approval of this Report, including the advice received by the company pursuant to Art. 120 of the TUF, as well as any other information available, persons who are directly or indirectly holders of participations of greater than 2% of the share capital issued and fully paid up are those indicated in Table I shown in the Appendix to this Report.

(D) SECURITIES GIVING SPECIAL RIGHTS (EX ART. 123-BIS, SUB-PARA. 1 (D) TUF)

The company has not issued securities that give special rights of control nor do the Articles of Association provide for special powers for some shareholders or possessors of particular sectors of shares.

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

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

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

There are no particular provisions determining restrictions or limitations on the right to vote in the Articles of Association nor are the financial rights connected to securities separate from their possession.

(G) AGREEMENTS BETWEEN SHAREHOLDERS (EX ART. 123-BIS, SUB-PARA. 1 (G) TUF)

At the date of approval of this Report, there was a shareholders' agreement ex Art. 122 of the TUF signed between Guido, Giorgio and Silvia Grassi Damiani on 9 September 2007 with a duration of 3 years, tacitly renewed on 9 September 2010 for a further period of 3 years and, therefore, until 9 September 2013. The said shareholders' agreement was published, pursuant to Art. 122 of the TUF, in the newspaper *'Milano Finanza'* on 10 September 2010 and was lodged with the Commercial Register of Alessandria (AL) on the same date. The companies whose equity instruments are the subject of the shareholders' agreement are D Holding S.A. and Leading Jewels S.A., the latter holder of a controlling participation (direct) in Damiani S.p.A.

For further information, see the extract of the agreement published in the CONSOB web site www.consob.it.

(H) CLAUSES ON CHANGE OF CONTROL (EX ART. 123-BIS, SUB-PARA. 1 (H) TUF) AND STATUTORY PROVISIONS ON TAKE-OVERS (EX ARTS. 104, SUB-PARA. 1-TER, AND 104-BIS, SUB-PARA. 1, TUF)

At the date of publication of this Report, the company has a loan arrangement with Unicredit Corporate Banking S.p.A., which sets out the right of the bank to terminate the contract if the controlling shareholder loses control of the company; the contract started on 1.07.2010 and lasts for 72 months (of which 12 months are pre-amortisation).

Change of control clauses are in some selective distribution contracts signed by the subsidiary Rocca S.p.A. with Rolex Italia S.p.A., Patek Philippe S.A., Richemont Italia S.p.A. and Bulgari Italia S.p.A. in order to acquire the qualification of Authorised Retailer of the watch brands represented by the same.

Please note that, on take-overs, the Articles of Association of the Issuer (i) do not derogate from the provisions on the passivity rule set out by Art. 104 of the TUF; and (ii) do not provide for the application of the neutralisation rules envisaged by Art. 104-bis of the TUF.

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

The Board of Directors has not been delegated by the Shareholders' Meeting to increase the share capital pursuant to Art. 2443 of the Civil Code. After revoking the authorisation to purchase and dispose of treasury shares, resolved upon by the session of 27 July 2011 as not used, the General Shareholders' Meeting of 26 July 2012 authorised the Board of Directors, pursuant to Articles 2357 et seq. of the Civil Code, and also Art. 132 of the TUF, to purchase treasury shares in one or more solutions, as long as it is not more than one-fifth of the share capital, and so a maximum of 16,520,000 (sixteen million five hundred and twenty thousand) ordinary shares with a nominal value of Euro 0.44 each (also for the purpose of taking account of shares of the company and its subsidiaries); the said authorisation was resolved upon for a period of 18 months with effect from the date of the decision in the Meeting and so until 26 January 2014.

The purchases, pursuant to Art. 132 of the TUF and Art. 144-bis of the Issuer Regulation, can be made (i) through Public Offer of shares for sale, (ii) in the market, in accordance with the operational methods established by the company managing the market, (iii) through the purchase and sale of derivative instruments traded in regulated markets which provide for the physical consignment of the underlying shares, in compliance with the regulatory provisions, (iv) through attribution to Shareholders of an option to sell to be exercised within 18 months of 26 July 2012, proportional to the shares held, and lastly, (v) with the different methods permitted in compliance with legislation in force at the time, taking account of the need to respect, in any case, the principle of equal treatment of Shareholders and also the legislation, also Community regulations, in force. Purchases can be made in one or more solutions.

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

In the same session of 26 July 2012, the Shareholders' Meeting also authorised the provision of treasury shares with no time limit, also before the purchases have been completed.

Similarly, the Shareholders' Meeting ordered that the sale price of the shares to third parties must not be less than 90% of the average official prices recorded on the screen-based Stock Exchange in the five days preceding the sale; this price limit can be derogated in special cases in the interest of the company, as in the case of exchanges or transfers of treasury shares in the sphere of the fulfilment of industrial and/or commercial projects and/or however of interest to the Issuer, and also for the assignment and/or transfer, free of charge or against payment, of shares or options against the same to directors, employees or co-workers of the Damiani group and also, in performance of

any plan adopted pursuant to Art. 114-bis of the TUF and programmes of free assignment of shares to shareholders.

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

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

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

(J) MANAGEMENT AND CO-ORDINATION (EX ART. 2497 ET SEQ. OF THE CIVIL CODE)

Damiani S.p.A. is not subject to management and co-ordination by either the direct holding company Leading Jewels S.A. (which holds 58.81% of the share capital of the Issuer) or indirectly by D. Holding S.A., pursuant to Articles 2497 et seq. of the Civil Code, and manages and co-ordinates its subsidiary companies.

In compliance with the principles of the Corporate Governance Code, as shown below, the operations of particular strategic, economic, capital and financial importance of Damiani Group are reserved for collective examination and the exclusive approval of the Board of Directors of the Issuer, in which – as recently checked on 14 June 2013 – there is a congruous number of directors with the requisites of being non-executive and independent as per the application criteria established by the Corporate Governance Code.

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

Please note that

(A) the information required by Art. 123-bis, sub-para. 1 (i) of the TUF (*'agreements between the company and directors ... which set out indemnities for resignation or dismissal without just cause or if their employment relationship ceases following a take-over bid'*) is shown in the Remuneration Report dated 14 June 2013 published pursuant to Art. 123-ter of the TUF;

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

3. COMPLIANCE (EX ART. 123-BIS, SUB-PARA. 2 (A), TUF)

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

As a result, the Board of Directors of the Issuer has adopted a framework resolution and a series of resolutions aimed at the effective implementation of the principles of the Code of Conduct since 27 June 2007. Following the last update of the Code of Conduct in December 2011, the Board of Directors of the company adopted a new **'Frame Resolution'** on *Corporate Governance* on 26 July 2012 and, over the financial year, a series of resolutions aimed at the effective implementation of the new principles in the December 2011 edition of the Code of Conduct. More detailed information will be given below on these resolutions, also in relation to the subjects relevant at the time. Please note that the Code of Conduct is accessible to the public at the website www.borsaitaliana.it.

Before describing the Corporate Governance structure of the Issuer, it should be noted that, in the meeting of 8 February 2013, the Board of Directors of the parent company Damiani S.p.A. identified the **'subsidiary company with strategic relevance'** as Rocca S.p.A., particularly because of the role played both in the sphere of the management of the group's single-brand boutiques and in that of the development of the 'multi-brand' retail channel, considering that, in the opinion of the Board of Directors, this does not have a significant influence on the governance structure of the Issuer.

It should be noted that, as far as the statutory references are concerned, this Report refers to Articles, as in force at its date of approval, in the version recently amended by the Board of Directors on 12 June 2013 to adapt the content to Law 120/2011 and Art. 144-undecies. 1 of the Issuer Regulations on the gender balance in administration and control bodies.

The current Articles and this Report can be consulted on the company website www.damiani.com.

Please also note that the company is not subject to legal provisions that are not Italian which influence the corporate governance structure of the Issuer.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS AND STATUTORY AMENDMENTS (EX ART. 123-BIS, SUB-PARA. 1 (L) TUF)

In compliance with Art. 147-ter of the TUF, Art. 16 of the Articles of Association sets out that the mechanism of voting a list is used for the election of the Board of Directors, respecting the regulations on gender balance in force at the time, with the attribution of a director to the list which is second for number of votes (the other members being taken from the list with the most votes). Shareholders with a holding equal to that determined by CONSOB, pursuant to the law and the regulations, or more, have the right to present lists of candidates for the division of directors to elect. At the date of approval of this Report, this figure corresponded to **2.5% of the Issuer's share capital**, as established by Art. 144-quater of the Issuer Regulations and **CONSOB Resolution No. 18531 of 24 April 2013**). In compliance with Art. 147-ter, sub-para. 4, of the TUF, Art. 16 of the Articles of Damiani S.p.A. similarly sets out that *'at least due candidates, always indicated in at least the fourth and seventh places of each list, must have the requisites of independence established by Legislative Decree No. 58/1998'*.

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

With effect from the first renewal of the Board of Directors after 12 August 2012, and for three consecutive mandates, each list containing three or more candidates should be made up in such a way that at least the minimum quota in the gender balance required by the rules, laws and regulations in force at the time is ensured in the Board of Directors.

In compliance with Art. 147-ter, sub-para. 1-bis, of the TUF and Art. 16 of the Articles of Association, the lists of candidates presented by the Shareholders must be lodged in the registered office, with the appropriate documentation issued by the qualified intermediaries proving that the necessary number of shares is held at the presentation of the lists, the CVs of the candidates with a detailed description of their personal and professional features, and the declarations and legal certifications referred to on acceptance of the candidature, that there are no causes of ineligibility and, if necessary, the possession of the requirements of independence established by the TUF, at least twenty-five days before the date set for the First Call of the Shareholders' Meeting. The documentation certifying possession of the minimum participation quota in the share capital can be produced subsequently, as long as at least twenty-one days before the date of the Shareholders' Meeting.

Pursuant to Art. 16 of the Articles of Association, the procedure to determine those elected to the office of director is as follows:

- (a) **all the directors to elect, except one**, are taken **from the list that obtained the highest number of votes** expressed by the shareholders in the progressive order in which they are found on the list;
- (b) the **remaining director** is taken from the list that obtained the **second highest number of votes, after the first list**, in the Meeting, and **which is not connected** in any way, even indirectly, with the shareholders who presented or voted the list which obtained the highest number of votes.

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

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

If just one list is presented or accepted for voting, the candidates of the said list will be appointed directors in the sphere of that list, according to the progressive number with which they were listed in it. If necessary, the replacement procedure described above will be applied. If no list is presented, the Shareholders' Meeting shall deliberate with the legal majority, without respecting the above-mentioned procedure, in compliance with the rules and regulations pro tempore on gender balance in force at the time.

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

Please note that legislative rules from additional sectors with respect to those of the TUF are not applicable for the composition of the Board of Directors.

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

Succession plans

In relation to Application Criterion 5.C.2 of the Code of Conduct, the Board of Directors of Damiani S.p.A., having regard for the particular structure of the shareholding, does not at present consider it necessary to adopt a specific plan for the succession of the executive directors.

4.2 COMPOSITION (EX ART. 123-BIS, SUB-PARA. 1 (D) TUF)

The current Board of Directors was appointed by the **Shareholders' Meeting of 26 July 2012**, which set the overall number of directors as 8 (eight), and it will expire with the Shareholders' Meeting convened for approval of the Financial statements of the financial year to 31 March 2015. Please note that election took place on the basis of two lists presented, respectively by the majority shareholder **Leading Jewels S.A.** and the minority shareholder **DGPA S.G.R. S.p.A.**

The list presented by the shareholder Leading Jewels S.A. numbered Messrs Guido Roberto Grassi Damiani, Giorgio Andrea Grassi Damiani and Ms Silvia Maria Grassi Damiani, Messrs Fabrizio Redaelli, Giancarlo Malerba Stefano Graidi, Francesco Minoli and Giampaolo Umberto Pio Grasso among the candidates, in that order. Seven members of the Board of Directors currently in office were taken from this list with a percentage of votes in favour of 91.76% of the share capital represented in the Shareholders' Meeting. In detail, they were Guido Roberto Grassi Damiani, Giorgio Andrea Grassi Damiani, Silvia Maria Grassi Damiani, Fabrizio Redaelli, Giancarlo Malerba, Stefano Graidi and Francesco Minoli. The list presented by the minority shareholder DGPA S.G.R. S.p.A. – which proposed just one candidate, Ms Roberta Benaglia, was given a percentage of votes in favour of 8.24% of the share capital represented in the Shareholders' Meeting and one director of the eight members of the Board of Directors - specifically, Ms Roberta Benaglia.

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

1) **GUIDO ROBERTO GRASSI DAMIANI**, Chairman and CEO of the company, joined in 1994, dealing with the sales network in Italy and the marketing, introducing new strategies and making a significant contribution to development. In 1996, he took over management of the Damiani group. He has an honours degree in Sociology and an *Istituto Gemmologico Italiano* (IGI - Italian Gemmological Institute) diploma in Gemmology. Before joining the family company, he followed a personal career in the real estate sector for a number of years achieving brilliant results.

2) **GIORGIO ANDREA GRASSI DAMIANI**, Deputy Chairman of the company with responsibility for the purchase of the raw materials, product development and trade relations. He joined the company immediately after obtaining the High School technical sales diploma in 1990, learning the stages of goldsmith working and training in the various areas of the company. In particular, he studied the techniques of the valuation and purchase of precious components in depth. Subsequently, he became international distribution manager, acquiring great knowledge of foreign markets. He then started managing the Raw Materials Supply and Product Creation and Development areas, covering the position of Art Director. In 1994, he won a *Diamonds International Awards*.

3) **SILVIA MARIA GRASSI DAMIANI**, Deputy Chairman of the Damiani group with responsibility for External Relations and Group Image; she covered the position of Image Director and VIP Relations with the Damiani group, adopting international testimonials representing the aims of the different brands of the group. In 1996, she won a *Diamonds International Award*. She is currently Vice President of Damiani USA. She obtained an IPSOA Master in Business Management and diploma in Gemmology at the IGI. She started working in the family company in 1985, gaining considerable experience in the purchase of pearls and long practice with the creative staff

4) **FABRIZIO REDAELLI**, non-executive and independent director appointed by the Board of Directors. 'Lead Independent Director' of the company and also Chairman of the Committee on Control, Risks and Operations with Related Parties and the Remuneration Committee. He obtained a degree in Business Management from the Bocconi University, Milan. He is enrolled in the Register of Chartered Accountants of Milan and also the Register of Internal Auditors and is in private practice in Studio Redaelli & Associati. He is a Senior Lecturer at the Management School (SDA) of the Bocconi University, Corporate Finance and Real Estate Area.

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

6) **STEFANO GRAIDI**, executive director of Damiani, appointed 'Director Responsible for the Internal Control System and Risk Management. He graduated in Economics from the Bocconi University, Milan. He is a Chartered Accountant and is enrolled in the Register of Statutory Auditors. He worked for the Pirelli group, covering positions of responsibility in International Taxation and then as co-director of Taxation and Business Lines. He previously had significant experience in Switzerland in the finance and administration area of the Società Internazionale Pirelli, listed on the Stock Exchange. He took an active part in the restructuring of the tyre sector and the listing of Tyre Holding in the Amsterdam Stock Exchange. Journalist and lecturer. He is currently a partner in Tax Advisors S.A. of Lugano.

7) **FRANCESCO MINOLI**, non-executive and independent director pursuant to the law. He graduated in Law from the University of Rome. A native of Turin, Francesco Minoli was Managing Director of *Pomellato* until October 2009 for more than 10 years. In that time, he relaunched the company and doubled the turnover with reference returns on investment and balance sheet accounts in the luxury sector. Currently, he is director of Mantero Finanziaria S.p.A. and continues to work as a businessman in the jewelry sector. In the past, he gained years of experience in leading companies where he covered central roles in Top Management. These include M&A S.p.A., a leading company in independent Mergers & Acquisitions in Italy where he was CEO, and ABN Amro as Senior Advisor Capital Investments, dealing with investment in Italy and Private Equity.

8) **ROBERTA BENAGLIA**, non-executive and independent director of Damiani, and also member of the Committee on Control, Risks and Operations with Related Parties and the Remuneration Committee; she is a graduate in Management Engineering from the Politecnico di Milano. Her career has developed since 1999 with a professional appointment at the listing department of the Borsa Italiana. She worked with *Onetone Consulting*, an advisory company for the venture capital fund Onetone in 2001 and covered the position of Sole Director of *Action Management Consulting*, an M&A and Financial advisory company. She has been managing director of DGPA SGR S.p.A., a company managing private equity funds since March 2005. The company is active in research, investment assessment and selection, business & financial due diligence, planning, negotiation and closing of investment operations.

Please note that the existence of the above-mentioned requisites of being executive/non-executive and independence/non-independence of the directors of the company, has been hereby assessed by the Board of Directors of Damiani S.p.A. in compliance with the application criteria established by Articles 2 and 3 of the Code of Conduct, and recently in the sphere of the Board meeting of 14 June 2013, and that the Board of Statutory Auditors acknowledged the correct implementation of those criteria on the same date.

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

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

The composition of the Board of Directors of the company has not undergone variations in the last financial year. Please recall that, at the date of approval of this Report, Mr Minoli, director, had notified his resignation from the position with effect from the next Shareholders' Meeting to approve the Financial Statements to 31 March 2013.

MAXIMUM ACCUMULATION OF POSITIONS COVERED IN OTHER COMPANIES

In relation to application criterion I.C.3 of the Code of Conduct, please note that, at the date of approval of this Report, the Board did not consider it either necessary or opportune to establish general criteria to set the maximum number of positions of director and statutory auditor that the directors of the company can hold at the same time in other listed companies, financial, banking and insurance companies or those of relevant size, instead opting for an assessment of the individual cases, in relation to the features of each director (experience, features of the positions held, etc.) from which the compatibility of the offices held can be inferred with the assumption of the position on the Board of Directors of the Issuer.

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

INDUCTION PROGRAMME

During the meetings of the Board of Directors, the Chairman and CEO arranges for the transmission of all relevant information and update for the purposes of the trend in the company, constantly supplying, *inter alia*, information on the main updates in the relevant legislative framework and their impact on the company. The Board of Directors, in its entirety, has adequate knowledge of the sector in which Damiani S.p.A. operates, the company dynamics and their evolution, and also the reference legislative framework.

4.3 ROLE OF THE BOARD OF DIRECTORS (EX ART. 123-BIS, SUB-PARA. 1 (D) TUF)

As extensively highlighted in the *Corporate Governance* Report drafted with reference to previous financial years, the Board of Directors of Damiani S.p.A. covers a central role in the determination of the strategic objectives of the Issuer and group. Over the financial year, the Board of Directors met 9 (nine) times and, for the current one, 3 (three) times, including the meeting for the approval of this Report. At least another 3 (three) meetings are planned for the current financial year. On average, Board meetings last for an hour. The meetings recorded the regular and frequent participation of the directors (the percentage of participation of each director is indicated in Table 2 in the Appendix).

Pre-meeting information is guaranteed through the distribution, reasonably in advance of the date of the meeting, of all the documentation relative to the points on the agenda. In particular, with reference to application criterion I.C.5 of the Code of Conduct, it is specified that the Board of Directors decided not to set a rigid term for sending pre-meeting information, considering suitably that this term can reasonably vary each time, according to the individual cases and in relation to the appropriate documentation to be submitted to the Board.

Board meetings take part with the effective contribution of all members of the Board of Directors, whose heterogeneous skills allow the subjects on the Agenda to be analysed from different perspectives.

People outside the Board took part in the Board meetings held during the financial year, invited in relation to the matters to be dealt with on the agenda each time.

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

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

Furthermore, with the cited Framework Resolution dated 26 July 2012, in relation to application criteria I.C.1 and 7.C.1 of the Code of Conduct, the Board of Directors has decided to reserve the following subjects for its jurisdiction, in addition to that established by law and the Articles of Association (and respecting their limits):

- a) examine and approve the strategic, industrial and financial plans of the company and group, periodically monitoring the implementation; define the corporate governance system of the company and the structure of the group;
- b) define the nature and level of risk compatible with the strategic objectives of Damiani S.p.A. and the Damiani group;
- c) subject to determination of the relative criteria, identify the subsidiary companies with strategic relevance; assess the adequacy of the organisational, administrative and general accounting structure of the company and its subsidiaries with strategic relevance, with particular reference to the internal control system and the management of risks;
- d) establish the frequency, not exceeding three months, with which the delegated bodies must refer to the Board on the work carried out in the exercise of the powers;
- e) assess the general trend of the management, taking into consideration the information received from the delegated bodies, in particular, and also periodically comparing the results obtained with those planned;
- f) deliberate on the operations with significant strategic, economic or financial importance for the company, set up by it and its subsidiaries; for the purpose, establish general criteria to identify the operations of significant importance (the so-called '*Guidelines for Significant Operations*');)
- g) at least once a year, carry out an assessment of the size, composition and operation of the Board and its committees, taking account of the professional features, experience, including managerial experience, and the gender of its members, and also their seniority (the so-called '*self assessment*');)
- h) before the appointment of the new Board, give the shareholders the orientations on the professional figures whose presence on the Board is considered opportune;
- i) give information in the Report on Corporate Governance on: (1) its composition, indicating the title of each member (executive, non executive or independent), the role covered on the Board, the main professional features as well as the seniority from the first appointment; (2) the methods of application of Art. 1 of the Code of Conduct and, in particular, on the number and average length of Board meetings, as well as the relative percentage of participation of each director; (3) how the '*self assessment*' process is carried out;
- j) on the proposal of the CEO or Chairman of the Board of Directors, adopt a procedure for the internal management and external communication of documents and information on the company, with particular reference to privileged information;
- k) designate an independent director as Lead Independent Director;
- l) identify (i) one or more directors, entrusted with institution and maintenance of an effective system of internal control and risk management (the '*Director entrusted with the Internal Control System and Risk Management*').

Similarly, subject to the opinion of the Committee on Control, Risks and Operations with Related Parties, the Board has decided to retain

the following subjects for its competence, as better specified in the '*Guidelines of the Internal Control and Risk Management System of Gruppo Damiani S.p.A.*' (recently amended in the Board meeting of 8 February 2013):

- m) define the guidelines of the Internal Control and Risk Management System so that the main risks related to the Issuer and its subsidiaries are correctly identified, adequately measured, managed and monitored, also determining the level of compatibility of those risks with business management consistent with the strategic objectives identified;
 - n) at least twice a year assess the adequacy of the Internal Control and Risk Management System with respect to the features of the business and the risk profile assumed, as well as its effectiveness;
 - o) at least once a year approve the work programme prepared by the Internal Audit Manager, after discussion with the Board of Statutory Auditor and the director responsible for the Internal Control and Risk Management System;
 - p) approve the strategies and policies for the management of the main risks of the Issuer and the Damiani Group;
 - q) describe the main features of the Internal Control and Risk Management System in the Corporate Governance Report, giving its assessment of its adequacy;
 - r) after discussion with the Board of Statutory Auditors, assess the results set out by the independent auditor in any suggestions letter and the report on the fundamental questions emerging during the audit;
- and also, at the suggestion of the director responsible for the Internal Control and Risk Management System, subject to the favourable opinion of the Committee on Control, Risks and Operations with Related Parties, and after discussion with the Board of Statutory Auditors:
- s) appoint and revoke the manager of the Internal Audit function;
 - t) ensure that it has adequate resources to fulfil its responsibilities;
 - u) define the remuneration consistently with company policies.

In relation to application criterion I.C.1 of the Code of Conduct, the Board also formally confirmed (in the sphere of the 'Framework Resolution' adopted on 26 July 2012), the principle that the delegated bodies refer to the Board on the work performed in the financial year in the exercise of the powers conferred at least once a quarter, usually at the Board meetings for the approval of the annual financial statements and the interim financial reports, in compliance with the current legal provisions. Please also note that, in compliance with the Related Parties Regulation and the '*Procedure on operations with related parties of Damiani S.p.A.*', the delegated bodies must supply complete information on the performance of operations with related parties at least once a quarter to the Board of Directors and Board of Statutory Auditors.

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

(A) as already specified in the Reports on previous financial years, approved the '*Guidelines on particularly significant operations and with related parties of the Gruppo Damiani S.p.A.*' on 27 June 2007, then redefined as '*Guidelines on particularly significant operations*' ('Guidelines') which contain precise identification criteria of 'particularly significant' and relevant operations concluded with third parties, also through subsidiaries reserved for the jurisdiction of the Board (although falling within the subject concerned by the proxy), in particular:

- the following operations, with whomsoever they are conducted by, are '*particularly significant*' and, as a result, are always subject to prior examination and approval by the Board of the company:

- a) operations that oblige the company to make an information document drafted in compliance with the provisions set out by CONSOB available to the public;
- b) financial liabilities operations (assumption of mortgages and loans in general, and also the issue of collateral securities or personal guarantees), for amounts higher than Euro 15,000,000.00 per operation;
- c) trademark acquisition and disposal operations;
- d) licensing of trademarks for amounts higher than Euro 10,000,000.00 per operation;
- e) other operations, different from the points above, whose value is greater than Euro 15,000,000.00 per operation.

After the Related Parties Regulation became effective, the Board updated, *inter alia*, the criteria used to identify the degree of importance of the operations to submit to its prior examination and approval;

(B) as already specified in the Reports on previous financial years, adopted the '*Procedure on operations with related parties of Damiani S.p.A.*' (hereinafter the 'OPC Procedure') on 26 November 2010, in compliance with the provisions of the Related Parties Regulation, identifying the most relevant operations with related parties in compliance with the relevance thresholds set out by Appendix 3 to the Related Parties Regulation. Please note that, in respect of this Regulation and consideration of the qualification of Damiani S.p.A. as a 'smaller-sized company', the role and relevant competences that the regulatory legislation attributes to the committees set up, wholly or mainly with independent directors, has been attributed to the Committee for Internal Control and Operations with Related Parties of the Issuer, consisting of non-executive, mainly independent directors; the OPC Procedure sets out that all operations with related parties (whether of greater or lesser relevance) are to be resolved upon by the competent body each time, which deliberates only after the issue of a motivated, non-binding opinion by the Committee for Internal Control and Operations with Related Parties concerning the interests of the company in the completion of the operation, and also the expedience and substantial fairness of the conditions of the operation. The Board of Directors has always been immediately updated on operations with related parties, also pursuant to Art. 22 of the Articles of Association and Art. 150 of the TUF.

The Board of Directors also:

(C) assessed the adequacy of the organisational, administrative and general accounting structure (i) of subsidiaries with strategic relevance, and (ii) of the Issuer, in the meeting for the approval of the draft financial statements to 31 March 2013 held on 14 June 2013. In particular, the assessment was adopted with the aid of the Committee for Internal Control and Operations with Related Parties which, in the sphere of its meetings, in which the Internal Audit Manager also took part (see below), was able to continuously check the effective operation of the Internal Control and Risk Management System of both the Issuer and the group, with special reference to subsidiaries with strategic relevance. As specified above, please also recall that in the meeting of 8 February 2013, the Board of Directors of the company resolved to confirm the current nature of the parameters adopted to identify the 'subsidiaries with strategic relevance', taking into account the criteria indicated in the *'Guidelines of the group Internal Control System'* developed by the company:

(i) relevance and complexity of the functions performed by the subsidiary within the group;

(ii) strategic relevance of the subsidiary within the market;

(iii) turnover;

(iv) value of the total assets;

(v) existence in the sphere of the subsidiary of a separate organisational structure, featuring a significant management element (distinct from the members of the administrative body) with operational independence.

The 'strategic relevance' of Rocca S.p.A., from the combination of the aforesaid parameters, was confirmed in the same meeting;

(D) having assessed the general trend in management on the basis of the information received from the delegated bodies, once more on 14 June 2013, comparing the results achieved with those budgeted;

(E) having made, still on 14 June 2013, the assessment of the size, composition and operation of the Board and its committees (the so-called self-assessment), acknowledging that the current Board consists of 8 directors of whom 4 non-executive, 3 of whom are independent, in accordance with the law, and 2 independent also pursuant to the Code of Conduct.

The self-assessment process by the administrative body was carried out through the use of special questionnaires, circulated before to the individual directors, and particularly concerned: the adequacy of the size and composition of the Board for the operations of the company, also with reference to the professional figures on the Board; the number, competence, authority and availability of time of the non-executive directors and the number and skills of the independent directors in relation to the size of the Board and the business of the company; the immediacy and completeness of the information and the documentation transmitted to the members of the Board and Committees before each meeting; the adequacy of the information received during Board meetings from the delegated bodies in the work performed in the exercise of the powers attributed to them, and also the information received from them, also for the purposes of the assessment of the general trend in management and its foreseeable evolution; the adequacy of the organisational, administrative and accounting structure of the company and its subsidiary with strategic relevance, with special reference to the Internal Control and Risk Management System; the compatibility of the administration and control positions covered by each member of the administrative body with effective performance of the role of director in the company; the adequacy and completeness of the information supplied by the delegated bodies in Board meetings, the adequacy of the remuneration of directors and senior managers with strategic responsibilities, and, lastly, the evaluation of the requisites of independence based on both the provisions of the law and the Code of Conduct.

In the meeting of 14 June 2013, the Board of Directors examined the outcome of the self-assessment process and, after noting the resignation by Mr Minoli, director, with effect from the date of the Shareholders' Meeting to approve the financial statements to 31 March 2013, it considered, also with a positive assessment by the independent directors of the congruity of a Board also consisting of seven members (of whom 3 non-executive, 2 of whom independent) with respect to the operation and business of the company, on one hand and, on the other the heterogeneous nature of the professionals called to contribute to the work of the Board and, particularly competences of the non-executive directors in economic, accounting, legal and/or financial matters, which contribute to nurturing the dialectics of the Board, the assumption of every reasonable and informed Board decision.

The Board of Directors, also with a positive assessment by the independent directors, similarly expressed its favourable opinion on the operation of the Board and Committees, considering the information and documentation supplied before each of the relative meetings adequate, complete and timely, and assessed the information received from the delegated bodies during the Board meetings as adequate and satisfactory, both with reference to the general trend in management and to the operations effected with related parties.

The Board therefore considered it opportune at present, also with a view to containing costs, not to replace the director who has resigned. It should be recalled that, in compliance with application criterion I.C.1 (h) of the Code of Conduct, before the appointment of the current Board resolved on by the Shareholders' Meeting of 26 July 2012, taking account of the self-assessment process made in the Board meeting of 14 June 2012, the previous Board advised shareholders, in the sphere of the Report on the subjects on the Agenda drafted pursuant to Art. 125-ter of the TUF, of its orientation on professional figures whose presence on the Board is considered opportune recommending the inclusion of candidates from both genders with adequate experience, also managerial, and skills in economic, accounting, legal and financial matters and/or remuneration policies in the lists.

Lastly, please note that the Shareholders' Meeting of 26 July 2012 specifically authorised the directors appointed to assume offices and perform business notwithstanding the prohibition as per Art. 2390 of the Civil Code. In compliance with application criterion I.C.4 of the Code of Conduct, the Board of Directors has the task of assessing the merits of each problem and reporting any critical points at the first

possible shareholders' meeting. The Board of Directors examined one event, concerning the director Minoli, considering that, at present, there are no problems or critical points that should be reported.

4.4 DELEGATED BODIES

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

- the chairman who is also conferred with the position of CEO;
- two deputy chairmen;
- an additional executive director with respect to the chairman and deputy chairmen.

In the meeting of 26 July 2012, the Board of Directors attributed the role of **CEO** on the CHAIRMAN **Guido Roberto Grassi Damiani** and assigned him - with the signatory and representative powers set out by the law and the Articles of Association before third parties and the courts - all the powers of ordinary and extraordinary administration, without exclusion, except for those reserved for the jurisdiction of the Shareholders' Meeting or the Board of Directors by the law, the Articles of Association, company procedures or the Board of Directors itself, also in compliance with the principles of the Code of Conduct, with the right to appoint and revoke representatives and proxies for individual acts or categories of acts, move legal action or petitions, also for revocation and Supreme Court sentences as well as appoint lawyers and attorneys of record for every type and level of justice.

Once again in the meeting of 26 July 2012, the Board of Directors identified **Guido Roberto Grassi Damiani** as the '**Employer**', i.e. the person with all the powers for the health and safety of the workers, as per Legislative Decree 81 of 9 April 2008, and any other current or future law that, however, concerns the health and safety of workers and, as the Employer, has attributed him with the widest empowerment, with the resulting unlimited spending power and with the full power of law in sub-delegation for the implementation of the work on the health and safety of the workers listed below by way of example:

- 1) designate the Prevention and Protection Service Manager;
- 2) in co-operation with the Prevention and Protection Service Manager, identify the risk factors and measures for the health and safety of the work areas;
- 3) still in co-operation with the Prevention and Protection Service Manager, prepare the 'Risk Assessment' document on the place of work;
- 4) appoint the Competent doctor;
- 5) guarantee respect for the general measures of protection set out by Legislative Decree 81/2008, carrying out all that is necessary and adopting all the essential and opportune initiatives for the pursuit of the protection of the safety and hygiene of the workers in the sphere of the place of work;
- 6) create the preventive and protective measures whether individual or collective;
- 7) purchase appliances, equipment and devices and the materials necessary to guarantee the correct fulfilment of the mandate;
- 8) implement the health supervision of the workers and check the implementation of the protocol on the health supervision of the workers;
- 9) prepare the information and training programmes of the workers;
- 10) if necessary, make use of resources external to the company with specific professional knowledge;
- 11) represent the company in relations with the State administration, public and private bodies, carrying out all acts and operations necessary to obtain concessions, licenses and authorisations in general;
- 12) represent the company before the judicial and administrative authorities.

Further, for all the offices and operational units where the business of the company is developed in Italy, the Board of Directors conferred, once again on **Guido Roberto Grassi Damiani**, the widest delegation of functions so that, in the name and on behalf of the company, he is responsible for the compliance with any obligation set out by the rules and regulations **on the protection of the environment and the land**, including in particular, from Legislative Decree 152/2006 and subsequent amendments (the so-called 'Environmental Code'), with the widest powers, also in expenses, with reference to the functions of management, organisation, direction, supervision and control, with the widest powers of sub-delegation.

By way of example, Mr Damiani, with the power to sub-delegate, with the most extensive empowerment and without any requirement to obtain prior approval or for costs, is responsible for the:

- i. application of the environmental legislation and, in particular, Legislative Decree 152/2006 and subsequent amendments, in every site, office, company unit and place pertaining to the company;
- ii. identification of the work or situations that, in the company sphere or that of the work in the workshops, required the programming of operations (presentation of declarations, applications for authorisations, technical operations by the bodies skilled in the subject, etc.);
- iii. representation of the company before the State administration, public and private bodies, the competent judicial and administrative authorities, and any other public authority with competence pursuant to the law, with the relative power to sign applications, petitions and questions aimed at the compliance set out and to receive deeds of the same authorities in the name and on behalf of the company;
- iv. identification of the internal company functions and external bodies which, for their professional technical skill and specific preparation, can assist him in compliance with the obligations; for this purpose, he can give every directive, service order, attribution of position and delegations to the company functions identified and sign consultancy and/or service contracts with external bodies;

- v. information and training of the managers of the company units about the tasks entrusted to them for compliance with the obligations arising from the environmental laws, including Legislative Decree 152/2006 and subsequent amendments;
- vi. supervision of the compliance with the obligations set out by the cited Legislative Decree 152/2006 and subsequent amendments and the organisational and technical directives for the purpose given by each delegate, also through the company functions or third parties as per (iv);
- vii. the adoption of all the expenses decisions necessary for the purposes of the correct application of Legislative Decree 152/2006 and the environmental legislation in general in complete independence and with a single signature;
- viii. the suspension and/or interruption of any activity until he considers it absolutely necessary for the purpose of preventing relevant risks not otherwise avoidable.

The Board of Directors then resolved to attribute the following in the same session:

- the **DEPUTY CHAIRMAN Mr Giorgio Andrea Grassi Damiani** with the purchasing powers for raw materials, product development and trade relations conferring on him:

- (i) all the powers necessary to supervise the work of the business area referring to the purchase of raw materials and, in relation to this, by way of example, with single and separate signature and without limits on the amount, except for, however, that reserved to the jurisdiction of the Board of Directors by the law, the Articles of Association, company procedures or the Board of Directors itself in compliance with the principles of the Code of Conduct, the power to negotiate and purchase raw materials and components necessary for the production of jewellery, watches and precious articles in general; and also
- (ii) all the powers to carry out all the necessary activities for the development of new products, still with single and separate signature and without limits on the amount, except for, however, that reserved to the jurisdiction of the Board of Directors by the law, the Articles of Association, company procedures or the Board of Directors itself in compliance with the applicable principles, also of the Code of Conduct, supporting the dedicated business areas;
- (iii) all the powers and authorisations necessary to maintain and develop relationships with customers and suppliers of the group and, more generally, develop the commercial communication of the company and the Damiani group as well as the care of relations with celebrities, the group testimonials, the national and international jet set people, members of the fashion and entertainment world, also through the organisation and promotion of events and other promotional initiatives, supporting the dedicated business areas;

- to the other **DEPUTY CHAIRMAN, Ms Silvia Maria Grassi Damiani**, the responsibility for External Relations and the Image of the Damiani group, conferring her with all the necessary powers to:

- (i) take care of the image of company and group products with customers and more generally with the public, with particular reference to the care of relations with celebrities, the national and international jet set people, members of the fashion and entertainment world, also through the organisation and promotion of events and other promotional initiatives;
 - (ii) take care of and develop relationships with the press and the media in general;
 - (iii) take care of and develop relationships with the testimonials, promoting loyalty to group brands;
- all in support of and con-ordination with the dedicate business area.

Chairman of the Board of Directors

With reference to Art. 2 of the Code of Conduct, it should be noted that the Chairman of the Board of Directors Mr Guido Grassi Damiani is the controlling shareholder of the Issuer and Chief Executive Officer, and that the Board of Directors considered it opportune to support the recommendation on the appointment of a *Lead Independent Director* who is attributed with the functions suggested by the Code of Conduct.

It should also be noted that, in relation to principles 2.P4 (opportunity of avoiding the concentration of company positions in a single person) and 2.P5 (illustration of the reasons why the Chairman is conferred with administrative powers), the Board, re-examining the matter recently on 14 June 2013, considered that the governance of Damiani S.p.A., also from the point of view of the concentration of positions, conforms to the interests of the company, taking into account, *inter alia*, that (i) the role of chairman is not circumscribed to institutional and representative functions but is fully operative and so essential for the best trend of the company, and (ii) the management powers are also conferred on other directors, in addition to the chairman (as indicated, there are a total of four executive directors).

Information to the Board

At least once a quarter, the managing director and the other executive directors:

- must report the operations carried out in the exercise of the powers to the Board of Directors, both for ordinary operations and the atypical and unusual ones;
- give full information to the Board of Directors and Board of Statutory Auditors at least every quarter on the performance of the operations with related parties;
- submit the significant operations whose exclusive jurisdiction is reserved to the Board of Directors, to the approval of the Board, in

compliance with the 'Guidelines', recently updated by the Board of Directors on 11 February 2011 (following the specific approval of the direct procedure to order the operations of the group with related parties).

As already referred, in relation to application criterion 1.C.1 of the Code of Conduct, the Board has also formally confirmed within the sphere of the often-mentioned Framework Resolution of 26 July 2012, the principle that the delegated bodies refer to the Board on the work performed in the exercise of the powers conferred with a frequency of at least quarterly, usually at the Board meetings to approve the annual financial statements and interim reports, in compliance with the current legislative and statutory provisions.

4.5 OTHER EXECUTIVE DIRECTORS

With reference to the directors currently in office, Mr Guido Roberto Grassi Damiani, Chairman and CEO, Messrs Giorgio Andrea and Silvia Maria Grassi Damiani, Deputy Chairmen with powers, and Mr Stefano Graidì, Director responsible for the Internal Control and Risk Management System of the company, are executive pursuant to Art. 2 of the Code of Conduct.

4.6 INDEPENDENT DIRECTORS

In the meeting of 26 July 2012, after its appointment, the Board of Directors checked the existence of the requisites of independence established by Art. 148, sub-para. 3, of the TUF and Art. 3 of the Code of Conduct, on the basis of the information given by each director, noting the independence pursuant to the law of the directors Francesco Minoli, Fabrizio Redaelli and Roberta Benaglia, the last two independent also pursuant to the Code of Conduct. In compliance with application criterion 3.C.4 of the Code, the outcome of this assessment was made known to the market with the issue of a press release on the same date.

The outcome of this assessment was recently confirmed by the Board of Directors in the self-assessment made in the meeting of 14 June 2013. Please note that, in the assessment of the existence of the requisites of independence pursuant to the Code of Conduct, all the criteria set out by Art. 3 of the Code were applied.

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

Furthermore, in the implementation of application criterion 3.C.6 of the Code of Conduct, just the independent directors pursuant to the Code of Conduct met during the financial year, without the other directors, in February 2013 at the convocation of the Lead Independent Director to discuss some new developments in the legislative framework with reference to Legislative Decree 91/2012 implementing Directive 2007/36/CE relating to the exercise of some rights of the shareholders of listed companies, and referring to Legislative Decree 184/2012 implementing Directive 2004/109/CE on the harmonisation of the requirements of transparency on the information on issuers whose stock exchange securities are admitted for trading in a regulated market, and in relation to the composition of the administration and control bodies arising from Law 120/2011 (which applies with effect from the first renewal of the administration and control bodies of listed companies after 12 August 2012).

On this point, please note that the company, taking account that the current Board of Statutory Auditors will expire with the approval of the financial accounts to 31 March 2013, adapted its Articles of Association to Law 120/2011 in the Board meeting of 12 June 2013, in compliance with the provisions of Art. 2365, sub-para. 2, of the Civil Code and also Art. 20 of the Articles of Association in force.

4.7 LEAD INDEPENDENT DIRECTOR

As specified above, considering that the Chairman of the Board of Directors is the person mainly responsible for the management of the Issuer (Chief Executive Officer) and also the controlling shareholder of the Issuer, the Board of Directors considered it opportune to respect the recommendation on the appointment of a Lead Independent Director to whom the functions suggested by the Code of Conduct can be attributed.

Therefore, respecting application criterion 2.C.3 of the 2.C.3 del Code of Conduct and the recommendation as per the comment relating to Article 2 of that Code, the Board appointed the (non-executive and) independent director **Fabrizio Redaelli** as 'Lead Independent Director', to whom the following functions were attributed:

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

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

5. HANDLING OF CORPORATE INFORMATION

In compliance with criterion I.C.1 (j) of the Code, in addition to provisions of Art. 114, first and twelfth sub-para., and 115-bis of the TUF, as well as Arts. 66 et seq. and 152-bis et seq. of the Issuer's Regulations, the company has adopted the *'Procedure for the management and disclosure to the market of privileged information'* and the *'Procedure for the institution, management and updating of the group register of persons with access to privileged information of Damiani S.p.A.'*, amended in the Board meeting of 11 February 2011.

The registers were duly instituted for both the Issuer and the subsidiaries.

In compliance with the provisions of Art. 114, seventh sub-para., of the and Arts. 152-sexies et seq. of the Issuer Regulations, the Board of Directors meeting on 12 September 2007 also resolved on the adoption of the *'Procedure for the identification of Relevant Persons and for the communication of the operations effected by them, also through third parties, concerning shares issued by the company or other financial instruments connected to them ('INTERNAL DEALING PROCEDURE')'* which identifies the so-called 'relevant persons' and disciplines the methods of disclosure to CONSOB and the public of the operations they have carried out concerning shares issued by the listed company or other financial instruments connected to these. The *Internal Dealing Procedure* was last amended in the Board meeting of 23 November 2012. In addition, in line with the provisions of Art. 2.2.3, sub-para. 3, (o) of the Stock Exchange Regulations, the Internal Dealing Procedure provides for a ban on 'relevant persons' from carrying out operations on the shares and/or financial instruments of the company during the so-called *blackout period*, i.e. in the 15 days before the date set for the meeting of the Board of Directors of the company called to resolve upon the approval of the draft financial statements of the financial year; the consolidated financial statements, the Interim Report, and the interim management report, further statements and anticipated final results.

6. INTERNAL COMMITTEES OF THE BOARD (EX ART. 123-BIS, SUB-PARA. 2 (D) TUF)

Since the Board meeting of 27 June 2007, and lately with the cited Framework Resolution of 26 July 2012, the Board has resolved to respect the principles and application criteria of Art. 4 of the Code of Conduct, thus establishing the institution of the following committees, formed and operating pursuant to the Code:

- the Internal Control and Corporate Governance Committee, renamed on 26 July 2012 the **Committee on Control, Risks and Operations with Related Parties** (for short, Audit and Risk Committee) on data 26 July 2012;
- the **Remuneration Committee**.

The principles and operational criteria of the two Committees are the following:

- a) the Committees consist of not less than 3 independent directors; alternatively, it can consist of non-executive directors, the majority of whom are independent, on the condition that the Chairman is chosen from the independent members; one of the members of the Remuneration Committee must have adequate knowledge and experience in financial matters or retribution policies, to be assessed by the Board at the time of the appointment; one of the members of the Committee on Control, Risks and Operations with Related Parties must have adequate experience in accounting and financial matters or risk management, to be assessed by the Board at the time of the appointment;
- b) the Board can, with a subsequent resolution, supplement or amend the duties of the individual Committees as attributed with the cited Framework Resolution of 26 July 2012;
- c) the meetings of each Committee must be minuted;
- d) the Committees have the right to access the information and company functions necessary for the fulfilment of their functions as well as make use of external consultants, subject to the terms established each time by the Board; in relation to the tasks to be completed, each Committee can, from time to time, draw on the resources that the company makes available at its request, in the terms established by the Board of Directors, its Chairman or the director responsible for the Internal Control and Risk Management System, without prejudice to the provisions on operations with related parties;
- e) persons who are not members, including other members of the Board or the company structure, can take part in the meetings of the Committees, subject to the invitation of the Committee and limited to the individual points on the agenda;
- f) the Chairman of the Board of Statutory Auditors or another auditor designated by him (the other auditors can, in any case, participate) takes part in the meetings of the Committee on Control, Risks and Operations with Related Parties; similarly, it is opportune that the Chairman of the Board of Statutory Auditors – or another auditor designated by him – takes part in the meetings of the Remuneration Committee;
- g) the meetings of each committee are chaired by the relative Chairman; in the event of the Chairman's absence, or however the unanimous decision of its members, the meetings of each committee can be chaired by another member;
- h) attendance of the majority of the respective members in office is required for the validity of the resolutions of the Committees; resolutions are taken with the absolute majority of those present and, if the voting is equal, the vote of the person presiding will prevail; meetings are also validly constituted when held by means of videoconference or telephone conference call, on condition that all

participants can be identified by the chairman and the others attending, that they are able to follow the discussion, speak in real time in the discussion on the subjects discussed, receive the documentation and then transmit it; in such case, the Committee is considered to be held at the place where the chairman is.

Still on 26 July 2012, following the appointment of the new directors, the Board arranged for the appointment of the new members of the Committee on Control, Risks and Operations with Related Parties and the Remuneration Committee.

At the date of preparation of this Report, the Board of Directors have not considered it necessary to set up an Appointments Committee within it, considering, *inter alia*, the current structure of the body of shareholders.

Please note that a committee carrying out the functions of two or more of the committees set out by the Code has not been formed and that the committee functions set out in the Code have not been reserved for the Board of Directors.

7. REMUNERATION COMMITTEE

Determination of the payment to be attributed to directors for their participation in the Board of Directors of the company is specifically reserved for the Shareholders' Meeting which, pursuant to Art. 23 of the Articles of Association, can likewise establish a Directors' Severance Indemnity in favour of each director; however, the task of establishing the remuneration of those directors who cover particular roles, pursuant to Article 2389, sub-para. 3, of the Civil Code, is the responsibility of the Board, on the basis of a proposal formulated on the matter by the Remuneration Committee and after consultation with the Board of Statutory Auditors.

In the Board meeting of 26 July 2012, the Board of Directors resolved, subject to a check of the requisites of being non-executive and independence in compliance with the application criteria of the Code of Conduct, to set up the Remuneration Committee, consisting of the following directors: Fabrizio Redaelli (chairman), Giancarlo Malerba and Roberta Benaglia.

Composition and operation of the Remuneration Committee (ex art. 123-bis, sub-para. 2 (d), TUF)

The Remuneration Committee currently in office consists of three non-executive members, the majority of whom are independent, as indicated below:

Fabrizio Redaelli (Chairman – independent),

Giancarlo Malerba,

Roberta Benaglia (independent).

During the financial year, the Committee, co-ordinated by its chairman, met 3 times and, for the current financial year, at least 2 other meetings are planned (of which 1 has already been held on the date of approval of this Report). The meetings of the Remuneration Committee held in the financial year lasted 35 minutes on average with the regular and frequent participation of its members (the percentage of participation of each member at the meetings held in the same period is indicated in Table 2 shown in the Appendix).

Over the financial year, the Committee consisted of three non-executive directors, the majority of whom independent, and its Chairman was chosen from the independent members; furthermore, in compliance with Principle 6.P.3 of the Code of Conduct, the professionalism of all the members of the Committee guarantees adequate knowledge and experience in financial matters or retribution policies.

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

People who are not members have taken part in the meetings of the Committee held throughout the financial year, at the invitation of the Committee and in relation to individual matters on the agenda from time to time.

Functions of the Remuneration Committee

With the Framework Resolution of 26 July 2012, the Board of Directors resolved, in compliance with Art. 6 of the Code of Conduct, to confirm the attribution of the functions already set out by the '*Remuneration policies and procedures for their implementation of Damiani S.p.A.*' adopted by the company on 14 June 2012, to the Remuneration Committee; in particular, the Remuneration Committee has the following duties:

- a) to present proposals for the remuneration of the executive directors, and those who cover special roles, to the Board, and also, after discussions with the delegated bodies, the correct identification and setting of adequate performance objectives, that enable the calculation of the variable component of their payment;
- b) formulate proposals to the Board of Directors on the adoption of the remuneration policy for directors, particularly executive directors, and those who cover special roles, and the senior managers with strategic responsibilities;
- c) assist the Board of Directors in the preparation and implementation of the payment plans based on financial instruments;
- d) periodically assess the adequacy and real application of the remuneration policy, making use of the information supplied by the delegated bodies where the assessment concerns the payments of senior managers with strategic responsibilities;
- e) formulate any proposal on remuneration matters to the Board of Directors;
- f) monitor the application of the decisions adopted by the Board of Directors on remuneration, assessing, among other items the effective achievement of the performance targets;
- g) refer to shareholders on the methods of exercising their functions; for this purpose, the attendance of the Chairman of the Remuneration Committee or another member of the Committee is recommended at the Shareholders' Annual General Meeting;
- h) if considered necessary or opportune for the fulfilment of the tasks attributed to it, make use of external consultants expert in retri-

bution policies; the experts should be independent and, as a result, by way of example, should not exercise relevant activities in favour of the Human Resources Department of Damiani S.p.A., any controlling shareholders of Damiani S.p.A. or the directors or senior managers with strategic responsibilities of Damiani S.p.A. The independence of external consultants is checked by the Remuneration Committee before assigning the relative position.

During the financial year, the Remuneration Committee, *inter alia*, formulated proposals to the Board of Directors on: (i) the approval of the 'Remuneration policies and procedures for implementation by Damiani S.p.A.', (ii) the remuneration of directors invested with special roles pursuant to Art. 2389, sub-para. 3, of the Civil Code, taking account of the renunciations made by the Chairman and Managing Director and Deputy Chairmen with powers to the payments to be proposed in their favour for the financial year pursuant to Art. 2389, sub-para. 3, of the Civil Code, (iii) the check on the conditions set out by the second implementation cycle of the 'Stock Grant Plan 2009' for the delivery of the shares to the beneficiaries of the aforesaid plan, (iv) the continuation of the first implementation cycle of the 'Stock Option Plan 2009'.

Lastly, in the meeting of 14 June 2013, the Remuneration Committee (i) assessed the adequacy, overall consistency and application of the company's remuneration policy in the financial year, and (ii) formulated proposals to the Board in relation to the check on the vesting conditions of the options with a vesting period until 21 April 2013 assigned in implementation of the first cycle of the 'Stock Option Plan 2010'.

The meetings of the Remuneration Committee are duly minuted.

The Remuneration Committee has the right to access the information and company functions necessary for the fulfilment of its duties as well as make use of external consultants, subject to the authorisation of the Board of Directors, in the performance of its functions. Please note that the Board of Directors has not allocated an ad hoc budget to the Remuneration Committee, and that, from time to time, the company makes the resources necessary for the purpose for the fulfilment of its functions available to the Committee.

8. DIRECTORS' REMUNERATION

On the proposal of the Remuneration Committee, the Board of Directors of Damiani S.p.A. defined the 'Remuneration policies and procedures for implementation by Damiani S.p.A.', with a resolution of the Board on 14 June 2012, respecting the applicable legislation and in compliance with Principle 6.P.4 of the Code of Conduct. This document defines the guidelines that all the corporate bodies involved must respect for the purposes of determining the directors' remunerations, in particular the executive directors and others with special roles, and the senior managers with strategic responsibilities, also taking account of the remunerations perceived at group, procedural (path of definition and implementation of the remuneration policies) and substantial levels (criteria that must be respected in the definition of remunerations).

The remuneration policies and procedures are set out in the first section of the Remuneration Report prepared pursuant to Art. 123-ter of the TUF, made available to the public at the registered office and on the company website www.damiani.com according to the law, to which reference should be made in full for all information not in this Report.

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

Remuneration plans based shares

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

Indemnity of directors following resignation, dismissal or termination of the relationship also following a take-over bid (ex Art. 123-bis, sub-para. 1 (i) of the TUF)

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

9. COMMITTEE ON CONTROL, RISKS AND OPERATIONS WITH RELATED PARTIES

The current Committee on Control, Risks and Operations with Related Parties was appointed, subject to the check on the requisites of not being executive and independence in compliance with the law and the application criteria of Art. 3 of the Code of Conduct, by the Board of Directors on 26 July 2012.

Composition and operation of the Committee on Control, Risks and Operations with Related Parties (ex Art. 123-bis, sub-para. 2 (d), TUF)

The Committee on Control, Risks and Operations with Related Parties currently appointed consists of three non-executive members, the majority of whom are independent, as indicated below:

- Dott. **Fabrizio Redaelli** – (Chairman – independent),

- Dott. **Giancarlo Malerba**,
- Ing. **Roberta Benaglia** – (independent).

Over the financial year, co-ordinated by its Chairman, the Committee met 6 (six) times and, for the current one, it has already met 3 times and, at present, at least another 2 meetings are planned. The meetings of the Committee lasted an average of one hour, 20 minutes were attended regularly and frequently by the members (the percentage of participation of each member in the meetings is indicated in Table 2 shown in the Appendix).

As specified above, over the financial year, the Committee consisted of three non-executive directors, mostly independent; the Chairman was chosen from the independent members. Furthermore, in compliance with Principle 7.P.4 of the Code of Conduct, the professionalism of the members of the Committee guarantee adequate knowledge and experience in accounting and financial matters or risk management. People who are not members, such as members of the Board of Statutory Auditors, the Internal Audit manager, the director responsible for the Internal Control and Risk Management System and the senior manager responsible for drafting the corporate accounts, and also representatives of the independent auditors, took part in the meetings of the Committee held in the financial year, at the invitation of the chairman and in relation to individual matters on the Agenda each time.

Functions of the Committee on Control, Risks and Operations with Related Parties.

The following functions of a consultative and propositional nature, coinciding with those indicated by the Code of Conduct, and better detailed in the 'Guidelines for the Internal Control and Risk Management System of the Damiani Group', as well as the 'Procedure in Operations with Related Parties of Damiani S.p.A.', were assigned to the Committee by the Board with the often-mentioned Framework Resolution of 26 July 2012:

- a) provide the Board of Directors opinions in the cases set out by application criterion 7.C.I of the Code of Conduct;
- b) assess, with the senior manager responsible for the drafting of the corporate accounting documents and the independent auditors and Statutory auditors, the correct use of the accounting principles and their homogeneity for drafting the consolidated financial statements;
- c) provide opinions on specific aspects relevant to the identification of the main company risks;
- d) examine the periodic reports and those of special relevance prepared by the Internal Audit function;
- e) monitor the independence, adequacy and effectiveness of the Internal Audit function;
- f) if necessary, exercise the right to ask the Internal Audit function to make checks on specific operational areas, advising the Chairman of the Board of Statutory Auditors at the same time;
- g) at least every six months, usually at the approval of the annual financial statements and interim reports, refer to the Board on the work performed and also the adequacy of the Internal Control and Risk Management System;
- h) carry out the tasks which, in compliance with the regulatory legislation in force at the time, is attributed to it pursuant to the 'Procedure in Operations with Related Parties of Damiani S.p.A.'.

In consideration of the qualification of 'smaller-sized company' of the Issuer, the role and relevant competences that the Related Parties Regulation and the OPC Procedure attribute to the committee consisting of non-executive directors with a majority of independent directors were assigned to the Committee on Control, Risks and Operations with Related Parties with reference to all the operations with related parties.

With reference to the individual functions attributed to it, please note that, throughout the financial year, the Committee on Control, Risks and Operations with Related Parties, among other items: (i) examined the periodic reports of the Internal Audit manager to monitor the adequacy of the Internal Controls System with the due constancy and, where necessary, intervene to fill any gaps, (ii) examined the correct use of the accounting principles and their homogeneity for drafting the consolidated financial statements with the independent auditors, (iii) gave its favourable opinion on operations of minor relevance with related parties, (iv) formulated its favourable opinion for the Board on the amendments to the 'Guidelines for the Internal Control and Risk Management System of the Damiani Group', (v) supported the Board of Directors in identifying the criteria for assessing the strategic relevance of the Issuer's subsidiaries.

Recently, in the current financial year (2013/2014), the Committee on Control, Risks and Operations with Related Parties has, *inter alia*, formulated its opinion for the Board in relation to the work programme prepared by the Internal Audit Manager, as well as the periodic assessment of the adequacy of the Internal Control and Risk Management System, with respect to the features of the company and the risk profile assumed, and also its effectiveness.

The members of the Board of Auditors took part in the meetings of the Committee held during the financial year; also in the light of Legislative Decree 39/2010, the Board of Statutory Auditors therefore met in a joint session with the Committee, to ensure efficient co-ordination of the work and full and complete exchange of information.

In compliance with application criterion 4.C.I (d) of the Code, the meetings of the Committee were duly minuted.

In compliance with application criterion 4.C.I (e) of the Code of Conduct, the Committee has the right to access the information and company functions necessary for the fulfilment of its duties, as well as make use of external consultants subject to authorisation by the Board of Directors in the performance of its functions.

It should be noted on this point that the Board of Directors did not make an ad hoc budget available to the Committee, and that the

company from time to time makes the resources necessary for the purpose for the fulfilment of its functions available to the Committee.

10. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In the session of 13 June 2008, the Board of Directors of Damiani adopted its own Guidelines for the Internal Control System (the 'Guidelines') on the proposal of the director responsible for Internal Control and with the aid of the then Internal Control and Corporate Governance Committee - its 'Guidelines for the Internal Control System' (the 'Guidelines'). These were amended and supplemented by the Board of Directors on 11 June 2010, also in order to strengthen and optimise the Internal Control System both within the company and also the Damiani group overall, with particular reference to subsidiaries identified as 'strategically relevant' pursuant to Art. 1 of the Code of Conduct. As specified above, on 8 February 2013, the current Board of Directors, noting the prior favourable opinion of the Committee on Control, Risks and Operations with Related Parties, and after discussions with the Board of Statutory Auditors, approved the new text of the **'Guidelines for the Internal Control and Risk Management System of Damiani Group'** in order to adapt the contents to the December 2011 edition of the Code of Conduct.

According to the provisions of the Guidelines, the controls involve the bodies listed below, with different roles and in the sphere of the respective competences: (a) the Board of Directors, which has a role of guidance and assessment of the adequacy of the Internal Control and Risk Management System and, within it, identifies one or more directors entrusted with the institution and maintenance of an effective Internal Control and Risk Management System, as well as the Committee on Control, Risks and Operations with Related Parties, with the task of supporting, with adequate investigation work, the assessments and decisions of the Board of Directors relating to the Internal Control and Risk Management System, and also that relating to the approval of the periodic financial relations; (b) the manager of the Internal Audit function, entrusted with checking that the Internal Control and Risk Management System is functioning and adequate; (c) other roles and company functions with specific tasks on the subject of Internal Control and Risk Management, divided in relation to the sizes, complexity and risk profile of the company (the senior manager responsible for drafting the corporate accounts and all the staff), (d) the Board of Statutory Auditors, which supervises the effectiveness of the Internal Control and Risk Management System, (e) the Supervisory Body, and, lastly, (f) the directors and auditors of the Issuer's subsidiaries. All are required to respect the indications and principles in the Guidelines.

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

- contributing to a management of the company consistent with the company objectives defined by the Board of Directors, favouring the assumption of conscious decisions;
- ensure the necessary separation between the operational and control functions and, therefore, it must be structured so that situations of conflict of interest are avoided or reduced to the minimum in the assignment of the competences;
- facilitate the adequate identification, measurement, management and monitoring of the risks assumed by the Issuer and the Damiani Group, with particular reference, among others, to the companies with strategic relevance;
- establish controls at every operational level and clearly identify tasks and responsibilities, in particular in the stages of supervision, intervention and correction of the irregularities detected;
- ensure reliable information systems and appropriate reporting processes at the various levels to which control functions are attributed;
- guarantee that the anomalies found are brought to the knowledge of adequate levels of the company in a timely manner;
- allow the registration of every management fact and, in particular, every operation with a sufficient level of detail, ensuring the correct attribution under the time profile.

The Internal Control and Risk Management System is subject to periodic exams and checks, taking account of the evolution in company operations and the reference context, as well as the existing best practice nationally and internationally.

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

In implementation of application criterion I.C.1 (b) of the Code of Conduct, please note that, at the meeting of the Board of Directors of 14 June 2013, the Director Responsible for the Internal Control and Risk Management System submitted the report on the identification of the main risks involving the Issuer and its subsidiaries, prepared by the Internal Audit Manager (with special reference to the company with strategic relevance), to the Board.

So the Board of Directors approved the risk monitoring policy with a view to their compatibility with a healthy, correct management of the company and, subject to the opinion of the Committee on Control, Risks and Operations with Related Parties, assessed that the Internal Control and Risk Management System of the Damiani group has been the subject of another significant strengthening during the financial year and appears adequate and functional overall.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS EXISTING IN RELATION TO THE PROCESS OF FINANCIAL INFORMATION, INCLUDING CONSOLIDATED.

INTRODUCTION

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

- the Code of Ethics;
- the Organisation, management and control model pursuant to Legislative Decree 231/01;
- the *'Procedure for the identification of Relevant Persons and advice of the operations made by them, also through third parties, concerning shares issued by the company or other financial instruments connected to them'* ('Internal Dealing Procedure'), amended at the Board meeting of 23 November 2012;
- the principles and procedures for carrying out operations with related parties; the current Damiani S.p.A. procedure on operation with related parties was approved by the Board of Directors of the company on 26 November 2010 and subsequently updated on 10 February 2012, and is aligned with the provisions of the Related Parties Regulation and subsequent amendments and integrations;
- the system of commissions and proxies;
- the organisation chart;
- the procedure for the management and disclosure to the market of privileged information;
- the accounting and administrative system, in turn consisting of a set of procedures and operational documents and instructions for budget and reporting work relative to the closure calendars.

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

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

DESCRIPTION OF THE MAIN FEATURES

Risk assessment, aimed at identifying and assessing the areas of risk in which, in the reference context (business models, corporate and organisational structure, supply and distribution markets, current legislation and regulations), events may occur that compromise achievement of the reliability of the financial reporting, is at the base of the control system on the processes of financial reporting. This work has enabled identification of the only group company with strategic relevance on the basis of quantitative and qualitative parameters and the main company processes that feed the financial statements of the company and consolidated. In this way, a matrix of processes/units to be checked and assessed by the existing Control System in relation to their typical risks referring to the preparation of official and public financial reporting has been defined.

The material financial statements items and connected company processes supplying them are selected for the company identified as having strategic relevance, whose control system overseeing the formation of the financial statements is subject to specific assessment and monitoring so that the specific controls to perform can be identified to guarantee the typical objectives the Internal Control System must follow in supplying the financial reporting.

ROLE AND FUNCTIONS INVOLVED

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

In the fulfilment of his duties, the senior manager responsible:

- interacts with the Internal Audit manager who makes independent checks on the operation of the Control System and supports the senior manager responsible in his monitoring work;
- is supported by the managers of the various company functions (and, in particular, by the administrative managers) of group companies, who ensure the completeness, trustworthiness and timeliness of the information flows to the senior manager responsible who co-ordinates all the work for the preparation of the annual and interim financial reporting;
- sets up a reciprocal exchange of information with the Committee on Control, Risks and Operations with Related Parties and the Board of Directors, referring on the work performed;

- periodically informs the Board of Statutory Auditors on the events of particular relevance occurring with reference to the impact on financial reporting and the adequacy and reliability of the administrative-accounting system where they are recorded.

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

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

The senior manager responsible for drafting the accounting documents, with the Chairman and CEO, make the certification set out by sub-para.5 of Art. 154-bis of the TUF

As already mentioned in paragraph 4.3 of this Report, in fulfilment of application criterion 7.C.1 (b) of the Code of Conduct, the Board assessed the adequacy of the organisational, administrative and general accounting structure of the Issuer and the only subsidiary with strategic relevance during the session of 14 June 2013; in particular, evaluation was adopted on the basis of the report of the Internal Audit manager and also the assessments of the Director Responsible for the Internal Control and Risk Management System subject to approval of the Committee on Control, Risks and Operations with Related Parties which, in the sphere of its meetings, in which the Internal Audit manager also took part (see below), was able to check continuously the effective operation of the Internal Control and Risk Management System of both the company and the group, with particular reference to the only company of strategic relevance.

Still on 14 June 2013, the Board of Directors, subject to the opinion of the Committee on Control, Risks and Operations with Related Parties, positively evaluated the status of the Internal Control System, considering it adequate overall.

10.1 DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

As mentioned, in compliance with Principle 7.P3 (a), n. (i) of the Code of Conduct, the Board of Directors identified a Director Responsible for the Internal Control and Risk Management System from within it. In the meeting of 26 July 2012, **Mr Stefano Graidì** was confirmed in the position of Director Responsible for the Internal Control and Risk Management System, to whom the functions detailed better in the above-mentioned Guidelines were assigned and, in particular, those of:

- a) taking care of the identification of the main company risks, taking account of the features of the business carried on by the Issuer and its subsidiaries, with particular attention to the companies with strategic relevance, and submits them to the Board of Directors at least once a year, usually at (or before) the meeting of the Board of Directors for the approval of the annual financial report;
- b) implementing the aforesaid Guidelines, looking after the development, creation and management of the Internal Control and Risk Management System constantly checking its adequacy and effectiveness. In particular:
 - identifying the risk factors for the Issuer or other Damiani group companies, with special attention to the strategically relevant companies – without prejudice to the primary responsibility of the respective directors delegated to the individual companies
 - also in the light of the changes in the internal and external conditions in which they operate, and also the trends in management, variations from the forecasts and the legislative and regulatory scenario in force at the time;
 - defining the duties of the operational units on control functions, ensuring that the various tasks are directed by qualified staff, with specific experience and knowledge. In this sphere, the areas of potential conflict of interest must be identified and reduced to the minimum;
 - establishing effective communication channels to ensure that all staff are aware of the policies and procedures relative to their duties and responsibilities;
 - defining the information flows aimed at ensuring full knowledge and governability of company facts;
- c) at least once a year, submits the company risks and all the control processes implemented and planned for their prevention, reduction and effective and efficient management, to the examination and assessment of the Board of Directors, usually at the meeting (or before) of the Board to approve the annual financial report, and also every time it is considered necessary or opportune, in relation to the circumstances, as when significant new risks arise or there are significant increases in the possibilities of risk, to enable the Board of Directors to take an informed and conscious decision on the management strategies and policies of the main risks of the Issuer and Damiani Group, with particular attention to companies of strategic relevance;
- d) proposes the appointment, revocation and remuneration of the Internal Audit manager to the Board of Directors, similarly informing the Committee on Control, Risks and Operations with Related Parties and ensures the independence and operational autonomy by each person responsible for an operational area, giving him the appropriate means to perform the duties entrusted to him effectively;
- e) submit the annual work programme prepared by the Internal Audit Manager, subject to the opinion of the Committee on Control, Risks and Operations with Related Parties and after discussions with the Board of Statutory Auditors, to the Board of Directors
- f) be concerned with the adaptation of the Internal Control and Risk Management System to the dynamics of the operational conditions and the legislative and regulatory panorama;
- g) be able to request the Internal Audit function to carry out checks on specific operational areas and the respect for the rules and internal procedures in the performance of company operations, advising the Chairman of the Board of Directors, and the Chairman of the Committee on Control, Risks and Operations with Related Parties and the Chairman of the Board of Statutory Auditors at the same time;

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

In compliance with application criterion 7.C.4 (a) of the Code of Conduct, the Director responsible for the Internal Control and Risk Management System has taken care of the identification of the main company risks (strategic, operational, financial and compliance), taking account of the features of the work carried out by the company and its subsidiaries, and has submitted them for examination by the Board of Directors. In the meeting to approve the draft financial statements to 31 March 2013, he explained his assessment and proposals on the identification of and the company risk management policy to the (the so-called risk assessment)..

In compliance with application criterion 7.C.4 (b) of the Code of Conduct, the Director responsible for the Internal Control and Risk Management System has taken care of the updating and then implemented the Guidelines, constantly checking the overall adequacy, effectiveness and efficiency of the Internal Control and Risk Management System, and arranging to adapt the system to the dynamics of the operational conditions and the legislative and regulatory panorama in force.

With reference to the state of adequacy of the Internal Control and Risk Management System with respect to the rules and regulations in force, information was given to the Board of Directors in the Board meeting of 14 June 2013, as referred above.

10.2 THE INTERNAL AUDIT MANAGER

On 15 September 2011, in compliance with Principle 7.P3 (b) of the Code of Conduct, the Board of Directors appointed **Mr Delucchi** as Manager of the Internal Audit function, as proposed by the then executive director responsible for supervising the operation of the Internal Control System and noting the favourable opinion of all members of the Committee for Internal Control, and also discussion with the Board of Auditors. The Board of Directors similarly defined the remuneration of the Internal Audit Manager, consistently with company policy, in the same meeting, once more at the proposal of the then executive director responsible for supervising the operation of the Internal Control System and noting the favourable opinion of the Committee and also discussion with the Board of Auditors.

Pursuant to the aforesaid Guidelines, last amended, as indicated, in the Board meeting of 8 February 2013, the Internal Audit Manager:

- extends his control work to all the companies of the Damiani group, with special concern for the companies identified by the Board of Directors as having strategic relevance, and has access to all their work and the relative documentation; the Internal Audit Manager has direct access to all the information useful for the fulfilment of the role;
- if certain checks are outsourced by the company or other companies in the group, he also has access to the documentation produced by the bodies appointed;
- he is not responsible for some operational areas, reports hierarchically to the delegated bodies, responds functionally to the Director responsible for the Internal Control and Risk Management System, Board of Directors and the Committee on Control, Risks and Operations with Related Parties, and ensures the due information is sent to the Board of Statutory Auditors;
- he has, *inter alia*, the task of checking the suitability of the internal procedures for ensuring the adequate containment of the risks of the Issuer and Damiani group, and assisting the group to identify and assess the greatest exposures to risk.

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

- a) prepares the annual work programme based on a structured process of analysis of the priorities of the main risks ('Audit Plan') and explains it to the Director responsible for the Internal Control and Risk Management System, the Committee on Control, Risks and Operations with Related Parties and the Board of Statutory Auditors;
- b) checks the operation and suitability of the Internal Control and Risk Management System, both continuously and in relation to specific needs, respecting international standards;
- c) assists the Director responsible for the Internal Control and Risk Management System in looking after the planning, management and monitoring of the Internal Control and Risk Management System and in identifying the various risk factors;
- d) plans and carries out, consistent with the annual work programme, direct and specific checks in the Issuer and all other group companies, with special reference to the companies with strategic relevance, to note any defects in the Internal Control and Risk Management System in the various areas of risk;
- e) within the sphere of the Audit Plan, checks the reliability of the information systems, including the accounting survey systems;
- f) checks that the rules and procedures of the control processes are respected and that all those involved operate in conformity with the preset objectives. In particular:
 - he checks the reliability of the information flows, including the automatic data processing systems and the administrative-accounting survey systems;
 - within the work programme, he checks that the procedures adopted by the Issuer and group ensure respect, in particular, for the current legal and regulatory provisions;
- g) he also performs checks with regard to specific irregularities, which he considers opportune or at the request of the Board of Directors, Committee on Control, Risks and Operations with Related Parties, the Director responsible for the Internal Control and Risk Management System or the Board of Statutory Auditors;
- h) using the method considered most opportune, he ascertains that the irregularities found in the operation and functions of controls have been removed;

- i) he keeps all the documentation relating to the work performed in an orderly manner; this documentation is available, on request, to the persons responsible for the control processes indicated in Art. 2 of the 'Guidelines';
 - l) he prepares periodic reports containing adequate information on his work, how the management of risks is conducted and also respect for the plans defined to contain them. The periodic reports also contain an assessment of the suitability of the Control and Risk Management System.
- Furthermore, in the light of both the results of the checks made and the analysis of the company risks, he identifies any deficiencies in the Internal Control and Risk Management System and suggests any necessary operations on the system; the deficiencies identified and the operations proposed are shown in the relative Audit Reports;
- m) where necessary, prepares timely reports on events of particular relevance;
 - n) transmits the reports as per points (l) and (m) to the Director responsible for the Internal Control and Risk Management System, and also the Chairman of the Committee on Control, Risks and Operations with Related Parties, the Board of Directors and the Board of Statutory Auditors; where the checks concern companies in the group, the reports are also sent, if necessary, to the relative competent bodies of the company involved;
 - o) at least twice a year, giving time to enable the Committee on Control, Risks and Operations with Related Parties and the Board of Directors, as well as the Director responsible for the Internal Control and Risk Management System, to perform their respective tasks for (or before) Board meetings to approve the annual financial report and also the interim one, prepares a six-monthly summary of the main points emerging during the reference period and throughout the year. The annual report compiled for the Board meeting preceding approval of the annual financial report also contains an update on the company risks subject to monitoring which emerged during the year;
 - p) he immediately advises the Director responsible for the Internal Control and Risk Management System and the delegated bodies if there are critical points that suggest urgent intervention, and also the Chairman of the Committee on Control, Risks and Operations with Related Parties and the Board of Statutory Auditors to update them on the results of his work.

In the financial year, the Internal Audit Manager performed checks in the areas he is responsible for in conformity with the provisions of the Audit Plan for the 2012/2013 financial year. In addition, in compliance with the provisions of the aforesaid Guidelines, the Internal Audit Manager has, over the financial year, in detail:

- 1) continuously checked the operation and suitability of the Internal Control and Risk Management System;
- 2) prepared periodic reports containing adequate information on his work, how the management of risks is conducted and also respect for the plans defined to contain them; the reports are then sent to the Director responsible for the Internal Control and Risk Management System, and also the Chairman of the Committee on Control, Risks and Operations with Related Parties, the Board of Directors and the Board of Statutory Auditors (where the checks concern group companies, the reports are also sent, if necessary, to the relative competent bodies of the company involved). Also in consideration of the reports of the Internal Audit Manager, the Board of Directors has expressed its positive and favourable judgement on the adequacy and effectiveness of the Internal Control and Risk Management System, as last said on 14 June 2013;
- 3) had access to all the information useful for the performance of the position;
- 4) submitted the Audit Plan for the 2013/2014 financial year to the attention of the Committee on Control, Risks and Operations with Related Parties, subsequently approved by the Board of Directors.

With reference to the specific work carried out throughout the financial year by the Internal Audit Manager in the performance of his duties, please note that they particularly concerned:

- (i) within the sphere of alignment with the legislation ex L. 262/05 and ex Legislative Decree 231/2001:
 - the update of the Issuer's Organisational Model to take account of the new protocols named 'Product development and creation procedure' and 'Environmental protection protocol', and also the new criminal offences introduced in the sphere of Legislative Decree 231/01 (employment of illegal immigrants from non-EU countries, undue inducement to give or promise benefit, corruption between private individuals);
 - the review of the company procedures of the Issuer and group companies;
- (ii) in the sphere of the Audit work:
 - compliance audits concerning the Issuer and also the other companies in the group;
 - training on compliance aimed at ensuring understanding and the consequent putting into practice of the contents and objectives of the procedures by company functions.

Pursuant to application criterion 7.C.6 of the Code of Conduct, please note that the Internal Audit function has not been entrusted to bodies outside the company, even for sectors of operation, and does not report hierarchically to any manager of operational areas.

Please note that the Board of Directors has not allocated an ad hoc budget to the Internal Audit Manager, and that, from time to time, the company makes the resources necessary for the purpose for the fulfilment of its functions available to the Internal Audit Manager.

10.3 ORGANISATIONAL MODEL EX LEGISLATIVE DECREE 231/2001

In order to be aligned with the internal control systems set out by Legislative Decree 231/2001 and in conformity with the provisions of Article 2.2.3, sub-para.3, (j) of the Stock Exchange Regulations, the Board of Directors of the Issuer approved the organisation, manage-

ment and control model set out by Art. 6, Legislative Decree 231/2001 (the 'Organisational Model') and the Code of Ethics.

The Organisational Model adopted by the Issuer, and last amended on 8 February 2013, is structured in the following parts:

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

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

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

In addition, as mentioned above, on 8 February 2013, the Board of Directors of Damiani S.p.A. approved the updated version of Model 231 and the relative Code of Ethics to take account of the new 'liable offences' and, in particular, the offence of employing illegal immigrants, undue inducement to give or promise benefit and corruption between private individuals.

A special Supervisory Board, with full economic independence, watches over the operation and respect of the Model. On 21 April 2011, Ms Carlotta Lanzi Puglia and two consultants from outside the company, **Mr Luca Pecoraro**, lawyer, and **Ms Rossella Zunino** were called on to form part of the Supervisory Board. As a result of the resignation of Ms Lanzi Puglia, the Board meeting of 15 September 2011 reintegrated the composition of the ODV, appointing **Mr Francesco Delucchi**, the Internal Audit Manager, as the new 'internal' member until the expiry of the Supervisory Board forecast for 31 March 2014.

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

The Issuer's Code of Ethics has been published in the 'Investor relations/Corporate Governance' section of the company website at www.damiani.com. Lastly, it is noted that, in the sphere of the group, the subsidiary company with strategic relevance Rocca S.p.A. has also adopted its own organisational, management and control model set out by Art. 6, Legislative Decree 231/2001, updated on 12 June 2013.

10.4 INDEPENDENT AUDITORS

The independent auditors assigned to the auditing of DAMIANI S.p.A. and the other subsidiary companies are Reconta Ernst & Young S.p.A., based in Via G. D. Romagnoli, 18/a, Rome, enrolled in the Register of Auditors. On 27 June 2007, the general Shareholders' Meeting of Damiani resolved to confer the firm the position of independent auditors for nine financial years, until approval of the balance sheet to 31 March 2016, pursuant to Art. 159 of the TUF.

10.5 SENIOR MANAGER RESPONSIBLE FOR DRAFTING CORPORATE DOCUMENTS

The senior manager responsible for drafting the accounting documents is **Mr Gilberto Frola**, appointed by the Issuer's Board of Directors in the session of **12 September 2007** with effect from the admission to trading of the shares of the company on the screen-based stock exchange of Borsa Italiana S.p.A. and until revoked. Pursuant to Art. 27 of the Articles of Association, the senior manager is selected by the administrative body, subject to the compulsory but not binding opinion of the Board of Statutory Auditors, from persons who have qualified experience of at least three years in accounting or administration in a company with listed shares or, however, with share capital of not less than one million Euros.

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

- directly access all the information necessary for the production of the accounting data without the need for authorisation, undertaking (as with all the members of his office) to maintain the confidentiality of the documents and information acquired in the performance of his duties, in compliance with the current legal and regulatory applicable provisions;
- use internal communication channels that guarantee correct infra-company information;
- structure his office in a fitting manner, both with reference to the staff and the technical means (material, IT resources, etc.);
- arrange administrative and accounting procedures, being able to also have the co-operation of the offices participating in the production of the relevant information;
- arrange for external consultancy, where particular company requirements make this necessary, drawing on the budget allocated to him;

- set up relationships and flows which ensure adequate monitoring of the correct operation of the procedures, in addition to the constant mapping of risks and processes, with the other persons responsible for control (independent auditors, internal audit manager, etc.);
- with reference to the expenses considered necessary for the fulfilment of his duties, he can proceed, subject to authorisation by the Board of Directors and, on its behalf, the Internal Control Committee or, alternatively, the Chairman of the Board of Directors, with the requirement to make an annual report to the Board.

10.6 CO-ORDINATION BETWEEN BODIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

11. DIRECTORS' INTERESTS AND OPERATIONS WITH RELATED PARTIES

As already recalled, the Board of Directors, in compliance with the Related Parties Regulation and subject to the opinion of the independent directors on the Board, approved the '*Procedure on operations with related parties of Damiani S.p.A.*' (also '*OPC Procedure*') in the meeting of 26 November 2010, effective from 1 January 2011 (the whole text of the OPC Procedure, as updated in the Board meeting of 10 February 2012, is available on the web site www.damiani.com, in the '*Financial Documents*' – '*Documents and Notices*' section).

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

Taking into account that the Issuer is 'a smaller-sized company', the OPC Procedure envisages a single general procedure of instruction and approval of operations with related parties, both of greater and lesser relevance; this general procedure, however, features a significant development of the role of independent directors, who – in the sphere of the Committee on Control, Risks and Operations with Related Parties – must always give a prior opinion which is not binding with respect to the proposed operation.

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

Furthermore, the OPC Procedure envisages, in accordance with what is permitted by the Related Parties Regulation, exclusion from the application of the new discipline of some categories of operations; in particular, 'small amount' operations, those made with and between subsidiary companies, operations with companies connected to the company (as long as there are no 'significant' interests of related parties of the company in the aforementioned companies), and also the other cases allowed by the Related Parties Regulation.

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

With particular regard to the operations with related parties, the group operated both with related parties within the consolidated companies and related parties external to it over the financial year.

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

ted parties outside the group, in particular with Immobiliare Miralto S.r.l., were mainly of a non-commercial nature principally concerning property leasing contracts.

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

12. APPOINTMENT OF THE AUDITORS

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

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

Art. 24 of Articles of Association of the Issuer provides that the election of regular and alternate members of the Board of Statutory Auditors takes place in the following ways:

- (a) as many shareholders holding a participation at least equal to that determined by CONSOB for the appointment of directors, pursuant to the law and regulations – which, at the date of approval of this Report, corresponds to 2.5% (as established by Art. 144-*quater* of the Issuer Regulations and **CONSOB resolution 18531 of 24 April 2013**) – can present a list of candidates ordered progressively by number, lodging it at the registered office of the company in the terms set out by Arts. 148, sub-para.2, and 147-*ter*, sub-para.1-*bis*, of the TUF, and that is at least twenty-five days before the date set for the First Call of the Shareholders' Meeting, subject to lapse; each list is supplied with the information requested pursuant to the legal and regulatory provisions in force each time; the list in which the above rulings are not respected is considered as not to have been presented;
- (b) with effect from the first renewal of the Board of Statutory Auditors after 12 August 2012, and for three consecutive mandates, each list containing three or more candidates should be made up in such a way that at least the minimum quota in the gender balance required by the rules, laws and regulations in force at the time is ensured in the Board of Statutory Auditors.
- (c) a Shareholder can neither present nor vote in more than one list, even if through a third party or trust companies; shareholders belonging to the same group and those joining a shareholders' agreement - concerning shares of the company - cannot either present or vote more than one list, even if through a third party or trust companies;
- (d) a candidate can only be in one list, at the risk of ineligibility; candidates who do not respect the limits of accumulation of position set out by the law and the relative implementation provisions in force each time cannot be included in the lists;
- (e) if, at the date of expiry of the term at (a), just one list has been lodged, or only lists presented by shareholders who are connected pursuant to the current law and regulatory provisions, lists can be presented up to three days from that date; in such case, the thresholds set out pursuant to (a) are reduced by half.

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

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

At the end of voting, if the composition of the Board of Auditors does not respect the gender balance set out by the legislation in force at the time, the second effective and/or alternative auditor on the list with the highest number of votes will be replaced by the next candidate for the same appointment of the least represented gender in the same list. If the said procedure does not allow compliance with the law in force at the time on the composition of the Board of Statutory Auditors, the Shareholders' Meeting will make provisions for the necessary replacements with a resolution adopted with the legal majority.

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

If the Chairman is replaced, the chairmanship is assumed by the alternate member who substitutes him.

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

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

13. STATUTORY AUDITORS (EX ART. 123-BIS, SUB-PARA. 2 (D) TUF)

The Board of Statutory Auditors in office was appointed by the Shareholders' Meeting of 21 July 2010 for three financial years, i.e. until the date of the Shareholders' Meeting convened for the approval of the financial statements for the financial year to 31 March 2013.

All the regular and alternate members of the current Board of Statutory Auditors were appointed by the Shareholders' Meeting of the company on the basis of the only list lodged by the shareholder Leading Jewels S.A., with the vote in favour of 60,793,827 shares, equivalent to 99.99% of the participating and voting share capital. Its current composition is illustrated in Table 3 shown in the Appendix to this Report.

During the financial year to 31 March 2013, the Board of Statutory Auditors in office met 10 (ten) times of which 6 (six) in joint session with the Committee on Control, Risks and Operations with Related Parties; 8 (eight) meetings are planned in the current financial year of which 3 (three) have already been held. The meetings of the Board of Statutory Auditors held in the financial year lasted, on average, about 1 hour and 20 minutes and showed regular attendance by the auditors (the percentage of participation of each member in the meetings held in the same period is indicated in Table 3 shown in the Appendix to this Report).

It should be noted that, from the date of closure of the financial year to the date of approval of this Report, there have not been changes in the composition of the Board of Statutory Auditors. The personal and professional features of each regular auditor currently in office are indicated below:

GIANLUCA BOLELLI – CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS

He obtained a degree in Business Management from the Bocconi University, Milan.

He is enrolled in the Register of Chartered Accountants and the Register of Auditors. He started his professional career as auditor of Deloitte and Touche and then consultant for KPMG. In March 1986, he started practising privately as a chartered accountant and is co-founder-member of Studio Bolelli, Sportelli, de Pietri, Tonelli. He is also a member of the Scientific Committee of AIDAF, external lecturer of the School of Management (SDA) of the Bocconi University and SUPSI, Lugano.

SIMONE CAVALLI – REGULAR AUDITOR

He holds a degree in Economics and Business, and is enrolled in the Register of Auditors. He started his career in the auditing company Arthur Andersen in 1992 where he covered various managerial positions. In 2004, he became a partner in the *Studio per il Controllo Contabile Analisi e Valutazione d'Azienda* (Control of Accounting Analysis and Company Assessment), where he carries out the audit of financial and consolidated statements and accounting and financial due diligence for acquisition operations on behalf of corporate clients or Italian and international private equity companies.

FABIO MASSIMO MICALUDI – REGULAR AUDITOR

He holds a degree in Business Management from the Bocconi University, Milan, with specialisation in Administration and Control. He is enrolled in the Register of Chartered Accountants and the Register of Auditors. He started his professional career in Arthur Young & Company, now Ernst & Young. From 1990 to 1993 he was Administrative and Financial Director of the Sugar – Messaggerie Musicali publishing group. From 1993 to 1997, he was Financial and Control Director of Dia Distribuzione S.p.A. – Gruppo Promodes, now Carrefour. After this experience, he decided to devote himself to a professional career and started practising as a chartered accountant in Milan in 1997, becoming first partner in associated accountants' companies and then, in 2000, founder partner of Studio GMMPAV - Dottori Commercialisti Associati, specialised in consultancy on corporate, fiscal and financial statements matters with special reference to extraordinary operations. He has been a member of the Finance and Management Control Commission of the Order of Chartered Accountants of Milan since 2008.

In January 2010, he was a founder partner of Studio MM & Associati Dottori Commercialisti, specialised in consultancy on corporate, fiscal and financial statements matters with special reference to extraordinary operations, assessments and management control.

In relation to application criterion 8.C.1 of the Code of Conduct, please note that the independence of the Auditors is considered to be already ensured by the respect for the existing legal provisions and the Articles, and, as a result, the company has not considered it necessary to also apply the criteria of independence as per Art. 3 of the Code of Conduct to the Auditors.

For this reason, for the purposes of the assessment of the permanency of the requisites of independence consistent with the position, the criteria of the law and the Articles were taken into consideration. In the application of these criteria, the Board of Statutory Auditors have checked the independence of its members after their appointment during the financial year, and recently on 14 June 2013.

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

In compliance with application criterion 8.C.3 of the Code of Conduct, the auditor who, on his own behalf or that of third parties, has an interest in a certain operation of the Issuer, must advise the other auditors and the Chairman of the Board of Directors in a detailed manner as soon as possible on the nature, terms, origin and extent of his interest.

Furthermore, respecting application criteria 8.C.4 and 8.C.5 of the Code of Conduct, it should be noted that in performing its business, the Board of Statutory Auditors is similarly co-ordinated with the Internal Audit Manager, with whom it has a constant exchange of information, and the Committee on Control, Risks and Operations with Related Parties, in whose meetings the Chairman of the Board of Statutory Auditors, or another auditor designated by him, takes part.

14. RELATIONS WITH SHAREHOLDERS

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

In compliance with the provisions of Art. 2.2.3, sub-para.3, (i) of the Rules of Borsa Italiana S.p.A., and in compliance with the provisions of application criterion 9.C.1 of the Code of Conduct, the company has arranged for the inclusion of a professionally qualified figure, the Investor Relator, in its structure who has, *inter alia*, the task of managing relationships with professional investors and other shareholders. The references to contact the Issuer's *Investor Relations Officer*, directed by Ms Paola Burzi, are as follows:

Telephone: 02/46716340

e-mail address: investor@damiani.it

Likewise, it should be noted that the company complies with the information requirements set out by the rules and regulations in force with precision and timeliness, and has structured its website (www.damiani.com) so that access to the information concerning the Issuer by the public is easy.

15. SHAREHOLDERS' MEETINGS (EX ART. 123-BIS, SUB-PARA. 2 (C) TUF)

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

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

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

The Shareholders' Meeting resolves upon the matters within its jurisdiction pursuant to the current law, as further specific competences are not set out by the Articles of Association. It should be noted the Articles, in compliance with Art. 2365, sub-para.2, of the Civil Code, attributes the competence to resolve on mergers in the cases set out by Arts. 2505 and 2505-bis of the Civil Code, the establishment and closure of branches, the indication of who among the directors represents the company, the reduction of capital if the shareholders withdraw and the adaptation of the Articles to legislative provisions and the transfer of the registered office within Italy to the Board of Directors.

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

At the Shareholders' Meeting of 26 July 2012 which, *inter alia*, renewed the Board of Directors, please note that, with appropriate notice, the controlling shareholder advised the public of the proposals to deliberate with regard to, *inter alia*, the number of members of the Board, its duration and also the payment for the directors; these proposals were included in the sphere of the list lodged, as recommended by the Board of Directors in the Report explaining the matters on the Agenda.

It should also be recalled that the Board of Directors has included a similar recommendation in the explanatory report on the subjects on the Agenda prepared for the next Shareholders' Meeting, convened, *inter alia*, for the renewal of the Board of Statutory Auditors.

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

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

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

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

With reference to application criterion 11.C.6 of the Code of Conduct, it should also be noted that during the Financial Year, the variations in the market capitalisation of the Issuer's shares were in line with the trend in the market and substantial variations in the composition of the Issuer's shareholding structure did not occur.

16. CHANGES TO THE CLOSURE OF THE REFERENCE FINANCIAL YEAR

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

Milan, 14 June 2013

DR. GUIDO GRASSI DAMIANI
Chairman of the Board of Directors

TABLE I: INFORMATION ON OWNERSHIP STRUCTURES

STRUCTURE OF THE SHARE CAPITAL				
	No. SHARES	% COMPARED TO S.C.	LISTED (INDICATE THE MARKETS) /NOT LISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	82,600,000	100	Screen-based Stock Exchange, STAR segment, managed by Borsa Italiana S.p.A.	-
SHARES WITH LIMITED VOTING RIGHT	-	-	-	-
SHARES WITHOUT VOTING RIGHT	-	-	-	-

RELEVANT HOLDINGS IN THE CAPITAL			
DECLARANT	DIRECT SHAREHOLDER	% QUOTA OF ORDINARY CAPITAL	% QUOTA OF VOTING CAPITAL
DAMIANI S.P.A.	DAMIANI S.P.A.	6.73%	6.73%
GUIDO GRASSI DAMIANI	GUIDO GRASSI DAMIANI	5.99%	5.99%
GUIDO GRASSI DAMIANI	LEADING JEWELS SA	58.81%	58.81% ⁽¹⁾
GIORGIO GRASSI DAMIANI	GIORGIO GRASSI DAMIANI	6.11%	6.11% ⁽²⁾
SILVIA GRASSI DAMIANI	SILVIA GRASSI DAMIANI	5.30%	5.30% ⁽³⁾
DGPA SGR S.P.A.	DGPA SGR S.P.A.	5.36%	5.36%

⁽¹⁾ Of which 616,379 in bare ownership but with right to vote.

⁽²⁾ Of which 163,373 in bare ownership but with right to vote.

⁽³⁾ Of which 163,373 in bare ownership but with right to vote.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS																				
Position	Members	Appointed on	Appointed until	List (M/m) *	Exec.	Non-exec.	Indep. as per Code	Indep. as per TUF	(%) **	Number other positions ****	RISK CONTROL COMMITTEE		REMN. C'TEE		ANY APPT. C'TEE		ANY EXECUTIVE COMMITTEE		ANY OTHER C'TTEE	
											****	**	****	**	****	**	****	**		
Chairman and CEO.	GUIDO GRASSI DAMIANI	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	X	-	-	-	100%	-	-	-	-	-	-	-	-	-	-	-
Deputy chairman	GIORGIO GRASSI DAMIANI	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	X	-	-	-	100%	-	-	-	-	-	-	-	-	-	-	-
Deputy chairman	SILVIA GRASSI DAMIANI	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	X	-	-	-	100%	-	-	-	-	-	-	-	-	-	-	-
Director and Director Resp. for Internal Control and Risk Management System	STEFANO GRAIDI	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	X	-	-	-	88.8%	3	-	-	-	-	-	-	-	-	-	-
Director	GIANCARLO MALERBA	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	-	X	-	-	100%	5	X	100%	X	100%	-	-	-	-	-	-
Director	ROBERTA BENAGLIA	26.07.2012	Approval of Balance Sheet to 31.03.2015	m	-	X	X	X	77.7%	8	X	50%	X	100%	-	-	-	-	-	-
Director and L.I.D.	FABRIZIO REDAELLI	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	-	X	X	X	100%	9	X	100%	X	100%	-	-	-	-	-	-
Director	FRANCESCO MINOLI	26.07.2012	Approval of Balance Sheet to 31.03.2015	M	-	X	-	X	100%	2	-	-	-	-	-	-	-	-	-	-
DIRECTORS WITHDRAWING IN REFERENCE FINANCIAL YEAR																				
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quorum required for the presentation of lists for the last nomination: 2.5%																				
No. meetings held during reference financial year:												BOD: 9		CRC: 6		RC: 3				
NOTES																				
* M/m indicated in this column according to whether the member was elected from the list voted by majority (M) or a minority (m).																				
** Percentage of participation of directors in meetings indicated in this column respectively of BOD and committees (no. attendances/no. meetings held during effective period of appointment of person concerned).																				
*** No. of positions of director or auditor held by the person concerned in other companies listed in regulated markets, also abroad, finance, banking, insurance or relevant sized companies, indicated in this column. The list of those companies for each director is attached to the Report specifying if the company where the position is held is part or not of the group headed by the Issuer or of which it is part.																				
**** Belonging to a BOD or Committee is indicated in this column with an 'X'.																				

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

BOARD OF STATUTORY AUDITORS							
Position	Members	Appointed on	Appointed until	List (M/m) *	Independence from Code	** (%)	Number of other positions ***
Chairman	BOLELLI GIANLUCA	21.07.2010	Approval of Balance sheet to 31.03.2013	M	X	100%	18
Effective auditor	CAVALLI SIMONE	21.07.2010	Approval of Balance sheet to 31.03.2013	M	X	100%	13
Effective auditor	FABIO MASSIMO MICALUDI	21.07.2010	Approval of Balance sheet to 31.03.2013	M	X	100%	14
Alternate auditor	PIETRO SPORTELLI	21.07.2010	Approval of Balance sheet to 31.03.2013	M	X	-	-
Alternate auditor	ALESSANDRO MADAU	21.07.2010	Approval of Balance sheet to 31.03.2013	M	X	-	-
Quorum required for the presentation of the lists for the last nomination: 2.5%							
Number meetings held during the reference financial year:						10	

NOTES

* All the effective and alternate members of the current Board of Auditors were appointed by the Shareholders' Meeting on the basis of the only list deposited by the shareholder Leading Jewels S.A., with the favourable vote of 60,793,827 shares equivalent to 99.998% of the speaking and voting share capital.

** The percentage of participation of the auditors at the meetings of the C.S. (no. attendances/no. meetings held during the effective period of position of the person concerned) are shown in this column.

*** The number of positions of director or auditor covered by the person concerned and relevant pursuant to Art. 148-bis TUF are indicated in this column.

APPENDIX 'A': LIST OF POSITIONS OF THE DIRECTORS

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

CONSIGLIERE	SOCIETA'	CARICA
STEFANO GRAIDI	Carraro S.A. Lux	Legal Manager CH
	Prada S.A.	Director
	Gen Del SA Ginevra Svizzera	Director
GIANCARLO MALERBA	EEMS Italia S.p.A.	Director & Chairman ODV
	Calimmaco Finance S.r.l.	Statutory Auditoro
	Calliope Finance S.r.l.	Chairman C.S.
	Atlas Copco Customer Finance Italia S.p.A.	Statutory Auditor
	DL Capital Services S.p.A.	Statutory Auditor
FABRIZIO REDAELLI	Screen Service Broadcasting Technologies S.p.A.	Chairman BOD
	Eagles Pictures S.p.A.	Chairman C.S.
	Kedrion S.p.A.	Chairman C.S.
	Vetriere Riunite S.p.A.	Chairman C.S.
	Tod's S.p.A.	Chairman C.S.
	Fomas Hop S.p.A.	Chairman C.S.
	Caleffi S.p.A.	Statutory auditor
	Prima TV S.p.A.	Statutory auditor
	The Walt Disney Company S.r.l.	Statutory auditor
ROBERTA BENAGLIA	DGPA SGR S.p.A.	CEO
	Gallo Alessandro S.r.l.	Chairman BOD
	Viterie Italia Centrale S.r.l.	Director
	Kickoff S.p.A.	Agent/Director
	Dipros S.r.l.	CEO/Director
	Vetriere Riunite S.p.A.	Director
	Finvetro S.p.A.	Director
	Luciano Padovan S.r.l.	Chairman BOD & CEO
FRANCESCO MINOLI	Queriot de la Bougainville S.r.l.	Chairman & CEO
	Mantero Finanziaria S.p.A.	Director

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