

Tod's s.p.a.

**ANNUAL CORPORATE GOVERNANCE REPORT OF TOD'S S.P.A.**  
**FINANCIAL YEAR JANUARY 1<sup>ST</sup> – DECEMBER 31<sup>ST</sup>, 2007**

*prepared pursuant to Article 124 bis of Legislative Decree 58/98 ("TUF"), Article 89 bis of Consob Regulation 11971/99 and Article IA.2.6 of the Borsa Italiana Regulation Instructions*

Shareholders,

In accordance with applicable statutory and regulatory provisions, the Borsa Italiana Regulation instructions and the “experimental format for the corporate governance report” disseminated by the Market Operating Company, the Tod's S.p.A. Board of Directors publishes the following complete report on its corporate governance system. Reference is made here to the Corporate Governance Code of Listed Companies (March 2006 edition; also referred to hereinafter as the “Code”).

This report, approved on March 28<sup>th</sup>, 2008 (referred to hereinafter as the “Report”), also contains information on the ownership structure pursuant to Article 123 bis, subsection 2 of Consob Regulation 11971/99. It is available in the “*Corporate Governance*” section of the Group website [www.todsgroup.com](http://www.todsgroup.com), in accordance with the terms envisaged by applicable laws and regulations.



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## I. OVERVIEW OF COMPANY GOVERNANCE STRUCTURE (PROFILE OF ISSUER)

### I.1 Overview of Company corporate governance system.

Tod's S.p.A.'s corporate governance system is based on the conventional (so-called "Latin") model. Accordingly, the Company's corporate organs include the General Meeting of Shareholders, the Board of Directors and the Board of Auditors.

The Board of Directors is, in turn, made up of Board Committees: the Executive Committee, the Internal Control and Corporate Governance Committee and the Remuneration Committee. The last two are charged with providing advice and making recommendations aimed at streamlining the functioning and activities of the Board.

**A) The General Meeting of Shareholders:** the powers, role and functioning of the General Meeting of Shareholders are established under law and the Company's Articles of Association, to which full reference is made in this report. It must be pointed out that on 5 August 2000, the Ordinary General Meeting of Shareholders approved the Rules governing the orderly and effective conduct of the Company's ordinary and extraordinary General Meetings of Shareholders. These Rules are available for consultation on the Company's website, [www.todsgroup.com](http://www.todsgroup.com), on section "Corporate Governance".

**B) The Board of Directors:** the Board of Directors is made up of between three and fifteen members, as determined from time to time by the General Meeting of Shareholders. The Board elects from amongst its members, a Chairman and, if necessary, a Deputy Chairman.

Pursuant to the Articles of Association, legal representation of the Company vests in the Chairman or any other person delegated to discharge the Chair's functions, under his or her own sole signature. Legal representation also vests separately in the Deputy Chairman, if appointed, as well as, in all appointed managing directors and general managers, to the extent of their delegated powers.

As explained in greater detail below, the Board of Directors is invested with the broadest powers for ordinary and extraordinary company management (to the sole exception of those powers expressly reserved under law to the competence of the General Meeting of Shareholders), including the power to approve mergers in the cases contemplated in Articles 2505 and 2505-bis of the Italian Civil Code, the setting up and closure of secondary offices, reductions in share capital in the case of withdrawal by Shareholders, as well as transfers of the Company's registered offices within Italy, and amendments to the Articles of Association, with a view to bringing the same in line with applicable regulations.

Pursuant to Article 25 of the Articles of Association, the Board of Directors enjoys the exclusive prerogative, in addition to the duties that cannot be delegated pursuant to law, of (i) defining the general policy for management and organizational development, (ii) defining the rules for drafting and amendment of internal regulations, (iii) appointing and dismissing general managers, and (iv) ratifying significant transactions with related parties.

**C) Committees:** the Board of Directors includes an Executive Committee, which provides the Company with an agile decision-making process.

The Executive Committee is invested with all the powers not expressly reserved to the competence of the Board of Directors under law, the Articles of Association, or the Self-regulatory Principles adopted by the Company, as set forth in greater detail below.

Pursuant to self-regulatory provisions, the Board must also appoint an Internal Control and Corporate Governance Committee and a Remuneration Committee, invested with advisory and recommendatory roles. On the other hand, no need has been felt for the appointment of a Nomination Committee.

**D) The Board of Auditors:** made up of three auditors and two alternates, the Board of Auditors is the Company's management control organ and is tasked with ensuring that, in all its operations, the Company complies with any and all applicable laws, the instruments of incorporation, and the principles of correct administration, and imparts adequate instructions to its internal organs and subsidiaries. The Board of Auditors must also monitor the adequacy the Company's organisational structure and its internal control and administrative accounting system, carrying out all the necessary checks.

The Board of Statutory Auditors is also responsible for supervising actual implementation of the corporate governance rules envisaged in the codes of conduct prepared by regulated market management companies or business associations to which the company belongs, according to its public announcements.

## 2. INFORMATION ON SHAREHOLDERS AT THE APPROVAL DATE OF THIS REPORT (Art. 123 bis TUF)

### a) Structure of share capital.

The entire share capital of Tod's S.p.A. is comprised by ordinary voting shares, which are listed on the online stock market ("mercato telematico azionario") operated by Borsa Italiana S.p.A.

The Company's share capital, which is fully subscribed and paid in, totals 60,961,840.00 euros.

A stock option plan currently exists at the approval date of this Report. For more information, reference should be made not only to the information set out in the financial statements (see the Notes to the Separate Financial Statements, pages 140 ff.), published by the legal deadline, but also to the disclosure prepared pursuant to Article 84 bis of Consob Regulation 11971/99. This disclosure can be consulted in the "*Corporate Governance*" section of the website [www.todsgroup.com](http://www.todsgroup.com).

In regard to the aforementioned stock option plan, the Board of Directors was delegated by the Shareholders' Meeting to increase the share capital by up to a maximum of 3,500,000.00 euros, i.e. up to 64,000,000.00 euros.

### b) Restrictions on the transfer of shares.

The Articles of Association of Tod's S.p.A. do not envisage restrictions on the transfer of shares, limits on stock ownership, or the approval of corporate bodies or shareholders for the admission of shareholders.

c) Major shareholders.

According to the information provided in the register of shareholders and the updates available at the approval date of this Report, including the notices received by the Company pursuant to Article 120 of Legislative Decree 58/98 ("TUF"), as well as all other information available to it, the following parties are direct or indirect owners of more than 2% of the subscribed and paid-in share capital:

SHAREHOLDERS	NO. OF ORDINARY SHARES	% OF SHARE CAPITAL
DIEGO DELLA VALLE of which	19,762,124	64.834 %
- directly	852,000	2.795 %
- indirectly through DI VI Finanziaria SapA di Diego Della Valle & C.	16,426,172	53.890%
- indirectly through Diego Della Valle & C. SapA	2,483,752	8.149%
OPPENHEIMERFUNDS INC.	1,532,573	5.028 %
STATE OF NEW JERSEY COMMON PENSION FUND	1,107,000	3.631 %
ARNAULT BERNARD through Sofidiv S.A.	1,059,900	3.477 %
DELLA VALLE ANDREA	857,000	2.812 %
PICTET ASSET MANAGEMENT LTD.	614,067	2.015 %

d) Owners of shares granting special rights of control.

The Company has not issued shares that grant special rights of control, and the Articles of Association do not envisage special powers for certain shareholders or owners of particular classes of stock.

e) Employee shareholdings

The Articles of Association of Tod's S.p.A. do not include special provisions regarding the exercise of voting rights by employees who own Company stock.

f) Restrictions on voting shares.

The Articles of Association of Tod's S.p.A. do not include special provisions imposing restrictions or limits on voting rights, and the financial rights connected with shares are separate from the owners of those shares. Reference should be made to Section 13 hereunder for information on the terms of deposit envisaged by the Articles of Association for exercising the right to attend and vote at the Shareholders' Meeting.

g) Shareholders agreements pursuant to Article 122 TUF.

The Company was unaware of any shareholders agreements pursuant to Article 122 TUF at the approval date of this Report.

h) Appointment and substitution of directors and amendments to articles of association.

In accordance with Article 147 *ter* TUF, the Articles of Association of Tod's S.p.A. (Article 17) envisages that the Board of Directors be elected by means of voting lists, with election of one director from the list that received the second highest number of votes (the other members shall come from the list that receives the greatest number of votes).

Shareholders who own a shareholding that is at least equal to what is specified by Consob pursuant to law and regulations are entitled to submit lists of candidates to the Board of Directors. Furthermore, in accordance with the Corporate Governance Code adopted by the Company and other measures, the candidates' curricula vitae and their legally mandated statements and certifications must be deposited at least fifteen days before the date of the Shareholders' Meeting on its first call.

Statutory rules shall apply to the substitution of directors.

i) Delegations of authority to increase the share capital and authorisations for purchase of treasury stock.

The Extraordinary Shareholders' Meeting of April 28<sup>th</sup>, 2004 resolved in favour of a severable rights offering for up to a maximum of 3,500,000.00 euros, i.e. to increase the share capital up to 64,000,000.00 euros, issuing a maximum of 1,750,000 shares at par plus a share premium, with exclusion of the pre-emption right, to be executed by April 27<sup>th</sup>, 2009, and reserved to servicing stock options and loyalty incentive plans for employees, directors, consultants and external employees of the Company and its subsidiaries.

The Ordinary Shareholders' Meeting of April 27<sup>th</sup>, 2007 authorised the Board of Directors pursuant to Sections 2357 et seq. Italian Civil Code to acquire treasury stock up to the maximum limit allowed by law for a period of 18 months from the date of the resolution. The authorisation also includes the power to dispose of any treasury stock that might be acquired before the purchases are completed.

The purchases made pursuant to Article 132 TUF and Article 144 bis of Consob Regulation 11971/99 can be made through a public offer of purchase or exchange or on the market, in accordance with the terms and conditions agreed on with Borsa Italiana and, in any event, such as to ensure equal treatment of shareholders.

Neither Tod's S.p.A. nor its subsidiaries owned shares in Tod's S.p.A. at December 31<sup>st</sup>, 2007, the closing date of the financial year.

l) Change of control clauses.

With the exception of a loan agreement made on July 30<sup>th</sup>, 2004 for 15,000,000.00 euros (whose outstanding amount is 11,184,960.00 euros at the approval date of this Report), there are no significant agreements to which the issuer or other Group companies are party and that might be amended if there is a change in control of the issuer.

On the other hand, the company is party to franchising agreements made in the course of its normal distribution activities that can include clauses granting it the right to terminate the agreements if there is a change in control of the counterparty.

m) Termination benefits for directors in the event of resignation, dismissal or termination of relationship following public offer to buy shares.

At the approval date of this Report, no agreements have been made between the Group and any of its directors that envisage termination benefits in the event of resignation, dismissal or termination of the relationship.

### 3. MANAGEMENT AND CO-ORDINATION

Even if Tod's S.p.A. is subject to the control (pursuant to Article 93 of Legislative Decree 58/1998) of DI VI Finanziaria SapA, neither the latter nor any other party has dictated policy and/or interfered with the management of Tod's S.p.A. (or any of the subsidiaries of Tod's S.p.A.). Therefore, management of the issuer and its subsidiaries has not been influenced in any way by third parties outside the Tod's S.p.A. Group.

Therefore, Tod's S.p.A. is not subject to management and co-ordination by the parent company DI VI Finanziaria SapA, or any other party, pursuant to Sections 2497 et seq. Italian Civil Code.

In accordance with the Corporate Governance Code – and as illustrated in detail further below – transactions with a material impact on the strategy, operating results, assets, liabilities and financial position of the Tod's S.p.A. Group are subject to exclusive examination and approval by the Board of Directors of the Issuer Tod's S.p.A. As most recently verified at March 28<sup>th</sup>, 2008, four directors satisfy the requirements of (not possessing executive authority and) independence in accordance with the principles set out in Article 3 of the Corporate Governance Code.

It is believed that the expertise and professional experience of the directors without executive authority and independent directors, as well as their significant impact on Board of Directors decisions, offer an additional guarantee that all decisions taken by the Board of Directors are adopted exclusively



in the interest of Tod's S.p.A. and in the absence of directives or interference by third parties with interests divergent from those of the Group.

All the subsidiaries of Tod's S.p.A. are subject to management and co-ordination by the issuer.

#### 4. RECEIPT OF PRINCIPLES SET OUT IN THE CORPORATE GOVERNANCE CODE OF LISTED COMPANIES (MARCH 2006 EDITION)

##### 1) Overview of receipt of principles.

As set out in the previous annual reports, the Board of Directors of Tod's S.p.A. has passed a series of resolutions since its November 13<sup>th</sup>, 2006 meeting aimed at concrete implementation of the Code of Corporate Governance, as illustrated in detail hereunder, and then followed up on these resolutions over the course of the 2007 financial year.

Before describing the Issuer's corporate governance structure, it must be pointed out that the November 13<sup>th</sup>, 2007 meeting by the Board of Directors of the parent company Tod's S.p.A. identified Tod's France Sas, Tod's Japan KK, Deva Inc. and Tod's Hong Kong Ltd. as "strategic subsidiaries," subject to French, Japanese, United States and Chinese law, respectively, but without this – in the opinion of the Board of Directors – materially influencing the Issuer's governance structure.

##### 2) Board of Directors.

###### 2.1 Membership

The Board of Directors in office at the approval date of this Report was approved by the Shareholders' Meeting of April 28<sup>th</sup>, 2006, which set the total number of directors' seats at 11 (eleven). Its term will expire on the date of the Shareholders' Meeting held to approve the Financial Statements at December 31<sup>st</sup>, 2008. The personal information and professional qualifications of each director are illustrated as follows, in accordance with Article 144 *decies* of Consob Regulation no. 11971/99, inter alia:

1) Diego Della Valle, Chairman and Chief Executive Officer, was born in Sant'Elpidio a Mare (AP) on December 30<sup>th</sup>, 1953. Founder of Tod's S.p.A., he has developed it to the point of transforming it into the parent company of a multinational Group that is a leader in the luxury market. He is currently Chairman and Chief Executive Officer of Tod's S.p.A. In 2000 he received a degree *honoris causa* in economics and business from the University of Ancona.

2) Andrea Della Valle, Vice Chairman and Managing Director, was born in Sant'Elpidio a Mare (AP) on September 26<sup>th</sup>, 1965. He began his training and preparation in the United States. He is Chairman of ACF Fiorentina S.p.A. and sits on the boards of directors of various subsidiaries;

3) Fabrizio Della Valle, Director with executive authority and "procuratore" (attorney-in-fact), was born in Sant'Elpidio a Mare (AP) on October 23<sup>rd</sup>, 1957. Holder of a university degree in economics and business, he has been a consultant to the Group since 1984.

4) Emilio Macellari, director with executive authority, “procuratore” (attorney-in-fact) and in charge of investor relations, was born in Civitanova Marche (MC), on March 11<sup>th</sup>, 1958. Holder of a university degree in law and political science, he is an independent professional and the owner of his own consulting firm. He worked with the Group since 1976, handling corporate and tax issues. He sits on the boards of directors of various foreign subsidiaries.

5) Stefano Sincini, director with executive authority, was born in Macerata (MC), on November 3<sup>rd</sup>, 1958. He joined the company in 1984 after receiving a university degree in banking. He has been General Manager since the early 1990's, and Managing Director since 2003;

6) Luigi Abete, independent director without executive authority, was born in Rome (RM) on February 17<sup>th</sup>, 1947. Holder of a law degree, he was Chairman of Confindustria from 1992 to 1996. He has been Chairman of Banca Nazionale del Lavoro S.p.A. since 1998. In 2007 also received a degree in economics and business *honoris causa* from the University of Sannio;

7) Maurizio Boscarato, director without executive authority, was born in Ancona (AN) on March 27<sup>th</sup>, 1941. A lawyer, he operates his own law firm in Ancona. He established a close collaborative relationship with the Group in the mid-1990's, overseeing the legal issues connected with its development.

8) Luigi Cambri, independent director without executive authority, was born in Taranto (TA) on September 10<sup>th</sup>, 1955. Holder of a law degree, he is a notary public (“notaio”) and operates his own firm in Milan. He has been a member of the Tod's S.p.A. Board of Directors since April 27<sup>th</sup>, 2005.

9) Luca Cordero di Montezemolo, independent director without executive authority, was born in Bologna (BO) on August 31<sup>st</sup>, 1947. Holder of a law degree, he is Chairman of Fiat S.p.A. and Ferrari S.p.A. The outgoing Chairman of Confindustria, he sits on the boards of directors of prestigious organisations and companies inside and outside Italy.

10) Emanuele Della Valle, director without executive authority, was born in Macerata (MC) on June 11<sup>th</sup>, 1975. After completing his studies abroad and acquiring extensive international experience in the United Kingdom, Hong Kong and the United States, he now works in the marketing and advertising sector.

11) Pierfrancesco Saviotti, independent director without executive authority, was appointed Lead Independent Director on November 13<sup>th</sup>, 2006. Born in Alessandria (AL) on June 16<sup>th</sup>, 1942, he was Chief Executive Officer of Banca Commerciale Italiana and General Manager (Loan Business Unit) of Banca Intesa. Since 2006 he has been senior advisor for Italy and Vice Chairman of Merrill Lynch Europe. He also sits on the boards of directors of several of the most important Italian companies.

The Board of Directors of Tod's S.p.A. reviewed satisfaction of the aforementioned requirements of executive/non-executive authority and independence/non-independence in accordance with the principles set out in Articles 2 and 3 of the Corporate Governance Code, March 14<sup>th</sup>, 2006 edition. Its most recent review of those requirements was conducted at the Board of Directors meeting held on March 28<sup>th</sup>, 2008. As previously mentioned, the Board of Directors identified the strategic subsidiaries of the

Tod's S.p.A. Group on November 13<sup>th</sup>, 2007 for the purpose of proper implementation of the Corporate Governance Code.

The following tables set out the relevant information for each director, while specifying that all members of the current Board of Directors were unanimously appointed on motion by the majority shareholder at the Shareholders' Meeting of April 28<sup>th</sup>, 2006.

#### Information about the members of the Board of Directors

Name	Position	Term from/to	List	Exec.	Non exec.	Indep.	Indep TUF	% BoD	Other positions
Diego Della Valle	Chairman and Chief Executive Officer	2006/2009	M	X				100	10
Andrea Della Valle	Vice Chairman and Managing Director	2006/2009	M	X				87,5	2
Luigi Abete	Director	2006/2009	M		X	X	X	25	8
Maurizio Boscarato	Director	2006/2009	M		X			100	1
Luigi Cambri	Director	2006/2009	M		X	X	X	87,5	0
Luca Cordero di Montezemolo	Director	2006/2009	M		X	X	X	37,5	13
Emanuele Della Valle	Director	2006/2009	M		X			0	1
Fabrizio Della Valle	Director	2006/2009	M	X				100	0
Emilio Macellari	Director	2006/2009	M	X				100	5
Pierfrancesco Saviotti	Director	2006/2009	M		X	X	X	62,5	5
Stefano Sincini	Managing Director	2006/2009	M	X				100	0

M: Majority list.

#### Information on committee members

Name	Position	EC	% EC	C.C. (*)	% C.C.(*)	ICC	% ICC
Diego Della Valle		C	100				
Andrea Della Valle		M	100				
Luigi Abete				C			
Maurizio Boscarato						C	100
Luigi Cambri				M		M	100
Luca Cordero di Montezemolo							
Emanuele Della Valle							
Fabrizio Della Valle		M	75				
Emilio Macellari		M	100				
Pierfrancesco Saviotti				M		M	66.6
Stefano Sincini		M	100				

(\*) The Compensation Committee held no meetings in 2007.

C: Committee Chairman.

M: Committee member.

The shareholders' meeting called to approve the 2007 financial statements is also asked to resolve on the possibility of increasing the number of directors to twelve and to appoint a new director, whose term will expire with that of the current members on the approval date of the financial statements at December 31<sup>st</sup>, 2008. Reference should be made to section 2.2 below in regard to the maximum number of positions that may be held in other companies.

## 2.2 Role of the Board of Directors

As previously illustrated in the corporate governance reports prepared for the previous years, the Board of Directors of Tod's S.p.A. plays a key role in determining the Issuer's and Group's strategic objectives.

The Board of Directors met eight times in 2007, with seven meetings being planned for the current financial year (three of which have already been held, including the one for approval of this Report). Board of Directors meetings normally last from two to four hours.

Directors regularly attended Board meetings (the overall attendance rate was 73%, while the rate of attendance by independent directors was 53%).

In accordance with the law and the Articles of Association, the Board of Directors has ample powers of ordinary and extraordinary administration, with it being responsible for all those matters that are not expressly reserved by law and the Articles of Association to the purview of the Shareholders' Meeting.

Pursuant to the Articles of Association, the Board is empowered to approve mergers in the cases contemplated in Articles 2505 and 2505-bis of the Italian Civil Code, the setting up and closure of secondary offices, reductions in share capital in the case of withdrawal by Shareholders, as well as transfers of the Company's registered offices within Italy, and amendments to the Articles of Association, with a view to bringing the same in line applicable regulations.

Under Article 25 of the Articles of Association, the Board of Directors is reserved the exclusive prerogative, in addition to the duties that cannot be delegated pursuant to law, of defining the general policy for management and organisational development, defining the rules for drafting and amendment of internal regulations, appointing and dismissing general managers, approving acquisitions and disposals of participating interests and real estate, as well as ratifying significant transactions with related parties.

Furthermore, in accordance with criteria I.C.I. and 8.C.I of the Corporate Governance Code, in addition to its responsibilities pursuant to law and the Articles of Association (and within the limits of the same), the Board of Directors has reserved to itself the exclusive prerogative to:

a) examine and approve the strategic, operational and financial plans of the Company and the Group it heads, as well as the Company's corporate governance system and the structure of the Group;

- b) identify, in light of criteria established by the Board itself, subsidiaries having strategic relevance, and evaluate the adequacy of the organizational, administrative and accounting structure of the Company and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
- c) confer and revoke powers delegated to the managing directors and to the Executive Committee, specifying the limits imposed on these delegated powers and the manner of exercising them as well as the frequency, as a rule no less than once every three months, with which the bodies and persons in question must report to the board on the activities performed in the exercise of the powers delegated to them;
- d) determine, after examining the proposal of the special committee and consulting the Board of Auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the General Meeting of Shareholders has not already done so, to establish the manner in which the total amount due to the Board of Directors is to be shared amongst Board members;
- e) evaluate the general performance of the company, with special emphasis on the information received from delegated organs and managing directors, and periodically compare the results achieved against pre-set targets;
- f) examine and approve in advance transactions having a significant impact on the company's strategies, profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties, and towards such end, to establish general criteria for identifying the transactions which might have a significant impact ("Guidelines");
- g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterising new professional figures whose presence on the board would be considered appropriate, and, in particular, to assess compliance with the requirements for qualification as executive, non-executive and independent directors within the meaning of the Code, ensuring that the number of executive, non-executive and independent directors on the Board, meets the criteria set forth in the Code;
- h) appointed a lead independent director tasked with:
- coordinating the activities of non-executive directors with a view to improving their contribution to the activities and functioning of the Board;
  - collaborating with the Chairman to ensure that all the Board members are provided complete and timely information;
  - calling meetings reserved to independent directors whenever deemed necessary or useful for the purpose of discharging his duties, whilst also ensuring, inter alia, that the independent directors meet at least once a year, without the presence of the other directors;

g) provide information, in the Company's Corporate Governance Report, on the application of Article I of the Corporate Governance Code, and, in particular, on the number of meetings of the Board and of the Executive Committee, held during the fiscal year, plus the related percentage of attendance of each director;

as well as, with the assistance of the Internal Control Committee, to:

l) define the guidelines of the internal control system, so that the main risks concerning the Company and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, establishing, moreover, the criteria for determining whether such risks are compatible with sound and correct corporate management;

m) identify an executive director for supervising the functionality of the internal control system;

n) evaluate, at least twice a year, the adequacy, effectiveness and actual functioning of the internal control system, and to approve, at least on an annual basis, the risk management policies of the Company and the Group;

o) describe, in the report on corporate governance, the essential elements of the internal control system, expressing an opinion on the overall adequacy of the same;

p) appoint and dismiss, upon proposal of the executive director in charge of supervising the functionality of the internal control system and after consulting with the Internal Control Committee, one or more persons in charge of internal control and define their remuneration in line with the Company's policies.

In regard to Article I.C.I of the Code, the Board of Directors has formally confirmed (in its "Framework Resolution" on corporate governance adopted November 13<sup>th</sup>, 2006) the principle that the delegated bodies report to the Board of Directors at least once quarterly on their activities performed pursuant to their granted delegations of authority, in accordance with applicable provisions of law.

In implementation of the principles and responsibilities described hereinabove, the Board of Directors:

a) approved, on November 13<sup>th</sup>, 2006, the "Guidelines for Major Transactions and Transactions with Related Parties of the Tod's S.p.a. Group" ("Guidelines"), which set out precise rules for identifying the transactions falling under the purview of the Board of Directors, the significant transactions concluded with third parties or related parties, including through the subsidiaries (the Guidelines are appended to this report in Appendix B);

b) assessed the adequacy of the organisational, administrative and general accounting structure of the Issuer and strategic subsidiaries at the meetings held to approve the half-year report at June 30<sup>th</sup>, 2007 and the draft financial statements at December 31<sup>st</sup>, 2007; in particular, the assessment was carried out on the basis of the report submitted by the director in charge of the internal control system and with the assistance of the Internal Control Committee which, at its own meetings – attended by the compliance officers – (for more information, see below), continuously verified the effective functioning of the Issuer's and the Group's internal control systems, particularly in regard to the strategic subsidiaries; in regard to the latter, the Board of Directors of the parent company resolved at its November 13<sup>th</sup>, 2006 meeting to identify the "**strategic subsidiaries**" according to the following criteria:

i) number of employees; ii) sales volume; iii) value of assets; iv) strategic significance in the Group and on the market; v) existence of a developed organisational structure at the subsidiary, characterised by a major management presence (other than members of the board of directors) and vested with operating autonomy; vi) significance and complexity of the functions performed by the subsidiary; vii) strategic relevance of the subsidiary on the market. Following analysis of these parameters, most recently at the November 13<sup>th</sup>, 2007 meeting, the following companies were identified as strategic subsidiaries of Tod's S.p.A.: Tod's France Sas, Tod's Japan KK, Deva Inc. and Tod's Hong Kong Ltd.

c) determined the compensation of directors delegated with special authority, in accordance with the proposals made by the Compensation Committee and after receiving the opinion of the Board of Statutory Auditors on May 2<sup>nd</sup> 2006;

d) assessed general operating performance on March 28<sup>th</sup> 2008 according to the information received from the delegated bodies, comparing achieved results with budgeted targets;

e) also on March 28<sup>th</sup>, 2008, carried out the self-assessment of the size, membership and functioning of the Board of Directors and its committees, acknowledging that the current Board of Directors is comprised by 11 directors, including six without executive authority, four of whom are independent, in accordance with the principles set out in the New Code; the assessment, carried out on the basis of a report by the Internal Control Committee, confirmed the heterogeneous mix of professional expertise represented on the Board of Directors, and in particular the directors with non-executive authority in economic, accounting, legal and/or financial matters; however, upon conclusion of this self-assessment, the Board of Directors decided to propose to the Shareholders' Meeting that a new seat be added to the Board of Directors, insofar as a new director could further enhance the professional expertise represented on the Board.

In regard to Article I.C.3. of the Code, the Internal Control Committee reserved the right at the date of this Report to propose to the Board of Directors that it define a generally applicable policy regarding the maximum number of director's and statutory auditor's seats that the Company's directors may simultaneously hold at other listed companies, at financial companies, banks, insurance companies or large companies. Until the Internal Control Committee expresses its own opinion on this issue, the Board of Directors reserved the right to examine the compatibility of the positions held by the individual directors with their position on the Tod's S.p.A. Board of Directors on a case-by-case basis (in terms of their experience, positions held, etc.).

In accordance with Article I.C.2 of the New Code, the director's and statutory auditor's seats currently held by certain directors in other companies listed on regulated markets, including foreign markets, and at financial companies, banks, insurance companies or large companies, at the date on which this Report is approved are outlined in the Table appended hereto as Appendix A.

No waivers from the non-competition clause envisaged in Section 2390 Italian Civil Code were adopted.

### 2.3 Delegated bodies; assignment of responsibilities, directors with executive authority and independent directors.

The Board of Directors, not only directly and as a panel, but also through its executive officers and organs, namely:

- the Chairman
- the Deputy Chairman
- the Managing Directors (that the Company as appointed in the persons of the Chairman, the Deputy Chairman and the Chief Executive Officer)
- the Executive Committee.

The Chief Executive Officer and the other executive directors, as well as the Executive Committee, are bound, at least on a quarterly basis:

- to report to the Board of Directors on the transactions effected in exercise of their delegated powers, in terms of ordinary transactions as well as atypical and unusual transactions and non-significant related party transactions;
- submit for Board approval, any and all significant related party transactions, responsibility for which lies solely with the Board of Directors, in accordance with the Guidelines approved by the Board of Directors on 13 November 2006.

As already noted, In respect of Article 1.C.1 of the Code, the Board has formally repeated (in the “Master Resolution” approved on 13 November 2006) the principle that delegated organs and officers must report to the Board on the activities undertaken in exercise of their delegated powers, at least on a quarterly basis, as required under currently applicable statutory provisions.

The **Chairman, Mr Diego Della Valle** is also a **Managing Director** invested – under his own sole signature and with authority to sub-delegate – with the legal representation of the Company and all the other responsibilities imposed on the Chairman pursuant to the Articles of Association – as well as with full powers to:

- a. request the opening of current accounts, the granting of credit lines and overdraft facilities, signing the related agreements and documents, without any limit on amount;
- b. withdraw amounts for the current accounts already opened or to be opened in the Company’s name as well as to issue and accept bills, without any limit on amount;
- c. purchase and sell personal property of any nature and kind whatsoever, as well as to enter into finance lease agreements;
- d. recruit, appoint, suspend and dismiss Company executives and employees in general, save for General Managers who can only be appointed and dismissed by the Board of Directors;
- e. appoint special attorneys-in-fact;
- f. sign and file with any and all the Tax Authorities, declarations of commitment, attachments, motions, including for suspension, accepting and signing any and all settlements reached with the said Offices;



g. undertake any and all actions of routine business administration, including, without limitation, the power:

- to sign, on the Company's behalf, any and all business correspondence, deeds and agreements, including finance lease agreements;
  - to sign agreements and contracts with suppliers, customers, consultants and collaborators as well as any and all other agreements and contracts in keeping with the Company's corporate object;
  - to purchase and sell vehicles, personal property, office machines and equipment in general;
  - to purchase the materials, products and machinery necessary or useful to the Company's business;
  - to enter into and terminate leases, as well as utilities contracts for the supply of electricity, water, gas and telephone services;
  - to enter into and terminate insurance contracts of any nature or kind whatsoever, and to settle, pay and collect any and all sums due by way of indemnity or compensation, regardless of amount, issuing valid receipt therefor;
  - to issue credit and debit notes as well as to collect amounts due to the Company, even through bills or notes, issuing full and final receipt therefor;
  - to adjust accounts with customers and suppliers, approving or contesting the accounts in question;
  - to file for declarations of insolvency, bankruptcy protection proceedings, proceedings for subjection to special administration and to bring insolvency proceedings in general, with all the related powers, without exception or exclusion, including the power to file for proof of debt and declarations of the existence of debt, and to accept or refuse settlements proposed by debtors or the parties in charge of the procedure, to waive rights and to enter into settlement agreements;
  - to accept and pay debts, collect any and all amounts due for any reason or cause whatsoever, from private and public bodies, and issue the related receipts;
  - to withdraw or cause the withdrawal of correspondence, packages or shipments, including registered and insured letters or other special mail, from the Post Office, the Railways, the Customs and any and all goods carriers or transport companies in general, issuing the related discharges and receipts, as well as to collect postal and telegraphic money orders and railway cheques, issuing the related receipts;
  - to accept and enter into arbitration clauses and proceedings, appointing sole arbitrators or a panel of arbitrators, both in formal and informal proceedings, including ex aequo et bono proceedings, waiving, if necessary, the right to raise further claims or file appeals against or motions for the review of the related awards;
  - to make or cause the making of deposits in the current accounts opened or to be opened in the name and on behalf of the Company with Banks and Post Offices and to endorse or cause the endorsement of cheques and bills for collection and discount;
  - to endorse bills issued by customers, by way of payment of debts;
- h. to implement emergency measures of extraordinary administration, save for those reserved, under law or the articles of association to the sole competence of the Board of Directors. These measures must be reported to the Board at the following Board meeting.

Likewise, the **Vice Chairman, Mr. Andrea Della Valle**, was named **Managing Director** and granted a delegation of authority whose terms, conditions and limits are absolutely identical to those of the Chairman.

The **Chief Executive Officer, Mr Stefano Sincini**, has also been appointed **Managing Director**, invested, through specific power of attorney, and under his own sole signature, with all the powers required to:

- a. request the opening of current accounts, the granting of credit lines and overdraft facilities, signing the related agreements and documents, without any limit on amount;
- b. withdraw amounts for the current accounts already opened or to be opened in the Company's name;
- c. purchase and sell personal property of any nature and kind whatsoever, as well as to enter into finance lease agreements;
- d. recruit, appoint, suspend and dismiss Company employees, to the exception of executives;
- e. appoint agents with limited authority;
- f. retain lawyers and grant them powers of attorney to represent the Company before any civil, criminal, administrative or tax court;
- g. sign and file with any and all the Tax Authorities, declarations of commitment, attachments, motions, including for suspension;
- h. undertake any and all actions of routine business administration, including, without limitation, the power:
  - to sign, on the Company's behalf, any and all business correspondence, deeds and agreements, including finance lease agreements;
  - to sign agreements and contracts with suppliers, customers, consultants and collaborators as well as any and all other agreements and contracts in keeping with the Company's corporate object;
  - to purchase and sell vehicles, personal property, office machines and equipment in general;
  - to purchase the materials, products and machinery necessary or useful to the Company's business;
  - to enter into and terminate leases, as well as utilities contracts for the supply of electricity, water, gas and telephone services;
  - to enter into and terminate insurance contracts of any nature or kind whatsoever, and to settle, pay and collect any and all sums due by way of indemnity or compensation, regardless of amount, issuing valid receipt therefor;
  - to issue credit and debit notes as well as to collect amounts due to the Company, even through bills or notes, issuing full and final receipt therefor;
  - to adjust accounts with customers and suppliers, approving or contesting the accounts in question;
  - to file for declarations of insolvency, bankruptcy protection proceedings, proceedings for subjection to special administration and to bring insolvency proceedings in general, with all the related powers, without exception or exclusion, including the power to file for proof of debt and declarations

of the existence of debt, and to accept or refuse settlements proposed by debtors or the parties in charge of the procedure, to waive rights and to enter into settlement agreements;

- to accept and pay debts, collect any and all amounts due for any reason or cause whatsoever, from private and public bodies, and issue the related receipts;
- to withdraw or cause the withdrawal of correspondence, packages or shipments, including registered and insured letters or other special mail, from the Post Office, the Railways, the Customs and any and all goods carriers or transport companies in general, issuing the related discharges and receipts, as well as to collect postal and telegraphic money orders and railway cheques, issuing the related receipts;
- to accept and enter into arbitration clauses and proceedings, appointing sole arbitrators or a panel of arbitrators, both in formal and informal proceedings, including *ex aequo et bono* proceedings, waiving, if necessary, the right to raise further claims or file appeals against or motions for the review of the related awards;
- to make or cause the making of deposits in the current accounts opened or to be opened in the name and on behalf of the Company with Banks and Post Offices and to endorse or cause the endorsement of cheques and bills for collection and discount;
- to endorse bills issued by customers, by way of payment of debts.

In reference to Article 2 of the Code, the Chairman of the Board of Directors, Dr. Diego Della Valle, is the Issuer's controlling shareholder and Chief Executive Officer. Furthermore, the Board of Directors decided to accept the recommendation regarding appointment of a lead independent director to whom the functions suggested by the Corporate Governance Code would be assigned.

Furthermore, in regard to Principle 2.P.4 (advisability of not concentrating corporate duties in just one person) and Principle 2.P.5 (illustration of the reasons why delegations of operating authority are granted to the Chairman), the Board of Directors, examining the issue on March 29<sup>th</sup>, 2007, decided that the corporate governance of Tod's S.p.A. is perfectly consistent with the Company's interests, including in regard to the concentration of duties, considering inter alia that (i) the Chairman, to whom operating authority has been delegated, is the director who has worked for the greatest number of years at the firm, and his role is not limited to institutional and representative functions, but instead fully engaged in Company operations, which is essential to its realising optimum performance; (ii) operating authority has also been delegated to other directors, in addition to the Chairman (there are a total of four directors with executive authority).

In accordance with Article 2.C.2. and the recommendation set out in Article 2, the Board of Directors appointed the independent director Pierfrancesco Saviotti as Lead Independent Director, who was assigned the following duties:

- co-ordinating the activity of directors without executive authority in order to improve their contribution to the activities and functioning of the Board of Directors;

- collaborating with the Chairman to ensure that all directors have promptly received complete information;
- convening meetings of the independent directors alone whenever he deems necessary to carry out his duties, while guaranteeing that the independent directors meet together without the other directors at least once annually.

In this regard, the independent directors met on November 13<sup>th</sup>, 2007 to examine the status of implementation and effective application of the principles of corporate governance set out in the Corporate Governance Code of listed companies.

The current Executive Committee, appointed by the Board on 2 May 2006, for a three year term expiring upon the approval of the financial statements for fiscal 2008, is made up of the following five members: Diego Della Valle (Chairman), Andrea Della Valle (Deputy Chairman), Fabrizio Della Valle, Emilio Macellari and Stefano Sincini.

- The Executive Committee is expressly invested with all the powers attributed to the Board of Directors, save for those reserved under law (section 2381 of the Italian Civil Code), or the Articles of Association, to the Board itself, without prejudice to the powers reserved solely to the Board of Directors pursuant to the resolution of 13 November 2006, passed in accordance with the self-regulatory principles described above.

In any event, the Executive Committee is required to submit summary reports to the Board of Directors in respect of the most significant decisions adopted by the Committee as well as with regard to any and all other matters that the Committee itself deems meritorious of mention to the Board.

In 2007, the Executive Committee met on 4 occasions. The said Committee meetings were regularly and assiduously attended by Committee members (overall attendance was in fact 95%).

In addition to the directors Diego Della Valle, Andrea Della Valle and Stefano Sincini, the other directors with executive authority pursuant to Article 2 of the Corporate Governance Code are Fabrizio Della Valle and Emilio Macellari. Both of them have powers of attorney as special agents of the issuer, and Dr. Macellari is also director with delegations of authority at several strategic subsidiaries.

As previously mentioned, when the Board of Directors first applied the new principles of corporate governance on November 13<sup>th</sup>, 2006 and, most recently, on March 28<sup>th</sup>, 2008, it found that the directors Luigi Abete, Luigi Cambri, Luca Cordero di Montezemolo and Pierfrancesco Saviotti were independent, on the basis of the information provided by each director.

The fact that Mr. Diego Della Valle sits on the Board of Directors of Ferrari S.p.A. was not deemed to compromise the independence of the director Luca Cordero di Montezemolo.

Furthermore, as illustrated hereunder, all directors are beneficiaries of the stock option plan for 2005-2009, and the number of options granted to the independent directors is not considered material or comprising of their independence.

Since the Board of Directors has more than seven members, it was also verified on March 28<sup>th</sup>, 2008 that at least two of them satisfy the pre-requisites for independence envisaged in Articles 147 *quater* and 148(3) of Legislative Decree 58/98.

The Board of Statutory Auditors found that the principles and procedures adopted by the Board of Directors to assess the independence of its members are correct.

## 5. HANDLING OF CONFIDENTIAL INFORMATION (ART. 4 OF THE CODE)

At its May 15<sup>th</sup>, 2002 meeting, the Board of Directors approved the document proposed by the **Internal Control and Corporate Governance Committee** entitled “**Regulation for the Handling and Disclosure of Confidential Documents and Information Concerning the Company and Group,**” which regulates the procedures for external communication of confidential documents and information.

In addition to prescribing the obligation for Directors, Statutory Auditors, Investor Relations Manager and all employees in general to maintain the confidentiality of price-sensitive information and scrupulously comply with the disclosure procedure, this document defines the various responsibilities for approval and disclosure of material information. It is published in the *Corporate Governance* section of the website [www.todsgroup.com](http://www.todsgroup.com).

## 6. BOARD OF DIRECTORS COMMITTEES (ART. 5 OF CODE)

At its November 13<sup>th</sup>, 2006 meeting, the Board of Directors resolved to comply with the principles and criteria applying Article 5 of the New Code. It consequently decided that the establishment and functions of the two committees that were reconstituted in accordance with the Corporate Governance Code are governed by the principles set out in the Code and, in particular:

- committees shall be made up of at least three members, all whom must be non-executive directors and the majority of whom must also be independent; one of the members of the Internal Control Committee must have adequate experience in accounting and finance;
- the duties of individual committees are provided by the resolution by which they are established and may be supplemented or amended by a subsequent resolution of the Board of Directors;
- minutes shall be drafted of all Committee meetings;
- in the performance of their duties, the committees have the right to access the necessary Company information and functions, according to the procedures established by the Board of Directors, as well as to avail themselves of external advisers, with prior Board authorisation;
- persons who are not members of the committee may participate in the meetings of each committee upon invitation of the same, with reference to individual items on the agenda;

- resolutions can only be validly passed by Committee meetings attended by a majority of Committee members; resolutions are passed by the favourable vote of the absolute majority of the Committee members present at Committee meetings, and in the case of a tie, the deciding vote shall be cast by the Chair of the Committee meeting; Committee meetings may be held by conference call or videoconference, on condition that all participants can be identified by the Chairman and the other participants, that they can all follow and participate in the discussion in real time, as well as receive and send documents. In such case, the Committee meeting shall be deemed to be held in the place where the Chairman is physically present.

In addition to the Executive Committee, the TOD'S Board of Directors established the Internal Control and Corporate Governance Committee and the Compensation Committee, both of which are charged with providing advice and making proposals. At the date of this Report, the Board of Directors had not found it necessary to set up a nominations committee, partly in view of the current structure of company ownership.

The principles of corporate governance received by TOD'S S.p.A., most recently with the Board of Directors resolution of November 13<sup>th</sup>, 2006, require that the proposals for appointment as director, accompanied by adequate disclosure of the candidate's personal information and professional qualifications, with indication of their possibility of being qualified as independent directors pursuant to Article 3 of the Code, are deposited at the registered office of the Company at least fifteen days before the date scheduled for the Shareholders' Meeting and promptly published on the Company website.

## **7. COMPENSATION COMMITTEE; DIRECTOR'S COMPENSATION (ART. 7 OF THE CODE)**

The Shareholders' Meeting has the exclusive prerogative of determining the compensation to be paid to directors for their membership on the Company Board of Directors and its committees. However, the Shareholders' Meeting defers to the Board of Directors the task of setting the compensation of those directors that hold special duties pursuant to Section 2389(3) Italian Civil Code, on the basis of a specific proposal made by the Compensation Committee.

After verifying that its directors without executive authority and independent directors satisfied the pre-requisites for being considered such in accordance with the 2006 Corporate Governance Code, the Board of Directors resolved at its November 13<sup>th</sup>, 2006 meeting to reconstitute the Compensation Committee. Its members are the following directors without executive authority, a majority of whom are independent: Luigi Abete (Chairman), Luigi Cambri and Pierfrancesco Saviotti. At the same meeting, the Board of Directors resolved to assign the following duties to the Compensation Committee, in accordance with Article 7 of the Code:

- a) submit proposals to the Board of Directors for the compensation of managing directors and the other directors that hold specific positions, in accordance with the principles recommended in the Code, and monitoring the decisions taken by the Board of Directors itself;
- b) annually assess the principles adopted for the compensation of key executives, while monitoring their application on the basis of the information provided by the managing directors; make general recommendations in this regard to the Board of Directors.

It is believed that the directors' compensation has been adequately determined to attract and motivate directors with the professional qualifications necessary for successful management of the issuer.

In regard to Principle 7.P.2, the compensation of current directors is fixed, with the sole exception of the Managing Director who is also General Manager of the company. Considering his position and role, compensation tied to the achievement of previously set personal targets is also envisaged.

Furthermore, the Company Board of Directors implemented a Shareholders' Meeting resolution in May 2005 by approving a stock option plan in favour of directors, employees and external consultants of the TOD'S Group, in order to promote their loyalty over the medium term. This stock option plan is described in the disclosure published in the "*Corporate Governance*" section on the website [www.todsgroup.com](http://www.todsgroup.com).

In accordance with this plan, applicable to the period 2005-2009, the directors were granted 1,182,000 options on ordinary shares. These options are gratuitous, personal and non-transferable between living persons, and they may be exercised at the dates and in the forms set out in the regulation, on condition that they meet their assigned targets. Every option grants the right to subscribe an ordinary share of TOD'S S.p.A. at the price of 36.30 euros, which is equal to the average market price of the stock during the 30 days prior to the resolution that set all the conditions.

The compensation received by the members of the Board of Directors and General Manager during the financial year is illustrated in the following table:

Directors

Name	Compensation for position	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
Diego Della Valle	392.2				392.2
Andrea Della Valle	290			5.2	295.2
Luigi Abete	29.7				29.7
Maurizio Boscarato	32.7			148.2	180.9
Luigi Cambri	37.6				37.6
Luca Cordero di Montezemolo	24.7				24.7
Emanuele Della Valle	24.0				24.0
Fabrizio Della Valle	32.0				32.0
Emilio Macellari	32.2			480	512.2
Pierfrancesco Saviotti	36.7				36.7
Stefano Sincini	316.2			126	442.2

General Manager

Stefano Sincini	353		208		561
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## 8. INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE AND INTERNAL CONTROL SYSTEM (ART. 8 OF THE CODE)

The **Internal Control and Corporate Governance Committee** carried out the duties envisaged in the March 2006 edition of the Corporate Governance Code.

After verifying that its directors without executive authority and independent directors satisfied the pre-requisites for being considered such in accordance with Article 3 of the Code, the Board of Directors resolved at its November 13<sup>th</sup>, 2006 meeting to reconstitute the Internal Control and Corporate Governance Committee. Its members are the following directors without executive authority, a majority of whom are independent: Maurizio Boscarato (Chairman), Luigi Cambri and Pierfrancesco Saviotti. The professional experience of the appointed directors ensures that the Committee disposes of adequate knowledge about accounting and financial matters. They were charged with providing advice and making proposals as follows, in accordance with the guidelines set out in the Code, except for indents d) and e) of Article 8.C.3:

- a) assist the Board of Directors in carrying out the duties indicated in Article 8.C.1. of the Code;



- b) in collaboration with the Chief Accounting Officer and the auditors, assess proper use of accounting standards and their uniformity during preparation of the consolidated financial statements;
- c) on request by the specifically designated director with executive authority, express opinions on specific aspects relevant to identifying the principal risks faced by the company and designing, setting up and managing the internal control system;
- d) examine the work plan prepared by the compliance officers and the periodic reports prepared by them;
- e) report to the Board of Directors on their activity and the adequacy of the internal control system at least once every six months, when the annual and half-year reports are approved.

Also in regard to Article 8 of the Code, the Board of Directors assigned the Board of Statutory Auditors the responsibility of reviewing the proposals made by the independent auditor in order to be retained for that position, as well as the work plan prepared for auditing and the results set out in the report and any letter of suggestions. This choice appears to be consistent with assignment to the Board of Statutory Auditors of the task of proposing to the Shareholders' Meeting that an accounting firm be retained as independent auditor.

Considering inter alia the principles of independence protecting the independent auditor's activity, it was not deemed appropriate to assign the duty of "monitoring the effectiveness of the auditing process" to the committee.

As illustrated in the Report for 2006 (which can be consulted in the "*Corporate Governance*" section on the website [www.todsgroup.com](http://www.todsgroup.com)), the Board of Directors has also adopted its own guidelines for the internal control system (the "Guidelines"), partly in view of reinforcing and streamlining the system of internal controls in the Company and the Tod's Group as a whole, particularly in regard to the subsidiaries identified as being strategic in accordance with Article I of the Code.

The complete text of the Guidelines is published in the "*Corporate Governance*" section of the website [www.todsgroup.com](http://www.todsgroup.com).

The Guidelines envisage inter alia that the director with executive authority delegated to monitor the functioning of the internal control system:

- a) identify the principal risks faced by the Company (considering the characteristics of the activities carried on by the Company and its subsidiaries) and periodically submit these principles to examination by the Board of Directors and the Internal Control and Corporate Governance Committee;
- b) implement the Guidelines by having the internal control system be designed, set up and managed, while constantly monitoring its overall adequacy, effectiveness and efficiency, all in compliance with the provisions of the Guidelines; adapt this system to the changes in operating conditions and the statutory and regulatory framework;
- c) propose nomination, dismissal and compensation of the Group Compliance Officers to the Board of Directors, while also informing the Internal Control and Corporate Governance Committee thereof.

At the approval date of this Report, there were two Company Compliance Officers appointed on proposal by the director with executive authority delegated to monitor the internal control system. These Compliance Officers are responsible for the following areas:

- A) Supply Chain, Administration and Finance, Human Resources;
- B) Management control, Style, Sales & Distribution, Investor Relations.

Staff assigned to Internal Control shall also be in charge, within the limits of their job descriptions, of the functions contemplated in Article 6 of the Guidelines, and, in particular, the two staff members in question shall:

- a) illustrate to the Internal Control Committee – even through a single document – their proposed annual works schedule, in a timely manner with a view to enabling the said Committee to discharge its duties, and more specifically, to formulate recommendations and suggestions in such regard;
- b) assist the Director in charge of Internal Control in designing, managing and overseeing the Internal Control System and identifying risk factors;
- c) schedule and carry out, in accordance with the annual work plan, direct and specific checks on the areas of competence of the Company and all the other Group companies, with special reference to subsidiaries having strategic relevance, with a view to identifying shortfalls in the Internal Control System in the various risk areas;
- d) check, each up to the limits of his or her job description, that internal control rules and procedures are complied with and that all persons involved operate in accordance with pre-set targets. More specifically, the said staff members shall:
  - d.1) check the reliability of information flows, including automatic data systems and systems for bookkeeping and the archiving of administrative records.
  - d.2) check, within the framework of the work plan, that the procedures adopted by the Company and the Group comply with all applicable statutory and regulatory provisions.
- e) moreover investigate specific irregularities, whenever they deem fit or at the request of the Board of Directors, the Internal Control Committee, the Director in charge of Internal Control or the Board of Auditors;
- f) ensure, using appropriate procedures, that the irregularities encountered in the functioning and implementation of the internal control system, are eliminated.
- g) keep orderly records of all activities undertaken; these records must be made available to the persons in charge of the internal control processes mentioned in Article 2, upon request.
- h) disclose their findings in specific Audit Reports to the Director in charge of Internal Control, the Internal Control Committee and the person in charge of checks; in the case where auditing activities also involve Group companies, the Audit Reports must also be submitted to the relevant organs of the companies in question. The said staff members shall also analyse business risks to identify shortfalls in the Internal Control System and recommend corrective action; the shortfalls identified and the recommended corrective action shall be covered in the related Audit Reports.

i) at least twice a year, and in any event, in time to allow the Internal Control Committee and the Board of Directors to discharge their respective duties at Board meetings called for the approval of the draft financial statements and draft half-yearly reports, draw up – even in a single document – a half-yearly summary of the main events that occurred during the six months in question and throughout the year. The report compiled for the Board meeting called for the approval of the draft financial statements, must also contain an update of the business risks identified during the year.

l) report on their activities, forwarding all the reports mentioned in point i) above, to the following organs and officers:

- the Director in charge of Internal Control and any and all organs delegated by Group companies subjected to checks, inspections or audits;
- the Internal Control Committee, the meetings of which the said staff members shall attend at the invitation of the said Committee.

The Internal Control Committee shall ensure that the reports on items placed on the agenda of Board meetings are forwarded to the other Board members in a timely manner. The Board of Auditors must be provided with the said documents at Internal Control Committee meetings.

m) immediately inform the Director in charge of Internal Control and the relevant delegated corporate organs and offices, of any and all problems requiring urgent action, further forwarding a report on their activities to the Internal Control Committee and the Board of Auditors.

The Committee met six times in 2007, with an average attendance rate of 83%. The meetings were attended not only by the Chairman of the Board of Statutory Auditors but also, on invitation by the Committee according to the meeting agendas, the Compliance Officers and the director with executive authority delegated to monitor the internal control system.

The Compliance Officers performed audits in their assigned areas of responsibility in accordance with the annual Work Plan for the 2007 financial year, which they prepared themselves and submitted to the Internal Control Committee on March 15<sup>th</sup>, 2007.

The Chairman of the Internal Control Committee illustrated the activities performed by the Committee to the directors and, at both the Board of Directors meeting held to approve the Half-Year Report at June 30<sup>th</sup> 2007 and at the meeting to approve the draft annual report, he illustrated his own assessment of the overall adequacy, effectiveness and efficiency of the internal control system to the Board of Directors.

At the Board of Directors meeting held to approve the draft annual report, the director delegated to monitor the internal control system illustrated his own Company risk assessment, submitting his own risk management policy to the Board of Directors. In this ambit, the Director also ensured that the system complied with statutory and regulatory changes.

Finally, at its March 28<sup>th</sup>, 2008 meeting the Board of Directors, assisted by the Internal Control Committee, approved the status of the internal control system, finding it to be adequate overall.

As previously mentioned, at the approval date of this Report there were two Company Compliance Officers, appointed on proposal by the director with executive authority delegated to monitor the internal control system: Dr. Gianluca Tortorelli, the Compliance Officer for the Operating Audit, Style, Sales & Distribution, and Investor Relations departments; Dr. Alessandro Recchioni, the Compliance Officer for the Supply Chain, Administration and Finance and Human Resources Departments. Neither of the Compliance Officers reports to the heads of the operating departments for which they are responsible.

The Compliance Officers had access to all information necessary to carry out their responsibilities and reported on their work to the Internal Control Committee and the Chairman of the Board of Statutory Auditors, as well as the director with executive responsibility delegated to monitor the internal control system.

On March 15<sup>th</sup>, 2007 the Internal Control Committee examined the annual work plan for the 2007 financial year presented by the Compliance Officers. On January 30<sup>th</sup>, 2008 the Internal Control Committee examined the new plan for work scheduled through December 31<sup>st</sup>, 2008.

#### **9. COMPLIANCE PROGRAMME pursuant to Legislative Decree 231/2001**

The Compliance Programme pursuant to Legislative Decree 231/2001 was being prepared at the approval date of this Report.

The Board of Directors commissioned it from Deloitte & Touche S.p.A. in a resolution dated November 13<sup>th</sup>, 2007.

#### **10. INDEPENDENT AUDITOR**

The company retained to audit TOD'S S.p.A. and its other subsidiaries is Deloitte & Touche S.p.A., pursuant to the resolution of the Ordinary Shareholders' Meeting of April 28<sup>th</sup>, 2006.

Its mandate will expire upon approval of the annual report at December 31<sup>st</sup>, 2011.

#### **11. EXECUTIVE IN CHARGE OF PREPARING COMPANY ACCOUNTS**

The Executive in Charge of Preparing Company Accounts is Dr. Rodolfo Ubaldi, the Group's Chief Financial Officer.

Pursuant to Article 28 bis of the Articles of Association, the Executive must be chosen by the Board of Directors, after the Board of Statutory Auditors has issued its opinion, from the pool of executives who

have held management positions for at least three years in the accounting or administrative departments of a listed company or a company whose share capital is not less than 2 million euros.

The Board of Directors has granted Dr. Ubaldi ample authority as necessary to perform his duties under the law and the Articles of Association, without any specific spending limits other than what is reasonably necessary to discharge his duties. Furthermore, Dr. Ubaldi was given a mandate so that, in collaboration with the Managing Director, Dr. Sincini, he also give instructions to the subsidiaries belonging to the Tod's S.p.A. Group, for adopting all those measures, administrative and accounting procedures, all other acts and measures necessary for proper preparation of the consolidated financial statements, and all measures communicated by Dr. Ubaldi pursuant to Law 262/05 and Legislative Decree 303/06 that can assure the maximum reliability of information flows addressed to the Executive in Charge of Preparing Company Accounts in connection with preparation of corporate accounting documents.

## 12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES.

As previously mentioned, the November 13<sup>th</sup>, 2006 meeting of the Board of Directors approved a document entitled "Guidelines for Major Transactions and Transactions with Related Parties of the Tod's S.p.a. Group" ("Guidelines"), which grant the Board of Directors the responsibility of supervising material transactions concluded with third parties or related parties, either directly or through Group subsidiaries (the complete version of the "Guidelines" are available on the web site [www.todsgroup.com](http://www.todsgroup.com), in the "Corporate Governance" section), and establish the procedures for its approval and execution.

The Board of Directors has always been adequately and promptly informed about the **material transactions** executed during the financial year with **related parties**, undertaking to have them be approved upon verification of their substantial and procedural fairness.

In the cases that were analysed in substantive terms, the Board of Directors determined that the economic benefits accruing to the TOD'S Group from the considered transactions would have been the same if they had been carried out with a third party. Furthermore, the Board of Directors has always been informed in advance about any potential conflicts of interest in individual transactions, as envisaged by law. The **transactions carried out with related parties** in 2007 are summarised as follows:

- a. licensing agreement for the "Roger Vivier" brand, with the company Gousson - Consultadoria & Marketing Lda, a Portuguese company that is indirectly owned by the Della Valle family;
- b. possession under an ordinary lease of the properties located in Milan at Corso Venezia 30 and Via Savona, respectively, owned by Immobiliare De.Im. S.r.l. (lessor), a company owned by the Della Valle family;
- c. advertising services provided by Forma Pura S.r.l., a company owned by the director Emanuele Della Valle;

- d. a commercial agreement with Roger Vivier Paris Sas, a French company that is indirectly owned by the Della Valle family, regarding marketing of Roger Vivier brand products.
- e. lease to Immobiliare De.Im. S.r.l., a company owned by the Della Valle family, of a portion of a property located in Milan that is no longer necessary for Group activities.
- f. possession under an ordinary lease of a property located in Saint Tropez, owned by Difran S.a.s., a company owned by the Della Valle family; this lease was made at a time when third parties controlled the lessor;
- g. possession under an ordinary lease, through the subsidiary Tod's Japan K.K., of the property located in the Omotesando quarter in Tokyo, owned by Holpaf B.V., a company owned by the Della Valle family.

The following tables illustrate the applicable values for the year, accrued in performance of all the contractual relationships listed hereinabove:

#### Revenues and costs

Revenues and costs (Euro/000)	Costs	Revenues	Capitalised costs
<b>Product sales</b>			
Roger Vivier Paris S.a.s	20	2,059	
<b>Leases</b>			
Immobiliare De.Im. S.r.l.	2,814	111	
Difran S.a.s.	188		
Holpaf BV	2,814		
<b>Licence of Roger Vivier brand</b>			
Gousson - Consultadoria & Mark. Lda	776	8,303	
<b>Advertising services</b>			
Forma Pura S.r.l.	2,039		
<b>Total</b>	<b>8,651</b>	<b>10,473</b>	

#### Receivables and payables

Receivables and payables (Euro/000)	Payables	Receivables
Roger Vivier Paris S.a.s	578	37
Immobiliare De.Im. S.r.l.	84	245
Difran S.a.s.		56
Holpaf BV		6
Gousson - Consultadoria & Mark. Lda	6,455	508
Forma Pura S.r.l.		636
<b>Total</b>	<b>7,117</b>	<b>1,488</b>

### 13. APPOINTMENT OF STATUTORY AUDITORS; CURRENT BOARD OF STATUTORY AUDITORS

The Shareholders' Meeting is responsible for appointing the **Statutory Auditors and Chairman of the Board of Statutory Auditors**.

The procedures for presentation of candidate and voting lists are regulated by the Articles of Association.

Article 27 of the Articles of Association (to which reference is made) aims to ensure that the Chairman of the Board of Statutory Auditors is designated by the minority, from the list that received the second highest number of votes.

As many shareholders as own a shareholding that is at least equal to what is determined by Consob for appointing the Board of Directors may submit a list, which must be deposited at least fifteen days before the date scheduled for the Shareholders' Meeting on its first call.

If just one list (or lists "connected" to each other according to the law or regulations) has been deposited by the deadline, other lists may be submitted until five days after that date, and the threshold for presentation is reduced by half.

Two statutory auditors and one alternate auditor are selected from the list that received the highest number of votes.

A statutory auditor – who shall become Chairman of the Board of Statutory Auditors – is taken from the second list of those that are not connected pursuant to the law and regulations with the shareholders that submitted or voted for the list receiving the highest number of votes.

The following table lists the members of the Board of Statutory Auditors at December 31<sup>st</sup>, 2007, specifying that the Board of Statutory Auditors was appointed by resolution of April 27<sup>th</sup>, 2007 and expires upon approval of the financial statements at December 31<sup>st</sup>, 2009.

Furthermore, in regard to Article 10.C.2 of the Code, the independence of statutory auditors is already considered ensured by compliance with applicable laws and the Articles of Association, partly in consideration of the amendments introduced by the "Savings Law" to Legislative Decree 58/98 (TUF). The table also indicates the curriculum vitae of the current statutory auditors.

Name	Position	In office from / to	List (Majority or minority)	Indep. pursuant to Code	% attendance at BSA meetings	Other positions
Dr. Enrico Colombo	Chairman	04/12/2007 to 12/31/2009	ONLY ONE LIST DEPOSITED	N/A	100	1
Dr. Gian Mario Perugini	Statutory Auditor	04/12/2007 to 12/31/2009	ONLY ONE LIST DEPOSITED	N/A	100	0
Dr. Fabrizio Redaelli	Statutory Auditor	04/12/2007 to 12/31/2009	ONLY ONE LIST DEPOSITED	N/A	100	1

Enrico Colombo was born in Milan (MI) on April 10<sup>th</sup>, 1959. He received his degree in economics and business from the “L. Bocconi” University in Milan. A certified public account, he has been entered since 1986 in the Milan Register of Professional Accounts. He is partner at an accounting firm in Milan and is an expert in tax law.

Gian Mario Perugini was born in Montecosaro (MC) on August 9<sup>th</sup>, 1933. He received his degree in economics and business from the University of Perugia. A professional certified public accountant, he has operated his own accounting firm since 1960 in Civitanova Marche.

Fabrizio Redaelli was born in Milan (MI) on January 29<sup>th</sup>, 1960. He received his degree in economics and business from the “L. Bocconi” University in Milan. A certified public account, he is entered in the Milan Register of Professional Accounts. He owns an accounting firm in Milan and is a real estate finance and tax expert.

#### 14. SHAREHOLDER RELATIONS

The “*Corporate Governance*” section of the Company website [www.todsgroup.com](http://www.todsgroup.com) contains all information that shareholders need to exercise their rights.

In reference to the provision of Article 11 of the Corporate Governance Code issued (at the time in the November 1999 version) by the Corporate Governance Committee of listed companies, the “framework resolution” approved by the Company Board of Directors at its October 13<sup>th</sup>, 2000 meeting designated director Emilio Macellari as head of relations with institutional investors and other shareholders, without prejudice to the fact that documents and information regarding the Company must be disclosed in accordance with internal procedures applicable to these relations.



The following contact numbers and e-mail address should be used to reach the Investor Relations office:  
telephone: 02 77225354 – fax: 02 76009714 - e-mail address: c.oglio@todsgroup.com

## 15. SHAREHOLDERS' MEETINGS

Pursuant to Article 12 of the Articles of Association, the shareholders for whom the Company has received the notice envisaged in Section 2370(2) Italian Civil Code no later than two non-holidays before the date of the specific Shareholders' Meeting may attend it, provided that they possess adequate certification at the meeting date.

## 16. CHANGES SINCE THE END OF THE REPORTING PERIOD

There were no changes in the Company governance structure between the closing date of the 2007 financial year and the approval date of this Report.

Milan, March 28<sup>th</sup>, 2008

The Chairman of the Board of Directors  
Diego Della Valle

## APPENDIX A TO THE ANNUAL CORPORATE GOVERNANCE REPORT FOR 2007

List of positions held by Directors of TOD'S S.p.A. in other listed companies, financial companies, banks, insurance companies, or large companies

Director	Positions	Company
Diego Della Valle	General Partner and Director	Diego Della Valle & C. - S.A.P.A.
	General Partner and Director	DI.VI. Finanziaria - S.A.P.A.
	Director	Le Monde Europe S.A.
	Director	Ferrari S.p.A.
	Director	Compagnia Immobiliare Azionaria S.p.A.
	Director	L.V.M.H. Moet Hennessy LouisVuitton
	Director	RCS Mediagroup S.p.A.
	Director	Assicurazioni generali S.p.A.
	Sole Director	DDV partecipazioni S.r.l.
	Director	Marcolin S.p.A.
Luca Cordero di Montezemolo	Chairman and Chief Executive Officer	Ferrari S.p.A.
	Chairman	Bologna Congressi S.p.A.
	Chairman	Ente Fiere Bologna S.p.A.
	Chairman	FIAT S.p.A.
	Member of Supervisory Board	PPR-Pinault/Printemps Redoute
	Member of Supervisory Board	Le Monde Europe S.A.
	Advisory Board	Citygroup New York
	Director	Indesit Company S.p.A.
	Director	Linea Pelle S.p.A.
	Director	Consiglio nazionale Economia e Lavoro
	Director	Poltrona Frau S.p.A.
	Director	Editrice La Stampa
Chairman	Confindustria <sup>(1)</sup>	
Luigi Abete	Chairman	Banca Nazionale del Lavoro S.p.A.
	Chairman	A.BE.T.E. S.p.A.
	Chairman	Cinecittà Studios S.p.A.
	Chief Executive Officer	Cinecittà Entertainment S.p.A.
	Director	ArtigianCassa S.p.A.
	Director	Marcolin S.p.A.
	Director	Il Sole 24 Ore S.p.A.
	Director	Fineldo S.p.A.
Pier Francesco Saviotti	Director	F.C. Internazionale S.p.A.
	Director	ValuePartners S.p.A. <sup>(2)</sup>
	Director	Telecom Italia Media S.p.A.
	Director	Linificio e Canapificio Nazionale S.p.A.
	Director	Stefanel S.p.A.
Emilio Macellari	Director	Cinecittà Studios S.p.A.
	Director	Marcolin S.p.A.
	Director	Dorint Holding SA
	Director	Goral Investment Holding BV
	Director	Bialetti Industrie S.p.A.
Andrea Della Valle	Chairman	ACF Fiorentina S.p.A.
	Sole Director	ADV Partecipazioni S.r.l.
Maurizio Boscarato	Director	Marcolin S.p.A.
Emanuele Della Valle	Director	Cinecittà Entertainment S.p.A.

(1) Resignation tendered March 13<sup>th</sup>, 2008

(2) Resignation tendered January 25<sup>th</sup>, 2008

## APPENDIX B TO THE 2007 ANNUAL REPORT ON CORPORATE GOVERNANCE – GUIDELINES FOR “SIGNIFICANT” TRANSACTIONS WITH “RELATED PARTIES”

### 1. Scope of the “Guidelines”

**1.1** These “Guidelines” define “significant” transactions of Tod’s S.p.A. and the Tod’s Group and, in particular, those with “related parties” which, in accordance with the Code on Corporate Governance for Listed Companies, are subject to prior examination and approval by the Board of Directors.

**1.2** The “Guidelines” also govern the manner in which transactions with “related parties” are conducted, independently of their “significant” nature, in order to guarantee that they are correct in both substance and form.

### 2. Definition of “significant” transactions of the Tod’s Group

**2.1** In addition to those matters which may not be delegated by law, the following transactions with non-related parties are to be considered “significant” and, as such, should always be submitted to the review and approval of the Board of Directors of Tod’s S.p.A., even if they formally fall within areas which the Board has delegated:

- a) transactions which require that the Company publish a public document which has been prepared in accordance with CONSOB regulations<sup>1</sup>;
- b) transactions whose individual or combined value in a financial year (calculated on the “transaction value”) is greater than 2% of the shareholders’ equity of Tod’s S.p.A. as reported in the latest financial statements approved in a General Meeting of Shareholders;
- c) transactions involving the acquisition or disposal of equity stakes, incorporation of a company or the acquisition or disposal of trademarks and brands, including through licensing.

**2.2** The Board of Directors, consistent with the Group’s business activities and always respecting the interests of the various companies, undertakes a review and initial evaluation of “significant” transactions (i.e., those falling within the parameters set out in the preceding points), even where they are to be carried out by a subsidiary of Tod’s S.p.A. To that end, the corporate bodies responsible are to ensure that all Chief Executives of Group companies are familiar with these “Guidelines”.

**2.3** To guarantee the efficient operation of the Group, in cases of particular urgency, “significant” transactions may be carried out by the various responsible corporate bodies of the Company and/or the

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<sup>1</sup> By way of example, at the date of approval of this document: significant acquisitions and disposals as defined by Consob under Article 71 of Consob Regulation no. 11971/99; significant mergers, demergers and capital increases representing “payment-in-kind” (including intra-group transactions) as defined under Article 70 of Consob Regulation no. 11971/99; transactions referred to under Article 71 *bis* of Consob Regulation no. 11971/99.

Group: in such cases, the corporate bodies responsible are to submit these transactions to the Board of Directors of Tod's S.p.A. for approval.

**2.4** For the review and approval of all "significant" transactions, the Board of Directors is to be provided adequate information by the corporate bodies responsible regarding the interests of Tod's S.p.A. in relation to the transaction, its economic viability, and its compatibility with the company's strategic objectives.

### **3. "Significant transactions with related parties"**

**3.1** "Significant transactions with related parties", including those carried out through subsidiary companies, are transactions which:

a) are "significant" as defined under paragraph 2 above;

or

b) even if not "significant" according to the definition in paragraph 2 above, have an individual or combined value in a single financial year (calculated on the "transaction value") is greater than 0.5% of the shareholder's equity of Tod's S.p.A. as reported in the latest financial statements approved in a General Meeting of Shareholders.

However, as an exception to the requirements of a) and b) above, transactions with related parties which are usual and in the ordinary course of business, or, in any event, are concluded according to standard terms, are not considered "significant" and, therefore, do not require the prior review and approval of the Board of Directors.

**3.2** Transactions considered usual and in the ordinary course of business are those whose purpose, nature, characteristics and terms fall within the Company's ordinary business activities and which contain no particularly problematic issues in relation to their characteristics or the risks inherent to the counterparty at the time they are carried out: as a rule, these include transactions between companies in the Tod's Group which conform to the 'Internal International Transfer Pricing Guidelines'. Transactions carried out under standard terms are those which would be conducted on the same terms regardless of the counterparty.

**3.3** "Related parties" are those defined as such by the applicable regulations in effect at the moment a transaction is decided.

**3.4** "Significant transactions with related parties" should first be reviewed and approved by the Board of Directors as set out in paragraph 2 and conducted in accordance with the requirements of paragraph 4 below, after consultation with the Audit Committee.

#### **4. Principles of conduct for transactions with related parties**

**4.1** All transactions with related parties (including those carried out through subsidiary companies) – and, therefore, including those not subject to the prior review and approval by the Board of Directors as provided for under paragraph 3 above – are to be approved and/or executed observing the principles of correctness in both substance and form. In particular:

**a)** for transactions which are, by virtue of their “significant” nature, subject to its review, the Board of Directors is to be adequately informed of: the principal characteristics and terms, contractual and financial, of the transaction; its impact on the interests of Tod's S.p.A.; the level of relationship between the counterparties; and, the substantive fairness of the transaction;

**b)** for transactions which are not subject to prior review by the Board, the corporate bodies responsible are to ensure that such information is recorded and – except for transactions of marginal value – provided to the Board of Directors no later than the first Board meeting following the completion of a transaction.

**4.2** The Board and the corporate bodies responsible (for those transactions not subject to the Board's prior approval) may - where the nature, value or other characteristics of the transaction require and in order to avoid entering into terms for a transaction which would differ from a similar agreement between two non-related parties - decide that the transaction is to be completed with the assistance of independent experts whose expertise in valuing assets or providing financial, legal or technical advice is recognised. In any event, the view of the Audit Committee may also be sought.

#### **5. Directors' interests**

**5.1** Where a director has an interest in a transaction, on his/her own behalf or on behalf of third parties, said director, after notifying the other directors and the Board of Statutory Auditors of the existence of such interest and other relevant details (nature, terms, origin and scope) in a full and timely manner, where deemed to be in the company's interests, shall abstain from voting or, again where deemed to be in the company's interests, is to be absent from the Board meeting during the relevant discussion and resolution.

If said director is the Chief Executive Officer, he/she shall abstain from the transaction entirely, delegating the matter to the Board of Directors.