



**AUDITORS' REPORT ON THE FAIRNESS OF THE ISSUE PRICE FOR SHARES IN  
RELATION TO THE CAPITAL INCREASE WITHOUT PRE-EMPTION RIGHTS  
PURSUANT TO ARTICLE 2441, PARAGRAPH 4, PART 2, OF THE ITALIAN CIVIL CODE**

To the Shareholders of  
Safilo Group SpA

**1 SCOPE OF THE ENGAGEMENT**

In relation to the proposal for a paid capital increase without pre-emption rights pursuant to article 2441, paragraph 4, part 2, of the Italian Civil Code, illustrated below, we have received from the Board of Directors of Safilo Group SpA (hereinafter also "Safilo Group" or "the Company") a report dated 5 March 2014 (hereinafter "the Board's Report"), that illustrates the operation and the reasons thereof.

The proposal is for a capital increase for a maximum nominal amount of Euro 7,500,000 (hereinafter the "Capital Increase") through the issue of a maximum of 1,500,000 ordinary shares of nominal Euro 5.00 per share, with dividend rights excluding pre-emption rights, with the subscription period expiring, with reference to the last increase, on 31 May 2024.

The proposal will be submitted to the Shareholders for approval at an extraordinary general meeting called for 15 April 2014 in single call.

Pursuant to article 2441, paragraph 4, part 2, of the Civil Code and article 158 of Legislative Decree n°58 of 24 February 1998 ("TUF"), we express below our opinion about the appropriateness of the criteria proposed by the directors to determine an issue price for the shares corresponding to their market value.

According to the information reported by the directors in the Board's Report, the purpose of the Capital Increase is to implement a share based incentive scheme called "Safilo Group SpA 2014-2016 Stock Option Plan" (hereinafter "the Plan") for the benefit of directors and managers of the Company and companies belonging to Safilo Group.

In the aforementioned circumstances, the directors decided to use the option allowed by article 2441, paragraph 4, part 2, of the Civil Code only to entities with shares listed on regulated markets, and reflected in section 5 of the Company's Articles of Association. The directors therefore decided to submit to the approval of the Shareholders of Safilo Group a proposal for a Capital Increase through share issue, excluding pre-emption rights, for a maximum amount equal to 10% of the Company's issued share capital, pursuant to article 2441, paragraph 4, part 2, of the Civil Code.

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## 2 DESCRIPTION OF THE OPERATION

According to the information reported by the directors in the Board's Report, the purpose of the Capital Increase is to implement a share based incentive scheme called "Safilo Group SpA 2014-2016 Stock Option Plan" for the benefit of directors and managers of the Company and companies belonging to Safilo Group ("Management" or "Beneficiaries").

As illustrated in the Plan's Regulations (the "Regulations") and in the Board's Report, the proposed Capital Increase is for a maximum nominal amount of Euro 7,500,000 excluding pre-emption rights pursuant to article 2441, paragraph 4, part 2, of the Civil Code, to be carried out through the issue of a maximum of 1,500,000 ordinary shares reserved exclusively to implement the Plan.

The Plan provides for the issue of a maximum of 1,500,000 options ("Options") to be granted free of charge to certain Beneficiaries among the directors and managers of the Company and companies belonging to Safilo Group, entitling each of them to subscribe new shares in the amount of 1 Share per Option, by paying an exercise price, as illustrated in detail in paragraph 5 below. Instead of, or in addition to the above newly issued shares, the Company shall be entitled to fulfil, in whole or in part, its obligations deriving from the Plan, through the assignment to one or more Beneficiaries of own shares deriving from any buy-back plan that should be implemented by the Company, it remaining understood that the overall number of shares assignable to all the relevant Beneficiaries pursuant to the Plan shall not exceed the maximum amount of 1,500,000.

The Options under the Plan may be granted in three tranches, in quantities that shall be decided by the Board of Directors, also having regard to the performance and professional skills of the Beneficiaries and upon the occurrence of certain events illustrated in the Regulations, including, for instance, the continuing service of the Beneficiary with the Company on the date the Options vest and the achievement by the Company of predefined results in terms of consolidated EBIT.

The first tranche ("First Tranche") will be granted by the Board of Directors from the date of the meeting following the Shareholders' Meeting resolution approving the Plan to 31 December 2014; the second tranche ("Second Tranche") will be granted from the day on which the Board of Directors approves the 2014 financial year's results to 31 December 2015; the third tranche ("Third Tranche") will be granted from the day on which the Board of Directors approves the 2015 financial year's results to 31 December 2016.

The exercise period, subject to compliance with existing legislation and achievement of the exercise requirements, is determined as follows:

- With reference to the Options granted under the First Tranche, the period from the day following the resolution of the Company's Shareholders which approves the

financial statements of the Company for the year ended 31 December 2016 until its own expiry date (31 May 2022);

- With reference to the Options granted under the Second Tranche, the period from the day following the resolution of the Company's Shareholders which approves the financial statements of the Company for the year ended 31 December 2017 until its own the expiry date (31 May 2023);
- With reference to the Options granted under the Third Tranche, the period from the day following the resolution of the Company's Shareholders which approves the financial statements of the Company for the year ended 31 December 2018 until its own expiry date (31 May 2024);

As reported in the Board's Report, the execution of the Plan pursuant to the provisions thereof is the responsibility of the Board of Directors, which has received from the Shareholders all necessary authorities to execute the Plan, including the authority to grant the Options, adopt the related Regulations, and to perform any other act, deed, formality, communication as may be necessary and useful for the purposes of managing and/or implementing the Plan.

### **3 NATURE AND SCOPE OF THIS REPORT**

As mentioned above, pursuant to article 2441, paragraph 4, part 2, of the Civil Code, the issue price for the shares under the Capital Increase excluding pre-emption rights for a maximum amount equal to 10% of the Company's issued share capital must correspond to the market value of the shares, and this must be confirmed in a specific report by the auditors who audit the Company's financial statements.

With regard to the requirement that the issue price correspond to the market value of the shares, set forth in the aforementioned regulations, the Board of Directors decided, in the circumstances, to propose to the Shareholders meeting not to define a specific and "final" issue price for the shares corresponding to their market value, but to define a criteria that the Board shall follow, upon the execution of the Capital Increase, taking into account the interval of time between the Shareholders' resolution approving the Capital Increase and its actual implementation.

In consideration of the specific nature and characteristics of the operation as illustrated above, as reported by the directors and set out below, our opinion is expressed, in order to strengthen disclosure in favour of the Shareholders excluded from pre-emption rights with regard to the proposed Capital Increase, solely in relation to the appropriateness of the criteria adopted by the directors to determine an issue price for the shares corresponding to their market value at the time when the Board of Directors will grant the Options to the Beneficiaries.



This report therefore illustrates the criteria proposed by the directors to determine the issue price for the new shares, any difficulties encountered by them and includes our considerations on the appropriateness of such criteria, in terms of it being reasonable and not arbitrary, in the circumstances.

In the performance of our work we did not carry out a business valuation of the Company, which is outside the scope of this engagement.

#### **4 DOCUMENTS USED**

During the performance of our engagement we obtained, directly from the Company or through it, such documents and information as we considered necessary in the circumstances.

In detail, we analysed the following documents:

- “Report of the Directors for the Shareholders’ meeting of Safilo Group SpA called on 15 April 2014, in single call” drafted pursuant to article 125-ter of the TUF and pursuant to article 72 of the Consob Regulation – in compliance with Scheme n°2 of the Annex 3A of the Consob Regulation relating the proposal for the Capital Increase of the Company;
- “Report of the Directors for the Shareholders’ meeting of Safilo Group SpA called on 15 April 2014, in single call” drafted pursuant to article 114-bis of Legislative Decree n°58/1998 - Attachment: Informative Document prepared according to 84-bis of the Consob Regulation as well as in compliance with Annex 3A, Scheme n°7 relating the adoption of a Stock Option Plan;
- Minutes of the meeting of the Board of Directors held on 5 March 2014 where the aforementioned Board’s Report was approved;
- Terms and conditions of the Safilo Group SpA Stock Option Plan 2014-2016;
- Information Memorandum related to the Stock Option Plan prepared according to article 84-bis of the Issuers’ Regulations of the Italian Stock Exchange;
- The Company’s Articles of Association in force for the purposes of this engagement;
- The separate and consolidated financial statements of Safilo Group as of 31 December 2013, which we audited, and on which we reported, on 19 March 2014;
- The half-year interim financial statements of Safilo Group as of 30 June 2013, which we reviewed, and on which we reported on 2 August 2013.



Furthermore, we obtained a specific and explicit representation, in a letter issued by the Company on 21 March 2014, stating that, as far as the management of Safilo Group is aware, no significant changes have occurred to the figures and information we considered in performing our analyses.

## **5 METHODS ADOPTED BY THE DIRECTORS TO DETERMINE THE ISSUE PRICE FOR THE SHARES**

### **5.1 FOREWORD**

As stated above, in the proposed Capital Increase under examination the Board of Directors proposes to the Shareholders meeting to approve a criteria to be used for determining the issue price for the new shares which the Board shall follow upon the execution of the Capital Increase, rather than setting a specific and final issue price at the time of taking a resolution.

### **5.2 THE CRITERIA ADOPTED BY THE DIRECTORS TO DETERMINE THE SHARE ISSUE PRICE**

The wording of article 2441, paragraph 4, part 2, of the Civil Code makes reference to 'market value' without providing additional specifications, also in terms of timing, and therefore allows the use of several, differing criteria to be chosen also with regard to the specific features of individual capital increases. In the case at hand, the Board of Directors decided to make reference to criteria that is shared by existing literature, i.e. the price of the issuer's shares in the various regulated markets in which it is listed.

In the circumstances, the Board of Directors decided to determine the issue price for the new shares as the weighted average of the prices recorded by ordinary shares in Safilo Group during the month preceding the date of the Board of Directors' meeting where the option rights issued under the Plan shall be granted. The directors specified that the preceding month is the period from the day preceding the date of the Board of Directors' meeting which resolves the granting of Options under the Plan and the same day of the previous calendar month, it being agreed that for the purpose of determining the weighted average, during that period only stockmarket trading days shall be considered.

The Board of Directors therefore considered it reasonable and in line with existing literature on the matter and prevailing market practice for share based incentive schemes, to consider, in the circumstances, the weighted average of the official stockmarket prices recorded over a timeframe close to the issue of the new shares. Moreover, the Board specified that these criteria makes it possible to take as reference a sufficiently lengthy period of time to exclude from the result obtained instances of volatility that may affect financial markets, thus reflecting the value that the market attributes to the Company's shares.



## **6 DIFFICULTIES ENCOUNTERED BY THE BOARD OF DIRECTORS**

The Board's Report does not mention any difficulties encountered by the directors with regard to the choice of the criteria proposed, illustrated in paragraph 5.

## **7 WORK PERFORMED**

For the purpose of performing our engagement we carried out the following activities:

- We examined the minutes of the meeting of the Company's Board of Directors of 5 March 2014;
- We performed an analytical examination of the Board's Report on the proposal for the capital increase without pre-emption rights pursuant to article 2441, paragraph 4, part 2, of the Italian Civil Code;
- We examined, for the purposes of this engagement, the Company's current Articles of Association;
- We performed a critical examination of the criteria adopted by the directors to determine the issue price for the shares, so as to verify that, in the circumstances, they were reasonable, justified, and not arbitrary;
- We considered the elements necessary to ascertain whether such criteria were technically suitable, in the specific circumstances, in terms of being reasonable and not arbitrary, to determine an issue price for the shares corresponding to their market value at the time of the execution of the Capital Increase;
- We verified that the reasons indicated by the Board of Directors for choosing the aforementioned criteria were complete and not contradictory;
- We checked the trend of the stockmarket prices for the Company's shares in different time horizons preceding the date of our report, and identified additional information such as, for instance, the time horizon, the significance of the prices considered, the type of average used, the characteristics of freely negotiable shares, the volatility of the share price and the average daily trading volumes;
- We performed sensitivity analysis on the trend of the stockmarket prices for the shares in Safilo Group in the six months preceding the date of the Board's Report extending the analysis to different periods before the date of the Board's Report;
- We obtained a formal representation from the Company's legal representative confirming the basis for assessment made available to us and that, as far as they are

aware, at the date of our report, there are no significant modifications to be made to the underlying amounts of the operation and to the other elements considered.

## **8 COMMENT ON THE APPROPRIATENESS OF THE METHODOLOGY ADOPTED BY THE DIRECTORS TO DETERMINE THE ISSUE PRICE FOR THE SHARES**

With reference to the Capital Increase under examination, in the Board's Report the directors describe the reasons underlying their choice of methodology and the logic process they followed in choosing the criteria adopted to determine the issue price for the shares. In this respect we wish to emphasise the following:

- Firstly, the directors' decision not to submit a specific price to the Shareholders for approval but to submit a criteria for determining the issue price, as also noted in the Board's Report, is in line with market practice and with the existing literature on the matter;
- Secondly, in the circumstances, the reference to the stockmarket prices of shares in Safilo Group adopted by the directors appears to be consistent with the need to identify an issue price for the shares corresponding to their market value, this being a company with shares listed on regulated markets;
- The directors' decision to use average stockmarket prices, which minimises the risks from significant short-term fluctuations in share prices, appears to be in line with the positions taken by the literature that has discussed the matter so far. Specifically, it should be noted that the directors' decision to propose an average of the official prices weighted for the volumes traded daily is in line with prevailing market practice. In effect, as expressly stated in the literature, this method of calculation makes it possible to determine an average value that takes into account the 'significance' of the prices on the various dates, attributing greater weight to prices obtained as a result of a larger number of trades, thus being reasonable in the circumstances;
- With reference to the timeframe of the stockmarket prices to be used as a basis for calculating the average, the directors' choice of one month's trading close to the date of execution of the Capital Increase appears, again, consistent with the literature and prevailing market practice for this type of operation.  
In detail, the existing literature has argued that the time horizon for analysing stockmarket prices in the case of issuers with large numbers of freely tradable shares and large volumes traded, for the purpose of determining the market value, is certainly shorter than the interval of six months mentioned in the case of capital increases pursuant to article 2441, paragraph 4, part 2, of the Civil Code. In consideration of the above, and of the characteristics of the shares in Safilo Group, in terms of number of freely tradable shares and volumes traded, the choice of timeframe

made by the directors may be considered reasonable and not arbitrary for the purpose of reflecting the market value of the shares.

**9 SPECIFIC LIMITATIONS ENCOUNTERED BY THE AUDITORS AND POSSIBLE SIGNIFICANT ISSUE EMERGING DURING THE PERFORMANCE OF THIS ENGAGEMENT**

With regard to the main difficulties and limitations we encountered in the performance of our engagement, we wish to note the following:

- The rules set forth in article 2441, paragraph 4, part 2 of the Italian Civil Code were introduced into the Italian legal system only recently. Therefore, the available literature on the matter is currently limited, which gives rise to difficulties, among other things, in interpreting concepts such as 'market value' and the 'correspondence' of the issue price for the shares to the market value;
- The proposal for a Capital Increase prepared by the Board of Directors defines the maximum number of shares that may be issued but does not set the issue price for the shares, indicating instead the criteria adopted for determining the issue price. Therefore, this report does not relate to whether the issue price for the shares, not defined to date, corresponds to their market value, but whether the criteria proposed by the directors to determine an issue price for the shares corresponding to their market value at the time the Options are granted to the Beneficiaries of the Plan is appropriate, in terms of being reasonable and not arbitrary;
- Assessments based on stockmarket prices are subject to the volatility typical of financial markets and, therefore, may show, particularly over a short timeframe, marked fluctuations in relation to uncertainties in the domestic and international economic situation. Furthermore, share prices may also be affected by speculative pressure or pressure caused by outside factors of an extraordinary and unforeseeable nature that are independent of the financial prospects for individual companies. Considering that the issue price for the shares shall be determined after the date of this report, it cannot be ruled out that unforeseeable circumstances may occur that may have an impact on the future issue price.

We also wish to draw attention to the following significant aspects:

- The criteria adopted by the directors makes reference to a future, limited interval of time, expressly indicated in the Board's Report, with possible resulting effects on the stockmarket prices and, consequently, on the issue price for the shares, connected with the use by the market of this information;





- As stated in the Boards' Report, the grant of Options to the Beneficiaries based on the provision of the Plan, to be implemented in accordance with the criteria that will be approved by the Shareholders' meeting, will be delegated to the Board of Directors. The issue price of the new shares resulting from the application of the above criteria, will determine a market value of the shares calculated on the grant date of the Options in accordance with the Stock Option Plan and, therefore, on a date before the execution of the Capital Increase.
- There are no restrictions to the availability of the underwritten shares after the exercise of the Options.
- The Company, instead of or in addition to the issuance of new shares, is entitled to fulfil, in whole or in part, its obligations deriving from the Plan, through the assignment to one or more Beneficiaries of own shares deriving from any buy-back plan that should be implemented by the Company, it remaining understood that the overall number of shares assignable to all the relevant Beneficiaries pursuant to the Plan shall not exceed the maximum amount of 1,500,000.

## 10 CONCLUSIONS

Based on the foregoing, on the basis of the documents examined and the procedures performed as described above, considering the nature and scope of our engagement indicated in this report, and subject to the considerations set out in paragraph 9, we believe that the method adopted to apply the criteria referred to in article 2441, paragraph 4, part 2, of the Civil Code, is appropriate, in that it is reasonable and not arbitrary in the circumstances, for the purpose of determining an issue price for the shares corresponding to their market value at the time the Options are granted by the Board of Directors to the Beneficiaries of the Stock Option Plan.

Padua, 21 March 2014

PricewaterhouseCoopers SpA

*Signed by*

Massimo Dal Lago  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*