

EXPLANATORY NOTE TO THE ILLUSTRATIVE REPORT DRAWN UP BY THE DIRECTORS PURSUANT TO ARTICLE 125—TER OF LEGISLATIVE DECREE 58/98 AND ARTICLE 72 AND ANNEX 3A TO CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS, REGARDING THE FIRST AND SECOND ITEM ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING SCHEDULED FOR 29 OCTOBER 2018, IN SINGLE CALL.

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Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The issuer's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions. All forward-looking statements included herein are based on information available as of the date hereof. No undertaking or obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law is accepted

this explanatory note is made available to the public at the registered office of Safilo Group S.p.A. in Padua - Settima Strada no. 15, on the Safilo Group S.p.A's website www.safilogroup.com/enit/investors.html and on the authorised storage mechanism 1INFO.

This explanatory note (the “**Explanatory Note**”) has been prepared by Safilo Group S.p.A. (“**Safilo**”, the “**Issuer**” or the “**Company**”) made upon request from CONSOB, pursuant to article 114, paragraph 5, of legislative decree 58/98, received on 25 October 2018, and shall be an integral part of the illustrative report drawn up by the directors pursuant to article 125-ter of legislative decree 58/98 and subsequent amendments, regarding the first and second item on the agenda of the extraordinary shareholders’ meeting scheduled for 29 October 2018, in single call (the “**Illustrative Report**”) and published on the Safilo Group S.p.A.’s website (www.safilogroup.com) on 4 October 2018.

Please refer to the information provided in the Illustrative Report which remain valid where not expressly modified, clarified or updated by this Explanatory Note.

The terms that follow which commence with a capital letter, where they are not expressly defined in the press release, have the same meaning as in the Illustrative Report.

Copy of this Explanatory Note is made available on Safilo Group S.p.A.’s website and on the authorised storage mechanism 1INFO and will be distribute to the shareholders at the shareholders’ meeting convened on 29 October 2018, if they so request.

Dear Shareholders,

With reference to the extraordinary Shareholders' Meeting convened on 29 October 2018, in single call, regarding the following items:

1. the cancellation of the expressed par value of the ordinary Company's shares issued as well as;
2. subject to the approval by the Shareholders' Meeting of the proposal as per the point above 1, the share capital increase for consideration, up to a maximum amount of Euro 150,000,000, including any share premium, to be performed divisibly, by and not later than August 31, 2019, through the issue of new ordinary shares without any indication of par value with the same characteristics as those already issued, to be offered in option to the Company's shareholders pursuant to Article 2441, subsections 1, 2 and 3 of the Italian Civil Code ("**Share Capital Increase**")

the following is specified.

* * *

In addition to what is stated and illustrated in paragraphs 1 and 2 ("*reasons for and use of share capital increase*" and "*analysis of the structure of the Company's net financial indebtedness*") of Section B of the Illustrative Report, Safilo provides the following additional information.

The following chart shows the consolidated net financial indebtedness in the short and medium-long term as of 30 September 2018 and 30 June 2018. The financial data as of 30 September 2018

The overall financing needs of Safilo Group as of 30 June 2018 for the 18 months to 31 December 2019 are estimated at approximately Euro 220 million. It is expected that, on the basis of the

Net financial position		As at September	June 30,	
<i>(Euro/000)</i>		30, 2018	2018	Change
A	Cash and cash equivalents	156,442	112,935	43,507
B	Cash and cash equivalents included as Assets held for sale	-	-	-
C	Current securities (securities held for trading)	-	-	-
D	Liquidity (A+B+C)	156,442	112,935	43,507
E	Receivables from financing activities	-	-	-
F	Bank overdrafts and short-term bank borrowings	(4,209)	(3,994)	(215)
G	Current portion of long-term borrowings	(296,473)	(280,081)	(16,392)
H	Other short-term borrowings	-	-	-
I	Debts and other current financial liabilities (F+G+H)	(300,682)	(284,075)	(16,607)
J	Current financial position, net (D)+(E)+(I)	(144,240)	(171,140)	26,900
K	Long-term bank borrowings	-	-	-
L	Bonds	-	-	-
M	Other long-term borrowings	-	-	-
N	Debts and other non current financial liabilities (K+L+M)	-	-	-
Net financial position (J)+(N)		(144,240)	(171,140)	26,900

currently available data, such overall financing needs updated as of 30 September 2018 will not differ significantly from the estimate on 30 June 2018.

The Issuer intends to cover abovementioned overall financing needs of Safilo Group, equal to approximately Euro 220 million, through:

- financial resources, equal to approximately Euro 146 million, deriving from the Share Capital Increase, net of the estimated charges relating to the carrying out of the transaction, and allocated ultimately to the repayment of the equity-linked notes with a total par value of Euro 150,000,000, maturing on 22 May 2019, denominated “*Safilo Group EUR 150 million, 1.25% Guaranteed Equity-Linked Bonds due 2019*” (the “**Equity-Linked Notes**”);
- the extension of the maturity date of the current credit revolving facility entered into on 29 July 2014, as subsequently amended and supplemented, for a total amount of Euro 150 million, unsecured (the “**Revolving Credit Facility**”) from 30 November 2018 to 31 January 2019;
- the refinancing of the Revolving Credit Facility in relation with a new loan agreement (for a total amount of Euro 150 million) (the “**New Loan Agreement**”) finalised today.

The New Loan Agreement provides the lending of a term loan facility of Euro 75,000,000.00 (the “**Term Facility**”) and a revolving credit facility of equal amount (the “**New Revolving Credit Facility**”), both maturing on 30 June 2023.

The provision of the Term Facility and the New Revolving Facility pursuant to the New Loan Agreement is, *inter alia*, conditional on the Share Capital Increase, while the Share Capital Increase is functionally linked to the New Loan Agreement as both actions are aimed at the repayment of part of the existing indebtedness.

Moreover, the undertaking of Multibrands Italy B.V. (“**Multibrands**”) to subscribe and pay in cash also all the new Shares resulting from the Share Capital Increase is in turn subject to the subscription of the New Loan Agreement, that has been finalised today, substantially in accordance with the terms and conditions contained in the term sheet negotiated with the financing banks.

Therefore, in the event the Share Capital Increase is not subscribed for an amount (gross of transaction costs) of approximately Euro 150 million, the current financial indebtedness will not be refinanced. In order to cover the overall financing needs above, Safilo Group would have to find additional capital and/or credit lines which, at the date of this Explanatory Note, are not in sight and, should such resources not be found, the prospect of the going concern of Safilo Group would be compromised.

Specifically, either at the maturity date of the Revolving Credit Facility scheduled for 30 November 2018, and at new maturity date of 31 January 2019 as extended in the context of the New Loan Agreement, the Group would not be able to have sufficient liquidity, in excess of the ordinary operating needs, to repay this debt.

* * *

In addition to what is stated and presented in Paragraph 2 (“*analysis of the structure of the Company’s net financial indebtedness*”) Section B of the Illustrative Report, Safilo provides the following additional information.

As stated in the press release of 2 August 2018, the Board of Directors of the Company has approved, *inter alia*, a five year «*Business Plan which includes an update of the previous 2020 Plan*». Safilo envisages that the total investment programme of approximately Euro 80 million included in the update to the 2020 business plan, as well as the costs related to commitments under

the licence agreements currently in place for the production and the marketing of sunglasses and optical frames will be financed through available cash and Group's available credit lines.

With respect to licence agreements, which lead to certain commitments for royalties and advertising and marketing expenses, calculated on the basis of contractually guaranteed minimum amounts, as per the information available at the date of the 2017 financial statements, Safilo estimated that such commitments amount to approximately Euro 113 million for financial year 2018 and to Euro 215 million for the two-year period 2019-2020. Advertising and marketing costs represented approximately half of the above-mentioned total commitments.

* * *

To complete the pro-forma financial information stated and illustrated in paragraphs 2 ("analysis of the structure of the Company's net financial indebtedness") of Section B of the Illustrative Report, Safilo estimates the effects of the higher pro-forma financial expenditure on the Group's economic performance, as if the Share Capital Increase had been virtually subscribed on 1 January 2018 for the repayment of the Equity linked Notes and the New Loan Agreement had replaced the Revolving Credit Facility, to be approximately Euro 5 million in the first six months of 2018.

In particular, the estimate of the above-mentioned amount includes: (i) the higher financial expenditure related to accounting effect of "acceleration" of the figurative charges and the transaction costs of the Equity Linked Notes and the Revolving Credit Facility, which, on an accrual basis, would have had an impact over their maturity; (ii) the lower financial expenditure relating to the Equity Linked Notes and the average drawdown of the Revolving Credit Facility in the first semester of 2018; and (iii) the higher financial expenditure related to the utilization of the New Loan Agreement and to the accrual of the related transaction costs.

For information on principles, valuation criteria, assumptions and limitations related to the pro-forma data, please make reference to the Illustrative Report.

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In addition to what is stated and illustrated in paragraph 9 ("*effects on the unit value of shares of any dilution of this value*") of Section B of the Illustrative Report, Safilo provides the following additional information.

As indicated in the Illustrative Report, shareholders not subscribing the offer in option in relation to their pertaining quota shall undergo a dilution of their own interest following the issue of new shares which is not possible to quantify at present, given that the issue price and exact number of shares to be issued shall only be decided by the Board of Directors in the run-up to the launch of the rights offer of new shares resulting from the Share Capital Increase.

It is hereby noted that the shareholders (i) not subscribing the offer in option in relation to their pertaining quota; and (ii) not selling option rights belonging to them during the negotiation period of option rights, would suffer a loss equal to the value of such option rights belonging to them.

It is hereby recalled that, pursuant to the Subscription Agreement, the shareholder Multibrands undertook, subject to certain conditions precedent, to subscribe and pay in full (i) all the new shares underlying the option rights relating to its existing holding in the context of the Share Capital Increase, and (ii) all the new shares which remained unsubscribed after the offer in option and the subsequent offer on the stock exchange pursuant to Article 2441 (3) of the Italian Civil Code.

Therefore, the non-subscription by the shareholders of the Company of the offer in option for their pertaining quota would trigger the Multibrands' undertaking to subscribe the remaining shares (at same price of the offer in option, which reflects a discount on the theoretical ex right price – TERP

of the existing shares applied according to market practice for similar transactions) and would cause an increase (including an increase potentially material) of the overall shareholdings of Multibrands in the Company's share capital.

* * *

In addition to what is stated and illustrated in paragraph 3 (“*shareholders that expressed their willingness to subscribe the Share Capital Increase*”) of Section B of the Illustrative Report, Safilo provides the following additional information.

- the maximum amount that the Company has committed to pay to Multibrands as consideration for the undertaking to subscribe the new shares in the number corresponding to the subscription rights that may remain unexercised at the end of the offer of the unexercised rights on the stock exchange pursuant to article 2441, third paragraph of the Italian Civil Code (the “Subscription Undertaking”), is equal to Euro 1.751,700,00. Such consideration will be paid if the Subscription Agreement is not resolved and if the Share Capital Increase is completed within the maximum deadline established as March 31, 2019, subject to possible extension;
- the Company has also pledged to reimburse to Multibrands all costs and expenses reasonably incurred in relation to the Subscription Agreement, its execution and the fulfilment of its foreseen obligations, including, i.e.: fees and expenses due to any type of authority, also including legal, financial and tax advisors, up to a maximum amount of Euro 250.000,00;
- the execution of Subscription Agreement has been considered a minor transaction with a related party and, as such, has been approved by the Board of Directors on September 26, 2018 on the basis of the favourable opinion of the Related Parties Committee dated September 21, 2018, on the interest of the Company in entering the Subscription Agreement and on the convenience and substantial fairness of the relevant terms and conditions. To qualify the transaction concerned as a minor one, the Relevance Index of the Counter value has been applied (given by the ratio between the counter value of the transaction and the greater between the shareholders' equity taken from the most recent consolidated balance sheet published by Safilo and the Safilo market capitalization at the close of the last open market day of the relative reference period) which is below the threshold of 5% in line with the table below:

Financial Data as of 30 June 2018		Relevance Index of the counter value
Consolidated Shareholders' equity	Euro 529.758.159	0,4%
Market capitalization	Euro 281.343.243	0,7%

- The performance of the Subscription Undertakings of Multibrands is not backed by any form of guarantee or collateral.

A copy of the favorable opinion of the Related Parties Committee dated September 21, 2018 is attached herewith.

* * *

Padova, 26 October 2018

The Chief Executive Officer

Ing. Angelo Trocchia

To the members of the Board of Directors of Safilo Group S.p.A.

Dear Sirs,

In compliance with applicable regulation concerning transactions with related parties, including Safilo Group Rules for Transactions with Related Parties (the "**Rules**"), the Transactions with Related Parties Committee (the "**TRP Committee**") of SAFILO GROUP S.P.A. (the "**Company**") has been required to express its non-binding opinion about the agreement between Safilo Group S.p.A., on one side, and the reference shareholder Multibrands Italy B.V. (the "**Shareholder**"), on the other side (the "**Agreement**"), before the submission to the final approval of this Board of Directors.

* * *

The TRP Committee has received all the documentation and information necessary to give this opinion.

Since the "Equivalent-value relevance ratio" (i.e. the ratio between the counter value of the Transaction and the greater value of either net equity value - most recent figure published - or the market capitalization of Safilo), calculated in compliance with the Rules is lesser than the 5% threshold, the Agreement is to be qualified as a Transaction with Related Parties of Lesser Importance, and as a consequence subject to the preliminary non-binding opinion of the TRP Committee.

In this respect, refer to Gianni, Origoni, Grippo, Cappelli & Partners Memorandum (Attachment 1).

The Agreement is to be evaluated in the context of a share capital increase for a maximum amount of Euro 150 million to be offered in option to the Company's shareholders pursuant to Article 2441, subsections 1, 2 and 3 of the Italian Civil Code (the "**Capital Increase**"), as a part of the overall refinancing process of the Safilo Group.

More in details, under the Agreement, the Shareholder would undertake to (i) subscribe for and pay its own stake in the capital increase (41.61%) as well as to (ii) subscribe for and pay in cash at the issue price all the remaining new shares pertaining to the subscription rights that remain unexercised at the end of the market auction as provided for by Article 2441, subsection 3, of the Italian Civil Code.

In relation to the undertaking under (ii) above, the Agreement provides for the payment to the Shareholder from the Company of:

- 2% (two per cent) of the **Effective Risk** (the "**Fees**"), defined as the final size of the capital increase, as determined on the basis of the issue price and the number of new shares to be issued, deducted the countervalue of the new shares relating to the Shareholder's entitlement undertaking under (i) above and the countervalue of the new shares to be subscribed under any irrevocable commitments of other Company's shareholders (if any) which will be disclosed in the Prospectus drafted for the capital increase to be approved by the Commissione Nazionale per le Società e la Borsa ("**CONSOB**"), equal to a maximum amount of Euro 1,751,700 and payable if the Agreement is not terminated, and upon completion of the capital increase within a long stop date;
- all expenses and costs reasonably incurred by the Shareholder related to and connected with the Agreement and its execution and the fulfilment of Shareholder's obligations, including, by way of example, fees and expenses due to any authorities, its legal, accounting and tax counsels with a cap of Euro 250,000 (the "**Shareholder's Expenses**").

Both Fees and Shareholder's Expenses are due for payment by the Company to the Shareholder within 10 days of receipt of an invoice.

On the basis of the documentation and information made available to the TRP Committee, there is the evidence that the amount of the Fees is below the minimum of the market ranges and the averages and median values which are generally applied by financial institutions acting as pre-underwriters and underwriters in rights issues transactions having characteristics similar to the Capital Increase.

This conclusion is also confirmed by adding the Shareholder's Expenses to the Fees.

The TRP Committee has acknowledged that the Agreement includes certain conditions to the Shareholder's obligations as well as provisions dealing with withdrawal and termination which, also based of the memorandum prepared by Linklaters appear to be not worse than those usually applied by financial institutions acting as pre-underwriters and underwriters in rights issues transactions having characteristics similar to the Capital Increase.

With regard to the Company's convenience in entering into the Agreement it is worth noting that the Agreement: (a) will consent to the Company to obtain a high degree of likelihood about the full success of the Capital Increase corresponding to that listed companies in general look for when executing pre-underwriting and underwriting agreements with financial institutions; (b) will provide for a cash injection to the Company enabling it to proceed with the implementation of Safilo Group's business plan approved by the Board of Directors on August 2, 2018 (the "**Business Plan**"); (c) will offer to the Company the opportunity to reduce the timeframe for the desirable completion of the Capital Increase; and (d) thus enable also the refinancing of the Group's revolving credit facility which the management of the Company is negotiating with the banks.

At the end of the evaluation of the documentation and the information given by the Group CFO/Manager responsible for the preparation of the company's financial documents and by the Group General Counsel about the Transaction – which constitutes a "transaction with related parties of lesser importance", the TRP Committee has considered, at the date of this Report, the interest of the Company in entering into the Agreement in the context and for the purposes of the Capital Increase, as well as the convenience and substantial fairness of the relevant terms and conditions. Therefore, the TRP Committee, at the date of this Report, gives its favourable opinion.

* * *

Attachments

Gianni, Origoni, Grippo, Cappelli & Partners Memorandum September 14, 2018 (Attachment 1)

Padua, September 21, 2018

Memorandum

To: Safilo Group S.p.A. - Related Parties Transactions Committee

From: Gianni, Origoni, Grippo, Cappelli & Partners

Date: Rome, September 14, 2018

Reference: Project Phoenix 2

This memorandum is aimed at providing our considerations with respect to a potential transaction involving the share capital increase of Safilo Group S.p.A. (“**Safilo**” or the “**Company**”), to be offered for subscription to the existing shareholders pursuant to Section 2441, paragraph 1, of the Italian Civil Code (“**ICC**”) for an amount of Euro 150 million (the “**Capital Increase**”), assisted by the undertaking of Multibrands Italy B.V. (the “**Shareholder**”), that is the current largest shareholder of the Company and is controlled by HAL Holding N.V. (“**HAL**”), to (i) exercise entirely its option rights and subscribe the relevant portion of the Capital Increase and (ii) acquire the entire portion of the Capital Increase possibly remaining unsubscribed by the Company shareholders, by virtue of an *ad-hoc* contractual arrangement (the “**Subscription Agreement**”).

In this contest we are pleased to illustrate and analyse herein below the applicability of the related parties’ transactions regulation (Consob Regulation no. 17221/2010, “**RPT Regulation**”). To this purpose we have been informed that HAL is not a listed company.

* * *

RPT Regulation provides for specific obligations and rules with respect to transactions carried out with certain entities’ categories (each an “**RPT**”), deemed subject to a significant “risk of exploitation of private advantages” (so called tunnelling phenomenon). Among the RPTs are, first of all, those between the listed company and its controlling entity.

In the case at stake, it is worth noting that:

- the exercise by the Shareholder of the option rights arising from the Capital Increase and the subscription of the relevant Safilo shares will not be subject to the RPT Regulation. As clarified by Consob in its communication no. DEM/10078683 dated September 24, 2010, capital increase transactions effected pursuant to Section 2441, paragraph 1, of the Italian Civil Code, and therefore contemplating the option rights of the existing shareholders, cannot be considered as relevant related parties transactions, because shares are offered at equal terms and conditions to all the shareholders (i.e. to those qualifying as related parties as well as to those not having such nature);
- the execution of the Subscription Agreement is instead subject to the RPT Regulation, as contractual arrangement negotiated and signed between the listed company and its larger shareholder. Therefore, the existence of a corporate interest in the completion of the transaction, as well as the convenience and substantial correctness of the underlying terms, shall be ensured

and attested with respect to the Subscription Agreement, *inter alia*, by the opinion of the Company's Related Parties Transactions Committee, a committee composed of non-executive directors, the majority of which holding the independence requirements (see below). In this contest, the terms and conditions contemplated by the Subscription Agreement shall be compared with those applied in the standard market practice. Indeed, the execution of the agreement with the Shareholder, rather than with market operators (such as banks or other financial institutions typically involved in this kind of transactions), shall be reasonable, justified and convenient under a corporate interest perspective (of course, the Subscription Agreement should be considered convenient if the fees/commissions are lower than those usually applied on the market).

Without going into detail as to the content of the RPT Regulation, it suffices to recall that such legal framework includes procedural rules (i.e. the involvement of the committee in charge of releasing an opinion the transaction) and transparency rules (i.e. obligations of periodic and specific information to Consob and disclosure obligations to the market).

The RPT Regulation distinguishes major and minor RPTs, based on the economic value of the transaction, to be calculated in accordance with certain economic/financial criteria (i.e., total shareholders' equity, capitalization, total assets, total liabilities, etc.). Should any of the criteria lead to an amount higher than a threshold of 5% (the "**Threshold**"), the transaction would qualify as a major RPT. Both procedural and transparency rules vary on the basis of the major or minor nature of the RPT. Of course, major RPTs' regulation is stricter.

To this purposes we have been informed by the Company that, given the proposed fees that would be agreed upon by and between the Shareholder and the Company, the execution of the Subscription Agreement by the Company may be qualified as a minor RPT and not as a major one. In making this statement, with your permission we rely on the figures set forth in page no. 4 of the presentation headed "*Safilo Group HAL Holding – Phoenix 2 Subscription Agreement*", we received from the Company, which has been prepared to illustrate the matter to the Company's Related Parties Transactions Committee.

Since the execution of the Subscription Agreement qualifies as a minor RPT, Paragraph 3.1 of the Company's Procedure for Related Parties Transaction (the "**Procedure**") shall apply.

Paragraph 3.1 of the Procedure provides, *inter alia*, for the following:

- (i) minor RPT have to be approved by the Board of Directors or the Managing Director to which the former delegated the relevant powers;
- (ii) the Company's Related Parties Transactions Committee has to deliver to the Board of Director its non-binding opinion on minor RPTs for the purposes of their approval;
- (iii) the non-binding opinion of the Company's Related Parties Transactions Committee have to consider the Company's interest in pursuing and executing the minor RPT, and the convenience and correctness of its conditions. On the other hand same opinion cannot provide any business judgement and elaborate on further aspects of the minor RPT.

* * *

We remain at your disposal for any additional information and/or clarifications you may need. Should the features of the subject transaction vary, we will be glad to expand our analysis accordingly.