

*Report of the Directors pursuant to article 3 of the Ministerial Decree no. 437 of November 5, 1998 and article 72 of the Consob Regulation adopted by means of resolution no. 11971 of May 14, 1999 (as subsequently amended)*

---



**BOARD OF DIRECTORS' REPORT CONCERNING THE CAPITAL INCREASE FOR THE  
PURPOSE OF THE STOCK OPTION PLAN 2010-2013**

**Drafted pursuant to article 3 of the Ministerial Decree no. 437 of November 5, 1998 and article 72 – as well as in compliance with Annex 3A, layout no. 2 – of the Consob Regulation adopted by means of resolution no. 11971 of May 14, 1999 (as subsequently amended)**

**TO THE EXTRAORDINARY SHAREHOLDERS' MEETING  
called on November 4, 5 and 8, 2010**

## **Foreword**

Dear Shareholders,

Dear PricewaterhouseCoopers,

Dear Audit Committee,

The Board of Directors of Safilo Group S.p.A. (the "**Company**") held on October 4, 2010, resolved to submit to the Ordinary and Extraordinary Shareholders' Meeting of the Company, called – as far as the Ordinary and Extraordinary session is concerned – at the secondary office of the Company, in Padua, Settima Strada no. 15, on November 4, 2010, at 10.00 a.m., on first call, and on November 5, 2010, same time and place, on second call, and – as far as the Extraordinary session only is concerned – also on November 8, 2010, same time and place, on its possible third call, the items set forth under the following

### AGENDA

#### Ordinary Session

##### **Omissis**

***[Please refer to the separate report drafted by the Board of Directors pursuant to article 3 of the D.M. no. 437 of November 5, 1998, article 114-bis of Legislative Decree No. 58/1998 - Attachment: Informative Document prepared according to article 84-bis - as well as in compliance with Annex 3A, layout no. 7 – of the Consob Regulation]***

#### Extraordinary Session

- (i) ***Omissis [Please refer to the separate report drafted by the Board of Directors pursuant to article 3 of the D.M. no. 437 of November 5, 1998 and article 72 - as well as in compliance with Annex 3A, layout no. 3 – of the Consob Regulation]***
- (ii) Proposal of paid and separable capital increase with exclusion of the option rights according to Article. 2441, paragraph 4, of the Civil Code, for the purposes of the incentive plan (Stock Option Plan) in favor of a selected group of directors and/or employees of Safilo Group S.p.A., and/or other companies belonging to Safilo Group, up to maximum of no. 1.700.000 ordinary shares, par value of Euro 5.00 each, for a maximum nominal value of Euro 8.500.000; Related amendments to article 5 of the Company's Bylaws; Related resolutions;

This Report shall be read together with: (i) the separate report concerning the proposals relating to the items of the agenda of the Ordinary Shareholders' Meeting drafted pursuant to article 3 of Ministerial Decree no. 437 of November 5, 1998, article 114-bis of Legislative Decree No. 58/1998 with in attachment the Informative Document prepared according to

article 84-bis - as well as in compliance with Annex 3A, layout no. 7 - of the Consob Regulation, and (ii) the report concerning the proposals relating to the other items of the agenda of the Extraordinary Shareholders' Meeting drafted pursuant to article 3 of Ministerial Decree no. 437 of November 5, 1998 and article 72 - as well as in compliance with Annex 3A, layout no. 3 - of the Consob Regulation.

\* \* \*

Dear Shareholders,

the Board of Directors' meeting held on 4 October 2010 decided to convene you to this general shareholders' meeting in order to bring to your attention the proposed paid capital increase of the Company (hereinafter "**Capital Increase**"), up to a maximum nominal value of Euro 8.500.000, excluding shareholders' option rights, - under Article 2441, paragraph 4, of the Italian Civil Code, by means of the issuance of up to a maximum of 1.700.000 cum-coupon common stocks, with the par value equal to 5.00 Euros - aimed for the purpose of 2010-2013 Stock Option Plan in favor of directors and/or employees of the Company and/or its Subsidiaries, to be subscribed no later than May 31, 2019.

## **1. Reasons and aim of capital increase**

The Capital Increase, as stated above, is aimed for the purpose of the share incentive plan called "Stock Option Plan Safilo Group SpA 2010 - 2013 " (hereinafter the "**Plan**"), whose guidelines has been submitted for approval to the ordinary shareholders' meeting by the Board of directors; for this purpose reference shall be made to the separate report which has been drafted on purpose.

The reasons for the implementation of a share incentive plan, which the Capital Increase is aimed at, can be found in the opportunity to provide the Company with an efficient instrument for retention of employees who are a key driver of growth both for the Company and its Subsidiaries ("**Management**" or "**Beneficiaries**").

In addition to employee retention objectives, the Plan is also implemented to offer management incentives through the use of an instrument aimed at assuring and aligning management and shareholders' economic interest in a further share price increase.

As a consequence the stock incentive plan Beneficiaries' performance will be further boosted and directed to converge toward those goals, determined in order to assure the further economic, financial and net worth development of both the Company and its Subsidiaries.

## **2. Board of Directors' notes about the connection between the stock issue price and their market value**

Considering that, according to the Plan guidelines submitted to the shareholders' general meeting for approval by the Board of directors, options under the plan can be granted in four tranches, whose amount will be determined by the Board of Directors, also taking into account the performance and the professional skills of the Beneficiaries, the Board of Directors decided to illustrate here below the determination criteria of the shares issue price to the general shareholders' meeting.

The issue price of the new shares shall correspond to the volume weighted average price of the Company shares registered on the Italian stock exchange (Mercato Telematico Azionario) for the preceding month leading up to the day on which the Board of directors resolves the granting of options under the Plan (i.e. the period starting from the day preceding the Board of directors' meeting which resolves the granting of Options under the Plan and ending on the same day of the previous calendar month, being understood that, during the aforesaid period, only trading days will be taken into account to determine the weighted average). Nevertheless the first tranche shares, assigned in occasion of the first Board of directors' meeting occurring after the Plan approval by the shareholders' general meeting, will have an issue price equal to Euro 8,0470, which corresponds to the volume weighted average price of the Shares registered on the Italian stock exchange (Mercato Telematico Azionario) during the month of July 2010, corresponding to the month preceding the date on which the Remuneration Committee has submitted to the Board of directors, for the first time, the opportunity to adopt a stock incentive plan.

The criteria proposed by the Board of Directors, as stated above, permits to consider a time period long enough to remove financial market volatility from the result, indicating the Company market price, and corresponds to the best practices of financial markets used to determine the subscription price of newly issued shares under stock option plans in favor of employees and directors.

In this regard, the Board of Directors has asked PricewaterhouseCoopers, which is the company in charge of Safilo Group S.p.A. auditing, for the release of the report required to be made available to the public under Italian law.

### **3 Amendments made to Company's Bylaws**

Because of the Capital Increase pursuant to the implementation of the Plan, article 5 of the Company's Bylaws shall be amended accordingly. The proposed wording to be inserted into the article 5 is hereinafter attached.

<i>Current Text</i>	<i>Amended Text</i>
<i>The share capital is equal to Euro</i>	<i>The share capital is equal to Euro</i>

<p>284.109.825,00 and is splitted in n. 56.821.965 ordinary shares, par value Euro 5,00 (five/00) each.</p> <p>The option right may be excluded in the increase of the share capital by up to ten percent of existing capital, provided that the issue price corresponds to the market value and that it is confirmed by the company responsible for the auditing of the accounts in accordance with Article 2441, fourth paragraph, second sentence, the Civil Code, by means of a special report.</p>	<p>284.109.825,00 and is splitted in n. 56.821.965 ordinary shares, par value Euro 5,00 (five/00) each.</p> <p>The option right may be excluded in the increase of the share capital by up to ten percent of existing capital, provided that the issue price corresponds to the market value and that it is confirmed by the company responsible for the auditing of the accounts in accordance with Article 2441, fourth paragraph, second sentence, the Civil Code, by means of a special report.</p> <p><b>By virtue of what has been specified, the extraordinary meeting of November 5, 2010 resolved to increase the share capital by a maximum nominal value of Euro 8.500.000,00 by issuing new ordinary shares for an amount up to a maximum of no n. 1.700.000, par value Euro 5,00 (five/00) each, to be offered for subscription to directors and/or employees of the Company and its subsidiaries.</b></p>
---	---

\*\*\*

The Board therefore submits the following resolution for your approval:

"The extraordinary shareholder's meeting of Safilo Group S.p.A.,

- Taken note of the report of the Board of Directors concerning the capital increase proposal with exclusion of the option right drawn-up according to law provisions;
- Taken note of the report of the audit company and the [favorable] opinion of the Audit Committee;

**deliberates**

- (a) TO INCREASE the capital of the Company for a nominal value equal to Euro 8.500.000, according to article 2441, paragraph 4, second sentence, of the Civil Code and to art.

*5 of the articles of association, by means of the issuance of a maximum of 1.700.000 ordinary shares, par value 5 each, with the same characteristics and the same rights as the outstanding share capital. The shares are offered for subscription to the directors and/or employees of the Company and/or its subsidiaries, at the price and with the terms decided by the Board of directors for the implementation of the Plan as illustrated by the Chairman, stating that according to Article. 2439, paragraph 2, of the Civil Code, the deadline for the subscription is May 31, 2019, and providing that if within the said period the capital increase was not fully subscribed, according to the terms and conditions herein, the share capital will be increased by an amount equal to the subscriptions received;*

- (b) TO CONFER to the Board of directors, the right to establish the issue price of the shares that will be equal to the volume weighted average price of the Shares registered on the Italian Stock Exchange (Mercato Telematico azionario) for the preceding month leading up to the day on which the Board of directors resolves the granting of the subscription rights (the preceding month is the period from the day preceding the Board of Directors meeting which resolves the granting of the rights to the same day of the previous calendar month. For the purposes of calculating the volume weighted average, only the trading days will be taken into account) with exemption of the price established for the first tranche which will grant the subscription rights, equal to Euro 8.0470, which corresponds to the volume weighted average price of the Shares registered on the Italian stock exchange (Mercato Telematico Azionario) during the month of July 2010;*
- (c) TO CONFER to the Board of Directors, any power in order to implement this resolution, including without limitation, the right to determine the time of the granting of the subscription rights, to identify the beneficiaries as proposed by the Remuneration Committee and determine the quantity of subscription rights to be granted to each of them (also in more tranches), the potential period from the grant over which the options become exercisable, the future of the subscription rights not yet exercised or not yet exercisable at the time of extinction of the relationship - for whatever reason - between the beneficiaries and the Company and/or its subsidiaries, the amendments in case of a change in the social security legislation or taxation or otherwise relevant for the implementation of stock option plans, already approved or future and potential;*
- (d) TO AMEND accordingly the text of article 5 of the Company by-laws and replace it with the following text: " The share capital is equal to Euro 284.109.825,00 and is splitted in n. 56.821.965 ordinary shares, par value Euro 5,00 (five/00) each.*

*The option right may be excluded in the increase of the share capital by up to ten percent of existing capital, provided that the issue price corresponds to the market value and that it is confirmed by the company responsible for the auditing of the accounts in accordance with Article 2441, fourth paragraph, second sentence, of the Civil Code, by means of a special report.*

*By virtue of what has been specified above, the extraordinary meeting of November 5, 2010 resolved to increase the share capital by a maximum nominal value of Euro 8.500.000,00 by issuing new ordinary shares for a maximum amount equal to n. 1.700.000, par value Euro 5,00 (five/00) each, to be offered for subscription to directors and/or employees of the Company and its subsidiaries”;*

- (e) TO CONFER to the Managing Director who can sub-delegate someone else the wide power to take care of the required formalities needed for the precise execution of the present resolutions, with the right to amend, following the full and/or partial exercise of the options and related full and/or partial execution of the capital increase in favor of the Plan , article 5 of the Company’s Bylaws, every time this is required, and provide for the related official registration, pursuant to art. 2436, paragraph 2, of the Civil Code.*