

# **SAFILO GROUP S.p.A.**

## **2009 REPORT ON CORPORATE GOVERNANCE and OWNERSHIP STRUCTURE**

**pursuant to Article 123 bis CFA, and articles 89-bis of the CONSOB  
Issuers' Regulation and IA.2.6 of the Stock Market Regulation  
Instructions**

**(Traditional management and control model)**

**Approved by the Board of Directors on 29 March 2010**

**Website** [www.safilo.com](http://www.safilo.com)

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## GLOSSARY

In this Report, unless a different meaning is clear from the context, the following terms and expressions, when beginning with a capital letter, shall have the meanings set out below:

**Code:** the Listed Companies' Corporate Governance Code approved by the Corporate Governance Committee in March 2006 and promoted by Borsa Italiana S.p.A.

**Civil Code/CC:** the Italian Civil Code

**Board of Directors:** the Board of Directors of SAFILO GROUP S.p.A.

**Board of Statutory Auditors:** the Board of Statutory Auditors of SAFILO GROUP S.p.A.

**Financial year:** the financial year referred to by the Report, which ended on 31 December 2009

**Group:** indicates the company SAFILO S.p.A. and its subsidiary and associate companies, as defined by Article 2359 of the Civil Code

**Instructions to Stock Market Regulations:** the Instructions to the Regulations for Markets organised and managed by Borsa Italiana S.p.A.

**Guidelines:** the Guidelines for Conducting Significant Transactions and Related-Party Transactions, adopted by the Board of Directors on 23 March 2007, which define transactions having a significant impact and transactions in which a director has an interest, either on his own account or on behalf of third parties.

**STM:** the Screen-based Trading Market organised and managed by Borsa Italiana S.p.A.

**Stock Market Regulations:** the Regulations governing Markets organised and managed by Borsa Italiana S.p.A.

**Issuers' Regulation:** the Regulation that implements the CFA (the Italian Consolidated Finance Act) and adopted by the CONSOB [Italian securities & exchange commission] in Resolution no. 11971 of 1999

**Report:** the corporate governance report that companies are required to prepare pursuant to Articles 89-bis of the CONSOB Issuers' Regulation and IA.2.6. of the Instructions to the Stock Market Regulations

**Website:** the Company's website [www.safilo.com](http://www.safilo.com)

**Company:** SAFILO GROUP S.p.A.

**Articles of Association:** the Articles of Association of SAFILO GROUP S.p.A., in the version last updated on 25 March 2010, published on the Company's website

**CFA:** Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Finance Act).

It is pointed out that other definitions, which may only relate to some paragraphs, may also be included in the text of the Report.

## 1. ISSUER'S PROFILE

Pursuant to the provisions of Article 89-bis of the Issuers' Regulation and Article IA.2.6 of the Instructions to Stock Market Regulations, SAFILO GROUP S.p.A. publishes an annual report on its corporate governance system and adherence to codes of conduct.

With a view to the admission of its shares to trading on the STM, in the second half of 2005 SAFILO GROUP S.p.A. adapted its corporate governance system to comply with the recommendations of the Self-Governance Code drawn up by the Listed Companies' Corporate Governance Committee, in the version published in 1999 and revised in 2002.

In FY 2007, the update of the Company and Group corporate governance system was completed in compliance with the application criteria introduced by the Code, and consequently the Board of Directors took all measures deemed necessary and/or appropriate and supplemented and widened its own powers and tasks.

In particular, the Board of Directors took action to:

- adopt a procedure for election of the members of the Board of Directors based on lists of candidates, in such a way as to ensure that they are appointed according to a transparent process and such as to assure timely and appropriate information about the personal and professional characteristics of the candidates for office;
- set the maximum number of offices as director or statutory auditor that can be held in other companies listed on regulated markets, also abroad, or in finance, banking or insurance companies or companies of significant size, compatible with appointment as director of the Company, while also establishing the criteria for defining "companies of significant size" as indicated later on in paragraph 5.2;
- establish in the Articles of Association that the members of the Board of Statutory Auditors be elected in accordance with the statutory precepts introduced by Italian Law 262 of 28 December 2005 and Italian Legislative Decree 303 of 29 December 2006;
- adopt the "Guidelines for Conducting Significant Transactions and Related-Party Transactions", which define "significant transactions" and "related-party transactions", and the procedures to be followed for their approval;
- approve and update the "Internal Regulation for Corporate Information", which replaces and consolidates the individual procedures previously adopted by the Company in separate documents, and govern: (1) the management of corporate information, with special reference to privileged or price-sensitive information; (2) the internal dealing procedure and (3) the institution, keeping and updating of the "Insiders' Register";
- adopt measures designed to improve shareholder relations, in particular by appointing an investor relations officer.

In accordance with statutory and regulatory obligations, this Report contains a general description of the

corporate governance system of SAFILO GROUP S.p.A. and the Safilo Group, together with information about the Company's share ownership pursuant to Article 123-bis of the CFA, and information about compliance with the Code and performance of the consequent commitments.

## **2. INFORMATION ABOUT OWNERSHIP STATUS (pursuant to Art. 123-bis, paragraph 1 of the CFA) As at 31/12/2009**

### **a) Structure of share capital**

At 31 December 2009, share capital totalled Euro 71,348,532.00 and was divided into 285,394,128 ordinary shares with a par value of Euro 0.25 each.

All shares of the Company are registered, indivisible and freely transferable. They were traded on the STM – Blue Chip segment until 21 September 2008, and in the Standard (Class 1) segment from 22 September 2008 to 21 March 2010 and, as of 22 March 2010, are currently traded in the FTSE Italia Mid Cap index.

Table 1, which is attached, should be referred to for any further information regarding the structure of share capital.

Pursuant to the power granted by the Company's Extraordinary General Meeting on 24 October 2005, the Board of Directors resolved on 31 May 2006 to increase the Company's equity by means of a rights issue, excluding option rights pursuant to Article 2441.5 of the Civil Code, by up to a maximum par value of Euro 2,125,296.25 following exercise of the "Safilo Group S.p.A. Stock Option Plan 2006-2010" ("the 2006 Stock Option Plan"), approved by the Board on the same date.

The ordinary shares that will be issued to service the 2006 Stock Option Plan are redeemable shares, as defined by Article 2437-3-sexies of the Civil Code.

The right of redemption can be exercised by the Company when certain specific events specified in the Regulations of the 2006 Stock Option Plan occur, at the unit redemption value and according to the other terms and procedures specified therein.

Following their redemption, the Board of Directors must cancel the redeemed shares and reduce share capital accordingly, by resolving to reduce the share capital pursuant to Article 2365.2 of the Civil Code.

For more information on share-based incentive plans, or the 2006 Stock Option Plan, total reference should be made to the explanatory notes to the financial statements (paragraph 4.24, page 149), to the disclosure document prepared pursuant to Article 84-bis of the Issuers' Regulation and to the price-sensitive press release of 8 February 2008, which are all available on the website in the Investor Relations/Corporate Governance section.

In consideration of the fact that the conditions for the coming into existence of the option rights to be conferred pursuant to the "Safilo Group S.p.A. 2006-2010 Stock Option Plan" have never been fulfilled because the EBITDA targets set forth from time to time by the Board of Directors in relation to the

abovementioned plan (including the EBITDA targets relating to the 2009 financial statements of the Company) have not been reached, it is appropriate to consider the "Safilo Group S.p.A. 2006-2010 Stock Option Plan" as expired in advance.

## **b) Restrictions on transfer of securities**

There are no restrictions on the transfer of securities, such as, for example, limitations on the ownership of securities or the need to obtain the approval of the Company or of other owners of securities.

## **c) Significant shareholdings**

On the basis of the information available and notifications received in accordance with Article 120 of the CFA and Article 121 of the Issuer's Regulation, as at 31 December 2009 the shareholders owning over 2% of share capital were:

<b>Declarer</b>	<b>Direct shareholder</b>	<b>% of ordinary share capital</b>	<b>% of voting capital</b>
Vittorio Tabacchi	Only 3T. S.p.A.	39.893 %	39.893 %
HAL Holding NV	HAL International investment NV	2.082%	2.082%
Diego Della Valle	Diego Della Valle & C. Sapa	2.059%	2.059%
FIL Limited	FIL Limited	2.017%	2.017%

## **d) Securities carrying special rights**

The Company has not issued any securities that carry special rights.

## **e) Employee equity participation: mechanism for exercising voting rights**

There are no particular mechanisms for exercising voting rights in any employee stock ownership plan.

## **f) Restrictions on voting rights**

The Articles of Association do not establish any restrictions on voting rights.

## **g) Shareholder agreements**

Regarding the existence of shareholders' agreements relevant for the purposes of Article 122 of the CFA, it is pointed out that, as at 31 December 2009, the Company noted the existence of 2 (two) shareholders' agreements:

- 1) The first between HAL Holding N.V., Only 3T. S.p.A. and SAFILO GROUP S.p.A.; and
- 2) the second between HAL Holding N.V. and Mr. Roberto Vedovotto,

both signed on 19 October 2009, which were disclosed to the public in the legally required manner and

extracts of which were published on 29 October 2009 in the Italian daily newspapers "Corriere della Sera", "Il Sole 24 Ore", "La Repubblica" and "M/F".

With reference to the agreement between HAL Holding N.V., Only 3T S.p.A. and SAFILO GROUP S.p.A., as at 31 December 2009, Only 3T S.p.A. owned 113.853.160 shares, equal to 39.893% of share capital and HAL Holding N.V. owned 5.941.187 shares, equal to 2.082% of share capital. The shares included in the agreement were all the shares held by the parties.

With reference to the agreement between HAL Holding N.V. and Mr. Roberto Vedovotto, at 31 December 2009, HAL Holding N.V. owned 5.941.187 shares, equal to 2.082% of the share capital, and Mr. Roberto Vedovotto owned 1.200.000 shares, equal to 0.42% of the share capital. The shares included in the agreement were all the shares held by the parties.

## **h) Change-of-control clauses**

Some licence agreements concluded by the subsidiaries Safilo S.p.A. and/or Safilo USA Inc. provide the right for the licensor to withdraw from the agreement if certain events occur, such as, for example: (i) changes in control of the subsidiary Safilo S.p.A. or of the Company; (ii) acquisition of a majority equity interest in Safilo S.p.A. or in the Company by a direct competitor of the licensor; or/and (iii) appointment of a representative of the direct competitor of the licensor on the Board of Directors of the subsidiary Safilo S.p.A. or a significant change in management.

## **i) Delegation of power to increase share capital and authorisations to purchase the Company's own shares**

As indicated in the previous letter a), on 24 October 2005, the Company's Extraordinary Shareholders' Meeting delegated all powers to the Board of Directors to determine, after consulting the Remuneration Committee, the form and characteristics of a new medium-/long-term incentive plan, following the listing of the Company ("the 2006 Stock Option Plan"), with the aim of incentivizing and retaining management, with a view to development of the business of the Company and the Safilo Group in subsequent years, in line with the practice in the industry for listed companies. The Meeting also delegated powers to the Board of Directors, again after consulting the Remuneration Committee, to identify the beneficiaries of the 2006 Stock Option Plan.

The said Extraordinary Shareholders' Meeting held on 24 October 2005 also established that, if the 2006 Stock Option Plan were to be implemented in the form of allocation of stock options on newly issued Company shares, power should be delegated to the Board of Directors to resolve on the corresponding capital issue to service the Plan, up to a maximum par value of 3% of the total par value of the Company's share capital at the start of trading in the Company's shares on the STM, with a share premium to be determined by the Board of Directors, fixing the subscription price on the basis of the definitive IPO price, discounted by up to 10%, but in any event in accordance with the terms of Article 2441, sixth paragraph, of the Civil Code.

By virtue of these delegated powers, on 31 May 2006 the Board of Directors resolved to increase the Company's capital on a paid basis, excluding option rights pursuant to Article 2441.5 of the Civil Code, by up to a maximum par value of Euro 2,125,296.25, via the issue of up to 8,501,185 ordinary redeemable shares of the Company with a par value of Euro 0.25 (twenty-five euro cents) each, plus share premium.

For further information about the "Safilo Group S.p.A. 2006-2010 Stock Option Plan", please refer to Part II of this Report.

At present there is no plan for the Company to purchase its own shares.

## **I) Management and coordination activities**

With reference to its status as at 31 December 2009, the Company is not subject to direction and coordination activities by others, as defined by Articles 2497 et seq. of the Civil Code. In fact the relative majority shareholder, Only 3T. S.p.A., does not manage or coordinate the Company, insofar as (i) it does not issue orders to its subsidiary and (ii) there is no significant organisational and functional link between these two companies.

In particular, the Company has independent authority to negotiate with customers and suppliers, and there is no cash pooling relationship. The Company also has a sufficient number of independent directors to ensure that their opinions have a significant impact on Board of Directors decisions.

The dealings between Only 3T. S.p.A. and the Company are limited exclusively to normal exercise by Only 3T. S.p.A. of the administrative and property rights typical of its status as a shareholder (such as, for example, exercising its voting rights at the shareholders' meeting and collecting dividends).

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It is specified that the information required by Article 123-bis, first paragraph, letter i) of the CFA relating to directors' indemnities in the event of resignation, dismissal or termination of employment following a takeover bid, is illustrated in the section of the Report dedicated to directors' remuneration (Section 9).

As regards the information required by Article 123-bis, first paragraph, letter l) of the CFA, relating to the rules applicable for the appointment and substitution of directors as well as for amendments of the Articles of Association, if they are different to legislative and regulatory rules, which can in any case be additionally applied, is illustrated in the section of the Report dedicated to the Board of Directors (Section 4.1.).

## **3. COMPLIANCE**

As already indicated earlier in Section 1, in view of the admission to trading of its shares on the STM, in the second half of 2005 the Company had already adapted its corporate governance to comply with the recommendations of the version of the Corporate Governance Code drawn up by the Listed Companies' Corporate Governance Committee published in 1999 and revised in 2002. In 2007, the Board of Directors completed adaptation of the corporate governance system of the Company and the Group to comply with the principles and application criteria introduced by the Code published by Borsa Italiana S.p.A in March

2006.

The Code can be viewed on the web site of Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it))

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It is pointed out that neither the Company nor its strategically important subsidiaries are subject to non-Italian legal requirements that influence their corporate governance structure.

## **4. BOARD OF DIRECTORS**

### **4.1. APPOINTMENT AND SUBSTITUTION**

The appointment and substitution of members of the Board of Directors are governed by Articles 14 and 15 of the Articles of Association, published on the website in the IR/ Corporate Governance section in compliance with Application Criteria 6.C.1 of the Code. The appointment of members of the Board of Directors takes place based on lists of candidates, according to a transparent procedure aiming to assure that the minority elects one Board member.

Articles 14 and 15 of the Articles of Association are shown in full below:

#### **BOARD OF DIRECTORS**

##### **Article 14)**

*The Company shall be managed by a Board of Directors consisting of between six and fifteen members, who need not be shareholders.*

*The size of the Board of Directors shall be determined by the Shareholders' Meeting.*

*The directors must satisfy the requirements of eligibility, experience and integrity established by law and other applicable regulations. At least one of the members of the Board of Directors, or two if the Board has more than seven members, must satisfy the independence requirements applying to statutory auditors under current legislation.*

*Members of the Board of Directors shall remain in office for three financial years and are eligible for re-election.*

*In accordance with the provisions of article 147-ter of Decree 58 dated 24 February 1998 (Decree 58/1998) and for the purposes of ensuring that minority shareholders are represented by one member on the Board of Directors, the Board of Directors is appointed on the basis of lists presented by shareholders containing a maximum of 15 candidates, all listed with a sequential number.*

##### **A) Presentation of lists**

*Lists may be presented only by those shareholders who own, alone or together with others, at the time of presenting the list and through until the date of the meeting, at least 2% (two percent) of share capital consisting of shares with voting rights at Ordinary Shareholders' Meetings, or such other percentage envisaged by laws or regulations governing directors' appointments and in force at the time of the appointment. This percentage shall be specified in*

*the notice convening the Shareholders' Meeting called to resolve on the appointment of the Board of Directors. The outgoing Board of Directors can also present a list of its own.*

*No individual shareholder, no shareholders belonging to a shareholder syndicate relating to the Company's shares as defined by article 122 of Decree 58/1998, nor the parent company, subsidiaries or companies under common control pursuant to article 93 of Decree 58/1998, may present or vote for more than one list, including through a third party or trust companies. No candidate may appear in more than one list, otherwise they will be disqualified.*

*If these rules are not observed, the shareholder's vote for any of the lists presented is discounted.*

*The lists presented must be filed at the Company's registered office at least 15 (fifteen) days in advance of the date set for the first calling of the Shareholders' Meeting. This requirement must be mentioned in the notice convening the meeting, or in any other form of publicity established by current legislation.*

*Each list must be signed by those presenting it and filed within the term specified above at the Company's registered office, accompanied by (i) the professional curricula of the candidates, and (ii) statements by each individual candidate accepting their candidacy and confirming, under their own responsibility, that they are in possession of the requirements envisaged by prevailing statutory and regulatory provisions for members of the Board of Directors and the absence of any reasons for incompatibility and/or ineligibility contained in law.*

*Candidates for whom the above rules are not observed are disqualified.*

*Shareholders presenting a candidate list must also provide the Company within the same list presentation deadline information as to their own identity and percentage of shares held, accompanied by a certificate, issued by a legally registered intermediary, attesting their ownership of the number of shares required for list presentation.*

*Each list shall contain one or more candidates - in compliance with the provisions of current legislation - who satisfy the independence requirements for statutory auditors established in para. 3, article 148 of Decree 58/1998, and nonetheless in prevailing statutory and regulatory provisions, as well as in the latest version of the Corporate Governance Code issued by the Corporate Governance Committee, specifying such candidates clearly.*

*Lists for which the above provisions are not observed shall be treated as if they had not been presented.*

### **B) Voting**

*Each shareholder's vote shall refer to the list and hence all the candidates appearing therein, without the possibility of making any changes, additions or exclusions.*

*Once the Shareholders' Meeting has decided the number of directors to be elected, the procedures are as follows:*

1) all the directors requiring election, bar one, shall be elected from the list obtaining the highest number of shareholder votes ("Majority List"), in the sequential order in which they appear on that list;

2) one director shall be elected, in compliance with statutory provisions, from the list obtaining the second highest number of votes ("Minority List"), which shall not be associated in any way, even indirectly, with the shareholders who presented or voted for the Majority List; the director elected in this case shall be the candidate at the head of this list. If not even one independent director is elected from the Majority List, then the first independent director appearing on the Minority List shall be elected in place of the candidate at the head of this list.

In the event of a tie, the entire Shareholders' Meeting will vote again until an unequivocal result is achieved.

The Chairman of the Board of Directors shall be the first candidate appearing on the Majority List.

No account is taken of lists that obtain a percentage of votes corresponding to less than half of that required by this article for their presentation.

If only one list is presented, or admitted to voting, the Shareholders' Meeting shall vote on this. If this list obtains the required majority vote, the number of directors established by the Shareholders' Meeting shall be elected from it in the sequential order in which the candidates appear therein.

If no list is presented at all, the Shareholders' Meeting shall appoint the Board of Directors, voting with the majorities required by law.

#### **Article 15)**

If one or more directors should vacate office during the year, the following procedures shall be adopted for their replacement in accordance with article 2386 of the Italian Civil Code:

a) the Board of Directors shall appoint replacements from the same list as that of the outgoing directors; the next Shareholders' Meeting shall vote with the legally required majorities, in compliance with the same principle and nonetheless ensuring that the Board of Directors contains the correct number of directors qualifying as independent required by current statutory and regulatory provisions;

b) if the list no longer contains previously unelected candidates, the Board of Directors shall make the replacement without observing the procedure set out in point (a) above. Similarly, the related vote by the next Shareholders' Meeting, again with the legally required majorities, shall nonetheless ensure that the Board of Directors contains the correct number of directors qualifying as independent required by current statutory and regulatory provisions.

If three or more Directors resign or leave the Board of Directors for any other reason, the entire Board will be considered replaced from the date on which the new Board takes office.

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It is pointed out that, as regards the year 2008, during which the Shareholders' Meeting was held that

elected the Board of directors, the shareholding [threshold], pursuant to Article 144-quater of the Issuers Regulation, had been fixed by the CONSOB at 2.5% (resolution 16319 of 29 January 2008).

## 4.2 MEMBERSHIP

In accordance with the terms established by Principle 2.P.1. of the Code, the Company's Board of Directors consists of executive and non-executive directors who meet all the requirements of professionalism and experience necessary to perform their duties. In particular, the Company is administered by a Board of Directors consisting of from six to fifteen members, who need not be shareholders.

On 30 April 2008, the Ordinary Shareholders' Meeting elected the current Board of Directors for the financial years (FYs) 2008-2009-2010 via list voting as established by the Articles of Association. On that occasion two lists were presented: (1) List no. 1, presented by Only 3T. S.p.A. consisting of the following names: Vittorio Tabacchi, Massimiliano Tabacchi, Giannino Lorenzon, Claudio Gottardi, Carlo Gilardi, Ennio Doris and Riccardo Ruggiero; and (2) List no. 2, presented by Fidelity Funds SICAV, consisting of the name Antonio Favrin. List no. 1 obtained 79.96% of the votes in relation to share capital voting at the shareholders' meeting, while list no. 2 obtained 20.02% of votes in relation to share capital voting at the shareholders' meeting.

The following members therefore were elected to the Board of Directors: Vittorio Tabacchi, Massimiliano Tabacchi, Giannino Lorenzon, Claudio Gottardi, Carlo Gilardi and Ennio Doris, candidates on the majority list submitted by Only 3T. S.p.A., and Antonio Favrin, taken from the minority list submitted by Fidelity Funds SICAV.

Following the resignation of the director Claudio Gottardi on 10 November 2008, the Board of Directors, at the meeting held on 14 November 2008, co-opted Mr Roberto Vedovotto as director, and also appointed him as Chief Executive Officer. The shareholders' meeting held on 27 April 2009 confirmed Mr. Roberto Vedovotto as a director.

Table 2 shows the membership of the Board of Directors at the end of the financial year on 31 December 2009.

The directors' *curricula vitae*, which detail the positions held in other companies, particularly in other companies listed on regulated markets (including foreign markets), and in financial, bank, insurance or large companies, identified according to the criteria established by the Board of Directors, are available on the website in the IR/Corporate Governance section and are annexes to the Report.

On 19 February 2010, within the framework of the operation designed to redress the financial and capital balance of the Company and of the Safilo Group contemplated by the Investment Agreement signed on 19 October 2009 by Safilo Group S.p.A., HAL Holding N.V. and Only 3T S.p.A., the Chairman Vittorio Tabacchi, the Executive Vice Chairman Massimiliano Tabacchi and the director Ennio Doris – a director who possesses the independence requisites as defined by Article 3 of the Self-Governance Code – resigned from their positions. Due to the "simul stabunt, simul cadent" [= like they stand together, so will they fall

together] clause, of article 15 of the Articles of Association, the entire Board of Directors has lapsed with effect from the Ordinary Shareholders' Meeting held on 29 March 2010 on second call, that appointed the new Board of Directors, once again using the list voting system.

On 12 March 2010, 2 lists of candidates for the election of the members of the Board of Directors had been filed, presented respectively: (1) jointly by the shareholders Multibrands Italy B.V. and Roberto Vedovotto, and (2) by the shareholder Only 3T. S.p.A.. For any further information concerning the lists of candidates, the proponent shareholders and the candidates, please refer in full to the directors' explanatory report for the shareholders' meeting and to the lists of candidates published on the Company website.

### **Maximum number of offices held in other companies**

Pursuant to Application Criterion 1.C.3. of the Code, the Board of Directors, at its meeting on 6 November 2007, expressed its opinion on the maximum number of positions as director or statutory auditor held in other listed companies and at financial, bank, insurance or large companies that could be compatible with effective performance of office as a director of the Company.

The said resolution identified the following general criteria, differentiated on the basis of the work involved in each role:

- the nature and size of the company in which the offices are held;
- whether it belongs to the issuer's Group;
- the directors' membership of internal board committees.

Applying these criteria, the Board deemed it compatible with effective performance of the office of director of the Company to hold not more than:

- 3 appointments as executive director
- 7 appointments as non-executive or independent director or statutory auditor

in listed companies (including the Company), financial, banking or insurance companies or companies of significant size, namely those whose total assets or turnover exceed Euro 500 million. The Board also specified that, in calculating the total number of companies in which directors hold office as directors or statutory auditors, other companies belonging to the Safilo Group are not taken into account.

It was further established that, in any event, with reference to the nature and specifics of the offices held in other companies, the Board of Directors, after consulting the Board of Statutory Auditors, may resolve to make exceptions to the said quantitative criterion.

We specify that the current membership of the Board of Directors complies with the said criteria.

## **4.3. ROLE OF THE BOARD OF DIRECTORS**

In accordance with Principles 1.P.1 and 1.P.2. of the Code, the Company is governed by a Board of Directors, which plays a central role in its corporate governance system.

In particular, the Board of Directors, in performing its duties, plays a core role in organising, orienting and managing the Company in order to accomplish the corporate purpose, maximise shareholder value and ensure that the expectations of other stakeholders are met.

Pursuant to Article 17 of the Articles of Association, the Board of Directors meets whenever the Chairman deems necessary, or when so requested by at least two of its members, or by a Chief Executive Officer or by at least one member of the Board of Statutory Auditors.

It is established that meetings of the Board of Directors are to be held at least four times a year, at intervals not exceeding a quarter, and whenever the Chairman deems it necessary or a request is made as specified above.

Pursuant to article 20 of the Articles of Association, the Board of Directors is vested with the widest powers for the ordinary and extraordinary management of the Company without any limitation, except for the matters reserved by law as the prerogative of the Shareholders' Meeting. It is also the Board of Directors' prerogative to pass resolutions regarding (i) mergers in the cases specified in Articles 2505 and 2505-bis of the Civil Code, (ii) demergers as specified in Article 2505-bis of the Civil Code, as referred to in Article 2506-ter of the Civil Code, (iii) the opening or closing of secondary locations, (iv) reduction of the share capital in the event of shareholder withdrawal, (v) amendment of the Articles of Association to comply with regulatory provisions, and (vi) transfer of the Company's registered office to another location in Italy.

Furthermore, pursuant to Application Criterion 1.C.1. of the Code, it was decided on 23 March 2007 that the Board of Directors should:

- (1) examine and approve the strategic, business and financial plans of the Company and the Group that it heads, the Company's corporate governance system and the Group's structure;
- (2) evaluate the adequacy of the organisational, administrative and accounting set-up of the Company and of its strategically important subsidiaries, devised by the Chief Executive Officers, with special reference to the internal control system and the management of conflicts of interest;
- (3) delegate executive powers to directors and revoke them, defining their limits and the procedures for their exercise, and establishing the intervals, not exceeding a quarter, at which the bodies holding delegated powers must report to the Board of Directors on the activities performed in the exercise of the powers granted to them;
- (4) after examining the proposals of the Remuneration Committee and consulting with the Board of Statutory Auditors, determine the compensation of the Chief Executive Officers and the directors provided with special assignments, pursuant to Article 2389.3 of the Civil Code;
- (5) evaluate general operating performance and periodically compare actual versus planned results;
- (6) examine and approve in advance transactions of the Company and its subsidiaries, if the said transactions are of significant strategic, economic, capital or financial importance to the company, paying particular attention to situations in which one or more directors have an interest on their own account or on behalf of third parties, and more generally, to related-party transactions;
- (7) express its opinion, at least once a year, on the size, membership and operation of the Board of

Directors and its committees, possibly expressing an opinion on the professional figures whose presence on the Board is considered opportune, and disclosing this to the market in the annual Corporate Governance Report;

- (8) supply information in the Corporate Governance Report about the procedures for application of the criteria established by the Code on the role of the Board, the number of Board meetings held during the year, and the attendance rate for each director;
- (9) report to the Board of Statutory Auditors, at least quarterly, on the work done and on the most significant transactions.

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In FY 2009, the Board of Directors met a total of 9 times and the average length of each meeting was approximately 2 hours 37 minutes. The average attendance of directors at the meetings was 100%, except for that of the director Ennio Doris, which was 33%.

As regards FY 2010, the annual calendar of corporate events was notified to Borsa Italiana S.p.A. and published on the website, by the date specified in the Stock Market Regulations. The calendar gives, in the form of intervals, the dates of Board meetings to approve annual or interim results. Four meetings of the Board of Directors are scheduled for the current year, one of which has already been held on 29 March 2010, for the approval of the draft and consolidated financial statements.

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As regards Application Criterion 2.C.2. of the Code, the Board of Directors, during the meeting held on 23 March 2007, established that the Chairman shall ensure that the Board is supplied in a timely and appropriate manner with the documentation and information required to enable the Board to express an informed opinion on the subjects submitted for its examination and approval, and in general to ensure that the directors increase their knowledge of the Company's situation and dynamics, also in relation to the relevant regulatory framework, so that they can perform their role effectively.

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Pursuant to Application Criterion 1.C.1.b of the Code, at the meeting held on 29 March 2010 to discuss the financial year, the outgoing Board of Directors expressed a positive assessment of the adequacy of the organisational, administrative and general accounting set-up of the Company and its strategically important subsidiaries devised by the Chief Executive Officers, with special reference to the internal control system and to the system for management of conflicts of interest.

For this purpose, the Board of Directors received (a) a report from the Company's Financial Reporting Manager on the tests performed on existing control procedures in order to ensure the fairness, completeness and validity of the information reported in the financial statements, and (b) reports from the Internal Control Committee on the status of the internal control system, as documented by the audits performed by the internal control officer.

In order to express an opinion on the internal control system, the Board of Directors considered these items of evidence, as well as improvement plans implemented and the remaining risks to which the Group is exposed.

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The Board of Directors, during the meeting held on 6 November 2007, determined the criteria for identification of strategically important subsidiaries, namely: i) turnover, ii) tangible fixed assets, iii) results for the period, iv) number of employees, and v) strategic importance in the Safilo Group or on the market.

By applying the said criteria, the following Group companies have been identified as being strategically important: Safilo S.p.A. (Italy), Safilo USA Inc. (USA), Safilo Far East Ltd. (Hong Kong), Carrera Optyl D.o.o. (Slovenia), Safilo France Sarl (France), Safilo España SL (Spain), Solstice Marketing Corporation (USA) and Smith Sport Optics, Inc. (USA).

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At its meeting on 23 March 2007, the Board of Directors introduced measures designed to ensure that significant transactions, transactions in which directors have an interest, either on their own account or on behalf of third parties, and related parties, are performed transparently and in accordance with the criteria of substantive and procedural correctness.

More specifically, after consulting the Internal Control Committee, the Board formalised what was already done as matter of practice by approving Guidelines that define significant and related-party transactions, and the procedures to be followed for their approval. The Guidelines further establish that directors with an interest in an operation, even if only potential or indirect, must (1) inform the Board promptly and (2) abstain from participating in the related discussion and voting on the corresponding resolution.

Moreover, for the purpose of management of significant transactions undertaken by subsidiaries, the Guidelines have been circulated to them, and they have been asked to inform the Company promptly of significant and related-party transactions so that they can be submitted for prior examination and approval by the Company.

The Guidelines are available on the website in the IR/Corporate Governance section.

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Pursuant to Application Criterion 1.C.1.b of the Code, the Board of Directors concluded the process of self-appraisal of its performance review, also for the FY in question.

This process is normally performed on the basis of a questionnaire ("Questionnaire") prepared by the Secretary of the Board of Directors and submitted to the individual directors, to assess both the operational efficiency of the Board of Directors and its committees and their effectiveness in pursuing their aims. The Questionnaire consists of two parts: the first relates to objective aspects such as the size, membership and operation of the Board of Directors and its committees, and the second to the aspects on which directors are asked to express their personal opinion. The Questionnaire permits assessment of the following macro-areas: 1) membership of the Board of Directors; 2) meetings of the Board of Directors; 3) Board of Directors' committees; 4) "internal" interactions, namely how relations between the Board of Directors and the Chief Executive Officers and, more generally, those between the Board of Directors and management work; and 5) "external" interactions, namely the workings of relations between the Board of Directors and the

Company's stakeholders, i.e. shareholders, employees, customers, and suppliers, etc.<sup>1</sup>

The Board of Directors, for the year 2009, concluded the process of self-appraisal of its performance, but differently from previous years, that process was not carried out using Questionnaires. The reasons for this choice lies (i) in the extraordinary situation in which the Board of Directors managed the Company during 2009 and (ii) in the frequency of Board meetings, which provided opportunity to compare and continually advise its work. Considering the exceptional circumstances and difficulties of the existing global economic situation, the Board on 29 March 2010 reviewed its performance as sufficiently adapted to the above mentioned extraordinary situation.

## **4.4 BODIES HOLDING DELEGATED POWERS**

### **Chief Executive Officers**

In order to make management of the Company more efficient, the Board of Directors has delegated appropriate powers to some of its members, who report to the Board on the exercise of the powers granted to them at least four times a year, at intervals not longer than a quarter.

The Shareholders' Meeting had elected the current Board of Directors on 30 April 2008. At its meeting on 6 May 2008, the Board of Directors had then assigned some management functions and associated decision-making authority to the Chairman Vittorio Tabacchi, to the Executive Vice Chairman Massimiliano Tabacchi and to the then Chief Executive Officer Claudio Gottardi.

After the director Claudio Gottardi stepped down from office as Chief Executive Officer, the Board of Directors, at the meeting held on 5 June 2008, had redefined the management functions and decision-making authority previously granted to the Chairman and to Massimiliano Tabacchi, who was appointed Vice Chairman and Chief Executive Officer.

Lastly, following the resignation of the director Claudio Gottardi, the Board of Directors, at the meeting held on 14 November 2008, co-opted Roberto Vedovotto as director, also appointing him as Chief Executive Officer. In addition, at the same meeting the Board confirmed the duties already assigned to Vittorio Tabacchi, appointed Massimiliano Tabacchi as Executive Vice Chairman and assigned functions and authority to the Chairman, to the Executive Vice Chairman and to the Chief Executive Officer.

Following the Shareholders' Meeting held on 27 April 2009, which confirmed Roberto Vedovotto as director, the Board of Directors, at its meeting on 6 May 2009, endorsed the resolutions passed by the Board of

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<sup>1</sup> The purpose of the Questionnaire was to enable the Board of Directors to evaluate the existence of the following parameters, which characterise the efficacy and efficiency of the operation of the Board: 1) the ability of the Board of Directors to govern, promote and encourage compliance with legislation, regulations and codes; 2) the ability of the Board of Directors to manage and govern risks, and to check on management compliance and performance, in order to protect the Company's shareholders and its stakeholders in general; 3) the ability of the Board of Directors to help generate distinctive ideas and realistic visions of the future, and to provide consistent strategic inputs to the Company; 4) the ability of the Board of Directors to "challenge" management's vision proactively and to maximise management potential and motivations and its attractiveness for talented people; 5) the skill and ability of the Board of Directors to help achieve the strategic aims of the Company and the Group, by making available the skills of individual directors.

Directors at its meeting on 14 November 2008. Besides assigning the position of Chairman to Vittorio Tabacchi, the Company's Board of Directors delegated the following powers:

1. to the Executive Vice Chairman, Massimiliano Tabacchi, management functions – with the associated powers for decision-making - to be exercised within the limits of the matters reserved by law as the prerogative of the Board of Directors – orientation and supervision of management of the Company and Group activities in the areas of strategic planning, development of new businesses, internal audit, corporate communication and research and development, and co-ordination with the operating functions delegated to the Chief Executive Officer, and
2. to the Chief Executive Officer, Roberto Vedovotto, operating functions – with the associated powers for decision-making - to be exercised within the limits of the matters reserved by law as the prerogative of the Board of Directors – for orientation and co-ordination of the management, direction and control of Company and Group activities, specifically in the areas of general commercial management and operations, administration and budget control, finance, legal matters, investor relations, human resources and organisation, and in any other areas and for any projects that might be assigned to the Chief Executive Officer in future.

## **Chairman of the Board of Directors**

Lastly, at its meeting on 14 November 2008, the Board of Directors assigned to the Chairman Vittorio Tabacchi management functions – with the associated decision-making authority, to be exercised within the limits of the matters reserved by law as the prerogative of the Board of Directors – to outline the strategic guidelines for Company and Group relations with institutions and the fashion world, and in particular to represent the Group and its image strategically vis-à-vis its principal licensors, and support implementation of unified management policies, while also acting as spokesperson for the Company and Group.

The Chairman of the Board of Directors, pursuant to Article 17 of the Articles of Association, calls meetings of the Board of Directors and coordinates and chairs its meetings.

Pursuant to Article 22 of the Articles of Association, without prejudice to the delegated powers granted, the power of corporate representation and signature pertain to the Chairman of the Board of Directors and each of the Chief Executive Officers, if appointed, also on a disjoined basis, as decided by the Board of Directors that appoints them and establishes their powers and attributions.

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On the basis of the Shareholders' Meetings held thus far and thus on the basis of an ex post assessment, it was found that, at each of these shareholders' meetings, only the company Only 3T. S.p.A. – of which Chairman Vittorio Tabacchi owns the majority of voting shares – was in a position such as to be able actually to exercise the majority of votes exercisable.

## **Reports to the Board**

In accordance with Application Criterion 1.C.1.c) of the Code, operationally delegated directors (i.e.

executive directors) must report to the Board of Directors and the Board of Statutory Auditors about the activities performed, and transactions of the greatest economic significance, at the first possible meeting, at intervals not longer than a quarter. In particular, they must report on any transactions involving potential conflicts of interest.

The Board of Directors may also ask the Chief Executive Officers to have Company and Group managers attend Board of Directors' meetings to provide information and details on the agenda topics.

## **4.5 INDEPENDENT DIRECTORS**

As indicated above in Section 4.2, the Ordinary Shareholders' Meeting of 30 April 2008 elected a new Board of Directors, that included three independent directors, i.e. Carlo Gilardi, Antonio Favrin and Ennio Doris.

When the candidate lists were submitted, and then at the Board of Directors meeting held on 5 May 2008, Carlo Gilardi and Antonio Favrin certified that they satisfied the requirements to be qualified as independent directors pursuant to Article 3 of the Self-Governance Code promoted by Borsa Italiana S.p.A. and Articles 148.3 and 147 ter.4 of the CFA, and that Ennio Doris satisfied the requirements to be considered independent pursuant to Article 3 of the Self-Governance Code.

The Board of Directors meeting held on 5 May 2008 assessed the existence of the independence requisites for each of the three non-executive independent directors mentioned above.

The presence of three non-executive independent directors on the Board is designed to ensure the fullest protection of "good government" of the Company and Group, to be performed by means of debate and discussion between all directors. The independent directors' presence also enables the Board to ensure that cases of potential conflict of interest between the Company and the controlling shareholders are evaluated with sufficient independence of judgment.

As required by Principle 3.P.2 of the Code, the Board of Directors periodically checks the independence of the non-executive directors on the basis of Principle 3.P.1. and Application Criterion 3.C.1. of the Code. For the purpose of the said evaluation, it has established that the independent directors must submit to the Board of Directors and the Board of Statutory Auditors an annual written declaration certifying that they still meet the requirements which allowed them to be classed as independent at the time of their appointment.

At the meeting held on 29 March 2010, the Board of Directors received the said written declarations from the independent directors and, on the basis of Principle 3.P.1. and Application Criterion 3.C.1. of the Code, confirmed that the requirements of independence are still met by the directors Carlo Gilardi, Antonio Favrin and Ennio Doris for FY2009.

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The Board of Statutory Auditors has checked that the criteria and investigation procedures used by the Board to evaluate the independence of its members (Application Criterion 3.C.5.) are correctly applied, and expressed a favourable opinion.

During the FY in question, in view of the frequency of meetings of the Board of Directors and its committees, which guaranteed a regular exchange of information and the necessary discussions between the independent directors, the lead independent director did not consider it necessary for the independent directors to meet in the absence of the other directors (pursuant to Application Criterion 3.C.6.).

## **4.6 LEAD INDEPENDENT DIRECTOR**

As required by Application Criterion 2.C.3. of the Code, with the resolution of 14 November 2008 the Board of Directors confirmed the appointment of Carlo Gilardi to the office of "lead independent director", already granted to him by the resolution of 6 December 2005 and then confirmed on 23 March 2007, in order to give further emphasis to the role of the independent directors.

The lead independent director is called upon to act as contact person and coordinator of requests and contributions by the non-executive directors, and especially by the independent directors, to ensure that they are as independent as possible in expressing their opinion of management's work. The lead independent director also cooperates with the Chairman to ensure that the directors receive complete and timely flows of information.

The lead independent director has also been granted the power to convene, on his own initiative or at the request by other directors, specific meetings of the independent directors only, held at least once a year, to discuss subjects considered to be of interest relating to the operation of the Board of Directors or company management activities, with the power to request the attendance of management representatives, for a direct discussion with them.

## **5. PROCESSING OF COMPANY INFORMATION**

As provided by Principle 4.P.1. and Application Criterion 4.C.1. of the Code, on 23 March 2007 the Board of Directors, having received a favourable opinion from the Board of Statutory Auditors and the Internal Control Committee, approved the "Internal Regulation for Corporate Information", which consolidates in a single document (1) the procedure for internal management and external communication of documents and information relating to the Company and the Group, with special reference to price-sensitive information, initially approved with the resolution of 6 December 2005 and subsequently updated; (2) the "Code of Conduct" approved with the resolution dated 14 September 2005 and subsequently amended by the resolution dated 28 March 2006; and (3) the procedure relating to the institution, management and updating of the Register of persons with access to privileged information (the "Insiders' Register"), as per the Board resolution passed on 28 March 2006.

This Regulation was amended and supplemented as per the resolution of the Board of Directors on 6 November 2007 in order to incorporate the activities and operating procedures of the new Group investor relations function.

A copy of the said Regulation is available on the website in the IR/Corporate Governance section.

## **6. BOARD OF DIRECTORS' COMMITTEES**

In a resolution dated 14 September 2005, the Board of Directors, pursuant to Articles 10.1 and 8.1 of the Self-Governance Code of 2002, set up its Internal Control Committee and Remuneration Committee. Both these committees were newly appointed, with the same membership as at 31<sup>st</sup> December 2009, by the Board of Directors on 6 May 2008.

No committees other than those envisaged by the Code have been set up.

## **7. APPOINTMENTS COMMITTEE**

The Company does not have a Committee that proposes candidates for the office of director. On 23 March 2007, the Board of Directors decided not to set up such a committee, which is optional according to the Code, firstly because the list voting system protects the minority shareholders, and secondly because the limited membership of the Board of Directors enables it to perform the functions of an Appointments Committee.

## **8. REMUNERATION COMMITTEE**

The Board of Directors has set up its own Remuneration Committee. Creation of the Remuneration Committee guarantees the broadest availability of information and transparency regarding the remuneration payable to directors holding specific offices and senior managers with strategic responsibilities, and the methods for establishing them.

At its first meeting after being appointed by the Shareholders' Meeting held on 30 April 2008, the 6 May 2008 Board of Directors meeting appointed the members of the Remuneration Committee.

During 2009, the Remuneration Committee met 3 times, with an average meeting length of about 1 hour. The average attendance of committee members at meetings was 100%.

The precise dates of the meetings of the Remuneration Committee for the current FY have not yet been fixed.

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As previously mentioned, at 31<sup>st</sup> December 2009 the Remuneration Committee had three members: two independent non-executive directors, Carlo Gilardi and Antonio Favrin, and one non-executive director, Giannino Lorenzon.

In accordance with the rules of Application Criterion 7.C.4. of the Code, the Remuneration Committee's Regulation states that no director may attend Committee meetings at which proposals relating to his/her

remuneration are made to the Board.

## **Functions of the remuneration committee**

The following tasks are assigned to the Remuneration Committee: (i) to submit to the Board of Directors proposals for the remuneration of the Chief Executive Officers and of other directors who hold specific offices, monitoring application of the decisions taken by the Board; (ii) to evaluate periodically the criteria adopted for the remuneration of senior managers with strategic responsibilities, monitoring their application on the basis of the information provided by the Chief Executive Officers, and making general recommendations on the subject to the Board. The Committee establishes the fees and remuneration on the basis of Application Criteria 7.C.1. and 7.C.2. of the Code.

Moreover, with reference to stock options and other share-based incentive systems, the Remuneration Committee submits to the Board of Directors its recommendations regarding their use and all the relevant technical aspects associated with their formulation and application. In particular, the Remuneration Committee makes proposals to the Board regarding the incentive system considered most appropriate and monitors the evolution and application over time of the plans approved by the Shareholders' Meeting pursuant to Article 114-bis of the CFA.

The Remuneration Committee's function is only to make recommendations. The power to establish the remuneration of directors holding specific offices continues to lie with the Board of Directors, in accordance with Article 2389, third paragraph, of the Civil Code.

During the FY in question, the Remuneration Committee, inter alia:

- analysed the remuneration structure and reward system for Safilo Group executives, as well as the emoluments decided upon for directors holding specific positions in the subsidiary Safilo S.p.A.; and
- analysed the proposal for emoluments and remuneration of the Chief Executive Officer Roberto Vedovotto, with this proposal being based also on his professional profile.

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Pursuant to Principle 5.C.1.d of the Code and to the Remuneration Committee Regulation, minutes of its meetings are recorded and transcribed in the book kept by the Chairman and signed by the chairman and the secretary of the meeting, who is appointed on each occasion, and who need not be member of the Remuneration Committee.

In performing its functions, the Remuneration Committee had access to the corporate information and functions necessary to carry out its duties and, if necessary, access to external consultants at the Company's expense, as well as the authority to use appropriate financial resources for carrying out its duties, in accordance with the terms established by the Board of Directors.

## 9. DIRECTORS' REMUNERATION

At the Company's Ordinary General Meeting held on 30 April 2008, Shareholders resolved to set the fee payable to each member of the Board of Directors at Euro 10,000.00 per financial year, together with reimbursement of the expenses incurred in the course of their duties. The Meeting did not resolve to pay emoluments to directors holding specific offices, pursuant to article 2389, third paragraph of the Civil Code.

The Group's strategic managers were identified in the Board of Directors' resolution that approved the draft financial statements as at 31 December 2006. This list was updated by the Board of Directors at its meetings on 16 March 2009 and 29 March 2010.

Sub-sections 2a) and 2b) should be consulted for information regarding Stock Option Plans.

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Detailed information about directors' remuneration and the Stock Option Plans, and the cumulative remuneration received by senior managers with strategic responsibilities in 2009, is contained in the Explanatory Notes to the annual report.

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The remuneration of non-executive directors is not significantly linked to the economic results achieved by the Company.

The non-executive directors are not beneficiaries of share-based incentive plans.

The remuneration of non-executive directors is determined taking into account the standard practice in companies similar to the issuer.

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### **Payments to Directors in the event of resignation, dismissal or termination of employment due to a takeover bid**

There are agreements with the Chief Executive Officer that envisage paying him an indemnity if the agreements are terminated without just cause.

## 10. INTERNAL CONTROL COMMITTEE

The Board of Directors has established an Internal Control Committee.

At its first meeting after the Shareholders' Meeting held on 30 April 2008, the 6 May 2008 Board of Directors meeting appointed the members of the Internal Control Committee.

The Internal Control Committee met 4 times in 2009, with an average meeting length of approximately 1 hour and 30 minutes. The average attendance of the directors at the meetings was 92%.

For the current FY the exact dates of the Internal Control Committee's meetings have not yet been fixed.

The Internal Control Committee has performed all the tasks allocated to it by the Board of Directors and

listed in the corresponding Regulation. The Committee's main task is to evaluate the adequacy and efficacy of operation of the Company and Group internal control system and risk management, and then to report on this to the Board of Directors.

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The Internal Control Committee consists of three members, all non-executive and mostly independent directors, who possess accounting and financial experience considered adequate by the Board at the time of their appointment.

The meetings are also usually attended by the director responsible for internal control and by the Internal Control Officer. When so required by the items on the agenda, the chief independent auditor and the Company's financial reporting manager are also invited to attend the meetings.

### **Functions attributed to the internal control committee**

In accordance with Application Criterion 8.C.3. of the Code, the Internal Control Committee, in addition to assisting the Board of Directors in performing the internal control tasks allotted to it, performs the following consultative and recommendation functions, as indicated in greater detail in paragraph 12:

- (1) together with the Company's financial reporting Officer and the independent auditors, it evaluates the correct use of the accounting standards and, in the case of groups, their homogeneity for the purpose of drafting the consolidated accounts;
- (2) at the request of the executive director responsible, it expresses opinions on specific aspects relating to identification of the main corporate risks and the design, implementation and management of the internal control system;
- (3) it examines the work plan prepared by and periodic reports received from the Internal Control Officer;
- (4) it reports to the Board of Directors, at least twice a year, on the occasion of the approval of the annual financial report and the half-yearly report, on the activity performed and on the adequacy of the internal control system;
- (5) it performs such further consultative and/or recommendation tasks as are allocated to it by the Board.

It is pointed out that, in order to ensure the necessary coordination between the control bodies, some of the tasks attributed by the Code to the Internal Control Committee are performed by the Board of Statutory Auditors, using the same procedures as would be followed by the Internal Control Committee. These tasks are as follows:

- (a) evaluation of proposals formulated by independent auditors when applying for the legal audit assignment, the work plan prepared for the audit and the results set out in the report and in any letter of recommendation; and
- (b) monitoring of the efficacy of the legal audit process.

In 2009, the Internal Control Committee evaluated the adequacy and efficacy of the operation of the internal control system and corporate risk management, and then reported to the Board of Directors accordingly.

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Meetings of the Internal Control Committee are attended by the Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by him/her, in order to guarantee effective coordination of the Committee's activities with those performed by the Board of Statutory Auditors - also in the light of Application Criterion 10.C.7. of the Code, which provides for a timely exchange between the two bodies of the relevant information for the performance of their respective tasks.

In accordance with Application Criterion 5.C.1. d) of the Code and with the Internal Control Committee Regulation, the meetings of that Committee are documented in minutes and transcribed in a specific book kept by the Chairman and signed by the person who chairs the meeting and by the secretary, appointed on each occasion, who need not be a member of the Internal Control Committee.

In performing its functions, the Internal Control Committee had access to the corporate information and functions necessary to carry out its duties and, if necessary, access to external consultants at the Company's expense, as well as the authority to use appropriate financial resources for carrying out its duties, in accordance with the terms established by the Board of Directors.

## **11. INTERNAL CONTROL SYSTEM**

The internal control system is the set of rules, procedures and organisational units of the Company and Group designed to achieve healthy, correct conduct of the business consistent with set objectives, by means of an appropriate process of identification, measurement, management and monitoring of the main risks. The internal control system also meets the need to safeguard the Company's equity, the efficiency and effectiveness of its operations, the reliability of its financial information, and compliance with legislation and regulations, in order to ensure healthy, efficient management, and to identify, prevent and manage the financial, operating and fraud risks affecting the Company.

In accordance with Application Criterion 8.C.1. of the Code, with its resolution dated 23 March 2007 the Board of Directors established that it should, with the help of the Internal Control Committee:

- a) define the guidelines for the internal control system so that the principal risks affecting the Company and its subsidiaries are properly identified as well as adequately measured, managed and monitored, while also determining criteria for the compatibility of these risks with healthy, proper management of the business;
- b) at least once annually, assess the appropriateness, effectiveness and effective operation of the internal control system with respect to the characteristics of the business;
- c) express its opinion on the system's overall adequacy once a year.

In accordance with Application Criterion 8.C.2. of the Code, the Board of Directors performs its functions relating to the internal control system taking into due consideration the national and international benchmark models and best practices, with special reference to the effective implementation of the Model referred to in

Italian Legislative Decree 231/2001 (concerning the administrative liability of legal entities), adopted by the Board with its resolution of 28 March 2006 and subsequently amended and supplemented, most recently with the resolution passed on 29<sup>th</sup> March 2010.

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After first receiving a detailed report from the Internal Control Committee, the Board of Directors, at its meeting on 29 March 2010 assessed the appropriateness, effectiveness and effective operation of the internal control system during FY2009, as regards its capacity to mitigate the potential risks to which the Company is exposed, describing the essential elements to be included in this Report and expressing its own, substantially positive assessment of its overall appropriateness, while also highlighting certain points for improvement.

The Internal Control Committee in turn received detailed information from the Internal Control Officer who, in addition to periodically sending his own audit reports to the Committee and to the Board of Statutory Auditors, punctually reported to these bodies on corporate risks and the necessary and appropriate plans for improvement.

## **11.1. EXECUTIVE DIRECTOR RESPONSIBLE FOR INTERNAL CONTROL SYSTEM**

At its meeting held on 6 May 2008 the Board of Directors named the Executive Vice Chairman as the person in charge of coordinating management of internal control activities, by appointing him<sup>2</sup> as executive director in charge of supervising the functionality and appropriateness of the internal control system, in accordance with Application Criterion 8.C.1. of the Code, and granting him the necessary authority so that he could:

- (i) identify the main business risks, taking account of the characteristics of the activities performed by the Company and its subsidiaries, and submit them periodically for examination by the Board of Directors;
- (ii) implement the guidelines laid down by the Board of Directors, arranging the design, implementation and management of the internal control system and regularly checking on its overall appropriateness, effectiveness and efficiency;
- (iii) adapt that system to the dynamics of operating conditions and of the legislative and regulatory scenario;
- (iv) recommend to the Board of Directors the appointment, dismissal and remuneration of one or more Internal Control officers.

The executive director is responsible, in particular, for ensuring that there is actually compliance with the internal operational and administrative procedures adopted to guarantee healthy, efficient management and to identify, prevent and manage, as far as possible, the financial, operating and fraud risks affecting the Company, reporting on this aspect to the Internal Control Committee and the Board of Statutory Auditors.

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<sup>2</sup> Appointment confirmed by Board of Directors at meeting held on 14 November 2008

## 11.2. INTERNAL CONTROL OFFICER

The Board of Directors, on the proposal of the executive director responsible for monitoring the functionality of the internal control system and after consulting the Internal Control Committee, in accordance with Application Criterion 8.C.6. of the Code, has appointed as Internal Control Officer the head of the Group's Internal Audit function, currently Simone Valentini, who:

- a) is responsible for ensuring that the internal control system is always adequate, fully operational and functioning;
- b) is not responsible for any operational areas and does not report to any head of operational areas, including the administration and finance area;
- c) in accordance with Application Criterion 8.C.6.c) of the Code, has direct access to all information useful for the performance of his duties;
- d) has sufficient resources for the performance of his duties;
- e) pursuant to Application Criterion 8.C.6.e, reports on his activities to the Internal Control Committee, the Board of Statutory Auditors and the executive director in charge of the internal control system.

No additional remuneration is payable over and above that payable to him as head of the Group's Internal Audit function.

The Internal Control Officer has his own spending budget, which is defined consistently with the requirements of his office and validated by the Internal Control Committee.

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In accordance with Application Criterion 8.C.7. of the Code, the Company has set up its own Internal Audit function.

The Group's internal audit unit, which reports to the Company's Executive Vice-Chairman, performs its functions by involving the various company functions in order to collect information, data and other useful indications from them. The activities performed by the unit mainly involve checks on the internal control and advisory system, and are designed to improve the control, risk management and corporate governance processes. They take the form of audits of companies forming part of the Group, audits of the parent company's processes, quick audits on demand, and advisory and support activities for other company functions on matters relating to the internal control system or subjects like the correct implementation of regulatory requirements relating to internal control, such as those specified in Legislative Decree 231/2001 and Law 262/2005 [concerning the protection of savings and the regulation of financial markets].

The unit also provides active support for the process of identification and assessment of the risks affecting Company top management, reporting on its activities to the Internal Control Committee.

The work is performed in accordance with an annual plan approved by the Internal Control Committee, which is prepared by evaluating the processes or areas most at risk to be covered, and the activities already performed. The Board of Directors also becomes aware of and acknowledges this annual plan.

### **11.3. ORGANISATIONAL MODEL UNDER LEGISLATIVE DECREE NO. 231/2001**

On 28 March 2006, the Board of Directors resolved to adopt the Group's Code of Ethics and the Company's Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 (hereinafter also "Model 231"), with the aim of instituting a structured, unified system of procedures and information flows designed to prevent the commission of criminal and/or administrative offences involving the administrative liability of the Company.

Since then the Model has been updated on a number of occasions, to comply with legislative and case-law developments occurring from time to time and is now in its sixth edition.

The Model is currently composed of a General Part and Specific Parts, which contain specific indications for prevention of the offences contemplated in them.

Pursuant to current law, on 28 March 2006 the Board of Directors also appointed a Supervision and Control Committee (consisting of the internal control officer, an independent director and a standing statutory auditor). This Committee was reconfirmed by resolution on 5 May 2008 after appointment of the current Board of Directors. The Committee was assigned the duties envisaged in Legislative Decree no. 231/2001, as subsequently amended and supplemented.

The body which has the power to update and/or amend the Model is the Board of Directors, on the proposal of the Supervision and Control Committee.

A copy of the general part of Model 231 will be published on the website in the IR/Corporate Governance section.

### **11.4. INDEPENDENT AUDITORS**

The General Meeting held on 14 September 2005 appointed PricewaterhouseCoopers S.p.A., an auditing firm listed in the Italian central register of legal auditors, to audit the annual separate and consolidated accounts and to conduct the limited audit of the half-yearly consolidated financial report and the quarterly audit to ascertain proper book-keeping for FYs 2005, 2006 and 2007.

Following the amendment of the provisions of the CFA that govern audits of issuers and their groups, in particular Article 159 thereof, introduced by Law no. 262 of 28 December 2005 and Legislative Decree no. 303 of 29 December 2006, and the transitory provisions contained in Article 8.7 of Legislative Decree no. 303/2006, the Company's Shareholder Meeting held on 14 May 2007 extended the auditing appointment granted to PricewaterhouseCoopers S.p.A. to include the financial years from 2008 to 2013, pursuant to the new Article 159, paragraph 4, of the CFA.

### **11.5. FINANCIAL REPORTING MANAGER**

Pursuant to Article 21 of the Articles of Association, the Board of Directors, on the proposal of the Chief

Executive Officer and after receiving the mandatory but non-binding opinion of the Board of Statutory Auditors, is responsible for the appointment and revocation of a corporate financial reporting manager, in compliance with the requirements of Article 154-bis of the CFA.

The Board of Directors must also ensure that the corporate financial reporting manager has suitable powers and resources for the performance of the duties allocated to him/her by the current legislation, and establishes the duration of the appointment and the remuneration payable.

The corporate financial reporting manager is chosen from among persons who meet the requirements of professionalism, characterised by specific skills and several years' experience in accounting and financial matters, and any additional requirements established by the Board of Directors and/or the current legislation.

In accordance with the above provisions, on 27 June 2007 the Board of Directors, after receiving the favourable opinion of the Board of Statutory Auditors, appointed as corporate financial reporting manager (hereinafter "Financial Reporting Manager"), the Group's Administration & Control Officer, currently Francesco Tagliapietra, who meets the requirements of professionalism, characterised by specific skills and several years' experience in accounting and financial matters, required for the performance of the tasks assigned by current legislation to the Financial Reporting Manager. Moreover, it has been established that the manager thus appointed will hold office until his resignation or revocation by the Board of Directors.

The Board of Directors has also granted the Chief Executive Officer the widest powers to give the Financial Reporting Manager sufficient resources and powers for the performance of the duties allocated to him, without prejudice to the obligation to report to the Board and the obligation for the Board to monitor the provision of the said resources and powers for the exercise of his duties, and actual compliance with the administrative and accounting procedures established by legislation.

## **12. DIRECTORS' INTERESTS AND RELATED-PARTY TRANSACTIONS**

As regards the procedure for approval and execution of transactions with related parties or in which the director has an interest on his own account or on that of third parties, reference should be made to what has already been indicated in Section 4.3 of this report.

## **13. APPOINTMENT OF STATUTORY AUDITORS**

The appointment and replacement of members of the Board of Statutory Auditors is governed by Article 24 of the Articles of Association, published in the IR/Corporate Governance section of the website. More specifically, Statutory Auditors are appointed by the Shareholders' Meeting on the basis of lists submitted by shareholders, to ensure that minority shareholders appoint one standing statutory auditor and one substitute statutory auditor.

Article 24 of the Articles of Association is given in full below

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## **BOARD OF STATUTORY AUDITORS - AUDIT OF ACCOUNTS**

### **Article 24)**

*The Board of Statutory Auditors shall consist of three standing members and two alternate members, who remain in office for three financial years and are eligible for re-election. Current laws shall apply to statutory auditors' requirements for eligibility, integrity, experience and independence, to their duties, the determination of their remuneration and their term in office; more specifically, with regard to the experience requirements under article 1 of Ministry of Justice Decree 162 dated 30 March 2000, activities that are considered strictly pertinent to those of the Company are those matters concerning commercial or tax law, economics or corporate finance and the sectors of activity listed in article 4 above and the sectors of fashion, luxury goods, manufacturing industry, finance, banking and insurance.*

*The Board of Statutory Auditors shall be appointed by the Shareholders' Meeting on the basis of lists presented by shareholders, with the procedures described below, so as to allow the minority to appoint one standing member and one alternate member.*

*The number of candidates appearing in the lists may not exceed the number of members up for election. Each candidate shall be listed with a sequential number.*

*No candidate may appear in more than one list, otherwise they will be disqualified.*

#### **A) Presentation of lists**

*Lists may be presented only by those shareholders who own, alone or together with others, at least 2% (two percent) of share capital consisting of shares with voting rights at Ordinary Shareholders' Meetings, or such other percentage envisaged by laws or regulations governing the appointment of the Board of Statutory Auditors and who are registered shareholders at the time of presenting the list through until the date of the related Shareholders' Meeting. Details of this percentage and of the appointment procedures shall be provided in the notice convening the Shareholders' Meeting.*

*No individual shareholder, no shareholders belonging to a shareholder syndicate as defined by article 122 of Decree 58/1998, nor the parent company, subsidiaries and companies under common control pursuant to article 93 of Decree 58/1998, may present or vote for more than one list, either directly or through a third party or trust company.*

*If this rule is not observed, the shareholder's vote for any of the lists presented is discounted.*

*The lists, containing the names of the candidates for the office of standing statutory auditor and alternate statutory auditor, shall be signed by the shareholders presenting them and filed at the Company's registered offices at least 15 (fifteen) days in advance of the date set for the first calling of the related Shareholders' Meeting, except for any other form of publicity established by prevailing legislation. The lists must be accompanied by:*

*(i) information on the identity of the shareholders who have presented the lists, specifying their overall percentage interest in share capital, and a certificate confirming them as the owners of such interest;*

- (ii) a statement by the shareholders, other than those who individually or jointly own a controlling or majority interest, confirming the absence of relationships connecting them to the latter, as defined by article 144-quinquies of the regulations implementing Decree 58/1998;*
- (iii) comprehensive details on the personal characteristics and experience of the candidates;*
- (iv) a statement by the candidates themselves confirming that they are in possession of the requirements envisaged by law, that there are no reasons of ineligibility and incompatibility against them holding office and that they meet the requirements of integrity and experience established by law for members of the Board of Statutory Auditors;*
- (v) statements by the candidates in which they accept their candidacy and provide details of the number of their appointments as directors or statutory auditors in other companies, with the undertaking to update this list at the date of the Shareholders' Meeting.*
- (vi) any other information required by current statutory and regulatory provisions.*

*Lists for which the above provisions are not observed shall be treated as if they had not been presented.*

### **B) Voting**

*Every shareholder entitled to vote may vote for only one list, including through a third party or trust company.*

*Two standing members and one alternate member shall be elected from the list that obtains the highest number of votes ("Majority List") in the sequential order in which they appear on this list.*

*The third standing member and other alternate member shall be taken from the list obtaining the second highest number of votes and presented and voted by shareholders who are not associated with the majority shareholders as defined by para. 2, article 148 of Decree 58/1998 ("Minority List"). The first and second candidates appearing on this list shall be elected in the sequential order in which they appear therein.*

*In the event of a tied vote, further ballots shall be taken involving the entire Shareholders' Meeting in order to obtain an unequivocal result.*

*The Shareholders' Meeting shall appoint the standing member elected on the Minority List as the Chairman of the Board of Statutory Auditors.*

*If, at the end of the aforementioned 15-day term for presenting lists, only one list is presented, or those presented are by shareholders associated with one another as defined by para. 2, article 148 of Decree 58/1998, other lists may be presented during the five-day period after the initial term. In this case, the share ownership requirement for list presentation is halved.*

*In any event, even if at the end of this additional 5-day term only one list has been presented or admitted to voting, the candidates on this list shall be appointed as standing and alternate statutory auditors in accordance with the sequential number in which they appear in the respective sections of this list.*

*If no lists are presented or if it is not possible to appoint one or more statutory auditors using the list voting system, the Shareholders' Meeting shall decide with the majorities required by law.*

### **C) Replacement**

*In the event of having to replace a statutory auditor, the replacement shall be an alternate statutory auditor belonging to the same list as the outgoing auditor in the order specified therein.*

*This is without prejudice to other replacement procedures established by current statutory or regulatory provisions.*

*The Shareholders' Meeting called under para. 1, article 2401 of the Italian Civil Code shall make the appointment or replacement in compliance with the principle of having the required minority representation.*

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*The powers, duties and term in office of the statutory auditors are those established by law.*

*The statutory auditors may, individually or jointly, request the Board of Directors to provide details and explanations about the information they have received and about general business trends or specific transactions, and may carry out inspections and controls at any time.*

*Members of the Board of Statutory Auditors may not hold similar appointments in more than five companies that are quoted on the stock exchange. The statutory auditors shall comply with the limits on the number of appointments as a director or statutory auditor established by article 148-bis of Decree 58/1998 and related regulations for its implementation.*

*No standing or alternate statutory auditor may be a director or employee of companies or entities that control the Company; this is without prejudice to the other limitations on the number of appointments that may be held under current statutory or regulatory provisions.*

*Meetings of the Board of Statutory Auditors may be held via teleconference or videoconference, in accordance with the terms stated in article 17.*

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In accordance with Principle 10.P.2. of the Code, the Statutory Auditors must act independently, and therefore shall not be "representatives" of the majority or minority that nominated or elected them.

The Board of Statutory Auditors monitors compliance with legislation and the Articles of Association and with the principles of correct administration, the appropriateness of the Company's organisational structure, within its sphere of responsibility, the internal control system and the administrative/accounting system, and the reliability of the latter in correctly representing operating events.

In accordance with Application Criteria 10.C.5. and 10.C.6. of the Code, the Board of Statutory Auditors: (i) monitors the independence of the Independent Auditors, checking both their compliance with relevant regulatory requirements and the nature and extent of the services other than audits provided by the independent auditors to the Company and its subsidiaries, and (ii) may request the Internal Audit function to

perform audits of specific operational areas or company transactions.

In accordance with the requirements of Article 159 of the CFA, as subsequently amended and supplemented, the Board of Statutory Auditors has the prerogative of making a substantiated proposal for the legal audit appointment by the Shareholders' Meeting.

The Board of Statutory Auditors, among the tasks allocated to it by law, checks on the correct application of the criteria and procedures used by the Board of Directors to evaluate the independence of its members; the result of this check is disclosed annually to the market in the Corporate Governance Report or in the Statutory Auditors' report to the Shareholders' Meeting.

\*\*\*

It is specified that with reference to the year 2008, during which the Shareholders' Meeting was held that appointed the Board of Statutory Auditors, the shareholding [threshold pursuant] to Article 144-quater of the Issuers' Regulations was fixed by the CONSOB at 2.5% (resolution 16319 of 29 January 2008). With reference however to 2009, during which the Shareholders' Meeting reconstituted the Board of Auditors, the shareholding [threshold] pursuant to Article 144-quater of the Issuers' Regulations was fixed by the CONSOB at 4.5% (resolution 16779 of 27 January 2009).

## **14. STATUTORY AUDITORS**

The Board of Statutory Auditors was initially appointed by the Shareholders' Meeting on 30 April 2008 and consisted of the standing statutory auditors Carlo Domenico Vanoni, elected from the minority list submitted by Fidelity Funds SICAV and consequently designated Chairman of the Board of Statutory Auditors, and Franco Corgnati and Paolo Mazzi, elected from the majority list submitted by the shareholder Only 3T. S.p.A.

Following the resignation during 2008 of, first, the Chairman of the Board of Statutory Auditors, Carlo Domenico Vanoni, and then of the standing statutory auditor Paolo Mazzi, the Board of Statutory Auditors was reconstituted by the Shareholders' Meeting on 27 April 2009.

The list voting system was applied both for the appointment of the Board of Auditors and for the aforementioned reconstitution.

The current Board of Auditors, which will remain in office until the Shareholders' Meeting called to approve the annual separate financial statements as at 31 December 2010, consists of the Chairman Franco Corgnati and of the standing statutory auditors Lorenzo Lago and Giampietro Sala, all taken from the majority list filed by the shareholder Only 3T S.p.A. as no list was filed by the minority shareholders.

The statutory auditors' curricula vitae, containing their personal and professional characteristics and, in detail, the positions held at the date of the Report in other joint-stock entities (S.p.A. [joint-stock company], S.r.l. [private limited liability company] and S.a.p.a. [limited joint-stock partnership]), and particularly at companies listed on regulated Italian markets, are published on the website in the IR/Corporate Governance

section and appended to the Report.

The Board of Statutory Auditors met 6 times in 2009, with an average length of 2 hours per meeting. The average presence of the auditors was 100%.

The precise dates of the meetings of the Board of Auditors for the current year have not yet been fixed, as the aforementioned meetings will indicatively be held near to the date of the Board of Directors.

\*\*\*

As prescribed in Application Criterion 10.C.2. of the Code, and on the basis of the criteria envisaged for directors by the Code, the Board of Statutory Auditors reviewed the independence of its members both on the first possible occasion after their appointment and during the FY in question, confirming respectively that each one of them met and continued to satisfy these requirements. When carrying out these reviews, it applied all the criteria envisaged by the Code with regard to the independence of directors.

\*\*\*

The Issuer establishes that a standing statutory auditor who, on his own account or that of others, has an interest in a specific transaction of the Issuer, must promptly and exhaustively inform the other standing statutory auditors and the Chairman of the Board of Directors with regard to the nature, terms, origin and scope of his/her interest (Application Criterion 10.C.4.).

The Board of Statutory Auditors monitors the independence of the independent auditors, checking both on their compliance with relevant regulatory requirements and on the nature and extent of services other than legal auditing supplied to the Issuer and its subsidiaries by the independent auditors and entities belonging to their network (Application Criterion 10.C.5.).

In the performance of its duties, the Board of Statutory Auditors usually coordinates with the Internal Audit function and the Internal Control Committee (Application Criteria 10.C.6. and 10.C.7.) by means of a constant exchange of information and periodic meetings.

## **15. INVESTOR RELATIONS**

The website contains an Investor Relations section, easily accessed from the home page, divided into various subsections, one of which is devoted to corporate governance and also contains the Annual Corporate Governance Reports for past years.

In accordance with Application Criteria 11.C.1. and 11.C.2. of the Code, the Company is continuing the process designed to improve access to information about the Company by shareholders, to allow them to exercise their rights with full knowledge of the facts.

Barbara Ferrante has been appointed Investor Relations Officer as part of this process. She has also handled restructuring of the website, to make an increasing amount of information available to the public.

In this way, the Company aims to maintain and improve its dialogue with the market, in compliance with current regulations and with the requirements of its internal procedures.

The Company's conduct and procedures to date have in fact been designed to avoid asymmetrical information and to put into practice the principle that each actual or potential investor is entitled to receive the same information in order to make well-informed investment decisions.

Moreover, when the annual, half-yearly and quarterly figures are announced, the Company holds specific conference calls and webcasts with institutional investors and financial analysts, which in any case are open to all stakeholders.

## **16. SHAREHOLDERS' MEETINGS**

Shareholders' Meetings are called pursuant to law by the Company's Board of Directors. Calling takes place by means of a notice containing the meetings' date, time, venue and list of agenda items, which must be published within the legally required term in the "Gazzetta Ufficiale della Repubblica" (Italy's Official Gazette) or, alternatively, in at least one of the following daily newspapers: "Il Corriere della Sera", "Il Sole 24 Ore", or "MF/Milano Finanza".

Legal regulations apply to both ordinary and extraordinary Shareholders' Meetings, both as regards their proper formation and the validity of the resolutions to be passed.

Shareholders who, alone or jointly with others, represent at least 2.5% (two point five percent) of share capital may request, within 5 (five) days of publication of the notice convening the Shareholders' Meeting that additional items be placed on the agenda, specifying in such requests the additional proposed topics for discussion. Any additions to the meeting's agenda following requests of this kind shall be published in the manner and terms established by the applicable law. No additions to the meeting's agenda are permitted for matters on which, pursuant to law, the Shareholders' Meeting votes based on a proposal of the Board of Directors or on a plan or report presented by the same.

Article 20 of the Articles of Association establishes that the Board of Directors is also assigned responsibility for decisions concerning mergers in the cases envisaged by Articles 2505 and 2505-bis of the Italian Civil Code, demergers in the case of Article 2505-bis as referred to in Article 2506-ter of the Italian Civil Code, the opening or closure of secondary locations, the reduction of share capital in the event of shareholder withdrawal, adjustment of the Articles of Association to regulatory requirements and the transfer of the Company's registered headquarters within Italy.

According to Article 10 of the Articles of Association, shareholders who have lodged their shares, or a notice issued by the appointed intermediaries, at the Company's registered headquarters or at the banks listed in the notice of call, at least two working days before the date of the Shareholders' Meeting, are entitled to attend that Meeting.

Each shareholder may be represented at the Shareholders' Meeting by means of written proxy, in the cases

and within the limits laid down by law. In particular, legally constituted organisations and companies may be represented by those holding powers of legal representation or by an attorney-in-fact holding a written proxy, which may also be a simple letter signed by the legal representative.

\*\*\*

The Company's Shareholder Meeting held on 14 September 2005 approved the Regulation governing the proceedings of Shareholders' Meetings, as required by Article 13.4 of the 2002 Self-Governance Code and now by Application Criterion 11.C.5. of the Code, which can be found on the website.

The said Regulation guarantees orderly and functional Shareholder Meeting proceedings and the right of each shareholder to speak on the items under discussion.

\*\*\*

In conformity with Application Criterion 11.C.4. of the Code, the Board of Directors makes every effort to ensure that all shareholders have appropriate information on the necessary items, to enable them knowledgeably to take the decisions for which the Shareholders' Meeting is responsible

Accordingly, the directors' report on the matters listed on the agenda, the dossier containing the separate and consolidated financial statements and reports by the Board of Statutory Auditors and Independent Auditors are published as soon as they are available to the Company, and in any case in accordance with the terms and conditions imposed by current law and regulations: they are filed at the registered headquarters and secondary offices of the Company, at Borsa Italiana S.p.A., and on the Company website, [www.safilo.com](http://www.safilo.com)., and the shareholders are entitled to obtain a copy thereof.

When it approves the annual financial report, the Board of Directors also reports to the Shareholders' Meeting on its past and planned activities.

## **17. CHANGES SINCE THE END OF FY2009**

The changes in the corporate governance structure that have taken place since the end of the year as up to the date of this Report, 29 March 2010, are given below.

### **a) Structure of share capital**

Following the complete execution of the capital increases resolved by the Extraordinary Shareholders' Meeting held on 15 December 2009, i.e.:

- a) a reserved capital increase, against payment, of a total amount of Euro 12,842,735.40 (inclusive of share premium), and therefore within the limit of 10% of the pre-existing share capital, to HAL Holding N.V. (or to its subsidiaries), and therefore with exclusion of the option right according to Article 2441, paragraph 4, second part, of the Civil Code, through the issue of 28,539,412 ordinary shares, at a subscription price of Euro 0.45 per share, of which Euro 0.25 par value and Euro 0.20 share premium, which will have normal entitlement, characteristics identical to those of the other shares outstanding at

the time of their issue, and will benefit from the option rights deriving from the subsequent capital increase;

- b) a further capital increase, against payment, of a total amount of up to a maximum of Euro 250,041,754 (inclusive of share premium), divisible, to be offered as an option right to all the Company's shareholders, pursuant to Article 2441, paragraph 1, of the Civil Code, through the issue of 822,505,770 ordinary shares, at a subscription price per share of Euro 0.304, of which Euro 0.25 Euro par value and Euro 0.054 share premium, which will have normal entitlement and characteristics identical to those of the other shares outstanding at the time of their issue;

on 29 March 2010, share capital amounts to Euro 284.109.827,50 and is divided into 1.136.439.310 ordinary shares with a par value of Euro 0.25 each.

### b) Significant shareholdings

On the basis of the information available and notifications received pursuant to Article 120 of the CFA and Article 121 of the Issuer's Regulation, as at 29 March 2010 the shareholders possessing over 2% of share capital are:

Declarer	Direct Shareholder	Number of shares	% of voting capital owned
HAL holding N.V.	Multibrands Italy B.V.	423.114.893	42.86%
Vittorio Tabacchi	Only 3T. S.p.A.	113.853.160	11.531%
FIL Limited	FIL Limited	5.757.162	2.017%

It is specified that, at the date that this Report is published, on the basis of the information available and notifications received pursuant to Article 120 of the CFA and Article 121 of the Issuer's Regulation, the shareholders possessing over 2% of share capital are:

Declarer	Direct Shareholder	Number of shares	% of voting capital owned
HAL Holding NV	Multibrands Italy B.V.	423.115.679	37.23%
Vittorio Tabacchi	Only 3T. S.p.A.	113.853.160	10.02%
FIL Limited	FIL Limited	5.757.162	2.017%

### c) Shareholders agreements

Regarding the existence of shareholders' agreements as defined by Article 122 of the Legislative Decree 58/1998, it is hereby communicated that as of 29 March 2010, the Company notes the existence of 1 (one)

shareholders' agreement between Hal Holding N.V. and Mr. Roberto Vedovotto. With reference to this agreement, HAL indirectly owns, through its subsidiary Multibrands Italy B.V., 423.114.893 shares equal to 42.86% of share capital and Mr. Roberto Vedovotto owns 4.800.000 shares, equal to 0.49% of the share capital. The shares included in the agreement are all the shares held by the parties.

\* \* \*

It is specified that this agreement ceased to be effective when Mr. Robert Vedovotto was appointed as Chief Executive Officer of the Company, following the Shareholders Meeting which on the same date 29 March 2009 was called to appoint the new Board of Directors, which assigned to Mr. Vedovotto the office of Chief Executive Officer.

#### **d) Change-of-control clauses**

Some licence agreements concluded by the subsidiaries Safilo S.p.A. and/or Safilo USA Inc. contain clauses for withdrawal by the licensor dependent on the usual eventualities including, depending on the agreement concerned: (i) changes in control of the subsidiary Safilo S.p.A. or of the Company; (ii) acquisition of a majority equity interest in Safilo S.p.A. or in the Company by a direct competitor of the licensor; and (iii) appointment of a representative of a direct competitor of the licensor to the Board of Directors of the subsidiary Safilo S.p.A. or of the Company, or a significant change in management.

As regards the operation designed to redress the capital and financial balance of the Company and Group contemplated in the Investment Agreement signed on October 19th 2009 by Safilo Group S.p.A., HAL Holding N.V. and Only 3T S.p.A., Safilo has, where necessary, already renegotiated the related agreements so as to exclude any negative influence of any change-in-control clauses, with the result that the increase in the equity interest of the HAL Holding N.V. in the Company would in no way jeopardise the continuation of the licensing agreements mentioned above.

## **TABLES**

**TABLE 1: INFORMATION ABOUT SHARE OWNERSHIP**

STRUCTURE OF SHARE CAPITAL as at 29 March 2010				
	no. of shares	% of share capital.	Listed on Milan STM – Standard Segment (Class 1)	Rights and duties
Ordinary Shares	1.136.439.310	100%	Entire share capital	-
Shares with limited voting rights	N.A.	N.A.	N.A.	N.A.
Shares without voting rights	N.A.	N.A.	N.A.	N.A.

OTHER FINANCIAL INSTRUMENTS (granting the right to subscribe newly issued shares)				
	Listed (indicate stock markets)/not listed	no. instruments outstanding	Category of shares to service conversion/exercise	No. of shares to service conversion/exercise
Convertible bonds	N.A.	N.A.	N.A.	N.A.
Warrants	N.A.	N.A.	N.A.	N.A.

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES**

Board of Directors											Internal Control Committee		Remun. Committee		Possible Appointment Committee		Possible Executive Committee		Possible other Committee	
Office	Members	Office held since	Office held until	List (M/m)*	Exec.	Non exec.	Indep. as per Code	Indep as per CFA	(%)**	No. other positions***	** **	** **	** **	** **	*** *	**	*** *	**	*** *	**
Chairman	Vittorio Tabacchi	30.04.2008		M	X				100%	See cv annex 2					N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Chief Executive Officer	Roberto Vedovotto	14.11.2008		N.A.	X				100%	See cv annex 2					N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Executive Vice Chairman	Massimiliano Tabacchi	30.04.2008		M	X				100%	See cv annex 2					N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Director	Giannino Lorenzon	30.04.2008		M		X			100%	See cv annex 2	X	100%	X	100%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Director	Carlo Gilardi	30.04.2008		M			X	X	100%	See cv annex 2	X	100%	X	100%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Director	Ennio Doris	30.04.2008		M			X		33%	See cv annex 2					N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Director	Antonio Favrin	30.04.2008		m			X	X	100%	See cv annex 2	X	75%	X	100%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
LID	Carlo Gilardi	06.05.2008													N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
----- DIRECTORS WHO CEASED TO HOLD OFFICE DURING 2009 -----																				
Indicate the quorum required for the presentation of lists at the last appointments: 2%																				
No. meetings held during 2009:						BoD: 9			ICC: 4			RC: 3			AC: N.A.		EC: N.A.		Others: N.A.	

**NOTES:**

\* In this column M/m indicates whether the member was elected from the majority (M) or the minority (m) list.

\*\* This column indicates the attendance percentage of the directors at the respective meetings of the Board of Directors and the committees (no. attendances / no. meetings held during the period of office of the party concerned).

\*\*\* This column indicates the number of directorships and/or offices as statutory auditor held by the party concerned in other companies listed on regulated markets (including foreign markets), and in financial, bank, insurance or large companies. A list of all such companies is attached to this report with reference to each director, specifying whether or not the company in which the office is held forms part of the group headed by the Issuer or of which the Issuer forms part.

\*\*\*\* In this column an "X" indicates that the member of the Board of Directors belongs to the committee.

**TABLE 3: STRUCTURE OF BOARD OF STATUTORY AUDITORS**

<b>Board of Statutory Auditors</b>							
<b>Position</b>	<b>Components</b>	<b>In office since</b>	<b>In office until</b>	<b>List (M/m) *</b>	<b>Independence as per Code</b>	<b>** (%)</b>	<b>Number of other offices</b>
Chairman	Franco Corgnati	27.04.2009 <sup>3</sup>	31.12.2010	M	X	100%	See CV in annex 2
Standing statutory auditor	Lorenzo Lago	27.04.2009 <sup>4</sup>	31.12.2010	M	X	100%	See CV in annex 2
Standing statutory auditor	Giampietro Sala	27.04.2009 <sup>5</sup>	31.12.2010	M	X	100%	See CV in annex 2
Alternate statutory auditor	Nicola Gianese	27.04.2009 <sup>6</sup>	31.12.2010	M	X	N.A.	See CV in annex 2
Alternate statutory auditor	Ornella Rossi	27.04.2009	31.12.2010	M	X	N.A.	See CV in annex 2
----- STATUTORY AUDITORS WHO CEASED TO HOLD OFFICE DURING 2009 -----							
Indicate the quorum required for the presentation of lists at the last appointments: 2%							
Number of meetings held in 2009: 6							

**NOTES:**

\* In this column M/m indicates whether the member was elected from the majority (M) or the minority (m) list.

\*\* This column indicates the attendance percentage of the auditors at the meetings of the Board of Auditors (no. attendances /no. meetings held during the period of office of the interested party).

<sup>3</sup> Franco Corgnati held office as a standing statutory auditor from his appointment by the Shareholders' Meeting on 30.04..2008 until the shareholders' meeting of 27 April 2009 that reconstituted the Board of Statutory Auditors.

<sup>4</sup> Elected by the Shareholders' Meeting on 27.04.2009.

<sup>5</sup> Giampietro Sala, initially elected as an alternate statutory auditor by the Shareholders' Meeting on 30.04.2008, held office as Chairman of the Board of Statutory Auditors from 19.06.2008, when the previous Chairman resigned, until 27.04.2009 when the Shareholders' Meeting reconstituted the Board of Statutory Auditors.

<sup>6</sup> Nicola Gianese, initially elected as an alternate statutory auditor by the Shareholders' meeting on 30.04.2008, held office as Chairman of the Board of Statutory Auditors from 19.06.2008, when the previous Chairman resigned, until 27.04.2009 when the Shareholders' Meeting reconstituted the Board of Statutory Auditors

\*\*\* This column indicates the number of directorships and/or offices as statutory auditor held by the part concerned that are relevant pursuant to Article 148-bis of the CFA. The full list of offices held is attached ,as required by Article 144-quinquiesdecies of the CONSOB Issuers' Regulation, to the report on supervisory activity, prepared by the statutory auditors pursuant to Article 152, paragraph 1 of the CFA.

## **ANNEXES**

## ANNEX 1

### **Main characteristics of existing risk management and internal control systems in relation to the financial reporting process pursuant to Article 123-bis, paragraph 2, letter b) of the CFA**

The Company considers the risk management system to be an integral part of the internal control system in relation to the financial reporting process. This system in fact aims to assure the reliability, accuracy, trustworthiness and timeliness of financial reporting.

Given this, since the coming into force of Italian Law 262/2005 the Company has implemented procedures designed to increase the transparency of financial reporting and make the system of internal controls more efficient and particularly those concerning financial reporting, of which they form part.

The methodological approach adopted by the Company to meet regulatory requirements and the responsibilities of the manager appointed to prepare accounting and corporate documents ("Financial Reporting Manager") is set out hereinafter.

As indicated in Section 11.5 of the Report, the Financial Reporting Manager is responsible for certifying that the administrative and accounting procedures used to construct the separate annual financial report/consolidated annual financial report/half-yearly financial report:

- Have been defined consistently with the company's administrative and accounting system and its structure
- Have been subjected to assessment of appropriateness
- Have been effectively applied during the period to which the separate annual financial report/consolidated annual financial report/half-yearly financial report refers.

In order to be able to express an assessment of appropriateness, it has been necessary to identify a theoretical model of reference, so as to have criteria against which to make the assessment.

In view of the fact that Article 154-bis of the CFA does not explicitly refer to a specific model to use to assess the appropriateness of administrative and accounting procedures – and in order to meet the needs consequent to application of the rule in question – the Company has opted to apply a model universally recognised as being one of the most accredited, i.e. the COSO Report – Internal Control Integrated Framework.

By virtue of its widespread use, success and authoritativeness, the COSO Report has provided the starting point for several regulatory bodies, both Italian (the Bank of Italy and the ISVAP - Italian insurance regulator) and international (PCAOB, SEC and the Basle Committee) and is indicated as a

sound basis of reference also by professional associations, including, in Italy, the ANDAF (the Italian association of financial and administration officers) and the AIIA (the Italian association of internal auditors).

This model of reference permits assessment of the appropriateness of an internal control system with respect to three dimensions of analysis (Objectives, Components, and Context). For each of these it is necessary to select the aspects relevant for specific application of the model.

Based on the COSO Report – Internal Control Integrated Framework, the Company has implemented a control system (hereinafter “Model 262” referring to the Italian law involved) that permits assessment of the appropriateness of an internal control system in terms of achievement of various objectives, including the effectiveness and efficiency of processes, the reliability of financial reporting, and compliance with laws and regulations.

According to this Model 262, the elements in relation to which the Company assesses the appropriateness of the control system are as follows:

- “Control environment”

This means the corporate governance approach adopted by the Company and the Group and, in both of them, the people and tools dedicated to the organisation, assessment and auditing of the general internal control system, within which the reliability of financial reporting is one of the objectives.

- “Risk assessment”

Model 262 provides for identification of the risks of not achieving the objectives set, followed by identification of which control activities are present to reduce such risks. The control system is appropriate to the extent that risks are covered by control activities. In the specific case, the risks are those of unreliable financial reporting and can be classified in the following categories (the so-called “financial statement assertions”):

- *existence/occurrence*: assets and liabilities exist at a certain date and the transactions recorded represent events that really occurred during a given period
- *cut-off*: the transactions and events have been attributed to the proper accounting period
- *completeness*: all transactions, assets and liabilities to be recorded have effectively been included in the financial statements
- *accuracy*: transactions, assets and liabilities have been correctly calculated and recorded
- *valuation or allocation*: assets, liabilities, shareholders’ equity, revenues and costs are recognised in financial statements at their correct amounts, in accordance with the appropriate GAAPs
- *rights & obligations*: assets represent the company’s rights and liabilities represent its obligations

- *presentation & disclosure*: items in financial statements are properly named, classified and illustrated in financial reporting disclosure
- "Control activities"

Control activities, designed to reduce the above risks, can be classified in several types, for example: preventive, investigative, manual, electronic, and so on. Among the control activities normally performed by personnel at various organisational levels, we indicate, where applicable, the following:

  - *Top-management analyses*: performance achieved is compared with the budget, forecasts, with previous periods' results and with competitors' results. To the extent that these activities are used to check unexpected results revealed by the accounting system, they contribute to control of financial reporting
  - *Transaction controls*: these are performed to check the completeness, accuracy and authorisation of the entry in the accounting systems of transactions managed in business processes and of the related databases in the archives concerned
  - *Information system controls*: the heavy reliance on information systems, particularly as regards preparation of financial reporting, makes it necessary to keep them under control. Controls for information systems concern the development and maintenance of applications software, protection of accesses, operators' activity, back-up procedures, and security plans, etc.
  - *Physical controls*: equipment, stocks, securities, cash and other assets are physically protected and an inventory periodically taken of them and compared with accounting data
  - *Segregation of tasks*: in order to reduce the risk of errors and irregularities, tasks are split between several people. For example, authorisation of transactions, their booking in accounts and management of the corresponding assets must be performed by different people
  - *Policies and procedures*: control activities are normally based on policies and procedures.
- "Information and communication"

Model 262 provides for appropriate information flows between the parties involved in the internal control system. In the specific case, these flows include communication of procedures to those concerned, exchanges of information between those playing a role in the corporate governance model, reporting on the progress of any improvements being made to the control system, and reporting on any anomalies found during the monitoring activities indicated below.
- "Monitoring"

Lastly, Model 262 envisages performance of assessments of the effective application of procedures and, in particular, of the control activities mentioned above.

Structured in this way, the Model thus permits assessment of the appropriateness of an internal control system at various organisational levels including, for example, at the levels of group, company, and process, etc. More specifically, controls can be performed on the basis of:

- Analysis of the Group, which aims to identify companies featuring complexities and levels of importance such as to bring them within the scope of the analysis;
- Analysis of business segments, which aims to identify the main business processes (according to the so-called "value chain" approach), mapping them with respect to Group companies, and to describe the main areas of accounts affected by such processes;
- Analysis of areas of accounts, which aims to assess their complexity from the qualitative standpoint, starting from the feeder business process, and from the quantitative standpoint, as regards the materiality of balances

These preliminary analyses make it possible both to delineate the boundary of subsequent analyses of appropriateness and to plan their depth. For example, for areas of accounts featuring a low degree of complexity, analysis of the risks of unreliable financial reporting and of related control activities can be performed as part of the processes of period-end closure of accounts.

For areas of accounts that instead are highly complex, it may be necessary to add to this context analysis of feeder processes, in order to detect and assess the adequacy of controls of transactions recorded in accounts and that are involved in those processes.

As regards the heavy reliance on information systems, particularly as regards processing of financial reporting, the boundary of subsequent analyses of appropriateness normally include the processes of the Information Systems area.

The bodies and/or units involved in operation of the Model 262 and their related roles are indicated below:

- Internal Control Committee: as the body responsible for the functionality of the general control system, it is also required to express an opinion and, if necessary, take action vis-à-vis the Financial Reporting Manager to ensure that the part of the internal control system dedicated to assuring the correctness of financial reporting is effective and actually operating.
- Financial Reporting Manager: he has the ultimate responsibility for ensuring that the control activities in place permit assurance of fair and complete financial reporting, which he himself certifies.
- Administration & Budget Control unit and Internal Audit unit: the personnel appointed for this purpose coordinate and perform periodic tests to ensure updating and operation of the set of controls identified and necessary to assure the correctness of financial reporting.

- Relevant company people, process owners: they have the ultimate responsibility for updating the overall design of controls (flow charts and RCMs - Risk Control Matrixes) and for performing tests to check controls' effectiveness and their consistency with the design.

**ANNEX 2**

**CURRICULA VITAE OF DIRECTORS AND STATUTORY  
AUDITORS**