

SAFILO GROUP S.p.A.

**CORPORATE GOVERNANCE REPORT
for the 2007 financial year**

pursuant to sections 124-*bis* of the CFA, 89-*bis* of the Consob Issuers' Regulation and IA.2.6 of the Stock Market Regulation Instructions

(Traditional administration and control model)

1. ISSUER'S PROFILE	
2. INFORMATION ABOUT SHARE OWNERSHIP	
Structure of share capital	6
Characteristics of shares	7
Restrictions on transfer of securities	7
Significant shareholdings	7
Securities carrying special rights	8
Restrictions on voting rights	8
Shareholders' agreements	8
Appointment and replacement of directors, and amendments to Articles of Association	8
Delegation of power to increase share capital and authorisations to purchase the Company's own shares	8
<i>Change of control clauses</i>	9
Payments to directors in the event of resignation, dismissal or termination of employment following a takeover bid	9
3. COMPLIANCE	
4. MANAGEMENT AND COORDINATION ACTIVITIES	
5. BOARD OF DIRECTORS	
5.1. Composition	10
Maximum number of offices held in other companies	11
5.2. ROLE OF BOARD OF DIRECTORS	12
5.3. BODIES HOLDING DELEGATED POWERS	16
Managing Directors	16
Chairman	18
Report to the Board	18
5.4. INDEPENDENT DIRECTORS	19
5.5. <i>LEAD INDEPENDENT DIRECTOR</i>	19
6. PROCESSING OF COMPANY INFORMATION	
7. BOARD OF DIRECTORS' COMMITTEES	
8. APPOINTMENTS COMMITTEE	
9. REMUNERATION COMMITTEE	
10. DIRECTORS' FEES	
11. INTERNAL CONTROL COMMITTEE	
Functions attributed to Internal Control Committee	24
12. INTERNAL CONTROL SYSTEM	
12.1. EXECUTIVE DIRECTOR RESPONSIBLE FOR INTERNAL CONTROL SYSTEM	26
12.2. INTERNAL CONTROL OFFICER	27
12.3. ORGANISATIONAL MODEL pursuant to Legislative Decree no. 231/2001	28
12.4. EXTERNAL AUDITORS	29

12.5. MANAGER IN CHARGE OF THE PREPARATION OF THE COMPANY'S FINANCIAL REPORTS

29

13. APPOINTMENT OF INTERNAL AUDITORS

14. INTERNAL AUDITORS

15. SHAREHOLDER RELATIONS

16. GENERAL MEETINGS

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' Self-Regulatory 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 Internal Auditors: the Board of Internal Auditors of SAFILO GROUP S.p.A.

Group: indicates the company SAFILO S.p.A. and its controlled and associated companies, as defined by section 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 the performance of Significant Operations and Operations with Associated Parties, adopted by the Board of Directors on 23 March 2007, which define operations of significant size and operations with associated parties, and the procedure to be followed for their approval and for operations in which a director has an interest.

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 adopted by Consob by resolution no. 11971 of 1999

Report: the corporate governance report which companies are required to draw up by sections 124-*bis* of the CFA, 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

Company: SAFILO GROUP S.p.A.

Articles of Association: the Articles of Association of SAFILO GROUP S.p.A., in the version last updated by resolution passed on 27 June 2007, published on the Company's website

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

This Report refers to the date of 6 December 2005, namely the date of issue by Borsa Italiana S.p.A., of the order for the start of trading in the Company's ordinary shares on the Screen-based Trading Market organised and managed by Borsa Italiana S.p.A..

Other definitions, which may only relate to some paragraphs, may also be included in the text of the Report.

1. ISSUER'S PROFILE

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-regulatory Code drawn up by the Listed Companies' Corporate Governance Committee, in the version published in 1999 and revised in 2002.

As required by current legislation, during the 2007 financial year the Board of Directors completed the adaptation of the corporate governance system of the Company and the Group to comply with the principles and application criteria introduced by the New Self-regulatory Code for Listed Companies issued in March 2006 by Borsa Italiana S.p.A ("the Code"), adopting all measures considered necessary and/or advisable for this purpose and supplementing and extending its powers and tasks.

In particular, while retaining the current corporate governance structure insofar as it is not modified and/or updated by the Code, the Board of Directors has:

- amended the Articles of Association, introducing a procedure for election of the members of the Board of Directors based on lists of candidates, to ensure that they are appointed by a transparent process which guarantees the provision of rapid, adequate information about the personal and professional characteristics of the candidates for office;
- established the maximum number of offices as director or internal auditor which can be held in other companies listed on regulated markets, in Italy or abroad, or in finance, banking or insurance companies or companies of significant size, compatibly with the appointment as director of the Company, and defined the meaning of "company of significant size" as indicated in paragraph 5.2 hereof;
- supplemented and updated the powers and duties of the Internal Control Committee and the Board of Internal Auditors, and formalised the appointment of the head of the Group's Internal Audit Department as Internal Control Officer;
- amended the part of the Articles of Association relating to the appointment of members of the Board of Internal Auditors to comply with the provisions introduced by Statute no. 262 of 28 December 2005 and Legislative Decree no. 303 of 29 December 2006;
- adopted the "Guidelines for the Performance of Significant Operations and Operations with Associated Parties", which define "significant operations" and "operations with associated parties", and the procedures to be followed for their approval;
- approved the "Internal Company Information Regulations", which replace and integrate the individual procedures previously adopted by the Company in separate documents, and govern:

(1) the management of company 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";

- adopted measures designed to improve shareholder relations.

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 section 123-*bis* of the CFA, and information about compliance with the Code and performance of the consequent commitments.

2. INFORMATION ABOUT SHARE OWNERSHIP

(pursuant to s. 123-*bis* of the CFA) as at 28 March 2008

Structure of share capital

As at 28 March 2008, the share capital amounted to € 71,348,532.00, divided into 285,394,128 ordinary shares with a par value of € 0.25 each.

On 27 June 2007, the Board of Directors, by virtue of the delegated powers granted to it by the Extraordinary General Meeting, resolved to increase the share capital from € 70,843,213.00 to the current amount of € 71,348,532.00, following the exercise of the second and last tranche of options allocated to beneficiaries of the "Safilo Holding S.p.A. - Safilo S.p.A. Stock Option Plan 2003-2007" and part of the second tranche of options allocated to beneficiaries of "the Safilo Holding S.p.A. - Safilo S.p.A. Stock Option Plan 2004-2008". The said increases in share capital, referred to in article 5 of the Articles of Association, were performed in relation to 2,021,276 ordinary shares.

The rights issue in support of the "Safilo Holding S.p.A. - Safilo S.p.A. Stock Option Plan 2004-2008" ("the 2004 Stock Option Plan"), up to a maximum par value of € 1,004,079.00, as resolved on by the Extraordinary General Meeting on 24 November 2004 and 14 September 2005, remains to be carried out in relation to a maximum of 2,016,300 ordinary shares with a residual par value of up to € 504,075.00, plus the corresponding share premiums.

Finally, 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 section 2441.5 of the Civil Code, up to a maximum par value of € 2,125,296.25 following the 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.

Characteristics of shares

The Company's shares are registered, indivisible and freely transferable, and are traded on the Blue Chip segment of the STM.

The ordinary shares issued in support of the 2004 and 2006 Stock Option Plans are redeemable shares, as defined by section 2437-3-*sexies* of the Civil Code.

The right of redemption can be exercised by the Company on the occurrence of certain specific events specified in the Regulations of the 2004 and 2006 Stock Option Plans, at the unit redemption value and on the other terms and procedures specified therein.

Following their redemption, the Board of Directors must cancel the redeemed shares and make the corresponding reduction in the share capital, by resolving to reduce the share capital pursuant to section 2365.2 of the Civil Code.

For more detailed information about the share-based incentive plans, namely the 2004 Stock Option Plan and the 2006 Stock Option Plan, see the Supplementary Notes to the Accounts (paragraph 4.24), the information notice issued pursuant to s. 84-bis of the Issuers' Regulation, and the price-sensitive notice of 8 February 2008, which are available in the IR/Corporate Governance section of the Website.

Restrictions on transfer of securities

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

Significant shareholdings

According to the entries in the Members' Register, statutory notices received and other information available to the Company as at 28 March 2008, the following shareholders hold over 2% of the share capital carrying voting rights, either directly or through an intermediary, trust company or controlled company:

Declaror	Direct shareholder	% of ordinary share capital	% of capital carrying voting rights
Vittorio Tabacchi	Only 3T. S.p.A.	37.905	37.905
Fidelity International Limited	Fidelity International Limited	9.797	9.797
Goldman Sachs	Goldman Sachs	4.810	4.810

Securities carrying special rights

The Company has not issued any securities which carry special controlling rights.

Restrictions on voting rights

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

Shareholders' agreements

The Company is not currently aware of any shareholders' agreements pursuant to section 122 of the CFA.

Appointment and replacement of directors, and amendments to Articles of Association

The appointment and replacement of members of the Board of Directors is governed by articles 14 and 15 of the Articles of Association, published in the IR/Corporate Governance section of the Website.

With reference to application criterion 6.C.1. of the Code, it is hereby declared that members of the Board of Directors are appointed on the basis of lists of candidates, according to a transparent process designed to ensure that a minority shareholder is elected to the Board, as described in article 14 of the Articles of Association.

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

As indicated above, on 24 November 2004 and 14 September 2005 the Company's Extraordinary General Meeting resolved to increase the Company's equity by making a rights issue of up to a maximum par value of € 1,004,079.00, to be performed after the exercise of the options allocated by the 2004 Stock Option Plan. The said rights issue remains to be performed in relation to a maximum of 2,016,300 ordinary shares, with a residual par value of up to € 504,075.00, plus the corresponding share premiums.

On 24 October 2005, the Company's Extraordinary General Meeting delegated to the Board of Directors all powers 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"), as an incentive to retention of the management with a view to the development of the business of the Company and the Safilo Group in the next few years, in line with the practice in the industry for listed companies. The Meeting also delegated to the Board of Directors,

again after consulting the Remuneration Committee, power to identify the beneficiaries of the 2006 Stock Option Plan.

The said Extraordinary General 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 over the Company's new issues, power should be delegated to the Board of Directors to resolve on the corresponding rights issue in support of 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, the subscription price being established on the basis of the definitive IPO price, discounted by up to 10%, but in any event in accordance with the terms of section 2441.6 of the Civil Code.

On the basis of that power, on 31 May 2006 the Board of Directors resolved to make a rights issue, excluding option rights pursuant to section 2441.5 of the Civil Code, of up to a maximum par value of € 2,125,296.25, by issuing up to 8,501,185 ordinary redeemable shares with a par value of € 0.25 (twenty-five euro cents) each, plus a share premium.

There is no current plan for the Company to purchase its own shares.

Change of control clauses

Some licence agreements entered into by controlled company Safilo S.p.A. grant the licensor power to terminate the agreement on the occurrence of certain events, such as: (i) a "change of control" event, meaning that Vittorio Tabacchi and his family, either directly or indirectly, lose control of the Company or the position of majority shareholders or (ii) a competitor of the licensor directly or indirectly acquires a controlling interest in the Company, or a representative of a competitor of the licensor is appointed to the Company's Board of Directors. In particular, two licence agreements provide that the threshold holding acquired by the licensor's competitor in the Company's share capital which entitles the licensor to terminate the agreement shall exceed 10%, and in any event shall be sufficient to enable the competitor to influence the Company's strategies.

Finally, a limited number of licence agreements entitle the licensor to terminate the agreement in the event of a change in the Company's current key management.

Payments to directors in the event of resignation, dismissal or termination of employment following a takeover bid

No agreements have been entered into between the issuer and the directors which provide for compensation in the event of resignation, dismissal/revocation of office without good cause, or termination of employment following a takeover bid.

3. COMPLIANCE

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

In 2007, the Board of Directors completed the 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; for this purpose it adopted all the measures considered necessary and/or opportune and supplemented and extended its powers and tasks, while retaining the part of the corporate governance structure not modified or updated by the New Code, as indicated in paragraph 1 of the Report.

Neither the Company nor its controlled companies with strategic importance are subject to non-Italian statutory provisions which influence their corporate governance structure.

4. MANAGEMENT AND COORDINATION ACTIVITIES

The Company is not subject to management and coordination as defined by ss. 2497 et seq. of the Civil Code.

5. BOARD OF DIRECTORS

5.1. COMPOSITION

In accordance with the terms of 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 seven to fifteen members, who need not be shareholders.

As at 31 December 2007, the Board of Directors was composed as follows:

Name	Office	In office since	List	Exec.	Non-exec.	Indep.	% BoD
Vittorio Tabacchi	Chairman	24.10.2005	-	X			100%
Giannino Lorenzon	Vice-Chairman	24.10.2005	NA	X			100%

Name	Office	In office since	List	Exec.	Non-exec.	Indep.	% BoD
Claudio Gottardi	Managing Director	03.08.2006	NA	X			100%
Massimiliano Tabacchi	Director	24.10.2005	NA	X			100%
	Joint Managing Director ¹	03.08.2006	NA	X			100%
Carlo Gilardi	Director	24.10.2006	NA		X	X	100%
Ennio Doris	Director	24.10.2006	NA		X	X	28.5%
Riccardo Ruggiero	Director	24.10.2006	NA		X	X	71.4%

The directors' CVs, specifying in detail the offices they held as at 31.12.2007 in other companies listed on regulated markets (in Italy or abroad), finance, banking or insurance companies or companies of significant size, identified on the basis of criteria established by the Board of Directors, are annexed to the Report.

Name	Remuneration Committee	% RC	Internal Control Committee	% ICC
Giannino Lorenzon	M	100%		
Carlo Gilardi	P	100%	P	100%
Ennio Doris			M	100%
Riccardo Ruggiero	M	100%	M	50%

Maximum number of offices held in other companies

In relation to Application Criterion 1.C.3. of the Code, on 6 November 2007 the Board of Directors expressed its view on the maximum number of offices as director or internal auditor held in other listed companies, finance, banking or insurance companies or companies of significant size which are deemed compatible with the effective performance of the office of 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 committees set up by the Board.

¹ Massimiliano Tabacchi was appointed as a member of the Board of Directors by resolution of the General Meeting on 24 October 2005, and appointed Joint Managing Director by resolution of the Board of Directors on 3 August 2006.

Applying these criteria, the Board considered that it is compatible with the 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 internal auditor

in listed companies (including the Company), finance, banking or insurance companies or companies of significant size, namely those whose total assets or turnover exceed € 500 million, provided that no account shall be taken of other companies belonging to the Safilo Group when the total number of companies in which directors hold the office of director or internal auditor is calculated.

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

The current composition of the Board of Directors complies with the said criteria.

5.2. ROLE OF BOARD OF DIRECTORS

The Board of Directors met 7 times in 2007, and the average duration of its meetings was approximately 3½ hours. The average attendance of directors at the meetings was 85.7%.

The schedule of meetings at which the results for the year or period are examined was notified to Borsa Italiana S.p.A. by the dates specified in the Stock Market Regulations and published on the Website. Five meetings of the Board of Directors have so far been arranged for the current year, two of which have already been held: one relating to preliminary figures and the other to approval of the draft statutory accounts and consolidated accounts.

***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 plays a central role in organising, guiding and directing the business in order to pursue the Company's objects, maximise value for shareholders and ensure that the expectations of the other stakeholders are met; in the performance of their duties, the directors shall also take account of the directives and policies defined for the Group and the benefits deriving from membership thereof.

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, a Managing Director or the Board of Internal Auditors.

Meetings of the Board of Directors are to be held at least four times a year, at intervals of not more than three months, and whenever the Chairman deems necessary or a request is made as specified above.

Pursuant to article 20 of the Articles of Association, the Board of Directors holds the widest powers for the ordinary and extraordinary management of the Company without any limitation, except for the matters reserved by law to the General Meeting. The Board of Directors also has power to pass resolutions regarding (i) mergers in the cases specified in ss. 2505 and 2505-bis of the Civil Code, (ii) spin-offs as specified in section 2505-bis of the Civil Code, as referred to in section 2506-ter of the Civil Code, (iii) the opening or closing of secondary premises, (iv) reduction of the share capital in the event of withdrawal of a shareholder, (v) amendment of the Articles of Association to comply with statutory provisions, and (vi) transfer of the Company's registered office to another location in Italy.

Moreover, in accordance with Application Criterion 1.C.1. of the Code, resolution of 23 March 2007 established that the Board of Directors shall:

- (1) examine and approve the strategic, industrial and financial plans of the Company and the Group to which it belongs, the Company's corporate governance system and the structure of the Group;
- (2) evaluate the adequacy of the organisational, administrative and accounting structure of the Company and its controlled companies with strategic importance, designed by the Managing Directors, with special reference to the internal control system and the management of conflicts of interest;
- (3) grant delegated powers to directors and revoke them, defining their limits and the procedures for their exercise, and establishing the intervals, not exceeding three months, at which the bodies holding delegated powers shall 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 the Board of Internal Auditors, establish the fees of the Managing Directors and directors who hold particular offices, pursuant to section 2389.3 of the Civil Code;
- (5) evaluate the general business trend and periodically compare the results obtained with those planned;
- (6) examine and approve in advance the operations of the Company and its controlled companies, if the said operations have 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 operations with associated parties;
- (7) express its opinion, at least once a year, on the size, composition 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 providing information for 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 Internal Auditors, at least once every three months, on the activities performed and the most significant operations.

In accordance with Principle 4.P.1. of the Code, without prejudice to the confidentiality obligations laid down in current legislation and those introduced by the procedure for internal management and external communication of company information, the directors shall maintain the maximum confidentiality about the documents and information obtained in the performance of their duties, and comply with the procedures adopted for external communication of the said documents and information.

In accordance with Application Criterion 1.C.1. b) of the Code, the Board of Directors, at the meeting held on 28 March 2008, with reference to the 2007 financial year, expressed a favourable opinion of the Company's general organisational, administrative and accounting structure and those of its controlled companies with strategic importance, designed by the Managing Directors, with special reference to the internal control system and the management of conflicts of interest.

The Board of Directors, at its meeting held on 6 November 2007, determined the criteria for identification of controlled companies with strategic importance, 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 companies have been identified as Group companies with strategic importance: 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 Espana SL (Spain), Solstice Marketing Corporation (USA) and Smith Sport Optics, Inc. (USA).

At the Company's Ordinary General Meeting held on 24 October 2005, the fee payable to each member of the Board of Directors was set at € 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 fees to directors holding particular offices, pursuant to s. 2389.3 of the Civil Code.

At its meeting on 23 March 2007, the Board of Directors introduced measures designed to ensure that significant operations, operations in which directors have an interest, either on their own account or

on behalf of third parties, and operations with associated parties, are performed transparently and in accordance with the criteria of substantial and procedural correctness.

In particular, after consulting the Internal Control Committee, the Board formalised the existing practice by approving Guidelines which define significant operations and operations with associated parties, and the procedures to be followed for their approval. The Guidelines further state that directors with an interest in an operation, even if it is only a potential or indirect interest, shall (1) inform the Board promptly and (2) abstain from participating in the discussion and voting on the corresponding resolution.

Moreover, for the purpose of management of significant operations by controlled companies, the Guidelines have been circulated to them, and they have been asked to inform the Company promptly of significant operations and operations with associated parties so that they can be submitted for prior examination and approval by the Company.

The Guidelines are available in the IR/Corporate Governance section of the Website.

In accordance with Application Criterion 1.C.1.b) of the Code, the Board of Directors has concluded the self-assessment process initiated by the Board at the meeting held on 23 March 2007.

This process was performed on the basis of a questionnaire ("the Questionnaire") prepared by the Vice-Chairman and the Secretary of the Board of Directors, with the supervision of the Chairman, and submitted to the individual directors, to evaluate the operational efficiency of the Board of Directors and its committees and their efficacy in the pursuing their aims. The questionnaire consists of two parts: the first relates to objective aspects such as the size, composition and operation of the Board of Directors and its committees, and the second to the aspects on which directors were asked to express their personal opinion. The questionnaire allows the following macro-areas to be evaluated: 1) composition of the Board of Directors; 2) meetings of the Board of Directors; 3) Board of Directors' committees; 4) "internal" interactions, namely relations between the Board of Directors and the Managing Directors and between the Board of Directors and the management in general, and "external" interactions, namely relations between the Board of Directors and the Company's stakeholders, ie. shareholders, employees, customers, suppliers, etc.

The Board of Directors' evaluation focused on 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 compliance and performance by the management, 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 make constructive criticisms of the views of the management and to maximise its potential and motivations and its appeal to talented persons; 5) the skills of the Board of Directors and its ability to help achieve the strategic aims of the Company and the Group, by making available the skills of individual directors.

The Internal Control Committee has noted the results of the questionnaires submitted by directors and has processed them, jointly with the Group's Legal Department. The analysis indicates the strengths in the composition and operation of the Board and its committees, and at the same time highlights some aspects which could be improved and some actions which could be taken to improve them further.

5.3. BODIES HOLDING DELEGATED POWERS

In order to improve the efficiency of the Company's management, the Board of Directors has delegated suitable 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 of not more than three months.

On 24 October 2005, the Board of Directors delegated some managerial functions and the corresponding decision-making powers to Chairman Vittorio Tabacchi, Vice-Chairman Giannino Lorenzon, the then Managing Director Roberto Vedovotto, and director Massimiliano Tabacchi, with effect from 6 December 2005.

Following the resignation of Managing Director Roberto Vedovotto and the co-opting of Claudio Gottardi as director, on 3 August 2006 the Board of Directors confirmed the functions and powers already granted to the Chairman and Vice-Chairman and appointed director Claudio Gottardi as Managing Director and director Massimiliano Tabacchi as Joint Managing Director.

Managing Directors

Finally, at its meeting on 3 August 2006, the Board of Directors granted the following delegated powers:

- (1) to Vice-Chairman Giannino Lorenzon, the managerial functions and corresponding decision-making powers described below, to be exercised within the subject and value limits reserved for the Board of Directors:
 - (i) the function of coordinating the management of activities relating to industrial relations with trade unions and workers' representatives, at national and local levels; the civil litigation (including labour disputes), criminal, administrative and tax litigation of the Company and Group, except for debt recovery; internal control of the Company and the

Group, including the application and implementation of Legislative Decree no. 231 of 8 June 2001 relating to the administrative liability of legal persons;

- (ii) the function of managing, in total independence and with the widest decision-making and expenditure powers, in the capacity of "employer" pursuant to Legislative Decree no. 626 of 19 September 1994, all present and future aspects and procedures relating to obligations in the following fields: (a) occupational health and safety, (b) accident prevention and (c) environmental protection;
 - (iii) the function of guaranteeing the correct processing of the personal data of all parties (natural and legal persons) held in the Group's databases, pursuant to Legislative Decree no. 196 of 30 June 2003;
- (2) to Managing Director Claudio Gottardi, the managerial functions and corresponding decision-making powers described below, to be exercised within the subject and value limits reserved for the Board of Directors:
- (i) the function of guiding and coordinating the management, direction and control of the business of the Company and of the Group;
 - (ii) the function of researching, evaluating, processing and implementing new business ideas and the corresponding medium- and long-term plans;
 - (iii) the function of checking, by means of the available economic indicators, that the activities of the operational departments are consistent with the budgets approved by the Company's governing bodies, and defining and implementing the measures required to maintain such consistency
 - (iv) the function of coordinating and controlling all the reporting departments, guaranteeing the adequacy of resources according to needs, hiring and dismissing senior executives, employees and self-employed personnel and establishing their remuneration.

In the course of the said functions, Managing Director Claudio Gottardi is also responsible for managing relations with institutional investors and shareholders (Investor Relations). For this purpose he has appointed a manager of the said relations; in the ambit of the said relations, the internal management and external communication of documents and information relating to the company, with special reference to price-sensitive information, will comply with the internal procedures approved by the Board of Directors on 6 December 2005, in the version updated by the Board resolutions passed on 23 March 2007 and 6 November 2007, contained in the document entitled "Internal company information regulations";

- (3) to Joint Managing Director Massimiliano Tabacchi, the title of Chief Operating Officer and the function of guiding and coordinating the current management of activities in the following

areas: industrial, outsourcing, purchases, planning and logistics of distribution, information technology, personnel policy and administration, and corporate communication; the corresponding decision-making powers were also granted to him.

Chairman

On 3 August 2006 the Board of Directors confirmed the grant to Chairman Vittorio Tabacchi of the managerial functions and corresponding decision-making powers described below, to be exercised within the subject and value limits reserved for the Board of Directors:

- (i) the function of drawing up the strategic plans of the Company and the Group, for submission to the Board of Directors;
- (ii) the function of adopting a unitary Group management policy relating to organisational, commercial, industrial and marketing aspects, in order to meet its profit targets.

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.

As regards Application Criterion 2.C.2. of the Code, the Board of Directors, at its meeting held on 23 March 2007, established that the Chairman shall ensure that the Board is supplied rapidly, by suitable procedures, with the documentation and information required to enable it 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, having regard to the applicable legislation, so that they can perform their role effectively.

Pursuant to article 22 of the Articles of Association, without prejudice to the delegated powers granted, the Chairman of the Board of Directors and each of the Managing Directors, if appointed, shall represent and sign documents on behalf of the Company, jointly or severally, as decided by the Board of Directors that appoints them and establishes their powers and duties. The signature of the Managing Director demonstrates that the Chairman is absent or unable to act.

In accordance with the recommendations contained in Principle 2.P.5. of the Code, the Board of Directors, at its meeting held on 23 March 2007, illustrated the reasons for the grant of strategic delegated powers to the Chairman, mainly based on the fact that the Chairman represents the business image of Safilo.

Reports to the Board

In accordance with Application Criterion 1.C.1.c) of the Code, directors holding operational delegated powers shall report to the Board of Directors and the Board of Internal Auditors about the activities performed, and the operations of greatest financial significance, at the first possible meeting, at

intervals of not more than 3 months; in particular, they must report on any operations involving potential conflicts of interest.

The Board may also request the Managing Directors to arrange for senior executives of the issuer and the Group to attend Board meetings to provide information and analyses of the items on the agenda.

5.4. INDEPENDENT DIRECTORS

The Ordinary General Meeting held on 24 October 2005 renewed the Board of Directors in order to ensure its balanced composition, and appointed additional members with effect from 6 December 2005, namely two non-executive directors, Riccardo Ruggiero and Ennio Doris, and non-executive director Carlo Gilardi. All the said non-executive directors of the Company were classed as "independent" pursuant to section 3 of the Self-Regulatory Code 2002.

The presence of three non-executive independent directors on the Board is designed to ensure the widest protection of "good government" of the Company, to be performed by means of debate and discussion between all directors. The contribution of the independent directors 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 shall submit to the Board of Directors and the Board of Internal 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 28 March 2008, 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 directors Carlo Gilardi, Ennio Doris and Riccardo Ruggiero for the 2007 financial year.

The Board of Internal 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.

5.5. LEAD INDEPENDENT DIRECTOR

As required by Application Criterion 2.C.3. of the Code, by resolution of 23 March 2007 the Board of Directors confirmed the appointment of Carlo Gilardi to the office of "lead independent director",

already granted to him by resolution of 6 December 2005, in order to give further emphasis to the role of the independent directors.

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

The lead independent director has been granted (*inter alia*) power to convene, on his own initiative or on 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 power to request the attendance of management representatives, for a direct discussion with them.

In the 2007 financial year, 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.).

6. 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 Internal Auditors and the Internal Control Committee, approved the "Internal Company Information Regulations", which incorporate 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 by resolution of 6 December 2005 and subsequently updated; (2) the "Code of Conduct" approved by resolution dated 14 September 2005 and subsequently amended by 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, referred to in the Board resolution passed on 28 March 2006.

The said Regulation was amended by resolution of the Board of Directors on 6 November 2007 to incorporate the activities and operating methods of the Group's new Investor Relations Department.

A copy of the said Regulation is available in the IR/Corporate governance section of the Website.

7. BOARD OF DIRECTORS' COMMITTEES

By resolution of 14 September 2005, the Board of Directors set up an Internal Control Committee and a Remuneration Committee.

8. APPOINTMENTS COMMITTEE

The Company does not have a Committee which 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 narrow composition of the Board of Directors enables it to perform the functions of an Appointments Committee.

9. REMUNERATION COMMITTEE

The institution of the Remuneration Committee guarantees the broadest information and transparency regarding the fees payable to directors holding particular offices and senior executives with strategic responsibilities, and the methods for establishing them.

In accordance with section 8.1 of the Self-Regulatory Code 2002, the Company's Board of Directors, by resolution passed on 24 October 2005, appointed as members of the Remuneration Committee, already instituted by an earlier Board resolution passed on 14 September 2005, the then Managing Director Roberto Vedovotto, and two independent non-executive directors: Carlo Gilardi and Riccardo Ruggiero.

Following the resignation of Managing Director Roberto Vedovotto, the Board of Directors, by resolution passed on 3 August 2006, appointed Vice-Chairman Giannino Lorenzon to the Remuneration Committee to replace him.

As stated, the Remuneration Committee consists of 3 members: two independent non-executive directors and an executive director, Vice-Chairman Giannino Lorenzon.

The Board of Directors, at the meeting held 23 March 2007, stated that the presence of the Vice-Chairman on the Remuneration Committee was justified by the advisability for the Committee to benefit from the contribution that the Vice-Chairman can make to identifying the remuneration criteria of the Managing Directors and the other directors holding particular offices, and periodic evaluation of the criteria used for the remuneration of senior executives with strategic responsibilities, which remain collective, in view of his in-depth knowledge of company dynamics and the most suitable criteria to ensure the correct remuneration of those parties. In view of the said reasons, it was decided that for

the 2007 financial year it was neither necessary nor appropriate to replace the Vice-Chairman with another non-executive director as required by Principle 7.P.3 of the Code to ensure the impartiality of the decisions taken by it, as the majority of the Committee is formed by independent non-executive directors.

In accordance with Application Criterion 7.C.4. of the Code, the Regulations of the Remuneration Committee state that no director may attend Committee meetings at which proposals relating to his/her remuneration are submitted to the Board.

The following tasks are assigned to the Remuneration Committee: (i) to submit to the Board of Directors proposals for the fees of the Managing Directors and the other directors who hold particular offices, monitoring the application of the decisions taken by the Board; (ii) to evaluate periodically the criteria adopted for the remuneration of senior executives with strategic responsibilities, monitoring their application on the basis of the information provided by the Managing Directors, and submitting 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 formulates proposals to the Board regarding the incentive system considered most suitable and monitors the development and application over time of the plans approved by the General Meeting pursuant to s. 114-bis of the CFA.

The Remuneration Committee only makes recommendations; the power to establish the fees of directors holding particular offices continues to be held by the Board of Directors, in accordance with section 2389.3 of the Civil Code.

The Remuneration Committee has met twice in 2007, and has (*inter alia*):

- formulated proposals relating to remuneration levels for the years 2007 and 2008 for directors holding particular offices in controlled company Safilo S.p.A.;
- evaluated the salary scale for senior executives of the Safilo Group in Italy and abroad, with special reference to the status attributed to the various managerial positions and the corresponding remuneration criteria adopted, on the basis of the results of a survey specifically conducted by an outside company expert on the subject;
- expressed its favourable opinion of the amendments made to the 2006 Stock Option Plan during the year, as regards the conditions for maturity of the options and the periods for exercise of the corresponding options.

In accordance with Application Criterion 5.C.1. d) of the Code and with the Regulations of the Remuneration Committee, the meetings of that Committee are minuted 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 Remuneration Committee.

10. DIRECTORS' FEES

A significant part of the remuneration of the senior executives with strategic responsibilities is based on the profits earned by the Company, whereas the fees of executive directors are not tied to the Company's profits to a significant extent as they are beneficiaries of the stock option plan.

The 2004 Stock Option Plan and the 2006 Stock Option Plan, as defined and illustrated in paragraph 2, have been instituted not only in favour of some executive directors, but also for the senior executives and self-employed personnel of the Company and the companies in the Group, to encourage them to create value for the Company and the Group and to increase their loyalty. The beneficiaries of both Plans have been identified in the said categories, among persons holding the functions considered most significant for attaining the Company's objectives, having regard to their particular contributions, made in the past and/or expected in future, to the growth and value of the Company and the Group, in the light of their experience and skills and the associated need to increase their loyalty.

The non-executive directors are not beneficiaries of the stock option plans.

The strategic executives of the Group were identified by resolution of the Board of Directors that approved the draft accounts as at 31.12.2006.

Detailed information about directors' remuneration and the Stock Option Plans, and the cumulative remuneration received by senior executives with strategic responsibilities in 2007, is contained in the Supplementary Notes to the annual accounts.

11. INTERNAL CONTROL COMMITTEE

By resolution passed on 24 October 2005 in compliance with the terms of section 10.1 of the Self-Regulatory Code, the Board of Directors appointed the members of the Internal Control Committee, which had been instituted by resolution of 14 September 2005, namely the three non-executive independent directors: Carlo Gilardi, Riccardo Ruggiero and Ennio Doris.

On 23 March 2007 the Board of Directors, in compliance with the terms of Principle 8.P.4. of the Code, confirmed the said composition of the Internal Control Committee, having regard to the fact that the current members possess adequate accounting and financial experience, as demonstrated by their professional experience to date.

At the said meeting held on 23 March 2007 the Board also granted to the Chairman, the Vice-Chairman and Managing Director Claudio Gottardi the widest powers to update the regulations governing the composition and operation of the Internal Control Committee, adopted by resolution of 24 October 2005, in order to adapt them to the new tasks allocated to it.

The Internal Control Committee met 3 times in 2007, and performed all the tasks allocated to it by the Board of Directors and listed in the corresponding Regulations; the main task of the Committee is to evaluate the adequacy and efficacy of the operation of the internal control system of the Company and the Group and the Company's risk management, and to report thereon to the Board of Directors.

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

Meetings of the Internal Control Committee are attended by the Chairman of the Board of Internal Auditors or another Permanent Internal Auditor designated by him/her, in order to guarantee effective coordination of the Committee's activities with those performed by the Board of Internal Auditors, in the light of Application Criterion 10.C.7. of the Code, which provides that the two governing bodies shall promptly exchange the relevant Information for the performance of their respective tasks.

The meetings are also usually attended by the Managing Director responsible for Internal Control and the Internal Control Officer; when so required by the items on the agenda, the chief external auditor and the manager in charge of preparation of the company's financial reports are also invited to attend the meetings.

In accordance with Application Criterion 5.C.1. d) of the Code and with the Regulations of the Internal Control Committee, the meetings of that Committee are minuted 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.

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 recommendatory functions, as indicated in greater detail in paragraph 12:

- (1) together with the manager in charge of preparation of the Company's financial reports and the external 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) on request by the responsible executive director, 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 accounts and the half-yearly report, on the activity performed and the adequacy of the internal control system;
- (5) it performs such further consultative and/or recommendatory tasks as are allocated to it by the Board.

Some of the tasks attributed by the Code to the Internal Control Committee are performed by the Board of Internal Auditors, using the same procedures as would be followed by the Internal Control Committee, to ensure the necessary coordination between the Company's control bodies. The said tasks are as follows:

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

In 2007, the Internal Control Committee evaluated the adequacy and efficacy of the operation of the internal control system and the company's risk management, and reported to the Board of Directors accordingly.

12. INTERNAL CONTROL SYSTEM

The internal control system is the set of rules, procedures and organisational structures of the Company and Group designed to achieve healthy, correct conduct of the business consistent with the objectives set, by means of a suitable process of identification, measurement, management and monitoring of the main risks. The internal control system also meets the need to safeguard the Company's assets, the efficiency and efficacy 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, operational and fraud risks affecting the Company.

Pursuant to section 9.1 of the 2002 Self-Regulatory Code, on 14 September 2005 the Board of Directors assigned to the Managing Director the task of ensuring the functionality and adequacy of the internal control system, defining the appropriate procedures for its operation, and appointed the Vice-Chairman responsible for Internal Control, with the task of checking on compliance with the internal operational and administrative procedures adopted to ensure healthy, efficient management and to identify, prevent and manage the financial, operational and fraud risks affecting the Company as far as possible, reporting to the Internal Control Committee and the Board of Internal Auditors in this respect.

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

- a) establish the guidelines for the internal control system in such a way that the main risks affecting the Company and its controlled companies are correctly identified and suitably measured, managed and monitored, also determining the criteria of compatibility of these risks with healthy, correct business management;
- b) evaluate the efficacy and actual operation of the internal control system, with regard to the characteristics of the business, at least once a year;
- c) express his opinion of its overall adequacy once a year.

In accordance with Application Criterion 8.C.2. of the Code, the Board of Directors performs its duties in relation to the internal control system taking into due consideration the national and international reference models and best practices, with special reference to the effective implementation of the Model referred to in Legislative Decree 231/2001, adopted by the Board by resolution of 28 March 2006, as amended.

On 28 March 2008, after a detailed report by the Internal Control Committee, the Board of Directors evaluated the adequacy, efficacy and effective operation of the internal control system with reference to the 2007 financial year, describing the basic elements to be included in the present Report and expressing a favourable opinion of its overall adequacy. The Internal Control Committee, in turn, received detailed information from the Internal Control Officer, who periodically sends his/her audit reports to the Committee and the Board of Internal Auditors.

12.1. EXECUTIVE DIRECTOR RESPONSIBLE FOR INTERNAL CONTROL SYSTEM

On 23 March 2007 the Board of Directors confirmed the appointment of Vice-Chairman Giannino Lorenzon, Internal Control officer, as executive director responsible for supervising the functionality and adequacy of the internal control system, as established by Application Criterion 8.C.1. of the Code, granting him the powers required to:

- (i) identify the main business risks, taking account of the characteristics of the activities performed by the Company and its controlled companies, 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 adequacy, efficacy and efficiency;
- (iii) adapt that system to the dynamics of the operating conditions and 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 the internal operational and administrative procedures adopted to guarantee healthy, efficient management and to identify, prevent and manage the financial, operational and fraud risks affecting the Company, as far as possible are actually complied with, reporting, for this purpose, to the Internal Control Committee and the Board of Internal Auditors.

12.2. 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 Department, 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) has direct access to all the information useful for the performance of his duties;
- d) has sufficient resources for the performance of his duties;
- e) reports on his work to the Internal Control Committee and the Board of Internal Auditors.

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

In accordance with Application Criterion 8.C.6.c) of the Code, the Internal Control Officer has direct access to all information useful for the performance of his duties. The Internal Control Officer reports on his work to the Internal Control Committee and the Board of Internal Auditors, in accordance with Application Criterion 8.C.6.e), and to the director responsible for monitoring the functionality of the internal control system (Application Criterion 8.C.6.e).

* * *

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

The Group's internal audit structure, headed by the Company's Vice-Chairman, performs its functions by involving different company departments in order to collect information, data and other useful indications from them. The activities performed by the Department mainly involve checks on the internal control and consultancy system, and are designed to improve the control, risk management and corporate governance processes. They take the form of audits of subsidiaries, audits of the parent company's processes, "quick audits on demand", and consultancy and support for other Company departments relating to the internal control system or subjects like the correct implementation of regulatory provisions relating to internal control, such as those specified in Legislative Decree 231/2001 and Statute no. 262/2005.

The work is performed in accordance with an annual schedule 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 takes note of the said annual schedule.

12.3. ORGANISATIONAL MODEL UNDER LEGISLATIVE DECREE NO. 231/2001

On 28 March 2006, the Board of Directors resolved to adopt the Group's Ethical Code and the Company's Organisation, Management and Control Model pursuant to Legislative Decree 231/2001, 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 twice, to comply with legislative and case-law developments. On 28 March 2006, to comply with the current legislation, the Board of Directors also appointed a Supervision and Control Committee (consisting of the Internal Control Officer, an independent director and the Chairman of the Board of Internal Auditors), to whom the tasks specified by Legislative Decree 231/2001, as amended, were allocated.

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

12.4. EXTERNAL AUDITORS

The General Meeting held on 14 September 2005 appointed PricewaterhouseCoopers S.p.A., an auditing firm listed in the auditors' register, to audit the annual and consolidated accounts and to conduct the limited review of the half-yearly consolidated report and the quarterly audit to ensure correct keeping of the books for the financial years 2005, 2006 and 2007.

Following the amendment of the provisions of the CFA that govern audits of Issuers and their Groups, in particular s. 159 thereof, introduced by Statute no. 262 of 28 December 2005 and Legislative Decree no. 303 of 29 December 2006, and the transitory provisions contained in s.8.7 of Legislative Decree no. 303/2006, the Company's General Meeting held on 14 May 2007, on second convocation, extended the auditing appointment granted to PricewaterhouseCoopers S.p.A. to include the financial years from 2008 to 2013, pursuant to the new section 159.4 of the CFA.

12.5. MANAGER IN CHARGE OF PREPARATION OF THE COMPANY'S FINANCIAL REPORTS

Pursuant to article 21 of the Articles of Association, the Board of Directors, on the proposal of the Managing Director and after receiving the mandatory but non-binding opinion of the Board of Internal Auditors, is responsible for the appointment and dismissal of a manager in charge of preparation of the Company's financial reports, in accordance with terms of s. 154-*bis* of the CFA.

The Board of Directors must also ensure that the manager in charge of preparation of the Company's financial reports 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 fee payable.

The manager in charge of preparation of the company's financial reports is chosen from among persons who meet the requirements of professionalism, characterised by specific skills and several years' experience in the accounting and financial field, 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 Internal Auditors, appointed as manager in charge of preparation of the company's financial reports (hereinafter called "the Financial Reporting Manager"), the Group's Administration and Management Control Director, currently Francesco Tagliapietra, who meets the requirements of professionalism, characterised by specific skills and several years' experience in the

accounting and financial field, required for the performance of the tasks assigned by the current legislation to the Financial Reporting Manager. Moreover, it is provided that the executive so appointed will hold office until his resignation or dismissal by the Board of Directors.

The Board of Directors has also granted Managing Director Claudio Gottardi 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 laid down by the legislation.

As specified by Statute 262/2005, the Financial Reporting Manager, after preparing suitable administrative and accounting procedures for the preparation of the annual accounts, consolidated accounts and any other notice and/or document of a financial nature, must certify that the said procedures:

- were defined consistently with the Company's administrative/ accounting system and structure;
- have undergone an adequacy assessment;
- were effectively applied during the period to which the annual accounts, consolidated accounts or any other documentation or financial document relate.

In view of the fact that s. 154-*bis* of the CFA does not refer to a specific model for evaluation of the adequacy of administrative and accounting procedures, in order to meet the consequent need for application of the provision the Company has opted to use a theoretical reference model which is universally recognised and among the most accredited, namely the CoSO Report - Internal Control Integrated Framework.

The activities required to evaluate the adequacy and effectiveness of the procedures and processes from which the data in the accounts are generated began at the end of June 2007, when the scope of the project (ie. the companies/processes to be analysed) was defined.

The subsequent stages of the project are:

- Identification of the system of controls required to limit the risks identified.
- Performance of tests on the controls.
- Implementation of any corrective measures which may be required to correct the control system.

The activities of recording and testing the processes have so far been completed, and the necessary corrective measures are being implemented.

13. APPOINTMENT OF INTERNAL AUDITORS

The appointment and replacement of members of the Board of Internal Auditors is governed by article 24 of the Articles of Association, published in the IR/Corporate Governance section of the Website.

In particular, the Internal Auditors are appointed by the General Meeting on the basis of lists submitted by shareholders, to ensure that one Permanent Internal Auditor and one Substitute Internal Auditor representing the minority shareholders are appointed.

In accordance with Principle 10.P.2. of the Code, the Internal Auditors must act independently, and are therefore not “representatives” of the majority or minority that nominated or elected them.

14. INTERNAL AUDITORS

The Board of Internal Auditors monitors compliance with the legislation and the Articles of Association and with the principles of correct administration, the adequacy of the Company’s organisational structure, within its sphere of jurisdiction, the internal control system and the administrative/accounting system, and the reliability of the latter in correctly representing the Company’s business.

In accordance with Application Criteria 10.C.5. and 10.C.6. of the Code, the Board of Internal Auditors: (i) monitors the independence of the External Auditors, checking on their compliance with the applicable legislation and the nature and extent of the services other than audits provided by the external auditors to the Company and its controlled companies, and (ii) may request the Internal Audit Department to carry out checks on specific operational areas or company operations.

In accordance with s. 159 of the CFA, as amended, the Board of Internal Auditors is entitled to formulate a substantiated proposal for the appointment of the external auditors by the General Meeting.

The Board of Internal 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 announced annually to the market in the Corporate Governance report or the Internal Auditors’ report to the General Meeting.

The Board of Internal Auditors was appointed by the General Meeting on 29 April 2005 for three financial years, namely until the date of the General Meeting called to approve the accounts for the financial year ending on 31 December 2007. The members of the Board of Internal Auditors, who elect the Company’s registered office as their address for service, are listed in the table below:

Name	Office	In office since	% BIA
Franco Corgnati	Chairman	29 April 2005	100%
Nicola Gianese	Permanent Internal Auditor	29 April 2005	100%
Paolo Mazzi	Permanent Internal Auditor	29 April 2005	100%
Ornella Rossi	Substitute Internal Auditor	29 April 2005	----
Giampietro Sala	Substitute Internal Auditor	29 April 2005	----

The CVs of the Internal Auditors, which specify in detail the appointments held by them in other companies listed on regulated Italian markets up to 31.12.2007, are annexed to the Report.

The Board of Internal Auditors met 7 times in 2007.

As prescribed by Application Criterion 10.C.2. of the Code, with reference to the criteria laid down for directors by the Code, the Board of Internal Auditors has checked the independence of its members, and confirmed that each of them continues to meet those requirements.

If Internal Auditors have an interest in a given operation by the Issuer on their own account or on behalf of third parties, the Issuer requires them to inform the other Internal Auditors and the Chairman of the Board of Directors immediately and exhaustively of the nature, terms, origin and scope of their interest (Application Criterion 10.C.4.).

The Board of Internal Auditors monitors the independence of the External Auditors, checking on their compliance with the applicable legislation and the nature and extent of services other than auditing supplied to the Issuer and its controlled companies by the said External Auditors and organisations belonging to their network (Application Criterion 10.C.5.).

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

15. SHAREHOLDER RELATIONS

The website contains an Investor Relations section, easily accessed from the home page, in which a whole page is devoted to corporate governance and contains (*inter alia*) 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. For this purpose, it has been decided to improve the Website, so as to make available to the public more information than currently supplied.

Barbara Ferrante has been appointed Investor Relations Manager as part of this process.

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

The Company's conduct and procedures to date have 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 conference calls with institutional investors and financial analysts, which the financial press is invited to attend.

16. GENERAL MEETINGS

According to article 10 of the Articles of Association, shareholders who deposit their shares, or a notice issued by their brokers, at the Company's registered office or at the banks listed in the notice of call, at least two working days before the date of the General Meeting, are entitled to attend the said Meeting.

Each shareholder may be represented at the General Meeting by a proxy holding a written authority, in the cases and within the limits laid down by law. In particular, legally constituted organisations and companies may be represented by their own authorised representatives or by a proxy holding a written authority, which may be a simple letter signed by the authorised representative.

All directors usually attend General Meetings.

The Company's General Meeting held on 14 September 2005 approved the Regulations governing the conduct of the General Meeting, as required by section 13.4 of the Self-Regulatory Code 2002 and now by Application Criterion 11.C.5. of the Code, which can be found on the Website.

The said Regulation guarantees the orderly and functional conduct of General Meetings and the right of each shareholder to speak on the items under discussion.