



***Corporate Governance***

**Board of Directors 23 March 2007**

**Guidelines for the conduct of Significant Transactions and  
Related Party Transactions**



## PREAMBLE

In compliance with the requirements of Italy's prevailing Civil Code and the Corporate Governance Code published on 14 March 2006 by Borsa Italiana S.p.A. (Italy's stockmarket manager and organizer), SAFILO GROUP S.p.A. (the "Company") has completed the process of adopting measures to govern transactions with a significant impact on the Company's strategy, results of operations, balance sheet and cash flows, including those with related parties.

The Board of Directors passed a resolution on 23 March 2007 to adopt the current Guidelines which govern Significant Transactions carried out by the Company and its Subsidiaries.

The purpose of these procedures is to define duties and responsibilities relating to Significant Transactions and to ensure their substantial and procedural fairness and transparency, in accordance with and for the purposes of satisfying the recommendation contained in subparagraph f) of the Corporate Governance Code's Application Method 1.C.1.

## 1. DEFINITIONS

The following terms are used in these Guidelines with the meanings specified:

**Management:** senior managers of the Company and its Subsidiaries in charge of carrying out a transaction, in accordance with the organizational structure applying at the time of the transaction itself.

**Safilo Group:** the Company and its Subsidiaries.

**Ordinary Transactions:** typical and/or usual transactions forming part of ordinary business activities and which do not display any particularly critical points, in other words transactions whose characteristics and/or terms and conditions do not differ from those of the market and/or normal ones and/or those usually applied.

Ordinary Transactions also include all intragroup transactions of any amount, meaning those between the Company and its Subsidiaries and between the Subsidiaries themselves.

**Significant Transactions:** (i) transactions of any kind with Related Parties (except for intragroup transactions) whose value exceeds the amount of Euro 100,000 and (ii) transactions of any kind with a significant impact on the Safilo Group's strategy, results of operations, balance sheet and cash flows, whose value exceeds the amount of Euro 5 million or which, regardless of the value, can have a significant impact on the market and completeness and fairness of the accounting and other information relating to the Safilo Group. In any event, Significant Transactions include:

- entry into a new business sector or withdrawal from an existing business sector;
- the establishment of companies with shareholders outside the Group;
- the acquisition and disposal of equity investments;
- the acquisition of businesses or business units;
- atypical or unusual transactions, meaning those whose nature and purpose, although falling within the business purpose, has new and/or critical aspects relative to the normal conduct of business.

**Related Parties:** the parties identified in Annex A on the basis of the definition of Related Parties contained in IAS 24 reproduced below, as adopted by Regulation EC 1725/2003, as recently amended by Regulation EC 1910/2005 approved by the European Commission on 8 November 2005:

"A party is related to an entity if:

- (a) directly or indirectly, through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the entity that gives it significant influence over the entity; or
  - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

For the purposes of defining a Related Party, Regulation 1725/2003 specifies that:

- (i) close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:
  - (a) the individual's domestic partner and children;
  - (b) children of the individual's domestic partner; and
  - (c) dependants of the individual or the individual's domestic partner.
- (ii) Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- (iii) Joint control is the contractually agreed sharing of control over an economic activity.
- (iv) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
- (v) Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement."

**Issuer Regulations:** the Regulations adopted by CONSOB (Italy's securities regulator) in resolution 11971 of 14 May 1999 as subsequently amended.

**Secretary:** the person who acts as secretary to the Company's Board of Directors.

**Subsidiaries:** companies controlled directly and/or indirectly by the Company, as defined by article 93 of the T.U.F.

**T.U.F.:** Decree 58 dated 24 February 1998 "Italy's Financial Markets Consolidation Act, pursuant to articles 8 and 21 of Law 52 dated 6 February 1996" or Testo Unico sulla Finanza (TUF).

## 2. PROCEDURES FOR IDENTIFYING SIGNIFICANT TRANSACTIONS

Significant Transactions must be conducted on the basis of the principles of substantial and procedural fairness, where substantial fairness means the economic fairness of the transaction (eg. when an asset's



transfer price is equal to the market price), and procedural fairness means the observance of procedures that seek to ensure the transaction's substantial fairness.

Before conducting any transaction, Management must first verify whether the transaction can be regarded as a Significant Transaction or an Ordinary Transaction.

## **2.1. Rules for Ordinary Transactions**

Ordinary Transactions do not require prior approval by the Board of Directors as they fall within the authority delegated by the Board itself to individual directors or by the latter to others. In accordance with para. 5, article 2381 of the Italian Civil Code, the Board of Directors and Board of Statutory Auditors receive a periodic report on such transactions in order that they are adequately informed.

## **2.2. Rules for Significant Transactions**

Significant Transactions must be submitted to prior review and approval by the Board of Directors. If Management considers that a transaction is a Significant Transaction, it must prepare a note containing the following information: (i) the characteristics of the transaction; (ii) the type of related party connection; (iii) the interest of the Safilo Group company involved in the transaction; (iv) any atypical and/or unusual features of the transaction<sup>1</sup>; and (v) how the economic terms and conditions have been determined.

This note is then sent to the Secretary, who prepares a presentation on the Significant Transaction concerned and includes the proposed resolution in the matters for submission to approval by the Board of Directors.

All the documentation relating to the process of identifying Significant Transactions shall be kept in the records of the Company and, if appropriate, of the Safilo Group company involved.

During the meeting of the Board of Directors, any director with an interest in the transaction, whether potential or indirect, shall inform the Board accordingly. The Board of Directors must assess whether it is appropriate or necessary to request such director to leave the meeting at the time of the resolution or whether such director should abstain from voting.

The Board of Directors may: **a)** approve the transaction; **b)** not approve the transaction or **c)** request the opinion of the Internal Control Committee and/or the legal, technical or financial advice of an expert.

If advice is requested from an expert, this person must possess recognized experience and knowledge, be independent and have no conflict of interest in relation to the transaction.

The Internal Control Committee and/or expert shall prepare a report, which must be presented along with the proposal itself at the next meeting of the Board of Directors.

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<sup>1</sup> CONSOB has defined atypical and/or unusual transactions in its Circular 1025564 dated 6 April 2001 as those transactions which by virtue of their materiality/relevance, nature of the parties, purpose (including in relation to ordinary operations), method of determining the transfer price and timing of execution (proximity to year end) may give rise to doubts as to: the fairness/completeness of the information in the financial statements, the conflict of interests, the integrity of company assets, and the defence of minority shareholders. Extraordinary transactions (mergers, spin-offs, takeovers, capital increases and/or reductions, conferrals etc.) do not in themselves represent atypical transactions.



Based on the report by the Internal Control Committee and/or expert, the Board of Directors may: **a)** approve the transaction or **b)** not approve the transaction.

The Secretary shall inform Management of the resolution adopted by the Board of Directors.

The prior review and approval of these transactions may be replaced by a subsequent ratification if so justified in particularly urgent circumstances, as evaluated on each occasion by the Chief Executive Officer.

If the circumstances so require, resolutions by the Board of Directors concerning Significant Transactions shall be communicated to the public and the market using the procedures applying to price sensitive announcements, in compliance with the procedures for the internal management and external communication of documents and information regarding the Company, with particular reference to price sensitive information, adopted by the Company in a resolution dated 6<sup>th</sup> December 2005, as subsequently amended by resolution dated 23 March 2007.

Significant Transactions with Related Parties whose purpose, consideration, method or timing of completion may affect the integrity of company assets or the completeness and fairness of the financial and other information about the issuer, must be disclosed to the public in accordance with article 71-bis of the Issuer Regulations.

### **3. FINAL PROVISIONS**

In its meeting of 23 March 2007, the Board of Directors granted the Chairman of the Board of Directors, the Vice Chairman and the Chief Executive Officer Claudio Gottardi the necessary authority to revise and add to these Guidelines in view of actual operations by the Company and its Subsidiaries, the experience gained from their application, best practice and any changes in the law or regulatory requirements.



## ANNEX A

### **RELATED PARTIES OF SAFILO GROUP S.P.A.**

- (i) All the companies directly and indirectly controlled by the Company or its associates or parents;
- (ii) all the directors and statutory auditors of the Company and the companies referred to in (i) above;
- (iii) the senior managers of the Company and the companies referred to in (i) above;
- (iv) the shareholders of the Company with at least 2% of share capital/voting rights in ordinary shareholders' meetings;
- (v) relatives and kinsmen up to the 3rd degree and domestic partners of the individuals referred to in (ii), (iii) and (iv) above;
- (vi) companies or entities controlled by individuals referred to in the preceding points.