

Rating Action: Moody's upgrades Safilo's CFR and PDR to Caa1; positive outlook

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Approximately EUR195 million of rated debt affected

Milan, March 09, 2010 -- Moody's Investors Service has today upgraded Safilo S.p.A.'s (Safilo) Corporate Family Rating (CFR) and Probability of Default Rating (PDR) to Caa1, respectively from Caa2 and Caa3. The rating on the senior unsecured rating on the EUR195 million notes due 2013 issued by Safilo Capital International SA remains unchanged at Caa3. The outlook on the ratings is positive. These actions conclude the rating review for possible upgrade initiated on 10 December 2009.

"Today's ratings upgrade reflects the progress made by Safilo towards its capital restructuring programme and Moody's expectation that the company will maintain relatively weak financial and operating profiles over the short to medium term, as operating performances are likely to remain subdued due to the ongoing difficult market conditions" says Paolo Leschiutta, a Vice President--Senior Analyst in Moody's Corporate Finance Group and lead analyst for Safilo.

"Following the conclusion of HAL Holding N.V.'s (HAL) offer to purchase part of Safilo's senior notes at discount at the end of November 2009 (despite a lower-than-expected acceptance rate), Safilo has obtained the required approvals to progress towards its capital restructuring, which was launched in February and was recently partially completed. Achievements so far, which are expected to be concluded over the coming weeks, represent a prerequisite for a restructuring of the existing senior bank facility, which was agreed by all senior lenders towards the end of 2009. Once the capital restructuring is completed, Moody's would expect the company to maintain an adequate liquidity profile, which is incorporated into the current Caa1 rating," adds Mr. Leschiutta.

The capital restructuring included (i) HAL's offer to purchase part of the existing notes at a discount of 60%, which was completed in early December with approximately 51% of note holders accepting the offer, (ii) the need to obtain approvals from shareholders and the European antitrust authorities, which were obtained in December 2009; (iii) the disposal to HAL of non-core retail activity, which was essentially completed by year-end 2009; (iv) a reserved capital increase by HAL for 10% of Safilo's capital for a total of EUR12.8 million completed in February 2010; (v) a rights issue for EUR250 million to be underwritten pro-rata by existing shareholders and HAL, 82% of which was completed by the end of February 2010 with the company raising approximately EUR204 million (the balance is currently being offered on the Italian stock exchange and is in any case underwritten by HAL and the underwriting banks); and (vi) the restructuring of the existing senior bank facility which has been agreed upon by all banks (although the effectiveness will be after the completion of the capital increase). Following the capital restructuring, HAL is expected to increase its shareholding in Safilo to between around 37% and 49.99%.

Moody's understands that proceeds from the capital increases and the retail disposal will be applied to reduce debt and restore the company's liquidity profile. In particular, the company will apply at least EUR185 million to repay the multicurrency term loan A and reduce drawings under the existing revolving credit facility. The new bank facility, once completed, will be a EUR300 million senior secured multicurrency facility, which will include a EUR100 million term loan and a EUR200 million revolver, drawings on which are expected to be around EUR40 million and which will mature in 2015, with partial amortisation in 2012 (EUR75 million under the term loan) and in 2014 (EUR25 million under the term loan). Moody's would expect that, following the signing of the new facility, in light of the improved covenants headroom, the limitation on annual capital expenditure and the more comfortable debt amortisation schedule, the company will maintain an adequate liquidity profile in line with the current rating.

Safilo's CFR and PDR at Caa1 also reflect Moody's expectations that the company will maintain a relatively high financial leverage, in the range of 6-7x on a Debt to EBITDA basis (adjusted for pension and operating leases), over the short to medium term, as profitability levels will remain significantly below historic levels. Moody's believes that, although market conditions appear to have stabilised at present, the recent economic crisis has led to a structural change in the market: the reduction in customers' discretionary spending has overall resulted in a volume decline at the higher end of Safilo's product range that will take some time to recover. In addition, given the seasonal nature of Safilo's activity and its exposure to fashion risk, Moody's requires the company to maintain stronger credit metrics than its rating category alone would imply. The positive outlook, however, recognises the upside potential on the current Caa1 ratings, should the company demonstrate its ability to stabilise operating performances, a gradual recovery in operating profitability and evidence of a conservative financial policy following the entrance of a new controlling shareholder.

Upgrades:

..Issuer: Safilo S.p.A.

....Probability of Default Rating, Upgraded to Caa1 from Caa3

....Corporate Family Rating, Upgraded to Caa1 from Caa2

Outlook is Positive

The last rating action on Safilo was implemented on 10 December 2009, when Moody's upgraded Safilo's CFR to Caa2, PDR to Caa3/LD and the rating on the notes issued by Safilo Capital International SA to Caa3 and placed ratings on review for further possible upgrade. Safilo's ratings were assigned by evaluating factors that Moody's believes are relevant to the credit profile of the issuer, such as (i) the business risk and competitive position of the company versus others within its industry, (ii) the capital structure and financial risk of the company, (iii) the projected performance of the company over the near to intermediate term, and (iv) management's track record and tolerance for risk. These attributes were compared against other issuers both within and outside of Safilo's core industry and the company's ratings are believed to be comparable to those of other issuers of similar credit risk.

Headquartered in Padua, Italy, Safilo SpA is the world's leading manufacturer of high-end and luxury eyewear, generating approximately EUR1.15 billion of revenues during FYE 2008 and EUR774.7 million during the first nine months of FYE 2009. It has been listed on the Italian Stock Exchange since December 2005, with almost 60% of floating shares. The company operates in more than 30 countries and sells its products in

over 130 countries, offering a strong portfolio of both owned and licensed brands.

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