# Nine-month Financial Report
for the period ended 30th September 2010

Date of issue: November $5^{th}$, 2010

This interim report is available on the website:

www.safilo.com

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

Settima Strada, 15

35129 Padua - Italy

## Contents

## Corporate officers as of September 30th, 2010

| **Board of Directors** | |
|---|---|
| *Chairman* | Melchert Frans Groot |
| *Chief Executive Officer* | Roberto Vedovotto |
| *Director* | Giovanni Ciserani |
| *Director* | Jeffrey A. Cole |
| *Director* | Marco Jesi |
| *Director* | Eugenio Razelli |
| *Director* | Massimiliano Tabacchi |

| **Board of Statutory Auditors** | |
|---|---|
| *Chairman* | Franco Corgnati |
| *Regular Auditor* | Lorenzo Lago |
| *Regular Auditor* | Giampietro Sala |
| *Alternate Auditor* | Nicola Gianese |
| *Alternate Auditor* | Ornella Rossi |

| **Internal Control Committee** | |
|---|---|
| *Chairman* | Eugenio Razelli |
| | Marco Jesi |
| | Giovanni Ciserani |

| **Remuneration Committee** | |
|---|---|
| *Chairman* | Jeffrey A. Cole |
| | Melchert Frans Groot |
| | Marco Jesi |

| **Independent Auditors** |
|---|
| PricewaterhouseCoopers S.p.A. |

# DIRECTORS' REPORT ON OPERATIONS

## General information and activities of the Group

Safilo Group S.p.A., the holding company, is a limited liability company registered in Italy. The registered office is located in Pieve di Cadore (BL) – Piazza Tiziano n. 8, whilst the administrative headquarters are located in Padua – Settima Strada n. 15.

Companies included in the consolidation area are reported in paragraph 1.3 "Consolidation method and consolidation area".

Safilo Group has been in the eyewear market for over 75 years and is one of the major operators, in terms of revenues, in the design, manufacture and distribution of glasses and other eyewear products. Safilo is a global leader in the high-end eyewear segment of the market and also one of the top sports eyewear producers and distributors worldwide.

Safilo designs, produces and distributes high quality optical eyewear, sunglasses, sports goggles and accessories. Distribution is through specialised outlets and retail distribution chains.

The entire production-distribution chain is directly supervised and is divided into the following phases: research and technological innovation, design and product development, planning, programming and purchasing, production, quality control, marketing and communication, sales, distribution and logistics. Safilo is strongly oriented towards the development and design of the product, carried out by a team of designers who ensure continued technical and stylistic innovation, which has always been one of the company's key strengths.

The Group manages a brand portfolio of both licensed and house brands, selected according to competitive positioning and international prestige criteria and in order to implement a clear segmentation strategy of customers. Safilo has extensively integrated its house brand portfolio with numerous brands from the luxury and fashion industry, building long-term relationships with the licensors through license agreements, most of which are repeatedly renewed.

The Group's brands include Safilo, Oxydo, Carrera, Smith and Blue Bay while the licensed brands include Alexander McQueen, A/X Armani Exchange, Balenciaga, Banana Republic, BOSS - Hugo Boss, Bottega Veneta, Diesel, 55DSL, Dior, Emporio Armani, Fossil, Giorgio Armani, Gucci, HUGO - Hugo Boss, Jimmy Choo, J. Lo by Jennifer Lopez, Juicy Couture, Kate Spade, Liz Claiborne, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max & Co., Nine West, Pierre Cardin, Saks Fifth Avenue, Tommy Hilfiger, Valentino and Yves Saint Laurent.

## Key consolidated performance indicators

| Economic data (Euro in millions) | First nine months 2010 | % | First nine months 2009 | % |
|---|---|---|---|---|
| Net sales | 818.2 | 100.0 | 774.7 | 100.0 |
| Cost of sales | (335.4) | (41.0) | (328.3) | (42.4) |
| Gross profit | 482.7 | 59.0 | 446.4 | 57.6 |
| Ebitda | 82.5 | 10.1 | 47.5 | 6.1 |
| Ebitda pre non-recurring | 82.5 | 10.1 | 55.0 | 7.1 |
| Operating profit/(Loss) | 52.4 | 6.4 | (134.5) | (17.4) |
| Operating profit/(Loss) pre non-recurring | 52.4 | 6.4 | 21.7 | (2.8) |
| Group profit (Loss) before taxes | 23.1 | 2.8 | (166.9) | (21.5) |
| Profit (Loss) attributable to the Group | (3.6) | (0.4) | (186.2) | (24.0) |
| Profit/(Loss) attributable to the Group pre non-recurring | (3.6) | (0.4) | (30.0) | (3.9) |

| Economic data (Euro in millions) | Third quarter 2010 | % | Third quarter 2009 | % |
|---|---|---|---|---|
| Net sales | 237.9 | 100.0 | 212.6 | 100.0 |
| Cost of sales | (101.6) | (42.7) | (97.3) | (45.8) |
| Gross profit | 136.2 | 57.3 | 115.2 | 54.2 |
| Ebitda | 17.7 | 7.5 | 3.5 | 1.6 |
| Ebitda pre non-recurring | 17.7 | 7.5 | 3.5 | 1.6 |
| Operating profit/(Loss) | 7.7 | 3.2 | (35.6) | (16.8) |
| Operating profit/(Loss) pre non-recurring | 7.7 | 3.2 | (7.6) | (3.6) |
| Group profit (Loss) before taxes | 7.3 | 3.1 | (45.0) | (21.2) |
| Profit (Loss) attributable to the Group | (0.4) | (0.2) | (50.1) | (23.6) |
| Profit/(Loss) attributable to the Group pre non-recurring | (0.4) | (0.2) | (22.1) | (10.4) |

| Balance sheet data (Euro in millions) | September 30, 2010 | % | December 31, 2009 | % |
|---|---|---|---|---|
| Total assets | 1,441.7 | 100.0 | 1,390.6 | 100.0 |
| Total non-current assets | 830.9 | 57.6 | 811.8 | 58.4 |
| Capital expenditure | 19.7 | 1.4 | 36.9 | 2.7 |
| Net invested capital | 1,007.9 | 69.9 | 1,034.0 | 74.4 |
| Net working capital | 282.7 | 19.6 | 327.1 | 23.5 |
| Net financial position | (262.7) | 18.2 | (588.0) | 42.3 |
| Group Shareholders' equity | 734.8 | 51.0 | 438.4 | 31.5 |

| Financial data (Euro in millions) | First nine months 2010 | First nine months 2009 |
|---|---|---|
| Cash flow operating activity | 83.2 | 16.0 |
| Cash flow investing activity | (18.7) | (28.3) |
| Cash flow financing activity | 25.9 | 25.5 |
| Closing net financial indebtedness (short-term) | 68.9 | (12.5) |

| Earning per share (in Euro) (*) | First nine months 2010 | First nine months 2009 |
|---|---|---|
| Earnings/(losses) per share - base | (0.078) | (13.046) |
| Earnings/(losses) per share - diluited | (0.078) | (13.046) |
| No. shares in share capital at September 30 | 56,821,965 | 285,394,128 |

| Group personnel | September 30, 2010 | 30 settembre 2009 |
|---|---|---|
| Punctual at September 30 | 8,402 | 8,168 |

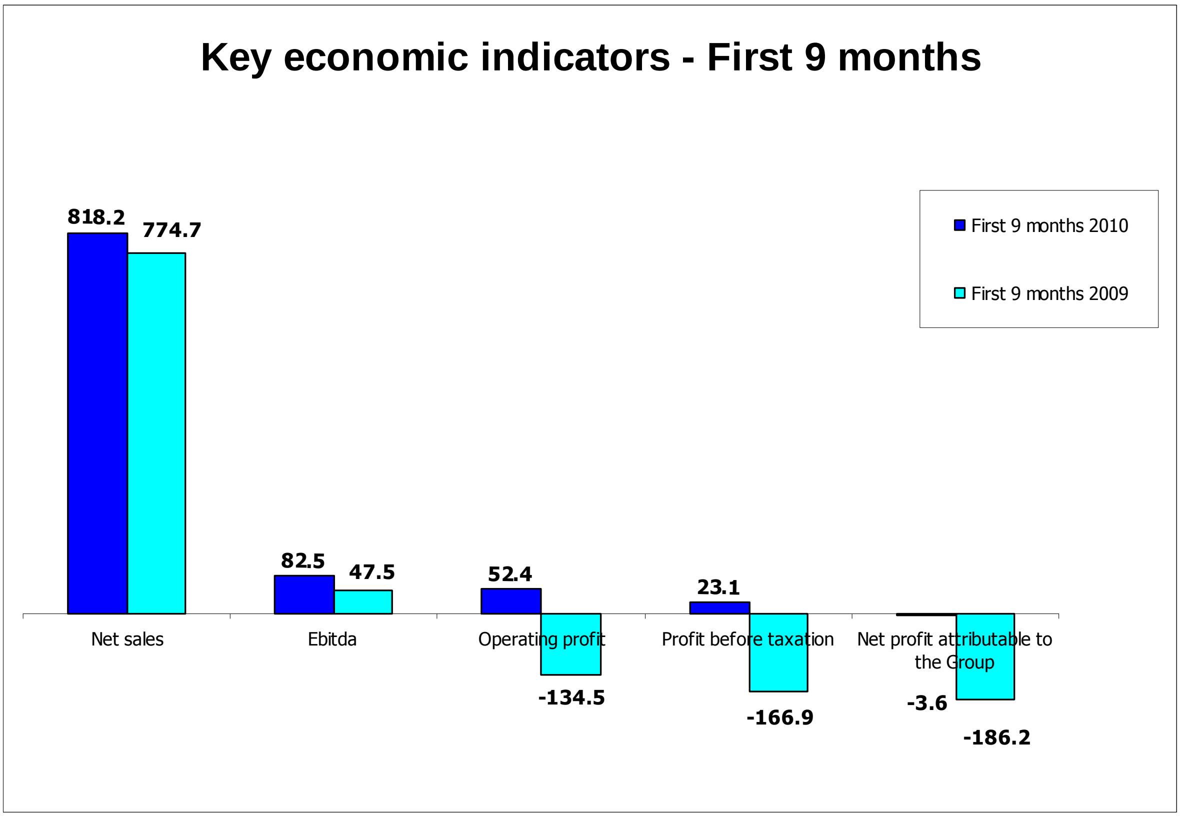
(*) Earnings per share (EPS) was calculated by dividing operating result by the average number of outstanding shares over the period. For the nine months of 2009 for comparative purposes, the number of ordinary shares after the reverse share split was used (one new share per twenty old shares as voted by the 30 April 2010 Shareholders' Meeting).

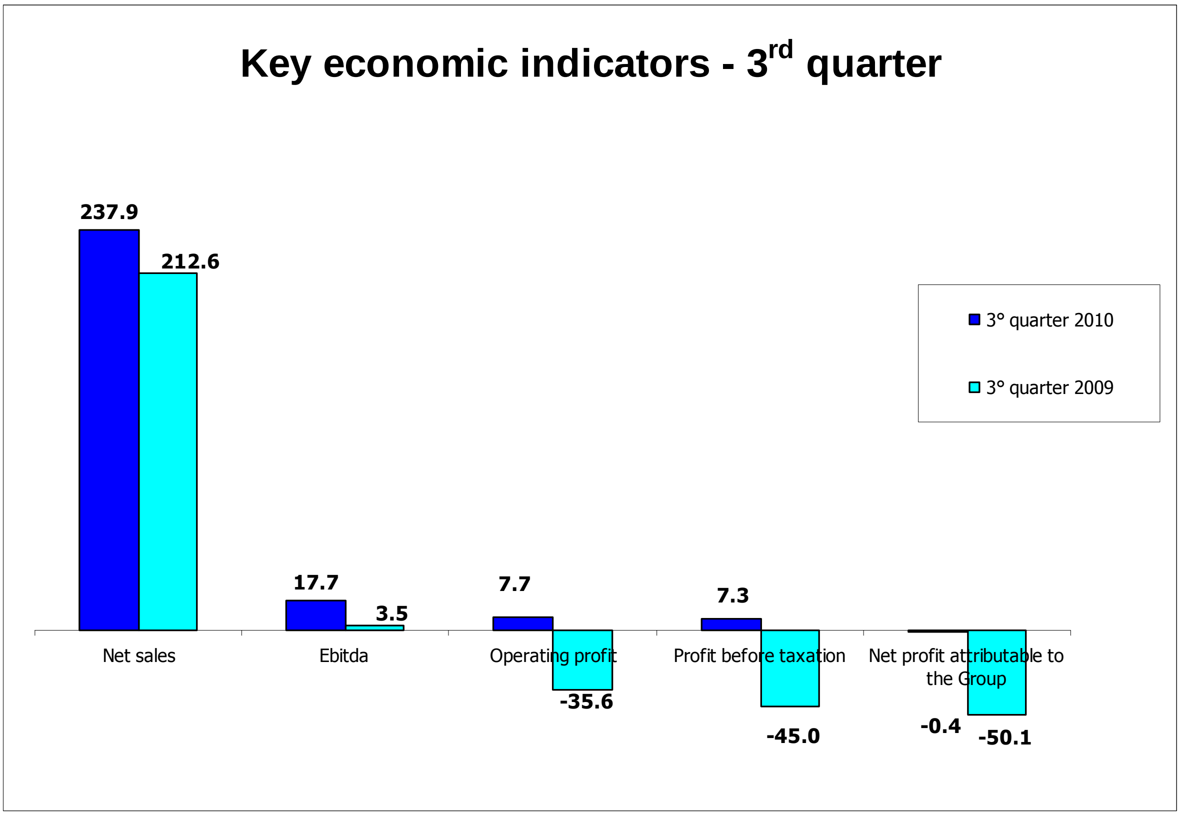
It should be noted that:

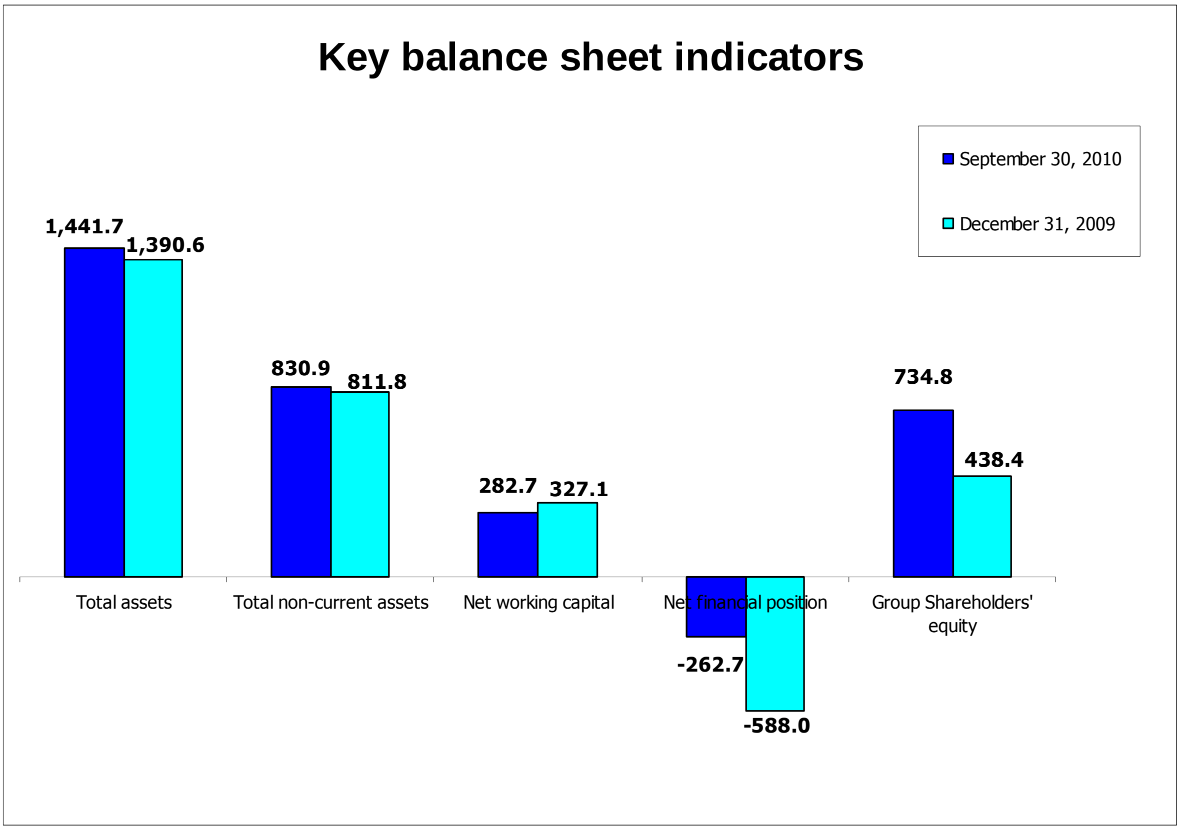
- *certain figures in the Directors' Report on operations have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be algebraic sums of the figures which precede them.*
- *"EBITDA" stands for Earnings Before Interest, Taxes, Depreciation and Amortisation;*
- *"Net working capital" means the algebraic sum of inventories, trade receivables and trade payables.*
- *"Net financial position" means the sum of bank borrowings, short, medium and long-term borrowings, net of cash held in hand and at bank.*
- *"Non-recurring changes" refers to charges not related to ordinary operations and include: restructuring charges, the impairment of goodwill.*

Disclaimer

This report and, in particular, the section entitled "Subsequent events and Outlook" contains forward looking statements based on current expectations and projects of the Group in relation to future events. Due to their specific nature, these statements are subject to inherent risks and uncertainties, as they depend on certain circumstances and facts, most of which being beyond the control of the Group. Therefore actual results could differ, even to a significant extent, with respect to those reported in the statements.


Key economic indicators - First 9 months
First 9 months 2010
First 9 months 2009
818.2
774.7
82.5
47.5
52.4
-134.5
23.1
-166.9
-3.6
-186.2
Net sales
Ebitda
Operating profit
Profit before taxation
Net profit attributable to the Group


Key economic indicators - 3rd quarter
3° quarter 2010
3° quarter 2009
237.9
212.6
17.7
3.5
7.7
-35.6
7.3
-45.0
-0.4
-50.1
Net sales
Ebitda
Operating profit
Profit before taxation
Net profit attributable to the Group


Key balance sheet indicators
September 30, 2010
December 31, 2009
1,441.7
1,390.6
830.9
811.8
282.7
327.1
-262.7
-588.0
734.8
438.4
Total assets
Total non-current assets
Net working capital
Net financial position
Group Shareholders' equity

## Information on Group economic results

The third quarter of 2010 ended on a positive note, confirming the upswing that began during the first half of the year. The toughest period for our sector, which occurred in the first semester of 2009, seems to be behind us and aggregate sales are rising steadily. In many countries, consumer purchasing confidence seems to have returned to normal levels, with renewed interest in products with a high standard of design, even if they are positioned in a higher price bracket. This trend has been confirmed by the average sale price, which bottomed out in the first semester and is now gradually recovering.

Group sales results reflect this change in consumer preferences. Contrary to what happened in 2009, sunglasses have resumed growing at a higher rate, with the most famous brands performing very well.

The third quarter of 2010 was characterised by the recovery in European growth after an extremely difficult period and in spite of the severe crisis afflicting sales in Greece. Sales trends in North America are more stable, where good results in the department store segment have been counterbalanced by substantial stability in the independent opticians segment. On the other hand, there has been no change in the sales growth trend for Far East markets, except for initial signs of recovery in the Japanese market which, after contracting constantly for two years, is showing an encouraging reversal of course.

In regard to the licenses portfolio, special mention should be made of the renewal in September of the licensing agreement to make and distribute Dior branded products until 2017. Aside from the strategic importance of having extended the licensing agreement for one of the brands from which the Group realises most of its revenue, this renewal is indicative of the strong bond characteristic of the relationship between Safilo and major luxury goods companies, and confirms that the most prestigious fashion houses appreciate the Group's products.

During the first nine months of the year, Group net sales reached Euro 818.2 million (+5.6% from 2009), with third quarter 2010 sales up 11.9% year on year. Overall, these figures do not change substantially when stripped of the foreign exchange effect and a different scope of consolidation resulting from the disposal of stores in Spain and Australia. The return to stable commercial performance and growth has also made it possible to improve the efficiency of the Group's industrial structure which, after undergoing profound reorganisation, has recovered its overall stability, consequently guaranteeing improved financial results. The Group had positive operating profit, up sharply from the same period of 2009 (even before non-recurring items). The sharp reduction in financial expenses further improved Group results, which substantially reached the break-even point in the third quarter 2010 in terms of net profit.

Free cash flow remained in positive territory during the third quarter 2010. Net financial indebtedness, which had already been substantially reduced at the beginning of the year following extraordinary capital transactions, benefited from the positive results of operating performance, which reduced the Group's net indebtedness to about Euro 263 million.

## Group economic results

| Consolidated statement of operation *(Euro in millions)* | First nine months 2010 | % | First nine months 2009 | | % Change % | Third quarter 2010 | % | Third quarter 2009 | | % Change % |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 818.2 | 100.0 | 774.7 | 100.0 | 5.6% | 237.9 | 100.0 | 212.6 | 100.0 | 11.9% |
| Cost of sales | (335.4) | (41.0) | (328.3) | (42.4) | 2.2% | (101.6) | (42.7) | (97.3) | (45.8) | 4.4% |
| **Gross profit** | **482.7** | **59.0** | **446.4** | **57.6** | **8.1%** | **136.2** | **57.3** | **115.2** | **54.2** | **18.2%** |
| Selling and marketing expenses | (330.2) | (40.4) | (325.6) | (42.0) | 1.4% | (95.5) | (40.1) | (90.7) | (42.7) | 5.2% |
| General and administrative expenses | (100.7) | (12.3) | (99.8) | (12.9) | 0.9% | (33.4) | (14.0) | (32.2) | (15.2) | 3.5% |
| Other operating income/(expenses), net | 0.5 | 0.1 | 0.6 | 0.1 | -18.5% | 0.3 | 0.1 | 0.1 | 0.0 | n.s. |
| Restructuring cost non recurring | - | - | (7.4) | (1.0) | n.s. | - | - | - | 0.0 | n.s. |
| Impairment loss on godwill and other non current assets | - | - | (148.7) | (19.2) | n.s. | - | - | (28.0) | (13.2) | n.s. |
| **Operating profit** | **52.4** | **6.4** | **(134.5)** | **(17.4)** | **n.s.** | **7.7** | **3.2** | **(35.6)** | **(16.8)** | **n.s.** |
| Interest expense and other financial charges, net | (29.3) | (3.6) | (32.4) | (4.2) | -9.4% | (0.4) | (0.2) | (9.4) | (4.4) | -96.0% |
| **Profit before taxation** | **23.1** | **2.8** | **(166.9)** | **(21.5)** | **n.s.** | **7.3** | **3.1** | **(45.0)** | **(21.2)** | **n.s.** |
| Income taxes | (7.5) | (0.9) | (9.1) | (1.2) | -18.1% | (1.9) | (0.8) | (7.8) | (3.6) | -76.4% |
| Write down of deferred tax assets | (16.0) | (2.0) | (9.2) | (1.2) | 73.9% | (4.6) | (2.0) | 2.8 | 1.3 | n.s. |
| **Net profit (Loss)** | **(0.4)** | **(0.1)** | **(185.2)** | **(23.9)** | **n.s.** | **0.8** | **0.4** | **(50.0)** | **(23.5)** | **n.s.** |
| Net profit attributable to minority interest | 3.2 | 0.4 | 1.0 | 0.1 | n.s. | 1.2 | 0.5 | 0.2 | 0.1 | n.s. |
| **Net profit (Loss) attributable to the group** | **(3.6)** | **(0.4)** | **(186.2)** | **(24.0)** | **n.s.** | **(0.4)** | **(0.2)** | **(50.1)** | **(23.6)** | **n.s.** |
| **EBITDA** | **82.5** | **10.1** | **47.5** | **6.1** | **73.5%** | **17.7** | **7.5** | **3.5** | **1.6** | **n.s.** |

| Economic indicators pre non recurring items | First nine months 2010 | % | First nine months 2009 | | % Change | Third quarter 2010 | % | Third quarter 2009 | | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **EBIT pre non recurring** | **52.4** | **6.4** | **21.7** | **2.8** | **n.s.** | **7.7** | **3.2** | **(7.6)** | **(3.6)** | **n.s.** |
| **EBITDA pre non recurring** | **82.5** | **10.1** | **55.0** | **7.1** | **50.1%** | **17.7** | **7.5** | **3.5** | **1.6** | **n.s.** |
| **Net profit (Loss) attributable to the group pre non recurring** | **(3.6)** | **(0.4)** | **(30.0)** | **(3.9)** | **n.s.** | **(0.4)** | **(0.2)** | **(22.1)** | **(10.4)** | **n.s.** |

*Percentage impacts and changes have been calculated on figures in thousand.*

In the third quarter 2010, the Group's **net sales** improved steadily, not only if compared with the same period of 2009, but also in comparison with the first semester 2010. Sales totalled Euro 818.2 million, up 5.6% on an annualised basis and 11.9% on a quarterly basis. Net of the foreign exchange effect and ignoring the effect of store disposals, sales would have risen by 5.4% on an annualised basis and 7.6% on a quarterly basis.

Focusing on specific licensed brands, sales growth was reported for Armani, Dior and Gucci, while proprietary brands enjoyed the continued extraordinary growth in sales of Carrera products. This is a commercial success that is reaching across the borders of the Italian market and realising considerable results not only in Europe but also in the United States. When measured in terms of product type, sales of sunglasses again grew at a higher rate in the third quarter 2010, due both to the recovery of top brands and the success of Carrera, a collection that is more focused on sunglasses.

When broken down on a regional basis, figures show that recovery finally began in Europe during the third quarter 2010 (+11% year on year on a comparable foreign exchange and consolidation basis) after a long downturn. Even when the first nine months of the year are considered, double-digit growth rates were reported in almost all southern European countries, except for Greece, where the domestic financial crisis has triggered a severe contraction in consumer spending. In the northernmost part of the continent, growth was generally more moderate in central European countries, while extremely important advances were again made in the Nordic countries, especially in Scandinavia. There was no substantial change if the focus is limited to the third quarter 2010 alone, except in the Italian market, which is showing growing signs of weakness, and in the German market, where sales are accelerating briskly. The growth of sales in France and especially Spain remains at strong levels, even if the current improvement in sales in the Spanish market largely reflects a return to a level of turnover that is more consistent with the size of a country that recently underwent a severe crisis in consumption.

In the American market, significant increases as measured in local currency were reported, both in the prescription frame and sportswear frame segments. The market has not yet fully recovered from the crisis, and thus remains soft, especially in the independent opticians segment. Various commercial initiatives are being implemented there in order to support the sales force considering the general stagnation in demand. Sales at department stores have instead improved, being focused exclusively on sunglasses, with good results being turned in by the top brands and by Marc Jacobs. It is interesting to note that North America is currently the only large market for the Group where consumers have not yet begun returning to high-end products and continue to prefer brands positioned in lower price ranges. Positive results were reported by the sports business operated by the Smith subsidiary, which recently returned to strong growth after an especially difficult year in 2009. The results in Latin America were also very good, where the Brazilian subsidiary is meeting its targets and aims to post more than 30% growth in sales over 2009 by the end of 2010.

Sales in the Far East confirm the trend previously reported in the first semester 2010 results. Albeit at different speeds, all countries in the area are growing at high rates compared to the previous year's levels, with the exception of Japan. However, during the past several weeks this latter country seems to have begun a recovery that might be confirmed over the next several quarters. The strong growth in sales is obviously continuing in the Chinese market, which is poised to become the largest in the area in 2011. China undoubtedly exhibits special characteristics that demand selective distribution and a focus on customer solvency. Nevertheless, consumer growth rates and a propensity for prestigious brands leads us to believe that the growth trend which have begun over the last several years might continue in the immediate future.

| Net sales by geographical area (Euro in millions) | First nine months 2010 | % | 2009 | % | Change % | Third quarter 2010 | % | 2009 | % | Change % |
|---|---|---|---|---|---|---|---|---|---|---|
| Europe | 334.2 | 40.9 | 337.9 | 43.6 | -1.1 | 85.5 | 36.0 | 81.0 | 38.1 | +5.7 |
| The Americas | 351.2 | 42.9 | 312.3 | 40.3 | +12.4 | 116.9 | 49.1 | 96.1 | 45.2 | +21.7 |
| Asia | 120.9 | 14.8 | 98.2 | 12.7 | +23.1 | 31.8 | 13.4 | 24.5 | 11.5 | +29.7 |
| Rest of the world | 11.9 | 1.4 | 26.3 | 3.4 | -55.0 | 3.7 | 1.5 | 11.0 | 5.2 | -67.5 |
| **Total** | **818.2** | **100.0** | **774.7** | **100.0** | **5.6** | **237.9** | **100.0** | **212.6** | **100.0** | **11.9** |

| Net sales by product (Euro in millions) | First nine months 2010 | % | 2009 | % | Change % | Third quarter 2010 | % | 2009 | % | Change % |
|---|---|---|---|---|---|---|---|---|---|---|
| Prescription frames | 316.3 | 38.7 | 310.2 | 38.1 | +2.0 | 103.0 | 43.3 | 95.7 | 45.0 | +7.6 |
| Sunglasses | 447.1 | 54.6 | 410.8 | 57.1 | +8.8 | 107.3 | 45.1 | 89.9 | 42.3 | +19.3 |
| Sport products | 45.6 | 5.6 | 36.7 | 3.1 | +24.1 | 24.4 | 10.2 | 19.4 | 9.1 | +25.6 |
| Other | 9.2 | 1.1 | 17.0 | 1.7 | -45.7 | 3.2 | 1.4 | 7.6 | 3.6 | -57.6 |
| **Total** | **818.2** | **100.0** | **774.7** | **100.0** | **5.6** | **237.9** | **100.0** | **212.6** | **100.0** | **11.9** |

Sales growth and a more stable production organisation made it possible to improve **industrial profitability**. The third quarter 2010 confirmed the trend of improvement in gross profits from 2009. Currently the Group's European plants have significantly increased the utilisation rate of their production capacity, and the Chinese plant is meeting its targets after having completed the start-up phase. Furthermore, good market prospects also favour the restoration of stocks consistent with the highest standard of service, thereby allowing additional utilisation of installed capacity. Gross industrial profit consequently grew by 8.1% as compared with the first nine months of 2009. This was accompanied by a substantial improvement in its ratio as a percentage of sales, which rose from 57.6% in 2009 to 59.0%. During the third quarter 2010, this improvement was even more marked.

In the third quarter 2010, the ratio of commercial expenses as a percentage of sales fell from the previous year. In absolute terms, the costs for royalties and management of the commercial network increased slightly from 2009, mainly due to higher sales. Marketing expenses increased slightly, mainly due to the expenditure made in support of developing the house brands. In this regard, a project for the development of marketing activities in several major European countries and the United States began in 2009, and its initial impact on sales is already beginning to be felt. However, it is important to point out that these costs (and overhead costs thereafter) are heavily impacted by the foreign currency conversion effect, which amplifies the moderate increases from 2009. At the same time, sale of the retail chains led to a reduction in the overall cost of these items.

The Group's **operating profit** totalled Euro 52.4 million (Euro 7.7 million in third quarter 2010), more than doubling the value reached in the first nine months of 2009 (gross before non-recurring items). Consequently, EBITDA increased considerably, rising from Euro 47.5 million in the first nine months of 2009 to the current Euro 82.5 million, which is equal to 10.1% of net sales.

Net financial expenses were heavily impacted by fluctuations in the various foreign currencies. While we commented at the end of the first half 2010 on the negative impact of the foreign exchange differences resulting from appreciation of the U.S. dollar, we are now in the opposite situation, where the dollar has steadily depreciated since 30th June 2010, both in terms of its average exchange rate and especially in terms of its spot rate at 30th September 2010.

This has resulted in a recovery of most of the negative impact of the fluctuations in exchange rates during the first semester 2010 and has effectively reduced the aggregate value of net financial expenses during the third quarter 2010 to zero.

Improved operating and financial conditions in the third quarter 2010 made it possible to substantially break even in terms of **net loss attributable to the Group** (Euro -0.4 million), which was instead slightly worse (Euro -3.6 million) in the first nine months of the year.

## Analysis by distribution channel

The following table illustrates highlights by activity segment:

| | WHOLESALE | | | | RETAIL | | | |
|---|---|---|---|---|---|---|---|---|
| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Change | Change % | First nine months 2010 | First nine months 2009 | Change | Change % |
| Net sales to 3rd parties | 751.1 | 692.0 | 59.1 | 8.5% | 67.1 | 82.7 | -15.6 | -18.9% |
| EBITDA | 78.5 | 50.7 | 27.8 | 54.7% | 4.0 | (3.2) | 7.2 | n.s. |
| *%* | *10.5%* | *7.3%* | | | *5.9%* | *-3.9%* | | |
| EBITDA pre non recurring | 78.5 | 58.2 | 20.3 | 35.0% | 4.0 | (3.2) | 7.2 | n.s. |
| *%* | *10.5%* | *8.4%* | | | *5.9%* | *-3.9%* | | |

| | WHOLESALE | | | | RETAIL | | | |
|---|---|---|---|---|---|---|---|---|
| *(Euro/000)* | Third quarter 2010 | Third quarter 2009 | Change | Change % | Third quarter 2010 | Third quarter 2009 | Change | Change % |
| Net sales to 3rd parties | 214.6 | 184.3 | 30.3 | 16.5% | 23.2 | 28.3 | -5.1 | -17.9% |
| EBITDA | 16.6 | 4.1 | 12.5 | n.s. | 1.1 | (0.6) | 1.7 | n.s. |
| *%* | *7.7%* | *2.2%* | | | *4.9%* | *-2.2%* | | |
| EBITDA pre non recurring | 16.6 | 4.1 | 12.5 | n.s. | 1.1 | (0.6) | 1.7 | n.s. |
| *%* | *7.7%* | *2.2%* | | | *4.9%* | *-2.2%* | | |

Although it was weaker due to the seasonal nature of sales, the third quarter 2010 confirmed the net improvement in performance of the wholesale channel.
Compared with 2009, sales on a comparable exchange rate basis grew by 4.6% in the first nine months of the year and 7.5% if the third quarter 2010 alone is considered. This improvement, driven principally by sunglasses, occurred primarily in the American area and Far East. However, it is important to point out how sales in Europe, which were still showing signs of slowdown at the beginning of the year, stabilized in the second quarter 2010 and returned to growth in the third quarter 2010. The results of the licensed top brands were extremely positive, while among the house brands, sales of Carrera products continued to grow strongly both in Europe and the United States, and Smith sports product sales continued to expand briskly.
The recovered efficiency of the industrial organisation, associated with greater absorption of commercial costs and administrative organisation costs, allowed for a strong increase in operating profitability (even before non-recurring items in comparison with the previous year). Operating income grew by over 68%, and EBITDA reached Euro 78.5 million, equal to 10.5% of revenue.

The retail segment, where unprofitable activities were disposed at the end of the previous year, significantly improved its performance. Currently this segment includes the American chain Solstice (159 stores) and the Mexican chain Sunglass Island (57 stores). However, the latter is currently being disposed of as part of the agreements reached with the controlling shareholder upon recapitalisation of the company.

On a comparable consolidation basis, the sales of the retail segment grew by 14.6% from the previous year, with performance improving both in the United States and in Mexico. While the disposal of chains in Spain and Australia reduced total sales in the segment, it nonetheless allowed an improvement in EBITDA, insofar as both of the sold chains were making heavy operating losses.

## Balance sheet reclassified

| **Balance sheet** *(Euro in millions)* | **September 30, 2010** | **December 31, 2009** | **Change** |
|---|---|---|---|
| Trade receivables | 249.7 | 268.8 | (19.1) |
| Inventory, net | 199.6 | 208.4 | (8.8) |
| Trade payables | (166.6) | (150.1) | (16.5) |
| **Net working capital** | **282.7** | **327.1** | **(44.4)** |
| Tangible assets | 201.7 | 208.6 | (6.9) |
| Intangible assets and goodwill | 556.7 | 536.5 | 20.2 |
| Financial assets | 12.8 | 12.0 | 0.8 |
| **Net fixed assets** | **771.2** | **757.1** | **14.1** |
| **Net assets of disposal group classified as held for sale** | **7.9** | **0.0** | **7.9** |
| Employee benefit liability | (43.8) | (41.8) | (2.0) |
| Other assets / (liabilities), net | (10.0) | (8.4) | (1.6) |
| **Net invested capital** | **1,007.9** | **1,034.0** | **(26.1)** |
| Cash in hand and at bank | 83.6 | 37.4 | 46.2 |
| Short term borrowings | (54.7) | (178.1) | 123.4 |
| Long term borrowings | (291.6) | (447.3) | 155.7 |
| **Net financial position** | **(262.7)** | **(588.0)** | **325.3** |
| Group Shareholders' equity | (734.8) | (438.4) | (296.4) |
| Minority interest | (10.4) | (7.6) | (2.8) |
| **Total shareholders' equity** | **(745.2)** | **(446.0)** | **(299.2)** |

## Cash flow

The following table illustrates highlights of the cash flow statement as at 30th September 2010 compared with the values for the same period of the previous year:

| **Free cash flow** *(Euro in millions)* | **First nine months 2010** | **First nine months 2009** | **Change** |
|---|---|---|---|
| Cash flow operating activities | 83.2 | 16.0 | 67.2 |
| Cash flow investing activities | (18.7) | (28.3) | 9.6 |
| **Free cash flow** | **64.5** | **(12.3)** | **76.8** |

The strong level of cash flow generated at 30th September 2010 made it possible to improve further net financial indebtedness even after the recapitalisation of the company. This result, which was particularly evident during the first semester 2010, was achieved due to the strong improvement in net profitability. Even net of the non-recurring events that had characterised 2009, net profitability leapt forward from the first nine months of the previous year.
The management of working capital also contributed to the improvement in financial income.
Investments remain under close observation, and their reduced level reflects the desire to selectively use financial resources only when there is an adequate assumption of short-term financial returns.

## Net working capital

| **Net working capital ( Euro in millions)** | **September 30, 2010** | **September 30, 2009** | **Change Sept 10 / Sept 09** | **December 31, 2009** |
|---|---|---|---|---|
| Trade receivables, net | 249.7 | 261.5 | (11.8) | 268.8 |
| Inventories | 199.6 | 221.9 | (22.3) | 208.4 |
| Trade payables | (166.6) | (140.8) | (25.8) | (150.1) |
| **Net working capital** | **282.7** | **342.6** | **(59.9)** | **327.1** |
| *% net sales rolling last 12 months* | *26.8%* | *32.4%* | | *32.3%* |

The improvement in the ratio of net working capital to sales was confirmed once again at the end of this quarter, not only due to the increase in sales but also the reduction in the absolute value of working capital. Inventories, which reached minimum levels at the end of the first semester of 2010, were up slightly, partly due to seasonal factors. It is expected that this tendency for moderate growth in finished product inventories can continue in the following months following recovery in the market and the increasingly pressing demands for service made on opticians that, as previously indicated, is becoming an increasingly important commercial driver.
There have been no substantial changes in the policy of managing customer or supplier collections or payments.

## Investments in property, plant and equipment and intangible fixed assets

Group capital expenditure on tangible and intangible assets totalled Euro 19.7 million, as compared with Euro 29.1 million during the same period of the previous financial year, and break down as follows:

| *(Euro in millions)* | First nine months 2010 | First nine months 2009 | Change |
|---|---|---|---|
| Padua headquarters | 1.1 | 4.6 | (3.5) |
| Production factories | 14.5 | 17.9 | (3.4) |
| Europe | 0.4 | 0.7 | (0.3) |
| America | 2.9 | 4.9 | (2.0) |
| Far-East | 0.8 | 1.0 | (0.2) |
| **Total** | **19.7** | **29.1** | **(9.4)** |

The policy of limiting capital expenditure led to focusing capital expenditure on modernising and developing the industrial area.

The change in retail strategy prompted sharp curtailment in projects to open new stores and concentrating expenditure on areas directly tied to production and sales.

## Net financial position

| **Net financial position** *(Euro in millions)* | September 30, 2010 | June 30, 2010 | Change Sept/Jun | December 31, 2009 | Change Sept/Dec |
|---|---|---|---|---|---|
| Current portion of long-term borrowings | (1.2) | (1.4) | 0.2 | (77.3) | 76.1 |
| Bank overdrafts and short term bank borrowings | (15.1) | (17.2) | 2.1 | (58.3) | 43.2 |
| Other short-term borrowings | (38.4) | (45.5) | 7.1 | (42.5) | 4.1 |
| Cash and cash equivalent | 83.6 | 105.7 | (22.1) | 37.4 | 46.2 |
| **Short-term net financial position** | **28.9** | **41.6** | **(12.7)** | **(140.7)** | **169.6** |
| Long term borrowings | (291.6) | (311.0) | 19.4 | (447.3) | 155.7 |
| **Long-term net financial position** | **(291.6)** | **(311.0)** | **19.4** | **(447.3)** | **155.7** |
| **Net financial position** | **(262.7)** | **(269.4)** | **6.7** | **(588.0)** | **325.3** |

Net financial indebtedness was sharply reduced by recapitalisation of the company, which contributed about Euro 270 million in new resources.

Following this and the generation of cash in the first nine months of 2010, the amount and structure of Group debt was significantly different from the situation at 31st December 2009. The current structure of medium-long term financing has no significant reimbursement foreseen over the next twelve months, the current portion of financial indebtedness mainly refers to operating activities.

## Personnel

The Group's total workforce as at 30th September 2010, 31st December 2009 and 30th September 2009 is summarized in the following table:

| | September 30, 2010 | December 31, 2009 | September 30, 2009 |
|---|---|---|---|
| Padua headquarters | 885 | 860 | 875 |
| Production factories | 5,158 | 4,727 | 4,583 |
| Commercial companies | 1,179 | 1,183 | 1,231 |
| Retail | 1,180 | 1,161 | 1,479 |
| **Total** | **8,402** | **7,931** | **8,168** |

The change in Group headcount shows a slight increase from 31st December 2009, mainly in the production area where the improvement in market prospects has led to greater utilisation of production capacity, to which is added the steady development of the Chinese plant. The change in retail area personnel resulted from the disposal of the store chains in Spain and Australia which occurred at the end of 2009.

## Transaction with related parties

Information on related-party transactions is provided in the "Related parties" section in the explanatory notes, to which reference is made for details.

## Subsequent events and Outlook

On 28th September the Group announced renewal of the Dior licensing agreement until the end of 2017.

On 4th October 2010 the Board of Directors of Safilo Group S.p.A. defined, on the basis of the proposal of the Remuneration Committee, the general guidelines of the 2010-2013 Stock Option Plan, which provides for the granting of options allowing newly issued ordinary shares of the Company to be purchased. The Plan is reserved to a selected group of directors and/or senior executives of the Company and/or its subsidiaries identified by the Board of Directors, on the basis of the proposal of the Remuneration Committee, amongst those individuals who hold a key role in achieving the strategic objectives of the Company. The Plan is aimed at supporting the improvement of the Company's long-term performance and the creation of shareholder value through the retention of individuals deemed key to the Group's development and with the aim of aligning the objectives of the beneficiaries with those of the Company's shareholders. In accordance with the Plan, a maximum of 1,700,000 options will be issued and granted to the beneficiaries, subject to the achievement of predetermined performance targets, and will give the beneficiaries the right to subscribe one ordinary share of the Company for every option assigned. The Plan will be approved by the Company's ordinary Shareholders' Meeting called on 5th November 2010.

During the first nine months of 2010, Group performance improved both at the operating and financial levels. In a market situation that is still uncertain and volatile in many ways, Safilo remains cautious and focused on continuing to restructure its activities.

# Financial statements and Notes at 30th September, 2010

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated balance sheet

| *(Euro/000)* | *Notes* | September 30, 2010 | of which related parties | December 31, 2009 | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash in hand and at bank | *2.1* | 83,572 | | 37,386 | |
| Trade receivables, net | *2.2* | 249,659 | 11,199 | 268,750 | 15 |
| Inventory, net | *2.3* | 199,602 | | 208,373 | |
| Derivative financial instruments | *2.4* | - | | - | |
| Other current assets | *2.5* | 67,260 | 8 | 64,311 | 419 |
| **Total** | | **600,093** | | **578,820** | |
| **Assets of disposal group classified as held for sale** | *2.24* | **10,751** | | - | |
| **Total current assets** | | **610,844** | | **578,820** | |
| **Non-current assets** | | | | | |
| Tangible assets | *2.6* | 201,699 | | 208,579 | |
| Intangible assets | *2.7* | 13,862 | | 18,106 | |
| Goodwill | *2.8* | 542,867 | | 518,419 | |
| Investments in associates | *2.9* | 12,794 | | 12,032 | |
| Financial assets available-for-sale | *2.10* | 681 | | 806 | |
| Deferred tax assets | *2.11* | 45,003 | | 41,718 | |
| Derivative financial instruments | *2.4* | 76 | | 228 | |
| Other non-current assets | *2.12* | 13,915 | | 11,916 | |
| **Total non-current assets** | | **830,897** | | **811,804** | |
| **Total assets** | | **1,441,741** | | **1,390,624** | |

| *(Euro/000)* | *Notes* | September 30, 2010 | of which related parties | December 31, 2009 | of which related parties |
|---|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Short-term borrowings | *2.13* | 54,698 | | 178,124 | |
| Trade payables | *2.14* | 166,575 | 5,736 | 150,068 | 5,956 |
| Tax payables | *2.15* | 22,108 | | 18,651 | |
| Derivative financial instruments | *2.4* | 2,607 | | 5,549 | |
| Other current liabilities | *2.16* | 73,828 | | 63,437 | |
| Provisions for risks and charges | *2.17* | 3,665 | | 4,087 | |
| **Total** | | **323,481** | | **419,916** | |
| **Liabilities of disposal group classified as held for sale** | *2.24* | **2,887** | | - | |
| **Total current liabilities** | | **326,368** | | **419,916** | |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | *2.13* | 291,580 | | 447,282 | |
| Employee benefit liability | *2.18* | 43,846 | | 41,818 | |
| Provisions for risks and charges | *2.17* | 19,699 | | 20,968 | |
| Deferred tax liabilities | *2.11* | 3,634 | | 3,531 | |
| Derivative financial instruments | *2.4* | 431 | | - | |
| Other non-current liabilities | *2.19* | 10,966 | | 11,117 | |
| **Total non-current liabilities** | | **370,156** | | **524,716** | |
| **Total liabilities** | | **696,524** | | **944,632** | |
| **Shareholders' equity** | | | | | |
| Share capital | *2.20* | 284,110 | | 71,349 | |
| Share premium reserve | *2.21* | 464,390 | | 745,105 | |
| Retained earnings (losses) and other reserves | *2.22* | (9,756) | | (26,605) | |
| Fair value and cash flow reserves | *2.23* | (312) | | 32 | |
| Income attributable to the Group | | (3,635) | | (351,448) | |
| **Total shareholders' equity attributable to the Group** | | **734,797** | | **438,433** | |
| **Non controlling interests** | | **10,420** | | **7,559** | |
| **Total shareholders' equity** | | **745,217** | | **445,992** | |
| **Total liabilities and shareholders' equity** | | **1,441,741** | | **1,390,624** | |

## Consolidated income statement

| *(Euro/000)* | Notes | First nine months 2010 | of which related parties | First nine months 2009 | of which related parties | Third quarter 2010 | of which related parties | Third quarter 2009 | of which related parties |
|---|---|---|---|---|---|---|---|---|---|
| Net sales | *3.1* | 818,184 | 29,246 | 774,700 | 58 | 237,857 | 7,730 | 212,559 | 13 |
| Cost of sales | *3.2* | (335,441) | (12,660) | (328,304) | (9,977) | (101,644) | (3,576) | (97,314) | (3,137) |
| **Gross profit** | | **482,743** | | **446,396** | | **136,213** | | **115,245** | |
| Selling and marketing expenses | *3.3* | (330,183) | (106) | (325,609) | | (95,460) | (49) | (90,711) | |
| General and administrative expenses | *3.4* | (100,702) | (979) | (99,772) | (919) | (33,366) | (332) | (32,227) | (291) |
| Other oper. income/(expenses), net | *3.5* | 528 | 155 | 648 | | 337 | 51 | 88 | |
| Restructuring cost non recurring | | - | | (7,422) | | - | | - | |
| Impairment loss on goodwill and other non current assets | | - | | (148,695) | | - | | (28,000) | |
| **Operating profit/(loss)** | | **52,386** | | **(134,454)** | | **7,724** | | **(35,605)** | |
| Share of income/(loss) of associates | *3.6* | 342 | | (76) | | 262 | | 285 | |
| Int. expenses and other fin. charges, net | *3.7* | (29,675) | | (32,284) | | (642) | | (9,703) | |
| **Profit/(Loss) before taxation** | | **23,053** | | **(166,814)** | | **7,344** | | **(45,023)** | |
| Income taxes | *3.8* | (7,478) | | (9,135) | | (1,828) | | (7,751) | |
| Write down of deferred tax assets | *3.8* | (16,000) | | (9,200) | | (4,650) | | 2,800 | |
| **Net profit/(loss)** | | **(425)** | | **(185,149)** | | **866** | | **(49,974)** | |
| **Net profit(loss) attributable to:** | | | | | | | | | |
| The Group | | (3,635) | | (186,157) | | (365) | | (50,142) | |
| Non controlling interests | | 3,210 | | 1,008 | | 1,231 | | 168 | |
| Earnings/(losses) per share – base (Euro) | *3.9* | (0.078) | | (13.046) | | 0.001 | | (3.514) | |
| Earnings/(losses) per share – diluted (Euro) | *3.9* | (0.078) | | (13.046) | | 0.001 | | (3.514) | |

## Consolidated statement of comprehensive income

| *(Euro/000)* | *Notes* | First nine months 2010 | First nine months 2009 | 3° quarter 2010 | 3° quarter 2009 |
|---|---|---|---|---|---|
| **Net profit (loss) for the period** | | **(425)** | **(185,149)** | **866** | **(49,974)** |
| Gains/(Losses) on cash flow hedges | *2.23* | (327) | (708) | (327) | 17 |
| Gains/(Losses) on fair value of available-for-sale financial assets | *2.23* | (17) | 241 | 1 | 193 |
| Gains/(Losses) on exchange differences on translating foreign operations | *2.22* | 36,113 | (13,552) | (61,725) | (14,105) |
| Other Gains/(Losses) | *2.22* | 96 | (219) | 306 | (571) |
| **Other comprehensive income/(loss), net of tax** | | **35,865** | **(14,238)** | **(61,745)** | **(14,466)** |
| **Total Comprehensive income/(loss)** | | **35,440** | **(199,387)** | **(60,879)** | **(64,440)** |
| **Attributable to:** | | | | | |
| Group | | 31,798 | (199,967) | (59,830) | (64,336) |
| Non controlling interests | | 3,642 | 580 | (1,049) | (104) |
| **Total Comprehensive income/(loss)** | | **35,440** | **(199,387)** | **(60,879)** | **(64,440)** |

(*) there is no tax effect because the deferred tax assets have not been recognised.

## Consolidated statement of cash flow

| *(Euro/000)* | *Notes* | First nine months 2010 | First nine months 2009 |
|---|---|---|---|
| **A - Opening net cash and cash equivalents (net financial indebtedness - short term)** | | **(20,919)** | **(20,442)** |
| **B - Cash flow from (for) operating activities** | | | |
| Net profit (loss) for the period (including minority interests) | | (425) | (185,149) |
| Depreciation and amortization | *2.6 - 2.7* | 30,101 | 33,300 |
| Impairment loss on goodwill and other non current assets | | - | 148,695 |
| Share income/(loss) on equity investments | *2.9* | 2 | 288 |
| Net movements in the employee benefit liability | *2.18* | 1,827 | 2,549 |
| Net movements in other provisions | *2.17* | (1,657) | 6,780 |
| Interest expenses, net | *3.7* | 20,713 | 31,474 |
| Income tax expenses | *3.8 - 3.9* | 23,132 | 18,335 |
| **Income from operating activities prior to movements in working capital** | | **73,693** | **56,272** |
| (Increase) Decrease in trade receivables | | 26,784 | 40,808 |
| (Increase) Decrease in inventory, net | | 10,955 | 49,430 |
| Increase (Decrease) in trade payables | | 13,611 | (63,272) |
| (Increase) Decrease in other current receivables | | (7,354) | (6,832) |
| Increase (Decrease) in other current payables | | 5,037 | (13,538) |
| Interest expenses paid | | (21,365) | (29,523) |
| Income tax paid | | (18,173) | (17,333) |
| **Total (B)** | | **83,188** | **16,012** |
| **C - Cash flow from (for) investing activities** | | | |
| Purchase of property, plant and equipment (net of disposals) | | (17,403) | (24,231) |
| (Acquisition) Disposal of investments and bonds | | - | 128 |
| Purchase of intangible assets | | (1,325) | (4,218) |
| **Total (C)** | | **(18,728)** | **(28,321)** |
| **D - Cash flow from (for) financing activities** | | | |
| Proceeds from borrowings | | 516 | 34,503 |
| Repayment of borrowings | | (237,673) | (7,018) |
| Share capital increase net of payed fees | | 264,975 | - |
| Dividends paid | | (1,873) | (1,954) |
| **Total (D)** | | **25,945** | **25,531** |
| **E - Cash flow for the period (B+C+D)** | | **90,405** | **13,222** |
| Translation exchange difference | | (624) | (5,232) |
| **Total (F)** | | **(624)** | **(5,232)** |
| **G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)** | | **68,862** | **(12,452)** |

## Statement of changes in shareholders' equity

First nine months 2009 and 2010

| *(Euro/000)* | Share capital | Share premium reserve | Translation diff. | Fair value and cash flow reserves | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|
| **Group shareholders' equity at January 1, 2009** | **71,349** | **747,471** | **(55,889)** | **(7,620)** | **63,869** | **(23,315)** | **795,865** |
| Previous year's profit allocation | - | - | - | - | (23,315) | 23,315 | - |
| Changes in other reserves | - | - | - | - | (1,237) | - | (1,237) |
| Total comprehensive income for the period | - | - | (13,102) | (467) | (241) | (186,157) | (199,967) |
| **Group shareholders' equity at Sempember 30, 2009** | **71,349** | **747,471** | **(68,991)** | **(8,087)** | **39,076** | **(186,157)** | **594,661** |
| **Non controlling interests at January 1, 2009** | **-** | **-** | **529** | **-** | **5,108** | **2,775** | **8,412** |
| Previous year's profit allocation | - | - | - | - | 2,775 | (2,775) | - |
| Changes in other reserves | - | - | - | - | - | - | - |
| Dividends distribution | - | - | - | - | (718) | - | (718) |
| Total comprehensive income for the period | - | - | (450) | - | 22 | 1,008 | 580 |
| **Non controlling interests at September 30, 2009** | **-** | **-** | **79** | **-** | **7,187** | **1,008** | **8,274** |
| **Consolidated net equity at September 30, 2009** | **71,349** | **747,471** | **(68,912)** | **(8,087)** | **46,263** | **(185,149)** | **602,935** |

| *(Euro/000)* | Share capital | Share premium reserve | Translation diff. | Fair value and cash flow reserves | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|
| **Group shareholders' equity at January 1, 2010** | **71,349** | **745,105** | **(62,529)** | **32** | **35,924** | **(351,448)** | **438,433** |
| Previous year's profit allocation | - | (331,429) | - | - | (20,019) | 351,448 | - |
| Share capital increase | 212,761 | 57,203 | | | | | 269,964 |
| Changes in other reserves | - | (6,489) | - | - | 1,091 | - | (5,398) |
| Dividends distribution | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | 35,722 | (344) | 56 | (3,635) | 31,798 |
| **Group shareholders' equity at September 30, 2010** | **284,110** | **464,390** | **(26,807)** | **(312)** | **17,052** | **(3,635)** | **734,797** |
| **Non controlling interests at January 1, 2010** | **-** | **-** | **248** | **-** | **6,652** | **659** | **7,559** |
| Previous year's profit allocation | - | - | - | - | 659 | (659) | - |
| Changes in other reserves | - | - | - | - | | - | - |
| Dividends distribution | - | - | - | - | (781) | - | (781) |
| Total comprehensive income for the period | - | - | 391 | - | 41 | 3,210 | 3,642 |
| **Non controlling interests at September 30, 2010** | **-** | **-** | **639** | **-** | **6,571** | **3,210** | **10,420** |
| **Consolidated net equity at September 30, 2010** | **284,110** | **464,390** | **(26,168)** | **(312)** | **23,623** | **(425)** | **745,217** |

## NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

### 1.1 General information

These interim consolidated financial statements, expressed in thousands of Euro, refer to the financial period from January 1st 2010 to September 30th 2010. Economic and financial information are provided with reference to the nine months of 2010 and 2009 whilst balance sheet information are provided with reference to September 30th 2010 and December 31st 2009.

Consolidated quarterly financial report of Safilo Group at September 30th 2010, including interim condensed consolidated financial statements and interim management report is prepared in accordance with provisions of art. 154 ter of Legislative Decree No. c.5 58/98 - T.U.F. - and subsequent amendments and additions. This quarterly financial report is prepared in accordance with IAS 34 "Interim Financial Reporting", issued by the International Accounting Standards Board (IASB). The notes, in accordance with IAS 34, are presented in summary form and do not include all information requested in the annual budget, they refer only to those components that, in amount, composition or variations, are essential for understanding the economic situation and financial position of the Group. Therefore, this quarterly financial report must be read in conjunction with the consolidated financial statements for the financial year ended 31st December 2009.
All values are shown in thousands of Euro unless otherwise indicated.
These financial statements were approved by the Board of Directors on 5th November 2010.

### 1.2 Accounting standards, amendments and interpretations applied from 1st January 2010

As previously indicated, in preparing the consolidated quarterly financial reports the same accounting principles and criteria of the consolidated balance sheet as at 31st December 2009 have been applied.

### Accounting standards, amendments and interpretations applied from 1st January 2010 but not applicable to the Group

The following amendments, improvements and interpretations have been issued and are effective from 1st January 2010, these relate to matters that were not applicable to the Group at the date of these interim consolidated financial statements but which may affect the accounting for future transactions or arrangements:
IFRS 3 (Revised 2008) – Business Combinations
Improvement to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
IAS 27 (2008) – Consolidated and Separate Financial Statements
Amendments to IAS 28 – Investments in Associates and IAS 31 – Interests in Joint Ventures consequential to the amendment to IAS 27.
Improvement to IAS/IFRS (2009).
Amendments to IFRS 2 – Share based Payment: Group Cash-settled Share-based Payment Transactions.
IFRIC 17 – Distributions of Non-cash Assets to Owners.
IFRIC 18 – Transfers of Assets from Customers.
Amendment to IAS 39 – Financial Instruments: Recognition and Measurement: Eligible Hedged items

## Accounting principles, amendments and interpretations not yet applicable and not early adopted by the Group

On 8th October 2009, the IASB issued an amendment to IAS 32 – Financial *Instruments: Presentation, Classification of Rights Issues* in order to address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.
The amendment is applicable retrospectively from 1st January 2011; when applied this amendment is not expected to lead to significant effects on the Group's financial statements.

On 4th November 2009, the IASB issued a revised version of IAS 24 - *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1st January 2011. The revised standard had not yet been endorsed by the European Union at the date of these interim consolidated financial statements.

On 12th November 2009, the IASB issued a new standard IFRS 9 – *Financial Instruments* on the classification and measurement of financial assets, having an effective date for mandatory adoption of 1st January 2013. The new standard represents the completion of the first part of a project to replace IAS 39. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used. The new standard had not yet been endorsed by the European Union at the date of these interim consolidated financial statements.

On 26th November 2009, the IASB issued a minor amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement. The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of 1st January 2011; the amendment had not yet been endorsed by the European Union at the date of these interim consolidated financial statements.

On 26th November 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value; the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The interpretation has an effective date for mandatory adoption of 1st January 2011; the interpretation had not yet been endorsed by the European Union at the date of these interim consolidated financial statements.

### 1.3 Consolidation method and consolidation area

The direct and indirect holdings, included in the consolidation scope under the line-by-line method, and other than the holding company Safilo Group S.p.A., are the following:

| | Value | Share capital | % interest held |
|---|---|---|---|
| **ITALIAN COMPANIES** | | | |
| Safilo S.p.A. – Pieve di Cadore (BL) | EUR | 35,000,000 | 100.0 |
| Oxsol S.p.A. - Pieve di Cadore (BL) | EUR | 121,000 | 100.0 |
| Lenti S.r.l. – Bergamo | EUR | 500,000 | 75.6 |
| Smith Sport Optics S.r.l. (in liquidazione) – Padova | EUR | 102,775 | 100.0 |
| **FOREIGN COMPANIES** | | | |
| Safilo International B.V. - Rotterdam (NL) | EUR | 24,165,700 | 100.0 |
| Safint B.V. - Rotterdam (NL) | EUR | 18,200 | 100.0 |
| Safilo Capital Int. S.A. - Lussemburgo (L) | EUR | 31,000 | 100.0 |
| Luxury Trade S.A - Lussemburgo (L) | EUR | 1,650,000 | 100.0 |
| Safilo Benelux S.A. - Zaventem (B) | EUR | 560,000 | 100.0 |
| Safilo Espana S.L. - Madrid (E) | EUR | 1,000,000 | 100.0 |
| Safilo France S.a.r.l. - Parigi (F) | EUR | 960,000 | 100.0 |
| Safilo Gmbh - Colonia (D) | EUR | 511,300 | 100.0 |
| Safilo Nordic AB - Taby (S) | SEK | 500,000 | 100.0 |
| Safilo CIS - LLC - Mosca (Russia) | RUB | 10,000,000 | 100.0 |
| Safilo Far East Ltd. - Hong Kong (RC) | HKD | 49,700,000 | 100.0 |
| Safint Optical Investment Ltd - Hong Kong (RC) | HKD | 10,000 | 51.0 |
| Safilo Hong-Kong Ltd – Hong Kong (RC) | HKD | 100,000 | 51.0 |
| Safilo Singapore Pte Ltd - Singapore (SGP) | SGD | 400,000 | 100.0 |
| Safilo Optical Sdn Bhd – Kuala Lumpur (MAL) | MYR | 100,000 | 100.0 |
| Safilo Trading Shenzen Limited- Shenzen (RC) | CNY | 2,481,000 | 51.0 |
| Safilo Eyewear (Shenzen) Company Limited - (RC) | USD | 6,700,000 | 51.0 |
| Safilo Eyewear (Suzhou) Industries Limited - (RC) | USD | 18,300,000 | 100.0 |
| Safilo Retail (Shangai) Co. Ltd - (RC) | USD | 5,100,000 | 100.0 |
| Safilo Korea Ltd – Seoul (K) | KRW | 300,000,000 | 100.0 |
| Safilo Hellas Ottica S.a. – Atene (GR) | EUR | 489,990 | 70.0 |
| Safilo Nederland B.V. - Bilthoven (NL) | EUR | 18,200 | 100.0 |
| Safilo South Africa (Pty) Ltd. – Bryanston (ZA) | ZAR | 3,583 | 100.0 |
| Safilo Austria Gmbh -Traun (A) | EUR | 217,582 | 100.0 |
| Carrera Optyl D.o.o. - Ormoz (SLO) | EUR | 563,767 | 100.0 |
| Safilo Japan Co Ltd - Tokyo (J) | JPY | 100,000,000 | 100.0 |
| Safilo Do Brasil Ltda – San Paolo (BR) | BRL | 8,077,500 | 100.0 |
| Safilo Portugal Lda – Lisbona (P) | EUR | 500,000 | 100.0 |
| Safilo Switzerland AG – Liestal (CH) | CHF | 1,000,000 | 100.0 |
| Safilo India Pvt. Ltd - Bombay (IND) | INR | 42,000,000 | 88.5 |
| Safint Australia Pty Ltd.- Sydney (AUS) | AUD | 3,000,000 | 100.0 |
| Safilo Australia Partnership – Sydney (AUS) | AUD | 204,081 | 61.0 |
| Optifashion Hong Kong Ltd - Hong Kong (RC) | HKD | 300,000 | 100.0 |
| Safint Optical UK Ltd. - Londra (GB) | GBP | 21,139,001 | 100.0 |
| Safilo UK Ltd. - North Yorkshire (GB) | GBP | 250 | 100.0 |
| Safilo America Inc. - Delaware (USA) | USD | 8,430 | 100.0 |
| Safilo USA Inc. - New Jersey (USA) | USD | 23,289 | 100.0 |
| Safilo Realty Corp. - Delaware (USA) | USD | 10,000 | 100.0 |
| Safilo Services LLC - New Jersey (USA) | USD | - | 100.0 |
| Smith Sport Optics Inc. - Idaho (USA) | USD | 12,162 | 100.0 |
| Solstice Marketing Corp. – Delaware (USA) | USD | 1,000 | 100.0 |
| Solstice Marketing Concepts LLC – Delaware (USA) | USD | - | 100.0 |
| Safint Eyewear de MexicoS.A. de C.V. - Cancun (MEX) | MXP | 10,035,575 | 100.0 |
| Tide Ti S.A. de C.V. - Cancun (MEX) | MXP | 95,051,000 | 60.0 |
| 2844-2580 Quebec Inc. – Montreal (CAN) | CAD | 100,000 | 100.0 |
| Safilo Canada Inc. - Montreal (CAN) | CAD | 2,470,425 | 100.0 |
| Canam Sport Eyewear Inc. - Montreal (CAN) | CAD | 300,011 | 100.0 |

### 1.4 Translation of financial statement in currencies other than Euro

The exchange rates applied in the conversion of subsidiaries' financial statements prepared in a currency other than the Euro were as follows:

| Currency | Code | As of September 30, 2010 | As of December 31, 2009 | (Appreciation)/ Depreciation % | Avg. for the first 9 months September 30, 2010 | Avg. for the first 9 months September 30, 2009 | (Appreciation)/ Depreciation % |
|---|---|---|---|---|---|---|---|
| US Dollar | USD | 1.3648 | 1.4406 | -5.3% | 1.3145 | 1.3665 | -3.8% |
| Hong-Kong Dollar | HKD | 10.5918 | 11.1709 | -5.2% | 10.2153 | 10.5922 | -3.6% |
| Swiss Franc | CHF | 1.3287 | 1.4836 | -10.4% | 1.4002 | 1.5104 | -7.3% |
| Canadian Dollar | CAD | 1.4073 | 1.5128 | -7.0% | 1.3615 | 1.5928 | -14.5% |
| Japanese Yen | YEN | 113.6800 | 133.1600 | -14.6% | 117.6606 | 129.5192 | -9.2% |
| British Pound | GBP | 0.8600 | 0.8881 | -3.2% | 0.8573 | 0.8862 | -3.3% |
| Swedish Krown | SEK | 9.1421 | 10.2520 | -10.8% | 9.6484 | 10.7103 | -9.9% |
| Australian Dollar | AUD | 1.4070 | 1.6008 | -12.1% | 1.4655 | 1.8232 | -19.6% |
| South-African Rand | ZAR | 9.5438 | 10.6660 | -10.5% | 9.8084 | 11.8778 | -17.4% |
| Russian Ruble | RUB | 41.6923 | 43.1540 | -3.4% | 39.7623 | 44.3259 | n/a |
| Brasilian Real | BRL | 2.3201 | 2.5113 | -7.6% | 2.3409 | 2.8345 | -17.4% |
| Indian Rupee | INR | 61.2470 | 67.0400 | -8.6% | 60.4753 | 66.8291 | -9.5% |
| Singapore Dollar | SGD | 1.7942 | 2.0194 | -11.2% | 1.8180 | 2.0117 | -9.6% |
| Malaysian Ringgit | MYR | 4.2101 | 4.9326 | -14.6% | 4.2793 | 4.8672 | -12.1% |
| Chinese Reminbi | CNY | 9.1321 | 9.8350 | -7.1% | 8.9474 | 9.3362 | -4.2% |
| Korean Won | KRW | 1,550.6500 | 1,666.9700 | -7.0% | 1,529.4576 | 1788.8970 | -14.5% |
| Mexican Peso | MXN | 17.1258 | 18.9223 | -9.5% | 16.7086 | 18.6282 | -10.3% |

Foreign currency transactions are converted into the currency using the exchange rate at the transaction date. The foreign exchange gains and losses resulting from the settlement of transactions and from the translation at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 1.5 Use of estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions which are from time to time considered reasonable and realistic according to the prevailing circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the various accounts in the financial statements, which uses the above-mentioned estimates and assumptions, may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

Some valuation processes, in particular the most complex such as the calculation of permanent impairments in values for fixed assets, are only made in full for the preparation of the Annual financial statements when all the necessary information is available, unless "impairment" indicators exist that require an immediate valuation of a potential loss in value.

## 2. Notes on the consolidated balance sheet

### 2.1 Cash in hand and at bank

The item amounts to Euro 83,572 thousand (compared with Euro 37,386 thousand at 31st December 2009) and represents the momentary availability of cash invested at market rates. The book value of the available liquidity is aligned with its fair value at the reporting date. The related credit risk is very limited as the counterparties are leading banks.

The following table shows the reconciliation of the entry "Cash in hand and at bank" with the net financial position presented on the cash flow statement:

| *(Euro/000)* | **September 30, 2010** | **September 30, 2009** |
|---|---|---|
| Cash in hand and at bank | 83,572 | 46,211 |
| Bank overdrafts | (1,031) | (2,767) |
| Bank borrowings current | (14,027) | (55,896) |
| Cash in hand and at bank reclassified in the line "Assets of disposal group classified as held for sale" | 348 | - |
| **Total** | **68,862** | **(12,452)** |

### 2.2 Trade receivables, net

This item breaks down as follows:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| Gross value | 281,990 | 297,327 |
| Allowance for doubtful accounts and sales return | (32,331) | (28,577) |
| **Net value** | **249,659** | **268,750** |

The Group's credit risk is not significantly concentrated since credit exposure is spread over a large number of customers.
The movements of the credit risk provision and of the sales returns provision over the nine months are shown below:

| *(Euro/000)* | **Balance at January 1, 2010** | **Posted to income statement** | **Use(-)** | **Transl. Diff.** | **Balance at September 30, 2010** |
|---|---|---|---|---|---|
| Allowance for bad debts | 19,269 | 5,655 | (3,095) | 245 | 22,074 |
| Allowance for sales returns | 9,308 | 1,635 | (1,139) | 453 | 10,257 |
| **Total** | **28,577** | **7,290** | **(4,234)** | **698** | **32,331** |

The allowance for bad and doubtful debts includes the provision for insolvency posted on the income statement under the item "general and administrative expenses" (note 3.4).

The allowance for bad and doubtful debts includes the provision for products which, in accordance with specific contractual clauses, may not be sold to final consumers and therefore may be returned in the future. This provision is accounted for in the income statement as a direct reduction of sales.

## 2.3 Inventory, net

This item breaks down as follows:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Raw materials | 58,007 | 49,809 |
| Work-in-progress | 6,996 | 5,377 |
| Finished products | 189,649 | 202,836 |
| **Gross** | **254,652** | **258,022** |
| Obsolescence provision (-) | (55,050) | (49,649) |
| **Total** | **199,602** | **208,373** |

In order to deal with obsolete or slow-moving stock, a specific provision has been allocated, calculated on the basis of the possibility for future sale or use. The change to the income statement is posted under the item "cost of sales" (note 3.2).

The movements in the aforementioned provision are shown below:

| *(Euro/000)* | Balance at January 1, 2010 | Posted to income statement | Transl. Diff. | Balance at September 30, 2010 |
|---|---|---|---|---|
| Obsolescence provision | 49,649 | 4,031 | 1,370 | 55,050 |
| **Total** | **49,649** | **4,031** | **1,370** | **55,050** |

## 2.4 Derivative financial instruments

The following table summarises the total amount of derivate financial instruments on the balance sheet:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| **Non current assets:** | | |
| - *Interest rate swaps - cash flow hedge* | 19 | - |
| - Options | 57 | 228 |
| **Total** | **76** | **228** |
| **Current liabilities:** | | |
| - Foreign currency contracts - at fair value through P&L | - | 338 |
| - *Interest rate swaps* - al *fair value* rilevato a conto economico | 2,607 | 5,211 |
| **Total** | **2,607** | **5,549** |
| **Passivo non corrente:** | | |
| - *Interest rate swaps - cash flow hedge* | 431 | - |
| **Total** | **431** | - |

The fair value of the forward currency hedging contracts at December 31st, 2009 was determined on the basis of the current value of the differences between the contracted forward exchange rate and the spot market rate at the balance sheet date. The Foreign currency contracts have been settled during the period .

The market value of interest rate swaps on the balance sheet at 30th September 2010 totalled negative Euro 3,019 thousand, and was determined by specialist financial institutes on the basis of normal market conditions. The Group's interest rate risk management policies involve the hedging of the future cash flows that will be accounted for also in successive years; the relative hedging effect must be suspended in the cash flow reserve and recorded on the income statement of the successive periods when such expected cash flows actually take place.

Following the debt restructuring operation, at December 31, 2009 the prospective assessment of these instruments was not effective to designate as a hedge, and therefore their fair value has reported in the income statement.

During the current fiscal year, there have been undersigned new interest rate swap contracts designated to hedge the debt structure that took place in the first half of 2010. These contracts were accounted for using the technique of cash flow hedge by the suspension of their fair value in the cash flow reserve.

The following table shows the characteristics and the fair value of the interest rate swap (IRS) contracts in force at 30th September 2010 and at 31st December 2009:

| ***Interest rate swaps*** | **September 30, 2010** | | | **December 31, 2009** | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | **Contractual value** | | ***Fair value*** | **Contractual value** | | ***Fair value*** |
| | *(USD/000)* | *(Euro/000)* | *(Euro/000)* | *(USD/000)* | *(Euro/000)* | *(Euro/000)* |
| Expiry year 2010 | - | 25,000 | (233) | - | 55,000 | (1,386) |
| Expiry year 2011 | - | 57,000 | (1,749) | - | 65,000 | (2,847) |
| Expiry year 2011 | 37,713 | - | (625) | 48,488 | - | (978) |
| Expiry year 2012 | - | 2,170 | 9 | - | - | - |
| Expiry year 2012 | 98,100 | - | (378) | - | - | - |
| Expiry year 2014 | - | 25,000 | (43) | - | - | - |
| **Total** | **135,813** | **109,170** | **(3,019)** | **48,488** | **120,000** | **(5,211)** |

## 2.5 Other current assets

This item breaks down as follows:

| *(Euro/000)* | September 30, 2010 | December 31, 2009 |
|---|---|---|
| VAT receivable | 9,587 | 7,197 |
| Tax credits and payments on account | 14,643 | 15,378 |
| Prepayments and accrued income | 24,945 | 22,212 |
| Receivables from agents | 535 | 1,083 |
| Other current receivables | 17,550 | 18,441 |
| **Total** | **67,260** | **64,311** |

"Tax credits and payments on account" mainly refer to tax prepayments and credits for higher taxes paid which will be offset against the relative tax payable.

- Accrued income and deferred charges at 30th September 2010 include:
- prepaid royalty costs of Euro 16,648 thousand;
- prepaid rent and operating leases of Euro 1,834 thousand;
- prepaid advertising costs of Euro 3,191 thousand;
- prepaid insurance costs of Euro 592 thousand;
- other prepaid costs, mainly of a commercial nature, for the remainder.

The receivables from agents mainly refer to receivables deriving from the sale of samples.

Other short-term receivables amount to Euro 17,550 thousand and mainly refer to:

- payments of advanced minimum annual guarantees relating to 2011 royalties for a total amount of Euro 11,166 thousand;
- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for Euro 2,427 thousand, referring to receivables due from bankrupt customers for the amount of credit relating to VAT which, pursuant to Italian tax legislation, can only be recovered when the distribution plan of the bankruptcy procedure is executed;
- receivables for insurance repayments of Euro 941 thousand;
- deposit payments due within 12 months for Euro 477 thousand;

## 2.6 Property, plant and equipment, net

Changes in tangible assets in the first nine months of 2010 are shown below:

| *(Euro/000)* | Balance at January 1, 2010 | Increase | Decrease | Reclass. | Assets of disposal group held for sale | Transl. diff. | Balance at September 30, 2010 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Land and buildings | 133,081 | 2,274 | (1,064) | 143 | (3,464) | 1,882 | 132,852 |
| Plant and machinery | 181,144 | 9,139 | (4,297) | (5,052) | (3,044) | 972 | 178,862 |
| Equipment and other assets | 191,586 | 9,723 | (5,224) | 5,208 | (483) | 4,286 | 205,096 |
| Assets under constructions | 4,148 | 1,490 | - | (4,148) | - | 81 | 1,571 |
| **Total** | **509,959** | **22,626** | **(10,585)** | **(3,849)** | **(6,991)** | **7,221** | **518,381** |
| **Accumulated depreciation** | | | | | | | |
| Land and buildings | 35,610 | 3,249 | (929) | 67 | (1,413) | 282 | 36,866 |
| Plant and machinery | 124,372 | 6,813 | (4,077) | (2,922) | (1,382) | 303 | 123,107 |
| Equipment and other assets | 141,398 | 15,323 | (4,543) | 2,634 | (319) | 2,216 | 156,709 |
| **Total** | **301,380** | **25,385** | **(9,549)** | **(221)** | **(3,114)** | **2,801** | **316,682** |
| **Net value** | **208,579** | **(2,759)** | **(1,036)** | **(3,628)** | **(3,877)** | **4,420** | **201,699** |

A total of Euro 18,478 thousand was invested in tangible assets mainly as follows:

- Euro 14,480 thousand in production facilities, mainly for the renewal of plants and for the purchase and production of equipment relating to new models;
- Euro 2,440 thousand in American companies, mainly in retail chains in the US;
- the remaining part in the other wholesale companies of the Group.

## 2.7 Intangible assets

Changes in intangible assets in the first nine months of 2010 are shown below:

| *(Euro/000)* | Balance at January 1, 2010 | Increase | Decrease | Reclass. | Assets of disposal group held for sale | Transl. diff. | Balance at September 30, 2010 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Software | 19,756 | 990 | (76) | 174 | (33) | 681 | 21,492 |
| Trademarks and licenses | 43,111 | 135 | - | - | - | 39 | 43,285 |
| Other intangible assets | 9,055 | 131 | (425) | - | (1,048) | 282 | 7,995 |
| **Total** | **71,922** | **1,256** | **(501)** | **174** | **(1,081)** | **1,002** | **72,772** |
| **Accumulated depreciation** | | | | | | | |
| Software | 14,139 | 2,241 | - | 130 | (1) | 378 | 16,888 |
| Trademarks and licenses | 33,270 | 2,559 | - | - | - | 22 | 35,851 |
| Other intangible assets | 6,407 | 473 | (423) | - | (369) | 83 | 6,171 |
| **Total** | **53,816** | **5,274** | **(423)** | **130** | **(370)** | **483** | **58,910** |
| **Net value** | **18,106** | **(4,018)** | **(78)** | **44** | **(711)** | **519** | **13,862** |

The table below shows depreciation and amortisation expenses related to tangible and intangible assets, recorded under the following items on the income statement:

| *(Euro/000)* | ***Notes*** | First nine months 2010 | First nine months 2009 |
|---|---|---|---|
| Cost of sales | *3.2* | 14,415 | 15,623 |
| Selling and marketing expenses | *3.3* | 5,912 | 7,726 |
| General and administrative costs | *3.4* | 9,774 | 9,949 |
| **Net value** | | **30,101** | **33,298** |

## 2.8 Goodwill

The change in goodwill is shown in the table below:

| *(Euro/000)* | Balance at January 1, 2010 | Increase | Decrease | Transl. diff. | Balance at September 30, 2010 |
|---|---|---|---|---|---|
| Goodwill | 518,419 | 104 | - | 24,344 | 542,867 |
| **Net value** | **518,419** | **104** | **-** | **24,344** | **542,867** |

The value of goodwill broken down by the geographical regions of the CGUs to which it is allocated is as follows:

| **Goodwill** *(Euro/000)* | **Italy and Europe** | **Americas** | **Asia** | **Total** |
|---|---|---|---|---|
| September 30, 2010 | 160,239 | 198,569 | 184,059 | 542,867 |
| December 31, 2009 | 157,611 | 187,178 | 173,630 | 518,419 |

## 2.9 Investments in associates

Investments in associates refer to the following companies:

| **Company** | **Registered office or headquarters** | **% of share capital** | **Type of investment** | **Main activity** |
|---|---|---|---|---|
| TBR Inc. | USA | 33.3% | Associated company | Real estate |
| Elegance I. Holdings Ltd | Hong Kong | 23.05% | Associated company | Commercial |
| Optifashion As | Turkey | 50.0% | Non-consolidated subsidiary | Commercial |

The movements of shareholdings in associated companies are shown below:

| | **January 1, 2010** | | | **Movements of the period** | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | **Gross value** | **Revaluation/(write-down)** | **Value at January 1, 2010** | **Share of results and write-down of divid. of assoc. comp.** | **Transl. diff.** | **Value at September 30, 2010** |
| TBR Inc. | 431 | (109) | 322 | 122 | 13 | 457 |
| Elegance I. Holdings Ltd | 5,124 | 6,345 | 11,469 | 1 | 626 | 12,096 |
| Optifashion As | 353 | (112) | 241 | | | 241 |
| **Total** | **5,908** | **6,124** | **12,032** | **123** | **639** | **12,794** |

Optifashion A.s. with registered office in Istanbul (Turkey), a 50% held subsidiary of the Group, is not included in the consolidation perimeter, since the amounts are considered insignificant for the purpose of representing a true and fair view of the Group's financial position and result.

## 2.10 Financial assets available for sale

This item includes financial assets that may be sold. The value of the stakes in Gruppo Banco Popolare and Unicredit S.p.A. was determined with reference to the prices quoted on the official markets at the balance sheet date. From the end of the previous year, given the significant and prolonged decline in the fair value of the stake in Gruppo Banco Popolare, the management has charged the loss of value of this stake to the income statement.

Changes in the item are shown in the table below:

| *(Euro/000)* | December 31, 2009 | | | Movements for the year | | |
|---|---|---|---|---|---|---|
| | **Gross value** | **Revaluation/ (write-down)** | **Net value** | **Increase/ (Decrease)** | **Revaluation/(write-down)** | **Value at September 30, 2010** |
| Gruppo Banco Popolare | 4,096 | (3,416) | 680 | - | (108) | 572 |
| Unicredit S.p.A. | 48 | 32 | 80 | - | (17) | 63 |
| Other | 46 | - | 46 | - | - | 46 |
| **Total** | **4,190** | **(3,384)** | **806** | **-** | **(125)** | **681** |

## 2.11 Deferred tax assets and deferred tax liabilities

### *Deferred tax assets*

These assets refer to the taxes calculated on tax losses that may be recovered in future financial years and temporary differences between the carrying value of assets and liabilities and their tax value. Deferred taxes on tax losses accumulated by the Group are only booked on the companies' balance sheets if there is a reasonable likelihood that they may be recovered through future taxable income.

### *Deferred tax liabilities*

This provision refers to taxes calculated on temporary differences between the carrying value of assets and liabilities and their tax value. The most significant items for which deferred tax liabilities have been calculated concern tangible assets and goodwill amortisation, calculated for tax purposes only.

### *Allowance for deferred tax assets*

Deferred tax assets net (where applicable) of deferred tax liabilities in the financial statements of some companies of the Group, have been written down through a provision, in order to take into account the market trend and the changed expectations of future profitability. This prudential provision totals Euro 86,892 thousand, of which Euro 16,000 thousand was set aside in the first nine months of 2010.

The table below show the values of deferred tax assets and of deferred tax liabilities, net of the allowance made:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| Deferred tax assets | 131,895 | 112,610 |
| Depreciation Fund (-) | (86,892) | (70,892) |
| Total net deferred tax assets | 45,003 | 41,718 |
| Deferred tax liabilities | (3,634) | (3,531) |
| **Total** | **41,369** | **38,187** |

## 2.12 Other non-current assets

This item breaks down as follows:

| *(Euro/000)* | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Receivables from Social Security Institution | 11,616 | 9,017 |
| Long-term guarantee deposit | 2,086 | 2,575 |
| Other long-term receivables | 213 | 324 |
| **Total** | **13,915** | **11,916** |

The Treasury Fund receivables founded by the Italian Social Security Institution (INPS) refers to the receivable in the Safilo S.p.A. balance sheet related to the quotas of employment benefit liability (TFR) further to the modifications introduced by the Finance Bill no. 296 of 2006.

Deposit payments mainly relate to rental contracts for stores of retail companies.

It is considered that the book value of the other non-current assets is approximately equal to their fair value.

## 2.13 Bank loans and borrowings

Borrowings break down as follows:

| *(Euro/000)* | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **Short-term borrowings** | | |
| Bank overdrafts | 1,031 | 6,093 |
| Short-term bank loans | 14,027 | 52,212 |
| Short-term portion of long-term bank loans | 1,241 | 77,289 |
| Short-term portion of financial leasing | 1,198 | 1,609 |
| Debt to the factoring company | 37,092 | 40,815 |
| Other short-term loans | 109 | 106 |
| **Total** | **54,698** | **178,124** |
| **Long-term borrowings** | | |
| Medium long-term loans | 99,483 | 248,588 |
| Ordinary bonds | 185,902 | 190,704 |
| Payables for financial leasing | 5,850 | 7,536 |
| Other medium long-term loans | 345 | 454 |
| **Total** | **291,580** | **447,282** |
| **Total borrowings** | **346,278** | **625,406** |

On 5th February 2010, a contract was signed providing for the following changes to the senior loan contract signed on 26th June 2006 by subsidiaries Safilo S.p.A. and Safilo USA Inc with a pool of banks coordinated by UniCredit Banca Mobiliare S.p.A. (now UniCredit BankA.G.):

- the redefinition of the tranches making up Facility A1 of the Senior Loan as follows: Tranche 1 Facility A1 (approximately Euro 2 million) and Tranche 2 Facility A1 (Euro 25 million);
- the redefinition of the purpose of the revolving line of the Senior Loan (Facility B), to allow it to be used to repay HY bonds maturing in 2013;
- improvement for the Group of interest margins applied to the different credit lines; for the revolving line (Facility B), a system in which the margin decreases in relation to changes in the net debt/consolidated EBITDA ratio (leverage ratio);
- changes in repayment procedures and final maturities of the credit lines as follows: for Tranche 1 of Facility A1, Facility A2 and Facility A3, a switch from a half-yearly repayment plan with final maturity at 31st December 2011 to a single-instalment repayment at 30th June 2012; for Tranche 2 of Facility A1, a switch from a half-yearly repayment plan with final maturity at 31st December 2011 to a single-instalment repayment at 30th June 2014; for the revolving line (Facility B), a postponement of final repayment from 31st December 2012 to 30th June 2015;
- the suspension until 30th June 2012 of the checks on covenant levels (covenant holiday), except for those relating to compliance, from the effective date of the Restructuring Agreement, with a general limit on net debt. From 30th June 2012, with checks on 30th June and 31st December of every year, covenants relating to consolidated net debt/consolidated EBITDA (leverage ratio), EBITDA/net interest expenses (Interest Cover Ratio) will be subject to compliance with the new levels defined in the agreement.

At 30th September 2010, the aforementioned loan was booked under "Medium-/long-term bank loans", and breaks down as follows:

- "Facility A1 –Tranche 1", totalling Euro 2.2 million, expiring 30th June 2012;
- "Facility A1 –Tranche 2", totalling Euro 25 million, expiring 30th June 2014;
- "Facility A2", in USD, totalling Euro 33.5 million, expiring 30th June 2012;
- "Facility A3", in USD, totalling Euro 38.3 million, expiring 30th June 2012;
- the revolving line called "Facility B", totalling a maximum of Euro 200 million, expiring 30th June 2015, comprising two tranches, also payable in USD, has not been used by cash as at 30th September 2010.

The Senior Loan contract includes a series of obligations and restrictions that concern operational and financial aspects relating to subsidiaries Safilo S.p.A. and Safilo USA, to protect the integrity of the guarantees provided to the financing banks, and which mainly translate into prohibiting, beyond certain limits set out in the contract, the provision of real guarantees in favour of third parties ("negative pledge"), the incurring of financial debt beyond that resulting from the Senior Loan and HY bonds, the carrying out extraordinary company transactions, and the obligation to fulfil periodic disclosure requirements relating to financial data.

As regards financial commitments, from 30th June 2012, the company must comply with defined levels of the covenants calculated on the basis of financial statement data at the end of each half-year. If these parameters are not respected, the conditions to continue the loan agreement would need to be renegotiated with financiers, in relation to the appropriate waivers or changes to the aforementioned parameters. If this were not the case an event of default could arise, which would involve the compulsory advance payment of the loan.
Covenants in the current contractual agreement are calculated as a ratio between net financial position and EBITDA and EBITDA and interest expenses.

The collateral for the above loans, which are evaluated according to the amortised cost method, is composed mainly of pledges on Safilo S.p.A. shares and personal guarantees supplied by the companies directly financed.

The "Bonds issued" item relates to the High Yield bond issued on 15th May 2003 by Luxembourg subsidiary Safilo Capital International S.A. at a fixed rate of 9.625%, for an original nominal value of Euro 300 million, expiring 15th May 2013. On 13th January 2006, the Luxembourg subsidiary made an early repayment of 35% of the nominal value, equivalent to Euro 105 million.

During the month of August, the subsidiary Safilo S.p.A. bought back around Euro 5.8 million face value of Safilo Capital International Senior Notes 9 5/8% 5/2013, corresponding to approximately 3% of the total notes outstanding, at a price of 98.875, for a total amount of around Euro 5.7 million. The transaction aims at reducing the Group net interest expense.
Following this transaction the bond, valued using the amortised cost method, amounts to Euro 185.9 million.

The payables for financial leasing refer to tangible assets owned under lease contracts by some Group companies. The lease contracts will expire in about five years. All the lease contracts in force involve at constant principal repayments and no restructuring of the original plans is envisaged.

The following table illustrates the short term and medium/long term portions relating to lease contracts at 30th September 2010:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| Short-term portion of financial leasing | 1,198 | 1,609 |
| Long-term portion of financial leasing | 5,850 | 7,536 |
| **Total debt** | **7,048** | **9,145** |

Some Group companies have stipulated operating lease contracts. The rental costs for operating leases are posted in the income statement under "Cost of sales", "Selling and marketing expenses" and "General and administrative costs".

The "other medium and long-term loans" mainly refer to a loan granted to the subsidiary Safilo S.p.A. valid under law 46/82 at a fixed rate of 0.705%.

The short-term payables towards factoring companies are for contracts stipulated with leading factoring companies by the subsidiary Safilo S.p.A. for Euro 36,501 thousand and by the subsidiary Safilo do Brasil for Euro 591 thousand.

The expiry dates of medium and long term loans are the following:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| Within 2 years | 76,248 | 53,156 |
| From 2 to 3 years | 188,279 | 197,949 |
| From 3 to 4 years | 27,019 | 193,079 |
| From 4 to 5 years | 34 | 1,227 |
| Beyond 5 years | - | 1,871 |
| **Total** | **291,580** | **447,282** |

The following table shows borrowings divided by currency:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| **Short-term** | | |
| Euro | 38,902 | 115,310 |
| US Dollar | - | 41,906 |
| Brasilian Real | 599 | 1,282 |
| Japanese Yen | 2,681 | 2,253 |
| Chinese Reminbi | 12,483 | 16,878 |
| Sek Swedish | 33 | 81 |
| Mexican Peso | - | 414 |
| **Total** | **54,698** | **178,124** |
| **Medium long-term** | | |
| Euro | 216,083 | 416,862 |
| US Dollar | 71,879 | 26,191 |
| Brasilian Real | 59 | - |
| Yen | 42 | - |
| Mexican Peso | - | 1,057 |
| Australian Dollar | - | 6 |
| Chinese Reminbi | 3,285 | 3,050 |
| Sek Swedish | 233 | 116 |
| **Total** | **291,580** | **447,282** |
| **Total borrowings** | **346,278** | **625,406** |

The following table details the credit lines granted to the Group, the uses and the lines available at 30th September 2010:

| *(Euro/000)* | **Credit lines granted** | **Uses** | **Credit lines available** |
|---|---|---|---|
| Credit lines on bank accounts and short-term bank loans | 68,026 | 15,041 | 52,985 |
| Credit lines on long-term bank loans | 304,262 | 115,262 | 189,000 |
| **Total** | **372,288** | **130,303** | **241,985** |

The net financial position of the Group at September 30th, 2010 compared with the same as of December 31st, 2009 is as follows:

| | **Net financial position** *(Euro/000)* | **September 30, 2010** | **December 31, 2009** | **Change** |
|---|---|---|---|---|
| A | Cash and cash equivalents | 83,572 | 37,386 | 46,186 |
| B | Cash and cash equivalents included as Assets held for sale | - | - | - |
| C | Current securities (securities held for trading) | - | - | - |
| **D** | **Liquidity (A+B+C)** | **83,572** | **37,386** | **46,186** |
| **E** | **Receivables from financing activities** | **-** | **-** | **-** |
| F | Bank overdrafts and short-t. bank borrowings | (15,058) | (58,305) | 43,247 |
| G | Current portion of long-term borrowings | (1,241) | (77,289) | 76,048 |
| H | Other short-term borrowings | (38,399) | (42,530) | 4,131 |
| **I** | **Debts and other current financial liabilities (F+G+H)** | **(54,698)** | **(178,124)** | **123,426** |
| **J** | **Current financial position, net (D)+(E)+(I)** | **28,874** | **(140,738)** | **169,612** |
| K | Long-term bank borrowings | (99,483) | (248,588) | 149,105 |
| L | Ordinary bonds | (185,902) | (190,704) | 4,802 |
| M | Other long-term borrowings | (6,195) | (7,990) | 1,795 |
| **N** | **Debts and other non current financial liabilities (K+L+M)** | **(291,580)** | **(447,282)** | **155,702** |
| **I** | **Net financial position (J)+(N)** | **(262,706)** | **(588,020)** | **325,314** |

Compared to 31st December 2009, the Group's net financial position decreased by Euro 325,314 thousand, mainly due to the financial restructuring of the Group that concluded with the capital increase approved by the extraordinary shareholders' meeting of parent company Safilo Group on 15th December 2009. A portion of the proceeds deriving from this capital increase, covered in more detail in section 2.20 Share capital, were used to reduce the principal of the senior loan.

## 2.14 Trade payables

This item breaks down as follows:

| *(Euro/000)* | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| **Trade payables for:** | | |
| - purchase of raw materials | 29,164 | 24,683 |
| - purchase of finished goods | 52,237 | 46,675 |
| - suppliers from subcontractors | 3,210 | 2,413 |
| - tangible and intangible assets | 2,908 | 5,600 |
| - commissions | 4,027 | 4,778 |
| - royalties | 11,877 | 13,443 |
| - advertising and marketing costs | 29,120 | 22,387 |
| - services | 34,032 | 30,089 |
| **Total** | **166,575** | **150,068** |

## 2.15 Tax payables

At 30th September 2010, tax payables totalled Euro 22,108 thousand, versus Euro 18,651 thousand at 31st December 2009. Euro 14,076 thousand related to income tax payables, Euro 4,781 thousand to VAT payables and the remainder to withholding and local taxes.

## 2.16 Other current liabilities

This item breaks down as follows:

| *(Euro/000)* | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Payables to personnel and social security institutions | 36,533 | 29,410 |
| Premiums to clients | 19,379 | 20,048 |
| Agent fee payables | 2,260 | 1,631 |
| Payables to pension funds | 762 | 1,144 |
| Accrued advertising and sponsorship costs | 2,236 | 332 |
| Accrued interests on long-term loans | 7,268 | 3,905 |
| Other accruals and deferred income | 2,533 | 1,839 |
| Payables for dividends | 1,796 | 2,995 |
| Other current liabilities | 1,061 | 2,133 |
| **Total** | **73,828** | **63,437** |

Payables to personnel and social security institutions principally refer to salaries and wages, which are paid during the following month, accrued thirteenth month's pay and holidays accrued but not taken.
Payables to minority shareholders refer to dividends that have already been approved by the shareholders' meetings but had not yet been paid at the balance sheet date.
It is considered that the book value of the "other current liabilities" approximates their fair value.

## 2.17 Provision for risks and charges

This item breaks down as follows:

| *(Euro/000)* | Balance at January 1, 2010 | Increase | Decrease | Transl. diff. | Balance at September 30, 2010 |
|---|---|---|---|---|---|
| Product warranty provision | 4,058 | 866 | (642) | 6 | 4,288 |
| Agents' severance indemnity | 4,949 | 827 | (264) | (2) | 5,510 |
| Provision for corporate restructuring | 6,414 | | (1,108) | | 5,306 |
| Other provisions for risks and charges | 5,547 | 430 | (1,382) | | 4,595 |
| **Provisions for risks - long term** | **20,968** | **2,123** | **(3,396)** | **4** | **19,699** |
| **Provisions for risks - short term** | **4,087** | **2,032** | **(2,416)** | **(38)** | **3,665** |
| **Totale** | **25,055** | **4,155** | **(5,812)** | **(34)** | **23,364** |

The product warranty provision was recorded against the costs to be incurred for the replacement of products sold before the balance sheet date.

The agents' severance indemnity was created against the risk deriving from the payment of indemnities in the case of termination of the agency agreement. This provision has been calculated based on existing laws at the balance sheet date considering all the future expected financial cash outflows.

The restructuring fund includes provisions made in the first half of 2009 for restructuring costs relating to the downsizing of Italian production sites.

The long- and short-term provision for other risks and charges includes an allowance for pending disputes and risks resulting from the sale of retail companies at the end of the previous year.

It is considered that these allowances are sufficient to cover the risks existing at the balance sheet date.

## 2.18 Employee benefit liability

The table below shows the movement in this item during the period:

| *(Euro/000)* | Balance at January 1, 2010 | Posted to income statement | Actuarial gains/(losses) | Uses/ Payments | Transl. diff. | Balance at September 30, 2010 |
|---|---|---|---|---|---|---|
| Defined contribution plan | 8,986 | 5,206 | - | (1,632) | - | 12,560 |
| Defined benefit plan | 32,832 | 311 | - | (2,057) | 200 | 31,286 |
| **Total** | **41,818** | **5,517** | **-** | **(3,689)** | **200** | **43,846** |

This item refers to different forms of defined benefit and defined contribution pension plans, in line with the local conditions and practices in the countries in which the Group carries out its business.

## 2.19 Other non-current liabilities

At 30th September 2010 other non-current liabilities totalled Euro 10,966 thousand, compared to Euro 11,117 thousand at 31st December 2009, and comprised:

- Euro 5,926thousand for the value of liabilities resulting from the put options held by the minority shareholders of some subsidiaries;
- Euro 3,809 thousand for the long-term payable relating to certain store rental contracts of US subsidiaries;
- Euro 426 thousand for the payable deriving from the agreement reached by a US subsidiary in settlement of a dispute that arose in relation to the use of a patent;
- the remaining portion, relating to non-current liabilities recorded on Group companies' balance sheets.

## SHAREHOLDERS' EQUITY

Shareholders' equity is the value contributed by the shareholders of Safilo Group S.p.A. (the share capital and the share premium reserve), plus the value generated by the Group in terms of profit gained from its operations (profit carried forward and other reserves). At 30th September 2010, shareholders' equity amounted to Euro 745,217 thousand (of which Euro 10,420 thousand represent minority interests), against Euro 445,992 thousand at 31st December 2009 (of which 7,559 thousand represent minority interests).
In managing its capital, the Group's aim is to create value for its shareholders, developing its business and thus guarantee the company's continuity.
The Group constantly monitors the ratio between indebtedness and shareholders' equity, for the purpose of maintaining a balance, also in respect of the long-term loans currently outstanding.

### 2.20 Share capital

The capital increase approved by the extraordinary shareholders' meeting of parent company Safilo Group S.p.A. on 15th December 2009 was implemented in the first quarter of 2010 according to the following procedures and schedule:

- On 5th February 2010, Multibrands Italy B.V. (a subsidiary of HAL Holding N.V.) subscribed and paid up the reserved capital increase totalling Euro 12,842,735.40 (including the premium), for a maximum of 10% of the pre-existing share capital, with exclusion of subscription rights pursuant to article 2441, paragraph 4, sentence 2 of the Civil Code. This reserved capital increase was subscribed through the issue of 28,539,412 ordinary Safilo S.p.A. shares at a subscription price of Euro 0.45 per share (comprising nominal value of Euro 0.25 and a premium of Euro 0.20);
- The subscription period for rights in favour of shareholders began on 8th February 2010 and related to a maximum 822,505,770 ordinary shares in Safilo Group S.p.A. pursuant to article 2441, paragraph 1 of the Civil Code. The rights issue was launched for a total maximum amount of Euro 250,041,754.08 (including the premium), through the issue of 822,505,770 ordinary shares in Safilo Group S.p.A., at a subscription price per share of Euro 0.304 (comprising nominal value of Euro 0.25 and a premium of Euro 0.054), to be offered to all shareholders in the ratio of 131 new ordinary shares for every 50 shares held.

The rights offer concluded on 26th February 2010. 257,021,000 option rights were exercised and 673,395,020 newly-issued ordinary shares were subscribed, equivalent to 81.87% of the total number of shares offered, for a total amount of Euro 204,712,086.08 (including the premium).

At the end of the offer period, 56,912,500 option rights were not exercised, equivalent to 18.13% of the total rights offered, representing 149,110,750 newly-issued ordinary shares for a total value of Euro 45,329,668.00 (including the premium).
Pursuant to article 2441, paragraph 3 of the Civil Code, the rights not taken up were offered on the stock exchange from 8th March 2010. The offer attracted great interest from the market, with full placement of the rights, generating Euro 7,079,915 for the company.
149,109,964 newly-issued ordinary shares, equivalent to 99.99% of the total shares offered, were subscribed in respect of the option rights placed, for a total amount of Euro 45,329,429.06 (including the premium).
The contribution of partner HAL Holding N.V., which had undertaken to subscribe to the portion of the capital

increase not taken up after the sale on the market up to a maximum of 64.88% of the total option rights, was therefore limited to the subscription of the remaining 786 unsubscribed shares.
The capital increase via option rights therefore concluded with the full subscription of 822,505,770 newly-issued ordinary shares in Safilo Group S.p.A., for a value of Euro 250,041,754.08, comprising capital of Euro 205,626,442.50 and a share premium of Euro 44,415,311.58.

On April 30th 2010 the Extraordinary Shareholders' meeting approved the Reverse Stock Split , proposed by the Board of Directors held on 29th March 2010, on the present share capital of the Company (composed by n. 1,136,439,310 ordinary shares with a nominal value of Euro 0.25 each) in the ratio of 1 new Safilo ordinary share, with a nominal value of 5.00 Euro, every 20 old ordinary shares held.

Following the Reverse Stock Split, the share capital of the Company will be composed by n. 56,821,965 ordinary shares of a nominal value of 5.00 Euro each, equal to 284,109,825.00 Euro as shown in the following table:

| *(Euro)* | No. of ordinary shares | Nominal value | Capital value |
|---|---|---|---|
| **Share capital at January 1, 2010** | **285,394,128** | **0.25** | **71,348,532.00** |
| Share capital - subscription | | | |
| - February 5, 2010 | 28,539,412 | 0.25 | 7,134,853.00 |
| - February 26, 2010 | 673,395,020 | 0.25 | 168,348,755.00 |
| - March 15, 2010 | 149,110,750 | 0.25 | 37,277,687.50 |
| **Total Share capital increase** | **851,045,182** | **0.25** | **212,761,295.50** |
| **Total Share capital pre reverse stock split** | **1,136,439,310** | **0.25** | **284,109,827.50** |
| Reverse stock split rate:<br>(1 new ordinary share for every 20) | | | (2.50) |
| **Total Share capital post Reverse stock split** | **56,821,965** | **5.00** | **284,109,825.00** |

## 2.21 Share premium reserves

The share premium reserve represents:

- the higher value attributed on the conferment of shares by the subsidiary Safilo S.p.A. compared to the par value of the corresponding increase in share capital;
- the higher price paid compared to the par value of the shares, at the time the shares were placed on the Electronic Stock Market (MTA), net of listing costs;
- the premium resulting from conversion of convertible bonds;
- the premium received from the exercise of stock options by their holders;
- the premium booked following the capital increase is explained in more detail in section 2.20 on share capital.

Following this capital increase, the share premium reserve totalled Euro 464,390 thousands Euro, as shown below:

| *(Euro)* | No. of ordinary shares | Share premium value | Share premium reserve |
|---|---|---|---|
| **Share premium reserve at January 1, 2010** | **285,394,128** | | **745,104,717.92** |
| Share capital - subscription | | | |
| - February 5, 2010 | 28,539,412 | 0.200 | 5,707,882.40 |
| - February 26, 2010 | 673,395,020 | 0.054 | 36,363,331.08 |
| - March 15, 2010 | 149,110,750 | 0.054 | 8,051,980.50 |
| **Total Share capital increase** | **851,045,182** | | **50,123,193.98** |
| **Income from the subscription of Option Rights** | | | **7,079,915.00** |
| **Coverage previous year losses** | | | **(331,428,329.40)** |
| **Costs for capital increase** | | | **(6,489,386.63)** |
| **Share premium reserve at September 30, 2010** | | | **464,390,110.87** |

## 2.22 Retained earnings and other reserves

This item includes both the reserves of the subsidiary companies generated after their inclusion in the consolidation area and the translation differences deriving from the translation into Euro of the financial statements of consolidated companies denominated in other currencies.

## 2.23 Fair value and cash flow reserve

This item breaks down as follows:

| | | Consoldated statement of comprehensive income | | | |
|---|---|---|---|---|---|
| *(Euro/000)* | Balance at January 1, 2010 | Profit (loss) of the period | Profit (loss) reclass to Inc. Stat. | Total Profit (loss) of the period | Balance at September30, 2010 |
| Cash flow reserve | - | (327) | - | (327) | (327) |
| Fair value reserve | 32 | (17) | - | (17) | 15 |
| **Total** | **32** | **(344)** | **-** | **(344)** | **(312)** |

The cash flow reserve includes the fair value of the interest rate swap contracts to hedge interest rate variations.

The fair value reserve relates to the adjustment of the current value of the stake in Unicredit S.p.A. classified under financial assets available for sale.

## 2.24 Assets and liabilities classified as held for sale

This item includes the assets and liabilities of the Mexican retail subsidiary Tide Ti S.A. de C.V., whose sale was envisaged in the Investment Agreement made with the partner HAL Holding N.V. on 19th October 2009.
On 28th December 2009 the Group signed an agreement pursuant to which its subsidiary Safint B.V. granted HAL Optical Investments B.V. a call option on 100% of the share capital of Tide Ti S.A. de C.V. This option is an alternative solution if negotiations with the minority shareholders are unsuccessful. Regardless, it is subject to the condition precedent of purchase by Safint B.V. of the remaining 40% shareholding in the capital of Tide Ti S.A. de C.V., which is planned to take place in two instalments in 2012 and 2014.
During 2010, negotiations between HAL and the minority shareholders led to the acceleration of the execution of the sale of the Mexican retail subsidiary which is expected to be finalized by the end of 2010.

The following table shows details of assets and liabilities classified as held for sales:

| *(Euro/000)* | **September 30, 2010** |
|---|---|
| Cash in hand and at bank | 348 |
| Trade receivables, net | 2 |
| Inventory, net | 3,943 |
| Other current assets | 861 |
| **Total current assets** | **5,154** |
| Tangible assets | 3,877 |
| Intangible assets | 711 |
| Deferred tax assets | 321 |
| Other non-current assets | 688 |
| **Total non-current assets** | **5,597** |
| **Total assets** | **10,751** |

| *(Euro/000)* | **September 30, 2010** |
|---|---|
| Short-term borrowings | 500 |
| Trade payables | 1,069 |
| Tax payables | 159 |
| Other current liabilities | 174 |
| **Total current liabilities** | **1,902** |
| Long-term borrowings | 787 |
| Deferred tax liabilities | 198 |
| **Total non-current liabilities** | **985** |
| **Total liabilities** | **2,887** |

The following table illustrates highlights of the cash flow statement:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 |
|---|---|---|
| **Opening net cash and cash equivalents** | **1,257** | **703** |
| Cash flow from (for) operating activities | 333 | 1,248 |
| Cash flow from (for) investing activities | (358) | (550) |
| Cash flow from (for) financing activities | (346) | (289) |
| Translation exchange difference | (538) | (42) |
| **Closing net cash and cash equivalents** | **348** | **1,070** |

## 3. Notes on the consolidated income statement

### 3.1 Net sales

For details concerning the sales performance in the first nine months of 2010 versus the same period the previous year, please refer to the Report on Operations.

### 3.2 Cost of sales

This item breaks down as follows:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Purchase of raw materials and finished goods | 223,177 | 193,763 | 84,605 | 61,968 |
| Capitalisation of costs for increase in tangible assets (-) | (5,621) | (6,477) | (2,213) | (2,388) |
| Change in inventories | 10,705 | 49,427 | (16,657) | 9,793 |
| Payroll and social security contributions | 70,604 | 63,069 | 22,670 | 18,346 |
| Subcontracting costs | 12,654 | 4,840 | 5,006 | 1,488 |
| Depreciation | 14,415 | 15,623 | 4,755 | 5,437 |
| Rental and operating leases | 692 | 853 | 213 | 258 |
| Other industrial costs | 8,815 | 7,206 | 3,265 | 2,412 |
| **Total** | **335,441** | **328,304** | **101,644** | **97,314** |

The change in inventories can be broken down as follows:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Finished products | 19,783 | 45,869 | (4,445) | 13,298 |
| Work-in-progress | (1,863) | (146) | (1,309) | (886) |
| Raw materials | (7,215) | 3,704 | (10,903) | (2,619) |
| **Total** | **10,705** | **49,427** | **(16,657)** | **9,793** |

The average number of Group employees in the first nine months of 2010 and 2009 can be summarised as follows:

| | First nine months 2010 | First nine months 2009 |
|---|---|---|
| Padua Headquarters | 875 | 873 |
| Production facilities | 4,900 | 4,623 |
| Commercial companies | 1,263 | 1,336 |
| Retail companies | 1,168 | 1,598 |
| **Total** | **8,206** | **8,430** |

## 3.3 Selling and marketing expenses

This item breaks down as follows:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Payroll and social security contributions | 74,981 | 80,389 | 21,941 | 25,286 |
| Commissions to sales agents | 53,472 | 50,691 | 17,664 | 13,318 |
| Royalty expenses | 67,962 | 61,295 | 18,636 | 16,389 |
| Advertising and promotional costs | 83,117 | 76,807 | 20,894 | 18,740 |
| Amortization and depreciation | 5,912 | 7,726 | 1,996 | 2,366 |
| Logistic costs | 13,101 | 11,711 | 3,795 | 3,676 |
| Consultants fees | 2,983 | 2,906 | 874 | 795 |
| Rental and operating leases | 12,386 | 17,274 | 4,352 | 5,597 |
| Utilities | 1,135 | 1,703 | 322 | 504 |
| Provision for risks | 1,691 | 408 | 1,439 | -129 |
| Other sales and marketing expenses | 13,443 | 14,699 | 3,547 | 4,169 |
| **Total** | **330,183** | **325,609** | **95,460** | **90,711** |

## 3.4 General and administrative expenses

This item breaks down as follows:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Payroll and social security contributions | 46,046 | 46,367 | 15,748 | 14,566 |
| Allowance for doubtful accounts and loss on trade receivables | 6,025 | 5,898 | 1,499 | 2,654 |
| Amortization and depreciation | 9,774 | 9,949 | 3,247 | 3,277 |
| Consultants fees | 9,153 | 7,389 | 3,016 | 2,272 |
| Rental and operating leases | 7,002 | 6,514 | 2,409 | 2,112 |
| EDP costs | 3,179 | 3,114 | 981 | 998 |
| Insurance costs | 2,209 | 2,286 | 684 | 660 |
| Utilities, security and cleaning | 5,568 | 5,677 | 2,132 | 1,844 |
| Taxes (other than on income) | 2,740 | 2,308 | 931 | 459 |
| Other general and administrative expenses | 9,006 | 10,270 | 2,719 | 3,385 |
| **Total** | **100,702** | **99,772** | **33,366** | **32,227** |

## 3.5 Other income/(expenses), net

This item breaks down as follows:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Losses on disposal of assets | (196) | (194) | (79) | (141) |
| Other operating expenses | (452) | (694) | (28) | (204) |
| Gains on disposal of assets | 39 | 59 | 10 | 26 |
| Other operating incomes | 1,137 | 1,477 | 434 | 407 |
| **Total** | **528** | **648** | **337** | **88** |

## 3.6 Share of income/(loss) of associates

This item showed a profit of Euro 342 thousand, compared with a loss of Euro 76 thousand in the same period of 2009, and includes the profit and losses deriving from the valuation at equity of shareholdings in associated.

## 3.7 Interest expense and other financial charges, net

This item breaks down as follows:

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Interest expense on loansl | 6,100 | 16,889 | 1,200 | 5,171 |
| Interest expense and charges on High Yield | 14,957 | 14,829 | 5,066 | 4,991 |
| Bank commissions | 4,277 | 3,599 | 1,545 | 1,201 |
| Negative exchange rate differences | 13,423 | 9,314 | (5,289) | 2,858 |
| Financial discounts | 1,128 | 1,557 | 170 | 363 |
| Other financial charges | 1,262 | 1,497 | 381 | 248 |
| **Total financial charges** | **41,147** | **47,685** | **3,073** | **14,832** |
| Interest income | 344 | 244 | 159 | 63 |
| Positive exchange rate differences | 10,984 | 15,040 | 2,102 | 5,033 |
| Gains on financial assets disposal | - | 8 | - | 8 |
| Dividends | 11 | - | - | - |
| Other financial income | 133 | 109 | 170 | 25 |
| **Total financial income** | **11,472** | **15,401** | **2,431** | **5,129** |
| **Total financial charges, net** | **29,675** | **32,284** | **642** | **9,703** |

## 3.8 Income tax expenses

| *(Euro/000)* | First nine months 2010 | First nine months 2009 | Third quarter 2010 | Third quarter 2009 |
|---|---|---|---|---|
| Current taxes | (24,660) | (14,970) | (5,732) | (623) |
| Deferred taxes | 17,182 | 5,835 | 3,904 | (7,128) |
| **Total income taxes** | (7,478) | (9,135) | (1,828) | (7,751) |
| Write downs of deferred tax assets | (16,000) | (9,200) | (4,650) | 2,800 |
| **Total write downs of deferred tax assets** | (16,000) | (9,200) | (4,650) | 2,800 |
| **Total** | **(23,478)** | **(18,335)** | **(6,478)** | **(4,951)** |

As shown in note 2.11 "Deferred tax assets and deferred tax liabilities", deferred tax assets (net of deferred tax liabilities) relating to losses for the period of certain Group companies and the temporary differences that emerged between the fiscal value of an asset or liabilities and the related book value, were written down by a total of Euro 16,000 thousand through the provisioning of an adjustment reserve in that it is not currently possible to forecast future taxable income allowing for recovery of the amounts.

This write-down may be annulled, as prescribed by international accounting standard 12, in future financial years if the assessable income is sufficient to absorb the fiscal losses and the temporary differences between the book value of the assets and liabilities and the relative fiscal value.

### 3.9 Earning (Loss) per Share

The calculation of basic and diluted earnings (losses) per share is shown in the tables below:

Basic

| | First nine months 2010 | First nine months 2009 |
|---|---|---|
| Profit/(loss) for ordinary shares (in Euro/000) | (3,635) | (186,157) |
| Average number of ordinary shares (in thousands) | 46,726 | 14,270 |
| **Earnings per share - base** | **(0.078)** | **(13.046)** |

Diluited

| | First nine months 2010 | First nine months 2009 |
|---|---|---|
| Profit/(loss) for ordinary shares (in Euro/000) | (3,635) | (186,157) |
| Profit for preferred shares | - | - |
| **Profit/(loss) in income statement** | **(3,635)** | **(186,157)** |
| Average number of ordinary shares (in thousands) | 46,726 | 14,270 |
| Dilution effects: | | |
| - stock option (in thousands) | - | - |
| **Total** | **46,726** | **14,270** |
| **Earnings per share - diluted** | **(0.078)** | **(13.046)** |

The average number of ordinary shares was calculated as a weighted average of shares outstanding during the nine months taking into particular consideration:

- operation of capital increase occurred during the first quarter that brought the number of actions to 285,394,128 shares to 1,136,439,310;
- the grouping of these shares (called Reverse Stock Split) approved by the Extraordinary Shareholders' Meeting on 30th April 2010 which was made in the ratio of 1 new share for every 20 shares.

According to IAS 33 the effect of this grouping was disclosed as if it were at the beginning of the earliest period reported and then at January 1st, 2009, creating the need to recalculate the average number of ordinary shares and loss per share as at September 30th 2009.
As at September 30, 2010 there are no possible grounds for issuance of ordinary shares that would result in a dilutive effect.

### 3.10 Seasonality

Group revenues are partially affected by seasonal factors, as demand is higher in the first half of the year as a result of sunglasses sales ahead of the summer. Revenues are normally at their lowest in the third quarter of the year, since the sales campaign for the second half is launched in the autumn.

### 3.11 Significant non-recurring transactions and atypical and/or unusual operations

In the first nine months of 2010, the Group did not engage in significant non-recurring transactions or atypical and/or unusual operations pursuant to the CONSOB communication of 28th July 2006.

### 3.12 Dividends

In the first nine months of 2010, the parent company Safilo Group S.p.A. did not pay any dividends to its shareholders. The parent company closed 2009 with a loss.

### 3.13 Segment reporting

The operating segments (Wholesale and Retail) were identified by the management in line with the management and control model used for the Group. In particular, the criteria applied for the identification of these segments was based on the ways in which the management manages the Group and attributes operational responsibilities.

Information by segment relating to the period ending 30th September 2010 and 30th September 2009 and to the third quarter 2010 and 2009 are shown in the tables below.

| **First nine months 2010** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 10,031 | - | (10,031) | - |
| - to third parties | 751,086 | 67,098 | - | 818,184 |
| **Total net sales** | **761,117** | **67,098** | **(10,031)** | **818,184** |
| **Gross profit** | **439,982** | **42,724** | **37** | **482,743** |
| **Operating profit** | **54,077** | **(1,692)** | | **52,386** |
| Share of income of associates | 342 | - | | 342 |
| Financial charges, net | | | | (29,675) |
| Income taxes | | | | (23,478) |
| **Net profit** | | | | **(425)** |
| Gross profit margin | 57.8% | 63.7% | | 59.0% |
| Operating profit margin | 7.1% | -2.5% | | 6.4% |
| **Other information** | | | | |
| Capital expenditure | 17,779 | 1,954 | | 19,733 |
| Depreciation & amortization | 24,449 | 5,652 | | 30,101 |
| Goodwill impairment | - | - | | - |

| **First nine months 2009** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 7,924 | - | (7,924) | - |
| - to third parties | 691,977 | 82,723 | - | 774,700 |
| **Total net sales** | **699,901** | **82,723** | **(7,924)** | **774,700** |
| **Gross profit** | **394,719** | **51,652** | **25** | **446,396** |
| **Operating profit** | **(66,285)** | **(68,169)** | | **(134,454)** |
| Share of income of associates | - | - | | (76) |
| Financial charges, net | | | | (32,284) |
| Income taxes | | | | (18,334) |
| **Net profit** | | | | **(185,148)** |
| Gross profit margin | 56.4% | 62.4% | | 57.6% |
| Operating profit margin | -9.5% | -82.4% | | -17.4% |
| **Other information** | | | | |
| Capital expenditure | 25,104 | 3,963 | | 29,067 |
| Depreciation & amortization | 26,023 | 7,275 | - | 33,298 |
| Goodwill impairment | 91,009 | 29,686 | | 120,695 |

| **3rd quarter 2010** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 2,227 | - | (2,227) | - |
| - to third parties | 214,644 | 23,213 | - | 237,857 |
| **Total net sales** | **216,871** | **23,213** | **(2,227)** | **237,857** |
| **Gross profit** | **121,526** | **14,699** | **(12)** | **136,213** |
| **Operating profit** | **8,516** | **(792)** | | **7,724** |
| Share of income of associates | 262 | - | | 262 |
| Financial charges, net | | | | (642) |
| Income taxes | | | | (6,478) |
| **Net profit** | | | | **866** |
| Gross profit margin | 56.0% | 63.3% | | 57.3% |
| Operating profit margin | 3.9% | -3.4% | | 3.2% |
| **Other information** | | | | |
| Capital expenditure | 7,272 | 1,090 | | 8,362 |
| Depreciation & amortization | 8,075 | 1,924 | | 9,998 |
| Goodwill impairment | - | - | | - |

| **3rd quarter 2009** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 1,893 | - | (1,893) | - |
| - to third parties | 184,285 | 28,274 | - | 212,559 |
| **Total net sales** | **186,178** | **28,274** | **(1,893)** | **212,559** |
| **Gross profit** | **98,096** | **17,124** | **25** | **115,245** |
| **Operating profit** | **(4,696)** | **(30,909)** | | **(35,605)** |
| Share of income of associates | 0 | - | | 285 |
| Financial charges, net | | | | (9,703) |
| Income taxes | | | | (4,951) |
| **Net profit** | | | | **(49,974)** |
| Gross profit margin | 52.7% | 60.6% | | 54.2% |
| Operating profit margin | -2.5% | -109.3% | | -16.8% |
| **Other information** | | | | |
| Capital expenditure | 7,713 | 1,987 | | 9,700 |
| Depreciation & amortization | 8,797 | 2,281 | | 11,078 |
| Goodwill impairment | - | - | | - |

## RELATED PARTIES TRANSACTIONS

The nature of transactions with related parties is set out in the following table:

| **Related parties transaction** *(Euro/000)* | **Relationship** | **September 30, 2010** | **December 31, 2009** |
|---|---|---|---|
| *Receivables* | | | |
| Optifashion As | (a) | - | 15 |
| Elegance International Holdings Ltd | (b) | 9 | 419 |
| Companies controlled by HAL Holding N.V. | (c) | 11,198 | - |
| **Total** | | **11,207** | **433** |
| *Payables* | | | |
| Elegance International Holdings Ltd | (b) | 5,736 | 5,956 |
| **Total** | | **5,736** | **5,956** |

| **Related parties transaction** *(Euro/000)* | **Relationship** | **September 30, 2010** | **September 30, 2009** |
|---|---|---|---|
| *Revenues* | | | |
| Optifashion As | (a) | - | 56 |
| Elegance International Holdings Ltd | (b) | 19 | 2 |
| Companies controlled by HAL Holding N.V. | (c) | 29,382 | |
| **Total** | | **29,401** | **58** |
| *Costs* | | | |
| Elegance International Holdings Ltd | (b) | 12,660 | 9,977 |
| Tbr Inc. | (b) | 979 | 919 |
| Companies controlled by HAL Holding N.V. | (c) | 106 | - |
| **Total** | | **13,746** | **10,896** |

(a) Unconsolidated subsidiary
(b) Associated company
(c) Companies controlled by Group's reference shareholder

Transactions with related parties, including intercompany transactions, involve the purchase and sale of products and provision of services on an arm's length basis, similarly to what is done in transactions with third parties.
In regard to the table illustrated above, note that:
Optifashion As is a production and commercial company based in Istanbul, Turkey, of which the Safilo Group owns 50%.

Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong stock exchange, is 23.05% owned by Safilo Far East Limited (an indirect subsidiary) and produces optical products for the Group in Asia. The price and other conditions of the production agreement between Safilo Far East Limited and Elegance are in line with those applied by Elegance to its other customers.

TBR Inc. is a company that is one-third owned by Vittorio Tabacchi, shareholder of Safilo Group S.p.A., one-third by a subsidiary of Safilo Group S.p.A. and the remainder by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for Euro 629 thousand. In the first nine months 2010 the Group paid TBR Inc. Euro 979 thousand in rent. The terms and conditions of the lease, including the rental fee, are in line with market conditions for similar contracts.

The companies of HAL Holding N.V., primary shareholder of Safilo Group, mainly refer to the retail companies belonging to the Pearle Europe and GrandVision Groups, with which Safilo carries out commercial transactions in line with market conditions.

## CONTINGENT LIABILITIES

The Group does not have any significant contingent liabilities not covered by appropriate provisions. Nevertheless, as of the balance sheet date, various legal actions involving the parent company and certain Group companies were pending. These proceedings remained broadly unchanged as of 31st December 2009, and, although these actions are considered to be groundless, a negative outcome beyond estimates could have adverse effects on the financial results of the Group.

## COMMITMENTS

At the balance sheet date, the Group had no significant purchase commitments.

For the Board of Directors
The Chairman
Melchert Frans Groot

## Statement by the manager responsible for the preparation of the company's financial documents

The manager responsible for the preparation of the company's financial documents, Mr. Francesco Tagliapietra, hereby declares, in accordance with paragraph 2, article 154 bis of the Consolidated Finance Act (TUF), that the accounting information contained in these quarterly financial statements to 30th September 2010 corresponds to the accounting results, registers and records.

Padua, 5th November 2010

Dr Francesco Tagliapietra
Manager responsible for the preparation of
the company's financial documents