SÀFILO S.p.A.

Annual Report Year 2009

April 30th, 2010

TABLE OF CONTENTS

PART I 7

ITEM 1. Identity of directors, senior management and advisers 7

ITEM 2. Offer statistics and expected timetable 7

ITEM 3. Key information 8

ITEM 4. Information on the company 15

ITEM 5. Operating and financial review and prospects 43

ITEM 6. Directors, senior management and employees 64

ITEM 7. Major shareholders and related party transactions 71

ITEM 8. Financial information 73

ITEM 9. The offer and listing 77

ITEM 10. Additional information 78

ITEM 11. Quantitative and qualitative disclosure about market risk 90

ITEM 12. Description of securities other than equity securities 91

PART II 92

ITEM 13. Defaults, dividend arrearages and delinquencies 92

ITEM 14. Material modifications to the rights of security holders and use of proceeds 92

ITEM 15. Controls and procedures 92

ITEM 16 [Reserved] 92

PART III 93

ITEM 17. Financial statements 93

ITEM 18. Financial statements 93

ITEM 19. Exhibits 93

FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements. All statements other than statements of historical fact included in this Annual Report regarding our business, financial condition, results of operations and certain of our plans, objectives, assumptions, projections, expectations or beliefs with respect to these items and statements regarding other future events or prospects, are forward-looking statements. These statements include, without limitation, those concerning: our strategy and our ability to achieve it; expectations regarding sales, profitability and growth; plans for the launch of new products; our possible or assumed future results of operations; research and development, capital expenditure and investment plans; adequacy of capital; and financing plans. The words "aim", "may", "will", "expect", "anticipate", "believe", "future", "continue", "help", "estimate", "plan", "intend", "should", "shall" or the negative or other variations thereof as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. In addition, this Annual Report includes forward-looking statements relating to our potential exposure to various types of market risks, such as foreign exchange rate risk, interest rate risks and other risks related to financial assets and liabilities. We have based these forward-looking statements on our management's current view with respect to future events and financial performance. These views reflect the best judgment of our management but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in our forward-looking statements and from past results, performance or achievements. Although we believe that the estimates reflected in the forward-looking statements are reasonable, such estimates may prove to be incorrect. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from these expressed or implied by these forward-looking statements.

These factors include, among other things:

- factors affecting our ability to negotiate, maintain and renew license arrangements on satisfactory terms with leading fashion brand owners;
- uncertainties associated with changing consumer preferences;
- the impact of currency exchange rate and interest rate fluctuations;
- risks relating to our manufacturing and distribution operations and our arrangements with third party manufacturers;
- risks relating to international sales and exposure to changing local conditions;
- factors affecting our ability to compete effectively in the eyewear market, including new products and distribution strategies of our competitors;
- risks associated with our significant debt and our ability to meet our financial obligations;
- human resource factors, including our ability to retain our senior management and other key personnel and employee costs;
- factors affecting our ability to design, develop and introduce successful new products;
- factors affecting our ability to obtain or maintain intellectual property protection for our products;
- uncertainties associated with general economic conditions;
- governmental factors, including the costs of compliance with regulations and the impact of regulatory changes; and
- other risks, uncertainties and factors inherent in our business.

These risks are not exhaustive. For further discussion of these factors and other risks, see "Risk Factors", "Business Overview" and "Operating and financial review and prospects".

We do not intend to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Annual Report. As a result of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements as a prediction of actual results or otherwise.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Annual Report contains the historical financial information derived from the audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 that were prepared in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union ("IFRS").

The financial information included in this Annual Report is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the presentation of U.S. GAAP financial information and the modification or exclusion of certain financial measures and the presentation of certain other information not included herein or the exclusion of certain information presented herein.

Certain defined terms

Unless otherwise indicated, references in this Annual Report to "Euro" or "€" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "dollar", "dollars", "U.S. dollars", "US$", "USD" or "$" are to the lawful currency of the United States of America; references to "GBP" are to the lawful currency of the United Kingdom; references to "billions" are to thousands of millions.

In this Annual Report, and unless the context indicates otherwise, the terms "we", "us", "our", "the Group" and "our Group" mean Sàfilo S.p.A. and our consolidated subsidiaries.

Except where indicated, references to "IFRS" in this Annual Report are to IFRS as adopted by the European Commission for use by companies on markets in the European Union.

Rounding Adjustments

Certain figures in this Annual Report, including percentage amounts, 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 an arithmetic aggregation of the figures which precede them.

EXCHANGE RATE INFORMATION

The following chart sets for the periods indicated, certain information regarding the Noon Buying Rate for Euros expressed in Dollars per Euro.

Year ended December 31, USD per Euro	2004	2005	2006	2007	2008	2009
Exchange rate at end of period	1.3621	1.1797	1.317	1.4721	1.3917	1.4406
Average exchange rate during period(1)	1.2439	1.2441	1.2554	1.3705	1.4708	1.3947
Highest exchange rate during period	1.3633	1.3507	1.3331	1.4874	1.599	1.512
Lowest exchange rate during period	1.1802	1.1667	1.1826	1.2893	1.246	1.2555

Month, USD per Euro	At end of period	Average rate(2) ($/Euro)	Highest exchange rate during the month	Lowest exchange rate during the month
October 2009	1.4800	1.3783	1.5020	1.4537
November 2009	1.5020	1.3880	1.5083	1.4658
December 2009	1.4406	1.3947	1.5120	1.4276
January 2010	1.3966	1.4272	1.4563	1.3966
Febrauary 2010	1.3570	1.3979	1.3984	1.3489
March 2010	1.3479	1.3830	1.3765	1.3338

(1) The annual average of the daily closing priced based upon European Central Bank data.
(2) The monthly average of the daily closing priced compiled upon European Central Bank data.

The noon buying rate on April 30th, 2010 was US$ 1.3308 per Euro.

The above rates may differ from the actual rates used in the preparation of our consolidated financial statements and other financial information appearing in this Annual Report. Our inclusion of the exchange rates is not meant to suggest that the euro amounts actually represent such dollar amounts or that such amounts could have been converted into dollars at any particular rate, if at all.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data as of and for the years ended December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements prepared in accordance with IFRS.

The selected historical consolidated financial data in the tables below should be read in conjunction with the audited consolidated financial statements and relative notes in Item 18 and with "Operating and financial review prospects" in Item 5 of this Annual Report.

As of and for the years ended December 31, 2007, 2008 and 2009

Consolidated statement of operations *(Euro in millions)*	**Yearended December 31,**		
	2007	**2008**	**2009**
Net sales	1,190.4	1,147.8	1,011.2
Cost of sales	(492.6)	(484.9)	(438.8)
Gross profit	**697.8**	**663.0**	**572.5**
Selling and marketing expenses	(439.6)	(446.1)	(427.3)
General and administrative expenses	(122.3)	(131.1)	(130.9)
Other operating income and expenses, net	1.4	1.3	2.3
Restructuring cost non recurring	-	-	(7.4)
Impairment loss on goodwill and loss on disposal of retail subsidiaries	-	-	(116.2)
Operating profit/(loss)	**137.3**	**87.1**	**(106.9)**
Interest expense and other financial charges, net	(43.3)	(56.9)	(53.9)
Profit/(loss) before taxation	**94.0**	**30.2**	**(160.9)**
Income taxes	(37.2)	(11.7)	4.5
Non-recurring taxes	-	(29.9)	(30.8)
Net profit/(loss)	**56.8**	**(11.4)**	**(187.1)**
Net profit attributable to minority interests	3.5	2.8	0.7
Net profit/(loss) attributable to the Group	**53.3**	**(14.2)**	**(187.7)**
EBITDA	**175.3**	**127.0**	**58.7**

(Euro in millions)	**Year ended December 31,**		
	2007	**2008**	**2009**
Net cash flow:			
Provided by operating activities	51,1	56,5	13,7
Used in investing activities	(43,7)	(88,3)	(22,3)
Provided by / (used in) financing activities	(44,0)	35,2	15,4
Cash and cash equivalents at the end of the period	(36,6)	(23,1)	(21,4)

Key balance sheet data	Year ended December 31,		
(Euro in millions)	2007	2008	2009
Cash and cash equivalents	48.7	51.0	36.9
Property, plant and equipment, net	201.9	228.8	208.6
Net working capital[1]	395.7	368.8	328.2
Total assets	1,370.1	1,403.6	1,153.9
Total debt[2]	571.5	623.7	625.4
Net debt[3]	522.8	572.7	588.5
Group shareholders' equity	398.9	343.1	154.7

	Year ended December 31,		
(Euro in millions)	2007	2008	2009
Other data			
Capital expenditure	44.9	61.2	36.9
Depreciation and amortization[4]	38.0	39.9	49.5
Impairment loss on goodwill	-	-	94.5
Loss on disposal of retail subsidiaries	-	-	21.7
EBITDA[5]	175.3	127.0	58.7
EBITDA pre non recurring items[6]	175.3	127.0	66.2

	Year ended December 31,		
(Euro in millions)	2007	2008	2009
Net profit/(loss)	**56.8**	**(11.4)**	**(187.1)**
Income taxes	37.2	11.7	(4.5)
Non-recurring taxes	-	29.9	30.8
Interest expense and other financial charges, net	43.3	56.9	53.9
Loss on disposal of retail subsidiaries	-	-	21.7
Amortization of intangible assets	5.7	5.9	6.8
Property, plant and equipment depreciation	32.3	34.0	42.7
Impairment loss on goodwill	-	-	94.5
EBITDA[5]	**175.3**	**127.0**	**58.7**

[1] *We define net working capital as the algebraic sum of trade receivables (net of allowances on doubtful accounts), inventories and trade payables.*
[2] *We define total debt as short-term borrowings plus long-term borrowings.*
[3] *We define net debt as total debt, net of cash in hand and at banks.*
[4] *Depreciation and amortization is included under cost of sales, selling and marketing expenses and general and administrative expenses in the consolidated financial statements of the Company.*
[5] *We have calculated EBITDA as net income before income tax expenses, net interest expenses and other financial charges, share of income from associates, amortization of intangibles and depreciation of property, plants and equipment, loss on disposal of retail subsidiaries. EBITDA is not a measurement of performance under IFRS, and you should not consider EBITDA as an alternative to (a) operating income or net income (as determined in accordance with generally accepted accounting principles), or as a measure of our operating performance, (b) cash flows from operating, investing or financing activities (as determined in accordance with generally accepted accounting principles), or as a measure of our ability to meet cash needs, or (c) any other measures of performance under generally accepted accounting principles. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our future results. We believe that EBITDA is a measure commonly reported and widely used by investors in comparing performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or non-operating factors. Accordingly, EBITDA has been disclosed in this Annual Report to permit a more complete and comprehensive analysis of our operating performance relative to other companies and of our ability to service our debt. Because companies do not calculate EBITDA identically, our presentation of EBITDA may not be comparable to similarly titled measured used by other companies.*
[6] *We have calculated EBITDA pre non recurring items considering as non recurring the restructuring costs.*

RISK FACTORS

The Group implements all the possible measures to contrast any risks and uncertainties arising from its business. The risks are both internal and external and are explained below.

Internal risks

Strategic risks

The Group could be unable:

- to grasp new business opportunities in the wholesale and retail sectors or in the geographic regions where it operates;
- to allocate the resources to the most profitable and potential markets, or to more economically beneficial initiatives;
- to protect its brands and patents;
- to maintain the licence contracts required for its business and fulfil the relative obligations and commitments;
- to contrast the competition, by not sufficiently maintaining and strengthening its own distribution and sales networks.

Operating risks

The Group business is subject to:

- the risk of being unable to organise and coordinate the integrated supply/production/logistics and commercial processes in order to provide a rapid response to the needs of the increasingly attentive and discerning customers;
- the risk of being unable to identify and purchase raw materials, semi-finished and finished products of a sufficient quality to support the Group's very high quality standards;
- the operational risks of production facilities, distribution centres and supplier relationships; for example: there could be the risk of the outsourcing relationships being broken off with Asian suppliers, or disruption of operations in the industrial units or distribution centres due to broken equipment, lack of labour, natural disasters and the like;
- the risk of being unable to launch innovative products on the market that meet consumer tastes and follow the fashion trends;
- the risk of being unable to open new stores, renew current ones and increase their competitiveness, meaning that certain locations could become unsuitable due to demographic or commercial changes;
- the risk of non-compliance with internal control procedures as well as the Italian and foreign legislation that are applicable to the Group (for example local tax laws).

External risks

Business risks

In terms of business risks, the Group is exposed to:

- policies implemented by the competition and the possible entry of new market players;
- the effects of the macro-economic, political and social environment, in terms of changed consumer buying power, their level of loyalty and buying trends, also considering the instable political and social climates;
- changes in National and International regulations that could condition the competitive advantage that has been reached (for example, legislation changes that allow or eliminate the refund by social security institutes of the costs for buying prescription lenses or any possible customs restrictions);
- climatic conditions, as very bad weather in the spring or summer could drastically reduce sales of sunglasses;
- the diffusion of alternative products and techniques to correct eyesight, other than glasses, for example, laser surgery.

Financial risks

The Group constantly monitors the financial risk it is exposed to in order to assess in advance any possible negative impact and to undertake corrective measures aimed at mitigating or correcting the risks in question.
The Group is exposed to a variety of risks of a financial nature: credit risk, market risks and cash flow risks, which are centrally managed on the basis of hedging policies which also include the use of derivatives in order to minimise the effects deriving from fluctuations in the exchange rate (especially of the American dollar) and interest rates.

Credit risks

The Group strives to reduce risk deriving from insolvency of its customers through rules ensuring that sales are made to reliable and soluble clients. Such rules, based on the available information on client solubility and reliable historic data, combined with exposure limits per individual client, allow a limited concentration of credit and thus minimise the relative risk. Credit exposure is, moreover, divided among a large number of counterparties and clients.
Significant positions in terms of amounts for which the Group identifies situations of objective, total or partial, non-recoverability, taking into consideration any guarantees obtained and the costs and expenses of recovery, are written-off individually.
It is deemed that the maximum theoretical exposure to credit risk is represented by the book value of the financial assets present in the financial statements.

Market risks

Market risks can be divided into the following categories:

Exchange risk. The Group operates at international level and is therefore exposed to exchange rate risk. The Group holds shares in subsidiaries in countries not belonging to the Euro area; as a result, the variations of shareholders' equity deriving from fluctuations in the exchange rates between the local currency and the Euro are booked within a reserve of the consolidated shareholders' equity denominated "translation difference reserve".

Some companies operate in currencies other than the local currency and these operations involve primarily the U.S. dollar, given that a significant part of the transactions of these companies are conducted in U.S. dollars.
The Group constantly tries to reduce the effects deriving from fluctuations in the American currency by purchasing its supplies from local suppliers in areas where purchases are made in American dollars and thus implementing a sort of "natural hedging". For incomes in dollars not compensated by the expenditures for purchases, the Group policy is to use hedging instruments such as forward contracts in dollars. Exposure is thus covered by simple forward contracts ("plain vanilla") the duration of which is always less than twelve months. Information on the fair value and on the method of accounting of derivatives is given in the notes to the financial statements.

Changes in fair value risk. The Group holds some assets and liabilities subject to changes in value over time depending on the fluctuations of the market where they are traded.

Interest rate risk. Borrowing from banks exposes the Group to the risk of interest rates fluctuations. Specifically, loans at variable rates determine the risk of a change in cash flow whereas fixed rate loans entail a potential variation of the fair value of the said loans.
The Group regularly assesses its exposure to the risk of variation of the interest rates and manages such risk through the use of derivatives, denominated interest rate swaps (I.R.S.); the latter are used solely for with the purpose of hedging cash flows. The counterparties are primary financial institutions and, for these contracts, at the beginning of the hedge operation, there is a formal designation and documentation relative to the hedge.
It must be emphasised that the Group never uses financial instruments for speculative purposes.

Liquidity risk

This risk could generate the inability to find, at economic conditions, the financial resources needed to sustain operations in the necessary time. Cash flows, the need for borrowings and company liquidity are constantly monitored at a central level by the Group treasury in order to ensure effective and efficient management of the financial resources.

The contractual agreements related to the senior loan granted to a number of Group companies by a pool of banks led by Unicredit Bank AG include a series of covenants regarding both financial and operational aspects. In particular, the defined levels of the covenants must be respected which are calculated on the basis of final financial statement data at the end of each half-year. If these parameters are not respected, the conditions to continue the loan agreement must be renegotiated, the so-called waivers or the suitable adaptations to the 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 financial income and expenses.

In 2009, the Group posted a significant decline in turnover and a progressive deterioration in profitability. The ongoing difficulties in the global economy, which led to a marked contraction in consumption of discretionary durable goods and the possibility that the Group will have to continue operating in this environment for some time to come, has led to considerable uncertainty about the Group's ability to meet its financial commitments in the ordinary course of business. In addition, despite the fact that steps have been taken to continue increasing efficiency in the management of working capital, it was not possible to significantly reduce the level of financial resources absorbed, thereby resulting in a increased use of bank borrowings in the form of a greater use of revocable lines of credit. In this context of financial and liquidity crisis, the Group implemented a plan of financial restructuring and recapitalisation as defined in the binding investment agreement signed on 19th October 2009 by HAL Holding N.V., the partner in the transaction, Only 3T S.p.A. and Safilo Group S.p.A, as approved by the shareholders of Safilo Group S.p.A. in their extraordinary meeting of 15th December 2009. On 24th December 2009, within the scope of this transaction, the lending banks formally approved the content of a debt restructuring agreement for the Group, which calls for the following changes to the contract of the senior loan:

- the redefinition of the Facility A1 tranches of the senior loan into Tranche 1 Facility A1 (in the amount of roughly Euro 3 million) and Tranche 2 Facility A1 (in the amount of 25 million Euro);
- the redefinition of the purpose of the revolving line of the senior loan (Facility B) in order to also allow for the redemption of the high-yield (HY) bonds upon maturity in 2013;

- the revising, to the benefit of the Group, of the interest spreads applied to the various lines of credit, with the provision, for the revolving line (Facility B), of a system of reducing the spread in accordance with the change in the leverage ratio (i.e. consolidated net debt to consolidated EBITDA);
- a change in the methods of repayment and the final expiration for repayment of the lines of credit as follows: Tranche 1 of Facility A1, Facility A2 and Facility A3 is to be changed from a semi-annual payment plan with a final payment of 31st December 2011 to payment in lump sum on 30th June 2012; Tranche 2 of Facility A1 is to be changed from a semi-annual repayment plan with a final payment on 31st December 2011 to a lump-sum payment on 30th June 2014; and final payment of the revolving line (Facility B) is to be deferred from 31st December 2012 to 30th June 2015;
- a covenant holiday until 30th June 2012, with the exception of those covenants related to the observance, beginning on the effective date of the restructuring agreement, of a general threshold of net debt. Beginning on 30 th June 2012, with verifications on 30th June and 31st December of each year, the covenants regarding the leverage ratio (Net financial position to EBITDA), and the interest cover ratio (EBITDA to net interest for the period) are to be kept within the new levels defined by the agreement.

The main conditions for the validity of this restructuring agreement, the content of which was approved on 24th December 2009, concern:

- the completion of the increase in share capital by the parent company, Safilo Group S.p.A., both for the portion reserved to HAL Holding N.V. (including, at the partner's discretion, through its subsidiaries) and for the optional portion called for by the binding investment agreement of 19th October 2009;
- evidence that a portion of the funds from the optional capital increase, in the amount of at least 185 million Euro, are to be used to repay the senior loan.

Indeed, the restructuring agreement requires that a portion of the funds raised by the capital increase be used to reduce the Group's debt related to the senior loan. This partial repayment must primarily concern the revolving line, i.e. Facility B, in the amount of roughly 160 million Euro, as well as Facility A1 in the amount of roughly 28 million Euro.

Following this repayment, the amount of the senior loan used for cash will go from its current 319 million Euro to roughly 140 million Euro, with an available revolving line of credit of roughly 150 million Euro.

On 24 December 2009, in anticipation of meeting the conditions for the agreement, and the signing and payment of the capital increase in particular, which was completed in the first quarter of 2010 as described in greater detail in the section regarding significant events subsequent to year-end, the Group obtained a waiver from the lending banks for verification of the covenants on 31 st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

With regard to the High Yield bond, and within the scope of the HY Tender Offer launched by HAL and completed with the acquisition of 50.59% of the bonds in circulation, as an integral part of the restructuring agreement, Safilo, Safilo Capital International S.A., the financing banks and HAL are to sign the agreements by which HAL will undertake the following commitments:

- to grant, either directly or indirectly, financing to Safilo Capital International S.A. aimed at redeeming the HY bonds in the event that, at the moment of maturity of the HY bonds (i.e. 2013), the Safilo Group should have insufficient funds (including those of the revolving line of credit of the senior loan) to redeem the HY Bonds. The loan will be equal to the difference between the principal balance of the HY Bonds purchased as part of the HY Tender Offer that are to be redeemed at maturity and the total price paid by HAL to purchase these HY Bonds and will have the same financial conditions and guarantees of the Senior Loan made on a pari passu basis;
- to hold more than 50% of the HY Bonds until their final maturity.

This agreement, too, is subject to a number of conditions tied mainly to HAL maintaining an equity investment in the group of at least 20%, or of at least 30% in the event another party can appoint the majority of the Board of Directors.

Group management believes that the restructuring agreement defined in the fourth quarter of 2009, which was finalised in the first quarter of 2010 following completion of the capital increase, places the Group in a position of renewed financial equilibrium, thereby minimising the risks related to insufficient liquidity and the raising of financial resources.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Overview

We believe that we are the world's second largest wholesale eyewear producer in terms of net sales and that we are the worldwide leader in the high-end eyewear market segments.

We design, manufacture and distribute high-quality eyewear products, including prescription frames, sunglasses frames and lenses, sport goggles and other sport accessories such as helmets and ski masks. We sell these products across a variety of geographic regions.

We believe that our prescription frames, sunglasses and brands are recognized worldwide for their high quality design and distinctiveness. We produce and distribute eyewear products under our owned brands as well as under license agreements for leading luxury and designer brands. Our license agreements typically are exclusive and have terms of five to eight years, and our relationships with some of our key licensors date back to the late 1980s. Our licensed brands include *Alexander McQueen*, *Balenciaga, BOSS - Hugo Boss, Bottega Veneta, Diesel* and *55DSL, Dior, Emporio Armani, Giorgio Armani, Gucci, HUGO – Hugo Boss, Jimmy Choo, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max&Co., Pierre Cardin,Tommy Hilfiger, Valentino,* and *Yves Saint Laurent*. In addition, the following collections are exclusively for the American market: *A/X Armani Exchange, Banana Republic, Fossil, J.Lo by Jennifer Lopez, Juicy Couture, Kate Spade, Liz Claiborne, Nine West and Saks Fifth Avenue*. Our owned brands include *Sàfilo, Oxydo, Carrera, Smith* and *Blue Bay.*

We oversee the entire chain of production and distribution, which includes the following phases: technological research and innovation, product development and design, planning, purchase planning, production and quality control, marketing and sales, purchase management, distribution and logistics.

We currently operate six principal manufacturing plants, three located in Italy, one in Slovenia, one in China and one in the US (Salt Lake City - Utah).. We directly manage our internal production and closely monitor and supervise any third-party production. Third-party manufacturers are selected among primary manufacturers in Italy, the United States and the Asia Pacific region, in order to streamline costs, maintain flexibility during the production process and to manufacture products that are consistent with the design needs of our customers.

We operate four main distribution centers, one highly automated in Padua, and centers in Parsippany (New Jersey, USA), in Denver (Colorado, USA) and one center in Hong Kong, as well as other smaller distribution centers. We distribute our products in approximately 130 countries, through a distribution network comprising 32 subsidiaries operating in 40 countries, and through approximately 170 independent distributors elsewhere. Each distribution subsidiary coordinates a network of local sales agents, most of whom sell our products on an exclusive basis, reaching over 80,000 retail points of sale, including optometrists, ophthalmologists, opticians, retail distribution chains, department store chains and specialty stores.

Our revenues are partially influenced by seasonality, as we experience our highest level of demand during the first semester due to sales of sunglasses leading up to the summer months, and we experience our lowest level of sales demand in the third quarter because, traditionally, the majority of shops are closed for some portion of the summer season.

History of the Group

Sàfilo was founded in 1934 when Guglielmo Tabacchi (father of the current Chairman, Vittorio Tabacchi) assumed control over the company "Società Azionaria Fabbrica Italiana Lavorazione Occhiali" which produced lenses and frames. This company had been founded in 1878 in northeast Italy with its production unit in Calalzo di Cadore (Belluno), the region that houses the eyewear district. In 1964 the second production unit in Santa Maria di Sala

(Venice) was inaugurated and the production of acetate and cellulose frames was transferred there. In the Seventies the production unit in Calalzo di Cadore was extended and the offices in Padua were opened; the latter currently serve as the secondary office and main distribution centre for the Group (1975 - 1977).

In the Eighties, the first commercial subsidiaries were opened in Belgium, Spain, Germany and France. Between 1983 and 1986, Starline Optical Corp. (now Sàfilo USA Inc.), a leading eyewear sales company in the USA which had already been distributing the Group's products since 1962, was taken over.

The industrial development plan was implemented in 1989 when the production facility in Longarone (Belluno) was built, and is still the largest Italian unit in the Group. It became operative in 1990; it was and continues to be one of the most technologically advanced factories in the eyewear industry in Europe. In 2001, the central, automated distribution centre was inaugurated in the Padua headquarters.

Over the last 15 years the Group has pursued a policy to strengthen and expand the distribution network by opening subsidiaries in the most promising markets with the final aim of directly controlling distribution in the main geographic regions. In order to implement this strategy, relationships with the Group's clients have been constantly strengthened.

In 1994, Sàfilo Far East, the distribution branch in Hong Kong was established, thereby opening the gateway to the Asian and Australian markets. At the end of the Nineties, the Group's presence in Europe was further strengthened by opening subsidiaries in the United Kingdom, Greece, Austria, Portugal and Switzerland, and in the rest of the world in Australia, South Africa, Japan, Brazil, India, Singapore, Hong Kong and Malaysia. Finally, in 2004, a branch was opened in Shenzhen - China, one of the markets with greatest growth margins.

In 1996 the acquisition of a business unit of Carrera GmbH, a specialised manufacturer of sports eyewear, led the Group to acquire the know-how of Optyl for the production of plastic frames as well as the two factories in Traun (Austria) and in Ormoz (Slovenia). Due to these acquisitions, Safilo has become one of the leading manufacturers and distributors of sports eyewear and ski goggles in Europe. The acquisition in the same year of the American company Smith Sport Optics Inc. added a range of sports goggles - specifically addressed to the American market - to the Group collections.

In July 2001 and after acquiring a majority shareholding in the company, the Chairman of Safilo S.p.a., Vittorio Tabacchi, launched a takeover bid through a purposely established vehicle company, Programma 2002 S.p.A. The original offer was launched at €12.50 per share, for an overall value of €161.3 million; the takeover bid for the remaining shares was launched at a price of €14.48, for an overall value of €9.4 million. After the takeover bid was completed, Safilo s.p.A. was delisted in December 2001, almost 14 years after it was first listed in 1987.

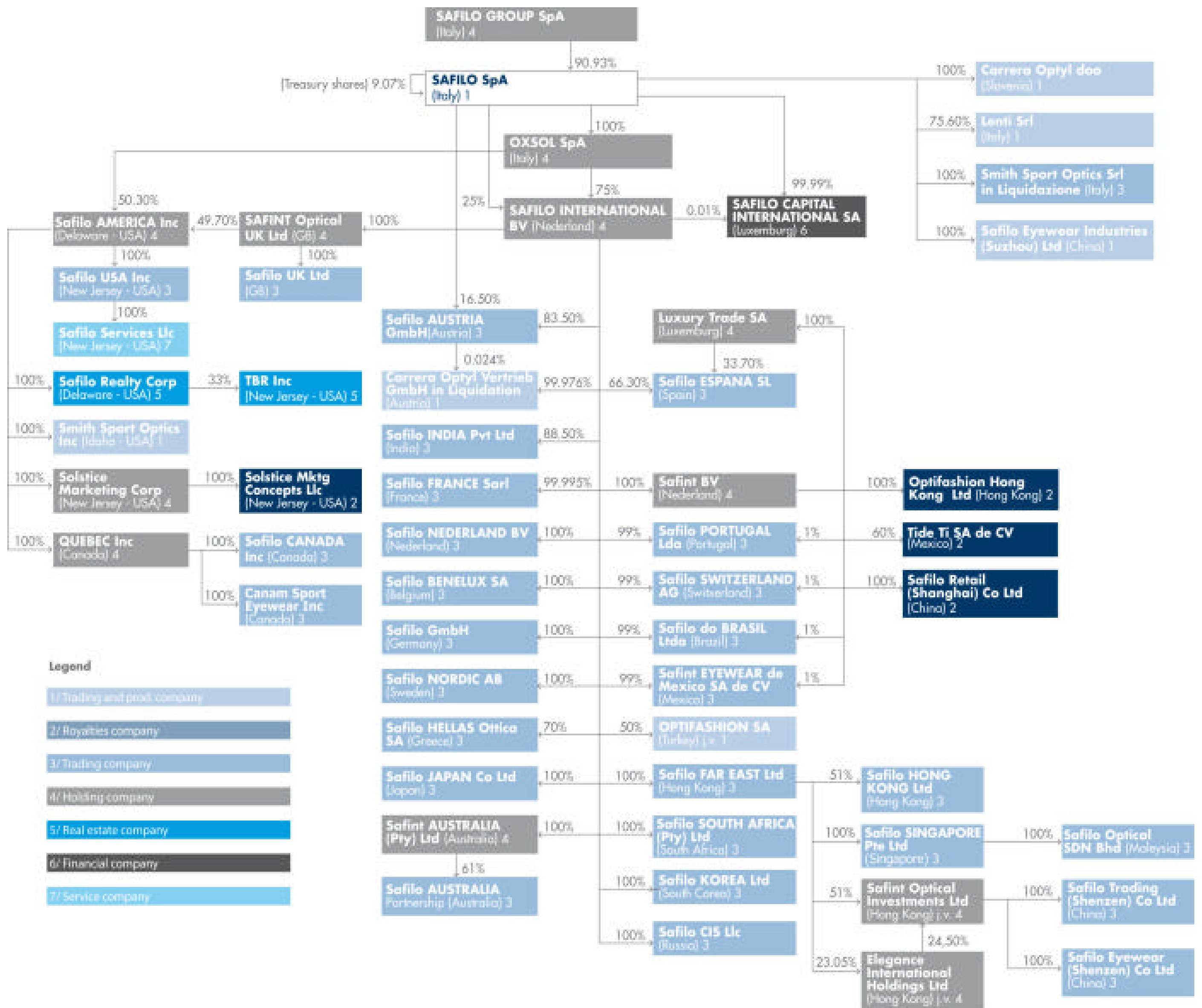
During 2002, Sàfilo S.p.A. was incorporated into the aforementioned Programma 2002 S.p.A., which in turn was incorporated into Programma 2001, another vehicle company owned by Vittorio Tabacchi's family; the name "Sàfilo S.p.A." was retained.

In December 2002, the parent company Sàfilo Holding S.p.A. (now Sàfilo Group S.p.A.) acquired 100% of the remaining share capital in Sàfilo S.p.A. by a contribution in kind. In December 2002 two vehicle companies, SunlightLuxco S.à.r.l. and SunlightLuxco II S.à.r.l., directly controlled by CSFB Private Equity, became shareholders of the parent company. Their shareholdings were then later transferred respectively to SunlightLuxco A S.à.r.l. and SunlightLuxco III S.à.r.l.

On 14 September 2005, further to a resolution by an extraordinary Shareholders' assembly, the parent company changed its name from Sàfilo Holding S.p.A. to Sàfilo Group S.p.A.

On 9 December 2005, the shares of Sàfilo Group S.p.A. were listed in the Stock Exchange at an opening price of 4.90 Euro per share.

The Group structure



Recent developments

Investment agreement with HAL Holding N.V. in 2009:

On 19th October 2009, Safilo Group S.p.A. and Only 3T, as majority shareholder, signed a binding investment agreement with HAL Holding N.V., an international investment firm.

HAL is both a financial and industrial partner for the Group and has had a strong presence in the industry of eyewear retail sales since 1996 with a vast retail network, which numbered roughly 4,000 shops in 37 countries at the end of 2008, for total sales of some 2.6 billion Euro. This network features chains such as Grand Vision, Pearle, Solaris and Avanzi.

The investment agreement seeks to implement a plan for the recapitalization of the Company and of the Group by way of the following actions:

- the launch of a tender offer by HAL in order gain control of the high-yield bonds issued by the Group and maturing in May 2013, so as to free the Group from the restrictions deriving from the change-of-control clause established by the rules of the bond issue;
- the contribution of additional risk capital in the parent company, which is to be done by way of an initial increase in capital reserved to HAL and a second increase to be offered as an option to shareholders for a total of 262.8 million Euro. This transaction will make HAL the new primary shareholder with an equity interest of 37.23%;
- the restructuring of senior debt by way of an agreement with Safilo's lending banks and aimed at reducing debt using the funds raised through the capital increase and redefining the payment plan and related covenants;
- the sale of a number of retail chains 15 re no longer deemed to be of strategic importance, with the exception of the U.S. chain Solstice and the points of sale in Hong Kong. This plan particularly concerns the Spanish chain Loop Vision, the points of sale in China, the Mexican retail chains Sunglass Island and Island Optical, and the Australian chain Just Spectacles.

License Agreement

On December 10th 2009 - Safilo Group, has announced a global licensing agreement with the Tommy Hilfiger Group through 2015 with an optional five-year extension.

This agreement is for the exclusive design, development, production and distribution of Tommy Hilfiger ophthalmic and sunglass products, available Fall 2010.

The optical line will be available in optical stores; the sunglass collection will be available in global Tommy Hilfiger retail stores, optical stores as well as department and specialty stores.

The chart below shows the countries the Group operates in through its commercial subsidiaries:

BUSINESS OVERVIEW

Competitive strengths

The group owes its success to a number of areas of strength, which, taken together, distinguish it within the worldwide eyewear industry:

- **design excellence, innovation and product quality**: the Group's products are very well received by eyewear resellers and by the consumer due to their superior quality and their innovation in both materials and design. The Group sees quality to be key to success in the high end of the market and in effectively managing its brand portfolio;

- **a highly prestigious brand portfolio and a high-profile presence in the luxury segment and in fashion**: the Group manages a select portfolio of brand names based on standards that take account of their specific competitive positioning and international prestige, as well as on a precise strategy of customer segmentation and the desire to mitigate exposure the risk of any one brand, which is typical of the luxury segment. To this end, the Group has gradually and carefully integrated its own brands and various licensed brands, for which it has established long-term partnerships (on average 5-8 years) with the brand owners through contracts that are repeatedly renewed over the years;

- **production flexibility**: for a number of years, the Group has been engaged in rationalising its organisation and production processes in order to increase efficiency and productivity and to reduce total production times. The use of outsourcing also provides the necessary flexibility in production in order to manage peaks and troughs in demand;

- **global distribution platform and territorial coverage**: the Group's logistics platform is key competitive advantage in supporting the business model thanks, above all, to the high level of coverage of all of the world's main markets. This plays a significant role both in supporting development strategies worldwide for fashion's leading labels and in enhancing the brand portfolio emerging in local markets, and the distribution system is designed to reach more than 80,000 select points of sale in 130 nations. The Group ensures its market presence through a mixed distribution model comprising direct management (presence in 40 of the most important markets, with approximately 1,300 sales agents) and indirect management, through exclusive agreements with independent distributors (approximately 70 in the optical channel and more than 100 in the sports channel). Factors behind its success include the high level of training of the sales force, which focuses on certain product lines. Through its sales network, the Group maintains relations and effective control in respect of its customers, the high quality of which ensures a suitable position of house and licensed brands. In particular, the strategic selection of retailers and the positioning of Group's products in their points of sale is a key to success in relations with prestigious brand licensors and is a distinctive feature of the Group in comparison to its leading competitors;

- **excellence in customer service**: the Group is a recognised leader in providing excellent levels of customer service, which features: (i) a large, expert sales force with agents able to cover the entire market; (ii) a team of key account managers dedicated to assisting the main distribution chains; and (iii) modern, multi-language call centres to manage orders and customer service, using specialised developed software, such as the so-called CRM – customer relationship management – which enables monitoring the market, storing data and creating precise customer profiles so as to personalise the services even further;

- **diversification in revenues**: diversification in the portfolio of house and licensed brands and in the target markets and customer segments concerned enables the Group both to mitigate the risks related to potential slowdowns in the performance of specific markets and the general risk of changes in customer buying habits, as well as to take advantage of opportunities in emerging markets and customer segments.

Competitive position

The worldwide market for high quality prescription frames and sunglasses is highly competitive and fragmented. Our principal competitors on a worldwide basis are the Luxottica Group S.p.A., Marchon Eyewear Inc., Silhouette International Schmied AG, Charmant Inc., Marcolin S.p.A. and De Rigo S.p.A. We also face competition from numerous national, regional and local companies in the markets in which we distribute our products.

We believe that important competitive factors in the prescription frames and sunglasses markets include product quality and innovation, scope of product portfolio, brand name recognition, relationships with licensors, customer service and a strong distribution network. Some of our global competitors have acquired or established their own significant retail distribution networks for their eyewear products. As reported at the paragraph "Recent developments" of this item, also Safilo Group is currently putting in place significant efforts in order to vertically integrate and access the retail business.

Business strategy

We seek to strengthen our current position in the global eyewear market and enhance our financial profitability. As part of our strategy, we intend to:

- Improve the management of our portfolio of brands. We intend to continue to strengthen our portfolio of both owned and licensed brands. We believe that we are well-positioned to take advantage of the historically consistent revenues generated from sales of prescription frames to an established customer base while continuing to exploit the attractive sales growth opportunities available in the premium sunglasses market segments.

Owned brands. We have identified the successful characteristics of each of our owned brands. We seek to ensure that each trademark reflects the consumers' wishes and to position each trademark with advertising campaigns aimed to the appropriate target audience. We aim to satisfy the needs of both our optician clients and those of the end customers. Significant efforts have been made in order to support sales for our owned brands, especially through dedicated marketing campaigns. The strong sales increase of owned brands in 2009, especially for *Carrera*, proves the effectiveness of the strategies implemented during the year.

Licensed brands. Jointly with the licensors of our global brands, we have prepared guidelines for expansion and promotion of our products to the appropriate target audience in order to achieve greater market penetration, both in terms of number of customers and of geographical areas. We carefully position our licensed brands in order to avoid duplicating brands that might appeal to the same type of consumer. Our policy is to diversify according to brand, geographical area and price, while maintaining our focus on market trends and demand.

- Improve our operating efficiency and effectiveness. We intend to improve continually the efficiency and effectiveness of our production and management processes. To achieve this goal, we have put in place significant efforts, in the past years, in order to streamline our production structure and processes (so called "lean manufacturing", "time to market" and "cost efficiency" projects). We believe these projects has allowed us to significantly increase efficiency, both in terms of making better use of available production capacity and in terms of rationalizing available production space and improve our inventory management.

To fully achieve the above-mentioned targets, in 2007 we also began the construction of a new production facility in Suzhou, China. The new plant has started its operations in mid-2008 and is now producing, in a larger and larger scale, semi-finished products that are eventually shipped to the production sites in Italy for the finishing and assembly. In the years to come, "Suzhou" is to become the most important site of the Group in terms of big-scale production, leaving to the other owned plants those phases and products which require a high level of craftsmanship.

- Strengthen distribution and expand in new markets. We wish to continue our policy to strengthen our direct and indirect distribution network in the markets in which we operate, and to enter other markets with high-growth potential. We intend to select a specific market strategy for each market we approach, focusing on wholesale distribution. In more mature markets, we plan to improve our wholesale commercial structure, to become leaders in

the wholesale channel. In growing markets where we are already present, we plan to increase our marketing activity, especially in high-growth markets such as China, India and Brazil.
Starting from 2007, we have significantly increased the direct presence of the Group in Eastern Europe, through the opening of wholly-owned local branches in the Baltic Republics (2007) and the opening of 3 more branches in Hungary, Czech Republic and Slovakian Republic in July 2008. Furthermore, starting from January 1st, 2009 a new Moscow-based commercial subsidiary (Safilo CIS L.L.C.) is operational in the Confederation of Independent States (Russia). The new subsidiary markets all brands of the Group, with particular focus on the high-end and luxury segments of the market, and operates in the country through 4 regional offices in St. Petersburg, Ekaterinemburg, Rostov and Novosibirsk.
As far as our retail development strategy is concerned, growth has been pursued both organically (mainly thanks to the development of the Solstice network in the U.S.) and through acquisitions. In fact, in early 2008 the Group has acquired two local retail chains in Mexico and Australia.

During 2009, following continuation of the global economic crisis and considering the economic results of these acquisitions, the Group – as part of its financial structuring plan – decided to sell the retail chains considered non-strategic to HAL Holding N.V. The latter is the Group's partner in the restructuring operation and is already present in the retail eyewear segment , where it has been active since 1996, via an extensive retail sales network. At the end of 2008 the network consisted of some 4,000 stores in 37 different countries, with total sales of approximately Euro 2.6 billion and including chains such as Grand Vision, Pearle, Solaris and Avaniz.

The above disposal plan involves the retail chain Loop Vision in Spain, Sunglass Island and Island Optical in Mexico, and Just Spectacles in Australia, as well as 5 retail stores present in China.

- Continue to focus on superior design, development and innovation. In our 75 years of operations we have always emphasized technological research, design and innovation. A recent example of our commitment to technological innovation, which is linked to research and development machinery and products, is GT 28 Flex Temple Mechanism, which enlarges the well-known family of Safilo Elasta Flex Temple Arms.
We also kept on providing our sport products with new features, as in the case of new Carrera XMCarbon ski helmet, the hard shell of which is made of an innovative compression moulded fiber reinforced material, with excellent properties of light-weightness and strength, and unique aesthetical appearance.

Products and brands

We design, manufacture and distribute high-quality eyewear in three product categories: prescription frames, sunglasses and sports goggles. Our product portfolio comprises both owned and licensed brands in the prescription frames and the sunglasses product categories, and owned brands (such as *Carrera* and *Smith*) in the sport products category.

Our prescription eyewear and sunglasses products are positioned mainly in the high-end eyewear market segments.

Our products are complementary, insofar as sunglasses are viewed by the market more as a fashion accessory and as related to fashion trends, while prescription frames are more linked to demographic trends.

We continually design and launch new models and update existing models to match consumers' preferences, fashion trends and technological innovations. Our products are generally launched concurrently with spring/summer and fall/winter fashion collections. Every quarter, generally in January, April, August and October, existing models are updated with new designs, colors and color combinations to meet uses and preferences in different geographic regions.

Every year we launch over 2,500 new prescription frames, sunglasses and sports goggles, making over 4,500 models of eyewear for sale each year.

Brand portfolio

The brand portfolio of the Group is composed of its own proprietary brands, used for prescription frames, sunglasses and sports goggles as well as licensed brands for collections of frames and sunglasses. The latter are mainly positioned at the high end of the market with a strong presence in the luxury segment. Safilo has gradually completed its portfolio of house brands with others from the luxury and fashion world, setting up long-term agreements with the licensors for an average of 5 to 8 years, the majority of which are constantly renewed. 2009 sales for inwardly licensed brands accounted for 77% of the total vs. 81.2% in the previous year.

In order to minimise the risk associated with the volatility of consumer tastes, the Group pursues a policy aimed at constituting a brand portfolio that is diversified in terms of geographic position, age, gender, income targets and final consumer requirements.

As part of its diversification policy, the Group generally concludes global licensing contracts, except when the brand in question has a strong resonance limited to a specific region.

The Group's licensed brand portfolio includes luxury brands of global renown (e.g. Armani, Dior and Gucci) and locally famous brands (for example, Liz Claiborne and Nine West in the North American market).

The specific actions undertaken by the Group to minimise the impact of the non-renewal of licences on Group revenues included the signing of new licensing agreements with leading fashion houses. Starting in 2006 we renewed the license agreements for brands already in our portfolio, due to expire in 2006, 2007, 2008. In this respect, we particularly highlight 10-year renewal of the license agreement for the Gucci brand. This renewal in fact provides recognition of the Group's product quality, design and image in the luxury eyewear segment.

In December 2009 the Group concluded a global license agreement with the Tommy Hilfiger Group. The agreement is valid until 2015 with the option for a further 5-year extension and concerns prescription frames and sunglasses under the Tommy Hilfiger brand.

As at 2009 year-end the Group's brand portfolio consisted of 38 main brands, of which 29 inwardly licensed and 9 proprietary.

Owned brands

Proprietary brands are of extreme strategic importance for the expansion objectives of the Group in the medium/high end of the market and for the Fashion and Casual-Sport segments in all product categories (frames, sunglasses and sports goggles such as, for example, ski masks and helmets and technical goggles for various sports).

Additionally, we have minor trademarks, such as *Adensco, Chesterfield, La Strada, Maurice Saint Michel, SunCloud and Denim*, which are used mainly in the U.S. market.

Sàfilo is the Group's historic brand and has been the backbone of development since the 1930s in developing prescription frames at the international level. Today the Safilo brand is considered the "*family master brand*" and is positioned in several segments, offering a quality product that is a sound alternative to the designer-brand offering. *The Safilo brand then has other sub-brands, like* Safilo Design, Safilo Glamour and Safilo Seventh Street, each with specific collections targeting consumers belonging to specific age brackets.

- *Sàfilo Design*: the collection of sunglasses has gradually been reduced due to

the limits of geographic distribution and the concentrated efforts on Carrera. However the strong personality of the collection of prescription frames is well represented by the square acetate frames, with strong tones and the Safilo logo on the beginning of the arms, which are virtually perfect for the refined, mature and elegant tastes of male consumers. The lightweight silhouettes in the wide range of colours are made from precious hyper-allergenic and ultra-light titanium.

- *Sàfilo Glamour:* Safilo Glamour prescription frames and sunglasses have the elegant charm of the 1960's and are addressed to women of class with models that stand out for their precious details, sparkling strass and refined colours.

- *Sàfilo Library* and *Elasta*: these are basic collections dedicated to an adult target, attentive above all to the product's functional practicality and reliability. Library is the collection of reading eyeglasses.

- *Seventh Street*: colour is the prime feature of these models, which are attractive for their colour choices and their young, modern style. The clean, essential lines are ideal for lovers of young, linear shapes with stylish details.

Oxydo: collections of sunglasses and prescription frames for young people between 18 and 35, with a very trendy style and unisex seductive models with irresistible colours. This brand is searching for its own strong identity that makes it stands out from the competitors and is clearly perceived by consumers.
The advertising campaigns for this brand pursue the same aim so as to create a strong brand identity that distinguishes it from the others and projects a very clear image. The key values are its fashion content, seduction, transgression, exclusiveness, irony, refined materials, innovation, appeal, creative design and product quality. Oxydo is addressed to young consumers who want a cool and trendy style.
The online campaigns are crucial, both classic methods (websites, banners, etc.) and innovative ones (web monitoring, public relations on line, seeding activities, etc.).

Blue Bay: this is a collection of prescription frames and sunglasses with a modern style and cool colours, with very attractive models for teenagers and the younger generation. The simple, chic style is based on a myriad of colours that clearly emphasise the brand's affinity to a young and modern world.

Carrera: this collection of sunglasses originally primarily targeted adult males, who followed the new fashions, styles and technology. With these classic bases they were targeted at adult males between 25 and 35 years old. However, as new models were developed with a new creative strategy, the Carrera target has been moved to a specific social target with a much more exciting appeal and now the Carrera core target also

includes the 16 to 30 year old age group, both male and female; these new models adapt perfectly to this group and are characteristic of the success of the new unisex collections.

There are two souls to this brand in terms of product and message:

RACING – models that carry the sporting soul of the brand into the collections of both sunglasses and prescription frames; the sporting spirit is crucial in Carrera history, like its bond with concepts of performance and technology (the latest collections include ultrapolar polarised crystal lenses made by Barberini, an internationally famous name for its high quality).

VINTAGE – models designed with great focus and on the basis of trends emerging in the fashion world, they are positioned in the vintage sector which is the main trend at the moment. The winning strategy was to bring Carrera closer to the vintage market, thereby fitting in perfectly with the brand's DNA. In fact, the most successful models, Champion and Safari, recall the 1980s but with a modern style. The models have been designed in a rich colour range, guaranteed by Made in Italy and the Carrera logo on the front of the frames.

Smith was born in 1965 when Mr Bod Smith invented the first sports goggles with double lenses. Today Smith Optics is one of the leading manufacturers of skiing and motorbike goggles, sunglasses and ski helmets. Further to the takeover by Safilo in 1996, Smith continued to grow both in Europe and the rest of the world, especially in the sunglasses sector. Designed for active sports lovers, such as snowboarding, freestyle or off-track skiing, surf and mountain biking, Smith products target young people who are interested in technological innovation with a high design and fashion content.

Licensed brands

Each of our licensed brands is designed and positioned for a specific market sector. Safilo Group's portfolio of licensed brands is one of the most important and diversified in the eyewear market. Numerous fashion houses rely on the Group, many of them world-famous brands such as Armani, Dior, and Gucci, and others which are solely associated with certain specific countries, such as Kate Spade, Nine West and Saks Fifth Avenue. The Group's licences with these brands are regulated by exclusive contracts that provide for the recognition of royalties to the licensors, calculated as a percentage of net sales generated from the collections and with minimum annual guaranteed amounts. In many cases such guaranteed annual royalties are based on a percentage of the turnover achieved by the licensed brand in the previous year while, in a few cases, they consist of sums defined in advance.

Our portfolio of brands licensed from fashion designers is described below.

Alexander McQueen. The Alexander McQueen brand was launched in April 2004, and belongs to the Gucci Group. It contains creativity and innovation, using unusual materials like wood, lace and very exclusive colours. It mainly targets women aged 25 to 45, and is positioned within the luxury segment. Alexander McQueen glasses are sold worldwide, mainly in Europe and Asia.

A/X Armani Exchange. The A/X Armani Exchange is young, fun, metropolitan with a very strong character. It targets ethnic customers, music lovers with an insatiable appetite for style and fashion. It is a young urban style collection with models in acetate and metal. The sunglasses have a competitive price and the opticians' lines satisfy the dynamic and multi-style spirit of the brand, with the AX logo printed in an innovative way on the frames.

Balenciaga. The Balenciaga collection proposes creative and sophisticated eyewear of excellent quality, synonym for a high luxury level brand. The products are sold worldwide through an International distribution network in line with the Balenciaga image.

Banana Republic. Banana Republic is a global brand of accessible luxury offering the best of urban style. With high design content and luxury processing, Banana Republic lifestyle collections include clothing, shoes, bags, jewellery and perfume. Since its launch in 2008, the eyewear collection has enjoyed great success. This is also the merit of "Made in Italy" materials and items, sophisticated colours, and special treatments of arms and components that highlight the brand, to create a collection with timeless appeal.

Bottega Veneta. The first Bottega Veneta collection was launched in March 2003 and communicates an exclusive and elegant impression of expert craftsmanship. The models are very distinguished with the use of the plaited motif, which is the trademark without any special use of a logo. Bottega Veneta collections fall into the luxury sector and are mainly addressed to a female public between 30 and 45 years of age. The products are sold worldwide, but mainly in Europe and the US.

Diesel. The Diesel brand was born with jeans with an aggressive and ironic air, always up with the latest fashion trends. The sunglasses target a young mixed public between 15 and 40 years of age attentive to fashion. Diesel products are sold worldwide.

55DSL. This is a new brand of the Diesel group, which was designed to attract urban consumers who love the vintage style and products inspired by the 70s. 55DSL products with their angel logo, are addressed to young people of both genders up to 25 years of age, and are positioned in the fashion sector of the market.

Dior. Dior is one of the leading French luxury brands. Dior products are sophisticated and fashionable, with exclusive top quality features and highly distinguished elements. The collections mainly target a female public between 30 and 40 years of age who are trend setters but always elegant.

Dior Homme, the line for men, expressing elegance, geometric design and simplicity.

Emporio Armani. Emporio Armani is a casual, versatile and across the board brand targeting youth of both genders. It is a fashion brand that is trendy and sporty at the same time, with a wide range of concepts inspired by the Emporio Armani lifestyle and the use of different materials in the same product. The sunglasses and prescription frame collections are sold worldwide.

Fossil. Fossil is inspired by the typical designs of the mid 1920s mixed with the desires of modern consumers. This "modern vintage" philosophy alludes to both classical and contemporary aesthetics. The collection targets consumers looking for fashionable sunglasses with clean and coloured shapes.

Giorgio Armani. The Giorgio Armani style means elegance and exclusiveness, in very essential lines with utmost attention paid to details and finishes. Top quality exclusive materials are used for this brand and each model has its own exclusive features. Il prodotto funzionale e comodo è il frutto delle tecnologie avanzate che garantiscono un prodotto dallo stile sofisticato e raffinato, sia per uomini che per donne. These products are sold worldwide.

Gucci. This is one of the most famous brands in the world and definitely one of the most recognised in the eyewear market. There is a wide range of models which combine style and class with the typical Gucci elegance and unmistakeable iconic features of the brand. The products are sold worldwide and target male and female consumers between 20 and 50 years of age in the premium and luxury market sectors.

Jennifer Lopez. The J.LO collection by Jennifer Lopez is unique and has a very audacious and reassuring appeal with an elegant style for top quality products at an accessible price for individual, self-assured, fashionable and practical women.

Jimmy Choo. Jimmy Choo is an icon of top-end market accessories with sunglasses in acetate and metal. The innovative design emphasises the distinctive Jimmy Choo style, with lively colours and luxury trimmings that recall the brand's accessories.

Juicy Couture. Juicy Couture is known throughout the world for the style of its tracksuits and soon became one of the fastest growing fashion brands in the world. The collections combine classical forms with the unmistakable details of the Juicy world and style, with logos and slogans recognisable to fans of the brand.

Kate Spade. Inspired by a timeless chic style, the Kate Spade collection recalls the 60s and their influence is seen in both the design and the colours. The ophthalmic sunglass lenses contain many of the fine and distinctive details of the bags and accessories from this brand, with audacious yet sophisticated collections as well as very attractive and easy to wear shapes and typically feminine colours.

Liz Claiborne. The Liz Claiborne collection of prescription frames and Rxable sunglasses, like the women's clothing collections, target women who want a modern, top quality style where fit means design ranging from classic to modern.

Marc Jacobs. The brand is positioned at the high end of the luxury market. The Marc Jacobs eyewear collection, featuring sophisticated and slightly retro shapes, stands out for its exclusive, glamorous style. We perceive a discreet collection with a very sophisticated image, heightened even further by the top quality materials and scrupulous care paid to details. The collection targets women between 25 and 45 years of age who want to affirm their identity and personality.

Marc by Marc Jacobs. Young and irreverent, the chic design of Marc by Marc Jacobs is combined with the practical urban style with irony and colourful details. The vintage-inspired collection combines with the styles of the moment. Young and modern, this collection has been created for people who, aware and confident of their own style, seek quality products and the original Marc Jacobs details, but at an affordable price. Marc by Marc Jacobs targets young people aged 18-35 looking to create New York's cosmopolitan image.

Max Mara. Max Mara is an expression of femininity and a truly timeless elegance: It is marked by the high quality of its materials, its modern design and its tailored style. Max Mara products combine modernity and tradition, elegance and simplicity. The first Max Mara collection of prescription frames was launched in 1998, with a view to creating that image of elegance and sophistication that draws inspiration from the other Max Mara-branded product lines and accessories. The Max Mara brand targets modern women: aged 30-50, financially independent, looking for elegant and sophisticated eyewear with classical and unostentatious details. The products are sold worldwide, particularly in Europe and the Far East.

Max & Co. The Max & Co. brand mainly targets young, fashion-conscious, female consumers. The first collection of prescription frames branded Max & Co. was presented to the market in 2007. January 2008 marked the international launch both of the collection both of prescription frames and sunglasses.

Nine West. Nine West is an iconic women's footwear brand founded in 1978. Today it is one of the liveliest and most distinctive brands on the market. In effect, women consider Nine West their favourite footwear brand and describe it as fashionable, sexy and modern. The eyewear collections are inspired by the philosophy of the Nine West brand of satisfying the continuous search for the latest in fashion, at affordable prices. The collection offers a wide range of products, ranging from the latest fashions to timeless classics. They are extremely wearable, with clean lines, feminine shapes and distinctive details, for women of all ages.

Pierre Cardin. The Pierre Cardin products are typically refined, confirming a style that characterises successful products. Classical yet always current, they are also adorned with precious and classy details.This is a very-well known and esteemed brand, with a contemporary design; eyewear collections are sold at very affordable

prices.The collection goes beyond tradition, exploring new routes in style: some models take inspiration from a futuristic design, made in keeping with the elegance of the brand.

Saks Fifth Avenue. The Saks Fifth Avenue collection is addressed to smart, stylish, practical women who love fashion. The collections of prescription frames and sunglasses are refined and classic with beautiful details that capture the attention of women between 25 and 55 years of age.

Tommy Hilfiger is one of the most famous names in the fashion design sector, with a portfolio of lifestyle premium brands that includes Tommy Hilfiger and Hilfiger Denim. The Group's main objective is to create and sell high-quality collections with men's, women's, children's and denim clothing lines. The Tommy Hilfiger collection has a young style, and combines coloured materials with unexpected details, creating a complete range of prescription frames and sunglasses, from the smart casual to the businessman.

Valentino. The Valentino brand is the flag bearer of Italian style, creativity and elegance. Valentino products stand out for the special, precious details, with very sophisticated and smart lines. The collections are aimed at men and women aged 25-50, and are positioned in the luxury and premium segments of the market. The products are sold worldwide.

Yves Saint Laurent. Yves Saint Laurent proposes classic, refined French design with sophisticated collections, exclusive materials, variety of forms, all personalised by the icons of style that distinguish the creations from this fashion house. The collections are aimed at both men and women aged 25-50, and are positioned in the luxury and premium segments of the market. The products are sold worldwide. Alexander McQueen. The *Alexander McQueen* brand was launched in April 2004, and belongs to the Gucci Group. It contains creativity and innovation, using unusual materials like wood, lace and very exclusive colours. It mainly targets women between 25 and 45 years of age in the luxury sector. Alexander McQueen eyewear is sold throughout the world but mainly in Europe and Asia.

Our business model

Our business model covers the entire production and distribution process, from the research and development phase up through the distribution and logistics phase, seeking to assure a high quality product with a flexible and efficient production and distribution process. We strive to satisfy client demand and preferences based on the most recent trends and to achieve an efficient time-to-market of our products. Our production and distribution process starts with the development and design of the collections followed by production of the volumes determined jointly with the marketing department. Thereafter, our production is distributed to tens of thousands of opticians.

The graph below sets forth the time cycle of our production and distribution process for prescription frames and sunglasses, which lasts approximately nine months from design to finished product.

Planning, programming and purchases

The Planning, Programming and Purchases departments are managed directly by the Operations Management.

The Planning Office uses the information that has been collected internally (about sales activities, promotional campaigns, sales forecasts and historic data) and externally (such as customer orders, feedback from trend setter customers about market trends) so as to define the production needs on a weekly basis and which are then submitted to programming.

The Programming Office analyses the production needs received from Planning in order to develop a weekly production plan and order the materials by taking into account the warehouse stocks, the models to be produced and the production capacity limitations. Programming uses an analysis system called the Global Planning System (GPS). GPS corrects the weekly production plan every day and breaks it down between internal production and external purchases.

The Purchases Department is mainly responsible for buying the raw materials (like resins and catalysis for Optyl, steel, acetate, metal, lenses, cases and other components) and other semi-finished products, such as arms, noses, etc. This office is managed by the central Purchase department in Padua.

In order to guarantee the quality of the raw materials and semi-finished products, the Group relies on a group of highly selected suppliers who are constantly appraised in terms of delivery times as well as their capacity to guarantee predetermined quality standards and their production capacity.

The raw materials and semi-finished products are mainly bought in from Europe, with a small part from other markets. The takeover of Lenti S.r.l. in 1996 now means that Safilo has the know-how to produce lenses for sunglasses.

Production

Safilo products are produced both within the facilities of the Group and by third parties. Safilo directly produces roughly 40% of the prescription frames and sunglasses in five of its six facilities – in Italy, Slovenia, China and the U.S. – with the remainder being produced by third parties in Asia and Italy There is a specific team that controls the quality of the bought-in products to ensure their quality is in line with the elevated standards of the Group.

Between 2006 and 2008, the Group completed its Lean Manufacturing and Time to Market projects, through which it was significantly able to reduce internal production lead times and production costs, and to manage new product development more effectively and efficiently. The results achieved with these projects have now been fully consolidated in the current organisation.

Internal production

The processes have been simplified over recent years to improve production efficiency and flexibility. The rationalisation of production resulted in a specialisation of each plant based on the materials and production technologies applied.

In 2008, the Group launched production at its plant in Suzhou (China), dedicated to the manufacturing of unfinished components in metal and acetate. As at the end of 2009, the plant employed more than 650 people, with production growing rapidly.

As a result of the industrial reorganisation in 2009, direct production by the Group is now conducted in three plants in Italy, by the plant in Ormoz, Slovenia, and the one in Suzhou, China, as well as in the plant in Salt Lake City, Utah (USA) for ski goggles.

The following table illustrates the sites and area of specialisation of our production units on the date of the Financial Statements:

Division	Production unit	Country	Production specialisation
Plastic materials	Santa Maria di Sala (VE)	Italy	Finished products
	Ormoz	Slovenia	Semi-finished and finished goods, Optyl, and injection
	Suzhou	China	Acetate semi-finished goods
Metals and semi-finished goods	Longarone (BL)	Italy	Finished products
	Martignacco (UD)	Italy	Components and accessories
	Salt Lake City	U.S.A.	Ski goggles

Outsourced production

Outsourcing policies aim at optimising production capacity and reducing costs. We work with manufacturers in Italy, Asia and the USA. The decision to assign a product to an Italian or Asian contractor is based on specific product quality parameters, origins and special production needs.

This policy means we are able to manage both production peaks and drops in demand, and to concentrate our production on products for the luxury sector.

Quality control

High product quality is one of the key elements of the Group's strategy, which is why quality control is handled directly by personnel within the Group.

The quality control process seeks to provide our customers with products that not only comply with legal requirements with regard to safety, but also to meet the highest quality standards applied within Safilo.

We conduct tests on the raw materials and semi-finished products we purchase, and on the production and distribution processes and finished products.

Finished products from third-party suppliers are inspected when they arrive at distribution centres. The Group has several quality control teams with a great deal of experience in the sector, based within the facilities in Parsippany and Hong Kong, and at the headquarters in Padua.

All Group products comply with the laws in force in the countries in which they are sold. With regard to European Union legislation in particular, when required, products have the EC marking. In addition, after obtaining ISO 9001:2004 certification in 1996, Safilo has now been ISO 9001:2000 (i.e. "vision 2000") certified since 2003. The certification body used by Safilo is DNV – Den Norske Veritas. Safilo's ISO 9001:2000 certification has also been accredited by Sincert.

Marketing and communication

The Marketing and communications campaigns to support the Group's house brands, the licensed brands and the products are one of the key factors for the Group's success and continuously growing profit.

In January 2009, the Group was reorganised based on the following guidelines:

- expansion and redefinition of the roles of the brand management structure, with reference to own brands
- development of the role of brand management with a more central importance in company processes;
- inclusion of the Design structure within the Marketing and Licensing department
- more central role for the Marketing and Licensing department of the headquarters in Padua in defining international marketing strategies.

The main aims of the Group marketing strategies include:

- guaranteeing the correct position for all the brands in the portfolio, with special focus on the high-end range and high fashion and luxury sectors;
- guaranteeing the development of the house brands, through a correct marketing mix and adequate investments in product development, communications and trade marketing;
- to communicate the distinctive features in terms of design and technology of products in the different categories (prescription, sunglasses, sports).

The Group develops its global marketing and advertising strategy through the marketing plan. The plans consider market information, end consumer and customer needs and tastes as well as competitive factors such as price, product type and advertising and promotion investments.

The Group develops a specific market plan for each brand in its portfolio, adopting different strategies and actions in order to guarantee the best position for each one. For licensed brands, the Group develops the strategy in close partnership with the licensors.

In 2009, the Group's total investment in marketing and communication came to 93.9 million Euro (vs. 100.3 million Euro in 2008), equal to roughly 9.3% of consolidated revenues for the Group (vs. 8.7% in 2008).

Marketing and communications activities mainly consist of direct consumer campaigns and trade marketing activities focused on customers' points of sale.

Consumer-oriented activities account for roughly two-thirds of the Group's marketing and advertising investment, and the main outlets used are the press (both weekly and monthly publications), billboards, sponsorships (mainly in sports for the brands Carrera and Smith), and public relations with journalists and opinion leaders in fashion and the sports and entertainment industries.

Trade marketing actions focus on the main customers' points of sale and account for about one third of the Group's advertising and promotion costs; they are of fundamental importance to guide the end customer's choice to the Group brands and products and to build up customer loyalty. The main instruments for this purpose include in-store display materials (posters, banners, displays, durantrans), special window displays, combined consumer

promotion campaigns addressed to both consumers and the leading optician customers, training courses and training materials, and updating into the features of the Group's brands and products for the sales assistants in the opticians.

The Group also attributes great importance to corporate communication, which it develops as a priority with its participation in the main international fairs in the sector and with internet communication through the sites www.safilo.com, www.carreraworld.com, www.smithoptics.com and www.oxydo.net.

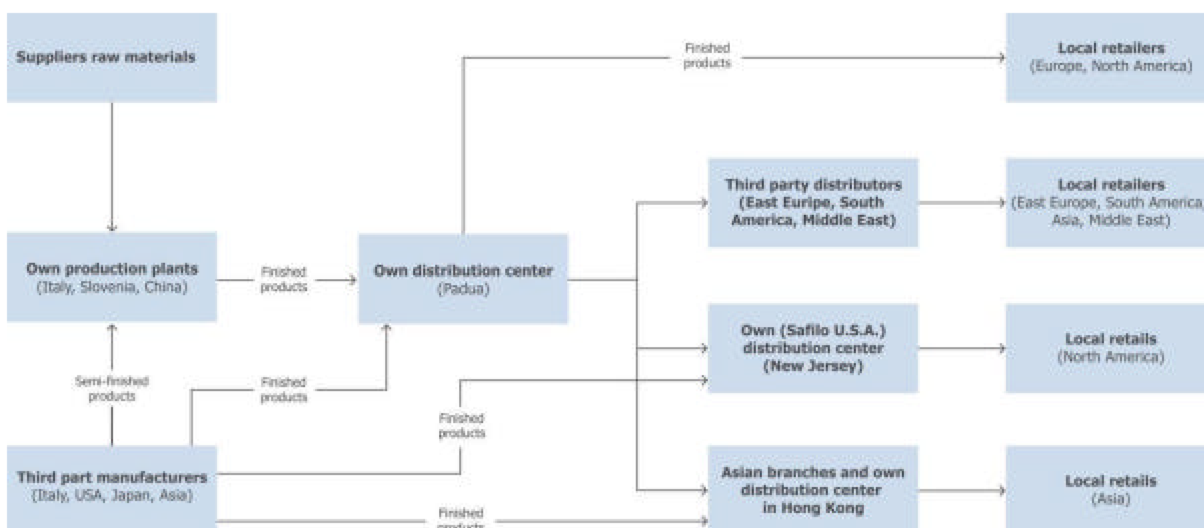
The creative communications strategy is always in line with the Group's specific choices but is adapted to specific market needs to guarantee it will reach the set target groups.

The media strategy is managed at Group level, but with specific optimisation campaigns in the single local markets.

Sales and distribution

Distribution

Selective distribution takes place through three main distribution centres based in Padua, Parsippany (New Jersey, USA) and Hong Kong as well as through other minor distribution centres in Denver (Colorado) and Utah (USA), Japan, Australia, India, South Africa, Canada, Greece, Brazil, Singapore and China, each one serving its own specific geographic region.



The Group has developed a common information platform for the main European companies, for Safilo Far East Ltd. in Hong Kong and for Safilo South Africa. This platform permits direct linking, from the logistics standpoint, of the highly automated Padua distribution centre in Italy with individual European opticians, Asian distributors and South African customers. The platform enables the Group to offer customers direct shipment from the Padua distribution centre to the individual retailers without the need to ship the products to any intermediate warehouse. This logistical organisation provides both excellent service to the customer and allows stocks of finished products to be constantly monitored.

By means of its distribution centres around the world, the Group can ensure an excellent level of customer service in all its current markets.

In order to guarantee minimum shipment times and reduced costs, shipping agents and couriers are selected on the basis of their efficiency and reliability. Our European suppliers mainly ship by road while Asian suppliers ship by sea. Finished products are sent from Asia both by sea and air.

Once the production process is complete the finished products are sent to the Padua warehouse. Shipment orders, related costs and courier orders are processed overnight. The system processing all this data takes into count the destination to which products have to be shipped so as to minimise freight costs and the number of trips needed to supply each individual customer. Once the orders and transport plans have been prepared, the products are collected and prepared for distribution in the morning. On average, telephone orders can guarantee delivery to Italian customers within 24-48 hours and to European customers within 48-72 hours.

Once the production process is complete the finished products are sent to the Padua warehouse. The shipment orders, costs and courier orders are processed during the night, and the processing system considers the area where the products must be sent so as to minimize transport costs and the number of trips required to restock each single customer. Once the orders and transport plans have been prepared, the products are collected and prepared for distribution in the morning. On average, telephone orders can guarantee a delivery to Italian customers within 24-48 hours and to European customers within 48-72 hours.

Distribution in the wholesale channel

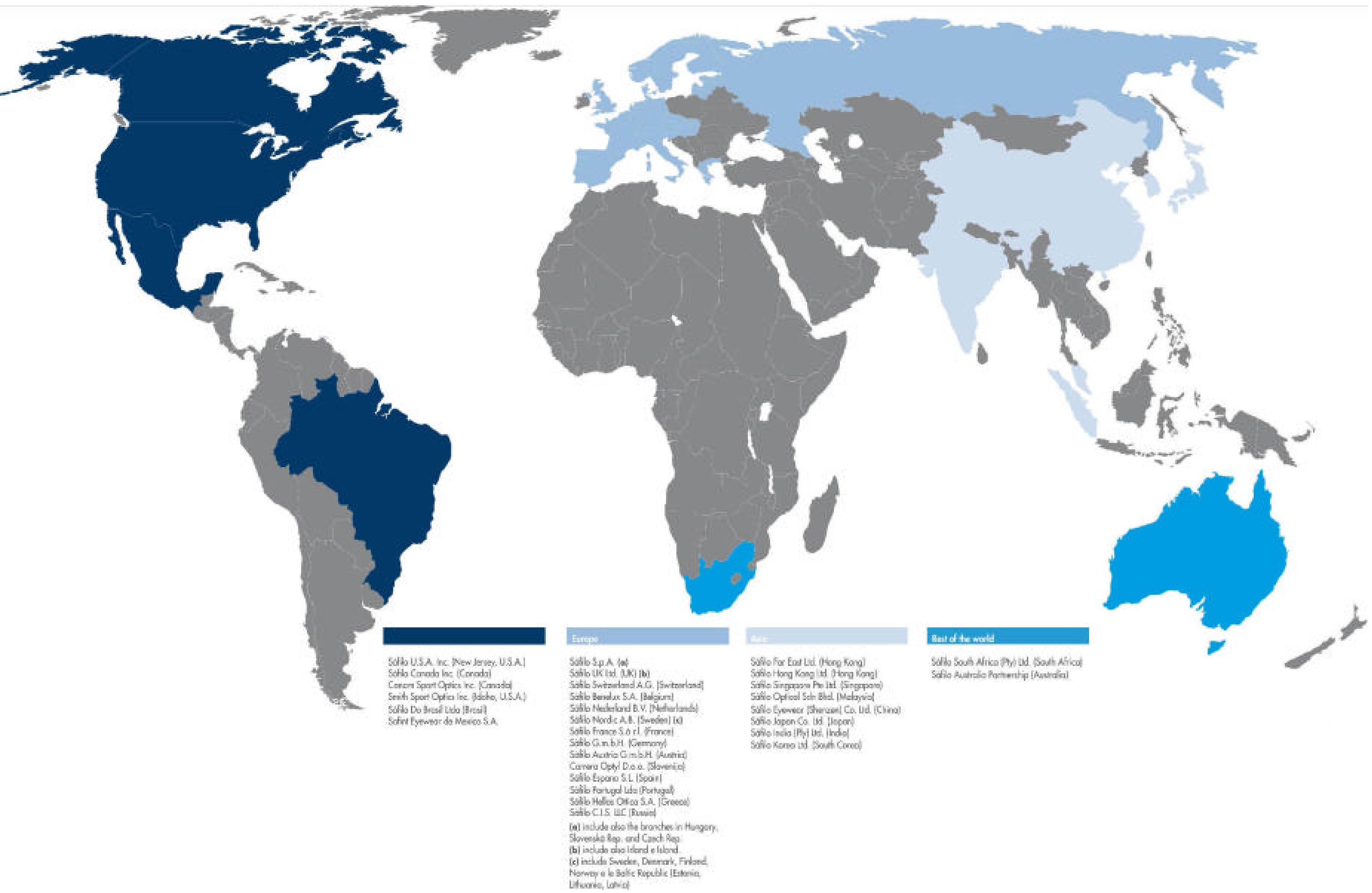
The Safilo Group sells its products in around 130 countries, in many cases through its own 32 sales branches and through more than 170 independent distributors 30 other countries. Each Group branch coordinates a solid network of local agents with exclusive contracts, reaching the clientele of more than 80,000 points of sale including opticians, optometrists, ophthalmologists, distribution chains, department stores, specialised retailers, our licensors' own stores, duty free shops and sports shops.

In our leading markets like Europe and the USA, we have created sales teams managed by Key Account Managers; the latter directly manage the main chains of eyewear in the reference regions.

The Group maintains efficient customer relations and controls and the high Group quality standards ensure the right positioning for both proprietary and licensed brands. In particular, the strategic choice of selecting retailers for the products and their position within the points of sale is one of the strengths in our relationships with the licensors of the top brands and marks us out with respect to our main competitors. Distribution agreements with local partners usually establish purchase quantity minimums and impose territorial restrictions. In addition, to the extent allowed by local legislation, we authorise distribution of our products solely via authorised retail stores and qualified sales agents.

Over recent years the Group has opened showrooms in highly prestigious locations in Milan, New York, London, Paris, Barcelona, Madrid and New Delhi to present products to clientele.

Our distribution network is geographically organised in 3 divisions, which respectively cover North and South America, Asia and Australia, and Europe plus countries elsewhere in the world, such as India and South Africa (EMEIA). Each division is managed by a top manager who reports directly to the World Sales Manager who is responsible for coordinating them.



Safilo U.S.A. Inc. (New Jersey, U.S.A.)
Safilo Canada Inc. (Canada)
Canam Sport Optics Inc. (Canada)
Smith Sport Optics Inc. (Idaho, U.S.A.)
Safilo Do Brasil Ltda (Brasil)
Safint Eyewear de Mexico S.A.
Europe
Safilo S.p.A. (a)
Safilo UK Ltd. (UK) (b)
Safilo Switzerland A.G. (Switzerland)
Safilo Benelux S.A. (Belgium)
Safilo Nederland B.V. (Netherlands)
Safilo Nordic A.B. (Sweden) (c)
Safilo France S.à r.l. (France)
Safilo G.m.b.H. (Germany)
Safilo Austria G.m.b.H. (Austria)
Carrera Optyl D.o.o. (Slovenija)
Safilo Espana S.L. (Spain)
Safilo Portugal Lda (Portugal)
Safilo Hellas Ottica S.A. (Greece)
Safilo C.I.S. LLC (Russia)
(a) include also the branches in Hungary, Slovenskà Rep. and Czech Rep.
(b) include also Irland e Island.
(c) include Sweden, Denmark, Finland, Norway e le Baltic Republic (Estonia, Lithuania, Latvia)
Safilo Far East Ltd. (Hong Kong)
Safilo Hong Kong Ltd. (Hong Kong)
Safilo Singapore Pte Ltd. (Singapore)
Safilo Optical Sdn Bhd. (Malaysia)
Safilo Eyewear (Shenzen) Co. Ltd. (China)
Safilo Japan Co. Ltd. (Japan)
Safilo India (Ply) Ltd. (India)
Safilo Korea Ltd. (South Corea)
Rest of the world
Safilo South Africa (Pty) Ltd. (South Africa)
Safilo Australia Partnership (Australia)

Below is a brief description of the 3 divisions:

Europe

The main centre is in Padua in Italy. The division manager is also responsible for other areas in the world, including the Middle East, Africa, India and South Africa. The Group's European clientele is very varied: in Italy, the majority of customers are independent opticians, in the UK they are mainly chain stores, while in Germany the main customers are buying groups and distribution chains. We directly distribute our products to 25 European countries. Around 60% of the more than 600 agents are independent and paid on a commission basis, while the remainder are employees in accordance with specific local legislation, and receive a basic salary plus commission. Most of the sales force is linked by PC to the central computerised distribution system so as to reduce order processing time. Sales and other marketing data can therefore be obtained on a daily basis. There is also a division specifically dedicated to sports products (ski goggles and glasses, helmets and other sports eyewear). A key account manager has also been created and is based in Padua with the task of centrally managing the leading European distribution chains. In those countries where the Group has no sales branches, long-standing relationships have been established with the local distributors, the majority of them having exclusive agreements with us.

Thanks to the inauguration of local representation offices, the Group has been operating directly in the Baltic republics since the beginning of 2007. During 2008 Safilo S.p.A. set up stable organisation units (i.e. branches) in the Czech Republic, Slovak Republic and Hungary for direct coverage of these markets, considered to offer high growth potential and where consumers pay great attention to high-end products and to "Made in Italy" design.

1st January 2009 marked the start of operations of our new, wholly owned, Russian sales branch, Safilo CIS-LLC. The branch, founded with registered offices in Moscow on 29th October 2008, brings the entire Safilo brand portfolio to Russia, with special attention to the luxury market. This is a direct approach to the market through four regional offices in extremely interesting locations that are full of opportunities for the Group, with the precise aim of serving around 400 selected points of sale of opticians and department stores in the medium term.

Asia – Pacific

The head office is in Hong Kong. The division manager is also responsible for Oceania, as well as for global duty-free business via the key account managers specifically assigned to the latter.

The Group currently distributes its products in this region through sales branches in China, Australia, Hong Kong, Japan, Malaysia, Singapore and South Korea, and through outside distributors with exclusive distribution contracts in other key markets. The clientele is very varied and mainly comprises independent opticians and department stores.

Americas

This divisional manager is responsible for markets in the USA, Canada, and the main South and Central American countries. The Americas' division headquarters is in New Jersey, USA.

Marketing and distribution in the USA is implemented through three distribution channels: (i) opticians, ophthalmologists and optometrists; (ii) the retail market, comprising department stores and specialised shops; (iii) sports shops. Sales are made directly to opticians, ophthalmologists and optometrists organised in large retail chains and to individual stores.

More than 500 independent agents manage the American markets. About 60 operate in Canada, while in the USA, of the some 460 independent agents, about 320 handle opticians, ophthalmologists and optometrists, about 30 focus on retail stores, i.e. department stores and specialist stores, and about 100 handle a specific product category, like sports eyewear, for example. The Group has a showroom in New York that presents all its product lines.

The major retail chains are handled by the key-account organisation. All Central and South American distributors are managed by the Miami-based sales office of Sàfilo U.S.A.

During 2009 the Group bought 40% of capital held by minority shareholders and gained 100% ownership of the company Safint de Mexico S.A., based in Cancun. The company was founded on 25 th February 2008 and is intended to develop business in the Mexican area, which is considered to offer high growth potential.

Distribution in the retail channel

In recent years, the Group has strongly pursued a downstream vertical strategy and is firmly convinced that a direct presence in the retail market gives much greater market control and better service to the end customer, in addition to being a key factor in relationships with licensors who can directly benefit from the increased brand visibility in our retail chain.

The Group entered the US retail market with acquisition from the LMVH Group of Solstice, a retail store chain specialised in the sale of sunglasses positioned in the high-end and luxury segments of the market. At the beginning of 2002, at the time of acquisition, the US chain numbered 6 stores. Since then, the Group's strategy has focused on the quest for attractive sales space, also able to assure fast and adequate return on investment. Based on these criteria, over the years numerous stores have been opened, both in prime metropolitan locations and in top-quality shopping malls, leading to achievement of a total of 157 stores at 2009 year-end.

As of November 2006, the Group entered the retail market in mainland Europe, thanks to acquisition of Loop Vision. The Spanish chain (mainly active in the prescription eyewear segment) manages stores located both in downtown locations and in shopping malls. Since the takeover the strategy for this chain has focused on refurbishing certain stores which were not considered up to the Group's standard, in accordance with the aim of repositioning the product range within the "medium-high bracket" and developing and upgrading back-office structures.

During 2007 the Group's International retail network continued to grow, both internally (organic growth) and through acquisitions. To enter two retail markets very attractive in terms of future growth potential, i.e. Hong Kong and Australia, two new companies were set up for the sole purpose of managing retail initiatives: Optifashion Hong Kong Ltd., based in Hong Kong and Optifashion Australia Pty Ltd., based in Sydney.

In 2008, the Group acquired via its subsidiary Optifashion Australia Pty the Just Spectacles chain, present on the Australian market for over 20 years, and a 60% stake (with a call option on the remaining 40%) in Tide Ti S.A. de C.V., a Mexican company owning the Sunglass Island and Island Optica chains. These two store signs are positioned in the luxury segment of the local eyewear market, both prescription and sunglasses.

During 2009, following continuation of the global economic crisis and considering the economic results of these acquisitions, the Group – as part of its financial structuring plan – decided to sell the retail chains considered non-strategic to HAL Holding N.V. The latter is the Group's partner in the restructuring operation and is already present in the retail eyewear segment , where it has been active since 1996, via an extensive retail sales network. At the end of 2008 the network consisted of some 4,000 stores in 37 different countries, with total sales of approximately Euro 2.6 billion and including chains such as Grand Vision, Pearle, Solaris and Avanzi.

The above disposal plan involves the retail chain Loop Vision in Spain, Sunglass Island and Island Optical in Mexico, and Just Spectacles in Australia, as well as 5 retail stores present in China.

At 2009 year-end disposal of the Spanish and Australian chains was completed for a total amount of Euro 13.7 million. For the Mexican chain a binding put option on 100% of the Mexican company's capital was signed, the efficacy of which is subject to prior acquisition by the Group of minority shareholders' 40% interest in the company. Based on the original contractual agreements with minority shareholders this should take place in two instalments, in 2012 and 2014.

Information Technology

Our information technology department has two main data centers, one in Padua and one in Parsippany, New Jersey (United States). Certain distribution subsidiaries outside of Italy have smaller data centers. The information technology headquarters is in Padua and supports the information technology operations for the European subsidiaries and several Asian subsidiaries; the data center in Parsippany supports the information technology operations for the United States.

We develop and maintain a significant part of our management software, to promote continuous collection and timely update of the information necessary for the operative management of (i) production, (ii) tracking sales, (iii) logistics and credit management. Other applications allow clients and agents to have direct and quick access to the information.

The management software includes some standard software packets, bought from leading software producers and related mostly to administrative and accounting applications.

Our companies are interconnected by means of data transmission networks, which enable a continuous transmission and adjournment of information.

We use basic hardware and software for a safe and continuous functioning of the information systems. We have installed hardware and the relevant software supplied by leading producers, with whom we have maintenance contracts to ensure the integrit y of our information system. We have created a disaster recovery program and have systems in place to prevent unauthorized access to our system, and minimize the risk of viruses attacking it.

Regulatory matters

Our facilities and operations are subject to environmental and occupational health and safety laws and regulations in each of the jurisdictions we operate in. These laws govern, among other things, discharges of pollutants into the air, water and land, the use, storage and disposal of hazardous substances and wastes, and the clean-up of contaminated properties.

Violations of environmental laws and permits, as well as occupational health and safety laws, can result in significant fines, to the charge of the Company too, or civil or criminal sanctions. In addition, the discovery of significant contamination at our facilities could require us to incur cleanup costs. Finally, environmental permits required for some of our operations may be reviewed, modified or revoked by the issuing authorities.

We believe that we are in material compliance with environmental laws and permits applicable to our business. However, from time to time we incur costs to maintain or achieve compliance with such requirements. Costs for these matters and our past environmental and safety costs have not significantly affected our operations, and future environmental costs are not expected to be material.

PROPERTY, PLANT AND EQUIPMENT

Our major production facilities are partly owned and partly leased. In addition, we lease administrative and distribution office space in various locations we operate in.

The table below lists the address of the real estate property owned by Group companies as of December 31, 2009.

Owner	Location	Use	Surface Area (m2)
Italian companies			
Safilo S.p.A.	Via Malignani, 6 - Precenicco (UD)	Manufacturing plant and offices, land	13,000
	Via Spilimbergo, 154 - Martignacco (UD)	Manufacturing plant and offices, land	3,855
	Via Molinà, 1 - Calalzo di Cadore (BL)	Manufacturing plant and offices, land	7,430
	Zona Industriale Villanova di Faè - Longarone (BL)	Manufacturing plant and offices, land	62,745
	Settima Strada, 15 - Padua	Offices and distribution center, land	20,937
	Prima Strada, 45 - Padua	Warehouse and offices, parking lot	12,500
	Via Noalese, 224 - Santa Maria di Sala (VE)	Manufacturing plant and offices, land	47,020
Foreign companies			
Safilo Espana S.A.	Madrid (Spain) - c/ Julian Camaril 36	Offices	701
Safilo Realty Corp	Ketchum (U.S.A.) - 280 Northwoo	Offices and warehouse	2,330
Carrera Optyl D.o.o.	Ormoz (Slovenia) - Ljutomerska 38/a	Manufacturing plant and offices	20,314
Safilo Eyewear Industries	Suzhou (PRC)	Manufacturing plant and offices	60,000

The table below sets forth the main real estate properties in leasing.

Parties to the Lease	Location	Size (sq. M.)
Showrooms		
Italia	Via Montenapoleone, 29 - Milano	178
Francia	142, Av. des Champs Elysées75008 - Paris	230
Regno Unito	108 Station Parade- Harrogate-North Yorkshire -HG1 1HQ	209
Spagna	Paseo de Gracia , 54 - 08018 Barcelona	228
USA	SunSights - 404 Fifth Avenue- New York, NY	557
India	75, Link Road, Lajpat Nagar III, New Delhi	70
Retail stores		
USA	500 Fifth Avenue - New York, NY	62
USA	1200 Morris Turnpike C242 - Short Hill, NJ	80
USA	805 Lincoln Road - Miami Beach, FL	116
USA	Beverly Center - 8522 Beverly Boulevard, Los Angeles, CA	129
USA	Columbus circle 10, Space 306 - New York, NY	70
USA	217 North Park Center - Dallas, TX	106
USA	10250 Santa Monica Boulevard - Los Angeles, CA	108
USA	845 Market Street - San Francisco, CA	70
USA	107 Spring Street - New York, NY	107
USA	3663 Las Vegas Boulevard Suite 495 - Las Vegas, NV	97
USA	19575 Biscayne Boulevard Suite 1361 - Aventura, FL	95
USA	227 Eighth Street - Miami Beach, FL	30
USA	48 Ninth Avenue - New York, NY	100
USA	168 Fifth Avenue - New York, NY	118
Mexico	AV Tulum Centro Comercial Malecon Americas Local 61, Lote 1, Mz. 1, SM. 6,	57

	Benito Juarez, Cancun, Quintana Roo, CP. 77500	
Mexico	Blvd. Kukulcan Km. 12.5 Local D-07, Zona Hotelera, Cancun, Q.ROO (Samba)	131
Mexico	Blvd. Kukulcan Km. 13 Loc. 70 Z.H.	197
Mexico	Carr Cancun Chetumal Km. 22 Local Cun-2212 Aeropuerto Inter. Sala B (Antes Cun-28))	45
Mexico	C.C. La Cuspide, Local # 44-C, Lote 21, Fraccionamiento Lomas Verdes, Municipio Naucalpan de Juarez. Distrito de Tlalnepantla, Edo. De Mexico CP 53126	192
Mexico	Blvd. De Las Naciones # 1813 Lote 1 Y 2 MZA. V, Fraccionamiento Playa Diamante, Centro Comercial La Isla Shopping Village Acapulco, Local L-67, Acapulco De Juarez, Guerrero CP. 39760	75
Mexico	Blvd. Kukulcan Km. 8.5 Local 120, 121, 122-A, 122-B, T-121, T-122, 227, 229-A, 229-B, 229-C, 229-D Y230, Centro Comerical Plaza Caracol Dos	139
Mexico	Paseo De Tamarindos No. 90, Centro Comercial Paseo Arcos Bosques, Local B-11, Col. Bosques De Las Lomas, Del. Cuajimalpa De Morelos, C.P. 05120, Mexico, D.F.	80
Mexico	Calle 10 Norte Esquina 5A Avenida Norte, Lota # 8 Y 8A, Locales 4 Y 5, CP. 77710, Playa Del Carmen Solidaridad, Q. ROO CP 77084	111
Mexico	Carretera Transpeninsular Km 0.5 S/N, C.C. Plaza San Lucas, Local 29, Cabo San Lucas, Baja California Sur, C.P. 23405	67
Mexico	C.C. Pabellon Polanco Local # 220, Av. Ejercito Nacional No. 980, Col. Chapultepec Morales, Mexico, D.F. C.P. 11510	40
Mexico	C.C. Forum Tepic, Local PA-46, Boulevard Luis Donaldo Colosio # 680, entre AV. Paseo del Lago Y El Canal Pluvial en el Centro Urbano Oriente, Tepic, Nayarit CP. 63175	106
People's Republic of China	Shop 917, Times Square, 1 Matheson Street, Causeway Bay, HK	56
People's Republic of China	Shop 1, G/F, 1-3 Pak Sha Road, Causeway Bay, HK	130
People's Republic of China	Shop G30, G/F, Olympian Plaza 2, 18 Hoi Ting Road, West Kowloon	66

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following is a discussion of our results of operations and financial conditions as of and for the years ended December 31, 2007, 2008 and 2009. You should read this discussion in conjunction with the sections entitled "Presentation of Financial and Other Information", "Selected Financial Data" and our consolidated financial statements and accompanying notes included elsewhere.

We have prepared our consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 in accordance with IFRS, which differ from Italian GAAP and U.S. GAAP in certain respects. The Safilo Group adopted IFRS on January 1, 2005. The information required by IFRS 1 – First time adoption of International Financial Reporting Standards on the effects of transition to IFRS was included in the Appendix to the Consolidated Financial Statements at December 31, 2005, to which reference should be made.

The following discussion and analysis contains statements reflecting our views about our future performance and are considered "forward-looking statements". These views may involve risks and uncertainties that are difficult to predict and may cause our actual results to differ materially from the results discussed in such forward-looking statements. You should consider that various factors including changes in general economic conditions, nature of competition, developments in distribution, industry trends, influence of currency fluctuations and inflation, and other factors discussed below, may affect our projected performance.

OPERATING RESULTS

Overview

Sàfilo S.p.A. is the parent company of the Group, a leader in the production and sale of prescription frames, sunglasses and sports eyewear. Our products are sold in approximately 130 countries through a distribution network comprising 32 distribution subsidiaries operating in 35 countries and through approximately 170 independent distributors elsewhere.

Principal factors affecting our results of operations

Strengthening of distribution network

One of our key strategic objectives is to continue strengthening our distribution network through selective expansion into attractive geographic markets and through increasing our control over product distribution. We operate three main distribution centers: our Padua distribution center, a center in Parsippany (New Jersey) and a center in Hong Kong. Following the selling of the retail companies of Espana and Australia discussed before, the Group now manages approximately 221 points of sale worldwide (320 last year).

We expect to continue to establish distribution subsidiaries in geographic markets where we currently use third-party distributors at such time as we determine that the size of the market (based on the number of units sold on a "per-annum" basis) would allow us to increase our net sales and profitability through direct control. According to this, during 2006 we have further strengthened our direct presence in the Far East through the opening of a commercial subsidiary based in South Korea, which started its operations in January 2007. With the same rationale, starting from early 2007, we established 3 branches in the Baltic Republics, while in 2008 Safilo S.p.A. has opened 3 branches in Czech Republic, Slovak Republic and Hungary. Finally, we have opened a commercial subsidiary in Russia. The strengthening of our distribution network through geographic expansion and increased control has affected, and is expected to continue to affect in future periods, our results of operations. The establishment of distribution subsidiary usually permits an increase in margins and the units sold resulting from our enhanced control and understanding of the brands placement.

Luxury brands

Sales of licensed luxury brands have represented, and are expected to continue to represent, the most important component of our business. One of our strategic objectives is to renew existing agreements with top luxury fashion houses and designers and to enter into new agreements on favorable terms for new internationally known brands or established brands in attractive regional and national markets. Despite the payment of royalties from sales of licensed luxury brands (which account for the majority of our overall luxury brand sales), luxury brands have been profitable due to their high margins. During 2009, the Group has renewed *Pierre Cardin* licence until 2020 and has signed global licensing agreement with the *Tommy Hilfiger Group* through 2015 with an optional five-year extension.

Working capital requirements

Net working capital, which we define as the algebraic sum of trade receivables, inventories and trade payables, largely depends upon customer requirements for prompt delivery of our products and the prevailing payment terms in the eyewear business. Therefore, our working capital requirements are significant.

Outsourcing of production

Another strategic objective is to maintain production flexibility by efficiently allocating our own production resources, utilizing subcontractors for certain phases of production and purchasing finished products from third-party manufacturers. We have reduced the use of sub-contractors and have optimized the use of our own production facilities, while increasingly purchasing finished products from third-party manufacturers in order to maintain maximum flexibility and cost-effectiveness without threatening intellectual property protection or product quality. Our goal is also to reduce excess capacity and to realize economies of scale through the efficient allocation of processes and products at our own production facilities. We aim to outsource the production of models that have lower prices to manufacturers that can produce at a lower cost per unit than we would internally, and we retain in our own facilities the production of those models that require a more intensive or technical production process, whether from a design or engineering standpoint. We have a high degree of control over third-party production and have set the same quality standards as for the units we produce ourselves.

Seasonality and cash flows

Our revenues are somewhat seasonal as we experience our highest level of net sales during the first half of the year (55% in 2008 and 56% in 2009), primarily due to the higher sales of sunglasses leading up to the summer, and our lower level of net sales in the third quarter of the year. Also, due to this seasonality in net sales, our profitability fluctuates on a quarterly basis, with our EBITDA being better in the first half of the year both in terms of absolute amount and as a percentage of net sales. Our cash levels tend to be lower in the first half of each year because we have higher working capital requirements, as a result of increased receivables deriving from stronger sales.

Business combinations

After 2008 FY in which the Group took over the retail chains Sunglass Island, in Mexico and Just Spectacles, in Australia in 2009 no business combinations have took place.

Critical accounting estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficulties and subjective valuations and estimates based on past experience and assumptions which are from time to time considered reasonable and realistic based on the relative 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, the cash flow statement and on the disclosures in the explanatory notes. The final outcome of the 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.

The accounting standards that require greater subjectivity by the directors in the preparation of the estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the consolidated financial statements of the Group are described briefly below.

- Goodwill: in accordance with the accounting standards adopted for the preparation of the financial statements, the company annually verifies the goodwill in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the verification results in the determination of the fair value allocated to the financial cash-generating units. This value is determined according to their current value in use. The allocation of the goodwill to the cash-generating units and the determination of their value requires estimates which depend on factors that may change over time with consequent effects, that may be significant, compared to the valuations made by the Directors.

- Write-down of fixed assets: in accordance with the accounting standards applied by the Group, the fixed assets are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the such difficulties requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is deemed that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential loss in value as well as the estimates for the determination depends on factors which may vary over time, impacting upon the Directors' valuations and estimates.

- ***Allowance for bad or doubtful debts*****:** the allowance for bad or doubtful debts reflects the best estimate of the management regarding losses concerning credit portfolio towards the final client. This estimate is based on the losses expected by the Group, determined on the basis of past experience for similar credits, current and historic overdue, careful monitoring of credit quality and projections regarding the economic and market conditions.

- ***Allowance for inventory obsolescence:*** the inventory of finished products which are obsolescent or slow moving are regularly subjected to specific assessment tests, that take into consideration past experience, historic results and the probability of selling them under normal market conditions. If the need to reduce the value of the stock should arise following these analyses, the management shall proceed with the appropriate write-downs.

- ***Product warranty provision:*** when a product is sold, the Group estimates the relative costs of performing work under guarantee and accrue a provision on the basis of historic information and a series of statistical data regarding the nature, frequency and the average cost of operations under guarantee. The Group operates constantly to minimize charges deriving from operations under guarantee and the quality of its products.

- ***Contingent liabilities:*** the Group is subject to legal and fiscal actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when it is considered probable that a financial outflow will be required and the extent of this expenditure can be reasonably estimated, adequate funds are allocated.

- ***Pension plans:*** the companies of the Group participate in pension plans the costs of which are calculated by the management, supported by actuarial consultants of the Group, on the basis of statistical assumptions and assessment factors that regard in particular the discount rate to be used, together with relative mortality and resignation rates.

- ***Deferred taxes:*** deferred tax assets are accounted for on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred taxes depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.

Segment information

Starting from financial year 2009 IFRS 8 introduces the approach under which the segments must be identified using the same methods with which internal reporting is done for top management in order to allocate resources and evaluate the performance of the individual operating segments.

This principle replaced the previous IAS 14 "Segment reporting" which required the identification of two types of segments by business and geographical area.

Following adoption of IFRS 8, the Group maintained identification of its operating segments based on the "Wholesale and Retail" channels and has drafted the reporting by geographical area in relation to revenue and non-current assets other than financial instruments, deferred tax assets and assets relating to benefits subsequent to the employment relationship and arising from insurance contracts.

Information according to business sector (retail/wholesale) and geographic area is given, pursuant to IAS 14 – *Segment Information*.

It must be noted that grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

Breakdown of FY2009 consolidated income statement by operating segment

Full year 2009 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	12,005	191	(12,196)	-
-to third parties	904,385	106,851	-	1,011,236
Total net sales	**916,390**	**107,042**	**(12,196)**	**1,011,236**
Gross profit	**506,030**	**66,404**	**50**	**572,484**
Operating profit	**(176,302)**	**(94,377)**	**(2)**	**(270,681)**
Share of income of associates	360	-		360
Financial charges, net				(54,257)
Income taxes				(26,211)
Net (loss)				**(350,789)**
Gross profit margin	55.2%	62.0%		56.6%
Operating profit margin	-19.2%	-88.2%		-26.8%
Segment assets	1,255,507	57,217		1,312,724
Investment in associates	12,032	-		12,032
Unallocated corporate assets				65,868
Consolidated total assets				**1,390,624**
Segment liabilities	272,361	5,479		277,840
Unallocated corporate liabilities	-	-		666,792
Consolidated total assets				**944,632**
Other information				
Capital expenditure	31,548	5,339		36,887
Depreciation & amortization	36,264	13,266		49,529
Goodwill impairment	204,939	52,776		257,715
Non cash items other than depreciation and amortization	22,878	(223)		22,655

Breakdown of FY2008 consolidated income statement by operating segment

Full year 2008 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	10,951	55.31	(11,006)	-
-to third parties	1,040,007	107,810	-	1,147,818
Total net sales	**1,050,959**	**107,866**	**(11,006)**	**1,147,818**
Gross profit	**593,075**	**69,796**	**88**	**662,958**
Operating profit	**93,855**	**(7,555)**	**35**	**86,335**
Share of income of associates	866	-		866
Financial charges, net				(57,753)
Income taxes				(49,988)
Net profit				**(20,540)**
Gross profit margin	56.4%	64.7%		57.8%
Operating profit margin	8.9%	-7.0%		7.5%
Other information				
Segment assets	1,584,336	163,495		1,747,830
Investment in associates	12,298	-		12,298
Unallocated corporate assets				57,241
Consolidated total assets				**1,817,370**
Segment liabilities	321,436	14,211		335,647
Unallocated corporate liabilities				677,446
Consolidated total assets				**1,013,093**
Capital expenditure	39,644	21,564		61,208
Depreciation & amortization	33,322	6,662		39,983
Non-cash items other than depreciation and amortization	16,046	720		16,766

Breakdown of FY2007 consolidated income statement by operating segment

Full year, 2007 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	8.634	-	(8.634)	-
-to third parties	1.120.717	69.707	-	1.190.424
Total net sales	**1.129.351**	**69.707**	**(8.634)**	**1.190.424**
Gross profit	**652.138**	**45.512**	**181**	**697.831**
Operating profit	**140.587**	**(3.263)**	**(2)**	**137.322**
Share of income of associates	1.772	-		1.772
Financial charges, net				(45.080)
Income taxes				(37.222)
Net profit				**56.792**
Gross profit margin	*58%*	*65%*		*59%*
Operating profit margin	*12%*	*-5%*		*12%*
Other information				
Segment assets	1.202.007	89.305		1.291.311
Investment in associates	12.279	-		12.279
Unallocated corporate assets				66.481
Consolidated total assets				**1.370.071**
Segment liabilities	307.831	7.819		315.651
Unallocated corporate liabilities				650.645
Consolidated total assets				**966.296**
Capital expenditure	32.142	12.747		44.889
Depreciation & amortization	33.850	4.171		38.020
Non-cash expenses other than depreciation	7.424	(594)		6.830

Breakdown of revenues and non-current assets by geographic area

(Euro/000)	Revenue from external customers December 31, 2009	December 31, 2008	December 31, 2007	Non-current assets December 31, 2009	December 31, 2008	December 31, 2007
Italy [1]	208,960	259,590	278,229	33,407	50,911	463,387
Europe [2]	268,284	324,342	353,755	181,577	308,709	310,295
America [3]	396,938	419,006	416,908	228,145	287,665	319,214
Asia [4]	137,054	144,880	141,532	215,205	326,296	188,698
Corporate [5]	-	-	-	101,700	104,583	2,895
Total	**1,011,236**	**1,147,818**	**1,190,424**	**760,034**	**1,078,164**	**1,284,489**

(1) Operating companies with registered head office in Italy.
(2) Operating companies with registered head office in European countries other than Italy, in India and in South Africa.
(3) Operating companies with registered head office in USA, Canada and Brazil.
(4) Operating companies with registered head office in the Far East and Australia.
(5) Non-operating companies.

It must be noted that grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

Non-current assets excluding financial instruments, deferred tax assets and receivables towards the central INPS (state pension & welfare agency) fund for portions of post-employment benefit provision transferred to INPS.

Results of operations for the years Ended December 31, 2007, 2008 and 2009

Year ended December 31, 2009, compared with years ended December 31, 2008 and 2007

Consolidated statement of operations (Euro in millions)	2007	% of net sales	2008	% of net sales	2009	% of net sales	Change % '08 vs. '07	Change % '09 vs. '08
Net sales	1,190.4	100.0	1,147.8	100.0	1,011.2	100.0	(3.6)	(11.9)
Cost of sales	(492.6)	(41.4)	(484.9)	(42.2)	(438.8)	(43.4)	(1.6)	(9.5)
Gross profit	**697.8**	**58.6**	**663.0**	**57.8**	**572.5**	**56.6**	**(5.0)**	**(13.6)**
Selling and marketing expenses	(439.6)	(36.9)	(446.1)	(38.9)	(427.3)	(42.3)	1.5	(4.2)
General and administrative expenses	(122.3)	(10.3)	(131.1)	(11.4)	(130.9)	(12.9)	7.2	(0.2)
Other operating income/(expenses), net	1.4	0.1	1.3	0.1	2.3	0.2	(6.5)	81.8
Restructuring cost non recurring	-	-	-	-	(7.4)	(0.7)	-	0.0
Impairment loss on goodwill and loss on disposal of retail subsidiaries	-	-	-	-	(116.2)	(11.5)	-	0.0
Operating profit/(loss)	**137.3**	**11.5**	**87.1**	**7.6**	**(106.9)**	**(10.6)**	**(36.6)**	**0.0**
Interest expense and other financial charges, net	(43.3)	(3.6)	(56.9)	(5.0)	(53.9)	(5.2)	31.3	(5.2)
Profit/(Loss) before taxation	**94.0**	**7.9**	**30.2**	**2.6**	**(160.9)**	**(15.9)**	**(67.9)**	**(6.0)**
Income taxes	(37.2)	(3.1)	(11.7)	(1.0)	4.5	0.4	(68.6)	n.s.
Write downs of deferred tax assets	-	-	(30)	(3)	(30.8)	(3.0)	n.s.	2.8
Net profit/(loss)	**56.8**	**4.8**	**(11.4)**	**(1.0)**	**(187.1)**	**(18.5)**	**n.s.**	**n.s.**
Net profit attributable to minority interests	3.5	0.3	2.8	0.2	0.7	0.1	(21.3)	(76.3)
Net profit/(loss) attributable to the Group	**53.3**	**4.5**	**(14.2)**	**(1.2)**	**(187.7)**	**(18.6)**	**n.s.**	**n.s.**
EBITDA	**175.3**	**14.7**	**127.0**	**11.1**	**58.7**	**5.8**	**(27.5)**	**(53.8)**

Net sales

The tables below set forth our net sales by geographic region and product category for the years ended December 31, 2007, 2008 and 2009.

Net sales by geographical region (Euro in millions)	December 31, 2007	%	2008	%	2009	%	Change % '08 vs. '07	Change % '09 vs. '08
Europe	570.6	47.9	543.8	47.4	444.7	44.0	-4.7	-18.2
The Americas	423.8	35.6	423.0	36.8	400.0	39.6	-0.2	-5.4
Asia Pacific	149.5	12.56	147.5	12.9	130.6	12.9	-1.3	-11.5
Other	46.5	3.906	33.5	2.9	35.9	3.6	-28.0	7.2
Total	**1,190.4**	**100.0**	**1,147.8**	**100.0**	**1,011.2**	**100.0**	**-3.6**	**-11.9**

Net sales by product (Euro in millions)	December 31, 2007	%	2008	%	2009	%	Change % '08 vs. '07	Change % '09 vs. '08
Prescription frames	456.3	38.3	455.3	39.6	402.0	39.8	-0.2	-11.7
Sunglasses	641.4	53.9	606.7	52.9	524.6	51.9	-5.4	-13.5
Sports products	67.9	5.7	62.6	5.5	60.1	5.9	-7.8	-4.0
Other	24.8	2.1	23.2	2.0	24.5	2.4	-6.7	5.6
Total	**1,190.4**	**100.0**	**1,147.8**	**100.0**	**1,011.2**	**100.0**	**-3.6**	**-11.9**

Financial year 2009

Safilo Group's net sales totalled Euro 1,011.2 million in 2009, down by 11.9% compared to Euro 1,147,8 million reported in 2008. At constant exchange rates, net sales decreased by 13.1%.

As previously mentioned, the fourth quarter 2009 was negatively impacted by the trend of foreign exchange rates, and in particular by the sharp drop in the U.S. dollar and some Asian currencies.

In the fourth quarter 2009, the Group recorded revenues of Euro 236.5 million, down by 16.2% at current rates from the same period of 2008. At constant exchange rates, the slowdown in the fourth quarter 2009 was of 11.5%.

In the geographical breakdown, the American market contracted by 5.4% at current exchange rates in 2009 (-8.6% at constant exchange rates). During the fourth quarter 2009, sales in the area improved significantly at constant exchange rates as compared with the previous quarters of the year, with a drop of 1.7% (-11.5% at current exchange rates). The sales performance of independent opticians remained at satisfactory levels throughout 2009. However, the performance of prescription frame sales in the United States was negatively impacted in the third and fourth quarter 2009 by the strong levels of sales reported in the second half of 2008.

In the fourth quarter 2009, sales performance at department stores and large retail chains improved, also due to the good Christmas season sales.

Conditions in the European markets remained difficult throughout 2009, which ended down by 18.2% (-17.3% at constant exchange rates), contracting more markedly over the course of the fourth quarter (-19.6% at current exchange rates, -19.4% at constant exchange rates), due to the accelerating slowdown in the markets of the Mediterranean basin. The negative impact of falling average sales prices grew steadily in the second semester 2009, especially in the sunglasses segment. The Group in fact responded to consumer demand that continued to privilege the purchase of products in more accessible price ranges by steadily expanding its product propositions at more appealing price levels.

The house brand Carrera performed well against the backdrop of overall sales performance in Europe, closing the year with net sales up by more than 20%.

Net sales in Asia, which fell by 11.5% at current exchange rates (-15.5% at constant exchange rates) in 2009, posted an improvement in the fourth quarter 2009, with a contraction of 9.4% at current exchange rates but growing of 5.9% at constant exchange rates. Aside from the Japanese market, which remains very difficult, markets like Hong Kong and South Korea showed continuing growth.

Financial year 2008

The Safilo Group's net sales reached 1,147.8 million Euro in 2008, with a downturn of 3.6% against the 1,190.4 million in 2007, however sales were in line with the previous year when taken at constant exchange rates.

In terms of performance by geographic region, the Americas reported an increase at constant exchange rates of 6.7% (unchanged at constant rates); this was mainly due to the contribution from the Mexican Sunglass Island chain - acquired at the beginning of 2008 – as well as the new Solstice stores opened during the year and the positive trend of the prescription frames from the independent opticians channel.

Europe was the only market for the Group that reported a falling trend throughout the year, closing with a drop of 4.7%, with special problems in the last quarter in Spain, the UK and Northern Europe leading to an overall fall of -5.5% in the period.

Sales in Asia, up at constant rates by 2.3% over the year (-1.3% at current rates), recorded a decrease in the last quarter at constant exchange rates of 14.2% (-6.4% at current rates). In the last months of 2008 the trend seen in the middle of the year was confirmed, when strong decreases in the Japanese market and in duty

free sales in the region were no longer compensated by growth in other important emerging markets like China, India and South Korea.

The sales by product analysis shows that prescription frames managed to maintain their level when compared with the previous year and their contribution to the overall Group sales increased. The performance of the other product lines fell, especially sunglasses which are an accessory that is strongly tied to fashion and therefore more subject to the worsened macro-economic prospects and consequent fall in consumption that marked the second half of 2008.

This fall was slightly offset by the highly successful sales of the Carrera brand eyewear; this was primarily achieved through a series of combined marketing actions which enabled this housebrand to reach excellent results, in contrast to trends of other brands in Europe and particularly in Italy.

Cost of sales

Financial year 2009

Cost of sales for the full year 2009 equals 438.8 million Euro, leading to a gross profit of 272.5 million Euro, down by 9.0% compared to 2008 guaranteeing a margin on sales of 56.6% (57.8% in 2008). Industrial profitability was particularly affected by the fall in sales volumes, especially in high-end markets where the products developed internally by the Group are sold. This negative effect was partly offset by specific actions to limit production costs and make product industrialisation more efficient. All of this resulted in a reduction in the use of industrial capacity, after having already exhausted all actions for flexibility that normally ensure full saturation of production capacity, even in periods of declining sales. Therefore, in 2009, the Group implemented an industrial reorganization that led to the closure of one production plant and the downsizing of others, with a consequent reduction in the workforce of 750 people.

Financial year 2008

Cost of sales for the full year 2008 equals €484.9 million, leading to a gross profit of €663.0 million, down by 5.0% compared to 2007 guaranteeing a margin on sales of 57.8% (58.6% in 2007). Industrial profitability was particularly affected by the fall in sales volumes, especially in high-end markets where the products developed internally by the Group are sold. This negative effect was partly offset by specific actions to limit production costs and make product industrialisation more efficient. In the second half of the year, the construction and opening of the new industrial site in China was speeded up, producing start-up costs which were in line with forecasts.

Selling and marketing expenses

Financial year 2009

Selling and marketing expenses decreased by 4.2%, from 446.1 million Euro in 2008 to 427.1 million Euro in 2009. S&M expenses has declined in absolute terms, but increased as a ratio to sales, going from the 38.9% of 2008 to 42.3% in 2009. For the portion that is not directly variable, such as agency commissions, these costs suffered the effects of rigidity in licensing contracts and the impact of rules of measurement. Examples of the former are the clauses that call for guaranteed minimums in royalties regardless of actual sales or references to previous years for marketing expenses. Regarding the latter, this includes rules of prudent measurement concerning whether or not to increase the depreciation of the assets of companies or stores located in areas with limited expectations for a recovery. Then there are certain costs that are entirely fixed, such as staff overhead in sales and marketing, particularly in the retail segment.

Financial year 2008

Selling and marketing expenses increased by 1.5%, from 439.6 m€ in 2007 to 446.1 m€ in 2008. This increase is predominantly due to higher costs relating to the retail channel, as an effect of both the acquisition of the Mexican and the Australian retail chains and the organic development of the chains of the Group (Solstice, in particular). On top of that, the decrease in royalties, consequent to lower sales volumes, has been partially compensated by higher advertising costs either on licensed brands or on housebrands (Carrera, above all).

General and administrative expenses

Financial year 2009

General and administrative expenses have been substantially stable to 130.9 million compared to 131.1 million in 2008, although featured a different dynamic. While there were savings resulting from efforts to reduce overhead in light of the changing outlook on growth, the Group felt in was appropriate to increase provisions to cover credit risk, given that the difficult context for consumer sales would point to an increase in customer default, particularly in Italy.

Financial year 2008

General and administrative costs increased by 7.2% to €131.1 million compared to €122.3 million in 2007. Most of the costs pertaining to this group has increased compared to 2007, mainly as a consequence of the acquisitions in the retail business.

Income (loss) from operations

In 2009, a number of non-recurring events occurred that greatly penalised earnings for the year. In order to provide greater transparency regarding financial performance for the year, we felt it was appropriate to separate these components into their own individual line items.

These events were:

- the industrial reorganisation, which resulted in the closure of one plant in Italy and had an impact of 7.4 million Euro;

- the sale of the retail chains as part of the investment agreement with HAL Holding N.V. (HAL), for a impact of 21.7 million Euro. As part of the recapitalisation subscribed by HAL, Safilo completed the sale of the non-strategic retail store chains to HAL Group. These chains include the Loop Vision shops in Spain and Just Spectacles in Australia. The loss resulting from the sale of these retail stores amounts to Euro 21.7 million.

- the impairment of goodwill given the changing outlook on growth, for an impact of 94.5 million Euro. The Group conducted an impairment test on its goodwill at the end of the year. The continuing unfavourable market situation, especially in the eyewear market segments in which Safilo products are concentrated, and the more prudent expectations of recovery of international markets, prompted the Group to write down its goodwill by Euro 94.5 million.

Operating profit (EBIT) from ordinary activities (gross of the following non recurring items provision for non-recurring costs, the loss on the sale of the retail operations and the write down of goodwill) in 2009 totalled Euro 16.7 million, compared with Euro 87.1 million in 2008. EBIT equalled 1.6% of sales, compared with 7.6% in 2008.

EBITDA reached 58.7 million Euro in 2009 against 127.0 million in 2008, with a margin on sales of 5.8% compared to 11.1% the previous year.

Interest expense and other financial charges, net

Financial year 2009

Financial expenses has slightly decrease passing from 56.9 million Euro of 2008 to 53.9 million Euro of 2009. Indeed, which there were fewer costs for changes in exchange rates, capital losses were posted on equity investments in publicly listed companies available for sale for a total amount of 2 million Euro, in addition there has been a negative impact of the fair value of interest rates swap (I.R.S.) on medium and long-term loans, for which there is already a commitment for renegotiation, accounted to profit and loss for a negative amount of 5.2 million Euro.

Financial year 2008

The net financial charges in 2008 has increased compared to the previous year as a consequence of the higher level of indebtedness of the Group throughout the year and, on top of that, to the relevant impact of the negative exchange differences.

Income tax expense

Financial year 2009

The main driver for the in income taxes equal to 26.3 million Euro in 2008 vs. 41.6 million Euro like the previous year is to be found in a non-recurring provision for deferred taxes, equal to 30.8 million Euro (29.9 million Euro in 2008) accounted for in 2009. The market trends and the new expectations on the future profitability has lead the Group to prudentially write-off the deferred tax assets of the holding company and some of its subsidiaries, as their recover with future assessable incomes could not be considered as likely anymore, at the balance sheet date.

Financial year 2008

The main driver for the strong increase in income taxes (41.6 m€ in 2008 vs. 37.2 m€) is to be found in a non-recurring provision for deferred taxes, equal to 29.9 m€, accounted for in 2008. The recent market trends and the new expectations on the future profitability has lead the Group to prudentially write-off the deferred tax assets of the holding company and some of its subsidiaries, as their recover with future assessable incomes could not be considered as likely anymore, at the balance sheet date.

Net profit /(loss) attributable to Group

Financial year 2009

The Group's net result from ordinary activities (before non recurring items like the provision for non-recurring costs, the loss on the sale of the retail operations, the write down of goodwill and of deferred tax assets) was a negative Euro 33.4 million in 2009, compared wit h net profit of Euro 15.8 million in 2008.

Net loss of the Group, after the non-recurring item discussed above, is 187.7 million Euro.

Financial year 2008

Net profit before non-recurring taxes is 15.8 m€, 1.4% on sales, down by 70.4% compared to 53.3 m€ in 2007.

Net loss of the Group, after the non-recurring item discussed above, is 14.2 m€.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table summarizes our cash flow activity during the years ended December 31, 2007, 2008 and 2009.

(Euro in millions)	Year ended December 31, 2007	2008	2009
Net cash flow:			
Provided by operating activities	51.1	56.5	13.7
Used in investing activities	(43.7)	(88.3)	(22.3)
Provided by / (used in) financing activities	(44.0)	35.2	15.4
Cash and cash equivalents at the end of the period	(36.6)	(23.1)	(21.4)

Financial year 2009

The improvement in free cash flow over 2008 was the result of the management of extraordinary investing activities and not of operating activities. Indeed, while the cash outflows in 2008 were for acquisitions, for the most recent financial year non-recurring items related to the sale of the retail business generated a cash inflow of 13.7 million Euro.
Nonetheless, it should be noted that operating activities generated cash flows in the amount of 11.5 million Euro.

Financial year 2008

Free cash flows for 2008 were characterized by cash flows from operating activities slightly growing with respect to the previous year, reaching 56.5 million Euros against 51.1 million in 2007. Given the fall in net profit, the cash flow generated from the net working capital helped improve the cash flow from the operating activities.

Capital resources

Intra-Group Funding

We operate a Group treasury function that controls all significant decisions and commitments regarding cash management, financial indebtedness and banking relationships.

The Group's cash management account structure and management of accounts is decentralized. Local current accounts are established with domestic banks for collection and disbursement purposes. All account receivables and account payables functions are handled locally as well.

During 2007, the Group implemented a cash pooling system among Safilo S.p.A. and some European subsidiaries. The project is aimed at a more efficient allocation of financial resources, reducing bank overdrafts and investing liquidity at a higher rate.

The temporary liquidity needs of the companies that have not been included in the cash pooling system are principally met by forecasting and managing intra-Group payment obligations arising from intra-Group transactions.

We usually manage debt service requirements arising from the Senior Notes issued by Sàfilo Capital International S.A., through payments under the loan agreement with Sàfilo International BV.

The most important subsidiary located in the United States, Sàfilo USA, is a borrower under the senior credit facilities. Sàfilo USA has always met, and we expect that it will continue to meet, its debt service obligations under the senior credit facilities through internally generated funds. We also expect that Sàfilo USA will continue to fund the capital requirements of the Solstice specialty store program.

External Sources of Liquidity

Our external sources of liquidity consist mainly of our Senior Credit Facilities, the Senior Notes, factoring agreements and equity contributions. We also have un-drawn credit lines and overdraft facilities and have entered into finance leases.

The Group's debt restructuring agreement

In 2009, the Group posted a significant decline in turnover and a progressive deterioration in profitability. The ongoing difficulties in the global economy, which led to a marked contraction in consumption of discretionary durable goods and the possibility that the Group will have to continue operating in this environment for some time to come, has led to considerable uncertainty about the Group's ability to meet its financial commitments in the ordinary course of business. In addition, despite the fact that steps have been taken to continue increasing efficiency in the management of working capital, it was not possible to significantly reduce the level of financial resources absorbed, thereby resulting in a increased use of bank borrowings in the form of a greater use of revocable lines of credit.

In this context of financial and liquidity crisis, the Group implemented a plan of financial restructuring and recapitalisation as defined in the binding investment agreement signed on 19th October 2009 by HAL Holding N.V., the partner in the transaction, Only 3T S.p.A. and Safilo Group S.p.A, as approved by the shareholders of Safilo Group S.p.A. in their extraordinary meeting of 15th December 2009.

On 24th December 2009, within the scope of this transaction, the lending banks formally approved the content of a debt restructuring agreement for the Group, which calls for the following changes to the contract of the senior loan:

- the redefinition of the Facility A1 tranches of the senior loan into Tranche 1 Facility A1 (in the amount of roughly Euro 3 million) and Tranche 2 Facility A1 (in the amount of 25 million Euro);

- the redefinition of the purpose of the revolving line of the senior loan (Facility B) in order to also allow for the redemption of the high-yield (HY) bonds upon maturity in 2013;

- the revising, to the benefit of the Group, of the interest spreads applied to the various lines of credit, with the provision, for the revolving line (Facility B), of a system of reducing the spread in accordance with the change in the leverage ratio (i.e. consolidated net debt to consolidated EBITDA);

- a change in the methods of repayment and the final expiration for repayment of the lines of credit as follows: Tranche 1 of Facility A1, Facility A2 and Facility A3 is to be changed from a semi-annual payment plan with a final payment of 31st December 2011 to payment in lump sum on 30th June 2012; Tranche 2 of Facility A1 is to be changed from a semi-annual repayment plan with a final payment on 31st December 2011 to a lump-sum payment on 30th June 2014; and final payment of the revolving line (Facility B) is to be deferred from 31st December 2012 to 30th June 2015;

- a covenant holiday until 30th June 2012, with the exception of those covenants related to the observance, beginning on the effective date of the restructuring agreement, of a general threshold of net debt. Beginning on 30th June 2012, with verifications on 30th June and 31st December of each year, the covenants regarding the leverage ratio (Net financial position to EBITDA), and the interest cover ratio (EBITDA to net interest for the period) are to be kept within the new levels defined by the agreement.

The main conditions for the validity of this restructuring agreement, the content of which was approved on 24th December 2009, concern:

- the completion of the increase in share capital by the parent company, Safilo Group S.p.A., both for the portion reserved to HAL Holding N.V. (including, at the partner's discretion, through its subsidiaries) and for the optional portion called for by the binding investment agreement of 19th October 2009;

- evidence that a portion of the funds from the optional capital increase, in the amount of at least 185 million Euro, are to be used to repay the senior loan.

Indeed, the restructuring agreement requires that a portion of the funds raised by the capital increase be used to reduce the Group's debt related to the senior loan. This partial repayment must primarily concern the revolving line, i.e. Facility B, in the amount of roughly 160 million Euro, as well as Facility A1 in the amount of roughly 28 million Euro.

Following this repayment, the amount of the senior loan used for cash will go from its current 319 million Euro to roughly 140 million Euro, with an available revolving line of credit of roughly 150 million Euro.

On 24 December 2009, in anticipation of meeting the conditions for the agreement, and the signing and payment of the capital increase in particular, which was completed in the first quarter of 2010, the Group obtained a waiver from the lending banks for verification of the covenants on 31 st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

HAL's commitment to finance the redemption of the high-yield bonds at maturity

With regard to the High Yield bond, and within the scope of the HY Tender Offer launched by HAL and completed with the acquisition of 50.59% of the bonds in circulation (the "HAL Bonds"), as an integral part of the restructuring agreement, Safilo, Safilo Capital International S.A., the financing banks and HAL are to sign the agreements by which HAL will undertake the following commitments:

- to grant, either directly or indirectly, financing to Safilo Capital International S.A. aimed at redeeming the HY bonds in the event that, at the moment of maturity of the HY bonds (i.e. 2013), the Safilo Group should have insufficient funds (taking into account available funds under the revolving line of credit of the Senior loan) to redeem the HY Bonds with a maximum amount equal to the difference between the principal amount of the HAL bonds repaid on the final maturity date of the HY bonds and the aggregate purchase price paid by HAL for the HAL bonds. The loan will have the same financial conditions and guarantees of the Senior Loan made on a pari passu basis;
- to hold more than 50% of the HY Bonds until their final maturity.

This agreement, too, is subject to a number of conditions tied mainly to HAL maintaining an equity investment in the group of at least 20%, or of at least 30% in the event another party can appoint the majority of the Board of Directors.

Group management believes that the restructuring agreement defined in the fourth quarter of 2009, which was finalised in the first quarter of 2010 following completion of the capital increase, places the Group in a position of renewed financial equilibrium, thereby minimising the risks related to insufficient liquidity and the raising of financial resources.

Senior Credit Facilities

The following is a description of our primary external sources of liquidity effective at the date of December 31th, 2009:

Structure

On June 26, 2006 the Group completed an important refinancing operation through the replacement of the Senior Credit Agreement negotiated in 2002, with a new loan. After completion of primary syndication, the banks of the re-financing operation were coordinated by Hypo und Vereinsbank AG.

The Group repaid the previous Senior Loan with a total payment equal to Euro 300,340 thousands. The settlement of the previous loan resulted in non-recurring financial charges booked in the 2006 income statement for a total amount of Euro 8,959 thousands, related to the accelerated amortization of the transaction costs incurred on the repaid loan.

The new Senior Credit Agreement provides for better conditions compared to the previous loan, like the slighter guarantees package, the longer maturity and the lower margin applied to the reference parameters (EURIBOR or LIBOR), initially equal to a spread of 0.60% and, at the date of these financial statements, equal to 1.80%. The previous spread, depending on the different tranches, was in the range of 2.25% to 3.25%.

The table below summarizes the various facilities of the Senior Credit Agreement and their terms as of December 31, 2009.

December 31, 2009 *(Euro/000)*	Currency	Nominal interest rate	Internal interest rate	Book Value	Expiry
Facility A1	*EURO*	Euribor + 1.80%	2.5662%	56,000	31/12/2011
Facility A2	*USD*	Libor + 1.80%	2.0954%	31,779	31/12/2011
Facility A3	*USD*	Libor + 1.80%	2.0954%	36,318	31/12/2011
Revolving facility	*EURO*	Euribor + 1.80%	2.7087%	195,000	31/12/2012
High Yield	*EURO*	9.625%	10.6887%	190,704	15/05/2013

Covenants

The Senior Credit Agreement contains customary operating and financial covenants, subject to certain agreed exemptions, which impose some restrictions on the way our Group companies can operate, including restrictions on our ability to:

- incur additional indebtedness or guarantee indebtedness of others;
- make certain loans.

The Senior Credit Agreement requires us to maintain specified customary ratios (interest cover and leverage) to be calculated at the Sàfilo Group S.p.A. consolidated level.

It is pointed out that, during FYs 2006 and 2007 and on the audit date of June 30th, 2008 Safilo properly complied with financial parameters. As at December 31st, 2008 Safilo had obtained redefinition from the lender banks of covenant levels for that date, to enable it to meet them. As at June 30th and December 31st, 2009 Safilo requested and obtained a waiver from the lending banks for verification of the covenants on 31st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

The waiver has been granted awaiting the execution of the agreement for Group's debt restructuring as defined in binding of the Investment Agreement signed on 19th October 2009 by HAL Holding NV, a partner operation, Only 3T. S.p.A. and Safilo Group S.p.A. and approved by the extraordinary shareholders of Safilo Group SpA on 15th December 2009 and formally approved by the lenders in its contents on December 24th, 2009,

Mandatory Prepayments

All obligations under the Senior Credit Agreements must be prepaid in full in case of a change of control and must be prepaid in part in case of sale proceeds of our assets exceeding a certain amount.

Maturity and Amortization

The facilities A1, A2 and A3 are repayable in semiannual installments, beginning December 31, 2006, and continuing through December 31, 2011. The Revolving Facility will cease to be available for drawing on December 31, 2012. as it was extended during 2007.

As of December 31, 2009, the total available amount of the Senior Credit Facilities was Euro 5,000 thousands.

In relation to the High Yield bond, the outstanding nominal value of Euro 195 million is included in the account "Long-term borrowings" of the financial statements at December 31st, 2009.

The above loans, valued under the amortized cost method, are mainly secured by pledges on the shares of Sàfilo S.p.A. and by personal guarantees provided by the companies directly financed.

Factoring Agreement

In 2004 we entered into a without-recourse factoring agreement with Centro Factoring S.p.A. We transfer some of our Italian trade receivables on a revolving basis and receive an up-front payment of 95% of the face value of the approved receivables we sell. The difference between cash received and trade receivables sold will be collected at its maturity date. We have a servicing obligation to act as a collection agent on behalf of Centro Factoring S.p.A.

As of December 31, 2009 the amount due under the factoring agreement described above was Euro 40.814 thousand.

Financial Indebtedness

The Group net debt position as of December 31, 2009 compared with the same as of December 31, 2008 and 2007 is the following:

Net debt position	**December 31,**			**Change**	
(Euro in millions)	**2007**	**2008**	**2009**	**'08 vs. '07**	**'09 vs. '08**
Current portion of long-term borrowings	(34.5)	(37.6)	(77.3)	(3.1)	(39.7)
Bank overdrafts and short-t. bank borrowings	(85.4)	(74.1)	(58.3)	11.3	15.8
Other short-term borrowings	(41.8)	(50.9)	(42.5)	(9.1)	8.4
Cash and cash equivalents	48.7	51.0	36.9	2.3	(14.1)
Short-term net debt position	**(113.0)**	**(111.6)**	**(141.2)**	**1.4**	**(29.6)**
Long-term borrowings	(409.8)	(461.1)	(447.3)	(51.3)	13.8
Long-term net debt position	**(409.8)**	**(461.1)**	**(447.3)**	**(51.3)**	**13.8**
Net debt position	**(522.8)**	**(572.7)**	**(588.5)**	**(49.9)**	**(15.9)**

For any further information concerning the credit lines granted to the Group, the debt structure, details by expiring and or prepayment date and by currency, reference should be made to the relevant paragraph of the "F-pages".

Inflation

We do not believe that inflation has had a material impact on our operations in the past, although there can be no assurance that this will be the case in the future.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Research and Development

Our research and development activities are divided into two principal segments:

- development of new materials, new production processes and technologies and, instruments and machinery; and
- product design.

Our research and development of new materials, new production processes, instruments and machinery is carried out by an internal division known as the Research and Technological Innovation Division. Development of product designs is carried by our three Design Centers (in Italy, the United States and Hong Kong), each focusing on the design needs of a specific geographic area.

Research and development of materials, production processes and instruments/machinery

Research and development into materials and production processes aims, on one hand, to improve the technical characteristics of the products and, on the other, to develop innovations of the production process which increase its efficacy, efficiency and quality.

Safilo has always believed in investing in research and development with its own R&D Centre, which was opened in the beginning of the Seventies and operates with a team of expert engineers and researchers who are constantly employed in researching new cutting edge techniques.

Due to the considerable efforts that go into research and development, the Group is able to constantly introduce new models and update the current ones, following consumer tastes, fashion trends and technological innovations.

The Research and Technological Innovation Division focused on the:

- research of new materials in order to improve the characteristics of resistance and duration of the products;
- innovation of the sports products;
- innovation of sunglass lenses, both as aesthetic and a protective factor;
- study of new solutions aimed at achieving increasingly lightweight, comfortable to wear and variable fit frames;
- design and construction of new machinery which could improve the efficiency and quality of the production process.

Such activity, over recent years, has led to the registration of numerous patents, such as elastic frames, fixtures for the nose and face, the "base" of the lenses, nose pads, and internal and external protection of ski goggles.

Research and development activity into instruments/machinery is aimed at internally designing and developing precision instruments and moulds with the purpose of improving the efficacy, efficiency and quality of the production process. Management believes that the organisation of this activity within the Company allows the reduction of the products' time-to-market, thereby obtaining constant savings in production costs.

The entire industrialisation process, from design to production, is directly controlled; this helps to even further reduce the time between product development and marketing so that the latest news is always on the market in time.

Product design

In relation to the development of products positioned at the high-end of the market, the Group has, for over a decade, identified the design of the product as a strategic feature.
The Group's constant attention to consumer tastes, fashion trends and technological innovation all imply the constant introduction of new models and the updating of current ones.

Research and development of the design consists, amongst other activities, in the development of forms and combinations of colours/materials for the creation of new models. This division is organised in three departments known as Style Centres and is composed of designers and staff responsible for producing the prototypes. The main Style Centre is in Italy, while the other two, situated in the United States and Hong Kong, perform specific stylistic activities for collections suited to their respective areas. In particular, the Group develops special *Asian fitting* frames for products marked in Asia; these frames are specifically adapted to the features of the Asian population with specific focus on the Japanese market. Product design function, given its strategic nature, has been constantly strengthened over the years.

The Style Centres of the Group, on average, develop more than 2,500 new models of prescription frames, sunglasses and sports products every year, providing the public with more than 4,500 models of eyewear. The Group's products stand out for their high complementary nature, as sunglasses are mainly linked to fashion trends while prescription frames are mainly linked to population dynamics. Furthermore, the different product lines are addressed to different consumer targets, with products positioned in the top end retail brackets.

Intellectual property and licenses

Patents

We hold patents for inventions, models and designs. Patents for inventions relate to parts of our products, such as flexible hinges, nose hinges, lenses bases, nose pieces and internal and external protection for ski masks. Patents for models and designs cover our most characteristic and cutting-edge models of sunglasses and sports goggles.

Each year we apply for several new patents, most of them for hinges and other structural parts of the product. In particular, our formerly patented (expired) and currently trademarked *Elasta* (self-adjusting hinges) is an important eyewear feature for many of our end customers. *Elasta* has more than 20 variations, many of which have been registered. We also have the know-how for Optyl, the result of a unique process of a special combination of resins we developed. Optyl hard-plastic products are lightweight, non-allergenic, have attractive, sophisticated chromatic effects and can retrieve the shape of the frame if it has been deformed under high temperature, such as inside a hot vehicle, thanks to the material capability of heat induced shape recovery.

Licenses

Revenues

We have license agreements with several companies pursuant to which we manufacture and distribute prescription frames and sunglasses. Our performance is strongly affected by these licenses. In terms of revenues, our top four license agreements are those with *Gucci*, *Armani (Giorgio* and *Emporio) and Dior*.

Royalties

We pay a royalty for use of the licensed brand name based on a percentage of net sales of that brand, which may be offset by guaranteed minimum royalty payments. Our licenses typically have a duration of five to eight years. In certain circumstances, a license agreement may be terminated by the licensor such as if there is a change in our control, we outsource production without consent of the licensor, we sell models that are not approved by the licensor, we fail to reach minimum sales targets or we sell products through distribution outlets that have not been approved by the licensor. Many of these conditions apply to our key licenses.

We incurred in royalty expenses of Euro 81.3 million in 2009 and of 88.5 million in 2008.

In many of our agreements there are minimum annual guaranteed royalty payments to the licensor. Often the guarantee is 80% of the prior year's royalty payment or a certain amount is specified. We will be required to pay the minimum guaranteed royalties under these provisions of the license agreements even if sales decrease significantly or did not meet expectations.

The license agreements also provide for a mandatory payment for the advertising and promotion of the brand linked to the prior year's sales. In some cases, the licensor requires payments to assist the licensor in its own advertising and promotional activities. Certain of our licenses require minimum guaranteed payments for promotional and advertising expenses.

TREND INFORMATION

For a discussion of the most significant recent trends affecting our business, see "ITEM 4 – Information on the Company", under paragraph "Recent developments".

OFF-BALANCE SHEET ARRANGEMENTS

The table below sets forth our off-balance sheet commitments as of December 31, 2007, 2008 and 2009:

(Euro/000)	As at december 31, 2007	2008	2009
Unsecured guarantees given to third parties	1,557	1,797	3,107
Secured guarantees	-	-	-
Total	**1,557**	**1,797**	**3,107**

The Senior Credit Agreement is granted by pledges on Sàfilo S.p.A. shares and by guarantees of those companies of the Group which are directly financed by it.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We have numerous contractual obligations providing for payments pursuant to, among other things, royalty agreements with licensors, leases for plant & equipment, warehouse and office facilities.

The following table sets forth the scheduled minimum lease commitments and minimum royalty arrangements as of December 31, 2009:

Contractual obligations and commercial commitments as of December 31, 2009 (Eur/000)	Total	Payments due by period: Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations *(including current portion)*	610.167	223.577	194.529	192.061	-
Finance lease obligations *(including current portion)*	9.144	1.609	3.420	2.245	1.871
Operating lease obligations	90.350	19.256	27.138	19.525	24.431
Minimum royalty arrangements	151.701	73.838	43.266	26.761	7.837
Total	**861.363**	**318.280**	**268.353**	**240.592**	**34.139**

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

As of the date of this Annual Report, our board of directors (the "Board of Directors") is composed of 7 members.

The following table and paragraphs set forth some details regarding the members of our Board of Directors.

Board of Directors	Name	Date of birth	Domicile for the Office	Date of appointment
Chairman	Vittorio Tabacchi	October 26, 1939	Sàfilo S.p.A., Settima Strada, 15 Z.I. Padova	April 27, 2009
Executive Vice Chairman	Massimiliano Tabacchi	October 10, 1970	Sàfilo S.p.A., Settima Strada, 15 Z.I. Padova	April 27, 2009
Chief Executive Officer	Roberto Vedovotto	September 30, 1965	Sàfilo S.p.A., Settima Strada, 15 Z.I. Padova	April 27, 2009
Director	Ennio Doris	September 3, 1940	Mediolanum S.p.A., Via F. Sforza, Palazzo Meucci, Milano 3, Basiglio (MI)	April 27, 2009
Director	Giannino Lorenzon	September 26, 1939	Sàfilo S.p.A., Settima Strada, 15 Z.I. Padova	April 27, 2009
Director	Riccardo Ruggiero	August 26, 1960	Via Nirone 8, Milano	April 27, 2009

Vittorio Tabacchi, our Chairman since 1993, is the second son of our founder, Guglielmo Tabacchi. Mr. Vittorio Tabacchi joined Safilo Group in 1970 as Production Manager, and later served as Vice Chairman and as Managing Director. In June 2004, he received an honorary degree in engineering from the University of Padua.

Roberto Vedovotto was appointed as Chief Executive Officer on December 11th, 2008, after having spent two years with Lehman Brothers and most recently with Nomura, where he was also a member of the European Executive Committee. Before joining Lehman Brothers, Mr. Vedovotto was CEO of Safilo Group between 2002 and 2006. He previously worked for 11 years at Morgan Stanley International Ltd London.

Massimiliano Tabacchi, had been our Chief Operating Officer from 2001 until his appointment as Co-Chief Executive Officer (2006); starting from November 2008, he is Executive Vice-Chairman; he is the son of our Chairman. He began working with our Group in Sàfilo USA, then at our manufacturing facility in Santa Maria di Sala, Italy, becoming Director of Operations in 2002. Prior to joining Safilo Group, Mr. Massimiliano Tabacchi was contract project manager at OTIS.

Ennio Doris is our Director starting from March 2006. He is also the Chairman of Banca Mediolanum S.p.A. and is Director of Mediobanca S.p.A. and of Banca Esperia S.p.A. Prior to joining Banca Mediolanum S.p.A., Mr. Doris was a financial consultant for Fideuram and the RAS Group. He has founded Programma Italia, a securities brokerage company, of which he has been Managing Director.

Giannino Lorenzon joined the Group in 1973 as Director of the Finance, Administration and Control department. From 1986 to 2004, Mr. Lorenzon was Chief Executive Officer of Sàfilo S.p.A., overseeing the Finance, Administration and Control, Human Resources, Information Technology, Legal, Organization and Quality departments. He has been a registered accountant since 1975 and an auditor since 1995.

Riccardo Ruggiero is our Director starting from March 2006. Until December 31, 2007, he was also the Managing Director of Telecom Italia S.p.A. Prior to joining Telecom Italia S.p.A. in July 2001, Mr. Ruggiero was Sales Director at Fininvest, as well as Sales and Marketing Director of AT&T Italy. He has also worked in the Olivetti Group in various roles, and in 1996 was appointed Managing Director of Infostrada.

We point out that the Ordinary Shareholders' Meeting held on March 29th, 2010 appointed the new Board of Directors that will remain in office for the years 2010-2011-2012. For the composition of the new Board of Directors, see the press release available on the website www.safilo.com

Management

The table below sets forth the names, dates of birth and seniority of the senior managers of our Sàfilo S.p.A.:

Position	Name	Year of Birth	Seniority
Worldwide Marketing and Licensing Director	Dario Bassetti	July 27, 1963	-
Director of Legal Department	Katia Buja	January 20, 1966	5 years
Director of Finance *(*)*			
Director of Operations	Augusto Lippi	July 7, 1969	4 years
Director of Business Development	Massimo Lisot	November 2, 1969	9 years
Worldwide Sales Director	Giovanni Materassi	June 23, 1959	16 years
Worldwide Retail Director	Giovanni Pesce	December 28, 1965	3 years
Chief Operating Officer	Mario Pietribiasi	February 4, 1957	17 years
Director of Corporate Communication and Identity	Samantha Tabacchi	May 11, 1974	9 years
Director of Administration and Control	Francesco Tagliapietra	March 18, 1967	9 years
Director of Human Resources	Alessandro Visconti	May 2, 1953	13 years

(*) The Director of Finance has resigned in November 2009, the position is currently held ad interim by the Chief Executive Officer

Dario Bassetti joined Safilo Group at the beginning of 2009 in the role of Worldwide Marketing & Licensing Director. Dario previously worked for the Indesit Company group as Chief Marketing Officer. He has worked in the marketing and sales sectors with leading multinational companies such as Ferrero, Unilever and Pepsico International, both in Italy and abroad. Mr. Bassetti has also worked for Esselunga, where he was vice-president of the marketing and communication department and subsequently the home delivery and e-commerce division.

Katia Buja has been Head of our Legal Department since January 1, 2005. Prior to joining our legal department in 1995, Ms. Buja worked for several years as a trainee and then an attorney in several law firms, specializing in corporate, probate and bankruptcy law.

Augusto Lippi has been our Director of Operations since 2006. From 2001 to 2005, he was a consultant with McKinsey & Company. Prior to 2001, Mr. Lippi worked for General Electric Oil & Gas (Nuovo Pignone) from 1997 to 1999 and with Ferrari Auto between 1996 and 1997.

Massimo Lisot has been our Director of Business Development since 2001, and has also been Manager of Licensing. Prior to joining our Group, Mr. Lisot worked for three years at Morgan Stanley International Limited, in the corporate finance sector of the Private Wealth Management Group.

Giovanni Materassi joined our Group in 1988 as Sales Manager for Italy, and in 1992 became Sales Manager for other European sales areas. He has been Manager of our Business Unit 1 (Europe, Middle East, India and South Africa) since 1997. During 2008 he has been appointed Worldwide Sales Director. Prior to joining our Group, Mr. Materassi had been a Sales Area Manager for Stefanel and for Superga.

Giovanni Pesce Since November 2008 is acting as "Worldwide Retail Director", heading all international retail business units (currently approx. 320 stores in 5 countries). Before joining Safilo Group in February 2007 as Retail Manager "EMEA", Mr Pesce spent 15 years with Luxottica Group. From January 2002 to December 2006, Mr. Pesce was based in Sydney serving as Vice President – Australian Operations.

Mario Pietribiasi joined us in 1987 as Area Manager, and in 1993 became Sales Director of other European sales areas. In 1997, he became Managing Director and manager for our Business Unit 2 (Asia). Prior to joining our Group, he was Area Manager for Cartiera Rossi and for Simod.

Samantha Tabacchi our Director of Corporate Communication and Identity, is the daughter of our Chairman. She joined the Group in October 2000, and is in charge of all the sponsoring activities and the public relations. Before joining our company, she worked in the sales and communication departments of the Gucci Group.

Francesco Tagliapietra joined us in 1997 as Senior Controller and has been our Director of Administration and Control since 2001. He oversees the department responsible for budgeting, reporting and accounting. Prior to joining us, Mr. Tagliapietra was a consultant with two consultancy firms and a controller for Alfa Laval Artec S.p.A.

Alessandro Visconti has been Manager of our Human Resources department since 1997. Prior to joining our Group, Mr. Visconti had been Manager of Human Resources at Recordati S.p.A., Glaxo S.p.A. and Jolly Hotel S.p.A.

Board of Statutory Auditors and Independent Auditors

Pursuant to Italian law, we also maintain a Board of Statutory Auditors, composed of three individuals who are required to have no other affiliation with us and who must satisfy certain professional criteria and other standards. The Board of Statutory Auditors is required to verify that: (i) we comply with the applicable laws and bylaws; (ii) we comply with the principles of fair management; (iii) our organizational, administrative and accounting structure is adequate and in operation. Although members of the Board of Statutory Auditors are required to attend the meetings of the Board of Directors and of the Shareholders, they do not vote at such meetings.

The Board of Statutory Auditors is required to meet at least once a quarter and is also obliged to report specific matters to the Shareholders and to the Board of Directors. Any member of the Board of Statutory Auditors may request information directly from the Board of Directors; and the Board of Statutory Auditors or any two of its members may, subject to prior notification to the Chairman of the Board of Directors, call meetings of the Shareholders, the Board of Directors and the Executive Committee, if any. The Statutory Auditors may also request information from the Directors regarding our management, carry out inspections at the Company and exchange information with our external auditors.

The following table sets forth the current members of the Board of Statutory Auditors and their dates of birth. The current Board of Statutory Auditors was appointed by the ordinary Shareholders' meeting held on April 29, 2008. The Board of Statutory Auditors was nominated for a three-year period and its mandate is due to expire upon approval of the financial statements as at and for the year ending December 31, 2010. Pursuant to our By-laws, the members to the Board of Statutory Auditors are elected for a maximum of three-year terms and may be re-elected.

Office	Name	Date of Birth
Chairman	Franco Corgnati	July 10, 1942
Standing Statutory Auditor	Giampietro Sala	February 17, 1938
Standing Statutory Auditor	Lorenzo Lago	February 1, 1966
Alternate Statutory Auditor	Nicola Gianese	July 9, 1962

Independent Auditors

Italian law requires companies whose shares are listed on an Italian regulated market and their subsidiaries to appoint a firm of independent auditors to verify that the financial statements of the company fairly present the financial position of the company and of its Group and its results of operations in compliance with Italian regulations governing financial statements and IFRS. The independent accountants express their opinion on the financial statements in a report that may be consulted by shareholders prior to the relevant shareholders' meeting.

During the Shareholders' meeting held on March 7, 2006, we appointed PricewaterhouseCoopers S.p.A. for the auditing of the yearly financial statements (both statutory and consolidated) for the financial years 2005 to 2010. In compliance with articles 165 and 159 of the T.U.F. (Italy's Financial Markets Consolidation Act), the Shareholders' meeting held on April 24th, 2007 extended the term until the date of the Shareholders' meeting convened for the approval of the financial statements as of December 31, 2013. The Italy's Financial Markets Consolidation Act, article 159, provides that listed companies may not appoint the same independent auditors for more than nine financial years, which may not be renewed within the first three years from the end of the previous engagement.

COMPENSATION

Board of Directors' and Board of Statutory Auditors compensation

According to Company By-laws, the Board of Directors and the Board of Statutory Auditors receive reasonable compensation plus reimbursement for out of pocket expenses that they incur in connection with their service as members of the Board of Directors and Board of Statutory Auditors, respectively. The overall amount of the compensation paid to the members of our Board of Directors (directors' fees, any salary, bonuses and benefits) and compensation paid to the Board of Statutory Auditors (auditors' fees) for the year ended December 31, 2009 was respectively Euro 4.9 millions and Euro 0.1 millions.

Name and surname	Office	Period covered	Expiring
Directors			
Vittorio Tabacchi	Chairman	2009	Approval of 2011 fin. statements
Massimiliano Tabacchi	Executive Vice Chairman	2009	Approval of 2011 fin. statements
Roberto Vedovotto	Chief Executive Officer	2009	Approval of 2011 fin. statements
Ennio Doris	Director	2009	Approval of 2011 fin. statements
Giannino Lorenzon	Director	2009	Approval of 2011 fin. statements
Riccardo Ruggiero	Director	2009	Approval of 2011 fin. statements
Board of Statutory Auditors			
Franco Corgnati	Chairman	2009	Approval of 2010 fin. statements
Lorenzo Lago	Regular auditor	2009	Approval of 2010 fin. statements
Giampietro Sala	Regular auditor	2009	Approval of 2010 fin. statements

Management compensation

Members of our management team are compensated on the basis of a fixed salary plus a bonus based on economic and qualitative performance objectives. The aggregate compensation, including bonuses, paid by the Company during 2009 to the management with strategic responsibilities amounted to Euro 1.1 million (Euro 1.4 million in 2008).

Stock option plans

By virtue of the power delegated to it by shareholders at the extraordinary meeting held on October 24th, 2004, on May 31, 2008 the Board of Directors of the parent company Safilo Group S.p.A. resolved to increase the company's share capital for consideration, with exclusion of option rights pursuant to Article 2441, paragraph 5, of the Italian Civil Code by up to a maximum nominal amount of Euro 2,125,296.25, via the issue of up to a maximum number of 8,501,185 redeemable ordinary shares of the company, with a par value of Euro 0.25 each and share premium of Euro 4.16. These shares are to be offered for subscription to the beneficiaries contemplated in the regulation of the "Safilo Group S.p.A. 2006-2010 Stock Option Plan" ("2006 Stock Option Plan") approved at the same Board Meeting, as subsequently amended. The regulation also establishes that the shares can be subscribed, in the terms envisaged by the regulation, at a price equal to par value plus a per-share premium of Euro 4.16 or, in the case of subsequent allocations of options, with share premium to be calculated pursuant to the rules established in the 2006 Stock Option Plan regulation, and in any case not lower than Euro 4.16. It also establishes that the capital increase in question can also be executed in several stages and is divisible and that, given this, the Issuer's share capital will be taken to be increased by an amount equal to the par value of the shares effectively subscribed in each case.

The 2006 Stock Option Plan, which lasts for 4 financial years (FYs 2006-2010), is designed for some directors, managers, and advisors of Safilo Group companies. It envisages accrual of the option rights assigned at the rate of one quarter of the same for each FY covered by the 2006 Stock Option Plan. Option accrual criteria are based on achievement, as reported in the Issuer's financial statements, of given conventional levels of consolidated EBITDA set by a Board resolution. For options relating to the 2006 Stock Option Plan, it is established that each option gives the right to subscribe one share at average exercise price.

It is pointed out that, following the amendment made to the 2006 Stock Option Plan, disclosed to the market on February 8, 2008, all options accrued will be exercisable in just one exercise period starting after at least 3 years have elapsed since the granting of such options, i.e. in the period from the date of shareholder approval of consolidated accounts for the year ended on December 31st, 2009 to December 15th, 2010.

Residual rights as at 31st December 2009 have been considered to have lapsed following non-achievement of EBITDA targets calculated on 2009 year-end accounts. Considering that during the validity of the 2006 Plan the conditions for the vesting of the granted options were never met, the options are not exercisable and therefore the 2006 Plan may be considered extinguished ahead of time.

The following table shows the main elements relating to the stock option plans in force:

	2009			2008		
SOP 2006-2010	**Average strike**	**no. shares**	**no. rights**	**Average strike**	**no. shares**	**no. rights**
At January 1,	4.4100	859,673	859,673	4.4100	2,552,109	2,552,109
				-	-	-
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	4.4100	(859,673)	(859,673)	4.4100	(1,692,436)	(1,692,436)
Exercised		-	-	-	-	-
At December 31,	**-**	-	-	4.4100	859,673	859,673
- Tot. Exercisable	-	-	-	-	-	-
- Max res. life (years)			-	-	-	2

BOARD PRACTICES

Sàfilo S.p.A. Directors are appointed by the Shareholders to serve a 3-years term.

The Board must consist of a minimum of 3 members and a maximum of 11 members, and the Directors may be re-elected. They may be removed at any time by the Shareholders, and they may resign at any time by written notice to the Board of Directors and to the Chairman of the Company's Board of Statutory Auditors. If a vacancy occurs, the remaining Directors may choose an interim Director to fill the vacancy and serve until the next Shareholders' meeting, when the latter will be asked to vote to ratify the nomination of the interim Director.

EMPLOYEES

Overview

As of December 31, 2009, we had 7,924 employees worldwide, comprising 4,826 factory employees, 2,977 clerical employees and 121 executive-level employees.

We believe that the majority of our European employees are represented by trade unions. We consider our relationship with the unions to be good and are committed to maintaining those relationships. We have not experienced any material labor strike or disruption.

The following table sets forth the number of our employees as of December 31, 2007, 2008 and 2009, broken down by job function and by job location.

	December 31, 2007			December 31, 2008			December 31, 2009		
	Italy	Other Countries	Total	Italy	Other Countries	Total	Italy	Other Countries	Total
Managers	32	60	92	38	84	122	45	76	121
Clerical	853	2.290	3.143	885	2.717	3.602	859	2.118	2.977
Factory	2.997	1.764	4.761	2.865	2.209	5.074	2.743	2.083	4.826
Total	**3.882**	**4.114**	**7.996**	**3.788**	**5.010**	**8.798**	**3.647**	**4.277**	**7.924**

During the 2009, the number of employees was reduced by 874 units. In particular, the number of manual workers was reduced by 248, mainly due to job cuts at the Slovenian production plant (313 employees). Conversely, the number of clerical staff has fallen by 625, mainly due to the sell of part of the retail segment.

Public Fund for Employees' Salaries

During 2009, the Company embarked on a root-and-branch restructuring of its industrial structure aimed at improving economic efficiency. In the first six months of 2009, more than 2500 employees at production sites belonging to the subsidiary Safilo received payments on a rotation basis under the Cassa Integrazione Guadagni Ordinaria, a government-funded scheme to provide replacement income for workers at industrial firms affected by unexpected changes in the market, while in the third quarter of 2009, this figure fell to around 1100 employees.

More extensive and permanent measures were taken at the two production sites in Friuli, involving around 635 workers in total who on 1 July 2009 registered with the Cassa Integrazione Guadagni Straordinaria, a scheme providing support to industrial firms undergoing restructuring or in difficulty. There are plans to increase this number to 750.

Redundancy proceedings also began at these two production sites in July 2009.

At the Slovenia plant owned by the subsidiary Carrera Optyl D.o.o., the workforce had to be scaled back following the sharp drop in production levels. At 31 December 2008, 145 fixed-length contracts due to expire were not renewed and, during 2009, trade union agreements were signed which resulted in 177 redundancies.

The charges relating to this restructuring were fully set aside in the first half of 2009, for a total of EUR 7.4 million.

SHARE OWNERSHIP

Sàfilo Group S.p.A., which owns 90,9% of our ordinary shares. The remaining shares are owned by Sàfilo S.p.A. itself as treasury shares.

None of the members of the Board of Directors, the Board of Statutory Auditors or senior managers hold shares of Sàfilo S.p.A. or its subsidiaries.

The Chairman and some members of the Board of Directors hold shares in companies having an indirect controlling interest in Sàfilo S.p.A..

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

Sàfilo's capital stock as of December 31, 2009 consisted of 35,000,000 ordinary shares with full voting rights, of which 31,824,000 are owned by Sàfilo Group S.p.A. and 3,176,000 are held by Sàfilo S.p.A. as treasury shares.

RELATED PARTY TRANSACTIONS

In compliance with applicable legislative and regulatory requirements, on March 23, 2007 the parent company's Board of Directors passed a resolution indicating and adopting a number of guidelines to govern transactions of major strategic, economic, capital or financial significance for the Company – including those undertaken with related parties. The aim of the guidelines is to establish competences and responsibilities concerning significant transactions and to assure their transparency and material and procedural correctness. Our notion of related party is based on the definition given in IAS 24.

The following table details the balance sheet and income statement amounts of transactions executed with related parts in the years ended on December 31, 2009 and 2008.

The nature of the related party transactions is given in the following table:

Related parties transactions *(Euro/000)*	**Relationship**	**December 31, 2009**	**December 31, 2008**	**December 31, 2007**
Receivables				
Optifashion As	(a)	15	146	-
Elegance International Holdings Ltd	(b)	419	443	603
Total		**433**	**589**	**603**
Payables				
Elegance International Holdings Ltd	(b)	5,956	7,292	8,881
Total		**5,956**	**7,292**	**8,881**

Related parties transactions *(Euro/000)*	**Relationship**	**2009**	**2008**	**2008**
Revenues				
Elegance International Holdings Ltd	(b)	2	8	69
Optifashion As	(a)	68	143	154
Total		**70**	**151**	**223**
Costs				
Elegance International Holdings Ltd	(b)	13,949	17,748	24,459
Optifashion As	(a)	3	-	-
TBR Inc.	(b)	1,200	1,084	1,108
Total		**15,152**	**18,832**	**25,567**

(a) Associated companies;
(b) unconsolidated subsidiaries;

Related-party transactions, including infragroup transactions, concern the trading of products and supply of services, based on prices determined according to normal market conditions as happens in transactions with independent third parties.

As regards the table shown above, we point out 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 Ltd. (an indirectly owned subsidiary) and produces optical articles in Asia on the Group's behalf. The price and other conditions of the contract production agreement between Safilo Far East Ltd. and Elegance are in line with those applied by Elegance to its other customers.

TBR Inc. is a company of which a third of share capital is owned by Vittorio Tabucchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., a 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 2009 the Group paid TBR Inc. Euro 1,200 thousand as rental. The terms and conditions of the rental contract, including the rental fee, are in line with market conditions for similar contracts.

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See ITEM 18 "Financial Statements."

Legal proceedings

The Group does not have any significant contingent liabilities that have not been discussed in the previous notes or not covered by appropriate provisions.

Nevertheless, at December 31, 2009, we are currently party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, are groundless. However, a negative outcome of them beyond that estimated, could have a material adverse effect on our business, financial condition or on results of operations.

Among the most important claims in monetary terms, we highlight:

Tax litigation, initiated by Safilo in 1997, against two tax demands issued by the Pieve di Cadore Tax Office - relating to a dividend-stripping transaction executed in the 1991 tax period, which concerned a shareholding of Falk S.p.A. – for taxes and fines totalling approximately Euro 1,800 thousand. This legal dispute, which is currently in the court of third instance, was won by Safilo in the courts of both first and second instance. With its ruling no. 10188 of November 16, 2009 the Italian Supreme Court decided to postpone discussion of the petition to a new case list pending the ruling of the European Court of Justice. Based, however, on the recent orientation of the Italian Supreme Court concerning abuse of law, it cannot be excluded that the Company may emerge as the loser as regards this litigation.

Two lawsuits, initiated in 2003, at the Padua courts, by two ex-agents of Safilo, asking for a ruling ordering pay the respective sums of Euro 965 thousand and Euro 1,100 thousand for commission differences and for cessation of the agency relationship. Both cases are currently pending in the court of first instance.

A lawsuit, initiated in 2005 against Safilo, asking for a ruling ordering payment of some Euro 7 million as fees for assistance and corporate and tax advisory services provided, by a professional firm, to various Group companies during the 3-year period 1999-2001 in relation to the public tender offer.

Two lawsuits, initiated in 2005 against Safilo by an ex-supplier, in the Padua courts, for payment of a total amount of approximately Euro 600 thousand for products suppliers. It is pointed out that the Company made a counterclaim, for a total amount of some Euro 1,400 thousand, of which Euro 1,200 thousand for unfair competition in the US market and Euro 200 thousand as compensation of damages for the faultiness of products supplied.

A lawsuit, initiated in 2006 against Safilo, in the Lebanese courts, by an ex-distributor asking for a ruling ordering payment of an amount of about Euro 600 thousand as indemnification for alleged illegitimate termination of the exclusive-distributor relationship. The court of first instance, having considered the termination legitimate, accorded the distributor a lower amount, i.e. about Euro 70 thousand, for the increase in clientele contributed. This amount was then further reduced to about Euro 60 thousand in the subsequent appeal court case. At present Safilo is waiting to continue proceedings in the court of last instance.

Dividend Policy

Payment of an annual dividend is subject to the approval of our Shareholders at an ordinary Shareholders' meeting, which must be convened within 120 days, or, in certain exceptional circumstances, 180 days, after the end of the financial year to which it relates. It is the practice in Italy that the Shareholders vote on a proposal made by a company's Board of Directors as to the amount of a dividend.

As provided by Italian law, before dividends may be paid with respect to any financial year, we must allocate at least 5% of our net income for such year as legal reserve until such reserve, including amounts set aside during prior years, is equal to at least 20% of the aggregate nominal value of our issued share capital. Net income allocated to dividends is divided in accordance with the resolutions approved by the Shareholders. Dividends are payable on the date specified by the Shareholders. Dividends not claimed within five years from the date upon which they become payable will be forfeit ed to us.

The Shareholders' meeting held on November 13th, 2006 deliberated a dividend distribution in favor of the parent company Sàfilo Group S.p.A. for a total amount of €16 million.

On April 24th, 2007 the Shareholders' meeting of Safilo S.p.A. deliberated a dividend distribution in favor of its parent company Sàfilo Group S.p.A. for a total amount of €17 million.

The Shareholders' meeting of Safilo S.p.A. held on April 29th, 2008 deliberated a dividend distribution in favor of its parent company Sàfilo Group S.p.A. for a total amount of €38.7 million.

In 2009 no dividend distribution has been deliberated.

SUBSEQUENT EVENTS

The first quarter of 2010 has featured full implementation of the Group's recapitalisation and financial restructuring plan, as established by the binding investment agreement signed on 19 th October 2009 by HAL Holding N.V., our partner in the operation, Only 3T S.p.A. and Safilo Group S.p.A. and approved by the extraordinary meeting of Safilo Group S.p.A. shareholders on 15 December 2009.

The capital increase resolved by the extraordinary meeting of Safilo Group S.p.A. shareholders on 15 December 2009 took place according to the following steps and timing.

- on 5th February 2010 Multibrands Italy B.V. (a company owned by HAL Holding B.V.) subscribed and paid in the reserved capital increase totalling Euro 12,842,735.40 (including share premium), within the limit of 10% of previously existing share capital with exclusion of option right pursuant to Article 2441, paragraph 4, second sentence, of the Italian Civil Code. This capital increase was subscribed via the issue of 28,539,412 Safilo Group S.p.A. shares at a per-share subscription price of Euro 0.45, of which Euro 0.25 par value and Euro 0.20 premium.

- On 8th February 2010 marked the start of the period for offer of rights to shareholders of a maximum of 822,505,770 Safilo Group S.p.A. shares, pursuant to Article 2441, paragraph 1, of the Italian Civil Code. The rights-issue capital increase was divisible, paid, and for a maximum total amount of Euro 250,041,754 (including share premium), via issue of 822,505,770 Safilo Group S.p.A. ordinary shares, at a per-share subscription price of Euro 0.304, of which Euro 0.25 par value and Euro 0.054 premium, offered as an option to all shareholders at a ratio of 131 new ordinary shares for every 50 ordinary shares already owned.

The rights offering ended on 26th February 2010 with extremely positive results. 257,021,000 option rights were exercised and 676,395,020 newly issued ordinary shares subscribed, i.e. 81.87% of the total number of shares offered as an option, for a total amount of Euro 204,712,086.08.

As per the provisions of the investment agreement signed on 19th October 2009, Multibrands Italy B.V. exercised 142,392,550 option rights to subscribe 373,068,481 newly issued shares, for a total amount of Euro 113,412,818.22. In addition, HAL International Investments N.V. (a subsidiary of HAL Holding N.V.) exercised 5,941,150 option rights to subscribe 15,565,813 newly issued shares for a total amount of Euro 4,732,007.15.

The other shareholders exercised 108,687,300 option rights to subscribe 284,760,726 newly issued ordinary shares, for a total amount of Euro 86,567,260.70.

At the end of the rights offer period, there were therefore 56,912,500 unopted rights, i.e. 18.13% of the rights offered, valid for subscription of a total of 149,110,750 newly issued ordinary shares, for a total amount of Euro 45,329,668.00.

In compliance with the rules of Article 2441, third paragraph, of the Italian Civil Code, were offered on the Italian Stock Exchange on five trading days starting on 3 rd March 2010. This offer featured strong market interest with full placement of rights and total cash-in for the Company of Euro 7,079,915.

For the rights placed, 149,109,964 newly issued shares were subscribed, i.e. 99.99% of the total number of shares, for a total amount of Euro 45,329,429.06.

The intervention of the partner HAL Holding N.V., which had undertaken to subscribe any portion of the capital increase remaining unopted at the end of the Stock Exchange auction, up to a maximum of 64.88% of total option rights, was thus limited to subscription of the 786 remaining shares that had not been subscribed. There was therefore no need for any subscription by Banca IMI S.p.A. and Unicredit Bank AG which, in their capacity as underwriter banks, had severally undertaken to subscribe any further unopted rights up to a maximum of 288,880,358 shares.

The rights-issue part of the capital increase thus ended with full subscription of 822,505,770 newly issued Safilo Group S.p.A. ordinary shares, for a total amount of Euro 250,041,754 (including premium).

On 24 December 2009 the main lender banks approved the contents of an agreement restructuring the Senior Loan Agreement, execution of which is part of the parent company Safilo Group S.p.A.'s capital-increase operation. In March 2010, with completion of the capital increase and accomplishment of the further suspensive conditions established, the contractual provisions contained in this Restructuring Agreement have taken effect.

Lastly, as regards the business outlook, progress in the first three months of the year shows stabilisation of the market, thus with a situation showing improvement over previous quarters.

9. THE OFFER AND LISTING

Offer and listing details

The Company has 9.625% Senior Notes due May 2013, issued through its subsidiary Sàfilo Capital International S.A. (the "Notes"), listed on the Luxembourg Stock Exchange. The table below sets forth the annual high and low closing sales prices of the Notes, as reported by Bloomberg L.P., for the four most recent financial years;

	High	Low
2005	113,15%	100,60%
2006	114,41%	110,40%
2007	110,68%	105,12%
2008	107,12%	26,07%
2009	93,30%	22,06%

The table below sets forth, by fiscal quarter, the high and low closing offer prices of the Notes, as reported by Bloomberg L.P., for the two most recent full financial years:

	High	Low
2008		
First quarter	107,12%	95,75%
Second quarter	101,59%	91,94%
Third quarter	94,16%	66,75%
Fourth quarter	65,75%	26,07%
2009		
First quarter	38,22%	22,06%
Second quarter	44,18%	31,41%
Third quarter	59,74%	32,08%
Fourth quarter	93,30%	60,24%

The table below sets forth the high and low closing offer prices of the Notes, as reported by Bloomberg L.P., for the most recent six months:

	High	Low
2009		
October	69,03%	60,24%
November	73,10%	66,67%
December	93,30%	86,90%
2010		
January	98,46%	90,25%
February	97,11%	95,13%
March	97,80%	96,06%

ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

Registration

As set forth in Article 4 of the Articles of Association, the Company's corporate purposes are:

a) carrying out, directly or indirectly, through subsidiaries or affiliates, in Italy or abroad, activities in the field of the manufacturing and marketing of eyeglasses frames, sunglasses, sport glasses, lenses, machinery and equipment for the production of eyewear and other accessories for optics, sport and leisure-time gadgets;

b) the acquisition, negotiation and management of shareholdings in companies operating in the sectors of optics and precision mechanics; implementation of financial transactions; financing of subsidiaries or affiliates and execution of financial agreements for the technical and financial co-ordination of their activities, except that any activity deemed "financial" under the law will not be carried out in relation to the public at large but exclusively within the Group;

c) advising on the economic, administrative, structural and commercial planning of some sectors of the market or of single enterprises; their restructuring; feasibility studies on acquisitions of companies; management of development programs for relationships with foreign countries; management of industrial and commercial enterprises operating in the field of optics and precision mechanics. The company may carry out all commercial and industrial transactions, on movable or immovable property, which the Board deems necessary or instrumental to achieve the corporate purpose; it may receive loans from its Shareholders, and grant or receive intra-group loans; it may give guarantees and endorsements, and any other security, provided not in relation with the public; it may represent national or foreign enterprises, and directly or indirectly, purchase shares in other companies, consortia, partnerships and enterprises which have an identical, similar, related corporate purpose.

Directors' voting powers

Under Italian law, attendance of a majority of the Board of Directors at a Board meeting is required in order to regularly hold it .

Any Director also may participate in any meeting of the Board in person, by telephone conference call or video conference provided that all Directors participating in the meeting can be clearly identified by the Chairman and by the other participants, and that participants can follow the debate, read, receive or transmit documentation and intervene verbally at the time subjects are being discussed.

There is no age limit for Directors and there are no requirements that a Director must own a minimum number of shares in order to qualify as a Director.

According to Italian law, in the case of a conflict of interest involving a Director, that Director must inform the Board of Directors and the Board of Auditors of the conflict and should abstain from voting on any issue in which he is materially interested.

Shareholders vote on Director's compensation at the Shareholders' general meeting in which the Board is appointed. The Board of Directors may determine specific compensation for those Directors appointed in the Board of Directors with the specific offices of Chairman, Vice Chairman and Chief Executive Officer.

Share rights, preferences and restrictions

The authorized and issued share capital is EUR 35,000,000.00, divided into 35,000,000 ordinary shares, each with a nominal value of EUR 1.00.

The Shareholders' meeting may, in the circumstances provided for by law, reduce the share capital by assigning to the single Shareholders certain assets of the company or shares/quotas of other companies which Safilo S.p.A. owns.

Pre-emption rights

New issue of ordinary shares or other classes of capital stock may be authorized by a Shareholder's resolution passed at an extraordinary Shareholders' meeting. The articles of association may also authorize the Board of Directors to increase the share capital up to a pre-defined amount within a five-year period. Pursuant to Italian law, Shareholders are entitled to subscribe for new issues of: (i) shares; (ii) debt instruments convertible into ordinary shares; and (iii) any other instruments such as warrants, rights or options entitling the holder to acquire shares, in each case in proportion to their respective shareholdings. Subject to certain conditions and special voting majorities principally designed to prevent dilution of the rights of Shareholders these pre-emption rights may be waived or limited in whole or in part for all such Shareholders for any particular issue of such securities, but only by way of a resolution adopted at an extraordinary meeting with the affirmative vote of Shareholders representing more than 50% of the outstanding shares, even if such vote is taken at a Shareholders' meeting held on a second or third call and provided that our interest so requires. In any event such pre-emption rights will not apply where the increase in share capital is to be subscribed by way of a contribution in kind.

Pre-emption rights can also be limited when the newly issued shares are offered for subscription to our employees or employees of our subsidiaries or of the controlling company. Pursuant to Italian law, resolutions that exclude pre-emption rights for less than one quarter of the newly issued shares must be adopted at an extraordinary meeting with the required majorities. When the exclusion of pre-emption rights relates to more than one quarter of the newly issued shares when these are offered for subscription to our employees or employees of our subsidiaries or of the controlling company then the relevant resolution must be adopted with the affirmative vote of Shareholders representing more than 50% of the outstanding shares, even if such vote is taken at a Shareholders' meeting held in the second call.

Different classes of shares

In accordance with Italian law, we are permitted to issue different classes of shares, defining the rights to which such shares will be entitled, within the limits of the applicable law. We could issue shares that may not have the right to vote in any Shareholders' meeting or only in certain Shareholders' meetings or regarding certain matters or under certain conditions, to be defined in the By-laws. We could issue shares that may have preferential rights with respect to the payment of dividends and to the repayment of capital in the event of liquidation.

Shareholders' meetings

Under Italian law, Shareholders' meetings may be either ordinary or extraordinary.

The ordinary Shareholders' meeting must be convened at least once a year, within 120 days from the end of the financial year, or within 180 days in case certain conditions are met.

The Board of Directors may also call a meeting whenever it deems it appropriate and it is required by Italian law to promptly call a Shareholders' meeting upon the request of shareholders representing at least 10% of the issued and outstanding share capital, or a lower percentage if the By-laws so provide. Additionally, the Board of Statutory Auditors, or the president of the Court that has jurisdiction over the company has the duty to call Shareholders' meetings in certain circumstances under Italian law, by giving Notice.

According to the By-Laws, meetings are called by the Board of Directors by giving a written notice that states the date, time, place and agenda for the meeting (the "Notice"). According to the By-Laws, Shareholders are informed of all Shareholders' meetings to be held by publication of the Notice in the *Gazzetta Ufficiale*, or, alternatively, by transmission of the Notice through means which guarantee its receipt by the addressee at least 8 days before the meeting in the first call. The Notice may specify a date for a second call in the event that the quorum required by the law for the validity of the Shareholders' meeting and its resolutions is not met in the first call.

The provisions of the Italian Civil Code will apply to determine the valid constitution of Shareholders' meetings and the validity of their resolutions. Meetings may be held by video or telephone conference if some conditions aimed at ensuring full participation by all Shareholders are met.

Shareholders who hold ordinary shares are entitled to attend and vote both at ordinary and extraordinary Shareholders' meetings. Each holder will be entitled to cast one vote for each share held. Votes may be cast personally or by proxy. However, the voting rights of shares held in breach of applicable law may in some cases not be exercised.

Resolutions adopted at a Shareholders' meeting are binding on all Shareholders, including dissenting or absent Shareholders. However, pursuant to Italian law, any Shareholders who do not vote in favor of a resolution passed at a Shareholders' meeting or who do not attend such meeting or abstain from voting, representing a shareholding equal to or higher than 5% of the share capital of a company (as well as all Directors and Statutory Auditors) are entitled to challenge the resolution on the basis that it was taken in violation of the applicable laws or By-laws. Such challenges must be made within 90 days from the date of the resolution or, if the resolution is subject to required registration in the companies' register, within 90 days of registration.

There are no restrictions arising under Italian law or the By-laws on the rights of non-resident or foreign persons to hold or vote the shares other than those limitations that apply generally to all Shareholders.

Change in control

The transfer of Company's shares is no longer subject to the pre-emption right in favor of the other Shareholders, due to the resolution of the Shareholders' extraordinary meeting which amended the articles of association of the Company.

Liquidation rights

Under Italian law, and subject to satisfaction of the claims of all other creditors, Shareholders are entitled to a distribution of the remaining liquidated assets in proportion to the nominal value of the shares they hold in the capital stock. Thereafter, if there were surplus assets, Shareholders of ordinary shares would rank equally in their claims to the distribution of such surplus assets, unless the share capital of the company includes classes of shares that have preferential rights with respect to distribution of the company assets in case of liquidation.

Purchase by us of our own shares

We may purchase our own shares, subject to certain conditions and limitations imposed by applicable law and provided that the shares are fully paid up. These purchases must be authorized by the ordinary Shareholders' meeting and only paid out of retained earnings or distributable reserves remaining from the last approved unconsolidated financial statements. Further, we may only repurchase fully paid shares. The nominal value of shares to be repurchased, together with any shares previously repurchased by us or any of our subsidiaries, may not (except in limited circumstances) exceed in the aggregate 10% of the company's share capital then issued and outstanding.

We are not entitled to vote or to receive dividends on the shares we own. Neither we nor any of our subsidiaries can subscribe for new shares in the case of capital increases, except the case where Shareholders, within the limits described above, may authorize the exercise of our pre-emption right on our own shares. Ordinary shares owned by us and our subsidiaries count at Shareholders' meetings for quorum purposes.

In 2002 Sàfilo S.p.A. repurchased 3,176,000 ordinary shares representing 9.1% of the Company's share capital for an aggregate cost of €80,988 thousands.

Company and Shareholders' actions against the Board of Directors

Under Italian law, actions against members of the Board of Directors may be brought by a company pursuant to a resolution adopted by the ordinary Shareholders' meeting. In addition, under Italian law, a single Shareholder may bring an action against the members of the Board of Directors in respect of any damage directly suffered from negligence or willful misconduct within five years from the occurrence of the event that prejudiced Shareholders.

Shareholders' agreements

There are no Shareholders' agreements concerning the company.

MATERIAL CONTRACTS

Senior Credit Facilities and Senior Notes

On June 26, 2006 the Group completed an important refinancing operation through the replacement of the Senior Loan received in 2002.

In 2003, our affiliate Sàfilo Capital International S.A. issued €300,000,000 9 5/8% Senior Notes. The Senior Notes are guaranteed on a senior subordinated basis by Sàfilo S.p.A. and certain of its subsidiaries and are governed by an indenture dated May 15, 2003 between Sàfilo S.p.A., Sàfilo Capital International S.A., Sàfilo Group S.p.A. and certain subsidiaries and The Bank of New York as Trustee. On January 13, 2006, the Group has refunded in advance 35% of the Senior Notes.

For details, see section entitled "Liquidity and Capital Resources" included in Item 5.

Intercreditor agreement

As part of our refinancing in 2006, we amended the previous inter-creditor agreement to confirm the relative rights of certain creditors, between Sàfilo Capital International S.A., Sàfilo S.p.A., its parent Sàfilo Group S.p.A., the subsidiary guarantors of the Notes, the lenders under the senior credit agreement and The Bank of New York as the trustee under the indenture for the Notes.

In the event of insolvency, the intercreditor agreement provides that all obligations in respect of the Notes, the guarantees and the issuer loan agreement are subordinated to the prior payment in full of all obligations under the senior credit agreement.

Factoring agreement

In 2004 we entered into a without-recourse factoring agreement with Centro Factoring S.p.A. We transfer some of our Italian trade receivables on a revolving basis and receive an up-front payment of 95% of the face value of the receivables we sell. The difference between cash received and trade receivables sold will be collected at its maturity date. We have a servicing obligation to act as a collection agent on behalf of Centro Factoring S.p.A.

Investment Agreement

On 19 October 2009, the Investment Agreement was signed by HAL Holding N.V (the "Partner" of the agreement), the parent company Safilo Group S.p.A. and Only 3T regarding the commitment of the Partner (including, at the Partner's discretion, through its subsidiaries) to increase its equity interest in the Group beyond the amount held of 2.082%, up to a minimum of 37.23% and no greater than 49.99%, by subscribing for the Reserved Capital Increase and a portion of the Rights Issue.

The following is a brief summary of some of the key points of the Investment Agreement.

Restructuring plan and proposed capital increase

The transaction envisaged by the Investment Agreement calls for a restructuring plan aimed at improving the Company's exposure to debt and ensuring its financial stability. All of this is to be done both by adjusting the repayment schedule of the existing bank borrowings of the Safilo Group and by the Partner (including, at the Partner's discretion, through its subsidiaries) subscribing to the Capital Increases (as described in greater detail below), following which the Partner would indirectly become the Company's leading shareholder.

More specifically, the transaction specified in the Investment Agreement calls for the following:

(a) a general strengthening of the Company's financial standing as follows:

(i) execution, by HAL International Investments N.V. (a subsidiary of the Partner), of the HY Tender Offer aimed at acquiring control over the debt of the companies of the Safilo Group resulting from the HY Bonds purchased;

(ii) recapitalization of the Company by means of the following:

- an initial capital increase, subject to altering the Company's articles of association, reserved for the Partner (or its subsidiaries) of up to 10% (less one share), pursuant to Article 2441(4)(2) of the Italian civil code, for a total of EUR 12,842,735 (including share premium) by issuing up to 28,539,412 ordinary shares with a par value of EUR 0.25 each, an issue price of EUR 0.45 each and, consequently, a share premium of EUR 0.20;

- a second increase in capital to be offered as an option to shareholders totaling EUR 250,041,754 (including share premium) by using 822,505,770 ordinary shares with a par value of EUR 0.25 each, an issue price of EUR 0.304 each and, consequently, a share premium of EUR 0.054 each. The Rights Issue is to be subscribed: (a) by the Partner (including, at the Partner's discretion, by its subsidiaries) both for its own share (as per the equity interest that the Partner will hold after subscribing for the Reserved Capital Increase and purchasing any additional Subscription Rights on the market during the Offer Period and/or during the Stock Market Offer) and for the share of Only 3T (whose Subscription Rights are expected to be sold to the Partner (or, at the Partner's discretion, to its subsidiaries) before the end of the Offer Period); and (b) for the newly issued, unopted shares following the Stock Market Offer, by the Partner or its subsidiaries (corresponding to the exercising of up to 64.885 of the total Subscription Rights connected with the Rights Issue, i.e. up to EUR 162.2 million or 533,625,412 shares) and by the Guarantor Banks which, separately and without restrictions of solidarity, are to subscribe or arrange subscription for any unopted portion of the Rights Issue upon completion of the Stock Market Offer – subject to fulfillment by the Partner (including, at the Partner's discretion, through its subsidiaries) of the aforementioned subscription obligations for a maximum of 533,625,412 Shares (equal to a maximum of EUR 162.2 million) – all of the above up to a maximum of 288,880,358 Shares or EUR 87.8 million; and

- the signing, by Safilo, Safilo USA Inc., and the Financing Banks, of an agreement for the restructuring of the debt of the Safilo Group, the effective date of which is also subject to the Partner (including, at the Partner's discretion, through its subsidiaries) subscribing for and paying in the Capital Increase.

(b) the transfer to the Partner (or to a company of that group) from the Safilo Group of control over the Retail Companies at a price of no more than EUR 20 million, after the Group has settled any debt and trade liabilities that have come due.

On 24 December 2009 the main lender banks approved the contents of an agreement restructuring the Senior Loan Agreement, execution of which is part of the parent company Safilo Group S.p.A.'s capital-increase operation.

In March 2010, with completion of the capital increase and accomplishment of the further suspensive conditions established, the contractual provisions contained in this Restructuring Agreement have taken effect.

ITALIAN EXCHANGE CONTROLS

The following is a summary of the relevant Italian laws in force as of the date of this Annual Report but does not purport to be a comprehensive description of all exchange control considerations that may be relevant.

There are no exchange controls as such in Italy restricting rights deriving from the ownership of the Notes. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities without restriction and may transfer to and from Italy cash, instruments of credit and securities, in both foreign currency and Euro, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Certain procedural requirements, however, are imposed by Italian legislation that implements an EU directive regarding the free movement of capital. Such legislation requires that transfers into or out of Italy of cash or securities in excess of €12,500 be reported in writing to the *Ufficio Italiano dei Cambi* (the Italian Exchange Office) by residents or non-residents that effect such transfers directly, or by credit institutions or other intermediaries that effect such transactions on their behalf. In addition, credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for five years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The *Ufficio Italiano dei Cambi* is required to maintain reports for a period of ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Individuals and non-profit entities that are residents of Italy must disclose on their annual tax declarations all investments and financial assets held outside Italy, as well as the total amount of transfers to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period such persons no longer owned such foreign investments or financial assets. Such disclosure requirement does not apply if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers carried out during the year is not greater than €10,300. Corporations and partnerships resident in Italy are exempt from such disclosure requirements with respect to their annual tax declarations because this information is required to be disclosed in their financial statements.

There can be no assurance that the present regulatory environment in or outside Italy will continue or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership of the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

TAXATION

Taxation related to Notes

U.S. Federal Income Tax Considerations

The following discussion is a summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by U.S. Holders (as defined below). The summary is not a complete analysis or description of all potential tax consequences to U.S. Holders and does not address all tax considerations that may be relevant to all categories of holders (such as dealers or traders in securities, commodities, or currencies, tax-exempt investors, investors whose "functional currency" is not the U.S. dollar, investors who own 10 percent or more of our voting stock, financial institutions, thrifts, regulated investment companies, insurance companies, grantor trusts, individual retirement accounts or other tax-deferred accounts, partnerships and other pass-through entities and persons who hold the Notes through such partnerships or other pass-through entities, investors that hold the notes as part of a "hedging", "integrated", "conversion" or constructive sale transaction, as part of a "synthetic security" or a "straddle", persons who have ceased to be U.S. citizens or to be taxed as resident aliens, or investors liable for the alternative minimum tax).

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, administrative pronouncements, and existing and proposed U.S. Treasury Regulations, changes to any of which after the date of this annual report could apply on a retroactive basis and affect the tax consequences described herein.

You are a U.S. Holder, for U.S. Federal income tax purposes, if you are:

- a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or any State;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust:
  - (a) the administration of which is subject to the primary supervision of a court within the United States and for which one or more U.S. persons have the authority to control all substantial decisions; or
  - (b) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If a partnership holds the Notes, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners of partnerships holding the Notes should consult their own tax advisors concerning the associated tax consequences.

Holders of the Notes should consult their own tax advisors concerning the U.S. Federal, state and local tax consequences of the purchase, ownership and disposition of the Notes.

Payments of Interest

Payments of interest on a note will be includible in the gross income of a U.S. Holder as ordinary income from foreign sources at the time it is received or accrued, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, under the rules set forth below.

In the case of a U.S. Holder that is not required to accrue interest income prior to the receipt thereof (for example, an individual U.S. Holder who uses the cash method of accounting), the amount of interest income in respect of any interest payment will be determined by translating such payment into U.S. dollars at the spot exchange rate in effect on the date such interest payment is received. No exchange gain or loss will be realized with respect to the receipt of such interest payment, other than exchange gain or loss that is attributable to the actual disposition of the euros received.

In the case of a U.S. Holder that is required to accrue interest income prior to receipt thereof (for example, a U.S. Holder that uses the accrual method of accounting), the amount of any interest income accrued during any accrual period will generally be determined by translating the accruals into U.S. dollars at the average spot exchange rate applicable to the accrual period, or, with respect to an accrual period that spans two taxable years, the part of the period within the taxable year. A U.S. Holder will additionally realize exchange gain or loss with respect to any interest income accrued on the date such interest income is received (or on the date the note is disposed of) in an amount equal to the difference between (x) the amount determined by converting the amount of the payment received into U.S. dollars at the spot exchange rate in effect on the date such payment is received (or on the date the note is disposed of) and (y) the amount of interest income accrued in respect of such payment according to the rule set forth in the preceding sentence. Notwithstanding the preceding two sentences, a U.S. Holder that is required to accrue interest income prior to receipt thereof may alternatively make an election to apply a "spot accrual convention," as set forth in Section 1.988-2(b)(2)(iii)(B) of the U.S. Treasury

Regulations. A U.S. Holder who makes this election translates accrued interest into U.S. dollars at a single spot exchange rate, which is generally the rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the accrual period within the taxable year. If the last day of the accrual period is within five business days of the date the interest payment is actually received, an electing accrual basis U.S. Holder may instead translate that interest payment at the exchange rate in effect on the day of actual receipt. This election must be applied consistently to all debt instruments from year to year and cannot be changed without consent from the Internal Revenue Service. Exchange gain or loss is treated as ordinary income or loss from sources within the United States for U.S. federal income purposes.

Interest payments on a note received by a U.S. Holder will be treated as foreign source income for purposes of computing the U.S. Holder's foreign tax credit allowable under U.S. federal income tax law. The rules relating to foreign tax credits and the timing thereof are complex and U.S. Holders should consult their own tax advisors regarding the availability of a foreign tax credit and the application of foreign tax credit limitations to their particular situation.

Sale, Exchange, Retirement and Other Disposition of the Notes

Upon the sale, exchange, retirement or other disposition of a note, a U.S. Holder will generally recognize taxable gain or loss equal to the difference between the amount realized (not including any amounts received that are attributable to accrued and unpaid interest, which will be taxable as interest income, and exchange gain or loss on such accrued, unpaid interest, as set out above) and the U.S. Holder's tax basis in the note. A U.S. Holder's tax basis in a note generally will be its U.S. dollar cost calculated at the exchange rate in effect on the date of purchase. The amount realized on the sale, exchange or retirement of a note for an amount of foreign currency will be the U.S. dollar value of that amount on (i) the date the payment is received in the case of a cash basis U.S. holder, (ii) the date of disposition in the case of an accrual basis U.S. holder, or (iii) in the case of a note traded on an established securities market (as defined in the applicable U.S. Treasury Regulations), that is sold by a cash basis U.S. holder (or an accrual basis U.S. holder that so elects), on the settlement date for the sale.

Gain or loss on the sale, exchange or retirement of a note that is attributable to changes in currency exchange rates will be ordinary income or loss and will be characterized as principal exchange gain or loss. Principal exchange gain or loss will generally equal the difference between the U.S. dollar value of the issue price of the note in foreign currency determined using the spot exchange rate on the date of the sale, exchange or retirement, and the U.S. dollar value of the issue price of the note in foreign currency determined using the spot exchange rate on the date the U.S. Holder acquired the note. Such gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange or retirement of the note, and will generally be treated as ordinary income or loss from sources within the United States for U.S. federal income tax purposes.

Gain or loss in excess of principal exchange gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the note was held for more than one year at the time of the disposition. Certain U.S. Holders (including individuals) are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. The deduction of long-term capital losses is subject to significant limitations. Gain or loss recognized by a U.S. Holder generally will be treated as U.S. source income or loss.

Non-US Holders

As used herein, a non-US Holder is a person who is not a US Holder. Subject to the discussion concerning information reporting and backup withholding below, generally, a non-US Holder will not be subject to US federal income tax on payments of interest on, or gain on the sale of a note, unless such non-US Holder held the note in connection with a US trade or business carried on by such non-US Holder, or in the case of the sale of a note to a non-US Holder who is an individual, such individual was present in the US for 183 days or more during the tax year in which such gain is realized and certain other conditions are met.

Backup Withholding and Information Reporting

The paying agent or the financial intermediary through whom you hold the Notes may be required to file information returns with the US Internal Revenue Service in connection with payments made in respect of a note to certain US persons. If you are a US Holder, you generally will not be subject to a US backup withholding tax on such payments if you provide your taxpayer identification number and certain other information in the required manner to such paying agent or financial intermediary. You may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale or other disposition of the Notes. If you are a non-US Holder, you may have to comply with certification procedures to establish that you are not a US person in order to avoid information reporting and backup withholding tax requirements. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability.

Italian Tax Considerations

The statements herein regarding taxation are based on the laws in force in Italy as of the date of this Annual Report and are subject to any change in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to non-individual holders or to individual holders that hold notes in a business.

Interest on the Notes

Interest, premium and other proceeds paid on Notes by the non-resident Issuer to a beneficial owner who is not resident in Italy for tax purposes, without a permanent establishment in Italy to which the Notes are effectively connected, should not be subject to any Italian taxation.

If you are a resident of Italy for Italian tax purposes, and you are a private individual holding Notes not in connection with entrepreneurial activity, payments of interest, premium and other proceeds in respect on the Notes will be subject to final *imposta sostitutiva* (substitute tax) at a rate of 12.5%. The 12.5% final *imposta sostitutiva* will be applied by the Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of interest, premium and other proceeds on the Notes or in the transfer of the Notes. Where interest, premium and other proceeds, on the Notes are not collected through the intervention of an Italian resident qualified financial intermediary and as such no *imposta sostitutiva* is applied, the Italian resident beneficial owners will be required to declare interest, premium and other proceeds, in their yearly income tax return and subject them to final substitute tax at a rate of 12.5%, unless option for a different regime is allowed and made.

The same regime upon described is also applicable to Italian resident beneficial owners who are partnerships, other than public and private entities, not carrying out commercial activities.

Payments of interest, premium and other proceeds in respect on the Notes, to Italian resident corporations or permanent establishments in the Republic of Italy of non resident corporations, will not be subject to the *imposta sostitutiva* at the rate of 12.5%. In fact, interest, premium and other proceeds on the Notes accrued to these subjects will be included in the taxable business income for corporate income tax purposes (and, in certain cases, depending on the *status* of the Notes holders, may also be included in their taxable net value of production for purposes of regional tax on productive activities – IRAP) of such beneficial owners, subject to tax in Italy in accordance with ordinary tax rules. A tax credit for withholding taxes applied outside Italy, if any, should be generally available.

Capital gains

If you are not a resident of Italy for income tax purposes, gains realized on the sale or other disposition of the Notes will not be subject to Italian tax, even if the Notes, listed on a regulated market, are held in Italy.

If capital gain, realised upon the sale for consideration or redemption of the Notes, derives by Noteholders who are Italian resident corporations, permanent establishments in Italy of foreign corporations to which the Notes are effectively connected or Italian resident individuals carrying out a commercial activity, would be treated as part of the taxable business income (and, in certain cases, may also be included in taxable net value of production for IRAP purpose), subject to tax in Italy according to the relevant tax provisions.

Any capital gain realised by Italian resident individuals holding the Notes not in connection with entrepreneurial activity, upon sale for consideration or redemption of the Notes would be subject to an *imposta sostitutiva* at the current rate of 12.5%.

Inheritance and gift taxes

According to the Bill of Law No. 262 of 2006 and the successive Law no. 286 of 2006, Italian inheritance and gift tax, previously abolished by Law 383 of 18 October 2001, has been restored. For any issue not explicitly regulated by the above mentioned Law and Bill of Law, the regulation to refer to is the Legislative Decree no. 346 of 1990.

The inheritance and gift taxes will apply to all inheritances and gifts successive to October 3rd, 2006. All inheritances and gifts occurred between October 25th 2001 and October 2nd 2006 are not taxable according to Law 383 of 18 October 2001.

Any transfer of goods due to "mortis causa" will be taxable, for either donees or legatees and devisees, each one of them separately. The tax rate to be applied varies as follows:

- 4% on the net amount transferred to spouses or direct descendants or ancestors, exceeding 1 million Euro per each beneficiary.
- 6% on the net amount transferred to brothers and sisters, exceeding 100,000 Euro each.
- 6% on the net amount transferred to other relatives up to the 4th degree, to the in-laws in straight line and collateral line up to the 3rd degree.
- 8% for all other beneficiaries.

All payees, regardless of the parental bound to the "de cuius", suffering from severe handicaps (as per Law no. 104 of February 5th 1992) can enjoy a 1,500,000 Euro franchise on the net amount received.

The taxable amount is to be computed as the net between the value of the goods transferred and:

- any debt subscribed by the deceased, the medical expenses sustained in the last 6 months as well as the funeral expenses;
- any legacy or burden on the inheritance.

Everything subjected to the transfer, including credits, shares of investment funds and money, constitute the taxable amount. According to Legislative decree no. 346 of 1990 are subject to taxation:

- money, furniture and jewels, to the extent of 10% of the overall taxable amount;
- all kind of securities whose income was part of the taxable income as per the last income tax return presented by the deceased;
- all movables and all kind of bearer securities owned by the departed or held by third parties under his name;
- investments in any kind of companies.

According to articles 14-19 of the Legislative Decree no. 346 of 1990, the value of the stocks or other securities traded on the stock exchange market (the Notes) is the average of the last 3 months before the inheritance opening, increased by all the accrued interests afterwards.

The value of the stocks or other securities not traded is the share of the shareholder's equity as per the last approved financial statements, including any successive event (net of goodwill) that may have modified it.

The value of shares in investment funds is to be deducted from the related statements.

The value of the bonds or securities not falling under the categories above is to be determined by benchmarking comparable securities which are traded on the market or by estimating their fair value under determined indicators.

Other taxes

No Italian transfer, stamp turnover or other similar taxes will be payable upon the issue, purchase or sale of the Botes.

Changes in The European Union "Savings Directive"

On June 3, 2003, the Council of the European Union adopted a directive regarding the taxation of savings income (the "Directive"). The Italian government adopted the above Directive through the approval of the Legislative Decree n. 84 del 2005 and, as a consequence, companies resident in Italy are required as from July 1, 2005 to provide to the tax authorities of another Member State details of payments of interest within the meaning of the Directive (including interest, premiums, discounts or other debt income) made by a paying agent within the jurisdiction to an individual resident in that other Member State (the "Disclosure of Information Method"). The term "paying agent" is defined in the Directive as any economic operator who pays, or secures the payment of interest for the immediate benefit of individuals, who are the beneficial owners of the interest. However, throughout the transitional period, paying agents established in certain Member States (the Grand Duchy of Luxembourg, Belgium and Austria) will withhold an amount on interest payments instead of using the Disclosure of Information Method used by other Member States. The rate of such withholding tax would equal 15% for the first three years after the date of implementation of the Directive, this rate being increased to 20% (three years after the date of implementation of the Directive) and 35% (six years after the date of implementation of the Directive). Such transitional period will end if and when the European Union enters into agreements on exchange of information upon request with several jurisdictions (Switzerland, Liechtenstein, San Marino, Monaco and Andorra) and when the Council of the European Union agrees that the United States is committed to use the Disclosure of Information Method.

DOCUMENTS ON DISPLAY

You may inspect the documents concerning us referred to this Annual Report at Sàfilo S.p.A. headquarters at Settima Strada, 15 – Padua – Italy.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of our business, we are exposed to a variety of market risks arising from fluctuations in interest rates, commodity prices and exchange rates. We monitor and manage these risks as an integral part of our overall risk management policy, which recognizes the unpredictability of financial markets and seeks to reduce their potentially adverse effects on our results.

We operate a Group treasury function that controls all significant decisions and commitments regarding cash management, financial indebtedness, banking relationships and foreign currency commitments. Our treasury operations are conducted within the framework that has been authorized by our Board of Directors. Weekly reports from subsidiaries have been established to ensure that treasury related activities are appropriately managed.

In order to reduce our currency translation and interest rate risks, we selectively use a number of financial instruments.

Interest Rate Risk Management

Our income and operating cash flows are substantially independent of changes in market interest rates. Our cash flow interest rate risk arises from floating rate borrowings. We manage our cash flow interest rate risk by floating-to-fixed interest rate swaps. Such swaps have the economic effect of converting borrowings from floating rates to fixed rates. We normally raise floating rate borrowings and then swap a part of them to fixed rates. Under the interest rate swaps, we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between interests calculated at fixed rates vs floating market rates, with reference to the agreed notional amounts.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. Dollar. Some Group companies use derivative instruments, under the control of the Group's finance department, to manage their foreign exchange risk arising from future commercial transactions. Nevertheless, unfavorable fluctuations in currency exchange rates could adversely affect our results of operations.

With respect to the U.S. Dollar, Sàfilo S.p.A. manages cash inflows related to the portion of our net sales derived from operations outside of Europe, primarily in North America and Asia, and cash outflows related to the purchases from third-party suppliers, and to the payment of interest and principal installments of the U.S. Dollar denominated tranches of the Senior Credit Agreement. The net exposure resulting after offsetting such streams of cash flows is regularly assessed and hedged to safeguard our activities on a continuous basis, by using appropriate hedging instruments for periods consistent with our foreign exchange exposure. We do not enter hedging arrangements for trading or speculative purposes.

In our financial statements prepared according to IFRS, these derivative instruments are valuated at their fair value, determined on the basis of the current value of the differences between the contracted forward exchange rate and the forward market rate at the balance sheet date.

Commodity Price Risk Management

Due to the limited quantities purchased, we believe that we do not face significant risks in procuring raw materials or risks associated with price variations of such raw materials. The management of commodity risk is carried out by monitoring both market supply and prices and by our procurement policies. In case of increased price volatility, and consequently, an increase in our financial exposure to such procurement risks, we are confident that we will be able to implement appropriate policies, including the use of derivative instruments to manage such risks.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Not applicable.

ITEM 16. [Reserved]

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Page

SÀFILO S.p.A.

Auditors' Report
Consolidated balance sheets F-1
Consolidated income statement F-3
Consolidated statement of recognized income and expense F-4
Consolidated statement of cash flows F-5
Consolidated statement of changes in equity F-6
Notes to the consolidated financial statements F-7

ITEM 19. EXHIBITS

Not applicable.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT

To the shareholder of
Safilo – Società Azionaria Fabbrica Italiana Lavorazione Occhiali SpA

1 We have audited the accompanying consolidated financial statements of Safilo – Società Azionaria Fabbrica Italiana Lavorazione Occhiali SpA and its subsidiaries (Safilo Group) as of and for the year ended 31 December 2009, which comprise the balance sheet statement, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity, and related illustrative notes. The directors of Safilo – Società Azionaria Fabbrica Italiana Lavorazione Occhiali SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

Regarding the amounts of the financial statements of the prior period presented for comparative purposes, reclassified to take into account the amendments introduced by IAS 1 to the financial statement presentation, reference should be made to our report dated 7 April 2009.

3 In our opinion, the consolidated financial statements of Safilo – Società Azionaria Fabbrica Italiana Lavorazione Occhiali SpA as of and for the year ended 31 December 2009 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations and cash flows and of Safilo Group for the period then ended.

Padua, 13 April 2010

PricewaterhouseCoopers SpA

Massimo Dal Lago
(Partner)

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Consolidated financial statements as of and for the years ended 31st December 2009 and 31st December 2008

Consolidated balance sheet

(EUR/000)	*Note*	December 31, 2009	December 31, 2008
ASSETS			
Current assets			
Cash in hand and at bank	*4.1*	36,896	50,967
Trade receivables, net	*4.2*	268,750	301,562
Inventory, net	*4.3*	208,373	272,102
Derivative financial instruments	*4.4*	-	772
Other current assets	*4.5*	59,734	46,162
Total current assets		**573,753**	**671,565**
Non-current assets			
Tangible assets	*4.6*	208,579	228,758
Intangible assets	*4.7*	18,038	22,623
Goodwill	*4.8*	277,183	399,737
Investments in associates	*4.9*	12,032	12,298
Financial assets available-for-sale	*4.10*	806	861
Deferred tax assets	*4.11*	41,718	53,434
Derivative financial instruments	*4.4*	228	455
Other non-current assets	*4.12*	21,514	13,833
Total non-current assets		**580,098**	**731,999**
Total assets		**1,153,851**	**1,403,564**

Consolidated balance sheet

(EUR/000)	**Note**	**December 31, 2009**	**December 31, 2008**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	*4.13*	178,124	162,645
Trade payables	*4.14*	149,000	204,899
Tax payables	*4.15*	18,606	22,545
Derivative financial instruments	*4.4*	5,549	-
Other current liabilities	*4.16*	111,575	116,021
Provisions for risks and charges	*4.17*	4,087	1,053
Total current liabilities		**466,941**	**507,163**
Non-current liabilities			
Long-term borrowings	*4.13*	447,282	461,084
Employee benefit liability	*4.18*	41,736	41,991
Provisions for risks and charges	*4.17*	20,968	13,263
Deferred tax liabilities	*4.11*	3,531	5,184
Derivative financial instruments	*4.4*	-	5,740
Other non-current liabilities	*4.19*	11,117	17,662
Total non-current liabilities		**524,634**	**544,924**
Total liabilities		**991,575**	**1,052,087**
Shareholders' equity			
Share capital	*4.20*	35,000	35,000
Share premium reserve	*4.21*	2,305	2,305
Retained earnings (losses) and other reserves	*4.22*	305,114	327,535
Fair value and cash flow reserves	*4.23*	32	(7,620)
Income attributable to the Group		(187,734)	(14,155)
Total shareholders' equity attributable to the Group		**154,717**	**343,065**
Minority interests		**7,559**	**8,412**
Total shareholders' equity		**162,276**	**351,477**
Total liabilities and shareholders' equity		**1,153,851**	**1,403,564**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statement

(Eur/000)	*Note*	2009	2008
Net sales	*5.1*	1.011.236	1.147.818
Cost of sales	*5.2*	(438.752)	(484.860)
Gross profit		**572.484**	**662.958**
Selling and marketing expenses	*5.3*	(427.271)	(446.075)
General and administrative expenses	*5.4*	(130.855)	(131.059)
Other oper. income/(expenses), net	*5.5*	2.302	1.266
Restructuring cost non recurring	*5.6*	(7.422)	-
Impairment loss on goodwill and loss on disposal of *retail* subsidiaries	*4.8-5.7*	(116.185)	-
Operating profit/(loss)		**(106.947)**	**87.090**
Share of income/(loss) of associates	*5.8*	360	866
Int. expenses and other fin. charges, net	*5.9*	(54.277)	(57.749)
Profit/(Loss) before taxation		**(160.864)**	**30.207**
Income taxes	*5.10*	4.542	(11.671)
Write down of deferred tax assets	*5.10*	(30.753)	(29.916)
Net profit/(loss)		**(187.075)**	**(11.380)**
Net profit/(loss) attributable to:			
The Group		(187.734)	(14.155)
Minority interests		659	2.775

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

(Euro/000)	***Note***	**2009**	**2008**
Net profit (loss) for the period		**(187.075)**	**(11.380)**
Gains/(Losses) on cash flow hedges	*4.23*	5.518	(5.911)
Gains/(Losses) on fair value of available-for-sale financial assets	*4.23*	2.134	(1.429)
Gains/(Losses) on exchange differences on translating foreign operations	*4.22*	(3.901)	10.275
Other Gains/(Losses)	*4.22*	2.266	(2.705)
Other comprehensive income/(loss), net of tax		**6.017**	**230**
Total Comprehensive income/(loss)		**(181.058)**	**(11.150)**
Attributable to:			
Group		(181.452)	(14.569)
Minority interests		394	3.419
Total Comprehensive income/(loss)		**(181.058)**	**(11.150)**

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

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

(EUR/000)	*Note*	2009	2008
A - Opening net cash and cash equivalents (net financial indebtedness - short term)		**(23,128)**	**(36,639)**
B - Cash flow from (for) operating activities			
Net profit (loss) for the period (including minority interests)		(187,076)	(11,380)
Depreciation and amortization	*4.6 - 4.7*	49,496	39,949
Impairment loss on goodwill	*2.8-5.7*	94,501	-
Loss on disposal of retail subsidiaries	*2.8-5.7*	21,684	-
Stock option	*4.24*	-	(695)
Share income/(loss) on equity investments	*4,9*	1,910	706
Net movements in the employee benefit liability	*4.18*	2,456	607
Net movements in other provisions	*4.17*	7,677	717
Interest expenses, net	*5.9*	42,574	43,066
Income tax expenses	*5.10*	26,211	41,588
Income from operating activities prior to movements in working capital		**59,433**	**114,558**
(Increase) Decrease in trade receivables		29,621	7,736
(Increase) Decrease in inventory, net		56,603	8,267
Increase (Decrease) in trade payables		(59,819)	(3,006)
Interest expenses paid		(42,376)	(35,550)
Income tax paid		(29,791)	(35,552)
Total (B)		**13,672**	**56,453**
C - Cash flow from (for) investing activities			
Purchase of property, plant and equipment (net of disposals)		(31,332)	(54,363)
Acquisition of subsidiaries (net of cash acquired)		-	(24,963)
Disposal of retail subsiaries (net of cash disposed of)	*5.7*	12,175	-
(Acquisition) Disposal of investments and bonds		128	152
Purchase of intangible assets		(3,245)	(9,150)
Total (C)		**(22,274)**	**(88,324)**
D - Cash flow from (for) financing activities			
Proceeds from borrowings		34,500	94,313
Reimbursement of loan from parent company		-	14,000
Repayment of borrowings		(15,948)	(37,504)
Dividends paid		(3,143)	(35,581)
Total (D)		**15,409**	**35,228**
E - Cash flow for the period (B+C+D)		**6,807**	**3,357**
Translation exchange difference		(5,088)	10,154
Total (F)		**(5,088)**	**10,154**
G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)		**(21,409)**	**(23,128)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(Euro/000)	Share capital	Share premium reserve	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserves	Retained earnings	Net profit	Total equity
Group shareholders' equity at January 1, 2008	**35,000**	**2,305**	**299,523**	**(80,988)**	**(40,348)**	**(280)**	**130,375**	**53,267**	**398,855**
Previous year's profit allocation	-	-	-	-	-	-	53,267	(53,267)	-
Cover of losses carried forward	-	-	-	-	-	-	-	-	-
Dividends distribution	-	-	-	-	-	-	(38,740)	-	(38,740)
Changes in other reserves	-	-	-	-	-	-	(2,481)	-	(2,481)
Total comprehensive income for the period	-	-	-	-	9,601	(7,340)	(2,675)	(14,155)	(14,569)
Group shareholders' equity at December 31, 2008	**35,000**	**2,305**	**299,523**	**(80,988)**	**(30,747)**	**(7,620)**	**139,746**	**(14,155)**	**343,065**
Minority interests at January 1, 2008	-	-	-	-	**(147)**	-	**1,542**	**3,525**	**4,920**
Previous year's profit allocation	-	-	-	-	-	-	3,525	(3,525)	-
Changes in other reserves	-	-	-	-	-	-	1,494	-	1,494
Dividends distribution	-	-	-	-	-	-	(1,421)	-	(1,421)
Total comprehensive income for the period	-	-	-	-	673	-	(29)	2,775	3,419
Minority interests at December 31, 2008	**-**	**-**	**-**	**-**	**526**	**-**	**5,111**	**2,775**	**8,412**
Consolidated net equity at December 31, 2008	**35,000**	**2,305**	**299,523**	**(80,988)**	**(30,221)**	**(7,620)**	**144,857**	**(11,380)**	**351,477**

(Euro/000)	Share capital	Share premium reserve	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserves	Retained earnings	Net profit	Total equity
Group shareholders' equity at January 1, 2009	**35,000**	**2,305**	**299,523**	**(80,988)**	**(30,747)**	**(7,620)**	**139,746**	**(14,155)**	**343,065**
Previous year's profit allocation	-	-	-	-	-	-	(14,155)	14,155	-
Changes in other reserves	-	-	-	-	-	-	(6,896)	-	(6,896)
Dividends distribution	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(3,620)	7,652	2,250	(187,734)	(181,452)
Group shareholders' equity at December 31, 2009	**35,000**	**2,305**	**299,523**	**(80,988)**	**(34,367)**	**32**	**120,945**	**(187,734)**	**154,717**
Minority interests at January 1, 2009	-	-	-	-	**526**	-	**5,111**	**2,775**	**8,412**
Previous year's profit allocation	-	-	-	-	-	-	2,775	(2,775)	-
Changes in other reserves	-	-	-	-	-	-	-	-	-
Dividends distribution	-	-	-	-	-	-	(1,247)	-	(1,247)
Total comprehensive income for the period	-	-	-	-	(281)	-	16	659	394
Minority interests at December 31, 2009	**-**	**-**	**-**	**-**	**245**	**-**	**6,655**	**659**	**7,559**
Consolidated net equity at December 31, 2009	**35,000**	**2,305**	**299,523**	**(80,988)**	**(34,122)**	**32**	**127,600**	**(187,075)**	**162,276**

The accompanying notes are an integral part of the consolidated financial statements.

1. General information

1.1 General information

The holding company, Safilo S.p.A., is a joint stock company established in Italy registered with the Business and Trade registry of Belluno. The company's head office is located in Pieve di Cadore (Belluno) – Piazza Tiziano no. 8, while there is a secondary office located in Padua – Zona Industriale VII Strada no. 15.

Safilo S.p.A. is an Italian company that operates under Italian law and has as its object the manufacture and sale of eyeglass frames and sunglasses and the recruitment, negotiation and management of holdings in capital operating in the eyewear sector.

Safilo S.p.A. is subject to supervision and coordination of Safilo Group S.p.A., the Italian Stock Exchange listed company which owns 90.926% of the shares (the remainder is owned by the same Safilo S.p.A. as treasury shares).

These consolidated financial statements are reported in thousands of Euro, the official currency in the economies where the Group does most of its business. The consolidated financial information relates to the period from January 1st 2009 to December 31St 2009 and also presents comparative data related to the financial period from January 1st 2008 to December 31St 2008.

These financial statements were approved by the Board of Directors on 29th March 2010.

The companies included in the consolidation area are listed in paragraph 2.3 "Consolidation area and methodology".

2. Summary of accounting principles adopted

2.1 Accounting policies

The accounting policies described here below have been applied during the preparation of these consolidated financial statements in a comparative manner for both financial years presented and on the going concern assumption.

Directors have found that the significant uncertainties related to the Group as a going concern which arose in 2009 pursuant to the sharp decline in the economic results and the increase in debt due to the difficult global financial and economic landscape, as was mentioned in the half-yearly and in the third quarterly reports, have lessened thanks to the Group financial recapitalization and restructuring plan as defined in the binding investment agreement signed on October 19th 2009 by Hal Holding N.V., partner of the deal, and Only 3T. S.p.A. and Safilo Group S.p.A. and approved by the extraordinary meeting of Safilo Group S.p.A. shareholders on December 15th 2009.

This plan was implemented in the last quarter of 2009 and in the early months of 2010 when the capital increase of Safilo Group S.p.A. was executed and the financing banks signed the senior loan restructuring plan, as described in the paragraph of the report on operations relating to the significant facts after year

end.

Consolidated financial information relating to the financial years ended December 31st 2009 and December 31st 2008 was prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Commission as at December 31st 2009 and the directives issued in implementation of article 9 of Legislative Decree 38/2005.

These consolidated financial statements were prepared in accordance with "cost" criteria with the exception of financial assets available-for-sale and some financial assets and liabilities, including derivative instruments, for which the "fair value" criteria was adopted.

The preparation of the financial statements in accordance with IFRS accounting principles requires the management to make estimates and assumptions that may affect the amounts reported in the financial statements and explanatory notes. Actual results may differ from these estimates. The areas of the financial statements that are most affected by such estimates and assumptions are listed in section 2.21 "Use of estimates".

Accounting principles, amendments and interpretations adopted from January 1st 2009

The following accounting principles, amendments and interpretations, reviewed pursuant to the annual improvement process conducted by IASB in 2008, were applied for the first time by the Group as of January 1st 2009.

IAS 1 Revised - "Presentation of Financial Statements"

IAS 1 was submitted to a non-substantial review which led to a change in the denomination of a number of the schedules making up the financial statements.

The Group has adopted the revised standard retrospectively from January 1st 2009, electing to present both the Income statement and the Statement of comprehensive income and has consequently amended the presentation of the Statement of changes in equity. In addition, as part of its 2008 annual improvements project, the IASB published an amendment to IAS 1 (Revised) which requires an entity to classify hedging derivative financial instruments which are not held for trading, between current and non-current assets and liabilities in the Statement of financial position, with the distinction of current and non-current assets and liabilities. Adopting this amendment did not lead to any effect on the presentation of derivative financial instruments in the Statement of financial position as the Company already used the mixed current/non-current distinction format for presentation that is permitted by IAS 1.

IFRS 8 – Operating segments

IFRS 8 introduces the approach under which the segments must be identified using the same methods with which internal reporting is done for top management in order to allocate resources and evaluate the performance of the individual operating segments. This principle replaced the previous IAS 14 "Segment reporting" which required the identification of two types of segments by business and geographical area.

Following adoption of IFRS 8, the Group maintained identification of its operating segments based on the *"Wholesale and Retail"* channels and has drafted the reporting by geographical area in relation to revenue and non-current assets other than financial instruments, deferred tax assets and assets relating to benefits subsequent to the employment relationship and arising from insurance contracts.

IAS 23 Revised – "Borrowing Costs"

The revised version of the standard removes the option previously available of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale (qualifying assets) in order to revise the definition of the borrowing costs to be capitalised. Application of the new principle had no effect on the financial statements since, at the present, there are no situations for which interest would be capitalised.

Amendment to IFRS 2 – "Share-based Payment: Vesting Conditions and Cancellations"

The amendment to IFRS 2 clarifies that for the purpose of measuring share-based payments, only service conditions and performance conditions may be considered vesting conditions. Any other clauses shall be considered non-vesting conditions and included in the determination of fair value at the grant date. The amendment also specifies that plan cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Adoption of the amendment had no effect on the Group financial statements.

Improvement to IAS 19- " Employee benefits"

The *improvement* to IAS 19 – Employee Benefits clarifies the definition of positive/negative past service costs and states that in the case of a curtailment, only the effect of the reduction for future service shall be recognised immediately in the income statement, while the effect arising from past service periods shall be considered a negative past service cost. This amendment must be adopted prospectively to changes to plans occurring on or after January 1st 2009. There was no significant accounting effect at 31 December 2009 for the Group following the adoption.

The improvement also revises the definition of the return on plan assets, stating that this amount should be stated net of any costs for administering the plan (other than those included in the measurement of the defined benefit obligation) and clarifies the definition of short-term employee benefits and other long-term employee benefits. Adoption of the amendment had no effect on the Group financial statements.

Improvement to IAS 28 – Investments in Associates

The improvement to IAS 28 – Investments in Associates requires that a recognised impairment loss should not be allocated for investments accounted for using the equity method to any asset (and in particular goodwill) that forms part of the carrying amount of the investment in the associate, but to the carrying amount of the investment overall. Accordingly, any reversal of that impairment loss is recognised in full.

This amendment also leads to changes in certain disclosures relating to investments in associates and joint ventures measured at fair value in accordance with IAS 39, at the same time amending also IAS 31

Interests in Joint Ventures and amendment IFRS 7 - Financial Instruments - Disclosures and IAS 32 - Financial Instruments: Presentation.

These changes regard circumstances that were not present in the Group at the date of these financial statements at 31 December 2009, therefore had no effect on the accounts.

Improvement to IAS 38 – Intangible Assets

The improvement to IAS 38 – "Intangible Assets" states that expenditure on advertising and promotional activities is recognised as an expense. Further, if expenditure is incurred to provide future economic benefits to an entity but no intangible asset is recognised, an entity shall recognise the expenditure as an expense when it has the right to access the goods or when it receives the services. The standard has also been amended in order to allow entities to use the unit of production method for determining the amortisation charge for an intangible asset with a finite useful life. Adoption of this amendment had no effect on the Group's financial statements as the Group already recognised such expenditure as an expense.

Amendment to IFRS 7 – Financial Instruments: Improving Disclosures

The amendment, effective from January 1st 2009, was issued to improve the disclosure requirements for fair value measurements and reinforce existing principles for disclosures concerning the liquidity risk associated with financial instruments. In particular, the amendment requires disclosures to be made based on a hierarchy of the inputs used in valuation techniques to measure fair value. Adoption of the amendment only affected the disclosures in the notes and had no effect on the measurement of items in the financial statements.

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

On January 10th 2008 the IASB issued an updated version of FRS 3 – Business combinations, and amended IAS 27 – Consolidated and separate financial statements. The main changes to IFRS 3 regard the elimination of the obligation to assess the subsidiary's single asset and liability at fair value at each step in the case of a step acquisition of subsidiaries. Goodwill is measured upon acquiring control, valued as the difference at the acquisition date between the value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Furthermore, if the company does not buy 100% of the total equity, the minority interest in shareholders' equity may be estimated either at fair value, or according to the method previously prescribed by IFRS 3. The revised version of the standard also requires the posting all costs connected to the business combination in the income statement and recognising, at the date of the acquisition, the liabilities for payments subject to a condition. In the amendment to IAS 27, however, the IASB has established that the changes to the portion of equity held that do not result in the loss of control must be treated as *equity transactions* and they must therefore be recognised in the shareholders' equity. It has also been ruled that when a holding company transfers its majority stake to one of its own subsidiaries but continues, in any case, to hold an interest in the company, the holding company should account for the retained investment at fair value and recognise any profit or loss deriving from the loss of control in the income statement. Lastly, the

amendment to IAS 27 requires all losses attributable to minority shareholders to be allocated to the shareholders' equity of such minority shareholders, even if they exceed their portion of the subsidiary company's share capital. The new rules will apply prospectively from January 1st 2010. As part of its 2008 annual improvements project, the IASB issued an amendment to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations. This amendment requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The change must be applied prospectively as from January 1st 2010.

On July 31st 2008 the IASB issued an amendment to IAS 39 – Financial Instruments: Recognition and Measurement, to be applied from January 1st 2010 retrospectively. The amendment clarifies the application of the standard for defining the underlying object of the hedging in particular situations. When applied, this amendment is not expected to have significant effects on the Group's financial statement s.

On November 27th 2008 the IFRIC issued interpretation IFRIC 17 – Distributions of Non-cash Assets to Owners that will standardise practice in the accounting treatment of the distribution of non-cash assets to owners. In particular, the interpretation clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity must recognise the difference between the dividend paid and the carrying amount of the net assets used for payment in the income statement. The interpretation is effective prospectively from January 1st 2010.

On January 29th 2009 the IFRIC issued the interpretation IFRIC 18 – Transfers of Assets from Customers that clarifies the accounting treatment to use for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer which will then be used to acquire or build the item of property, plant and equipment to be used.

On April 16th 2009 the IASB issued a series of amendments to IFRS (Improvements to IFRSs). Details are provided in the following paragraphs of those identified by the IASB as resulting in accounting changes for presentation, recognition and measurement purposes, leaving out any amendments regarding changes in terminology or editorial changes which are likely to have minimal effects on accounting and amended standards or interpretations not applicable to the Group. At the date of these financial statements, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this principle.

- IFRS 2 – Share-based payments: this amendment, applicable from January 1st 2010, clarifies that following the change made by IFRS 3 to the definition of a business combination, the contribution of a business on the formation of a joint venture and the combination of entities or businesses under common control do not fall within the scope of IFRS 2.

- IFRS 5 – Non-current Assets available for sale and Discontinued Operations: this amendment,

which shall be applied prospectively from January 1st 2010, clarifies that IFRS 5 and other IFRS that specifically refer to non-current assets (or disposal groups) classified as available for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

- IFRS 8 – Operating segments: this amendment, effective from January 1st 2010, requires an entity to report a measure of total assets for each reportable segment if such amount is regularly provided to the chief operating decision maker. Before the amendment, disclosure of total assets for each segment was required even if that condition was not met.

- IAS 1 – Presentation of Financial Statements: this improvement, effective from January 1st 2010, amends the definition of a current liability contained in IAS 1. The previous definition required liabilities which could be extinguished at any time by issuing equity instruments to be classified as current. This led to liabilities relating to convertible bonds which could be converted at any time into shares of the issuer to be classified as current. Following this amendment the existence of a currently exercisable option for conversion into equity instruments becomes irrelevant for the purposes of the current/non-current classification of a liability.

- IAS 7 – Borrowing costs: this amendment, applicable from January 1st 2010, clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities in the statement of cash flows; cash flows originating from expenditures that do not result in a recognised asset (as could be the case for advertising and promotional activities and staff training) must be classified as cash flows from operating activities.

- IAS 17 – Leasing: Pursuant to the changes made, the general conditions required by IAS 17 for classifying a lease as a finance lease or an operating lease will also be applicable to the leasing of land, independent of whether the lease transfers ownership by the end of the lease term. Before these changes, the standard required the lease to be classified as an operating lease if ownership of the leased land was not transferred at the end of the lease term because land has an indefinite useful life. The amendment is effective from January 1st 2010. At the date of adoption the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognised retrospectively as if it had a financial nature.

- IAS 36 – Impairment of Assets: this amendment, effective prospectively from January 1st 2010, states that each unit or group of units to which goodwill is allocated for the purpose of impairment testing shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before any aggregation on the basis of similar economic characteristics and other similarities as permitted by paragraph 12 of IFRS 8.

- IAS 38 – Intangible Assets: IFRS 3 (as revised in 2008) states that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure its fair value reliably. Amendments were made to IAS

38 to reflect that revision of IFRS 3. Furthermore, these amendments clarify the valuation techniques commonly used to measure intangible assets at fair value when assets are not traded in an active market; in particular, such techniques include discounting the estimated future net cash flows from an asset, and estimating the costs the entity avoids by owning an intangible asset and not having to license it from another party in an arm's length transaction or the costs to recreate or replace it (as in the cost approach). The interpretation is effective prospectively from January 1st 2010.

- IAS 39 – Financial Instruments: Recognition and Measurement: this amendment restricts the non-applicability of IAS 39 under paragraph 2(g) of the standard to forward contracts between an acquirer and a selling shareholder to buy or sell a company as part of a business combination at a future acquisition date when the completion of the business combination is not dependant on further actions of either party and only the passage of a normal period of time is required. Option contracts, whether or not currently exercisable, which allow one party to control the occurrence or non-occurrence of future events and on exercise will result in control of an entity are therefore included in the scope of IAS 39. The amendment also clarifies that embedded prepayment options whose exercise price compensates the lender for the loss of interest income resulting from the prepayment of the loan shall be considered closely related to the host debt contract and therefore not accounted for separately. Finally, the amendment clarifies that the gains or losses on a hedged instrument must be reclassified from shareholders' equity to profit or loss during the period that the expected hedged cash flows affect profit or loss. The interpretation is effective prospectively from January 1st 2010.

- IFRIC 9 – Reassessment of Embedded Derivatives: this amendment excludes from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture.

In June 2009, the IASB issued an amendment to IFRS 2 – Share based payments: Group Cash-settled Share-based Payment transactions. The amendment clarifies the scope of IFRS 2 and the interactions of IFRS 2 and other standards. In particular, it clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash; moreover, it clarifies that a 'group' has the same meaning as in IAS 27 - Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. In addition, the amendment clarifies that an entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognised by the consolidated group. The amendments also incorporate guidance previously included in IFRIC 8 - Scope of IFRS 2 and IFRIC 11 - IFRS 2 - Group and Treasury Share Transaction. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.The amendment is effective from January 1st 2010; the European Union had not yet endorsed the amendment at the date of these financial statements.

On October 8th 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 January 1st 2011.

On November 4th 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. This amendment must be applied as of January 1st 2011. At the date of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

On November 12th 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 January 1st 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. At the date of these financial statements, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this principle.

On November 26th 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. This amendment must be applied as of January 1st 2011. At the date of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

On November 26th 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, 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. This amendment must be applied as of January 1st 2011. At the date of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

2.2 Format of financial statements

Safilo Group presents the income statement by function (so-called "cost of sales"). This is considered to

be more representative with respect to presentation by type of expenses, as it conforms more closely to the internal reporting and business management methods and is in line with international practice in the eyewear sector.

For the balance sheet, a distinction is made in the assets and liabilities between current and non-current as described in paragraphs 51 and following of IAS 1. The indirect method for the financial report and the cash flow statement was used. Therefore the net profit of the period is adjusted by the effects of non-monetary operations, changes in the working capital and financial flows deriving from the investing and financing activities.

2.3 Consolidation area and methodology

The direct and indirect holdings included in the consolidation area under the line-by-line method, in addition to the parent 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	3,343,960	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	2,100,000	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

Investments in subsidiaries

The companies in which the Group exercises control ("subsidiary companies"), as defined in IAS 27, either due to direct shareholdings or by indirectly holding the majority of the voting rights, having the power to determine even indirectly the financial and managerial choices of the companies and thus obtaining the relative benefits regardless of the relationships deriving from the share ownership, are consolidated using the line-by-line method. Potential exercisable voting rights existing at the balance sheet date are considered in order to determine control. The subsidiary companies are consolidated from the date on which control is assumed and are deconsolidated from the date when control ceases.

The business combinations, in which the control of a company is acquired, are accounted for by applying the "purchase method" where the assets and liabilities acquired are initially measured at their current market value at the acquisition date. If the difference between the market value and the purchase cost is positive, this amount is allocated to goodwill, otherwise it is recorded in the income statement. The acquisition cost is defined on the basis of the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and of any other accessory charges.

Upon consolidation, the amounts resulting from intra-group operations between consolidated companies are eliminated, in particular in relation to receivables and payables at the balance sheet date, costs and revenues as well as financial income and charges. In addition, gains and losses between the subsidiary companies that are fully consolidated are also eliminated.

The accounting principles adopted by the subsidiary companies have been modified where necessary, to comply with those adopted by the parent company.

The share of the shareholders' equity and the result of the period attributable to minority shareholders are indicated separately in the line items "Minority interests" and "Net profit of the period attributable to minority interests" that can be found in the consolidated balance sheet and income statement, respectively.

Investments in associated companies

The holdings in companies/entities in which a significant influence is exercised ("associated companies"), that is presumed to exist when the percentage held is between 20% and 50%, are valued under the "equity" method. Due to the application of the equity method, the value of the investment is aligned to the shareholders' equity that is adjusted, where necessary, to reflect the application of the IFRS approved by the European Commission, and includes the recording of any goodwill identified at the moment of acquisition. The share of gains/losses realised by the associated companies after the acquisition is recorded on the income statement, while the share of movements of reserves after the acquisition is recorded in the equity reserves. When the share of losses of the Group in an associated company is equal to or exceeds its holding in the associated company, taking into account all receivables not guaranteed, the value of the investment is fully written down and the Group does not record further losses above its share, except where the Group has the obligation to cover these losses. Gains and losses not realised that are generated on operations with associated companies are eliminated for the part

pertaining to the Group.

Investments in other companies

Investments in other companies representing "available for sale financial assets" are valued at the fair value and gains and losses arising from changes in the fair value are assigned directly to shareholders' equity until sale. Total gains and losses are charged to the income statement of the year in which the sale took place, unless an AFS financial asset has accumulated a significant or prolonged dimension of the *fair value*. In this case, the accumulated losses in the fair value reserve of shareholders' equity is recognised in the income statement.

2.4 Segment information

Information according to business sector (retail/wholesale) and geographic area is given, pursuant to IAS 8 – Segment Information.

Management prepares the schedule according to the business segment in which the Group works: "*wholesale and retail*". The criteria applied for the identification of the segments depend on the modalities by which the management organises the Group and attributes managerial responsibilities.

It must be noted that grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

2.5 Conversion of financial statements and transactions into currencies other than Euro

Foreign currency transactions are converted into the functional currency using the actual exchange rates at the date of the transaction. Gains and losses on exchange rates resulting from the close of such transactions and from the translation of the monetary assets and liabilities in foreign currencies at the exchange rates at end of the year are accounted for in the income statement.

The rules for the conversion of financial statements of companies expressed in currencies different from the Euro are the following:

- assets and liabilities are converted using the actual exchange rates at the balance sheet date;
- costs, revenues, income and charges are converted at the average exchange rate of the period;
- the "conversion reserve" includes foreign exchange differences generated from the conversion of the opening shareholders' equity and the movements during the year at a rate different from that at the end of the year;
- the goodwill and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the period.

The exchange rates applied in the conversion of financial statements prepared in currencies other than Euro at December 31st 2009 and December 31st 2008 are given in the following table; appreciation (figures with a minus sign in the table below) indicates a gain on the currency compared to the Euro.

		As of	As of	(Appreciation) /Depreciation	Avg. for the financial year		(Appreciation) /Depreciation
Currency	Code	December 31, 2009	December 31, 2008	%	2009	2008	%
US Dollar	USD	1.4406	1.3917	3.5%	1.3947	1.4708	-5.2%
Hong-Kong Dollar	HKD	11.1709	10.7858	3.6%	10.8114	11.4541	-5.6%
Swiss Franc	CHF	1.4836	1.4850	-0.1%	1.5100	1.5874	-4.9%
Canadian Dollar	CAD	1.5128	1.6998	-11.0%	1.5846	1.5594	1.6%
Japanese Yen	YEN	133.1600	126.1400	5.6%	130.3249	152.4541	-14.5%
British Pound	GBP	0.8881	0.9525	-6.8%	0.8909	0.7946	12.1%
Swedish Krown	SEK	10.2520	10.8700	-5.7%	10.6230	9.6152	10.5%
Australian Dollar	AUD	1.6008	2.0274	-21.0%	1.7729	1.7360	2.1%
South-African Rand	ZAR	10.6660	13.0667	-18.4%	11.6741	12.0746	-3.3%
Russian Ruble	RUB	43.1540	41.2830	4.5%	44.1350	36.4207	21.2%
Brasilian Real	BRL	2.5113	3.2436	-22.6%	2.7674	2.6698	3.7%
Indian Rupee	INR	67.0400	67.6360	-0.9%	67.3571	63.7343	5.7%
Singapore Dollar	SGD	2.0194	2.0040	0.8%	2.0241	2.0762	-2.5%
Malaysian Ringgit	MYR	4.9326	4.8048	2.7%	4.9079	4.8893	0.4%
Chinese Reminbi	CNY	9.8350	9.4956	3.6%	9.5277	10.2244	-6.8%
Korean Won	KRW	1,666.9700	1,839.1300	-9.4%	1,772.9039	1,606.0872	10.4%
Mexican Peso	MXN	18.9223	19.2333	-1.6%	18.7989	16.2909	15.4%

2.6 Tangible fixed assets

Tangible fixed assets are assessed at purchase or production cost, net of accumulated depreciation and of any possible loss in value. The cost includes all charges directly incurred in bringing assets to their current location and condition. Costs incurred after purchase of assets are recorded only if they increase the future economic benefits of the asset they refer to.

Charges incurred for the maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the income statement of the period in which the costs are incurred. The capitalisation of costs relating to the expansion, upgrades or improvement of proprietary structural assets or of those used by third parties, is made only when they satisfy the requirements to be separately classified as an asset or part of an asset. The book value is adjusted for depreciation on a systematic basis, over its useful life.

Capitalised costs for leasehold improvements are attributed to the category of the assets they refer to and are depreciated over the shorter of either the remaining duration of the rental contract or the remaining useful lifetime of the assets improved.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, and any loss is recorded in the income statement. When the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and

depreciation had been recorded.

Assets held through financial leasing contracts, where the majority of the risks and benefits related to the ownership of an asset have been transferred to the Group, are recognised as assets of the Group at their fair value or, if lower, at the current value of the minimum lease payments. The corresponding liability due to the lessor is recorded on the financial statements under financial debts. The assets are depreciated by applying the criteria and rates indicated below.

The leased assets where the lessor bears the majority of the risks and benefits related to an asset are recorded as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease contract.

Depreciation is calculated on a straight-line basis over the estimated useful lifetime of the asset, in accordance with the following depreciation rates:

Category	Useful lifetime in years
Buildings	20-33
Plant, machinery and equipment	5-15
Forniture, office equipment and vehicles	4-8

Land is not depreciated.

When the asset to be depreciated is composed of separately identifiable elements whose useful lifetime differs significantly from that of the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the "component approach" principle.

The remaining value of the assets and their useful lifetime are reviewed at the end of each financial year. The capital gains or losses from the sale of the fixed assets are posted to the income statement and valued as the difference between the sale proceeds and the net book value.

2.7 Intangible fixed assets

Intangible fixed assets consist of clearly identifiable non-monetary assets, without any physical substance and capable of generating future economic benefits. These assets are assessed at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated depreciation and of any possible loss in value. Amortisation begins when the asset is available for use and is recorded on a systematic basis over the course of its useful lifetime.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, and any loss is recorded on the income statement. When the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and depreciation had been recorded.

The amounts paid for the control of real estate located in prestigious areas (key money) are indicated under "intangible fixed assets", when such assets satisfy the requirements of IAS 38. These assets are depreciated on the basis of the duration of the leasing contract.

Goodwill

Goodwill represents the excess of the purchase cost compared to the fair value of the share of equity in the subsidiary or associated company, or of the business unit acquired, at the purchase date. The goodwill deriving from the purchase of subsidiaries is recorded under the intangible assets on the balance sheet, while that deriving from the purchase of associated companies is included in the investments in associated companies. Goodwill is not amortised but is tested each year or more frequently if specific impairment indicators show the possibility that there has been a potential loss of value. After initial recognition, goodwill is valued at cost, net of any accumulated impairment.

When a company or a business unit previously purchased is sold and that acquisition led to goodwill, in measuring the gain or loss on the sale, consideration is made of the corresponding residual value of goodwill.

Goodwill and fair value adjustments generated from the acquisition of a foreign company are recorded in the relative foreign currencies and are converted at the exchange rate at the end of the period.

Brands

Trademarks are recorded at cost. They have a definite useful lifetime and are recorded at cost net of any accumulated amortisation. Amortisation is calculated on a straight-line basis allocating the cost of trademarks over the relative useful lifetime.

Software

All software licenses purchased are capitalised on the basis of the costs incurred for their acquisition and in bringing them to their current condition. Amortisation is calculated on a straight-line basis over their estimated useful lifetime (from 3 to 5 years).

The costs associated with the development and maintenance of software programs are posted to the income statement of the period in which they were incurred. The costs directly associated with the production of unique and identifiable software products controlled by the Group are recorded as intangible fixed assets on the balance sheet only if the following conditions are respected: the costs can be reliably calculated, the Group has the technical and financial resources to complete the products and intends to conclude such activities, the technical feasibility of the products is guaranteed and the use of the products will generate probable future economic benefits for more than one year.

Direct costs include costs relating to employees developing the software as well as any appropriate share of general costs.

2.8 Impairment of non financial assets

Assets with an indefinite useful lifetime are not subject to amortisation but undergo an impairment test at least on an annual basis to control whether their book value has been reduced.

Assets subject to amortisation undergo impairment tests when events or circumstances arise that indicate that the book value cannot be recovered. In both cases any loss in value is posted for the share of book value exceeding the recoverable value. This value is the higher of either the fair value of the asset net of the costs for sale or its value for use. If the value for use of an asset cannot be established individually, the recoverable value of the unit that generates cash flows (so-called "cash generating units" or CGU) to which the asset belongs must be established. Assets are regrouped at the lowest level for which there are independent cash flows and the Group will then calculate the current value of the estimated future cash flows for the CGU, gross of taxes, applying a before tax discount rate, that reflects the current market evaluations of the long term value of the cash and specific risks with the asset.

When a loss on an asset, other than goodwill, no longer exists or is reduced, the book value of the asset or cash-generating unit is increased to the new estimated recoverable value, which cannot exceed the value that would have been established if there had been no loss due to reduction in value.

A reversal of loss in value is calculated according to the revaluation model and recorded in the income statement in accordance with the provisions of IAS 16.

2.9 Financial instruments

The classification of financial instruments depends on the purpose for which the financial instrument was acquired. The management determines the classification of its financial instruments on the initial recognition in the financial statements. The purchase and sale of financial instruments are recognised at the transaction date or at the date when the Group undertakes the commitment to purchase or sell the asset. All financial instruments are initially recognised at fair value.

Financial assets

Financial assets are classified according to the following categories:

- financial assets at fair value through profit and loss: this category includes financial assets acquired primarily for sale in the short-term or those designated as such by the management, in addition to derivative instruments that are not designated as hedges (in relation to the treatment of derivatives, reference should be made to the following paragraph). The fair value of these instruments is determined with reference to the market value (offer price) at the balance sheet date; in the case of non-quoted instruments they are determined through commonly used technical financial valuation methods. Fair value variations of the instruments belonging to this category are recognised in the income statement. Financial instruments of this category are classified in the short-term if they are "held for trading" or if it is expected that they will be sold within twelve months from the balance sheet date. The only financial assets of this category held by the Group and recorded on the financial statements are derivative financial

instruments.

- loans and receivables: these are non-derivative financial instruments, with fixed or determinable payments, not quoted on an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. The latter are classified as non-current assets. These assets are measured at amortised cost on the basis of the "effective interest rate" method. Any loss in value determined through an impairment test is recognised in the income statement. In particular, trade receivables are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.

- investments held to maturity: these are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed according to the "amortised cost" method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.

- financial assets available-for-sale: these are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset depends on the intentions of the management and on the real liquidity of the security; they are recorded under current assets when they are expected to be realised within twelve months.

Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument ceases and the Group has transferred all risks and benefits relating to the instrument.

Loans

Loans are initially recorded at fair value less any transaction costs. After initial recognition, they are assessed at amortised cost; all differences between the amount financed (net of initial transaction costs) and the nominal value are recognised in the income statement over the duration of the loan using the "effective interest" method. If there is a significant variation in the expected cash flow that can be reliably estimated by the management, the value of the loans is recalculated to reflect the expected change in the cash flow. The value of the loans is recalculated on the basis of the current value of the new expected cash flow and the internal rate of return.

Loans are classified under current liabilities unless the company has an unconditional right to defer the payment for at least twelve months after the balance sheet date, and are removed from the balance sheet when they expire and the Group has transferred all risks and obligations relating to the instrument.

Derivative instruments

In accordance with the provisions of IAS 39 as approved by the European Commission, the derivative financial instruments used by the Group with the intention of hedging in order to reduce the foreign currency and interest rate risks, can be recorded according to the "hedge accounting" methodology only when:

- a formal designation and documentation relating to the hedge exists at the beginning of the hedge,
- it is presumed that the hedge is highly effective,
- the effectiveness can be reliably measured and the hedge is highly effective over the different financial periods for which it was designated.

All derivative financial instruments are measured at fair value, in accordance with IAS 39. When the financial instruments possess the characteristics required to be recorded according to the hedge accounting, the following accounting procedures are applied:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the current value of an asset or liability on the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognised in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognised on the income statement. In the financial periods described herein there were no fair value hedges.
- *Cash flow hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the cash flows of an asset or liability recorded on the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or losses of the financial instrument is recognised in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated with a hedge or with that part of the hedge that has become ineffective, are immediately recorded in the income statement. If a hedge instrument or a relation of a hedge is closed, but the hedged operation has not yet been realised, the cumulative profits and losses, up to that moment recorded in equity, are recognised in the income statement when the relative operation is realised. If the operation hedged is no longer considered probable, the profits or losses not yet realised in equity are recognised immediately in the income statement.

If hedge accounting cannot be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognised in the income statement.

2.10 Inventory

Inventories are measured at the lower of either the purchase or production cost or the net realisable value. The cost of raw materials and purchased finished products is calculated using the "weighted average cost" method. The cost of semi-finished products and internally produced finished products includes raw material, direct labour costs and the indirect costs allocated based on normal production capacity.

The net realisable value is determined on the basis of the estimated selling price under normal market conditions, net of direct sales costs.

Against the value of stock as determined above, provisions are made in order to take account of obsolete or slow moving stock.

2.11 Trade receivables

Trade receivables are initially classified on the financial statements at their current value and subsequently recalculated with the "amortised cost" method, net of any write-downs for loss in value. A provision for doubtful accounts is allocated when there is evidence that the Group will not succeed in collecting the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.

The Group also transfers trade receivables to factoring companies. Since such receivables represent legally sold credit, they do not comply with all the conditions of paragraphs 17 and following of IAS 39. They are removed from the balance sheet, but are maintained on the financial statement with a contra entry as a financial debt towards the factoring company.

2.12 Cash in hand and at bank

Cash and cash equivalents include cash, bank deposits on demand and other highly liquid short-term investments available at three months from purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recorded in the income statement. Bank overdrafts are posted under current liabilities.

2.13 Employee benefits

Pension plans

The Group recognises different forms of defined benefit plans and contribution plans, in line with the local conditions and practices in the countries in which it carries out its activities. The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year. The defined benefit plans are based on the working life of the employees and on the remuneration received by the employee during a predetermined period of employment.

The obligation of the company to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent consultants using the "projected unit credit" method. The related costs are recorded in the income statement on the basis of the estimated employment period of employees. The Group does not suspend actuarial gains or losses further to applying the "projected unit credit" method, but records them in an equity reserve, through the Consolidated Statement of comprehensive income, in the period in which they arise.

The employee severance fund of Italian companies ("TFR") has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of December 27th 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- the portion of the employee benefit liability matured from January 1st 2007, whether transferred to selected pension funds or transferred to the treasury account established with INPS, must be classified as a "defined contribution plan";
- the portion of the employee benefit liability matured as of December 31st 2006, must be classified as a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

For an analysis of the accounting effects deriving from this decision, see paragraph 4.18 "Employee benefits".

Remuneration plans under the form of share capital participation

The Group recognises additional benefits to some employees and consultants through "equity settled" type stock options. In accordance with IFRS 2 - Share-based payments, the current value of the stock options determined at the vesting date through the application of the "Black & Scholes" method is recognised in the income statement under personnel costs in constant quotas over the period between the vesting date of the stock options and the maturity date, counterbalanced by an equity reserve.

The effects of the vesting conditions not related to the market are not taken into consideration in the fair value of the vested options, but are relevant to the valuation of the number of options which are expected to be exercised.

At the balance sheet date the Group revises its estimates on the number of options which are expected to be exercised. The impact of the revision of the original estimates is recognised in the income statement over the maturity period and directly in equity reserves.

At the time of exercising the stock option, the amounts received from the employee, net of the costs directly attributable to the transaction, are credited to share capital for an amount equal to the nominal value of the shares issued and to the share premium reserve for the remaining part.

2.14 Provisions for risks and charges

The Group records provisions for risks and charges when:

- has a legal or implicit obligation to third parties;
- it is probable that it will be necessary to use resources of the Group to settle the obligation;
- a reliable estimate of the amount can be made.

Changes in estimates are recorded in the income statement of the period in which the changes occur.

2.15 Revenue recognition

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognises the revenues from the sale of goods sold at the shipment date, when all the risks and rewards relating to the ownership of the goods have been transferred to the client, or on delivery to the client, in accordance with the sales terms agreed. If the sale includes the right for the client to return unsold goods, the revenue is recognised on the date of shipment to the client, net of a provision which represents the best estimate of the products to be returned by the client and which the Group will no longer be able to place on the market. This provision is based on specific historical data and on the specific knowledge of the clients; historically there have not been significant differences between the estimates made and the products actually returned.

2.16 Public contributions

The Group recognises public contributions when there is reasonable certainty that they will be received and that the conditions required for the contribution have been or will be respected.

The contributions received are recorded in the income statement for the time required to relate them to the relative costs and they are considered as deferred income.

2.17 Royalties

The Group recognises royalty income and expenses in accordance with the accruals principle and in compliance with the substance of the contracts agreed.

2.18 Dividends

Dividends are recorded when the right of the Shareholders to receive the payment arises, which normally occurs when the Shareholders' meeting for the distribution of dividends. The distribution of dividends is therefore recorded as a liability on the financial statements in the period in which the distribution is approved by the Shareholders' meeting.

2.19 Income taxes

Income taxes include all taxes calculated on the assessable profits of the companies of the Group. Income taxes are recorded in the income statement, with the exception of those relating to balances directly credited or debited to equity, in which case the fiscal effect is recognised directly to equity. Taxes not related to income (e.g. property taxes) are stated with operating costs.

The deferred taxes are calculated on fiscal losses that can be carried forward and all the timing differences between the assessable income of an asset or liability and the relative book value. The deferred tax assets are recognised only for those amounts for which it is probable there will be future assessable income allowing for the recovery of the amounts.

The current deferred tax assets and liabilities are compensated when the income tax is applied by the same fiscal authority and when there is a legal right of compensation. The deferred tax assets and liabilities are determined with the fiscal rates that are expected to be applied, in accordance with the regulations of the countries in which the Group operates, in the years in which the temporary differences will be realised or extinguished.

2.20 Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit or loss of the Group by the weighted average number of ordinary shares in circulation during the year.

Diluted

Diluted earnings per share are calculated by dividing the profit or loss of the Group by the weighted average number of ordinary shares in circulation during the year. In order to calculate the diluted earnings per share, the weighted average number of shares in circulation is adjusted in respect of the dilutive potential ordinary share (stock options and convertible bonds), while the profit or loss of the Group is adjusted to take into account the effects, net of income taxes, of the conversion.

2.21 Use of estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting standards and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on past experience and assumptions which are from time to time considered reasonable and realistic according to the relative circumstances. The application of these estimates and assumptions affect the amounts posted in the financial statements, such as the balance sheet, the income statement, the cash flow statement and the notes thereto. Actual results of the balances on the financial statements, resulting from the above-mentioned estimates and assumptions, may differ from those reported on the financial statements due to the uncertainty which characterises the assumptions and the conditions on which the estimates are based. The accounting standards that are more subject to the directors' estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the consolidated financial statements of the Group are described briefly below.

- *Goodwill*: in accordance with the accounting standards adopted for the preparation of the financial statements, the company verifies goodwill at least once a year in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the verification results in the determination of the fair value allocated to the financial cash-generating units. This value is determined according to their current value in use. The allocation

of the goodwill to the cash-generating units and the determination of their value require estimates which depend on factors that may change over time with consequent effects, which may be significant, compared to the Directors' assessments.

- *Write-down of fixed assets*: in accordance with the accounting standards applied by the Group, the fixed assets are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulty in recovering the relative net book value through use. The verification of the existence of such difficulty requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is deemed that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential loss in value as well as the estimates for the determination depend on factors which may vary over time, influencing the Directors' evaluations and estimates.

- *Allowance for bad or doubtful debts*: the allowance for bad or doubtful debts reflects the management's best estimate regarding losses concerning the credit portfolio towards the final client. This estimate is based on the losses expected by the Group, determined on the basis of past experience for similar credits, current and historic overdue, careful monitoring of credit quality and projections regarding the economic and market conditions.

- *Allowance for inventory obsolescence*: the inventory of finished products which are obsolescent or slow moving are regularly subjected to specific assessment tests, which take into consideration past experience, historic results and the probability of sale under normal market conditions. If the need to reduce the value of the stock should arise following these analyses, the management proceeds with the appropriate write-downs.

- *Product warranty provision*: when a product is sold, the Group estimates the relative costs of performing work under guarantee and allocates a provision on the basis of historic information and a series of statistical data regarding the nature, frequency and the average cost of such work. The Group operates constantly to minimize the costs of work performed under guarantee and to improve the quality of its products.

- *Contingent liabilities*: the Group is subject to legal and fiscal actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when expenditure is considered probable and the amount can be reasonably estimated, adequate funds are allocated.

- *Pension plans*: the companies of the Group participate in pension plans, the costs of which are calculated by the management, with the assistance of the Group's actuarial consultants, on the basis of statistical assumptions and assessment factors regarding in particular the discount rate to be used, relative mortality and resignation rates.

- *Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future assessable income. The valuation of the expected assessable income, in order to record the deferred taxes, depends on factors that may change over time and can have a significant influence on the estimate of the deferred tax assets.

2.22 Fair value estimates

The fair value of the financial instruments traded on an active market is based on the listed price at the balance sheet date.

The fair value of the financial instruments not traded on an active market is calculated in accordance with valuation techniques, by applying models and techniques that are widely used in financial sectors and in particular:

- the fair value of the interest rate swaps is calculated on the basis of the current value of future cash flows;

- the fair value of the forward currency hedging contracts is 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 fair value of stock options is calculated using the Black & Scholes model.

3. Risk management

The operations of the Safilo Group are subject to various financial risks, in particular:

- credit risks, relative to normal business relations with clients and to financial assets in the financial statements;
- market risks (mainly interest and exchange rate risks), since the Group operates internationally and uses financial instruments that generate interests;
- cash flow risks, with particular regard to the ability to promptly find resources on financial markets under normal market conditions when needed.

The Group constantly monitors the financial risks to which it is exposed, in order to assess potentially negative effects in advance and to take appropriate corrective measures with the aim of eliminating or, at the least, limiting the negative effects deriving from the risks in question.

The risks to which the Group is exposed are managed centrally on the basis of hedging policies that may also include the use of derivative instruments with the aim of minimizing the effects deriving from exchange rate (especially in relation to the US dollar) and interest rate fluctuations.

<u>Credit risks</u>

The Group strives to reduce risk deriving from the insolvency of its customers through rules ensuring that sales are made to reliable and soluble customers. The relative assessment is based on information regarding the solvency of customers and statistical historical data, and by setting limits to the exposure of each single client. However, the credit risk is mitigated by the fact that credit exposure is spread over a very large number of clients.

Positions of a significant amount for which the Group recognizes that total or partial recovery will be effectively impossible, also taking into account any guarantees obtained, as well as the charges and expenses that will have to be sustained for the attempted credit recovery, are subject to individual write-down.

The Group's theoretical maximum exposure to the credit risk at the date of the balance sheet is represented by the book value of the financial assets.

As required by IFRS 7.36 the following table gives an analytical illustration of the ageing of trade receivables due at December 31st 2009 and December 31st 2008, which have been subjected to total or partial write-down due to situation of bad debts:

(Euro/000)	December 31, 2009		December 31, 2008	
Ageing of trade receivables - impaired *Overdue:*	*Nominal value trade receivables*	*Allowance for bad and doubtful debts*	*Nominal value trade receivables*	*Allowance for bad and doubtful debts*
up to 6 months	5,479	(2,461)	4,197	(1,576)
6 to 12 months	2,779	(1,907)	2,171	(1,323)
12 to 24 months	7,340	(5,037)	2,848	(1,816)
over 24 months	11,957	(9,865)	11,119	(8,791)
Grand total	**27,555**	**(19,270)**	**20,335**	**(13,506)**

At December 31st 2009, the trade receivable for which the Group has not considered necessary to make any write down since it considers these amounts would be collected in the future are equal to 47,155 thousand, of which overdue more than one year are 3,701 thousand Euro, in slight increase despite the previous year (3,274 thousand as at December 31th, 2008) with a percentage on the total of trade receivable equal to 1,2%.

Market risks can be divided into the following categories:

Risks related to trends in the exchange rate.

The Group operates internationally and is therefore exposed to risks deriving from variations in exchange rates that may influence the value of its shareholders' equity and financial results.

In particular, the Group is exposed to risks regarding the exchange rate between the Euro and the US Dollar, since some of the companies of the Group usually sell goods on the North American market and on other markets where the US dollar is the main currency used for business trades (Far-East).

The Group constantly attempts to reduce the impact deriving from variations in the US dollar by procuring suppliers located in areas where it is possible to buy in US dollars, thereby performing a sort of "natural hedging". For incomes in dollars that are not compensated by expenses in dollars, the Group policy advocates the use of hedging instruments such as foreign currency contracts in dollars. Any exposure is covered by plain vanilla contracts with a duration of no more than twelve months. Information regarding the fair value and the accounting methods of derivative financial instruments are detailed in a specific paragraph of the notes to the financial statements.

Furthermore, the Group owns shareholdings in subsidiaries located in areas outside the European Monetary Union, and the variations in the shareholders' equity deriving from variations in the exchange rates of the local currency against the Euro are recorded in a reserve of the consolidated shareholders' equity named "conversion reserve".

As far as the sensitivity analysis is concerned, it may be noted that an increase or decrease of 1% of the

US dollar against the Euro would result respectively in an increase or a decrease of the 2009 operating profit of the Group of around 1.3 million Euro, substantially in line with 2008 (1.1 million).

The tables below summarise the financial assets and liabilities of the Group per currency at December 31st 2009 and December 31st 2008:

(Euro/000)	December 31, 2009			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	6,174	17,259	13,462	36,896
Trade receivables, net	152,370	59,595	56,786	268,750
Derivative financial instruments	-	-	-	-
Other current assets	45,485	7,692	6,556	59,734
Total	**204,029**	**84,546**	**76,805**	**365,380**
Derivative financial instruments	228	-	-	228
Other non-current assets	19,863	721	1,736	22,320
Total	**20,091**	**721**	**1,736**	**22,548**
Trade payables	84,708	50,852	13,440	149,000
Short-term borrowings	115,309	41,906	20,909	178,124
Derivative financial instruments	5,549	-	-	5,549
Tax and other current payables	105,653	7,776	16,752	130,181
Total	**311,219**	**100,534**	**51,100**	**462,853**
Long-term borrowings	416,862	26,191	4,229	447,282
Derivative financial instruments	-	-	-	-
Other non-current liabilities	6,672	3,971	475	11,117
Total	**423,534**	**30,162**	**4,704**	**458,399**

(Euro/000)	December 31, 2008			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	17,424	11,036	22,507	50,967
Trade receivables, net	194,503	57,129	49,930	301,562
Derivative financial instruments	772	-	-	772
Other current assets	34,057	6,244	5,861	46,162
Total	**246,756**	**74,409**	**78,298**	**399,463**
Derivative financial instruments	455	-	-	455
Other non-current assets	8,759	4,181	1,754	14,694
Total	**9,214**	**4,181**	**1,754**	**15,149**
Trade payables	111,474	76,371	17,054	204,899
Short-term borrowings	128,240	21,478	12,927	162,645
Derivative financial instruments	-	-	-	-
Tax and other current payables	115,490	8,711	14,365	138,566
Total	**355,204**	**106,560**	**44,346**	**506,110**
Long-term borrowings	407,691	48,589	4,804	461,084
Derivative financial instruments	4,156	1,584	-	5,740
Other non-current liabilities	16,705	764	193	17,662
Total	**428,552**	**50,937**	**4,997**	**484,486**

Changes in fair value risk.

The Group holds some assets that are subject to variations in value over time according to the variations of the market on which they are traded. This risk is predominantly concentrated within the "available for sale" portfolio and is constantly monitored by the Group through real time information regarding the assets in question.

With regard to trade payables and receivables and other current and non-current assets, it is assumed that their book value is approximately equal to their fair value.

Interest rate risk.

Bank borrowings expose the Group to the risk of variations in interest rates. In particular, variable rate borrowings represent a risk of change in the cash flows, while fixed rate borrowings represent a potential variation in the fair value of the borrowings themselves.

Part of the Safilo Group financial debt for an amount of 434,141 thousand Euro (equal to 69.4% of total debt) is currently floating rate (Euribor/Libor floating rate).

The Group regularly assesses its exposure to the risk of variation of interest rates and manages this risk through use of derivative financial instruments called interest rate swaps (IRS), which are used exclusively to hedge the cash flows. The interest rate swap contracts are stipulated with primary financial institutions and, at the beginning of the hedge, the formal designation is made and the documentation relating to the hedge is prepared.

The aforementioned financial instruments have been qualified as effective in the year 2009. However, following the debt restructuring operation described in the Director's report in the paragraph on the liquidity risk, the prospective assessment of these instruments was not effective to designate as an hedge accounting, and therefore at December 31st 2009, their fair value has affected entirely in the income statement.

As far as the sensitivity analysis is concerned, a positive (negative) variation of 50 b.p. in the level of the short-term interest rates applied to the variable rate financial liabilities not subject to hedging would represent a greater (lower) annual financial charge, gross of taxes, of around 1,391 thousand Euro (1,419 thousand Euro at December 31st 2008).

In terms of sensitivity analysis, we additionally highlight that a reduction of 50 b.p. in the level of the short-term interest rates would represent a negative variation of the fair value of the IRS of 921 thousand Euro, gross of taxes (1,810 thousand Euro at December 31st 2008). On the other hand, an increase of 50 b.p. would represent a positive variation in the fair value of the IRS of 910 thousand Euro, gross of the fiscal effect (1,781 thousand Euro at December 31st 2008).

The following table summarises the main characteristics of the most significant variable and fixed rate medium and long term borrowings, at 31st December 2009 and 31st December, 2008:

December 31, 2009 *(Euro/000)*	**Currency**	**Nominal interest rate**	**Internal interest rate**	**Book Value**	**Expiry**
Facility A1	*EURO*	Euribor + 1.80%	2.5662%	56,000	31/12/2011
Facility A2	*USD*	Libor + 1.80%	2.0954%	31,779	31/12/2011
Facility A3	*USD*	Libor + 1.80%	2.0954%	36,318	31/12/2011
Revolving facility	*EURO*	Euribor + 1.80%	2.7087%	195,000	31/12/2012
High Yield	*EURO*	9.625%	10.6887%	190,704	15/05/2013

December 31, 2008 *(Euro/000)*	**Currency**	**Nominal interest rate**	**Internal interest rate**	**Book Value**	**Expiry**
Facility A1	*EURO*	Euribor + 1,80%	5.3494%	55,597	31/12/2011
Facility A2	*USD*	Libor + 1,80%	3.7938%	32,645	31/12/2011
Facility A3	*USD*	Libor + 1,80%	3.6140%	37,422	31/12/2011
Revolving facility	*EURO*	Euribor + 1,80%	6.3664%	165,000	31/12/2012
High Yield	*EURO*	9.625%	10.6887%	189,688	15/05/2013

Liquidity risk

This risk could generate the inability to find the necessary financial resources to back up the operating activities at good market terms within the timeframe available. The cash flow needs for finance and liquidity of the company are constantly monitored centrally by the Group treasury, to guarantee effective and efficient management of the financial resources.

In the course of the last financial year, and particularly in 2009, the Safilo Group recorded a significant decline in revenues and a progressive deterioration in its financial results. The ongoing difficulties in the global economy, which led to a marked contraction in consumption of discretionary durable goods and the possibility that the Group will have to continue operating in this environment for some time to come, has led to considerable uncertainty about the Group's ability to meet its financial commitments in the ordinary course of business. In addition, although a number of measures were implemented in order to achieve more effective management of working capital, it was not possible to substantially reduce the amount of financial resources used for this purpose, leading to an increase in bank debt, through extensive use of revocable credit lines.

The following table details the lines of credits granted to the Group, the uses and the lines of credit available at December 31st 2009 and December 31st 2008, net of factoring and leasing operations:

December 31, 2009 *(Euro/000)*	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	111,495	58,218	53,277
Credit lines on long-term bank loans	331,438	326,438	5,000
Total	**442,933**	**384,656**	**58,277**

December 31, 2008 *(Euro/000)*	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	199,191	74,083	125,108
Credit lines on long-term bank loans	334,442	299,442	35,000
Total	**533,633**	**373,525**	**160,108**

To face this context of financial and liquidity crisis, the Group implemented a plan of financial restructuring and recapitalisation as defined in the binding investment agreement signed on 19 October 2009 by HAL Holding N.V., the partner in the transaction, Only 3T S.p.A. and Safilo Group S.p.A, as approved by the shareholders of Safilo Group S.p.A. in their extraordinary meeting of 15 December 2009. On 24 December 2009, within the scope of this transaction, the lending banks formally approved the content of a debt restructuring agreement for the Group, which calls for the following changes to the contract of the senior loan:

- the redefinition of the Facility A1 tranches of the senior loan into Tranche 1 Facility A1 (in the amount of roughly Euro 3 million) and Tranche 2 Facility A1 (in the amount of Euro 25 million);
- the redefinition of the purpose of the revolving line of the senior loan (Facility B) in order to also allow for the redemption of the high-yield (HY) bonds upon maturity in 2013;
- the revising, to the benefit of the Group, of the interest spreads applied to the various lines of credit, with the provision, for the revolving line (Facility B), of a system of reducing the spread in accordance with the change in the leverage ratio (i.e. consolidated net debt to consolidated EBITDA);
- a change in the methods of repayment and the final expiration for repayment of the lines of credit as follows: Tranche 1 of Facility A1, Facility A2 and Facility A3 is to be changed from a semi-annual payment plan with a final payment of 31 December 2011 to payment in lump sum on 30 June 2012; Tranche 2 of Facility A1 is to be changed from a semi-annual repayment plan with a final payment on 31 December 2011 to a lump-sum payment on 30 June 2014; and final payment of the revolving line (Facility B) is to be deferred from 31 December 2012 to 30 June 2015;
- a covenant holiday until 30 June 2012, with the exception of those covenants related to the observance, beginning on the effective date of the restructuring agreement, of a general threshold of net debt. Beginning on 30 June 2012, with verifications on 30 June and 31 December of each year,

the covenants regarding the leverage ratio and the interest cover ratio (EBITDA to net interest for the period) are to be kept within the following levels: a leverage ratio of no more than 3.00:1 on 30 June 2012 and 31 December 2012 and no more than 2.50:1 on 30 June 2013 and for each half-year period thereafter; an interest cover ratio of no less that 3.00:1 on 30 June 2012 and 31 December 2012 and no less than 3.50:1 on 30 June 2013 and for each half-year period thereafter.

The main conditions for the validity of this restructuring agreement, the content of which was approved on 24 December 2009, concern:

- the completion of the increase in share capital by the parent company, Safilo Group S.p.A., both for the portion reserved to HAL Holding N.V. (including, at the partner's discretion, through its subsidiaries) and for the optional portion called for by the binding investment agreement of 19 October 2009;
- evidence that a portion of the funds from the optional capital increase, in the amount of at least Euro 185 million, are to be used to repay the senior loan.

Indeed, the restructuring agreement requires that a portion of the funds raised by the capital increase be used to reduce the Group's debt related to the senior loan. This partial repayment must primarily concern the revolving line, i.e. Facility B, in the amount of roughly Euro 160 million, as well as Facility A1 in the amount of roughly Euro 28 million.

Following this repayment, the amount of the senior loan used for cash will go from its current €319 million to roughly €140 million, with an available revolving line of credit of roughly Euro 150 million.

On 24 December 2009, in anticipation of meeting the conditions for the agreement, and the signing and payment of the capital increase in particular, which was completed in the first quarter of 2010 as described in greater detail in the section regarding significant events subsequent to year-end, the Group obtained a waiver from the lending banks for verification of the covenants on 31 December 2009, as well as the deferment to 30 June 2010 of payment of the principal originally due on 31 December 2009.

Group management believes that the restructuring agreement defined in the fourth quarter of 2009, which was finalised in the first quarter of 2010 following completion of the capital increase, places the Group in a position of renewed financial equilibrium, thereby minimising the risks related to insufficient liquidity and the raising of financial resources.

The table below summarises the financial assets and liabilities of the Group at December 31st 2009 and December 31st 2008 according to due date:

(Euro/000)	**December 31, 2009**			
	Within 1 year	Between 2 and 5 years	Beyond 5 years	Total
Cash in hand and at bank	36,896	-	-	36,896
Trade receivables, net	268,750	-	-	268,750
Derivative financial instruments	-	-	-	-
Other current assets	59,734	-	-	59,734
Total	**365,380**	**-**	**-**	**365,380**
Derivative financial instruments	-	228	-	228
Other non-current assets	-	21,875	445	22,320
Total	**-**	**22,103**	**445**	**22,548**
Trade payables	149,000	-	-	149,000
Tax payables	18,606	-	-	18,606
Short-term borrowings	178,124	-	-	178,124
Derivative financial instruments	5,549	-	-	5,549
Other current liabilities	111,575	-	-	111,575
Total	**462,853**	**-**	**-**	**462,853**
Long-term borrowings	-	445,411	1,871	447,282
Derivative financial instruments	-	-	-	-
Other non-current liabilities	-	9,215	1,903	11,117
Total	**-**	**454,626**	**3,774**	**458,399**

(Euro/000)	**December 31, 2008**			
	Within 1 year	Between 2 and 5 years	Beyond 5 years	Total
Cash in hand and at bank	50,967	-	-	50,967
Trade receivables, net	301,562	-	-	301,562
Derivative financial instruments	772	-	-	772
Other current assets	46,162	-	-	46,162
Total	**399,463**	**-**	**-**	**399,463**
Derivative financial instruments	-	455	-	455
Other non-current assets	-	14,609	85	14,694
Total	**-**	**15,064**	**85**	**15,149**
Trade payables	204,899	-	-	204,899
Tax payables	22,545	-	-	22,545
Short-term borrowings	162,645	-	-	162,645
Derivative financial instruments	-	-	-	-
Other current liabilities	116,021	-	-	116,021
Total	**506,110**	**-**	**-**	**506,110**
Long-term borrowings	-	457,015	4,069	461,084
Derivative financial instruments	-	5,740	-	5,740
Other non-current liabilities	-	16,200	1,462	17,662
Total	**-**	**478,955**	**5,531**	**484,486**

Classification of financial instruments

The table below shows the financial instruments present on the balance sheet, according to the analyses requested by IFRS 7, with indication of the assessment criteria applied and, in the case of "financial instruments measured at fair value", the impact on the income statement or the shareholders' equity. If applicable, the last column of the table shows the fair value of the financial instrument.

Financial instruments	Financial instruments at fair value through		Financial instruments at amortised cost	Investments and non-listed financial assets at cost	Current value at Dec.31, 2009	Fair value at 31.12.2009
(Euro/000)	income statement	equity				
ASSETS						
Cash in hand and at bank	-	-	36,896	-	36,896	36,896
Trade receivables, net	-	-	268,750	-	268,750	268,750
Foreign currency contracts	-	-	-	-	-	-
Options	228	-	-	-	228	228
Financial assets available for sales		761	-	45	806	806
Other current assets	-	-	59,734	-	59,734	59,734
Other non-current assets	-	-	21,514	-	21,514	21,514
Total assets	**228**	**761**	**386,894**	**45**	**387,928**	**387,928**
LIABILITIES						
Short-term and long-term borrowings	-	-	434,702	-	434,702	434,702
High Yield	-	-	190,704	-	190,704	181,438
Derivative financial instruments	5,549	-	-	-	5,549	5,549
Other current liabilities	-	-	111,575	-	111,575	111,575
Other non-current liabilities	-	-	11,117	-	11,117	11,117
Total liabilities	**5,549**	**-**	**748,098**	**-**	**753,647**	**744,381**

Financial instruments (Euro/000)	Financial instruments at fair value through income statement	Financial instruments at fair value through equity	Financial instruments at amortised cost	Investments and non-listed financial assets at cost	Current value at Dec.31, 2008	Fair value at 31.12.2008
ASSETS						
Cash in hand and at bank	-	-	50,967	-	50,967	50,967
Trade receivables, net	-	-	301,562	-	301,562	301,562
Foreign currency contracts	772	-	-	-	772	772
Options	455	-	-	-	455	455
Financial assets available for sales	-	688	-	173	861	861
Other current assets	-	-	46,162	-	46,162	46,162
Other non-current assets	-	-	13,833	-	13,833	13,833
Total assets	**1,227**	**688**	**412,524**	**173**	**414,612**	**414,612**
LIABILITIES						
Short-term and long-term borrowings	-	-	434,041	-	434,041	434,041
High Yield	-	-	189,688	-	189,688	54,941
Derivative financial instruments	-	5,740	-	-	5,740	5,740
Other current liabilities	-	-	116,021	-	116,021	116,021
Other non-current liabilities	-	-	17,662	-	17,662	17,662
Total liabilities	**-**	**5,740**	**757,412**	**-**	**763,152**	**628,405**

Foreign currency contracts that were closed during FY 2009 have resulted in negative income components on the income statement for a total of 177 thousand Euro, gross of taxes, compared to a positive component reported a year earlier equal to 754 thousand Euro, gross of taxes.

Furthermore, during 2009, the Group reported financial income equal to 4,540 thousand Euro before taxes, against financial proceeds reported in the previous year of 873 thousand Euro, in relation to the total amount of spreads between fixed rate and variable rate relating to the interest rate swaps "IRS" contracts.

Hierarchial levels of the fair value assessment

As regards financial instruments reported in the balance sheet valued at the fair value, the IFRS 7 amendment requires that these values are classified based on a three-level hierarchy that reflects the significance of the input used in determining the fair value. In particular, the amendment defines three levels of fair value:

- Level 1 – if the instrument is quoted in an active market;
- Level 2 - if the fair value is measured based on valuation techniques for which all significant inputs are based on observable market data, other than quotations of the financial instrument;
- Level 3 – if the fair value is calculated based on valuation techniques for which any significant input is not based on observable market data.

The following tables show the liabilities and assets valued at the fair value at December 31st 2009, split by hierarchical level of the fair value.

(Euro/000)	Level 1	Level 2	Level 3	Total
Investments at *fair value* - available for sale	761	-	-	761
Options	-	-	228	228
Total assets	**761**	**-**	**228**	**989**
Financial derivate instruments	-	(5,549)	-	(5,549)
Total liabilities	**-**	**(5,549)**	**-**	**(5,549)**

In the FY 2009, there have been no transfers from the level 1 to the level 2 and vice versa.

The following table shows the changes taking place in level 3 in 2009

(Euro/000)	Option
Balances at December 31, 2008	455
Gain and (losses) recognised in profit or loss	(227)
Balances at December 31, 2009	**228**

In the FY 2009, there have been no transfers from the level 3 to other levels and vice versa.

4. Notes to the consolidated balance sheet

4.1 Cash in hand and at bank

This item represents the temporary availability of liquidity held at market rates. The book value of the liquidity available is aligned with fair value as at balance-sheet date and the related credit risk is very limited as the counterparties are premier banks.

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

(Euro/000)	December 31, 2009	December 31, 2008
Cash in hand and at bank	36,896	50,967
Bank overdrafts	(6,094)	(4,238)
Bank borrowings current	(52,212)	(69,857)
Total	**(21,410)**	**(23,128)**

4.2. Trade receivables, net

This item is composed as follows:

(Euro/000)	December 31, 2009	December 31, 2008
Gross value	297,327	324,809
Allowance for doubtful accounts	(28,577)	(23,247)
Net value	**268,750**	**301,562**

Based on straight-line exchange rates, trade receivables – net of changes in the allowance for doubtful accounts – decreased by Euro 35,235 thousand mainly because of lower sales. It should be highlighted that the Group has no particular concentration of credit risk, as its credit exposure is spread over a large number of clients. Furthermore the book value of trade receivables is considered to be approximately equal to their fair value.

As at December 31, 2009 trade receivables included receivables assigned to premier factoring companies that did qualify under IAS 39 for their derecognition from balance-sheet assets for a total amount of Euro 61,816 thousand (vs. Euro 70,511 thousand as at December 31, 2008).

The allowance for sales returns includes the provision for products delivered to clients 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 reduction of sales.

The allowance for bad and doubtful debts also includes the provision for insolvency posted in the income statement under the item "general and administrative expenses" (note 5.4).

The following table shows changes in allowance occurring during FYs 2008 and 2009:

(Euro/000)	Balance at January 1, 2008	Posted to income statement	Use (-)	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2008
Allowance for bad debts	11,238	3,372	(895)	-	(209)	13,506
Allowance for sales returns	8,299	950	-	-	492	9,741
Total	**19,537**	**4,322**	**(895)**	**-**	**283**	**23,247**

(Euro/000)	Balance at January 1, 2009	Posted to income statement	Use (-)	Changes in the scope of consolidation	Transl. Diff.	Balance at December 31, 2009
Allowance for bad debts	13,506	8,934	(3,062)	(287)	178	19,269
Allowance for sales returns	9,741	2,175	(2,383)	-	(225)	9,308
Total	**23,247**	**11,109**	**(5,445)**	**(287)**	**(47)**	**28,577**

4.3 Inventories

This item is composed as follows:

(Euro/000)	December 31, 2009	December 31, 2008
Raw materials	49,809	50,754
Work-in-progress	5,377	6,315
Finished products	202,836	251,621
Gross	**258,022**	**308,690**
Obsolescence provision (-)	(49,649)	(36,588)
Total	**208,373**	**272,102**

Raw materials stocks remained substantially stable vs. December 31, 2008. Finished product inventory instead decreased tangibly both because of lower sales and because of the policy of curbing inventory in order to reduce obsolescence.

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. This provision is included in the item "cost of sales" of the income statement.

The movements in the aforementioned provision are shown below:

(Euro/000)	Balance at January 1, 2008	Posted to income statement	Changes in the scope of consolidation	Transl. Diff.	Balance at December 31, 2008
Obsolescence provision	25,943	10,126	-	519	36,588
Total	**25,943**	**10,126**	**-**	**519**	**36,588**

(Euro/000)	Balance at January 1, 2009	Posted to income statement	Changes in the scope of consolidation	Transl. Diff.	Balance at December 31, 2009
Obsolescence provision	36,588	14,131	(1,250)	180	49,649
Total	**36,588**	**14,131**	**(1,250)**	**180**	**49,649**

4.4 Derivative financial instruments

The following table summarises the amount of financial instruments present in the balance sheet as at December 31, 2009:

(Euro/000)	December 31, 2009	December 31, 2008
Current assets:		
- Foreign currency contracts - at fair value through P&L	-	772
Total	**-**	**772**
Non-current assets:		
- Options	228	455
Total	**228**	**455**
Current liabilities:		
- Foreign currency contracts - at fair value through P&L	338	-
- Interest rate swaps - at fair value through P&L	5,211	-
Total	**5,549**	**-**
Non-current liabilities:		
- Interest rate swaps - cash flow hedge	-	5,740
Total	**-**	**5,740**

Forward foreign currency hedging contracts present in the balance sheet as at December 31, 2008 were closed out during 2009, causing a charge of Euro 177 thousand to the income statement. As at December 31, 2009 the Group had foreign exchange hedging contracts in place relating to AUD 3 million for a market value of Euro 338 thousand.

The market value of interest rate swap (IRS) contracts present in the balance sheet as at December 31, 2009 totalled Euro 5,211 thousand. It was estimated by specialised financial institutions based on normal

market conditions. The Group's policies for managing interest rate risk normally envisage hedging of future cash flows that will emerge in accounts in subsequent years. Given this, the related hedging effect must be suspended in the cash flow reserve and recognised in profit or loss in subsequent years when the expected flows actually emerge.

The above-mentioned financial instruments has been qualified as effective for hedge accounting during 2009. However, following debt restructuring, the prospective valuation of such instruments was found to be ineffective for designation as hedges. Given this, as at December 31, 2009 their fair value was totally transferred to the income statement.

The following table summarises the characteristics and fair value of Interest rate swap contracts in place as at December 31, 2009 and 2008:

Interest rate swaps *(Euro/000)*	**December 31, 2009**			**December 31, 2008**		
	Contractual value		***Fair value***	**Contractual value**		***Fair value***
	(USD/000)	*(Euro/000)*	*(Euro/000)*	*(USD/000)*	*(Euro/000)*	*(Euro/000)*
Expiry year 2010	-	55,000	(1,386)	-	55,000	(1,612)
Expiry year 2011	-	65,000	(2,847)	-	81,000	(2,544)
Expiry year 2011	48,488	-	(978)	70,038	-	(1,584)
Total	**48,488**	**120,000**	**(5,211)**	**70,038**	**136,000**	**(5,740)**

4.5 Other current assets

The breakdown of this item is as follows:

(Euro/000)	**December 31, 2009**	**December 31, 2008**
Receivable from the holding company Safilo Group S.p.A.	34	59
VAT receivable	4,554	5,713
Tax credits and payments on account	13,410	6,925
Prepayments and accrued income	22,212	10,857
Receivables from agents	1,083	633
Other current receivables	18,441	21,975
Total	**59,734**	**46,162**

The tax credits and payments on account principally relate to tax credits and prepayments made during the financial year which will be compensated against the relative tax payable.

As at December 31, 2009 prepayments and accrued income amounted to Euro 22,212 thousand and mainly consisted of:

- prepaid royalty costs of Euro 18,001 thousand;
- prepaid advert ising costs of Euro 867 thousand;

- prepaid rent and operating lease costs of Euro 1,768 thousand.

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

Other current receivables amount to Euro 18,441 thousand and mainly refer to:

- payments of minimum annual guarantees relating to 2010 royalties totalling Euro 11,731 thousand;
- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for Euro 2,040 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;
- deposit payments due within 12 months totalling Euro 397 thousand;
- amounts receivable for insurance refunds totalling Euro 1,417 thousand.

The book value of the other current assets is considered approximately equal to their fair value.

4.6 Tangible fixed assets

The following table shows changes in tangible fixed assets in the years ended on December 31 2009 and 2008:

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Reclass.	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2008
Gross value							
Land and buildings	116,050	16,141	(874)	(3,833)	1,024	540	129,048
Plant and machinery	165,889	9,253	(1,660)	3,842	-	589	177,913
Equipment and other assets	161,006	30,659	(5,677)	(547)	4,763	2,351	192,555
Assets under constructions	6,288	2,980	-	(2,872)	-	43	6,439
Total	**449,233**	**59,033**	**(8,211)**	**(3,410)**	**5,787**	**3,523**	**505,955**
Accumulated depreciation							
Land and buildings	30,558	4,285	(915)	(421)	240	(39)	33,708
Plant and machinery	107,009	10,315	(1,676)	512	-	145	116,305
Equipment and other assets	109,808	19,443	(5,206)	(247)	2,075	1,311	127,184
Total	**247,375**	**34,043**	**(7,797)**	**(156)**	**2,315**	**1,417**	**277,197**
Net book value	**201,858**	**24,990**	**(414)**	**(3,254)**	**3,472**	**2,106**	**228,758**

(Euro/000)	Balance at January 1, 2009	Increase	Decrease	Reclass.	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2009
Gross value							
Land and buildings	129,048	7,478	(1,207)	7,219	(9,310)	(147)	133,081
Plant and machinery	177,913	8,595	(4,927)	-	-	(437)	181,144
Equipment and other assets	192,555	15,447	(4,309)	(3,053)	(8,224)	(830)	191,586
Assets under constructions	6,439	5,295	(151)	(7,405)	-	(30)	4,148
Total	**505,955**	**36,815**	**(10,594)**	**(3,239)**	**(17,534)**	**(1,444)**	**509,959**
Accumulated depreciation							
Land and buildings	33,708	10,354	(2,680)	2,113	(8,233)	348	35,610
Plant and machinery	116,305	11,583	(3,392)	-	-	(124)	124,372
Equipment and other assets	127,184	24,672	(3,692)	(698)	(5,570)	(498)	141,398
Total	**277,197**	**46,609**	**(9,764)**	**1,415**	**(13,803)**	**(274)**	**301,380**
Net book value	**228,758**	**(9,794)**	**(830)**	**(4,654)**	**(3,731)**	**(1,170)**	**208,579**

Investments made in intangible fixed assets (i.e. property, plant and equipment) in the year amounted to a total of Euro 33,568 thousand (Euro 56,161 thousand at December 31, 2008) and mainly consisted of:

- Euro 10,222 thousand for the Italian factories, mainly for replacement of plan and for the

purchase and production of equipment for new models

- Euro 9,322 thousand for completion of the new Chinese production unit
- Euro 4,120 thousand for the production facility of the Slovenian subsidiary Carrera Optyl d.o.o.;
- Euro 5,961 thousand for the American companies, mainly for development of the US retail store chain retail in America;
- The remaining part for other Group companies.

Several companies of the Group have purchased tangible fixed assets under finance lease contracts. The following table shows the gross value and the related accumulated depreciation fund, while the relating debt to the lessor is reported in paragraph 4.13 " bank and other borrowings".

(Euro/000)	**December 31, 2009**	**December 31, 2008**
Land and buildings	15,437	15,422
Accumulated depreciation (-)	(2,032)	(1,452)
Net book value	**13,405**	**13,970**
Plant and machinery	3,249	3,249
Accumulated depreciation (-)	(2,860)	(2,620)
Net book value	**389**	**629**
Equipment and other assets	1,534	3,063
Accumulated depreciation (-)	(666)	(1,087)
Net book value	**868**	**1,976**
Total	**14,662**	**16,575**

4.7 Intangible fixed assets

The following table shows changes in intangible fixed assets for the years ending on December 31, 2009 and 2008:

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Reclass.	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2008
Gross value							
Software	14,695	2,286	(382)	610	91	454	17,754
Trademarks and licenses	42,313	625	(2)	-	3	(9)	42,930
Other intangible assets	8,919	1,750	(996)	(239)	-	(21)	9,413
Intangible assets in progress	83	346	-	-	-	2	431
Total	**66,010**	**5,007**	**(1,380)**	**371**	**94**	**426**	**70,528**
Accumulated depreciation							
Software	9,853	1,947	(372)	493	68	151	12,140
Trademarks and licenses	26,477	3,394	-	-	-	(2)	29,869
Other intangible assets	6,250	565	(788)	(142)	-	11	5,896
Total	**42,580**	**5,906**	**(1,160)**	**351**	**68**	**160**	**47,905**
Net book value	**23,430**	**(899)**	**(220)**	**20**	**26**	**266**	**22,623**

(Euro/000)	Balance at January 1, 2009	Increase	Decrease	Reclass.	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2009
Gross value							
Software	17,754	3,063	(100)	-	(804)	(157)	19,756
Trademarks and licenses	42,930	198	(3)	-	(27)	13	43,111
Other intangible assets	9,413	479	(215)	(173)	(644)	36	8,896
Intangible assets in progress	431	-	(10)	(421)	-	-	(0)
Total	**70,528**	**3,740**	**(328)**	**(594)**	**(1,475)**	**(108)**	**71,763**
Accumulated depreciation							
Software	12,140	2,508	(67)	-	(387)	(55)	14,139
Trademarks and licenses	29,869	3,406	-	-	(13)	8	33,270
Other intangible assets	5,896	893	(186)	(173)	(87)	(28)	6,316
Total	**47,905**	**6,808**	**(253)**	**(173)**	**(487)**	**(75)**	**53,725**
Net book value	**22,623**	**(3,068)**	**(75)**	**(421)**	**(988)**	**(33)**	**18,038**

Depreciation and amortization expenses related to tangible and intangible fixed assets for the 2009 and 2008 fiscal years are divided as follow in the income statement:

(Euro/000)	*note*	2009	2008
Cost of sales	*5.2*	22,219	20,134
Selling and marketing expenses	*5.3*	13,766	6,735
General and administrative costs	*5.4*	13,510	13,080
Total		**49,495**	**39,949**

4.8 Goodwill

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2008
Goodwill	357,765	39,150	-	-	2,822	399,737
Net book value	**357,765**	**39,150**	**-**	**-**	**2,822**	**399,737**

(Euro/000)	Balance at January 1, 2009	Increase	Decrease	Changes in the scope of consolidation	Transl. diff.	Balance at December 31, 2009
Goodwill	399,737	-	(101,665)	(22,907)	2,018	277,183
Net book value	**399,737**	**-**	**(101,665)**	**(22,907)**	**2,018**	**277,183**

The goodwill broken down according to CGU groups is illustrated below:

Goodwill	Italy and Europe	Americas	Asia Pacific	Total
December 31, 2009	90,819	91,984	94,380	277,183
December 31, 2008	141,481	117,456	140,800	399,737

Impairment test

Below we describe the approach followed and the assumptions made to perform the impairment test:

For impairment test purposes, the Group has identified its cash-generating units (CGUs), which substantially correspond to the entities operating in each country.

The recoverable amount of the CGUs is based on their value in use determined on estimated future cash

flow projections. This calculation is based on five-year financial plans, developed starting from the assumptions of the Budget 2010 approved by the Board of Directors on December 15, 2009.

Overall, the major differences compared with the impairment test performed when 2008 financial statements were prepared stem from the following factors:

- Management has more up-to-date information to hand on future projections, based on the Budget 2010 prepared in the light of a market situation that remains challenging;

- The equity risk premium used to calculate WACC (weighted average cost of capital) has increased;

- Growth rates for the years following the plan (the perpetual growth rate, known as the "g" rate) are the same for the European area, US area, and Australia, while is equal to the inflation rate foreseen by the analyst for the year 2010 for the other countries .

The cash flows considered for the purposes of the impairment test were constructed starting from the Budget 2010 approved by the Board of Directors and developed for the following years based on the best knowledge available in the company.

To calculate the terminal value, the future cash flows thus obtained were discounted to present value at a discount rate (WACC) as at the test's date of reference that took into account the specifics and typical risks of each area where the Group operates.

Cash flows beyond the five-year period were extrapolated using the estimated perpetual growth rate ("g" rate"), which did not exceed the long-term average growth rate forecast for the business in which the Group operates.

When preparing annual financial statements, we updated parameters for the calculation of Enterprise Value, using the same method as for previous tests. Comparison of the WACC and "g" growth rates as at December 31, 2009 with those applied in the previous impairment test as at December 31, 2008 showed:

1. An increase in WACC due to:

- An increase of risk-free and swap rates

- Increase of equity risk premium from 4.5% to 5%. In the light of the persistence of the economic crisis, the Company deemed it appropriate to increase this rate, thus reflecting the greater uncertainty of returns on investments.

2. Reduction of growth rates for the years beyond the plan ("g" rate) in some countries, in particular in South Africa.

The following table summarises the WACC and "g" rates used by the Group for the analyses performed when preparing financial statements for the year ended on December 31, 2009 and 2008:

Key assumptions	"WACC" discount rate		Growth rate "g"	
	31-Dec-09	31-Dec-08	31-Dec-09	31-Dec-08
Euro area	6.9%	6.3%	1.0%	1.0%
USA area	7.2%	5.4%	1.0%	1.0%
Far East area	8.6%	7.5%	2.3%	2.4%
Australia	9.0%	7.2%	1.0%	1.0%
Japan	4.8%	4.4%	1.0%	1.0%
South Africa	12.2%	10.3%	5.5%	6.0%
India	11.4%	11.1%	5.7%	4.8%
Brasil	10.0%	9.7%	4.2%	3.7%

The impairment test conducted using the parameters outlined above led to a writedown of goodwill amounted to Euro 94,501 thousand. The CGUs that have contributed most to the writedown of goodwill are: Safilo Japan Co. Ltd. for Euro 24.8 million, Safilo Espana SL Euro 17.9 million, Tide Ti S.A. de C.V. for Euro 8.6 and the retail company Solstice Marketing Corp. for Euro 11.2 million. In particular, goodwill impairment have affected the wholesale and retail sectors respectively for Euro 58.3 million and Euro 36.2 million.

The circumstances and events that may in future cause further loss of value will be constantly subject of attention from the Group's management. In the monitoring of goodwill, management has developed sensitivities assuming various future scenarios. For impairment tests have been used forecast trends in terms of sales and profitability, in the range most conservative among the different sensitivities. The sensitivity analysis on the result of impairment tests in relation to changes of basic assumptions that affect the value have shown the following results:

- an increase of the WACC by 50 bps would imply a position of impairment in some CGUs for a total amount of about Euro 1.1 million;

- a reduction of the growth rate 'g' by 10% would not imply any significant further impairment;

- a reduction by 10% of the operating results of the CGUs with allocated goodwill further to a decrease in sales volumes would imply a position of impairment in some CGUs for a total amount of about Euro 3.7 million. This value doesn't include any potential impact on the valuation of other assets in addition to goodwill.

4.9 Investments in associates

This account balance is composed of 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	Turchia	50.0%	Non-consolidated subsidiary	Commercial

Movements in investments in associates during the financial period are the following:

	January 1, 2009			Movements for the period		
(Euro/000)	Gross value	Revaluation/(write-down)	Value at January 1, 2009	Share of results and write-down of divid. of assoc. comp.	Transl. diff.	Value at December 31, 2009
TBR Inc.	427	(244)	183	149	(10)	322
Elegance I. Holdings Ltd	5,307	6,567	11,874	4	(409)	11,469
Optifashion As	353	(112)	241	-	-	241
Total	**6,087**	**6,211**	**12,298**	**153**	**(419)**	**12,032**

The changes compared to December 31, 2008 was mainly due to the profits realised in the year from the companies listed above, net of dividends distributed. The table below shows the principal data relating to the last approved financial statements of the above-mentioned companies:

December 31, 2009 *(Euro/000)*	Assets	Liabilities	Equity	Sales	Net profit	% Group	Group shareholders' equity
Elegance Ltd	55,782	7,922	47,860	19,309	847	23.05%	11,032
Optifashion As	565	142	423	1,533	34	50.00%	212
TBR Inc.	7,774	6,385	1,390	1,674	625	33.33%	463
Total	**64,121**	**14,449**	**49,672**	**22,516**	**1,505**		**11,706**

The associated company Elegance Ltd closes its financial period on March 31th every year. For the purposes of valuation of the investment using the equity method, the last available set of approved accounts was used, i.e. the interim report as at September 30, 2009 prepared for disclosure to the Hong Kong Stock Exchange. The fair value reflecting the stock market price as at December 31, 2009 amounted to approximately Euro 5 million vs. Euro 3.8 million as at December 31, 2008. It is believed that this value, which during 2009 increased by about Euro 1.2 million, does not yet represent the recoverable value of the above investment.

The company TBR Inc. is a US real estate company of which 33.33% was acquired in 2002. The subsidiary Safilo USA rents its head office and US distribution centre (in New Jersey) by virtue of a rental

contract with the aforementioned associate company.

The company Optifashion A.s. with registered offices in Istanbul (Turkey), a 50%-owned 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.

4.10 Financial assets available-for-sale

This item includes financial assets that may be sold. They are measured at fair value with counterbalance in the shareholders' equity, according to the approach indicated in paragraph 2.9.

(Euro/000)	Relationship	Value at December 31, 2009	Value at December 31, 2008
Gruppo Banco Popolare	Other equity investment	680	638
Unicredit S.p.A.	Other equity investment	80	50
Altre	Other equity investment	45	173
Total		**806**	**861**

The movements of the financial period of the item in question are reported below:

	December 31, 2008			Movements for the year		
(Euro/000)	Gross value	Revaluation/ (write-down)	Net value	Increase/ (Decrease)	Revaluation/(write-down)	Value at December 31, 2009
Gruppo Banco Popolare	4,096	(3,457)	639	-	42	680
Unicredit S.p.A.	48	2	50	-	30	80
Others	172	-	172	(127)	-	46
Total	**4,316**	**(3,455)**	**861**	**(127)**	**72**	**806**

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. As at 31 December 2009, in view of the significant and protracted decrease of the fair value of the investment in Gruppo Banco Popolare, management decided it was appropriate to transfer the capital loss of Euro 2,063 thousand accumulated in the fair value reserve in equity to the income statement.

4.11 Deferred tax assets and deferred tax liabilities

Deferred tax assets, net of deferred tax liabilities, relating to some Group companies have been written down via provisioning of a provision, in order to take into account market trends and the changed prospects for future profitability. This provisioning, considered prudential, amounts to Euro 60,906 thousand, of which Euro 30,753 thousand taken into the income statement in 2009. This write-down, as prescribed by International accounting standard n. 12, may be reversed in future years when taxable income occurs able to absorb tax losses and temporary differences between the carrying value of assets and liabilities and their tax base.

The following table shows the amounts of deferred tax assets and liabilities, net of provision accounted for:

(Euro/000)	December 31, 2009	December 31, 2008
Deferred tax assets	102,624	85,409
Depreciation Fund (-)	(60,906)	(31,975)
Total net receivables for deferred tax	41,718	53,434
Deferred tax liabilities	(3,531)	(5,184)
Total	**38,187**	**48,250**

The following tables detail the balance-sheet items experiencing temporary differences on which deferred tax assets and liabilities have been calculated.

Deferred tax assets

(Euro/000)	Balance at January 1, 2009	Impact on income statement	Impact on equity	Reclass./ other changes	Transl. diff.	Changes in the scope of consolidation	Balance at December 31, 2009
- Tax losses	4,838	8,128	-	(8,894)	103	(3,582)	593
- ICO profits on inventories and obsolescence	15,560	(2,301)	-	-	(392)	-	12,867
- Adjustments on receivables	4,950	(393)	-	-	(100)	-	4,457
- Contingent liabilities	220	3	-	-	14	-	237
- Employee benefit liability	1,057	(505)	-	-	(13)	-	539
- Intangible assets	3,709	(604)	-	37	(1)	(37)	3,104
- Tangible assets	16,944	(942)	-	436	(36)	(436)	15,966
- Fair value of derivative instruments	-	396	(247)	-	-	-	149
- Investments	340	11	-	-	(12)	-	339
- Goodwill amortisation	1,001	(199)	-	-	(14)	-	788
- Other payables	1,751	(1,435)	-	-	(179)	-	137
- Other temporary differences	3,064	(564)	-	(244)	286	-	2,542
Total	**53,434**	**1,595**	**(247)**	**(8,665)**	**(344)**	**(4,055)**	**41,718**

Deferred tax liabilities

(Euro/000)	Balance at January 1, 2009	Impact on income statement	Impact on equity	Reclass. /other changes	Transl. diff.	Changes in the scope of consolidation	Balance at December 31, 2009
- Differences on tangible and intangible assets depreciation	1,371	(360)	-	-	(35)	-	976
- Goodwill	515	53	-	-	(5)	-	563
- Investments	1,501	82	-	-	(54)	-	1,529
- Fair value of derivative instruments	-	-	-	-	-	-	-
- Dividends	407	(391)	-	-	(6)	-	10
- ICO profits on inventories	57	42	-	-	(1)	-	98
- Adjustments on receivables and payables	75	(29)	-	-	1	-	47
- Employee benefit liability	-	-	-	-	-	-	-
- Other temporary differences	1,258	(377)	-	(393)	23	(203)	308
Total	**5,184**	**(980)**	**-**	**(393)**	**(77)**	**(203)**	**3,531**

The following table shows the tax losses accumulated by some Group companies for which deferred tax assets have been recognised. It must be highlighted that, as stated in the previous paragraph, deferred tax assets calculated on the losses of some Group companies have been written down by a total amount of Euro 9,424 and because, at present, recovery through future taxable income is considered unlikely.

Financial year (Euro/000)	Expiry date	Tax losses	Deferred tax assets
2006	2011	274	60
2007	2012	4,162	498
2008	2013	4,696	651
2009	2014	8,915	1,103
2009	2024	24,972	7,492
2009	unlimited	1,060	213
Total		**44,079**	**10,017**
Provision			(9,424)
Total deferred tax assets on losses carried forward at Dec. 31, 2009			**593**

The following table instead shows deferred tax assets and liabilities split between the portion recoverable within one year and the portion recoverable after more than one year.

(Euro/000)	**December 31, 2009**	**December 31, 2008**
Deferred tax assets		
- recoverable within one year	11,616	13,841
- recoverable beyond one year	30,102	39,593
Total	41,718	53,434
Deferred tax liabilities		
- recoverable within one year	132	594
- recoverable beyond one year	3,400	4,590
Total	3,531	5,184
Total net	**38,187**	**48,250**

4.12 Other non-current assets

The item is composed as follow:

(Euro/000)	**December 31, 2009**	**December 31, 2008**
Reveivables from the holding company Safilo Group S.p.A.	9,598	993
Other non current assets	11,916	12,840
Total	**21,514**	**13,833**

The receivable towards Safilo Group S.p.A. relates for Euro 9,454 thousand to the receivable for the use by the subsidiary Oxsol SpA of the tax loss of the year within the tax consolidated group and the remainder in tax credits.

The other non current assets refer to the receivables from social security institution relating the shares of the employee benefit liability transferred to the Treasury Fund set up by INPS (Italian Social Security Institute) following the modifications introduced by the Italian financial law n. 296/06, the residual amount refers to deposits relating primarily to rental contracts for stores of retail companies.

Receivables for long-term guarantee deposits mainly relate to the retail companies' store rental contracts.

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

4.13 Bank and other borrowings

This item is composed as follows:

(Euro/000)	December 31, 2009	December 31, 2008
Short-term borrowings		
Bank overdrafts	6,093	4,238
Short-term bank loans	52,212	69,857
Short-term portion of long-term bank loans	77,289	37,646
Short-term portion of financial leasing	1,609	1,522
Debt to the factoring company	40,815	49,279
Other short-term loans	106	103
Total	**178,124**	**162,645**
Long-term borrowings		
Medium long-term loans	248,588	260,971
Ordinary bonds	190,704	189,689
Payables for financial leasing	7,536	9,863
Other medium long-term loans	454	561
Total	**447,282**	**461,084**
Total borrowings	**625,406**	**623,729**

On June 26, 2006 Safilo S.p.A. and the indirectly owned subsidiary Safilo USA Inc. concluded, with a pool of banks co-ordinated by UniCredit Banca Mobiliare S.p.A. (now UniCredit Bank Milano), the Senior Loan Agreement concerning provision of a medium/long-term loan totalling Euro 400 million and replacing the previous senior loan granted to Safilo S.p.A. and some of its subsidiaries in 2002.

This loan is structured as follows:

1. A line of credit called "Facility A", for a maximum amount of Euro 200 million, with six-monthly repayment starting in December 2006 and lasting until December 2011. Facility A is in turn structured in three tranches, of which one in EUR (Tranche A1, for an original nominal amount of Euro 80 million) at Euribor plus a spread, and two in USD (Tranche A2 and Tranche A3 for original nominal amounts respectively of USD 70.4 million and USD 80.5 million) at Libor plus a spread. The spread currently applied is 1.80%

2. A revolving line of credit called "Facility B", for the amount of Euro 200 million and expiring on December 31, 2012, consisting of two tranches that can also be issued in USD (Tranche B1 for the nominal amount of Euro 170 million and Tranche B2 for the nominal amount of Euro 30 million). As up to December 31, 2009 Euro 195 million of this facility had been used.

The Senior Loan Agreement includes a series of obligations concerning operational and financial aspects incumbent on the subsidiaries Safilo S.p.A. and Safilo USA, which result mainly in the prohibition on

providing collateral for third parties (so-called "negative pledge"), the prohibition against incurring debt in addition to that resulting the Senior Financing and the HY Bonds, in the prohibition of special corporate transactions and the obligation to comply with periodic reporting requirements on financial data.

As instead regards financial commitments, predefined levels must be respected relating to certain covenants, which are calculated on the basis of figures at the balance sheet date on a half-year basis. If these covenants are not met, conditions will have to be negotiated with the lenders to be able to continue with the loan agreement, or rather the opportune waivers or adjustments to the covenants. Otherwise, there is risk of an event of default which could result in the forced advanced repayment of the loaned sums.

The covenants present in the Senior Loan Agreement are calculated as the ratio between the net financial position and EBITDA and between EBITDA and relevant interest for the period.

It is pointed out that, during FYs 2006 and 2007 and on the audit date of June 30, 2008 Safilo properly complied with financial parameters. As at December 31, 2008 Safilo had obtained redefinition from the lender banks of covenant levels for that date, to enable it to meet them. As at June 30 and December 31, 2009 Safilo requested and obtained a waiver from the lending banks for verification of the covenants on 31st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

The waiver has been granted awaiting the execution of the agreement for Group's debt restructuring as defined in binding of the Investment Agreement signed on 19 October 2009 by HAL Holding NV, a partner operation, Only 3T. S.p.A. and Safilo Group S.p.A. and approved by the extraordinary shareholders of Safilo Group SpA on December 15, 2009 and formally approved by the lenders in its contents on December 24, 2009, as describe in the paragraph 3 of the Notes on the liquidity risk.

The medium-/long-term loan granted under the Senior Loan Agreement is assisted by (i) a pledge on Safilo shares accounting for the company's entire share capital and (ii) personal guarantees granted by Safilo S.p.A. to guarantee the bonds of Safilo USA Inc. and, reciprocally, by Safilo USA Inc. to guarantee the obligations of Safilo arising from the Senior Loan.

As at December 31, 2009 senior debt principal amounts to Euro 319,097 thousand, of which Euro 73,906 thousand included in the item "Short-term portion of long-term bank loans" and Euro 245,191 thousand included in the item "Medium-/long-term loans".

The item "ordinary bond" refers to the High Yield bond loan, issued on May 15, 2003 by the Luxembourgian subsidiary Safilo Capital International S.A. at the fixed rate of 9.625%, for an original nominal amount of Euro 300 million, due to mature on May 15, 2013. On January 3, 2006 the Luxembourgian subsidiary repaid in advance 35% of the nominal amount equal to Euro 105 million.

Is worth mentioning that according to the Investment Agreement signed binding on Oct. 19, 2009, during the month of November 2009 the High Yield bond was subject to a "Tender Offer" launched by the partner HAL Holding NV and ended with the purchase of 50.99% of bonds in circulation.

The above loans are measured using the amortised cost method.

The payables for financial leasing refer to tangible fixed assets owned under lease contracts by some Group companies. The residual life of lease contracts varies from 2 to 5.5 years. All the lease contracts in force involve repayments at constant instalments and no restructuring of the original plans is foreseen.

The following table shows the short-term and medium-/long-term portions of finance lease contracts in place as at December 31, 2009.

(Euro/000)	December 31, 2009	December 31, 2008
Short-term portion of financial leasing	1,609	1,522
Long-term portion of financial leasing	7,536	9,863
Totale debt	**9,145**	**11,385**

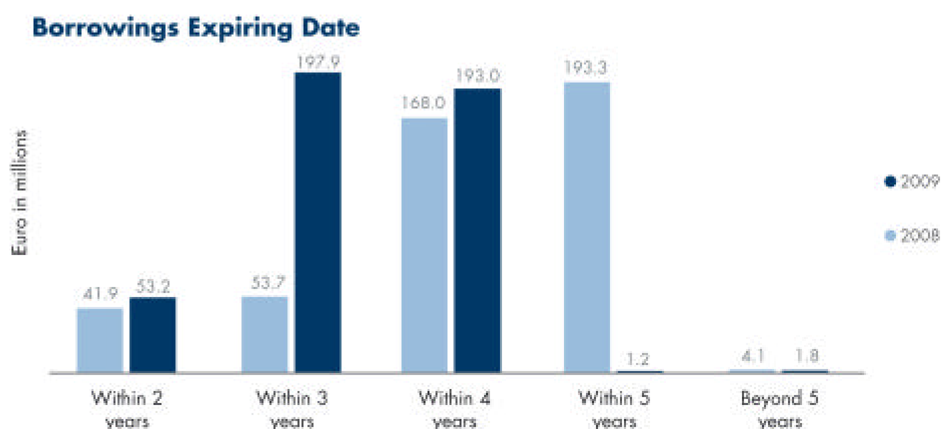
Some companies of the Group have stipulated operating lease contracts. The rental costs for operating leases are posted in the income statement under "Cost of sales" (note 5.2), "Selling and marketing expenses" (note 5.3) and "General and administrative costs" (note 5.4).

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 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 39,559 thousand Euro and by the subsidiary Safilo do Brasil for 1,255 thousand Euro.

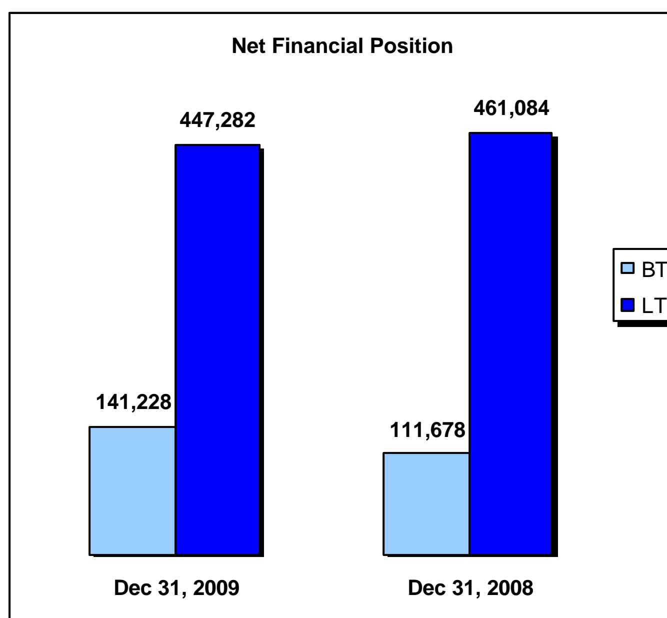
The expiry dates of medium and long term loans are:

(Euro/000)	December 31, 2009	December 31, 2008
Within 2 years	53,156	41,950
From 2 to 3 years	197,949	53,695
From 3 to 4 years	193,079	168,047
From 4 to 5 years	1,227	193,323
Beyond 5 years	1,871	4,069
Total	**447,282**	**461,084**



The following table shows the breakdown of net financial debt. This has been calculated consistently with Paragraph 127 of the CESR/05-054b recommendation implementing the European regulation CE 809/2004 and in line with the CONSOB (Italian securities & exchange commission) requirements of July 26, 2007.

	Net financial position *(Euro/000)*	**December 31, 2009**	**2008**	**change**
A	Cash and cash equivalents	36,896	50,967	(14,071)
B	Cash and cash equivalents included as Assets held for sale	-	-	-
C	Current securities (securities held for trading)	-	-	-
D	**Liquidity (A+B+C)**	**36,896**	**50,967**	**(14,071)**
E	**Receivables from financing activities**	**-**	**-**	**-**
F	Bank overdrafts and short-t. bank borrowings	(58,306)	(74,095)	15,789
G	Current portion of long-term borrowings	(77,289)	(37,646)	(39,643)
H	Other short-term borrowings	(42,529)	(50,904)	8,375
I	**Debts and other current financial liabilities (F+G+H)**	**(178,124)**	**(162,645)**	**(15,479)**
J	**Current financial position, net (D)+(E)+(I)**	**(141,228)**	**(111,678)**	**(29,550)**
K	Long-term bank borrowings	(248,588)	(260,971)	12,383
L	Ordinary bonds	(190,704)	(189,689)	(1,015)
M	Other long-term borrowings	(7,990)	(10,424)	2,434
N	**Debts and other non current financial liabilities (K+L+M)**	**(447,282)**	**(461,084)**	**13,802**
I	**Net financial position (J)+(N)**	**(588,510)**	**(572,762)**	**(15,748)**



The following shows the breakdown of bank and other borrowings by currency:

(Euro/000)	December 31, 2009	December 31, 2008
Short-term		
Euro	115,310	128,240
US Dollar	41,906	21,478
Brasilian Real	1,282	2,597
Japanese Yen	2,253	793
Chinese Reminbi	16,878	9,057
Sek Swedish	81	-
South-African Dollar	-	8
Mexican Peso	414	472
Total	**178,124**	**162,645**
Medium long-term		
Euro	416,862	407,691
US Dollar	26,191	48,589
Japanese Yen	-	2,378
Mexican Peso	1,057	1,670
Australian Dollar	6	756
Indian Reminbi	3,050	-
Sek Swedish	116	-
Total	**447,282**	**461,084**
Total borrowings	**625,406**	**623,729**

4.14 Trade payables

This item is composed as follows:

(Euro/000)	December 31, 2009	December 31, 2008
Payables to the holding company Safilo Group S.pA.	180	110
Trade payables for:		
- purchase of raw materials	24,683	42,371
- purchase of finished goods	46,675	76,108
- suppliers from subcontractors	2,413	4,842
- tangible and intangible assets	5,600	5,129
- commissions	4,778	5,677
- royalties	13,443	14,703
- advertising and marketing costs	22,309	25,817
- services	28,919	30,142
Totale	**149,000**	**204,899**

The decrease of trade payables was primarily due to the decrease of purchases of materials and finished

products. The book value of the trade payables is maintained as being approximately the same as the fair value.

4.15 Tax payables

As at December 31, 2009 tax payables amounted to Euro 18,606 thousand (vs. Euro 22,545 thousand in the previous financial year). Euro 10,279 thousand of the total related to income tax for the period, Euro 2,504 thousand to VAT payable, and the remainder to liabilities of withholding taxes and local taxes and levies. Provision for the year's current income tax is shown in Note 5.10 concerning income tax.

4.16 Other current liabilities

This item is composed as follows:

(Euro/000)	December 31, 2009	December 31, 2008
Payables to the holding company Safilo Group S.p.A.	9,573	1,065
Payables to personnel and social security institutions	29,235	30,455
Premiums to clients	20,048	25,298
Agent fee payables	1,631	2,082
Payables to pension funds	1,144	1,106
Accrued advertising and sponsorship costs	332	775
Accrued interests on long-term loans	3,905	7,811
Other accruals and deferred income	1,839	2,830
Payables for dividends	41,735	41,370
Other current liabilities	2,133	3,229
Totale	**111,575**	**116,021**

Payables to personnel and social security institutions principally refer to salaries and wages for December and for holidays accrued and not taken.

Payables to minority shareholders refer to dividends that had already been deliberated by the shareholders' meetings but had not yet been paid at balance sheet date.

It is considered that the book value of the "other current liabilities" approximates their fair value.

4.17 Provision for risks and charges

This item is composed as follows:

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Transl. diff.	Balance at December 31, 2008
Product warranty provision	4,463	1,190	(1,057)	6	4,602
Agents' severance indemnity	3,799	1,160	(71)	-	4,888
Other provisions for risks and charges	4,527	698	(1,453)	1	3,773
Provisions for risks - long term	**12,789**	**3,048**	**(2,581)**	**7**	**13,263**
Provisions for risks - short term	**803**	**350**	**(100)**	**-**	**1,053**
Total	**13,592**	**3,398**	**(2,681)**	**7**	**14,316**

(Euro/000)	Balance at January 1, 2009	Increase	Decrease	Transl. diff.	Balance at December 31, 2009
Product warranty provision	4,602	681	(1,221)	(4)	4,058
Agents' severance indemnity	4,888	563	(502)	-	4,949
Provision for corporate restructuring	-	7,000	(586)	-	6,414
Other provisions for risks and charges	3,773	2,741	(967)	-	5,547
Provisions for risks - long term	**13,263**	**10,985**	**(3,276)**	**(4)**	**20,968**
Provisions for risks - short term	**1,053**	**3,748**	**(714)**	-	**4,087**
Total	**14,316**	**14,733**	**(3,990)**	**(4)**	**25,055**

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.

Restructuring provision consists of the provision made in the first half of 2009 for restructuring costs relating to scaling down of the Italian factory organisation. The decrease of this accrual relates to costs already incurred for personnel who had resigned as at December 31, 2009.

Other provisions for risks and charges relate to provisioning for legal disputes underway as at balance sheet date and for risks stemming from disposal of the retail companies.

It is believed that the said allocations are sufficient to cover the risks existing at the balance sheet date.

4.18 Employee benefit liability

During the financial years under analysis, the item showed the following movements:

(Euro/000)	Balance at January 1, 2008	Posted to income statement	Actuarial gains/(losses)	Uses/ Payments	Transl. diff.	Changes in the scope of consolidation	Balance at December 31, 2008
Defined contribut ion plan	3,097.00	3,002	-	-	-	-	6,099
Defined benefit plan	34,671	(279)	3,380	(2,116)	236	-	35,892
Total	**37,768**	**2,723**	**3,380**	**(2,116)**	**236**		**41,991**

(Euro/000)	Balance at January 1, 2009	Posted to income statement	Actuarial gains/(losses)	Uses/ Payments	Transl. diff.	Changes in the scope of consolidation	Balance at December 31, 2009
Defined contribution plan	6,099	3,420	-	(344)	20.00	(209)	8,986
Defined benefit plan	35,892	1,380	(2,486)	(1,987)	(49)	-	32,750
Total	**41,991**	**4,800**	**(2,486)**	**(2,331)**	**(29)**	**(209)**	**41,736**

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

The employee severance fund of Italian companies "TFR", which constitutes the main part of such benefits, has always been considered to be a defined benefit plan. However, following the changes in legislation governing the employment severance fund introduced by Italian law no. 296 of December 27, 2006 ("2007 Financial law") and subsequent Decrees and Regulations issued in the early months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- the portion of the employee benefit liability accruing as from January 1, 2007, whether it be transferred to selected pension funds or transferred to the treasury account established with INPS, must be classified as a "defined contribution plan";

- the portion of the employee benefit liability accrued as up to December 31, 2006, must be classified as a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

Actuarial estimates used for calculating the employee severance liability accrued up to December 31, 2006 are based on a system of probable factors based on:

a) demographic parameters;

b) economic parameters;

c) financial parameters.

Demographic parameters are normally summarised in tables based on samples coming from different public entities (ISTAT, INAIL, INPS, State Accounts Office, etc.).

Economic parameters principally refer to long-term inflation rates, dynamic remuneration of the collective employment agreements and financial yield rate, crucial for the revaluation of amounts accrued in the employee severance fund.

The main financial parameter is given by the discount rate. For discounting to present value, the system of zero-coupon rates deducted from swap rates relating to the date of December 31, 2009 was applied.

The breakdown of the amounts recognised in financial statements for financial years 2009 and 2008 is as shown below:

(Euro/000)	**2009**	**2008**
Service cost	3,623	1,368
Interest cost	1,177	1,355
Actuarial gain/(loss)	(2,486)	3,380
Total	**2,314**	**6,103**

4.19 Other non-current liabilities

As at December 31, 2009 other non-current liabilities totalled Euro 11,117 thousand (Euro 17,662 thousand as at December 31, 2008) and referred to:

- Euro 6,325 thousand for quantification of the liability stemming from the put options held by minority shareholders in some subsidiaries
- Euro 3,318 thousand for long-term liability concerning some store rental contracts of US subsidiaries
- Euro 605 thousand for the liability arising from the settlement agreement reached by a US subsidiary to settle a controversy that had arisen concerning use of a patent

The remainder, for other long-term liabilities present in Group companies' financial statements.

SHAREHOLDERS' EQUITY

Shareholders' equity consists of the value contributed by the shareholders of Safilo S.p.A. (the share capital and the share premium reserve), plus the value generated by the Group in terms of profit earned from its operations (retained earnings and other reserves). As at December 31, 2009, shareholders' equity totalled Euro 162,276 thousand (of which Euro 7,559 thousand belonging to minority interests) vs. Euro 351,477 thousand as at December 2008 (of which Euro 8,412 thousand belonging to minority interests).

Managing its capital, the Group's aim is to create value for the shareholders, developing its business and thus guaranteeing the continuity of the company.

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 in force.

4.20 Share capital

As at December 31, 2009 the share capital of the parent company Safilo S.p.A. amounted to Euro 35,000,000, divided into 35,000,000 ordinary shares with a par value of Euro 1 each.

Ordinary shares are registered and attribute the right to vote at ordinary and extraordinary shareholder meetings as well as the right to participate in earnings.

4.21 Share premium reserve

The share premium reserve amounts to Euro 2,305 thousand and consists of:

- the higher price paid compared to the nominal value of the shares, upon the underwriting of the increase in share capital, deliberated at the Extraordinary shareholders' meeting of April 30, 2003;
- the higher price paid compared to the nominal value of the shares, upon the underwriting of the increase in share capital, deliberated at the Extraordinary shareholders' meeting of May 19, 2004;

During 2009, the above reserve did not undergo any changes.

4.22 Retained earnings and other reserves

The retained earnings and other reserves include 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.

(Euro/000)	Balance at January 1, 2008	Previous year's profit allocation	Consolidated statement of comprehensive income Profit (loss) of the period	 Profit (loss) reclass to Inc. Stat.	Divid. distribution	Change in consolidation scope	Balance at December 31, 2008
Translation differences - Group	(40,348)	-	9,601	-	-	-	(30,747)
Translation differences - Minority	(147)	-	673	-	-	-	526
Total	**(40,495)**	**-**	**10,274**	**-**	**-**	**-**	**(30,221)**
Other reserves - Group	348,911	53,267	(5,156)	-	(38,740)	-	358,282
Other reserves - Minority	1,542	3,525	2,846	-	(1,450)	(1,352)	5,111
Total	**350,453**	**56,792**	**(2,310)**	**-**	**(40,190)**	**(1,352)**	**363,393**
Total Group	308,563	53,267	4,445	-	(38,740)	-	327,535
Total Minority	1,395	3,525	3,519	-	(1,450)	(1,352)	5,637
Total	**309,958**	**56,792**	**7,964**	**-**	**(40,190)**	**(1,352)**	**333,172**

(Euro/000)	Balance at January 1, 2009	Previous year's profit allocation	Consolidated statement of comprehensive income Profit (loss) of the period	 Profit (loss) reclass to Inc. Stat.	Divid. distribution	Impact on equity	Balance at December 31, 2009
Translation differences - Group	(30,747)	-	(3,620)	-	-	-	(34,367)
Translation differences - Minority	526	-	(281)	-	-	-	245
Total	**(30,221)**	**-**	**(3,901)**	**-**	**-**	**-**	**(34,122)**
Other reserves - Group	358,282	(14,155)	2,250	-	-	(6,896)	339,481
Other reserves - Minority	5,111	2,775	16	-	(1,247)	-	6,655
Total	**363,393**	**(11,380)**	**2,266**	**-**	**(1,247) -**	**6,896**	**346,136**
Total Group	327,535	(14,155)	(1,370)	-	- -	6,896	305,114
Total Minority	5,637	2,775	(265)	-	(1,247)	-	6,900
Total	**333,172**	**(11,380)**	**(1,635)**	**-**	**(1,247)**	**(6,896)**	**312,014**

4.23 Fair value and cash flow reserves

(Euro/000)	Balance at January 1, 2008	Consoldated statement of comprehensive income Profit (loss) of the period	Profit (loss) reclass to Inc. Stat.	Total Profit (loss) of the period	Balance at December 31, 2008
Cash flow reserve	393	(5,911)	-	(5,911)	(5,518)
Fair value reserve	(673)	(1,429)	-	(1,429)	(2,102)
Total	**(280)**	**(7,340)**	**-**	**(7,340)**	**(7,620)**

(Euro/000)	Balance at January 1, 2009	Consoldated statement of comprehensive income Profit (loss) of the period	Profit (loss) reclass to Inc. Stat.	Total Profit (loss) of the period	Balance at December 31, 2009
Cash flow reserve	(5,518)	432	5,086	5,518	-
Fair value reserve	(2,102)	71	2,063	2,134	32
Total	**(7,620)**	**503**	**7,149**	**7,652**	**32**

The cash flow reserve refers to the current value of interest rate swap contracts in place and, as at December 31, 2008, featured a negative balance of Euro 5,518 thousand. The above financial instruments qualified as effective during 2009. After debt restructuring, however, the prospective valuation of such instruments was found to be ineffective, not qualifying for designation as hedging instruments. Given this, as at December 31, 2009 their fair value, for a total amount of Euro 5,086 , was entirely transferred to the income statement .

The fair value reserve refers to the current value of investments classified among financial assets available for sale (see note 4.10). As at 31 December 2009, in view of the significant and protracted decrease of the fair value of the investment in Gruppo Banco Popolare, management decided it was appropriate to transfer the capital loss of Euro 2,063 thousand accumulated in the fair value reserve in equity to the income statement.

4.24 Stock option plans

By virtue of the power delegated to it by shareholders at the extraordinary meeting held on October 24, 2004, on May 31, 2008 the Board of Directors of the parent company Safilo Group S.p.A. resolved to increase the company's share capital for consideration, with exclusion of option rights pursuant to Article 2441, paragraph 5, of the Italian Civil Code by up to a maximum nominal amount of Euro 2,125,296.25, via the issue of up to a maximum number of 8,501,185 redeemable ordinary shares of the company, with

a par value of Euro 0.25 each and share premium of Euro 4.16. These shares are to be offered for subscription to the beneficiaries contemplated in the regulation of the "Safilo Group S.p.A. 2006-2010 Stock Option Plan" ("2006 Stock Option Plan") approved at the same Board Meeting, as subsequently amended. The regulation also establishes that the shares can be subscribed, in the terms envisaged by the regulation, at a price equal to par value plus a per-share premium of Euro 4.16 or, in the case of subsequent allocations of options, with share premium to be calculated pursuant to the rules established in the 2006 Stock Option Plan regulation, and in any case not lower than Euro 4.16. It also establishes that the capital increase in question can also be executed in several stages and is divisible and that, given this, the Issuer's share capital will be taken to be increased by an amount equal to the par value of the shares effectively subscribed in each case.

The 2006 Stock Option Plan, which lasts for 4 financial years (FYs 2006-2010), is designed for some directors, managers, and advisors of Safilo Group companies. It envisages accrual of the option rights assigned at the rate of one quarter of the same for each FY covered by the 2006 Stock Option Plan. Option accrual criteria are based on achievement, as reported in the Issuer's financial statements, of given conventional levels of consolidated EBITDA set by a Board resolution. For options relating to the 2006 Stock Option Plan, it is established that each option gives the right to subscribe one share at average exercise price.

It is pointed out that, following the amendment made to the 2006 Stock Option Plan, disclosed to the market on February 8, 2008, all options accrued will be exercisable in just one exercise period starting after at least 3 years have elapsed since the granting of such options, i.e. in the period from the date of shareholder approval of consolidated accounts for the year ended on December 31, 2009 to December 15, 2010.

Residual rights as at 31st December 2009 have been considered to have lapsed following non-achievement of EBITDA targets calculated on 2009 year-end accounts. Considering that during the validity of the 2006 Plan the conditions for the vesting of the granted options were never met, the options are not exercisable and therefore the 2006 Plan may be considered extinguished ahead of time.

The following table shows the main elements relating to the stock option plans in force:

	2009			2008		
SOP 2006-2010	Average strike	no. shares	no. rights	Average strike	no. shares	no. rights
At January 1,	4.4100	859,673	859,673	4.4100	2,552,109	2,552,109
				-	-	-
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	4.4100	(859,673)	(859,673)	4.4100	(1,692,436)	(1,692,436)
Exercised		-	-	-	-	-
At December 31,	**-**	-	-	4.4100	859,673	859,673
- Tot. Exercisable	**-**	-	-	-	-	-
- Max res. life (years)			-	-	-	2

5. Notes to the consolidated income statement

5.1 Net sales

Group sales during 2009 totalled Euro 1,011.2 thousand, representing a decrease of 11.9% compared to the previous year (Euro 1,147.8 thousand), of 13.1% at constant exchange rates.

Further information on the sales trend is given in the Directors' report on operations.

5.2 Cost of sales

This item is composed as follows:

(Euro/000)	**2009**	**2008**
Purchase of raw materials and finished goods	263,429	337,030
Capitalisation of costs for increase in tangible assets (-)	(8,738)	(10,001)
Change in inventories	56,557	8,505
Payroll and social security contributions	85,984	103,548
Subcontracting costs	7,889	14,241
Depreciation	22,219	20,134
Rental and operating leases	1,125	1,465
Other industrial costs	10,287	9,938
Total	**438,752**	**484,860**

The decrease in the purchase cost of materials and finished products was mainly due to lower levels of production and to the policy of curbing inventories.

The change in inventories can be broken down as follows:

(Euro/000)	**2009**	**2008**
Finished products	53,945	8,603
Work-in-progress	736	1,637
Raw materials	1,876	(1,735)
Total	**56,557**	**8,505**

The decrease in payroll costs and social security contributions was due to lower production demand in the Italian factories. The Group reacted to this by reducing the head count of the European production units and using so-called social shock absorbers.

The average number of employees by contractual category is shown below:

	2009	2008
Executives	124	117
Clerks and middle management	3,547	3,679
Factory workers	4,703	4,909
Total	**8,374**	**8,704**

Subcontracting costs have undergone a significant decrease compared to 2008 due to the internalisation of several processing activities within production sites of the Group that had previously been processed externally. Other industrial costs include energy, industrial services, and maintenance and consultancy services relating to the production area.

5.3 Selling and marketing expenses

This item is composed as follows:

(Euro/000)	2009	2008
Payroll and social security contributions	109,056	110,156
Commissions to sales agents	63,528	72,333
Royalty expenses	81,280	88,520
Advertising and promotional costs	93,929	100,269
Amortization and depreciation	13,766	6,735
Logistic costs	16,333	18,455
Consultants fees	3,973	4,539
Rental and operating leases	23,207	19,072
Utilities	2,432	1,850
Provision for risks	294	1,815
Other sales and marketing expenses	19,473	22,331
Total	**427,271**	**446,075**

5.4 General and administrative expenses

This item is composed as follows:

(Euro/000)	**2009**	**2008**
Payroll and social security contributions	58,314	55,931
Allowance for doubtful accounts	8,934	3,923
Amortization and depreciation	13,510	13,080
Consultants fees	10,635	13,516
Rental and operating leases	8,598	8,173
EDP costs	4,242	3,927
Insurance costs	2,755	2,885
Utilities, security and cleaning	7,329	7,905
Taxes (other than on income)	3,338	5,901
Other general and administrative expenses	13,200	15,818
Total	**130,855**	**131,059**

5.4.1 Remuneration (including all possible or deferred remuneration) and benefits in kind received by Directors, Statutory Auditors

The remuneration paid to Directors, members of the Board of Statutory Auditors for the year ended December 31, 2009, in office at the date of the approval of the financial statements, for the execution of their roles and responsibilities, and also on behalf of subsidiary companies, are equal to 4,926 thousand Euro and 123 thousand Euro, respectively.

Name and surname	Office	Period covered	Expiring
Directors			
Vittorio Tabacchi	Chairman	2009	Approval of 2011 fin. statements
Massimiliano Tabacchi	Executive Vice Chairman	2009	Approval of 2011 fin. statements
Roberto Vedovotto	Chief Executive Officer	2009	Approval of 2011 fin. statements
Ennio Doris	Director	2009	Approval of 2011 fin. statements
Giannino Lorenzon	Director	2009	Approval of 2011 fin. statements
Riccardo Ruggiero	Director	2009	Approval of 2011 fin. statements
Board of Statutory Auditors			
Franco Corgnati	Chairman	2009	Approval of 2010 fin. statements
Lorenzo Lago	Regular auditor	2009	Approval of 2010 fin. statements
Giampietro Sala	Regular auditor	2009	Approval of 2010 fin. statements

5.4.2 Stock options attributed to Directors, Statutory Auditors

Nome e Cognome	Carica	Options held at the beginning of the year	Options granted during the year	Options exercised during the year	Options expired during the year	Options held at the end of the year
Directors						
Vittorio Tabacchi	Chairman	-	-	-	-	-
Massimiliano Tabacchi	Executive Vice Chairman	76,531	-	-	(76,531)	-
Roberto Vedovotto	Chief Executive Officer	-	-	-	-	-
Ennio Doris	Director	-	-	-	-	-
Giannino Lorenzon	Director	-			-	-
Riccardo Ruggiero	Director	-	-	-	-	-
Board of Statutory Auditors						
Franco Corgnati	Chairman	-	-	-	-	-
Lorenzo Lago	Regular auditor	-	-	-	-	-
Giampietro Sala	Regular auditor	-	-	-	-	-

5.5 Other income and expenses, net

This item is composed as follows:

(Euro/000)	2009	2008
Losses on disposal of assets	(426)	(287)
Other operating expenses	(1,583)	(826)
Gains on disposal of assets	66	26
Other operating incomes	4,245	2,353
Total	**2,302**	**1,266**

Other operating expenses refer mainly to costs not directly related to the ordinary activity carried out during the year, while other operating revenues mainly include insurance reimbursements.

5.6 Non-recurring restructuring costs

Restructuring of the production sites in Italy and Slovenia has involved about a thousand people. More specifically, the agreement reached with the Italian factories' trade union counterparties provides for payment of incentives for workers of the factories based in the Friuli region that voluntarily leave their jobs. The amount of Euro 7,422 thousand is the maximum cost that the Group will incur in the next three years to honour these commitments.

5.7 Goodwill impairment and loss due to investment disposals

As report in note 4.8 "Goodwill", in view of the changed market conditions, the Group deemed it appropriate to subject its goodwill to impairment testing both on June 30 and on December 31, 2009. The impairment tests performed showed total impairment of Euro 94,501 thousand.

In addition, on October 19, 2009, the Board of Directors of Safilo Group S.p.A. approved the plan to dispose of some retail store chains considered non-strategic. This disposal plan involves the retail chains "Loop Vision" in Spain, "Sunglass Island" and "Island Optical" in Mexico, and "Just Spectacles" in Australia, as well as five Chinese stores.

In December 2009, the Group has sold the non-strategic retail chains comprising the Just Spectacles stores in Australia, the Loop Vision stores in Spain, for a total cost of Euro 13.7 million, amount that has been confirmed by a fairness opinion of a primary consultant company.

- on December 22, 2009, Safint B.V. transferred 100% of the share capital of Optifashion Australia PTY LTD to Optical Investments B.V. (a company in the HAL Holding N.V. group);
- on December 28, 2009, Safilo España S.L. transferred 100% of the share capital of Navoptik S.L. to GrandVision S.A. (a company in the in the HAL Holding N.V. group);

The balance sheet date, the Safilo Group therefore maintains retail chains Solstice, the United States and, for the moment, Island Optical and Sunglass Island in Mexico

With reference to the Mexican chains Sunglass Island and Island Optical, whose sale is also envisaged under the Investment Agreement as a suspensive condition of the Transaction, it should be noted that: (i) negotiations are still under way with the Mexican minority shareholders for the sale to the Partner (or companies in the Partner's group) of the company Tide Ti S.A. de C.V., which manages these chains; and (ii) in the meantime, Safint B.V. (a company in the Safilo Group that owns 60% of Tide Ti S.A. de C.V.), Safilo Group and HAL Optical Investments B.V. (a company in the Partner's group) signed an agreement on 28 December 2009 under which Safint B.V. granted HAL Optical Investments B.V. an option to purchase 100% of the share capital of Tide Ti S.A. de C.V. This option constitutes an alternative solution in the event that the negotiations with the minority shareholders are unsuccessful, and is, in any event, a suspensive condition in respect of the acquisition by Safint B.V. of the residual 40% stake in the share capital of Tide Ti S.A. de C.V.

The following table details the value of the companies sold:

(Euro/000)	**Book value at the disposal date**
Current assets	
Cash in hand and at bank	1,525
Trade receivables, net	1,158
Inventory, net	7,888
Other current assets	9,442
Total current assets	**20,013**
Non-current assets	
Tangible assets	7,652
Intangible assets	988
Goodwill	22,929
Deferred tax assets	4,055
Other non-current assets	1,351
Total non-current assets	**36,975**
Total assets of disposals subsidiaries	**56,988**
Current liabilities	
Trade payables	19,732
Other current liabilities	1,995
Provisions for risks and charges	0
Total current liabilities	**21,727**
Non-current liabilities	
Long-term borrowings	491
Employee benefit liability	209
Deferred tax liabilities	203
Other non-current liabilities	-
Total non-current liabilities	**903**
Total liabilities of disposals subsidiaries	**22,630**
Total book value of disposals subsidiaries	**34,358**

The table below shows the breakdown of the loss arising from these investment disposals:

(Euro/000)	**Amounts**
Consideration received	13,700
Net assets disposed of	(34,358)
Cumulative exchange differences reclassified from equity on loss of control of subsidiaries	4,490
Allowance for risk on retail subsidiaries disposal	(5,516)
Loss on subsidiaries disposal	**(21,684)**

5.8 Share of income (losses) of associate companies

This item totalled Euro 360 thousand (vs. Euro 866 thousand in 2008) and consists of the profits and losses stemming from valuation using the equity method of investments in associate companies (note 4.9).

5.9 Financial charges, net

This item is composed as follows:

(Euro/000)	2009	2008
Interest expense on loans	23,155	23,340
Interest expense and charges on High Yield	19,784	19,726
Bank commissions	4,760	4,930
Negative exchange rate differences	10,435	23,162
Fair value financial derivative instruments	5,235	-
Financial discounts	2,118	2,721
Write downs of financial assets available for sale	2,063	-
Other financial charges	2,598	768
Total financial charges	**70,148**	**74,647**
Interest income	339	1,052
Positive exchange rate differences	15,391	14,899
Gains on financial assets disposal	-	2
Dividends	-	85
Other financial income	141	860
Total financial income	**15,871**	**16,898**
Total financial charges, net	**54,277**	**57,749**

As reported in note 4.4 "Financial Instruments", following debt restructuring, the prospective valuation of IRS contracts was found to be ineffective, not qualifying for designation as hedging instruments. Given this, when preparing financial statements for year ended on December 31, 2009, their fair value, for a total amount of Euro 5,235, was entirely transferred to the income statement.

The item "Write-down of financial assets available for sale" refers to the current value of the investment in Gruppo Banco Popolare (see note 4.10). As at 31 December 2009, in view of the significant and protracted decrease of the fair value of this financial assets, management decided it was appropriate to record the capital loss of Euro 2,063 directly in the income statement. As at December 31, 2008 the accumulated loss has been recorded in the fair value reserve in equity.

5.10 Income taxes and write-down of deferred tax assets

(Euro/000)	2009	2008
Current taxes	(28,786)	(35,775)
Deferred taxes	33,328	24,104
Total income taxes	**4,542**	**(11,671)**
Write downs of deferred tax assets	(30,753)	(29,916)
Total	**(30,753)**	**(29,916)**
Total	**(26,211)**	**(41,587)**

The taxes for the year can be reconciled with the theoretical tax burden as follows:

(Euro/000)	%	2009	%	2008
Profit before taxation	**100%**	**(160,864)**	**100.0%**	**30,207**
Theoretical taxes	27.5%	-44,238	27.5%	8,307
IRAP (current and deferred) and other taxes	-1.5%	2,345	8.7%	2,641
Effect of foreign tax rates	-0.9%	1,499	10.8%	3,256
Non taxable incomes	0.1%	(117)	-10.6%	(3,217)
Non deductible costs	-0.4%	689	4.8%	1,458
Taxable intercompany dividends	-6.0%	9,724	0.0%	-
Impairment of goodwill not deductible	-16.2%	25,988	0.0%	-
Effect of deferred tax assets not recognised	-19.1%	30,753	106.7%	32,228
Use of tax losses for which no deferred tax assets were recognised	0.1%	(217)	-10.2%	(3,086)
Other permanent differences	0.1%	(214)	0.0%	-
Total	**-16.3%**	**26,211**	**137.7%**	**41,587**

Theoretical income taxes are calculated at a rate of 27.5% on estimated taxable income. This percentage is the statutory rate for corporate tax (IRES) to which the Italian holding company's income is subject for the 2009 financial year.

As reported in note 4.11 "Deferred tax assets and deferred tax liabilities", deferred tax assets , net of deferred tax liabilities, relating to the losses in the year made by some Group companies and to the temporary differences emerging between the taxable base and carrying value of an asset or liability have been written down by a total of Euro 30,753 thousand by a provision. This has been done because, at present, the availability of future taxable income against which to recover deferred tax assets is unlikely.

This write-down can be reversed in future financial years, as established by IAS 12, when taxable income is sufficient to absorb tax losses and temporary differences between the carrying value of assets and liabilities and their tax base.

5.11 Dividends

The parent company Safilo Group S.p.A. did not distribute dividends to shareholders during 2009. The Shareholders' Meeting that approved financial statements for the year ended on December 31, 2008 resolved to carry forward the earnings generated in 2008.

5.12 Segment information

Management has identified the "Wholesale" and "Retail" operating segments consistently with the operating and control model applied by the Group. More specifically, the criteria used to identify these segments were based on the approaches via which management manages the Group and attributes operating responsibility.

Below we provide disclosure by segment for the FYs ended on December 31, 2009 and 2008.

Breakdown of FY2009 consolidated income statement by operating segment

Full year 2009 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	12,005	191	(12,196)	-
-to third parties	904,385	106,851	-	1,011,236
Total net sales	**916,390**	**107,042**	**(12,196)**	**1,011,236**
Gross profit	**506,030**	**66,404**	**50**	**572,484**
Operating profit	**(29,174)**	**(77,771)**	**(2)**	**(106,947)**
Share of income of associates	360	-		360
Financial charges, net				(54,277)
Income taxes				(26,211)
Net (loss)				**(187,075)**
Gross profit margin	55.2%	62.0%		56.6%
Operating profit margin	-3%	-73%		-11%
Segment assets	1,023,310	57,217		1,080,527
Investment in associates	12,032	-		12,032
Unallocated corporate assets				61,291
Consolidated total assets				**1,153,851**
Segment liabilities	321,886	5,479		327,365
Unallocated corporate liabilities				664,210
Consolidated total assets				**991,575**
Other information				
Capital expenditure	31,548	5,339		36,887
Depreciation & amortization	36,230	13,266		49,495
Goodwill impairment	58,335	36,166		94,501
Non cash items other than depreciation and amortization	22,878	(223)		22,655

The accompanying notes are an integral part of the consolidated financial statements.

Breakdown of FY2008 consolidated income statement by operating segment

Full year 2008 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	10,951	55	(11,006)	-
-to third parties	1,040,007	107,810	-	1,147,818
Total net sales	**1,050,959**	**107,866**	**(11,006)**	**1,147,818**
Gross profit	**593,075**	**69,796**	**88**	**662,958**
Operating profit	**94,610**	**(7,555)**	**35**	**87,090**
Share of income of associates	866	-		866
Financial charges, net				(57,749)
Income taxes				(41,587)
Net profit				**(11,380)**
Gross profit margin	56.4%	64.7%		57.8%
Operating profit margin	9%	-7%		8%
Other information				
Segment assets	1,174,075	163,495		1,337,570
Investment in associates	12,298	-		12,298
Unallocated corporate assets				53,695
Consolidated total assets				**1,403,563**
Segment liabilities	320,558	14,211		334,769
Unallocated corporate liabilities				717,318
Consolidated total assets				**1,052,087**
Capital expenditure	39,604	21,564		61,168
Depreciation & amortization	33,288	6,662		39,949
Non-cash items other than depreciation and amortization	16,046	720		16,766

Breakdown of revenues and non-current assets by geographic area

	Revenue from external customers		Non-current assets	
(Euro/000)	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Italy (1)	208,960	259,590	33,407	43,397
Europe (2)	268,284	324,342	114,786	172,342
America (3)	396,938	419,006	132,950	170,649
Asia (4)	137,054	144,880	135,955	179,721
Corporate (5)	-	-	101,632	104,481
Totale	**1,011,236**	**1,147,818**	**518,730**	**670,590**

(1) Operating companies with registered head office in European countries other than Italy, in India and in South Africa.
(2) Operating companies with registered head office in USA, Canada and Brazil.
(3) Operating companies with registered head office in the Far East and Australia.
(4) Non-operating companies.

It must be noted that grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

Non-current assets excluding financial instruments, deferred tax assets and receivables towards the central INPS (state pension & welfare agency) fund for portions of post-employment benefit provision transferred to INPS.

6. Transactions with related parties

In compliance with applicable legislative and regulatory requirements, on March 23, 2007 the parent company's Board of Directors passed a resolution indicating and adopting a number of guidelines to govern transactions of major strategic, economic, capital or financial significance for the Company – including those undertaken with related parties. The aim of the guidelines is to establish competences and responsibilities concerning significant transactions and to assure their transparency and material and procedural correctness. Our notion of related party is based on the definition given in IAS 24.

The following table details the balance sheet and income statement amounts of transactions executed with related parts in the years ended on December 31, 2009 and 2008.

Related parties transactions *(Euro/000)*	Relationship	December 31, 2009	December 31, 2008
Receivables			
Optifashion As	(a)	15	146
Elegance International Holdings Ltd	(b)	419	443
Total		**433**	**589**
Payables			
Elegance International Holdings Ltd	(b)	5,956	7,292
Total		**5,956**	**7,292**

Related parties transactions *(Euro/000)*	Relationship	2009	2008
Revenues			
Elegance International Holdings Ltd	(b)	2	8
Optifashion As	(a)	68	143
Total		**70**	**151**
Costs			
Elegance International Holdings Ltd	(b)	13,949	17,748
Optifashion As	(a)	3	-
TBR Inc.	(b)	1,200	1,084
Total		**15,152**	**18,832**

(a) Non-consolidated subsidiary;
(b) Associated company;

Related-party transactions, including infragroup transactions, concern the trading of products and supply of services, based on prices determined according to normal market conditions as happens in transactions with independent third parties.

As regards the table shown above, we point out 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 Ltd. (an indirectly owned subsidiary) and produces optical articles in Asia on the Group's behalf. The price and other conditions of the contract production agreement between Safilo Far East Ltd. and Elegance are in line with those applied by Elegance to its other customers.

- TBR Inc. is a company of which a third of share capital is owned by Vittorio Tabucchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., a 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 2009 the Group paid TBR Inc. Euro 1,200 thousand as rental. The terms and conditions of the rental contract, including the rental fee, are in line with market conditions for similar contracts.

7. Contingent liabilities

The Group does not have any significant contingent liabilities that have not been discussed in the previous notes or not covered by appropriate provisions. At the same time however, as at balance sheet date various types of court proceedings were pending that involve the parent company and some Group companies. Although the Group believes that most of the demands relating to such proceedings are groundless, any negative outcome of the same, going beyond expectations, could have negative effects on the Group's economic results.

Among the most significant litigation in terms of the entity of claims made, we highlight the following cases:

- Tax litigation, initiated by Safilo in 1997, against two tax demands issued by the Pieve di Cadore Tax Office - relating to a dividend-stripping transaction executed in the 1991 tax period, which concerned a shareholding of Falk S.p.A. – for taxes and fines totalling approximately Euro 1,800 thousand. This legal dispute, which is currently in the court of third instance, was won by Safilo in the courts of both first and second instance. With its ruling no. 10188 of November 16, 2009 the Italian Supreme Court decided to postpone discussion of the petition to a new case list pending the ruling of the European Court of Justice. Based, however, on the recent orientation of the Italian Supreme Court concerning abuse of law, it cannot be excluded that the Company may emerge as the loser as regards this litigation.

- Two lawsuits, initiated in 2003, at the Padua courts, by two ex-agents of Safilo, asking for a ruling ordering pay the respective sums of Euro 965 thousand and Euro 1,100 thousand for commission differences and for cessation of the agency relationship. Both cases are currently pending in the court of first instance.

- A lawsuit, initiated in 2005 against Safilo, asking for a ruling ordering payment of some

Euro 7 million as fees for assistance and corporate and tax advisory services provided, by a professional firm, to various Group companies during the 3-year period 1999-2001 in relation to the public tender offer.

- Two lawsuits, initiated in 2005 against Safilo by an ex-supplier, in the Padua courts, for payment of a total amount of approximately Euro 600 thousand for products suppliers. It is pointed out that the Company made a counterclaim, for a total amount of some Euro 1,400 thousand, of which Euro 1,200 thousand for unfair competition in the US market and Euro 200 thousand as compensation of damages for the faultiness of products supplied.

- A lawsuit, initiated in 2006 against Safilo, in the Lebanese courts, by an ex-distributor asking for a ruling ordering payment of an amount of about Euro 600 thousand as indemnification for alleged illegitimate termination of the exclusive-distributor relationship. The court of first instance, having considered the termination legitimate, accorded the distributor a lower amount, i.e. about Euro 70 thousand, for the increase in clientele contributed. This amount was then further reduced to about Euro 60 thousand in the subsequent appeal court case. At present Safilo is waiting to continue proceedings in the court of last instance.

We report that, following an inspection carried out by the Italian Finance Police (Guardia di Finanza) in March 2009, some products coming from China were seized at the Precenicco factory due to alleged breach of regulations concerning the "Made in Italy" qualification. As regards this, criminal proceedings were initiated against the Chairman of the Board of Directors, as the Issuer's legal representative. At present the judiciary authorities have not decided whether the case should go to trial or be dismissed.

We also report that, in June 2009, the French antitrust authority launched an extensive inquiry – involving the main players in the sunglass and prescription eyewear industry – to ascertain the existence of anti-competition price-fixing practices. As part of this inquiry, the Group's French branch, Safilo France S.a.r.l. underwent inspection. If responsibility is definitively ascertained, this could cause adverse effects on the Group's economic results. As at balance sheet no accusation had been notified by the French antitrust authority nor had any information been received concerning future assessments. It is therefore impossible to estimate whether the antitrust authority has found any irregularities in the French subsidiary's conduct and what sanctions, if any, it might apply.

8. Commitments

At the balance sheet date, the Group had no significant purchase commitments. At the balance sheet date, however, the Group had contracts in force with designers for the production and sale of sunglasses and frames bearing their signatures. The contracts not only establish minimum guarantees, but also a commitment for advertising investments.

9. Significant events after December 31, 2009

In the period after December 31, 2009 no events occurred, besides those reported in the section "Events after the reporting period" in the Directors' report on operations, capable of having a significant effect

on the data contained in this report .