



# Investor Day

## July 25th, 2006



# Today's Agenda

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8.00 - 8.30		Welcome Coffee and Registration
8.30 - 9.00	<b>Vittorio Tabacchi</b> <i>Chairman</i>	Welcome & Opening Remarks
9.00 - 9.30	<b>Massimiliano Tabacchi</b> <i>COO</i>	Safilo Group Operations: Overview
9.30 - 10.00	<b>Augusto Lippi</b> <i>Director of Operations</i>	Safilo Group Operations: Update on the production reorganization
10.00 - 10.30		Coffee Break
10.30 - 11.00	<b>Giovanni Materassi</b> <i>Managing Director – Business Unit 1</i>	Europe & RoW – Market Overview and Safilo's Business Evolution
11.00 - 11.30	<b>Mario Pietribiasi</b> <i>Managing Director – Business Unit 2</i>	Asia Pacific – Market Overview and Safilo's Business Evolution

# Today's Agenda

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11.30 - 12.00	<b>Claudio Gottardi</b> <i>Managing Director – Business Unit 3/4</i>	Americas – Market Overview and Safilo's Business Evolution
12.00 - 12.30		Q&A
12.30 - 12.45	<b>Vittorio Tabacchi</b> <i>Chairman</i>	Closing Remarks
12.45 - 13.15		Visit to Safilo's on – site distribution centre
13.15 - 14.15		Lunch Break
14.15 - 14.45		Transfer to Santa Maria di Sala Production Plant
14.45 - 16.00		Visit to the Production Plant
16.00 - 16.30		Return to Safilo HQ
16.30		Departure for Airport





***VITTORIO TABACCHI***

## **SAFILO GROUP OVERVIEW**

# Introduction

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- After five years of defensive play, Safilo is now changing game strategy and is playing forward again

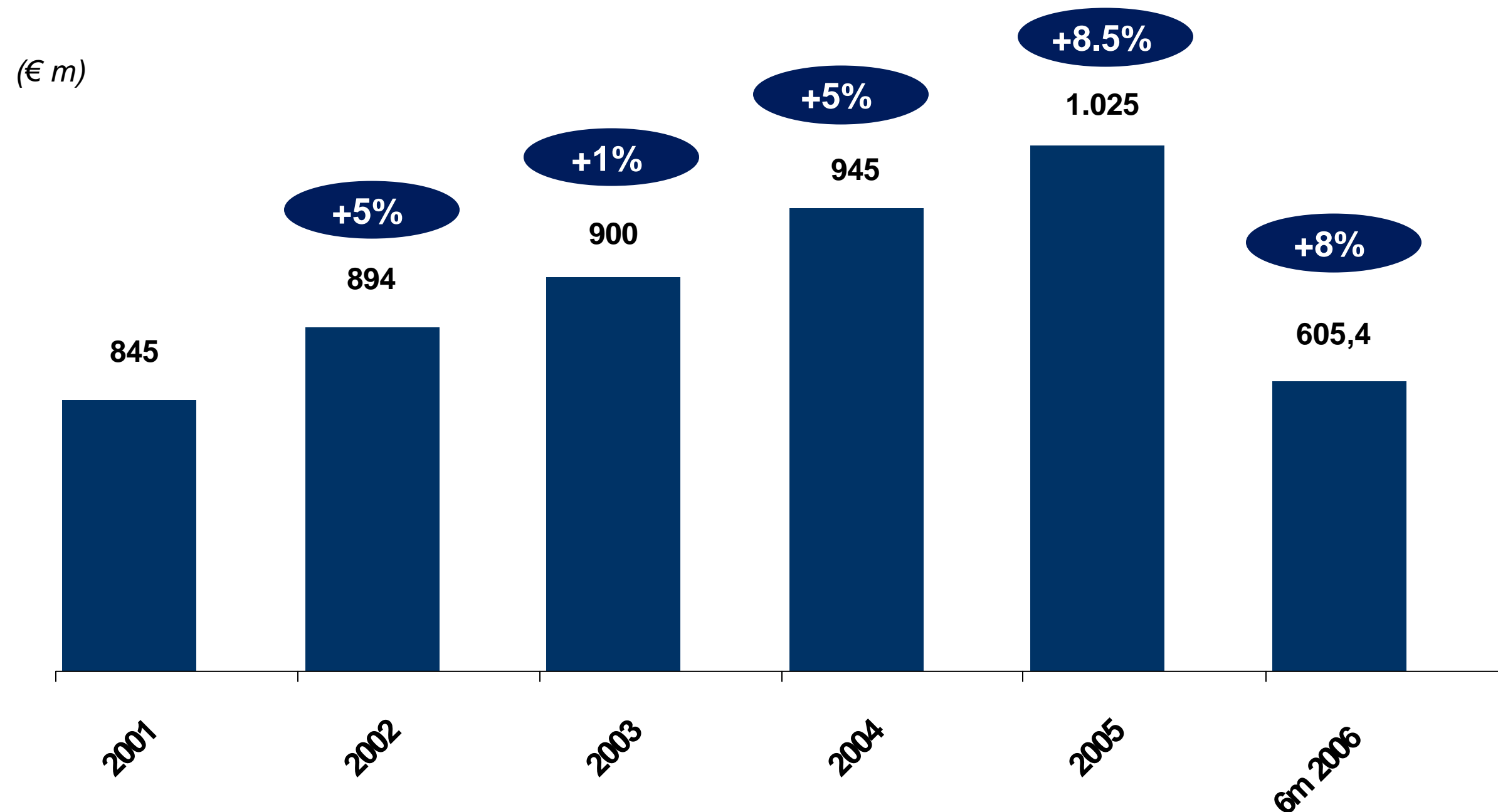
# Five years playing a defensive game



From 2001 to end 2005 Safilo was a private company:

- High level of debt
- Low financial flexibility (limited to no acquisition potential)
- Low visibility and credibility with high risk of losing licensing deal
- Company focus on debt management and low risk-taking attitude

# Five years playing a defensive game



...even during this time we performed well in spite of the poor dollar performance.



# From 2006 onwards: playing an aggressive forward game



Safilo is a Public Company again:

- Reduced debt ratio
- Increased financial flexibility leading to research potential for strategic acquisitions
- High visibility and credibility: all key license agreements renewed and extended, future license agreements in process of negotiation
- Company focus on market opportunities, diversification and expansion



# **From 2006 onwards: playing an aggressive forward game**

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**To play an attack game we have to change team position and key players**

**How and Why**

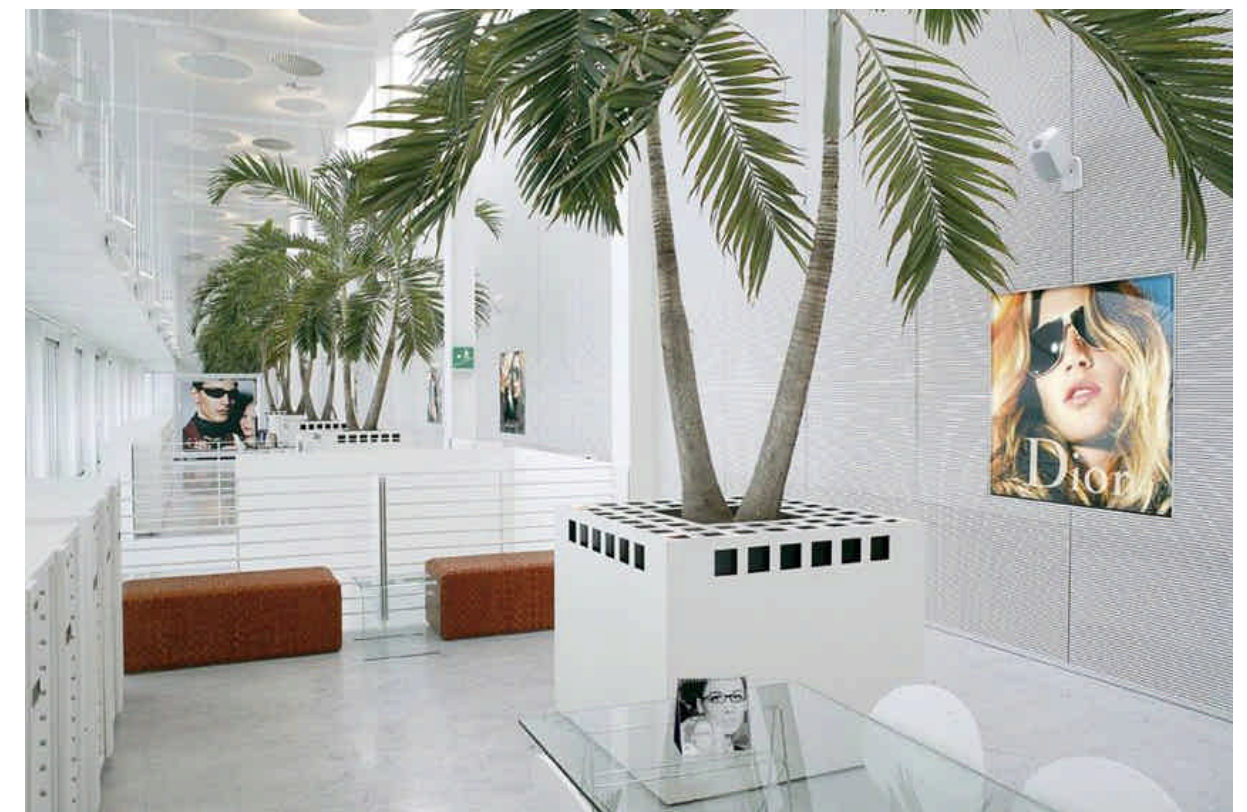
# From 2006 onwards: playing an aggressive forward game

## 2001 - 2006

- For a defensive game we needed only one forward player with key expertise in non core areas of the company, finance in particular

## 2006 onwards

- For an attacking team we need to reinforce our marketing effort and our manufacturing and logistic team to better understand and react to market opportunities



# From 2006 onwards: playing an aggressive forward game

Today I am proud to introduce the future team formation:

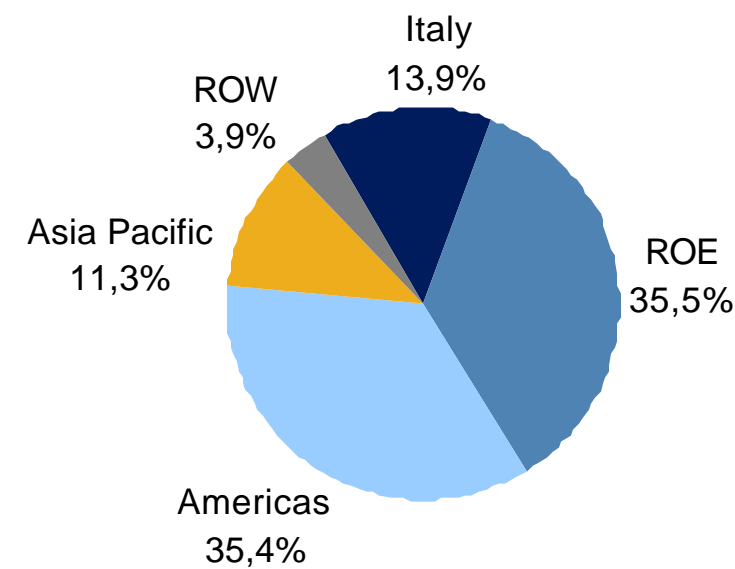


**A combination  
of creativity  
and expertise  
equal to none  
in our market!**

*Because of timing Claudio and Massimiliano will only speak today of their present responsibilities.  
On August 3rd I am confident that the Board will approve their appointments to CEO and co-CEO.*

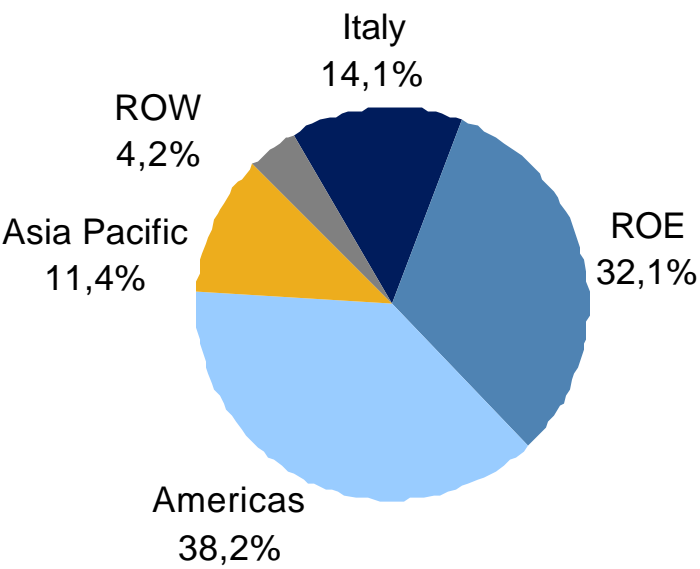
# H1 Net Sales

H1 2005



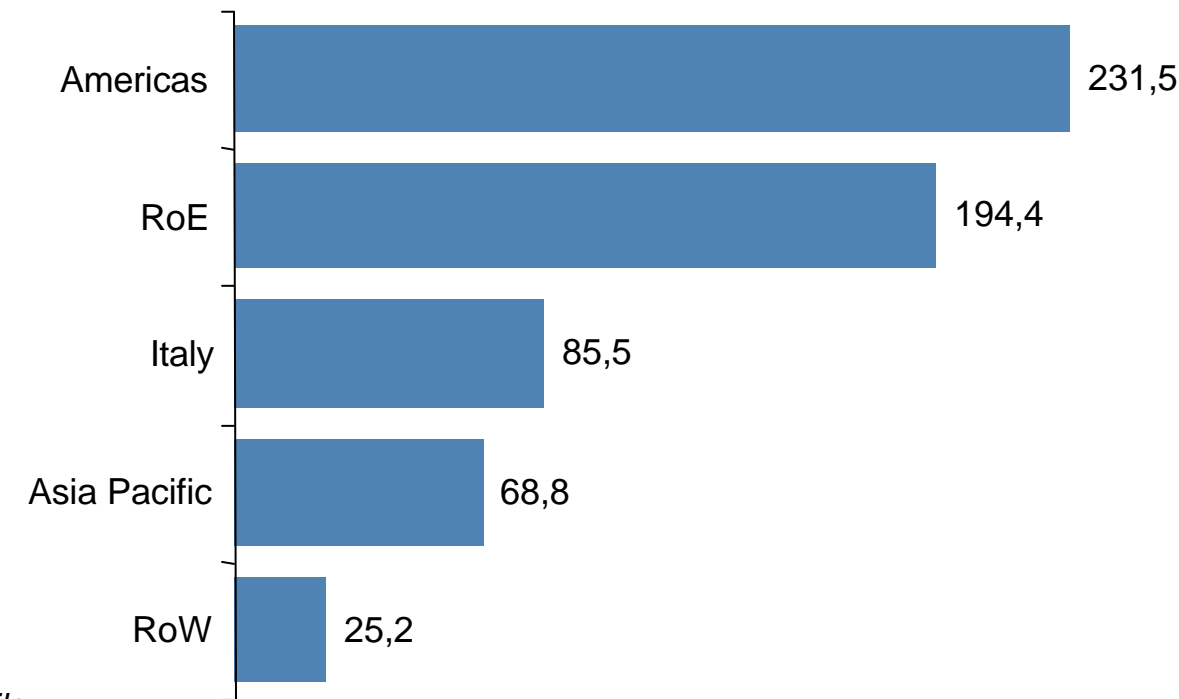
Total Sales: €561.8m

H1 2006



Total Sales: €605.4m

H1 2006 – Net Sales (€m)



Sales Growth (%)

16.4%

(2.6%)

9.2%

8.9%

15.1%

Source: Safilo

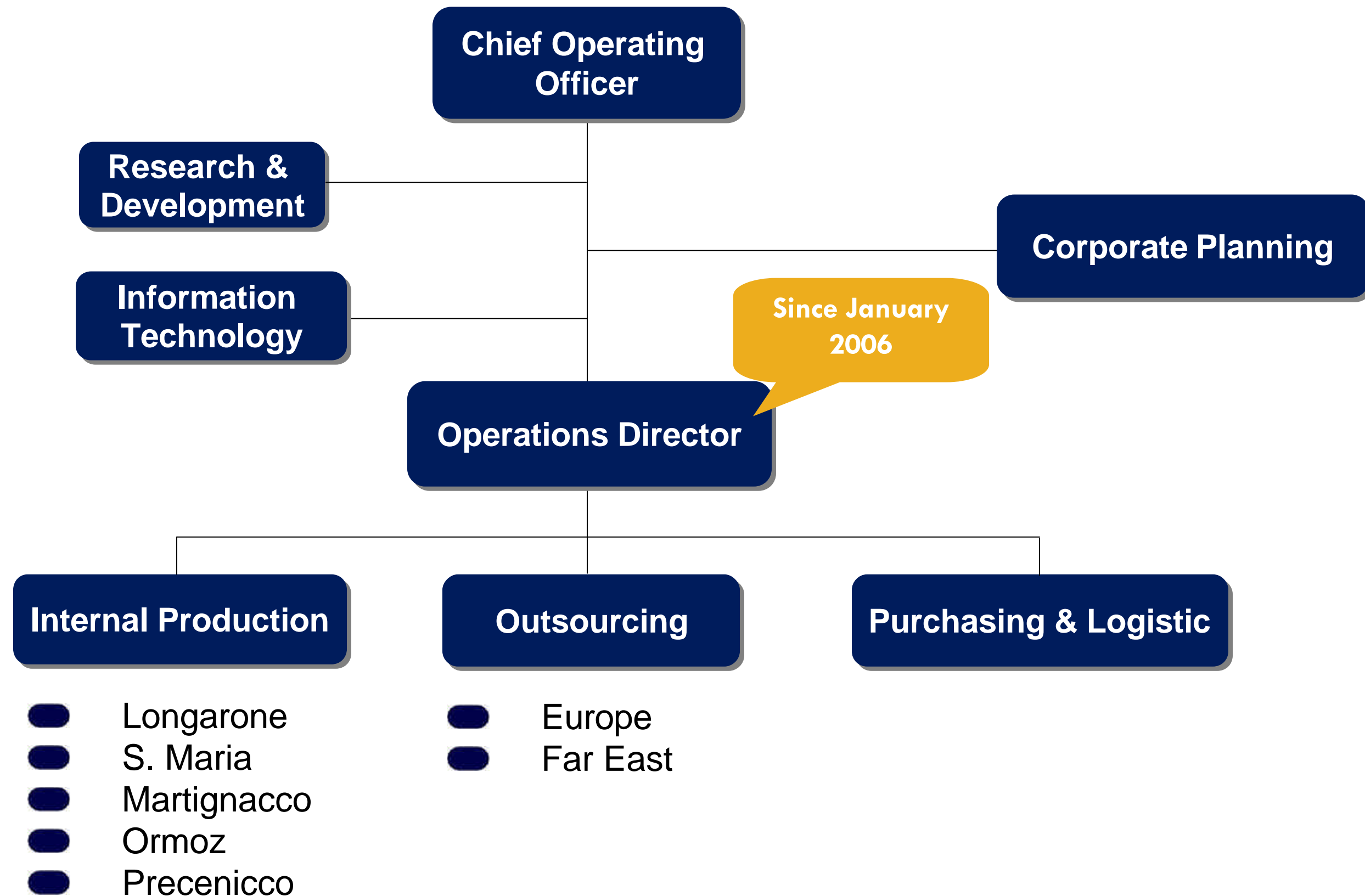




***MASSIMILIANO TABACCHI***

**OPERATIONS OVERVIEW**

# Operations structure



# Internal Productions

The production area is split into three macro- areas based on type of product

	Plants	Type of product
Plastic Division	<ul style="list-style-type: none"><li>Santa Maria di Sala</li><li>Ormoz (Slovenia)</li></ul>	<ul style="list-style-type: none"><li>Finished Product</li><li>Semi finished &amp; Optyl and Injected</li></ul>
Semi-finished	<ul style="list-style-type: none"><li>Martignacco</li><li>Precenicco</li></ul>	<ul style="list-style-type: none"><li>Components and accessories</li><li>Finishing and assembling painting</li></ul>
Metal	<ul style="list-style-type: none"><li>Longarone</li></ul>	<ul style="list-style-type: none"><li>Finished Product</li></ul>



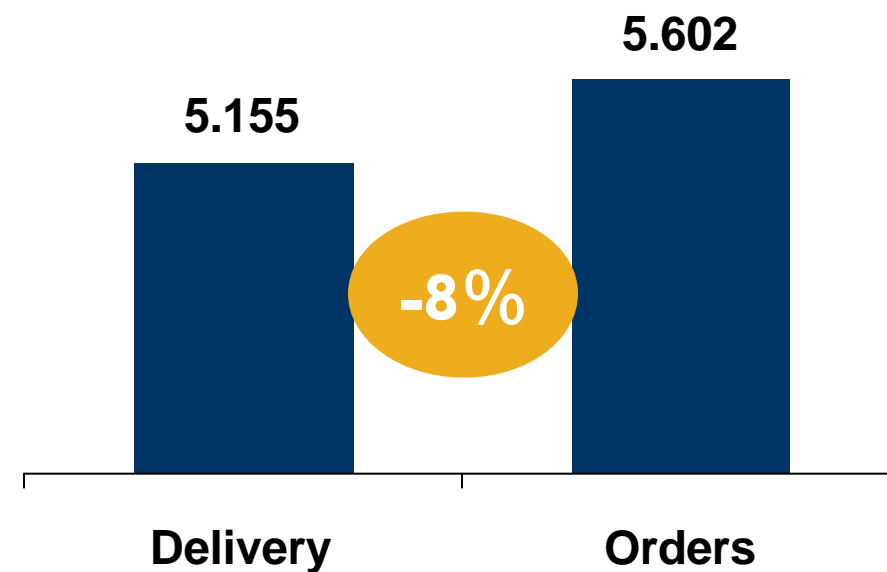
## STATUS OF SERVICES & DELIVERY



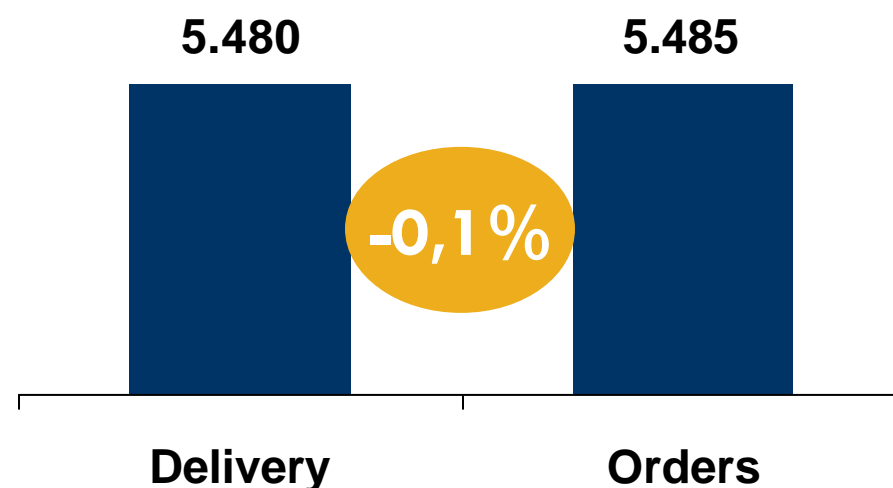
# Status of delivery: general update

(Pieces/1.000)

## First Quarter



## Second Quarter



- In the first quarter of 2006 sales ran 8% faster than production, causing delays in deliveries
- In the second quarter this gap has been closed and deliveries were in line with market demand
- By year end production is organized to follow the forecasted market needs

# Internal Production

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- With January 2006 restructuring of manufacturing footprint has been completed with the closure of Calalzo, Coseano and Ronchis
- The impact of closures on production volumes has by now been completely absorbed. In the first half of 2006 production was increased by 7% on last year
- The increase in capacity has been guaranteed by a slight increase in staff and by using external subcontractors
- In the second half we expect to increase the production capacity further by 5-8%

# Outsourcing



- Currently approximately 50% of total volumes are purchased from highly qualified suppliers
- A team of more than 20 people located in Hong Kong is fully dedicated to guarantee Safilo's highest quality and service standards
- Safilo is strengthening the relationship with main suppliers, to exploit the benefit of partnership
- We are evaluating new suppliers against our current ones to take advantage of opportunities for reducing purchasing costs

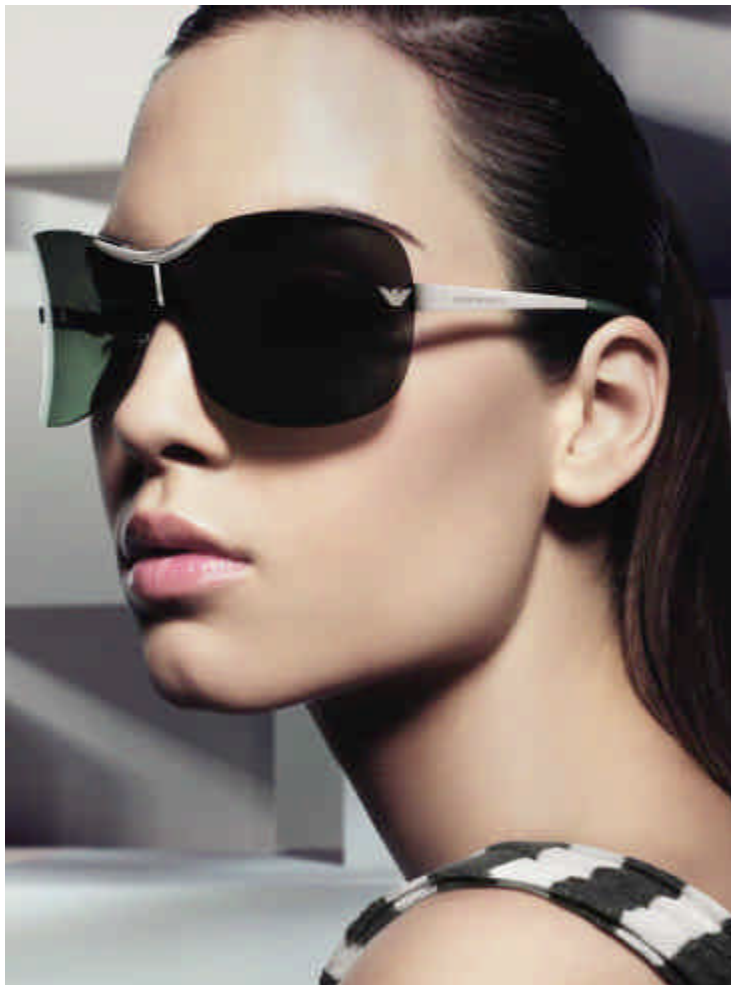


## RESEARCH & DEVELOPMENT



# Research and Development

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- Safilo is highly recognized in the Industry as leader in design and technical innovation
- Between 2004 and 2005 Safilo registered 15 new patents
- In the first 6 months of 2006 Safilo has already registered 10 new patents
- All these patents are regularly utilized in Safilo's key products and supported by dedicated marketing strategies

# Sunglasses

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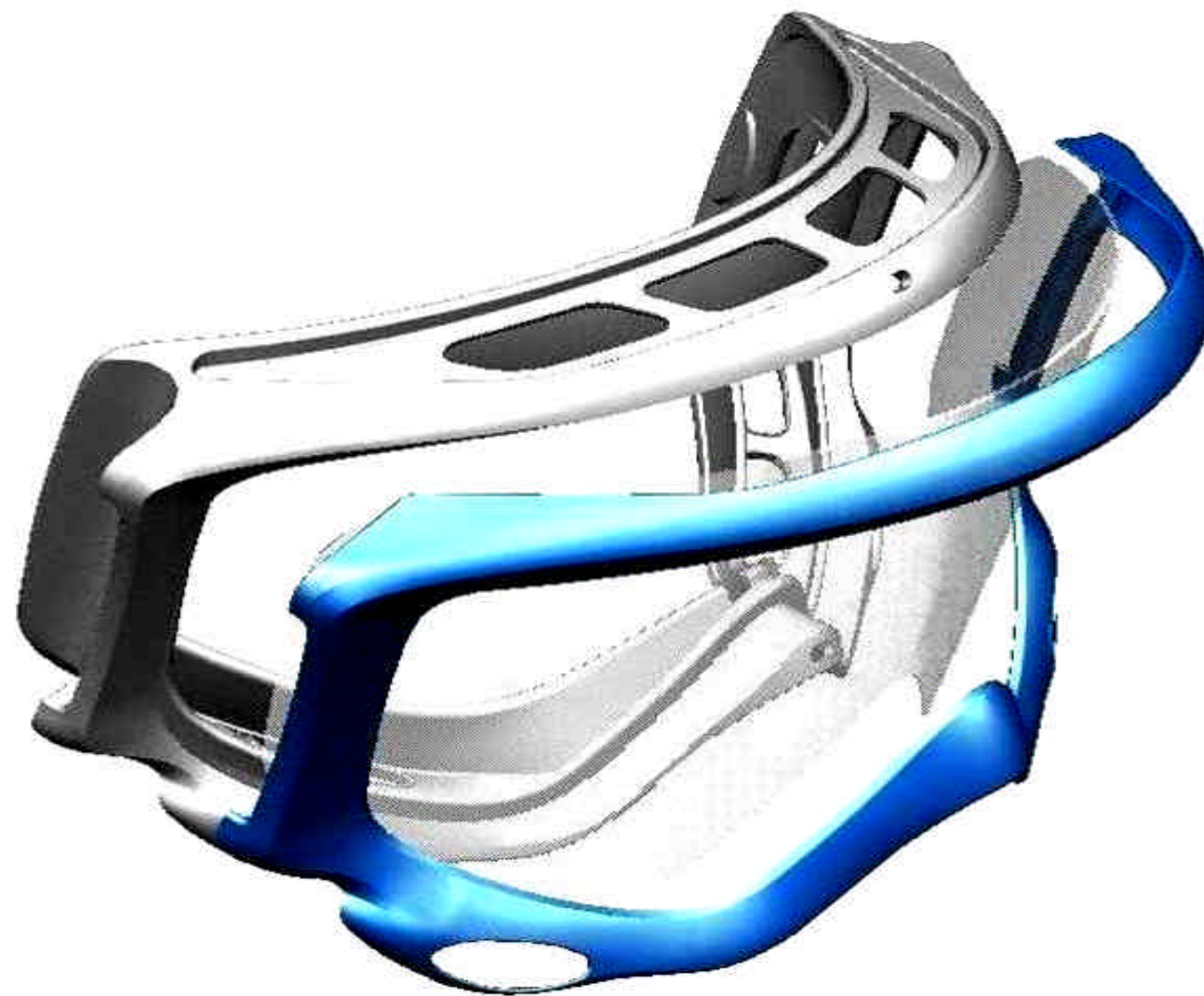
**Reverse Lens**  
**Patent number: PCT/IT2004/000663**



# Ski Goggles

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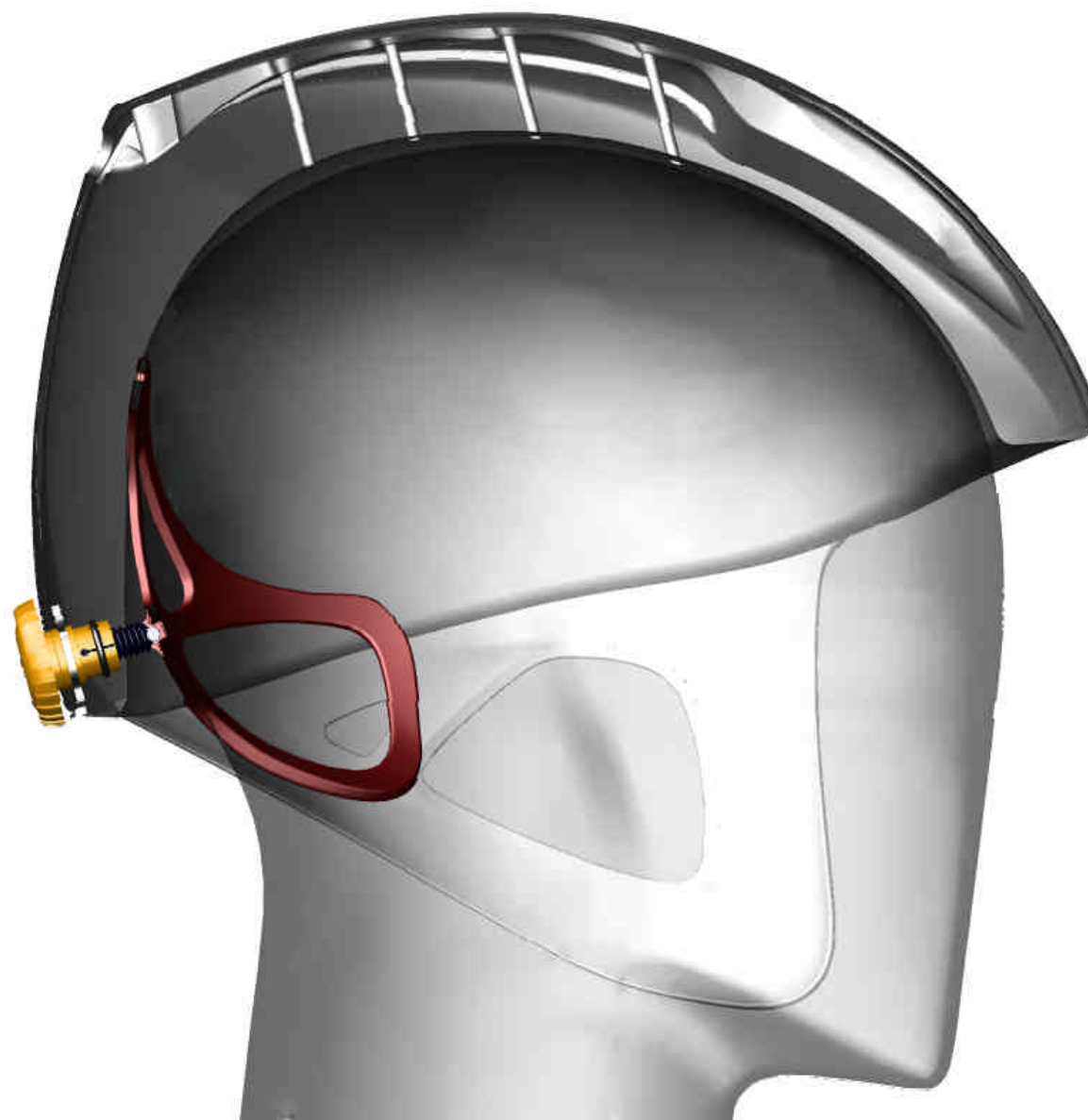
**Clip on for Interchangeable Lenses**  
**Patent number: PCT/IT2004/000537**



# Ski Helmets

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**Safety size regulator**  
**Patent number: PCT/IT2005/000445**

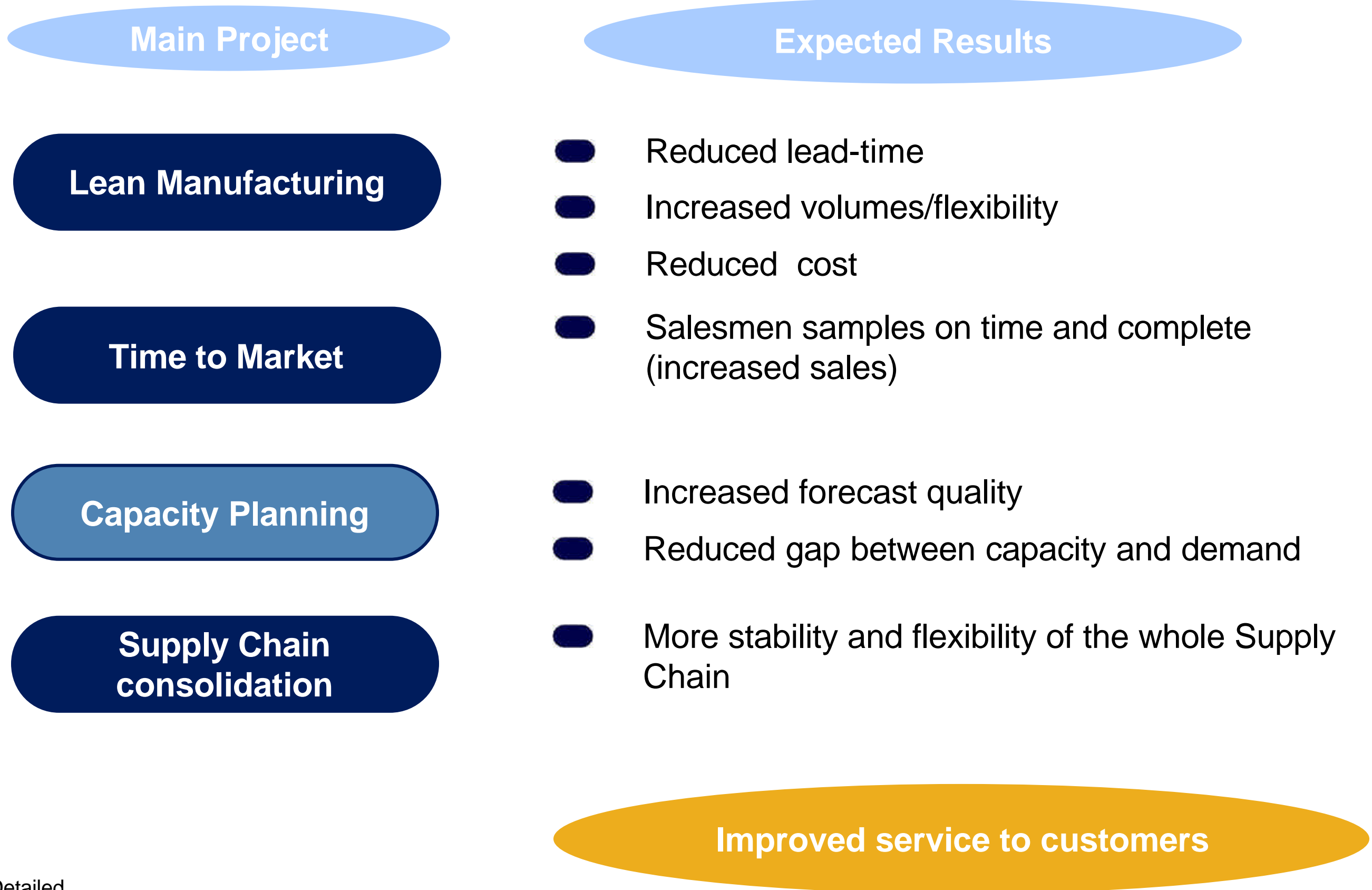




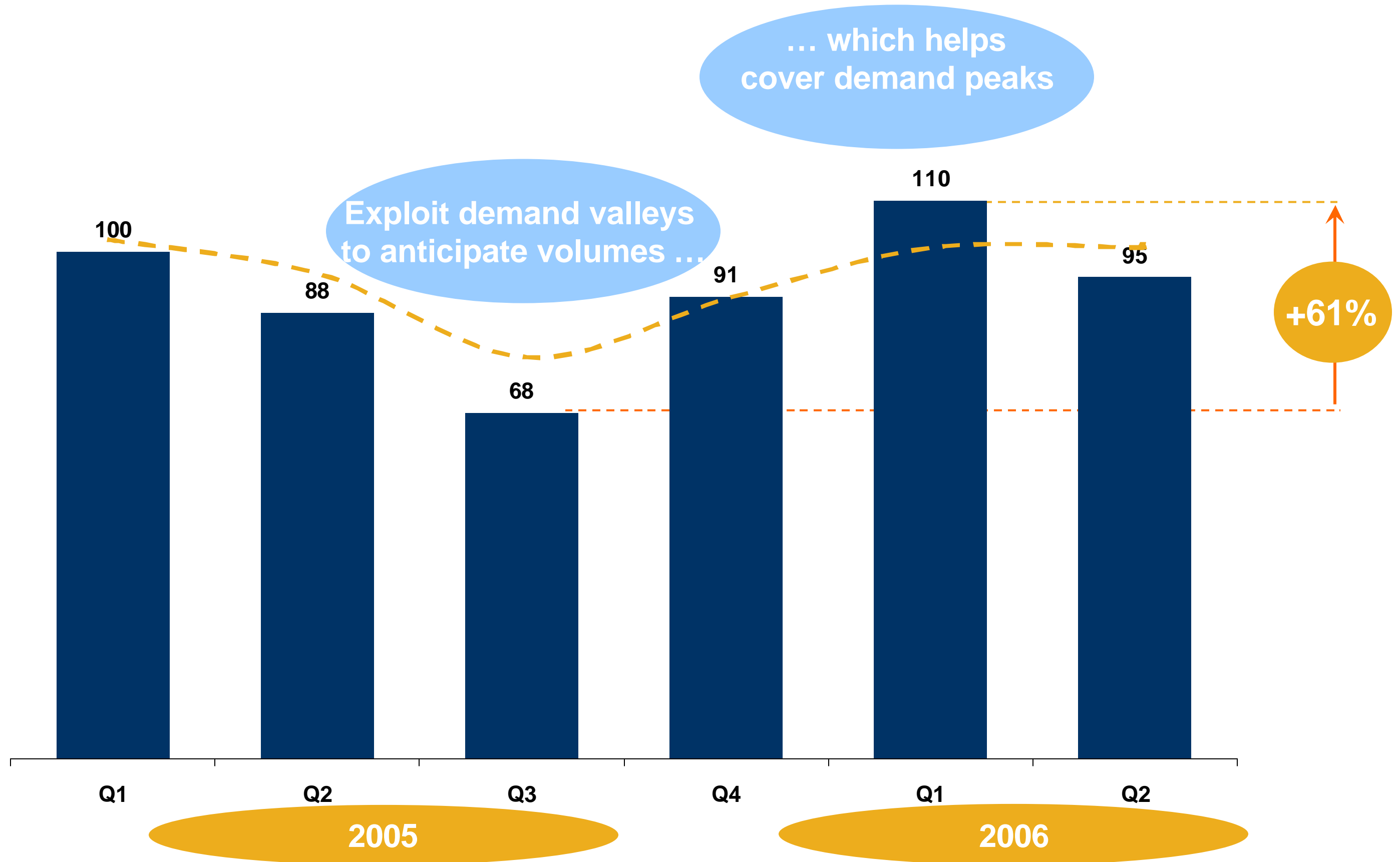


## MAIN PROJECTS

# 2006: Consolidation of main projects



# Capacity planning: key to Operations success



Source: Safilo

Note: Volumes required per quarter (index numbers)

# Improvement of capacity planning effectiveness:some important steps

## Description of activities

**12 months rolling forecast per critical resource**

- Quarterly review of sales volumes forecast for metal, plastic and outsourced volumes
- Monthly update of data through actual numbers

**Strong involvement of sales people in forecasting process**

- Direct involvement of Sales Dept. under the supervision of central Planning Dept.
- Direct involvement of sales people on the ground and planning dept. resources dedicated per geographic area

**New projects to increase forecast accuracy**

- New test and tools to improve forecasting accuracy (advanced samples for order collection)
- Renewed Market test to increase reliability of results



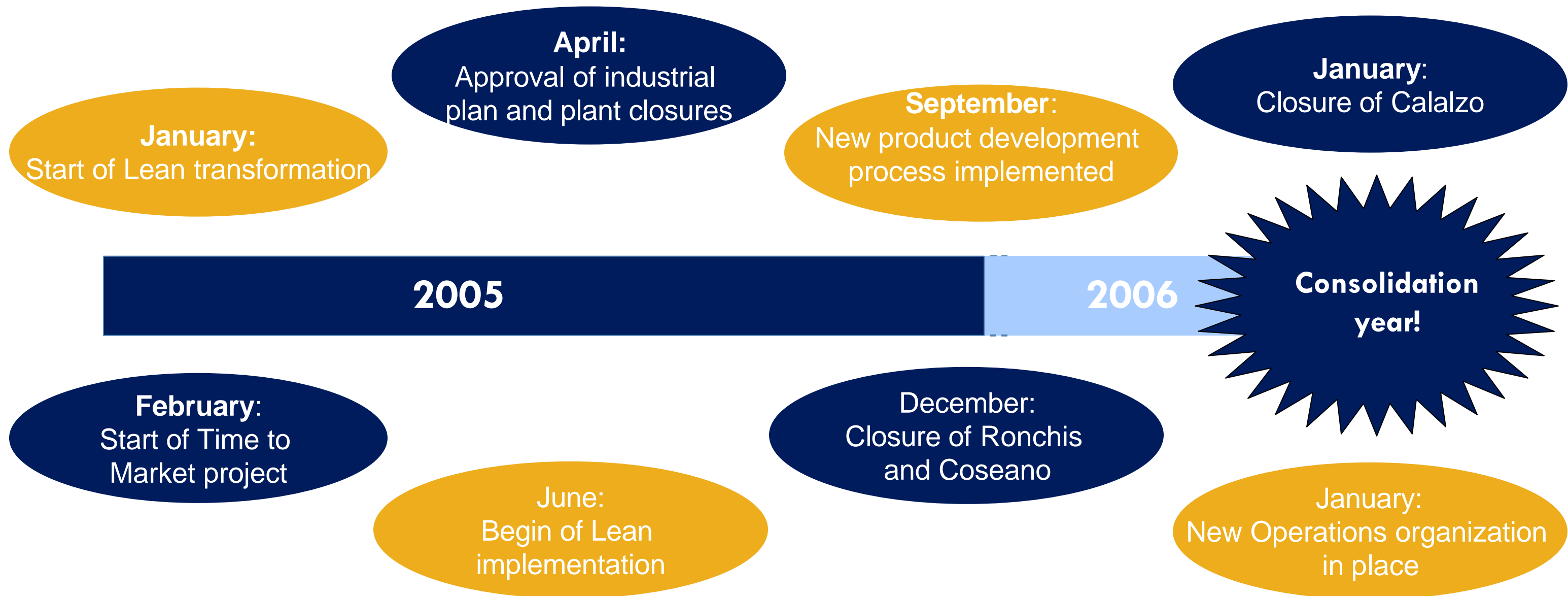
***AUGUSTO LIPPI***

**OPERATIONS PLAN FOR 2006**

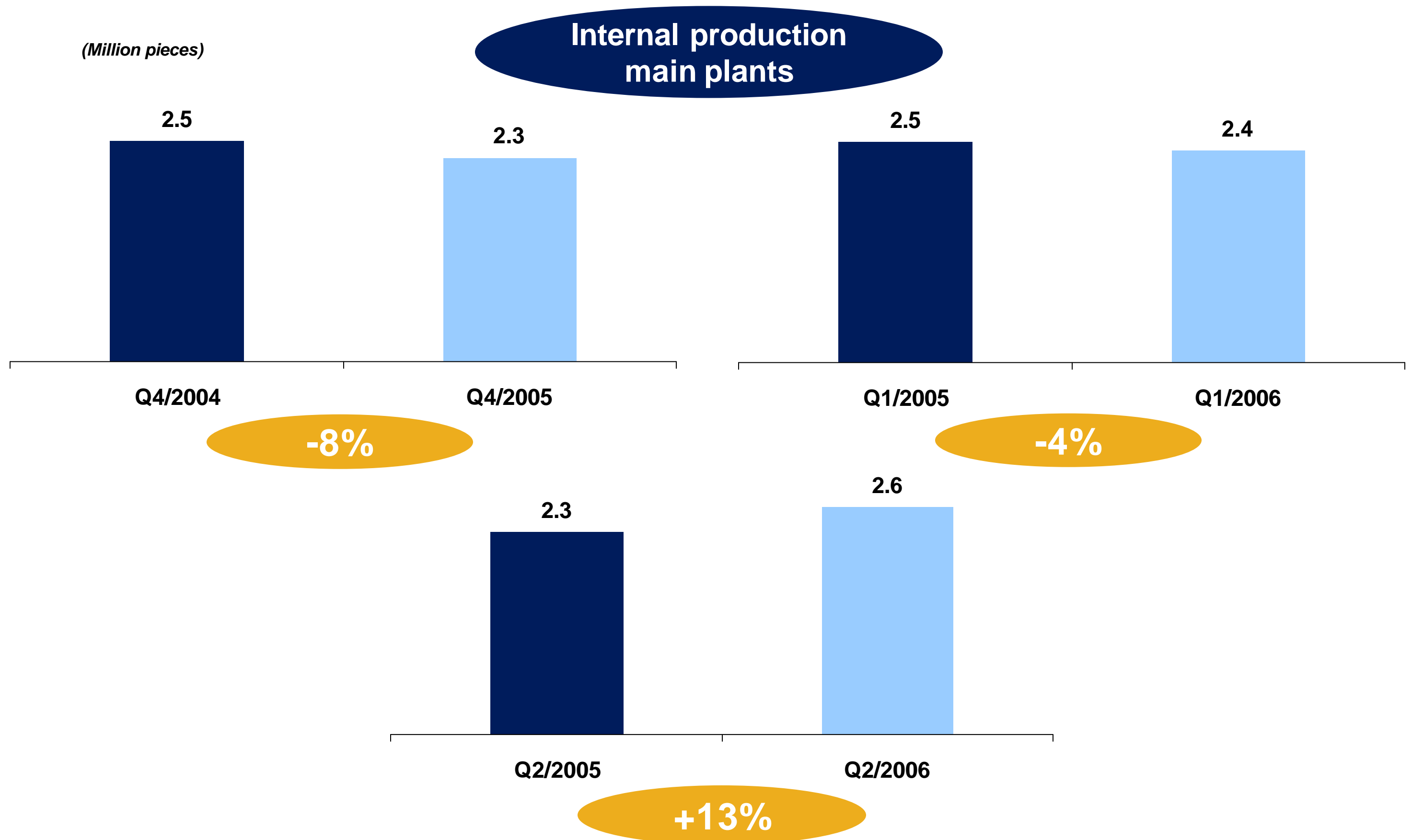


# 2005: Year of restructuring

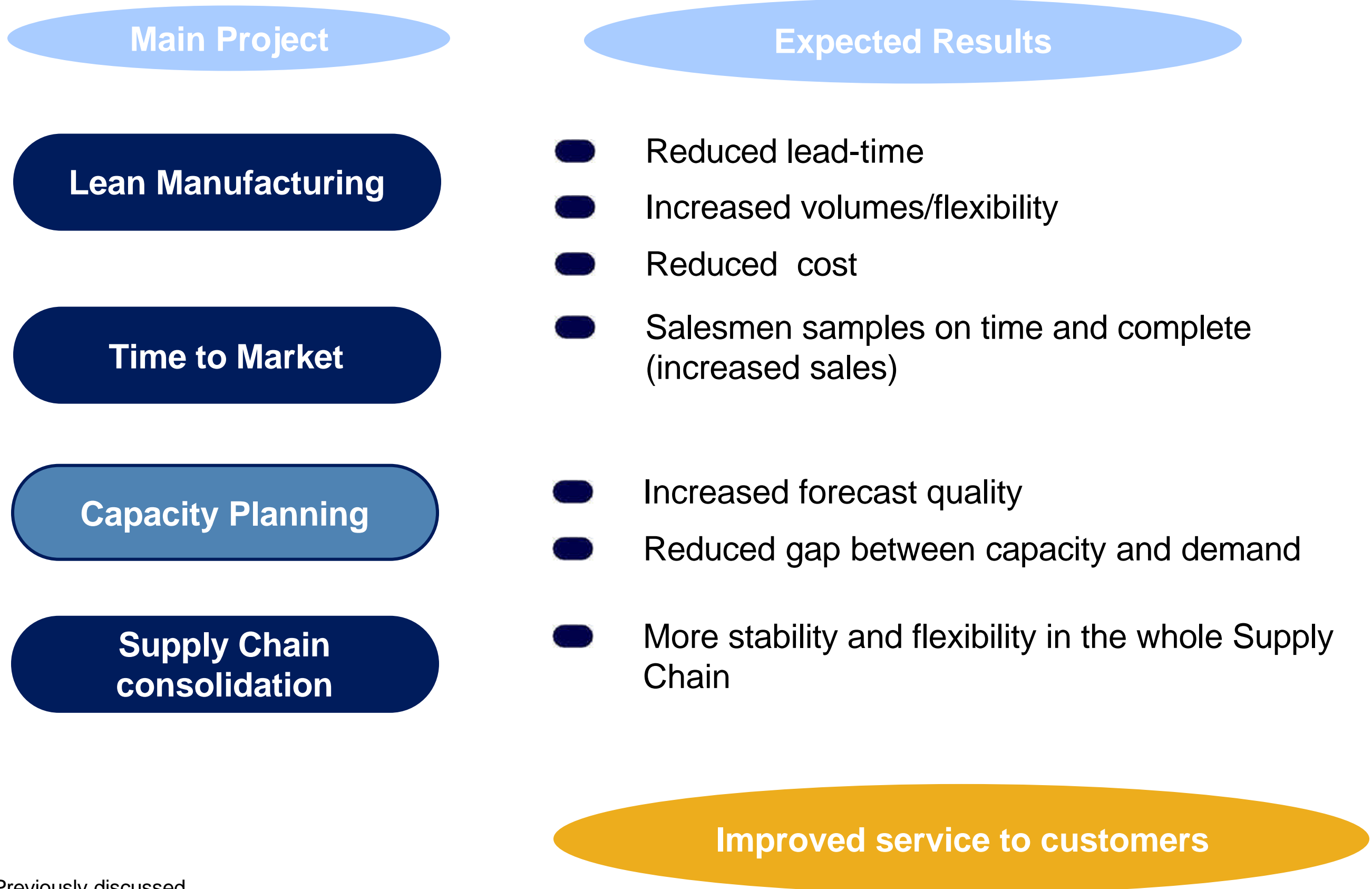
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# Reorganization cost and quick recovery



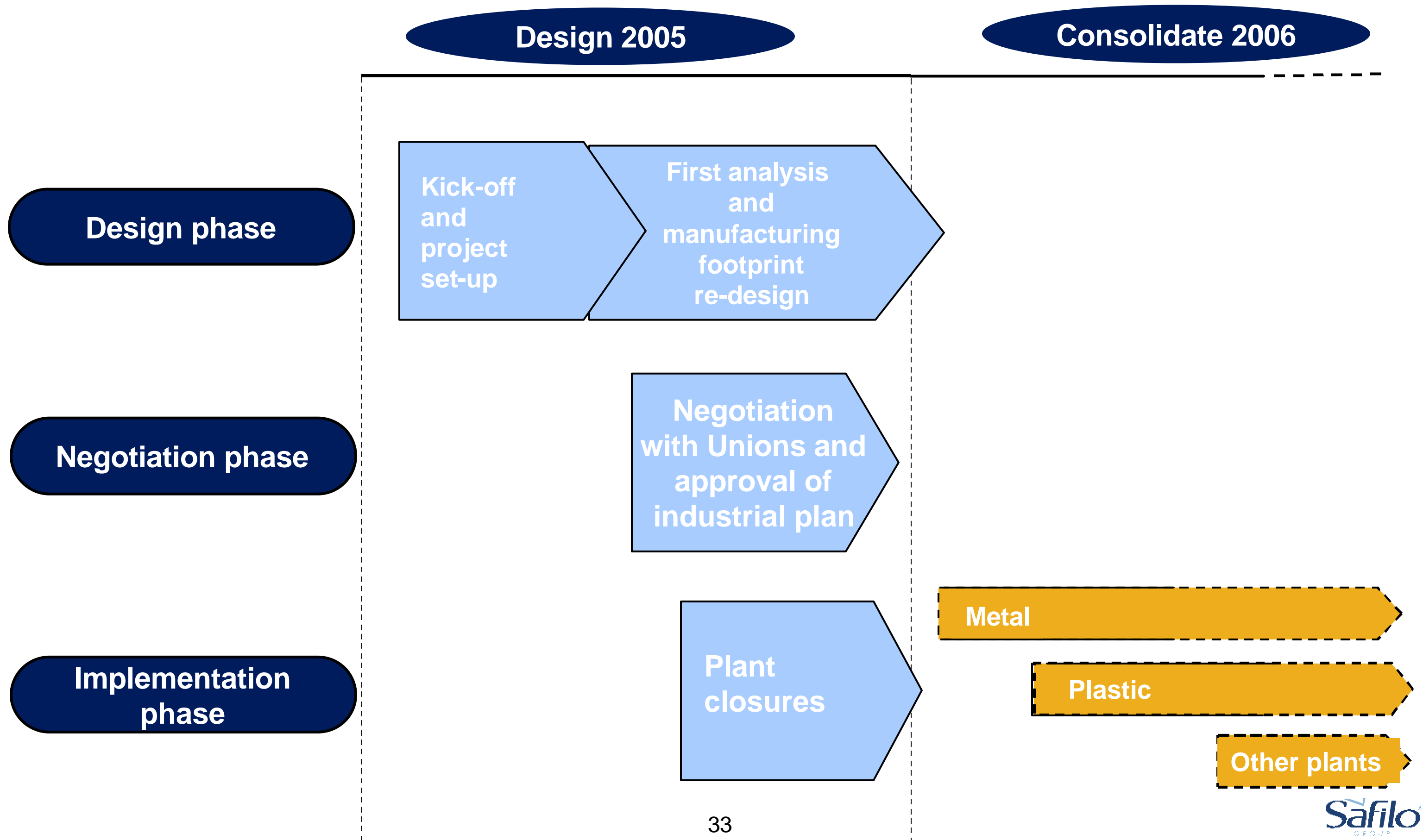
# 2006: Consolidation of main projects





**STATUS OF MAIN PROJECTS**

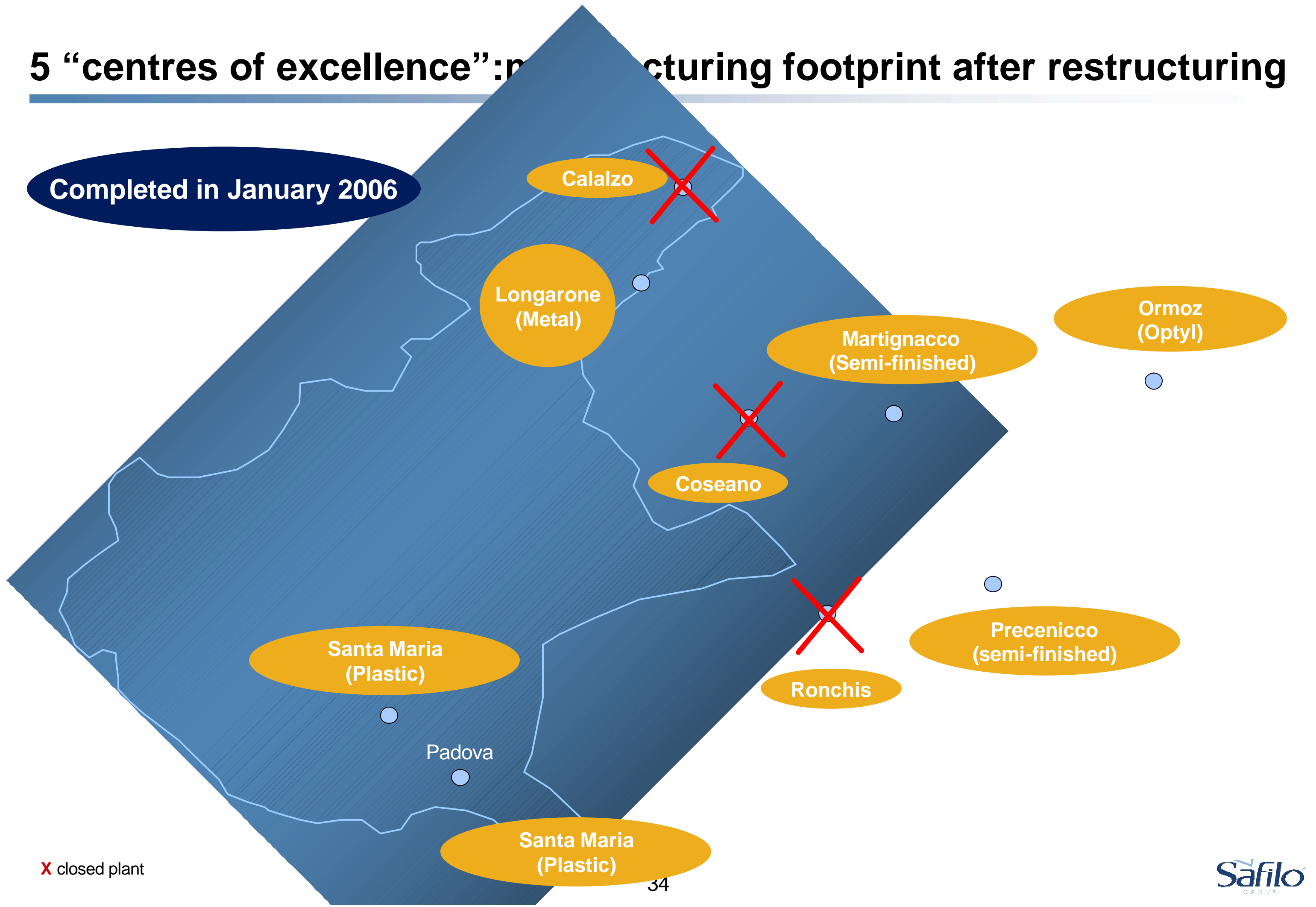
# Lean Manufacturing macro-plan





# 5 “centres of excellence”: restructuring footprint after restructuring

Completed in January 2006



X closed plant

# Lean Manufacturing a key to Operations success

Months

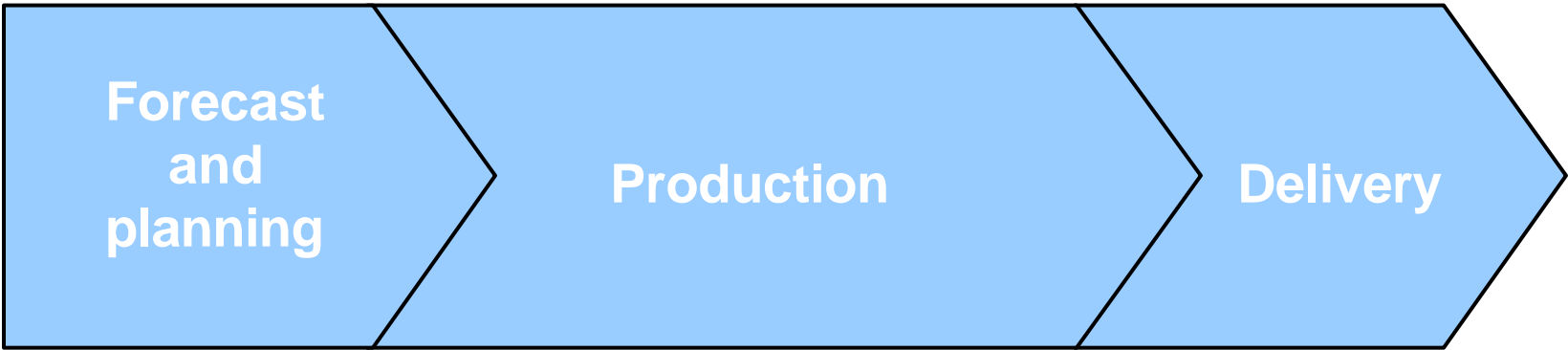
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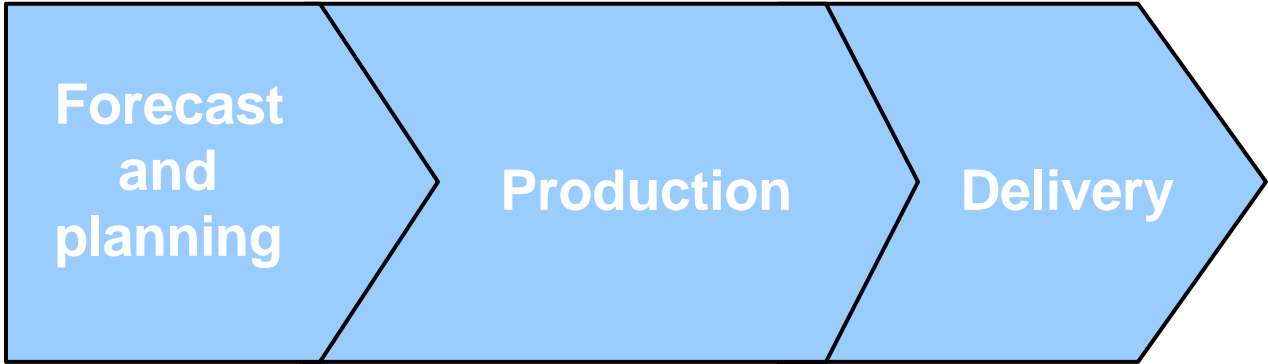
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Before  
Lean



Client

After  
Lean



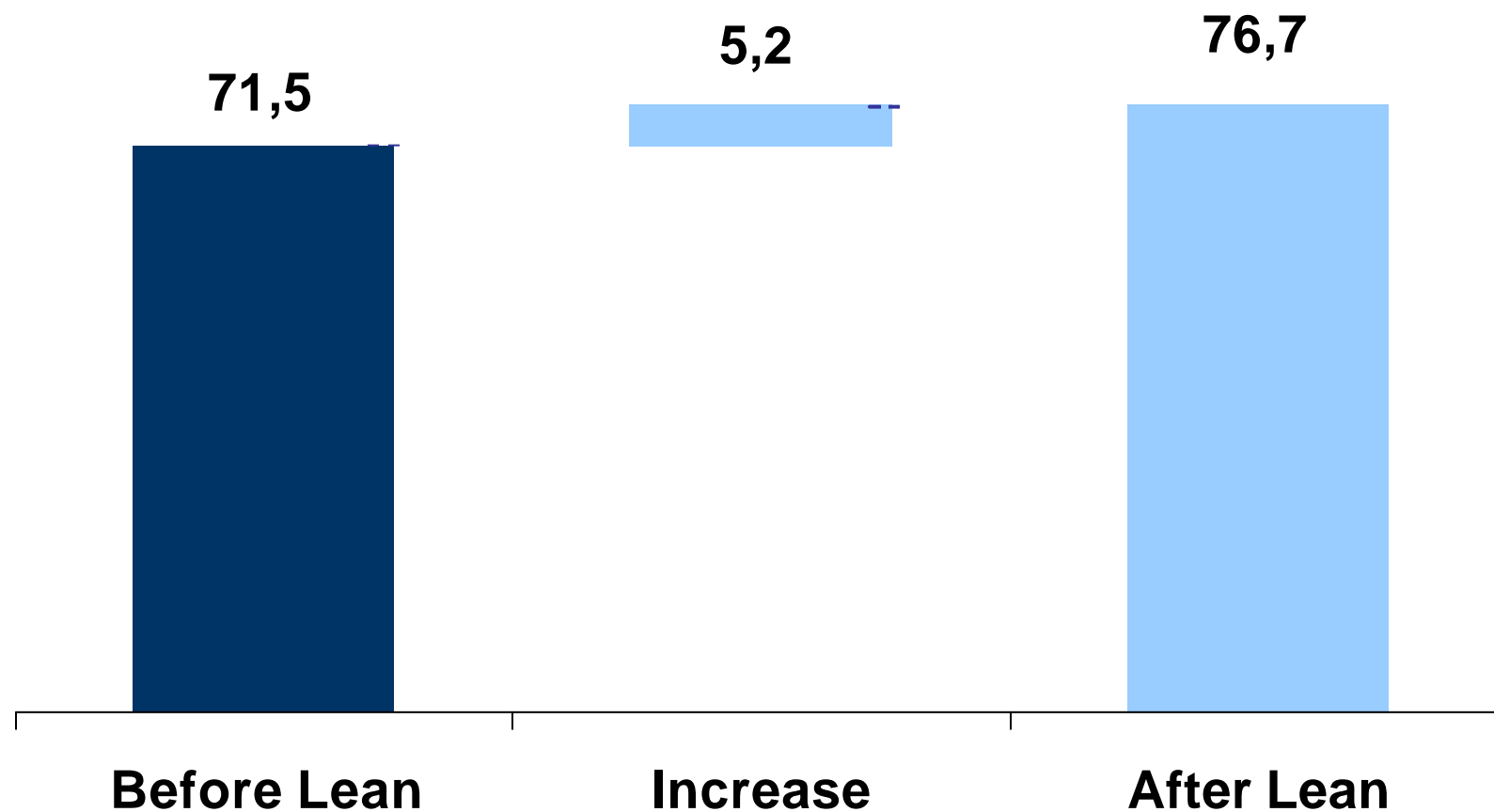
Client

The Market's main logic is "make to stock"

The shorter the lead time, the easier the forecasting process

# Results are very clear where Lean transformation has been fully implemented

**Productivity of departments transformed where lean is implemented by 70% or more (%)**



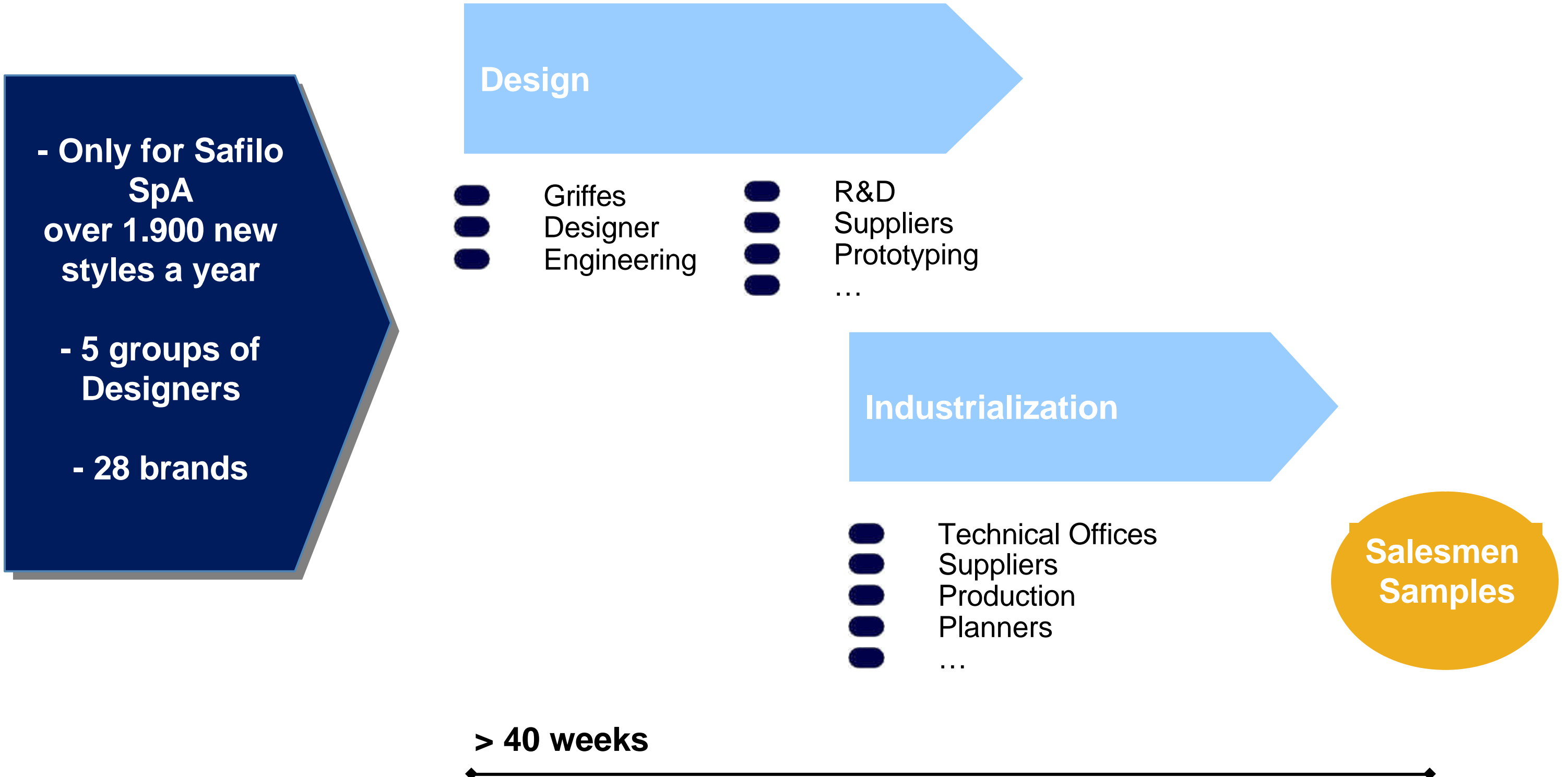
**Productivity increase is only the first, but very important sign, of Lean starting to work**

**In the next months our focus will be to:**

- **Complete transformation of residual departments**
- **Strengthen performance management system to keep good results where they are**

**After summer break, conditions will be ready to implement Lead Time reduction (already in place but still experimental)**

# Product development: a complex process



# Time to market project - designed with a double target

1

Standardize and consolidate process steps to increase effectiveness of results

2

Reduce lead time to be closer and more reactive to Market needs

## Main Levers utilized

- Workflow re-design
- Standardization of activities
- Capacity planning
- Lean transformation of industrial process



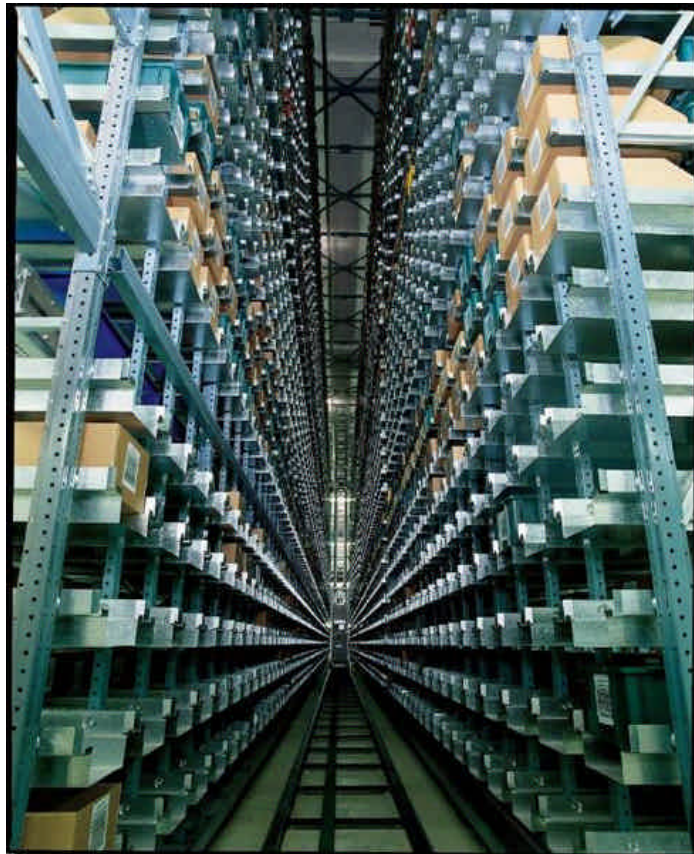
# Supply Chain consolidation

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- Signed long term agreement with main product suppliers to stabilize volumes and cost, and increase cooperation to exploit win-win opportunities
- Signed long term agreement with main raw materials and parts suppliers to prevent loss of supply, reduce risk of cost increase and guarantee possibility to increase volumes
- Internalized some of the key manufacturing operations to be independent from small suppliers' variable performance

# Expected Operations contribution to Safilo business growth



- Improved performance of product development process resulting in improved service to salesmen and finally more orders
- Higher capacity of the production system to follow market needs and reduced gap between orders and sales
- Increased capacity of the production system to react to market events (production of best sellers, development of special products...)
- More stability of the Supply Chain, resulting in the absence of production falls as experienced recently



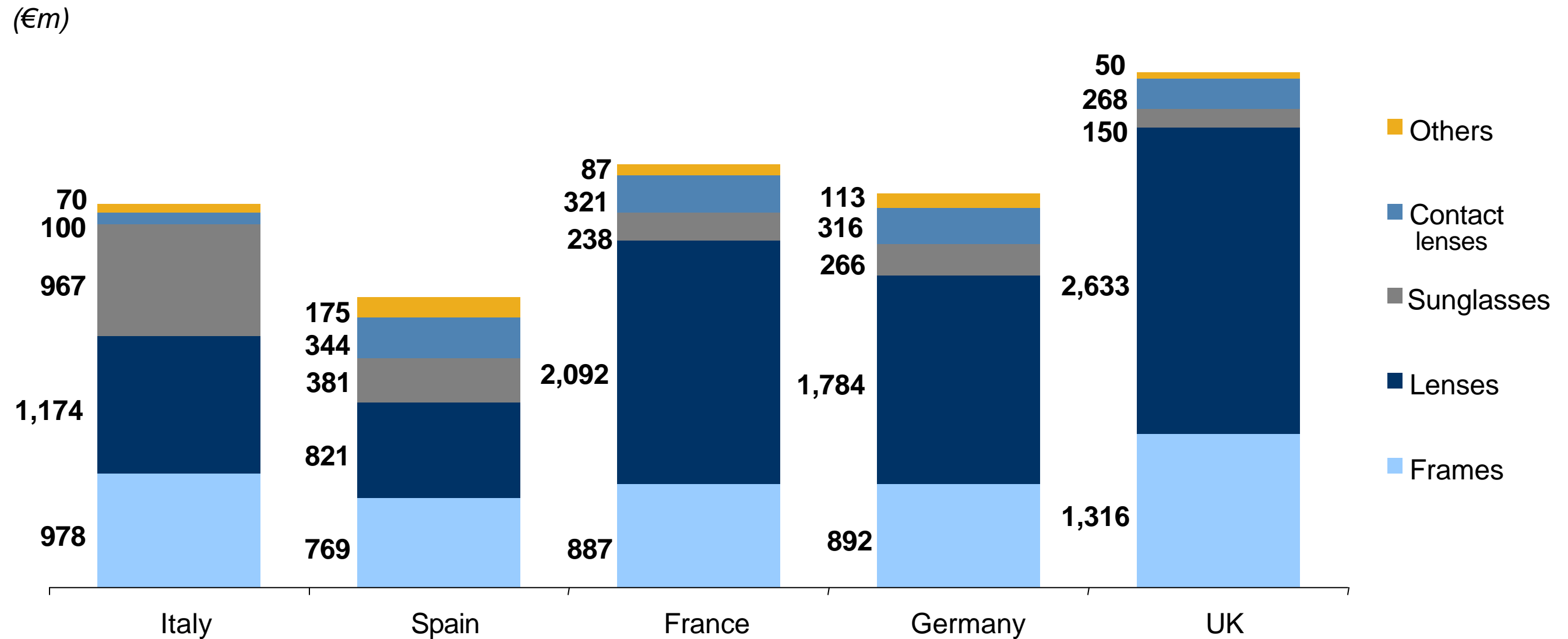




***GIOVANNI MATERASSI***

**BUSINESS UNIT EUROPE**

# Optical market in Europe is significant: 2005 Retail Value

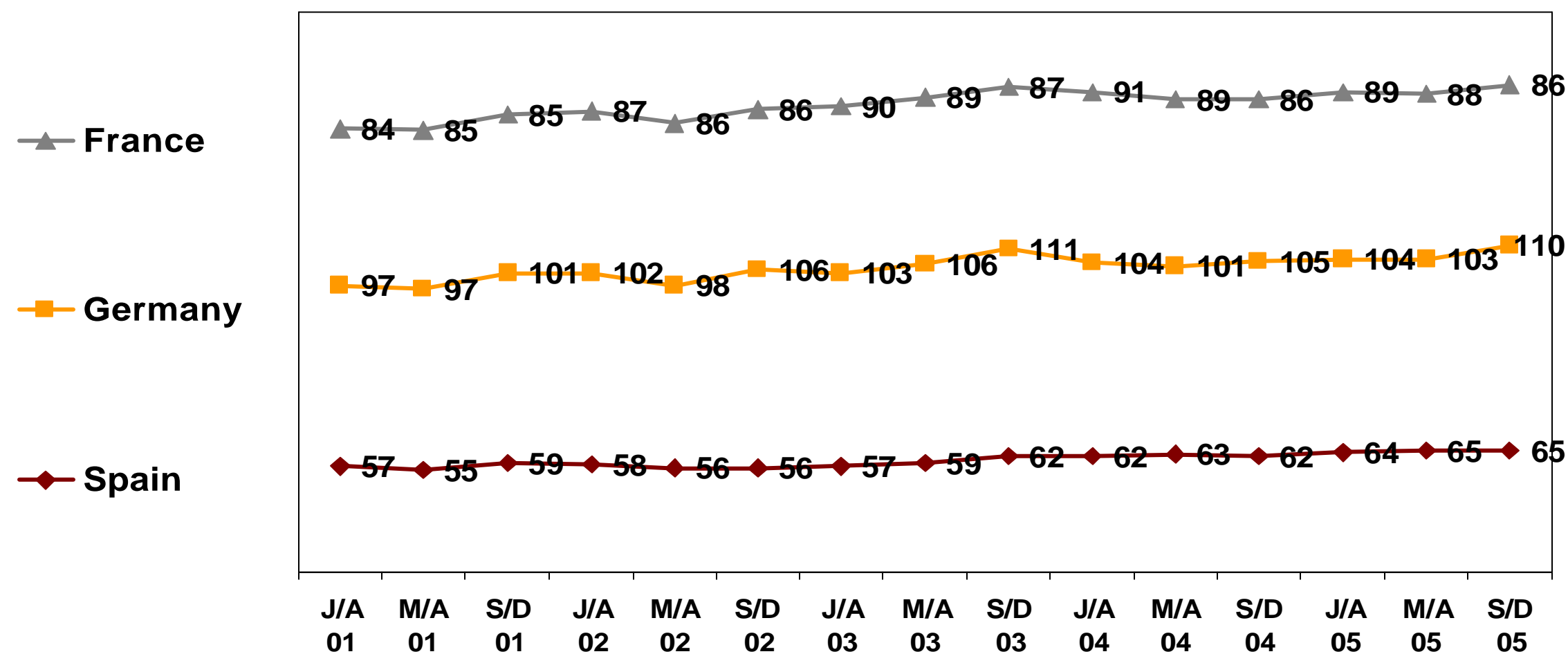


- Top 5 countries cover about 80% of total market
- Strong investment in marketing and product development in top 5 countries

Source: GFK for France, Italy and Spain; ZVA (Zentralverband des Augenoptiker) for Germany; Key Note for UK

# Optical market is growing Spectacle Lenses: avg. Prices increasing

Avg price per Lens in Euro , 2001-2005



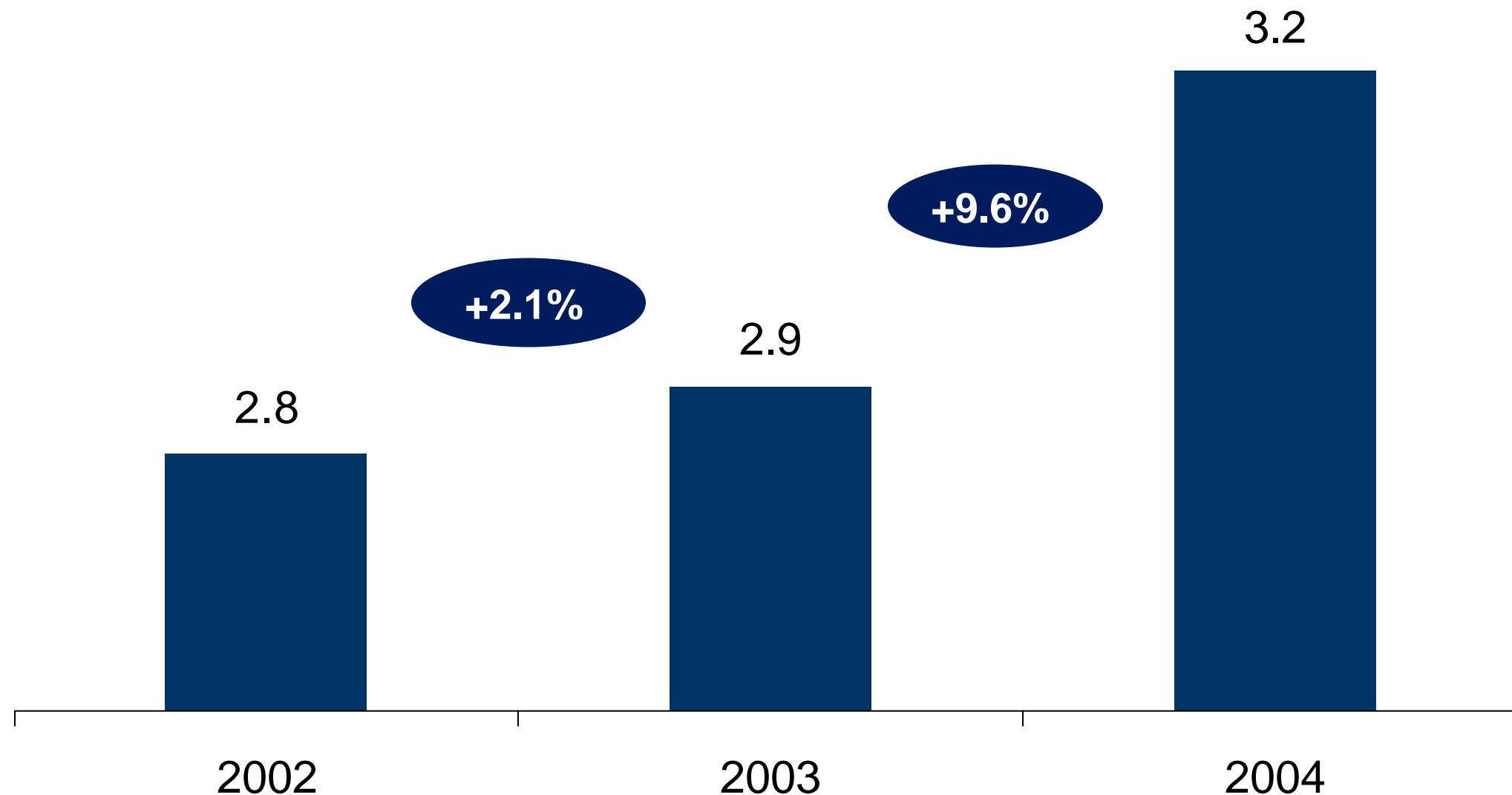
- High potential to sell Licensed Brands is given by the growth of sales in high quality lenses

Source: GFK



# Optical market in Europe is growing

(€b)



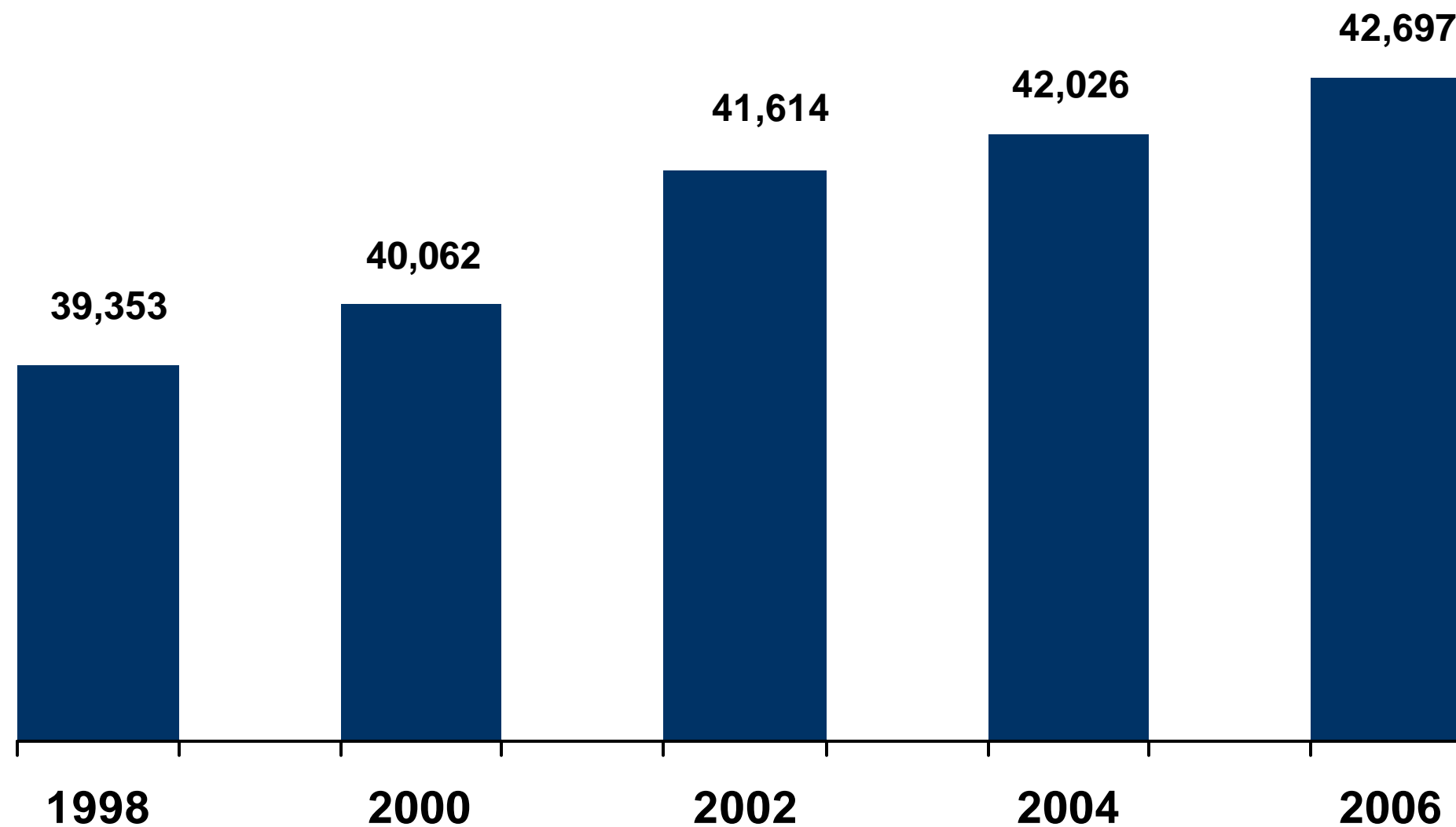
- Safilo has a wide range of products to satisfy the new market opportunity

*Source: Bain & Company 2005 based on Euromonitor, Jobson Research, Statutory Accounts, Broker reports e specific studies; Etimation on Wholesale, Prescription + Sunglasses, market value, in years 2002, 2003 and 2004.*

# The European Optical retailers are still growing

Nr. of Opticians stores - Europe 5

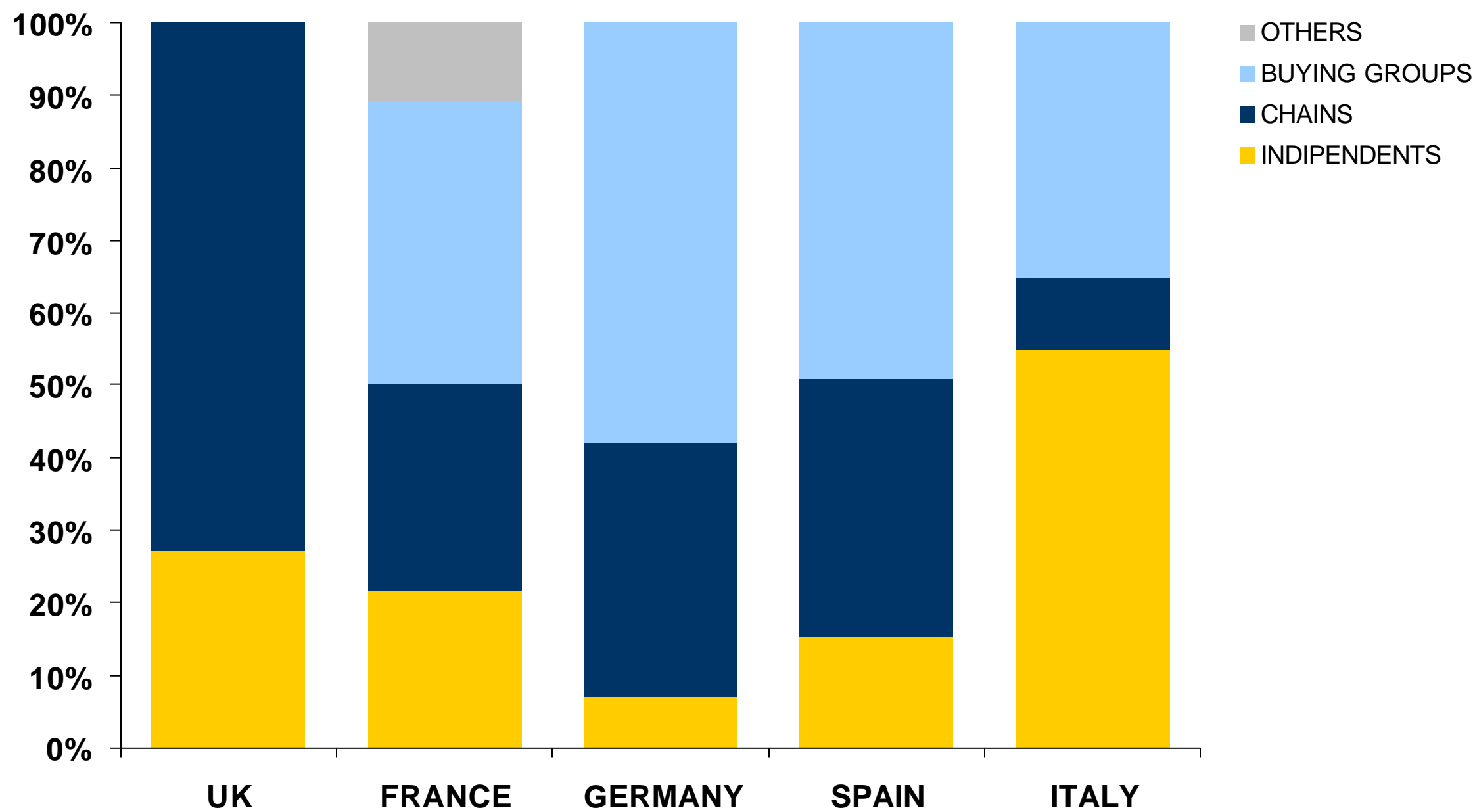
+8.5% 2006 vs 1998



- Safilo has the ability to increase its market penetration through the House Brands and second line brands

Source: GFK

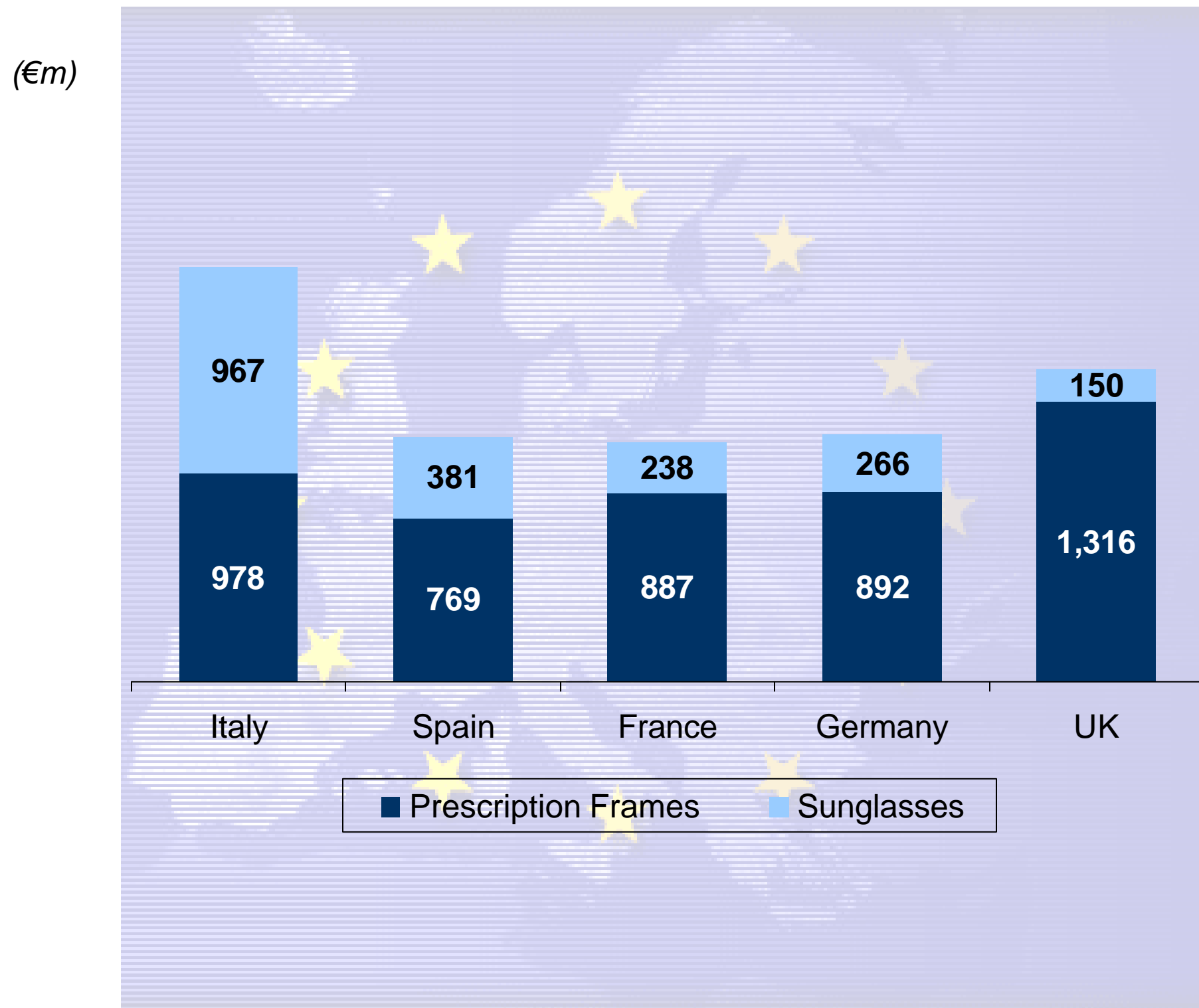
# Sunglasses and Prescription frames: Market Distribution by Channel



● Differentiation in distribution structure customized by country

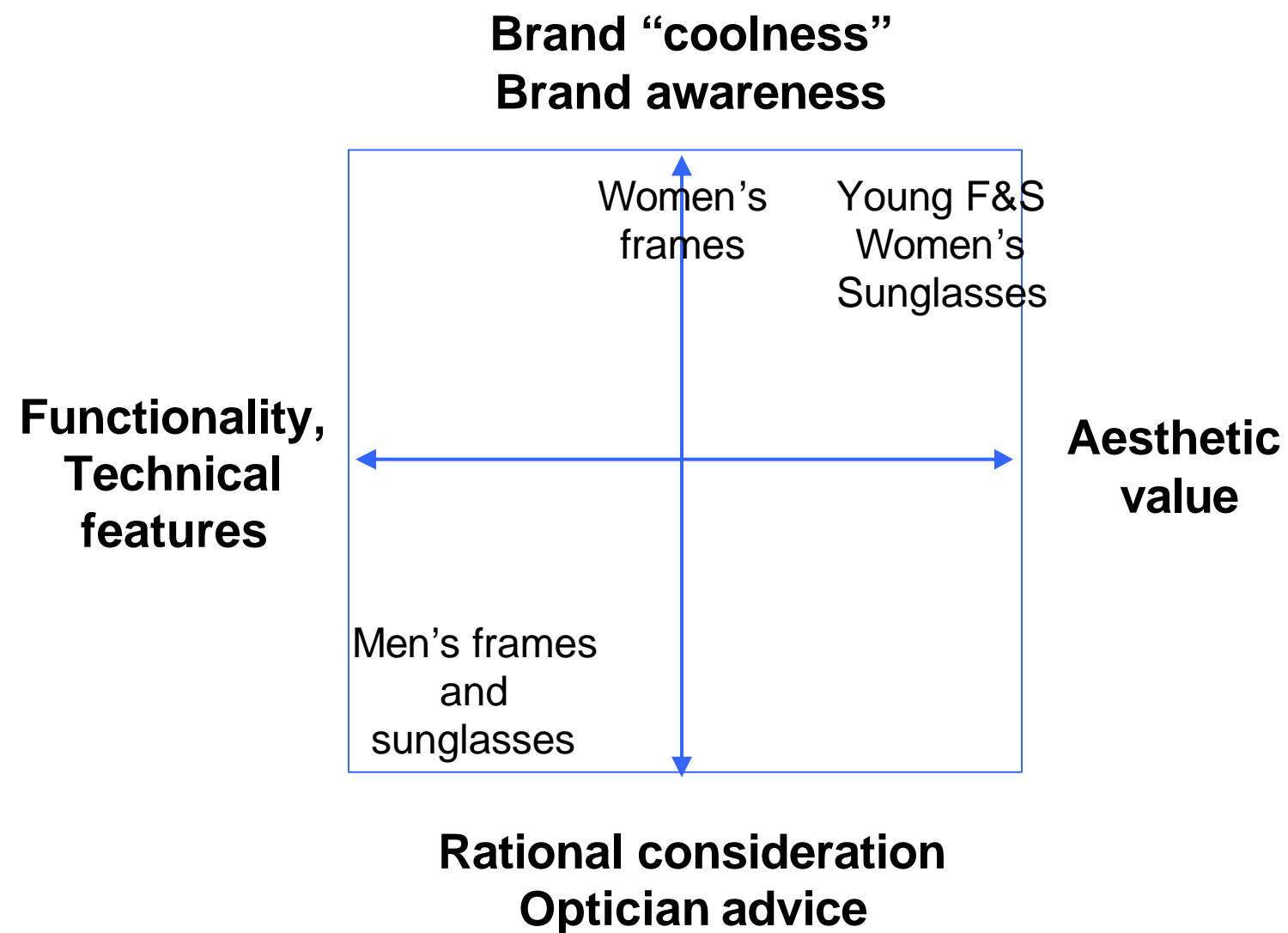
*\*Source: European Optical Industry Handbook 2003 (Jobson Optical Group)*

# Different Consumer Preferences in Europe



- Opportunity for Safilo to offer the appropriate product based on Country requests

# Consumer Behaviour



## FRAMES

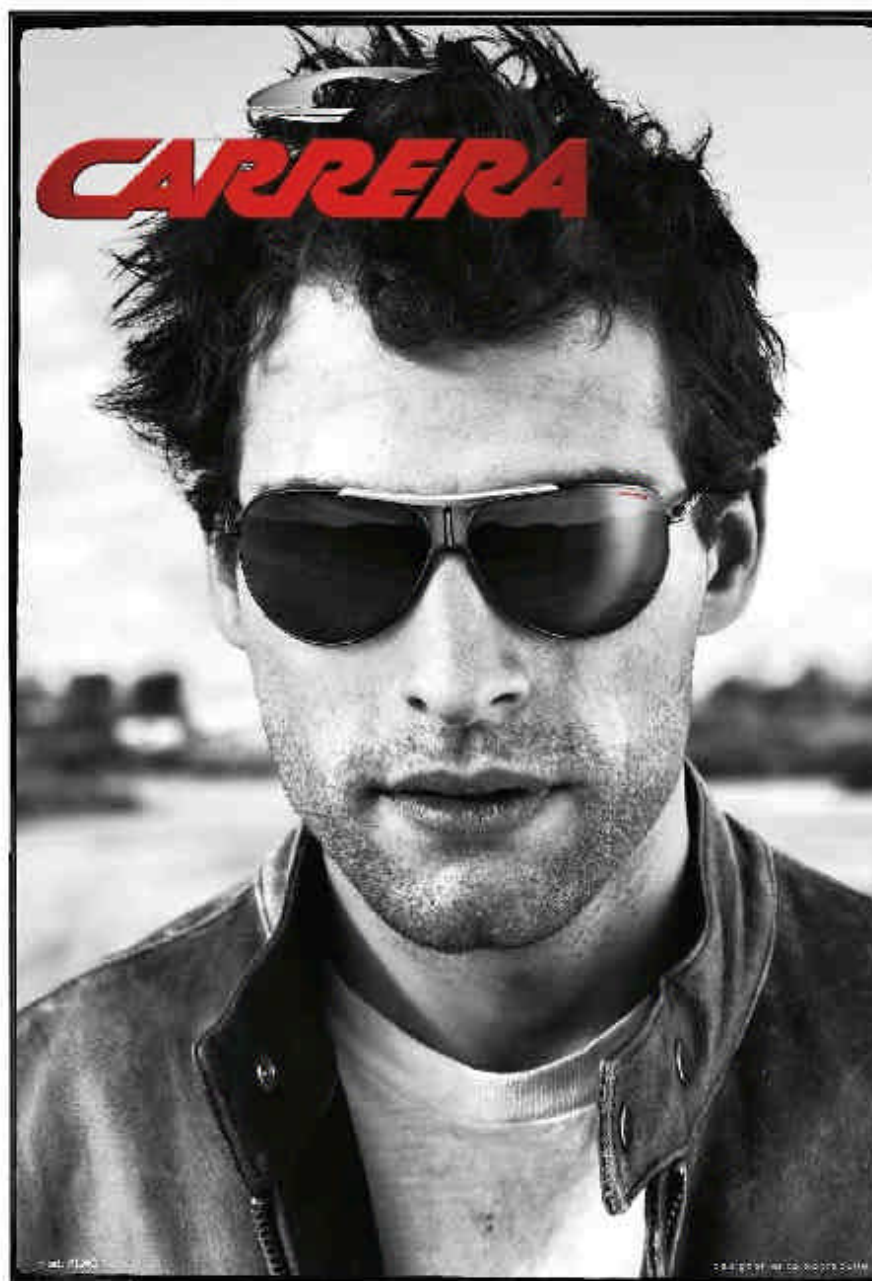
Women and young adults are more likely to buy styles featured in advertising and windows displays and well known fashion brands;

Men are more influenced by the technical features of the product and indications from the optician

## SUNGLASSES

Women and young adults are influenced by advertising and friends' opinions, fashion and recognisable logos are also important factors

Men are more influenced by the advice of the optician, technical features and comfort

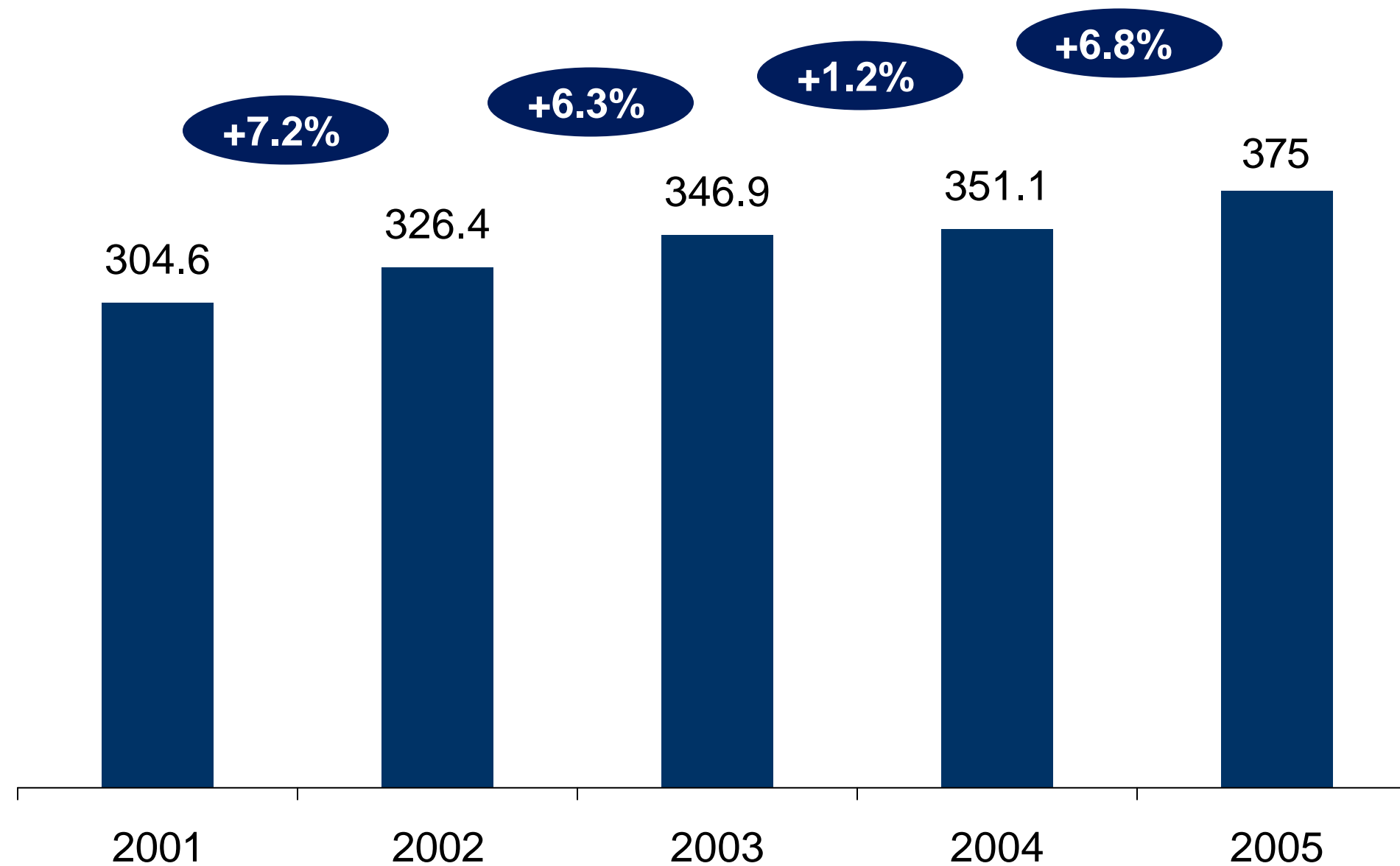


## SAFILO AND THE MARKET



# Safilo - European Top 5 Countries Sales

(€m)



- A strong distribution channel has allowed for strong growth in the market and an increase in market share over the last 5 years

# Safilo Commercial Structure in Europe

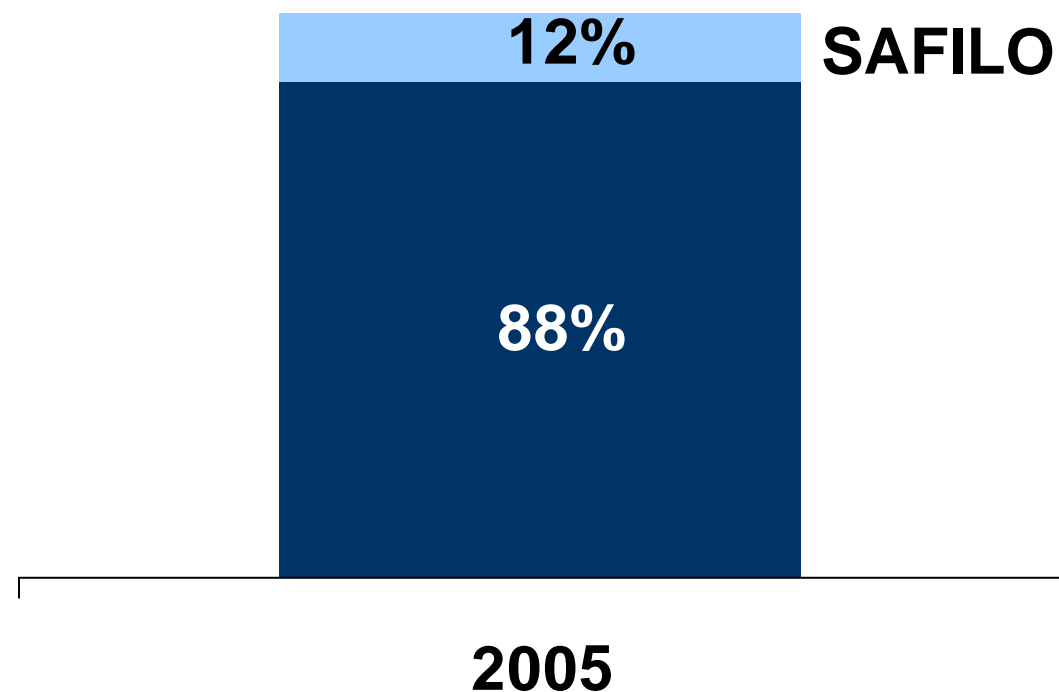
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- Subsidiaries: Austria, Belgium, France, Germany, Greece, India, Italy, Netherlands, Nordic Region, Portugal, Slovenia, South Africa, Spain, Switzerland and UK
- Distributors: Rest of World and Middle - East
- National Key Accounts: 5 Top Chains
- Call Centre & Customer Support: there is a unique “message” for all European customers



# Safilo in European Eyewear market

## European Eyewear market

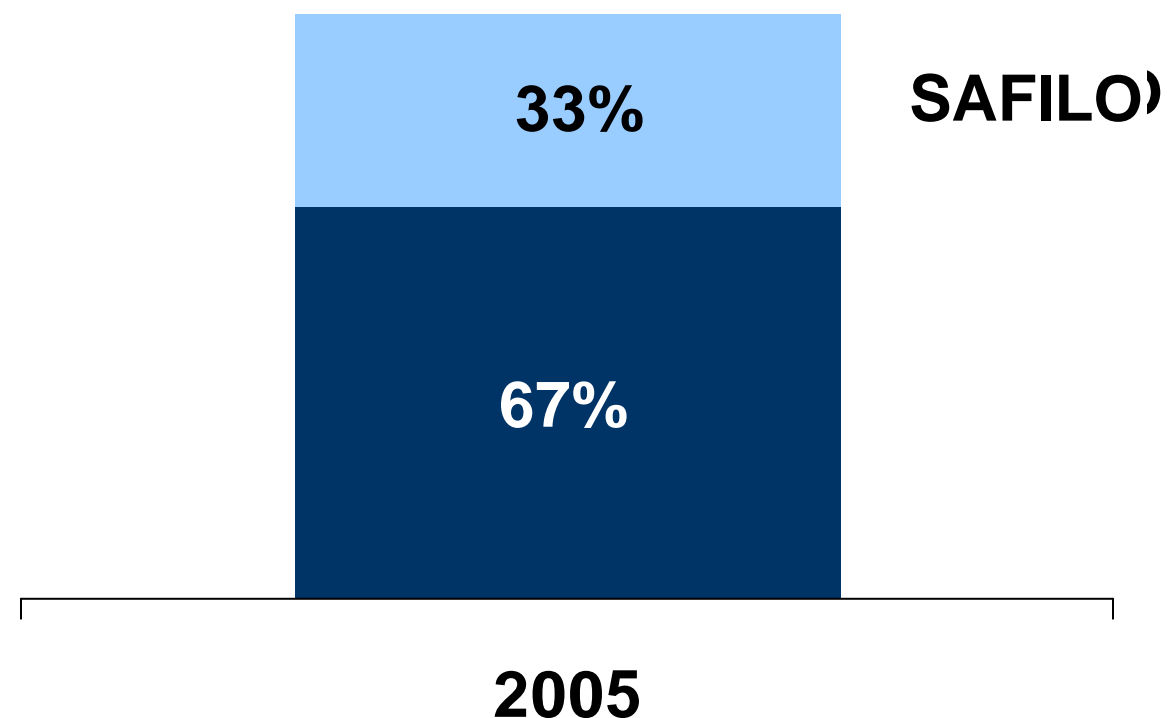


- The Market is flat
- The margins are stable
- Private label are gaining year by year a higher share of low market

Source: Safilo elaborations on Bain & Company 2005 report based on Altagamma 2004 and Safilo data; estimated quotes considering the first 40 brands identified by Altagamma, at retail value, by respective market.

# Safilo in Premium European Eyewear market

## Premium\* European Eyewear market



- The market is growing and Safilo is outperforming this growth
- Margins are higher
- Safilo offers high quality House Brands products

\*Premium means > 100 €

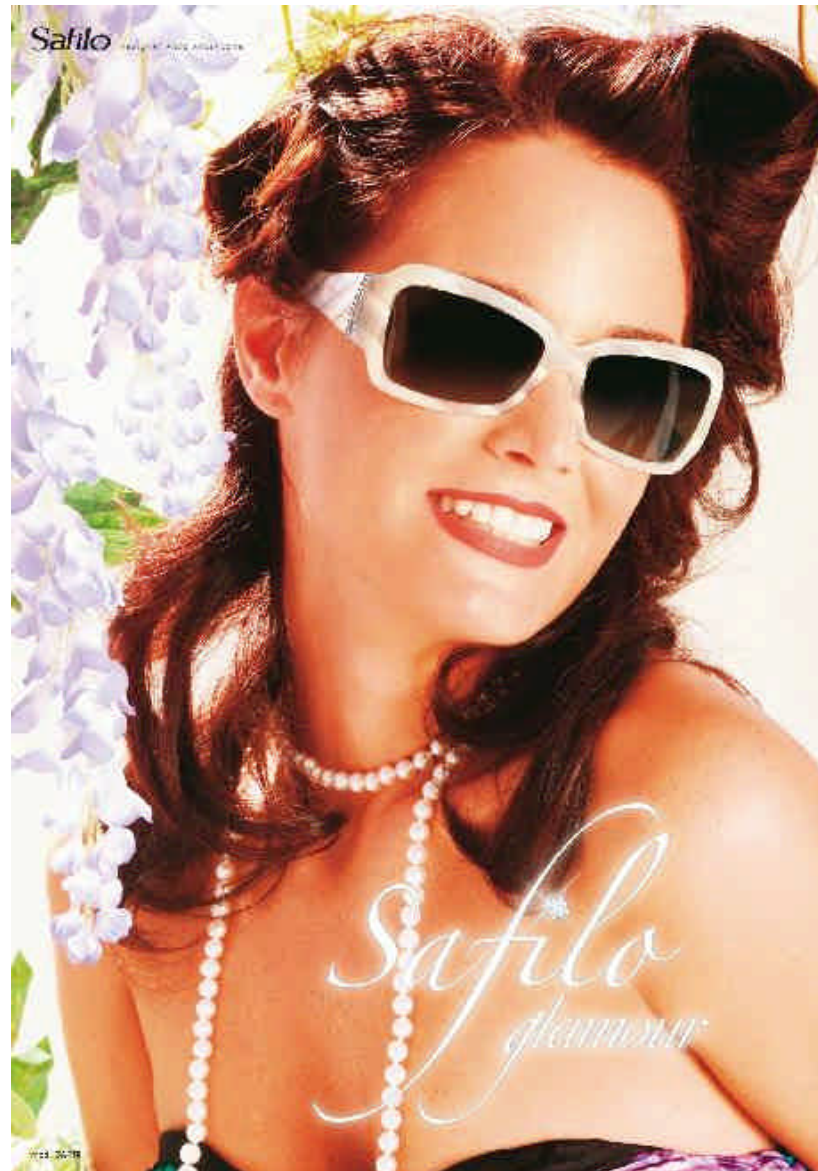
Source: Safilo elaborations on Bain & Company 2005 report based on Altagamma 2004 and Safilo data; estimated quotes considering the first 40 brands identified by Altagamma, at retail value, by respective market.

# Opportunities for future growth

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- Open new subsidiaries
- Grow in emerging countries
- Wide product range and stronger communication plan, especially for House Brands
- Market intelligence: analysis of trends, prices, competitors, consumers, trade
- Investment in software and information systems for Key Accounts to follow better the needs of these special clients

“Support and satisfy better and better the market and customer's needs ”







***MARIO PIETRIBIASI***

**BUSINESS UNIT FAR EAST**

# SFE is the Far East's Hub



- Safilo Far East (SFE) is a company incorporated in HK since 1994
- SFE is acting as the hub of Safilo for its activities in Far East and in the duty free market worldwide
- The following activities are centralized in SFE :
  - Product development (five designers),
  - Sales and MKT strategies (pricing, distribution, pos activities),
  - Production planning (Japan),
  - Purchasing (from Italy and Japan),
  - Logistic,
  - Administration and finance

# Sales Organisation

As of today we have:

6 Subsidiaries

- Japan
- China
- Hong Kong
- Singapore
- Malaysia
- Australia

14 Distributors

- |             |             |
|-------------|-------------|
| Korea       | Vietnam     |
| Taiwan      | Indonesia   |
| Philippines | Australia   |
| Thailand    | New Zealand |

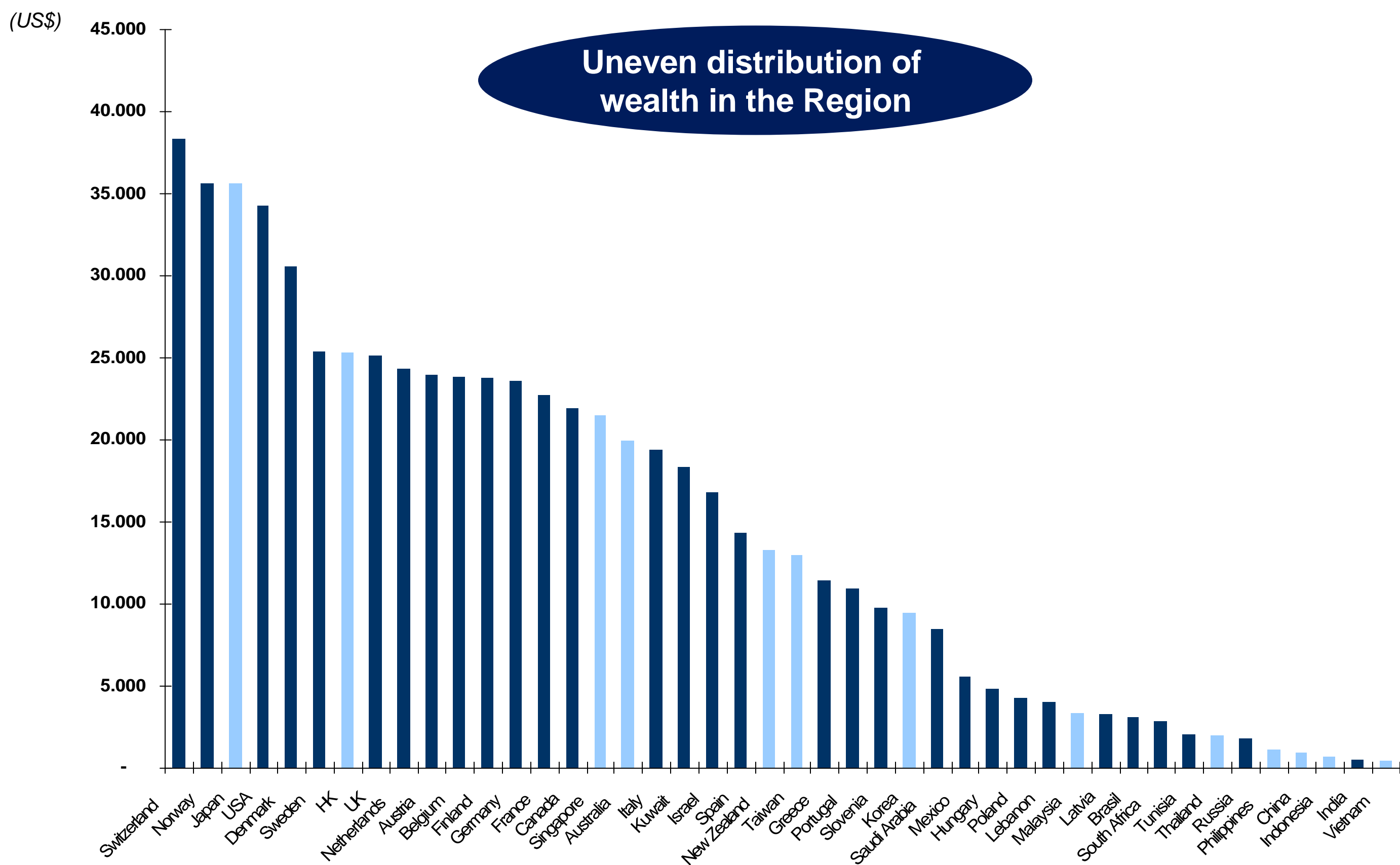
9 Agents DF

- Far East
- Australia
- Middle East
- Africa
- Americas
- Europe

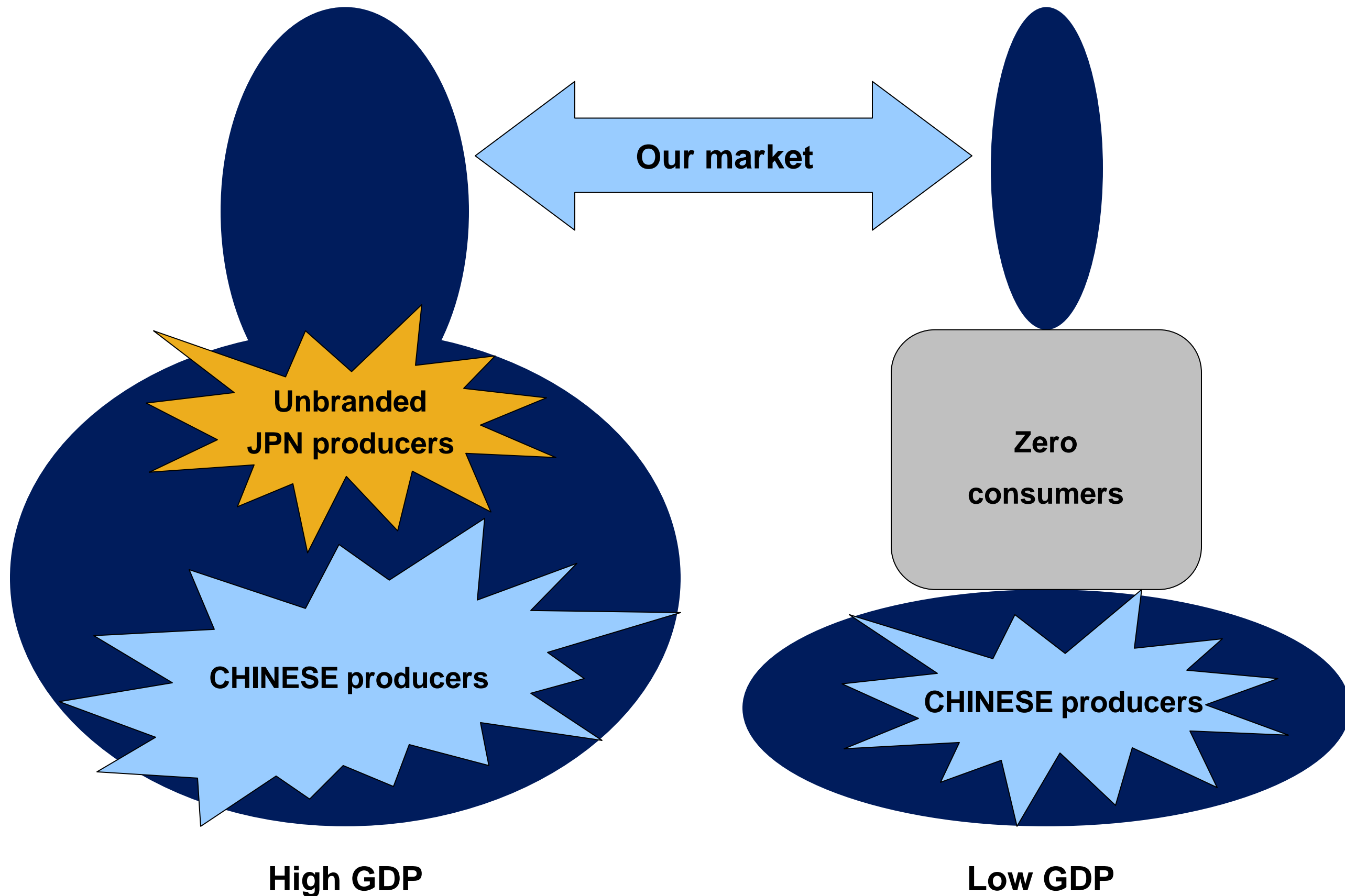


**FAR EAST MARKET**

# GDP per Person



# The consequence is apparent in the Markets' “shapes”

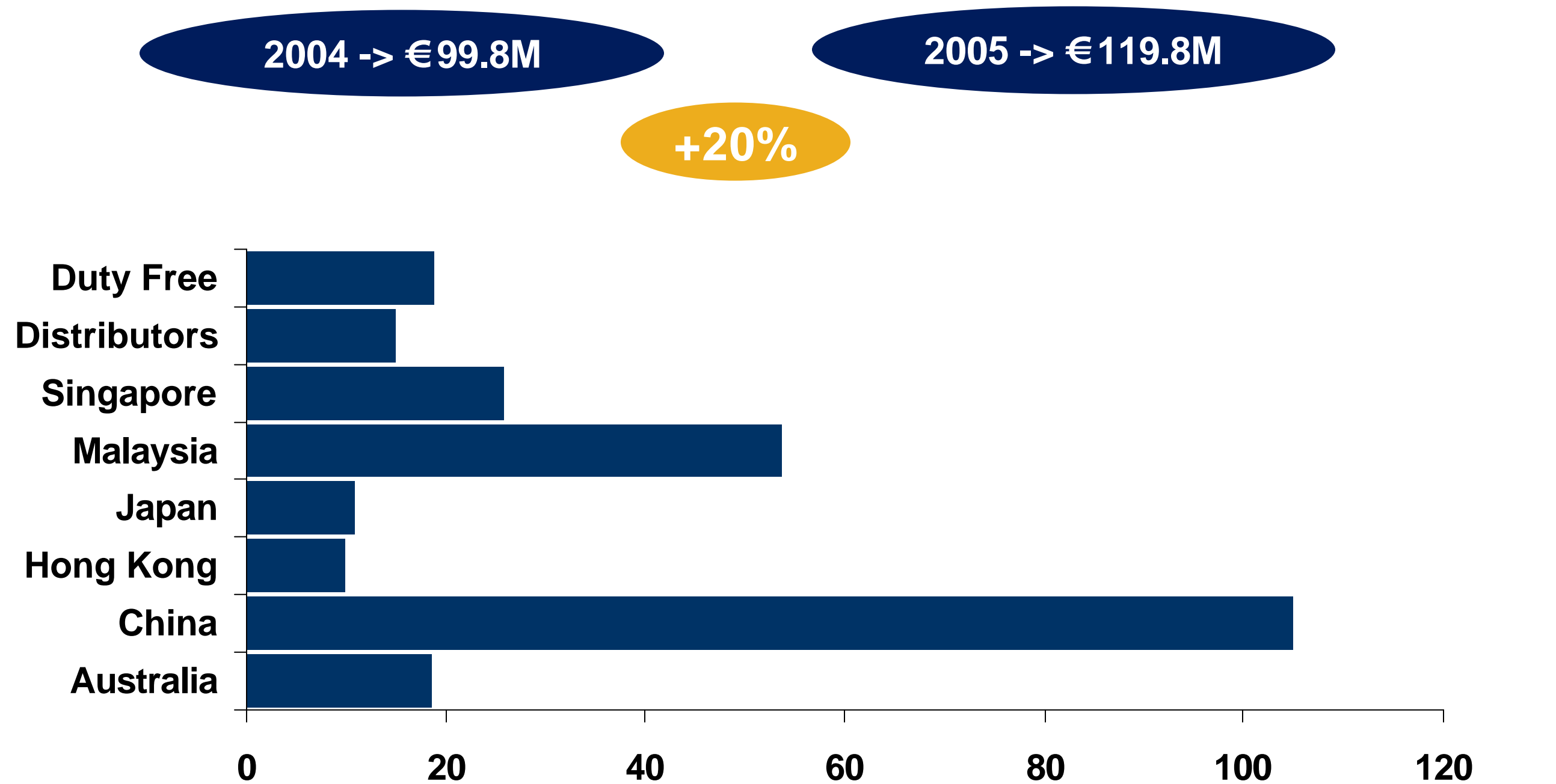






**FAR EAST - RESULTS**

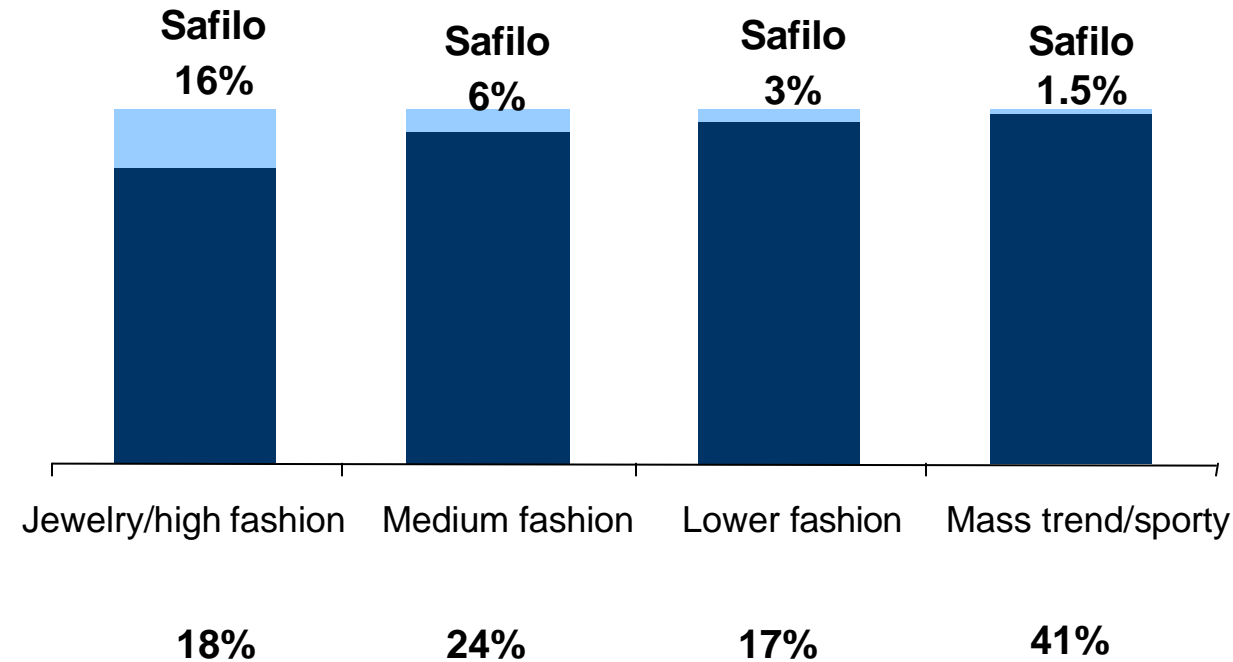
# Results 2005 vs 2004



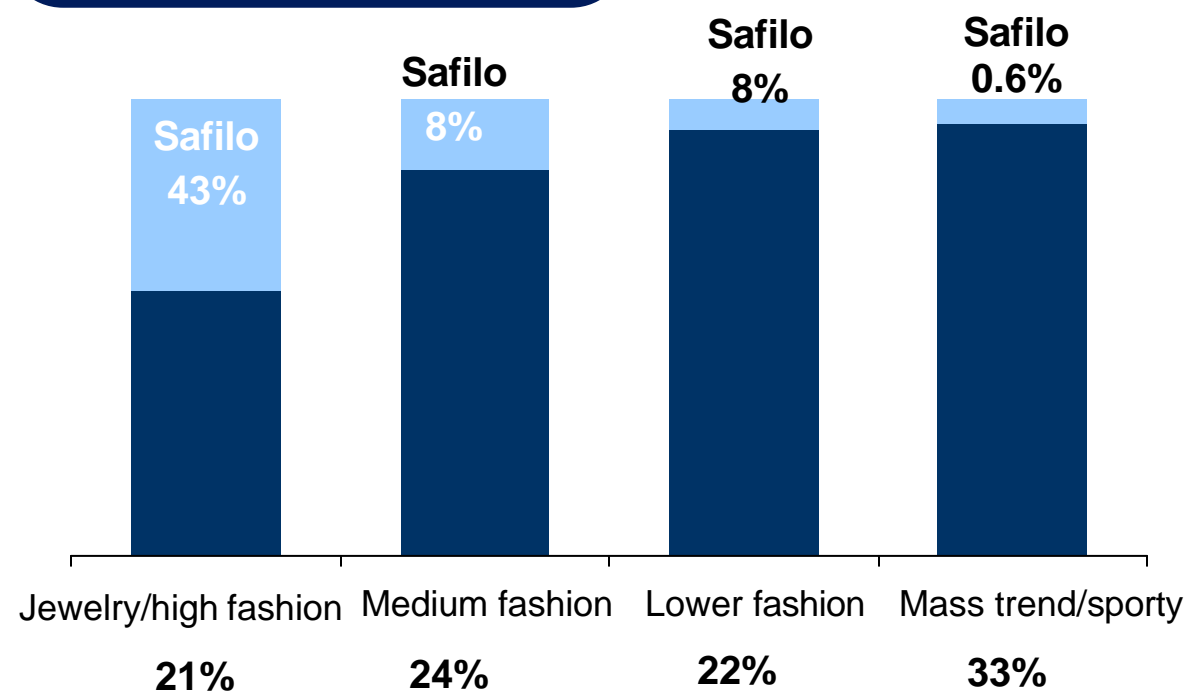
- We have witnessed an increase all over the area (stronger in the subsidiaries most recent opened)
- We have seen a significant increase in the Duty Free sector where, despite an already significant market share, we have outperformed the booming travel industry

# Far East: 2005 Market by Channel

## Optical



## Sun



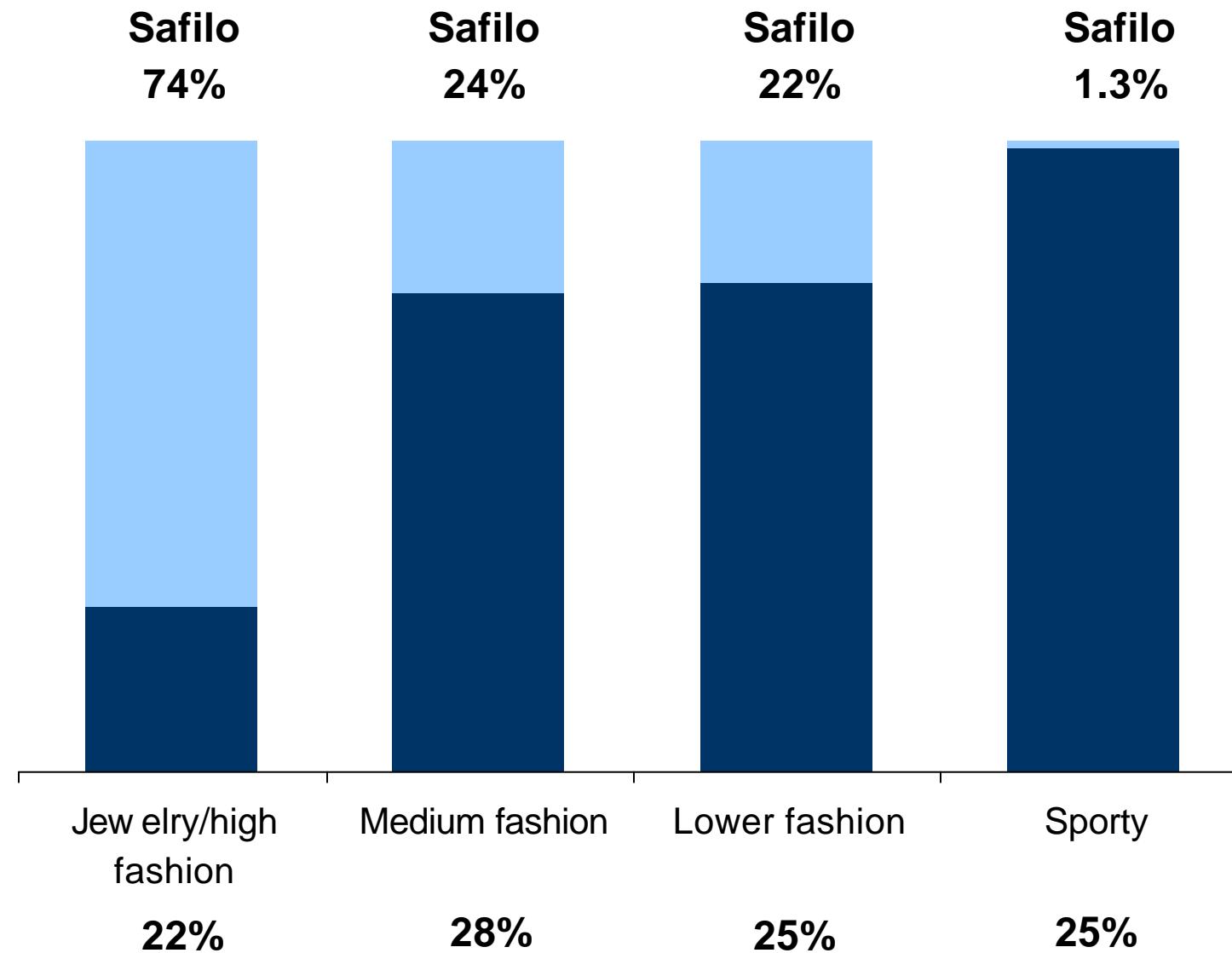
■ Safilo Mkt Share in single channel

Source: Safilo

## Analysis by Channel: Split by Channel (excluding Mass Market products)

- Our reference market does not include mass market products (which in terms of volume account for 70% of the market) which are the exclusive prerogative of Chinese manufacturers
- Strong concentration on few brands in the high fashion range of the market
- Little development of medium fashion range of the market

# Far East: Duty Free Market Share by Channel 2005

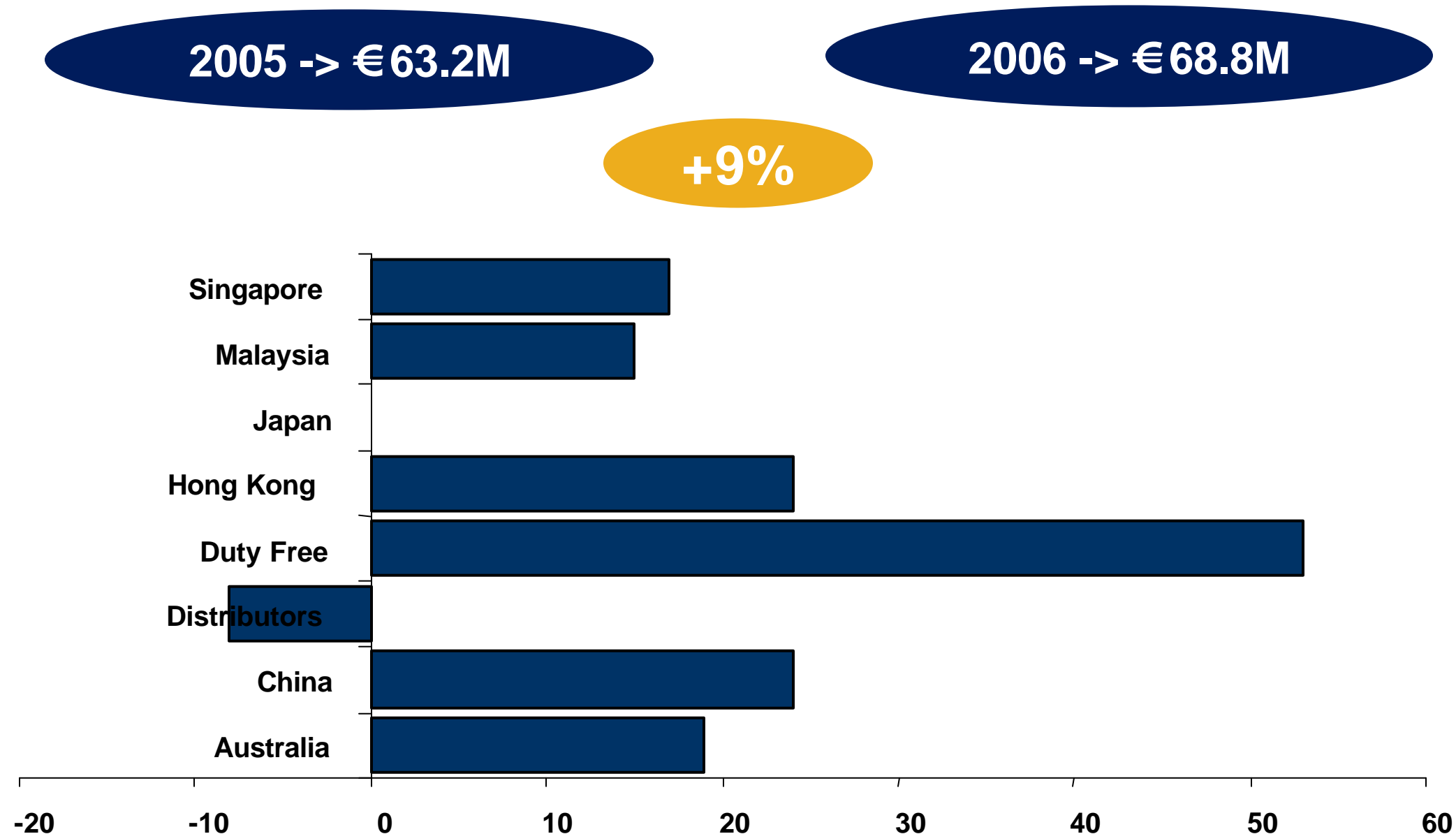


- In our organisation the duty free business is managed by Hong Kong for all world markets
- In this segment we are dominant in the luxury sector
- The market share of mass market products is minimal (approximately 10%)

Note: Excluded Mass Market that accounted for 10% of total Duty Free Market in 2005

Source: Safilo

# Results H1 2006 vs 2005



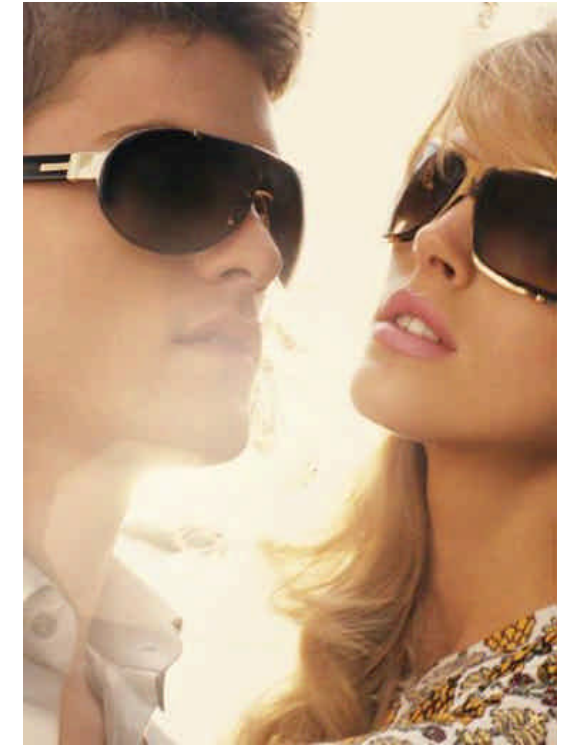
- The positive trend continues throughout the area with the exception of Japan and distributors
- Japan: the unusual bad weather of this year (rainy) has strongly impacted the sales of sunglasses. The exceptional performance of the optical frames (+24%) has balanced but not compensated the loss in the sunglass sales
- Distributors: the shortage is attributable to some markets where we are facing cancellation of pending orders due to the termination notice given to the local distributors

# Opportunities

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- Positive economic mood and trend in the area
- Fast developing Chinese Market
- Growth of travel retail (duty free)
- Collection strength:



- Dior rising star
- Giorgio Armani and Emporio Armani still to be fully exploited
- Gucci still the most desired brand





# Our consistent strategy

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- Product
  - Brands' segmentation
  - Asia fitting Sunglasses (size, shape, colors)
- Distribution
  - Highly selective
  - Opening new subsidiary Safilo Korea
  - Moving Safilo China in Mainland China
- POS activities
  - Visual merchandising custom tailored activities (windows, counters, corner)
  - Single and multi-brand events
  - Mailing
  - Training



# New Opportunities

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- Retail in department stores
  - The opening of Safilo Korea introduces us to a new scenario. In Korea the wholesalers directly manage the retail in dpt stores
  - Department stores in the Far East enjoy an aura of luxury and exclusivity
  - Opportunities in other countries are under investigation (China, Japan, Korea)
- Steps into the Middle Market (MM) with our house brands
  - A “Made in China” Safilo collection is under development to start a project to enter the MM arena in 2007
  - The YY experience



***CLAUDIO GOTTARDI***

**BUSINESS UNIT AMERICA**

# USA - Current Market Data



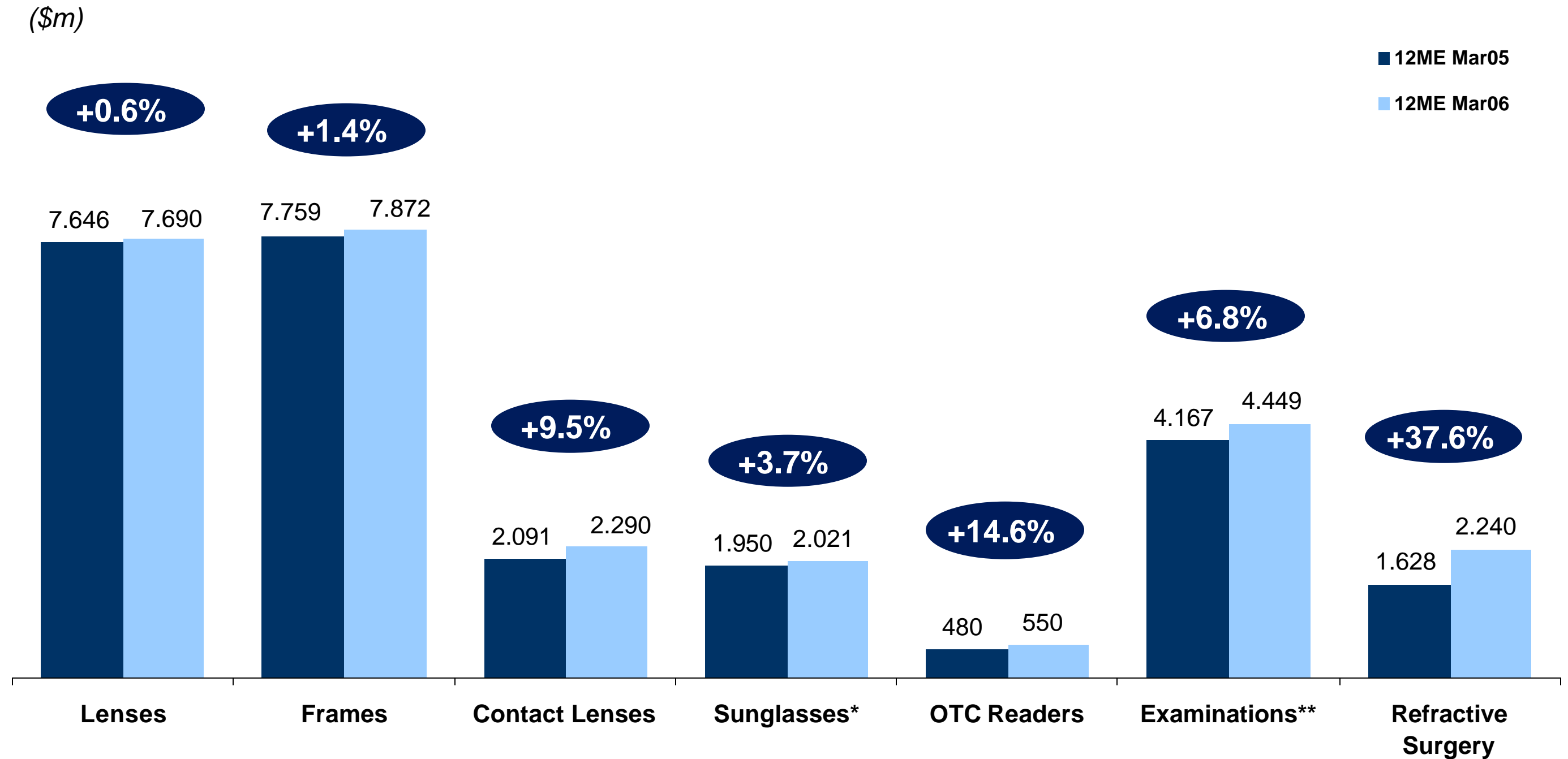
- Retail frame and sunglass sales amounted to \$7.9B, wholesale approximately \$2.8B
- Independent Retailers account for \$3.5B of frame and sunglass sales at retail
- Independents account for 41.6% of total frame units sold
- Safilo USA Optical sales split 89% Independents / 11% in Chains and Mass
- Safilo USA Optical sales are only 40% of total



**U.S. MARKET**



# US Market: Optical Products & Services



**Includes All Retail types in which the product category/service is sold**

\*Does not include sunglass clips

\*\*Does not include examinations for those under 18

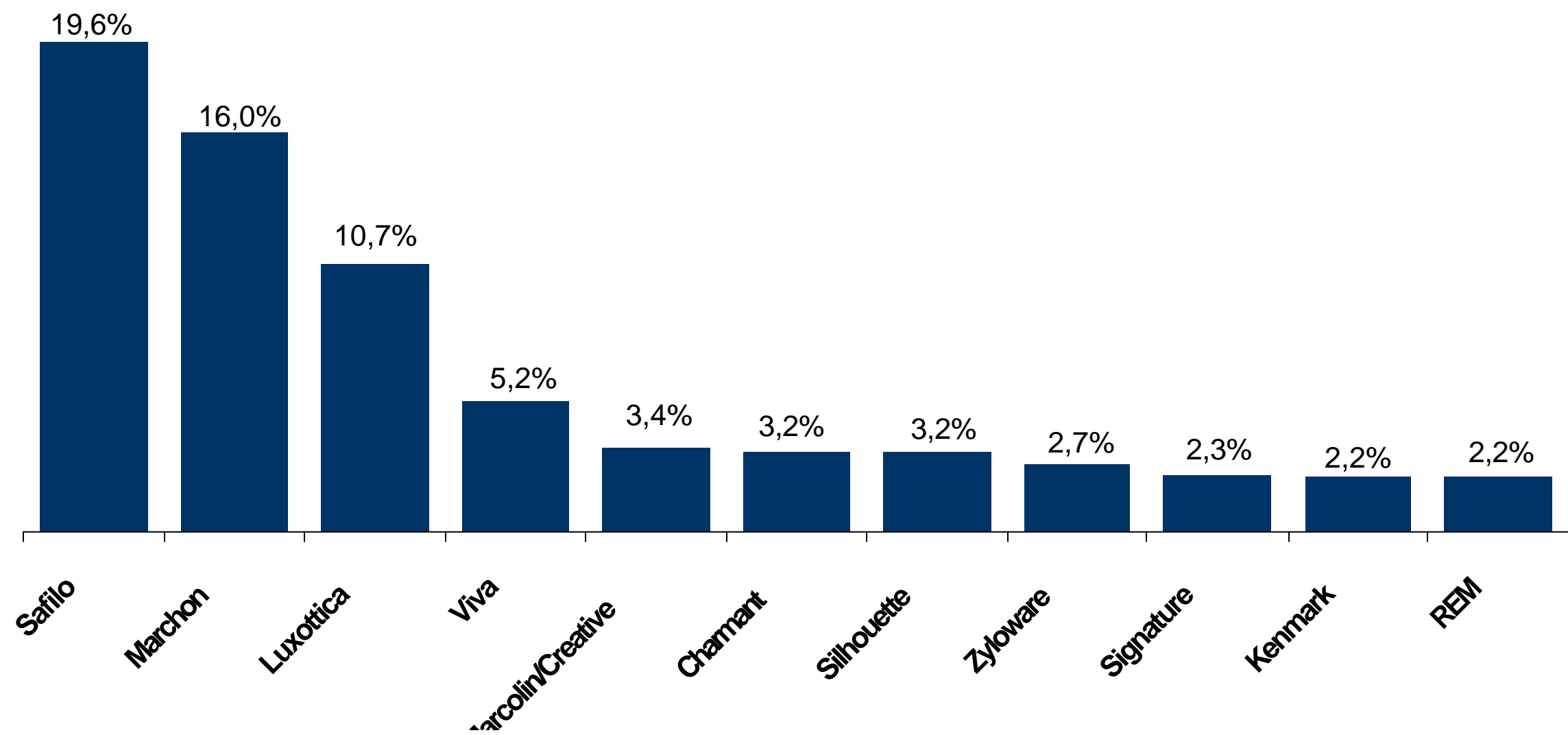
Source: Visionwatch – Jobson/VCA



# US Market: Eyeglass Frames – Company Shares

(\$m)

Top eleven Companies



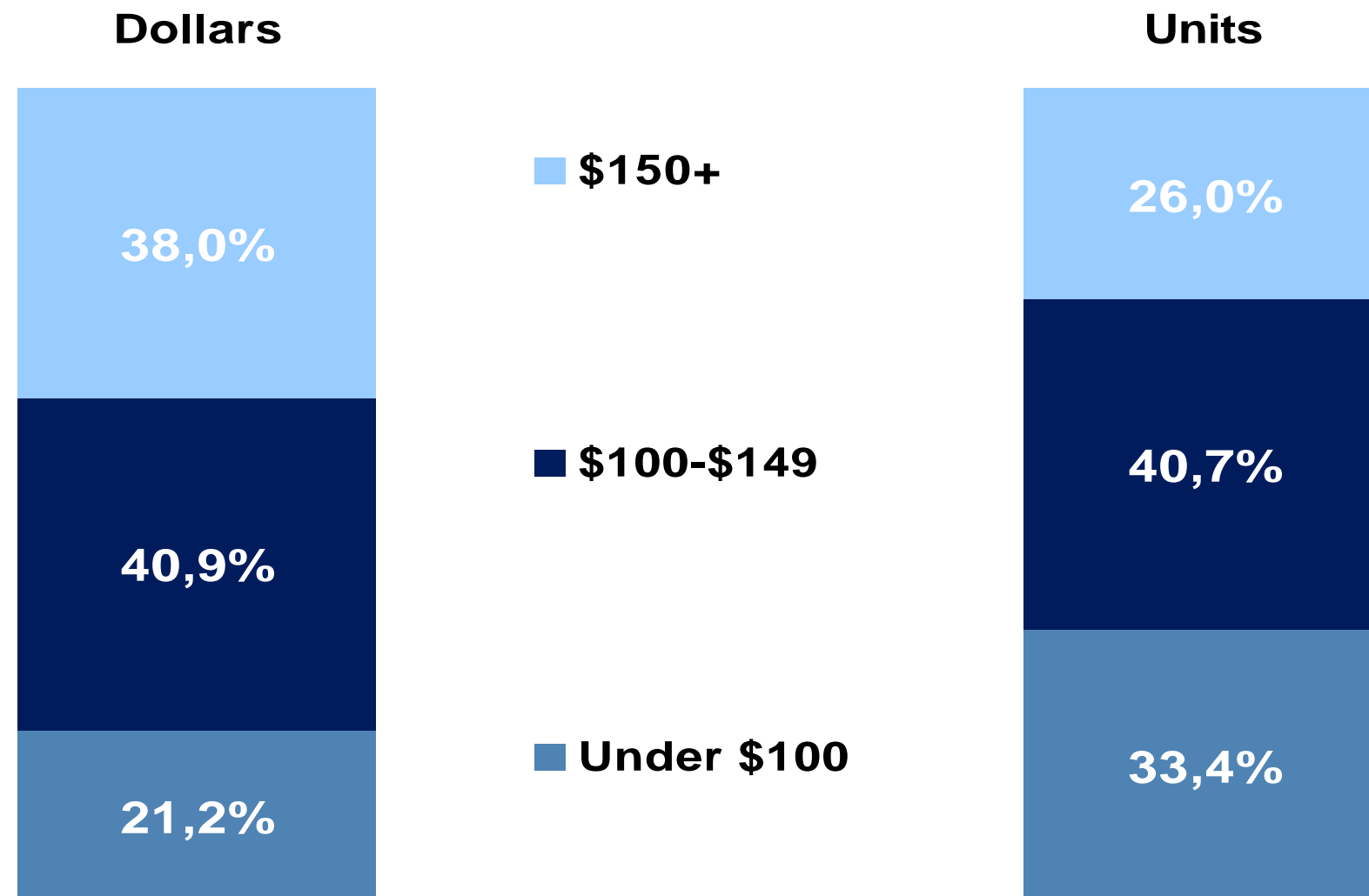
Safilo's market share leadership is demonstrated by the consumer purchase survey

■ 12 ME March 2006

Base: Respondents purchasing frames

Source: Visionwatch – Jobson/VCA

# US Market: Eyeglass Frames – Market Profile by Retail Price Point



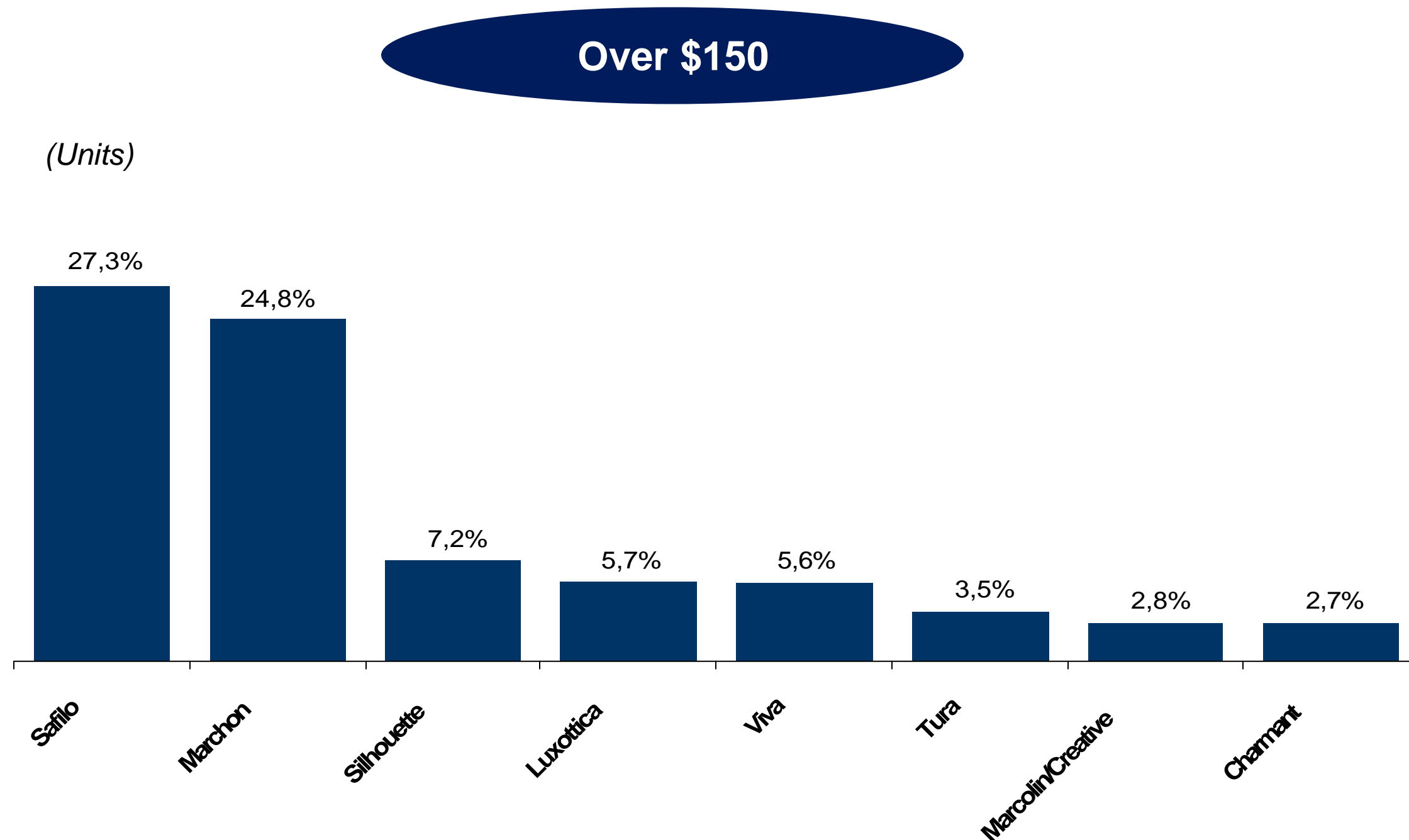
 The US Market is significant only in the price position that Safilo is targeting

*Note: 12 ME March 2006*

*Base: Respondents purchasing frames*

*Source: Visionwatch – Jobson/VCA*

# US Market: Eyeglass Frames – Retail Price Points – By Company Shares



? Safilo's leader position is clear in the upper segment, especially when compared to the only worldwide competitor

■ Less than 1.0% not charted – 12ME March 2006

Base: Respondents purchasing frames – Less than 1.0% not charted

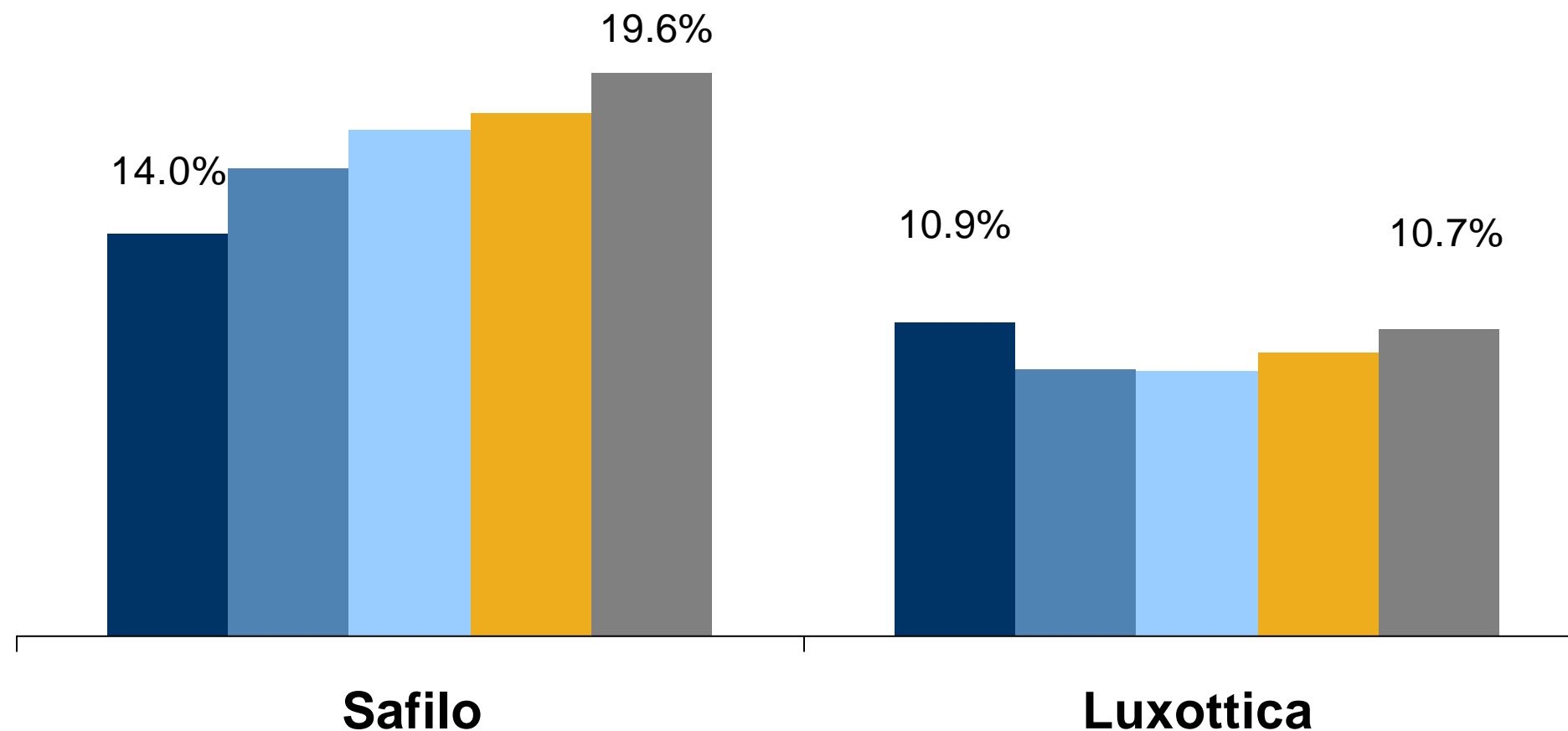
Source: Visionwatch – Jobson/VCA

# Eyeglass Frames – Company Share

2002 Thru 2006 YTD

(\$m)

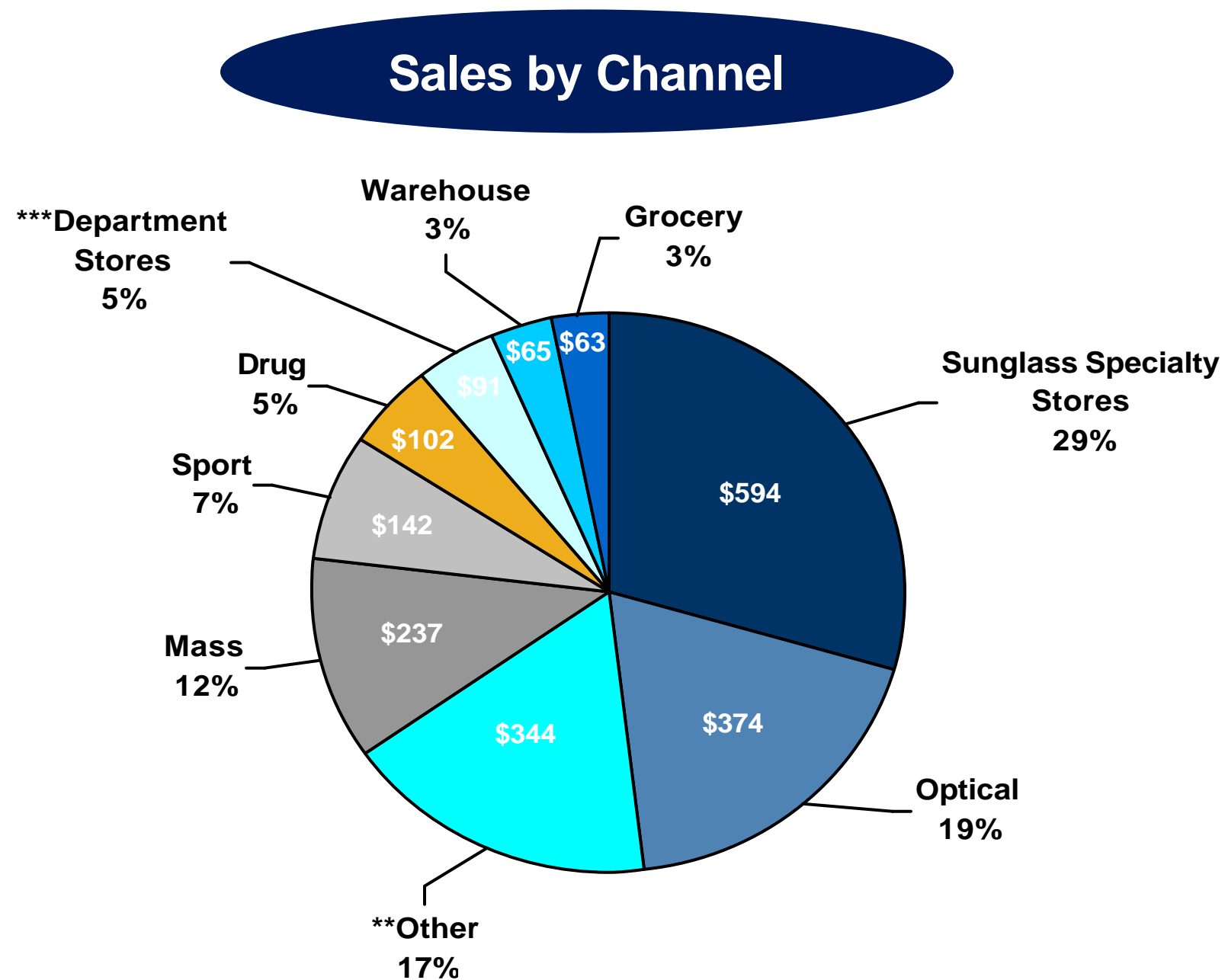
2002 2003 2006  
2004 2005



- Safilo USA continues to grow at the expense of the competition
- Safilo USA firmly remains at the top of the market with a 19.6% market share

# US Sunglass Retail Market

(\$m)



? The US Sunglass Market is very different compared to the rest of the world

? It is dominated at the high end by Specialty Sunglass Retailers

\*Total market US\$ 2.0 bn - 12ME March 2006

\*\* OTHER: a) Specialty Stores and the Internet: Neiman Marcus, Nordstrom, Saks and Bergdorf Goodman, b) Gas Stations, c) Flea Markets

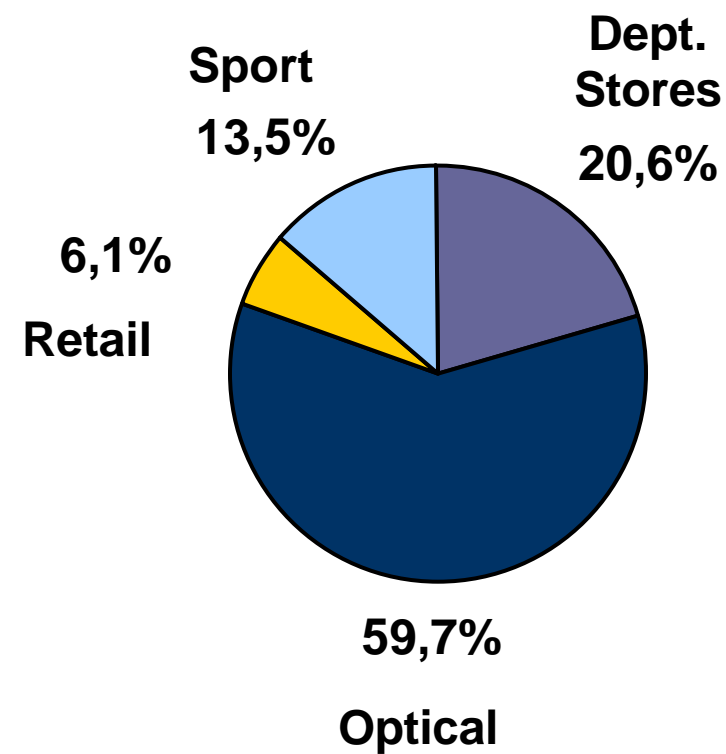
\*\*\*DEPARTMENT STORE: Macys (East & West), Dillards, Bloomingdales, etc.

Base: Respondents purchasing frames

Source: Visionwatch – Jobson/VCA 2005

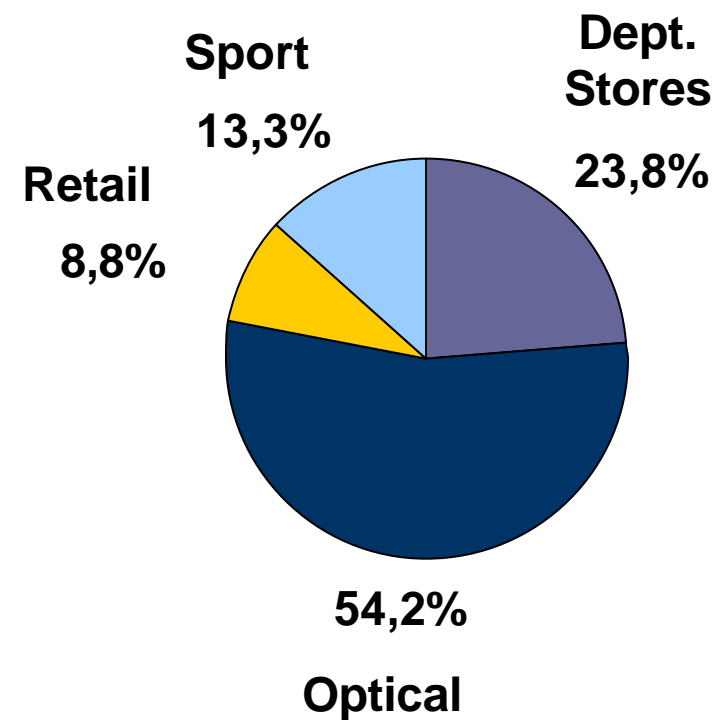
# Safilo America Sales by Channel

**2004**



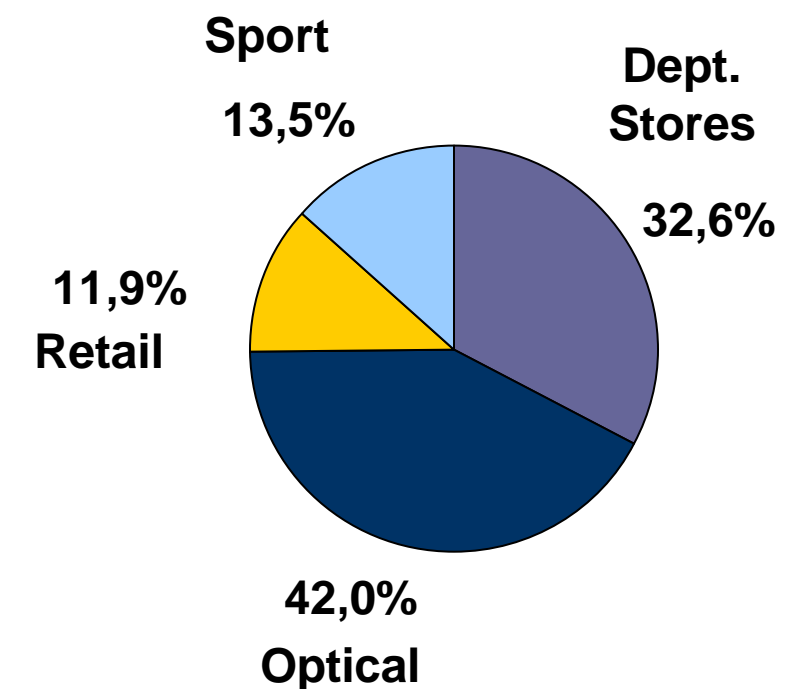
**Total Sales: \$384.1m**  
**YTD \$208.3**

**2005**



**Total Sales: \$420.9m - +10%**  
**YTD \$234.6m**

**2006  
Projected**



**YTD \$264.1m - +12.6%**

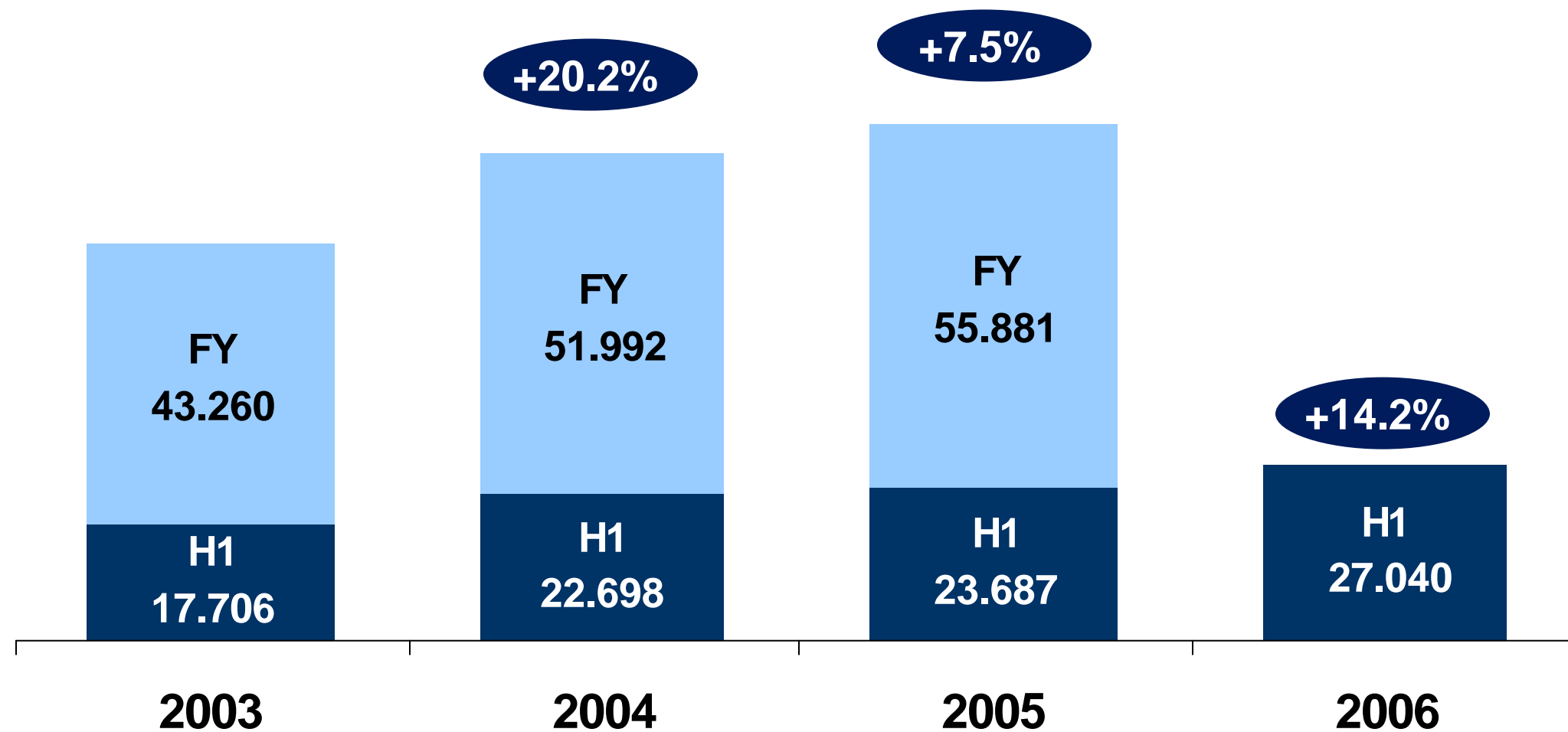
? In the US Safilo is successfully implementing a diversification strategy

\*Note: Optical Market YTD (June2004) \$117m  
YTD (June 2006) \$125m - +7%

Source: Safilo



# Sports Channel: Smith USA Sales

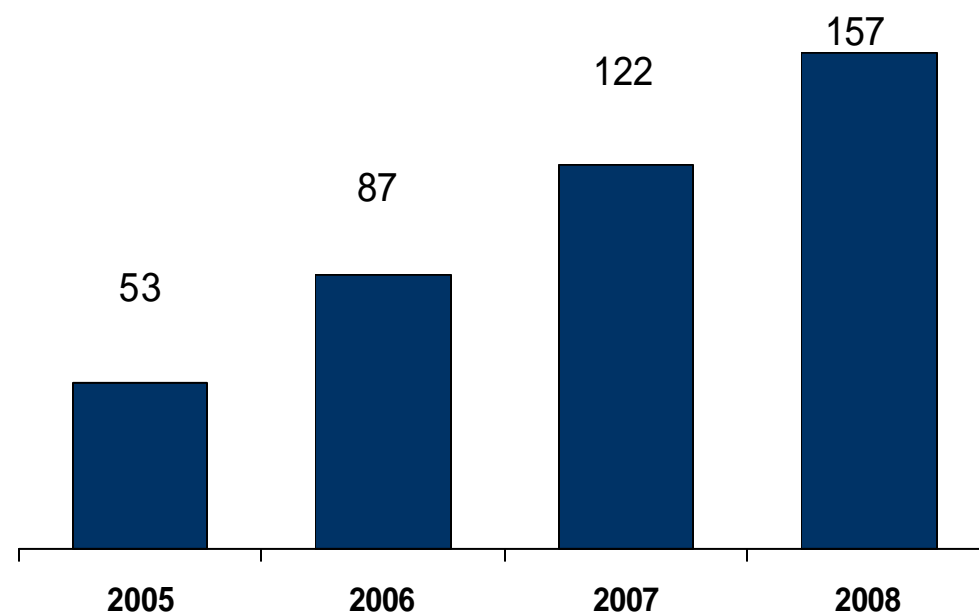


? Our own brand strategy with Smith is progressing successfully

# Solstice



## Store Count



Source: Safilo

- The actual level of stores' sales and profitability is improving compared to the previous year and the business plan
- In H1 2006 sales growth was 42.1% (+8.1% like for like)
- Our store opening plan is on target and expected to reach full "A" locations penetration within the next two years

# American Market Strategy



- Fully implement Solstice expansion plan (2007-2008)
- Expand Solstice concept into international tourist locations (Caribbean, Hawaii, etc.) (start end of '07)
- New owned distribution in Latin America ('07)
- Expand Smith brand in new products and markets (Helmets, Protective eyewear, Golf, Boating, etc.) ('07-'08)
- Leverage high visibility of Solstice windows and locations to launch and expand House Brands (Carrera and Oxydo) in US
- Launch new licenses brand (Us market specific) ('07)

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