



SÀFILO GROUP

Interim financial information for January 1, 2003 – March 31, 2003

May 30, 2003



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INTRODUCTION

We are the world's second largest wholesale eyewear producer and worldwide leader in the premium eyewear market segment in terms of net sales and units sold. We are also one of the world's top three producers and distributors of sports goggles.

We design, manufacture and distribute high-quality eyewear products, including prescription frames, sunglasses frames and lenses, sports goggles and other accessories. We distribute our eyewear products to eyewear retail distribution chains, department store chains and specialty stores.

Our owned brands include *Safilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay*. Our licensed brands include *Bottega Veneta*, *Burberry*, *Diesel*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Kate Spade*, *Liz Claiborne*, *Max Mara*, *Nine West*, *Oliver*, *Pierre Cardin*, *Polo Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino*, and *Yves Saint Laurent*.

Our products are sold in 120 countries and are supplied to approximately 130,000 points of sale worldwide. We distribute our products directly in 26 of our largest geographic markets through company controlled distribution subsidiaries and a sales force of over 1,000 sales representatives.



OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The first quarter of 2003 closed with net sales of € 244.7 million, which was 5.2% less than the first quarter of 2002. It should be noted, however, that the decline was principally due to the effect of the devaluation of the U.S. dollar against the Euro (22.4% lower than the first quarter 2002). This negatively impacted the Euro value of the US dollar denominated sales accounting for approximately 35% of our turnover, deriving from countries where the local currency is the U.S. dollar or closely related to the US dollar. Our net sales, net of the exchange rate effect, increased by 4.1% showing the true underlying growth of the business. In addition, during the first quarter of 2003 we sold 6.9 million pieces to our clients versus 6.5 million pieces during the first quarter of 2002 (a 6.5% increase).

As far as single brands are concerned, the most impressive results have been shown by our owned brand *Oxydo* which generated revenue growth of 60% in the first quarter compared to the prior year. These results are due to its strong positioning in the mid to premium price band, its innovative design and the sponsorship of the World Motorbike championships.

Our first quarter EBITDA decreased 6.0% from €51.4 million (19.9% of net sales) in 2002 to €48.3 million in 2003 (19.7% of net sales). The strengthening of the Euro versus the dollar was again the primary cause of this decrease (amounting to approximately €3.4 million).

In February 2003 we entered into a license agreement with the Armani Group to produce and distribute eyewear bearing the *Giorgio Armani* and *Emporio Armani* brands. These brands are two of the top selling eyewear brands in the world, and we believe that the Armani licence will allow the Safilo Group to continue the growth trend of recent years. We have begun the implementation of the Armani licence and already started production in order to begin delivering the new collection during the second quarter of 2003 for Europe, and during the third quarter for the U.S. and Far East regions.

The first few months of 2003 saw the commencement of sales of initial release of the following new brands: *Bottega Veneta*, *Stella McCartney* and *Liz Claiborne* (for the US market only).

FINANCIAL OVERVIEW

All these reports are to be considered un-audited.

SALES ANALYSIS

In the following table we set out our net sales by product:

(in Euro millions)	Quarter				Full Year		Change
	2003		2002		2002		1Q03/1Q02
	Jan- Mar		Jan- Mar				
	€	%	€	%	€	%	%
<i>Net Sales:</i>							
Prescription frames	112.4	46.0%	113.6	44.0%	425.2	47.6%	-1.1%
Sunglasses	126.4	51.7%	138.2	53.6%	435.6	48.7%	-8.5%
Sport goggles	5.4	2.2%	5.7	2.2%	30.1	3.4%	-5.3%
Other	0.4	0.2%	0.5	0.2%	3.2	0.4%	-20.0%
Total	244.7	100.0%	258.0	100.0%	894.1	100.0%	-5.2%

In the following table we set out our net sales by geographic region:

(in Euro millions)	Quarter				Full Year		Change
	2003		2002		2002		1Q03/1Q02
	Jan- Mar		Jan- Mar				
	€	%	€	%	€	%	%
<i>Net Sales:</i>							
North America	89.6	36.6%	104.3	40.4%	353.5	39.5%	-14.1%
Italy	36.7	15.0%	43.7	16.9%	145.7	16.3%	-16.0%
Europe (excluding Italy)	89.2	36.5%	82.3	31.9%	267.1	29.9%	8.4%
Far East (excluding Australia)	13.1	5.4%	13.6	5.3%	57.1	6.4%	-3.7%
Other	16.1	6.6%	14.1	5.5%	70.7	7.9%	14.2%
Total	244.7	100.0%	258.0	100.0%	894.1	100.0%	5.2%

Net sales decreased 5.2% from € 258.0 million in the first quarter of 2002 to € 244.7 million in the first quarter of 2003. In terms of volume, we sold 6.9 million frames in the first quarter of 2003 compared to 6.5 million in the first quarter of 2002, a 6.5% increase. We achieved better performances in the prescription market (less sensitive to the economic situation) where volumes increased by 15% versus 1st quarter 2002. Sales in the sunglasses market have remained stable in unit terms.



North America. Sales in North America were impacted by the adverse weather and by the negative impact on consumer spending due to the conflict with Iraq. Dollar sales in the United States (accounting for 94% of North America sales) have, however, grown by around 4% in the first quarter of 2003 compared to the same period in 2002, although sales slowed in March. The *Valentino* and *Polo* brands performed strongly.

At the end of March 2003, a total of 22 specialty retail stores (7 new opening during Q1 2003) in the Solstice network were open in the United States.

Italy. The Italian market has been the most negatively impacted by the unstable economic climate and net sales slowed down. The reduction in sales in Italy in the first quarter of 2003 as compared to the same period of 2002 of approximately 16% can be attributed to a combination of three main effects; (i) poor public reception of certain collections; (ii) company measures to reduce payment terms; and (iii) general market weaknesses.

Europe. The sales data shows differing underlying trends in the various markets. France and Spain reported significant growth, thanks to the strong sales performances by the *Oxydo* and *Dior* brands, with a growth in both prescription frames and sunglasses. A very positive growth trend has also been achieved by northern markets such as the Scandinavian countries and Belgium while in other markets (such as Germany) sales slowed down.

Far East. Sales in the Far East experienced significant growth in the first quarter of 2003 compared with the same period in 2002. In particular, we experienced increased sales of *Dior* branded products throughout the Far East region. However, the Far East region experienced a slow down in sales in the month of March due to the SARS health scare.

SELECTED FINANCIAL DATA

(in millions Euros)	Quarter				Full Year	
	2003		2002		2002	
	Jan- Mar		Jan- Mar			
	€	%	€	%	€	%
Net sales	244.7	100.0%	258.0	100.0%	894.1	100.0%
Cost of good sold	97.7	39.9%	102.7	39.8%	347.9	39.8%
Commercial costs	79.2	32.4%	85.3	33.1%	403.0	45.1%
Other expenses	28.6	11.7%	26.4	10.2%	93.9	10.5%
EBITDA	48.3	19.7%	51.4	19.9%	175.8	19.7%

In the first quarter of 2003, reported EBITDA was € 48.3 million (19.7% margin) compared to €51.4 million in the first quarter of 2002 (19.9% margin). When compared to the previous year EBITDA decreased by €3.1 million, or 6.0%, mainly due to the negative impact of the exchange rate effect from the depreciation of the U.S. dollar against the Euro (accounting for approximately €3.4 million).

Changes in the sales mix (including the decrease in the Italian market, which generally has a higher margin contribution than other regions) and a lower recovery of the fixed costs of the production plants (due to lower production volumes), have further led to a slight fall in the gross margin compared to the previous year from 60.2 % to 60.1%.

The reduction of the gross margin amounted to €8.3 million and was mainly due to a combination of three factors:

- ✓ Reduction due to the effect of exchange rates;
- ✓ Negative effect for lower margins in the Italian market; and
- ✓ Greater margins generated by the non Italian operations.

The variable commercial costs absorbed 32.4% of the revenue compared to 33.1% in the previous year. This reduction in costs as a percent of sales has been achieved by:

- ✓ A lower percentage incidence of the costs of agents in America due to lower sales in the 3O'S (Opticians, Ophthalmologists, Optometrists) retail division compensated for by an increase in the corporate sales;
- ✓ A reduction in the royalty costs due to a shift in sales mix towards owned brands and collections with lower royalty incidence.

The other expenses increased in absolute value by €2.2 million (€28.6 million vs €26.4 million) compared to the previous year. The increase can be attributed to the higher costs associated with the consolidation and establishment of the Solstice retail business, and the increased consultancy costs related to the restructuring of the Group.

On comparable exchange rate, both the American and Asian sales units have maintained their profitability, while the European subsidiaries have undergone a contraction, as predicted, at EBITDA level. As previously mentioned, we have witnessed a significant decline in sales in the Italian market generating a lower EBITDA than Q1 2002.

CASH FLOW

We have not made a full comparison with the same period of 2002 because the extraordinary financial operations occurred in 2002 do not permit a correct analysis; however, we have reported all the comparable amounts focusing on the items that we think characterise the Group activity.

Net Cash Flow from Operating Activities. Net cash from operating activities consists of net income adjusted for changes in working capital and non-cash items such as depreciation and amortization. The comparison with the first Quarter of 2002 is the following:

(€ in million)	1 st Quarter 2003	1 st Quarter 2002
Net Income	6.4	7.4
Amortisation and depreciation	15.9	15.6
Change in trade receivables and other receivables.....	(45.6)	(58.6)
Change in inventory.....	(2.6)	13.7
Change in trade payables and other current payables	10.9	12.0
Change in pension fund and TFR.....	1.0	1.0
Other	4.7	1.0
Total	(9.1)	(7.8)

The net cash from operating activities slightly decreased to € (9.1) million in 2003 from € (7.8) million in first quarter 2002 primarily as a result of a lower reduction of stock level and for a lower amount of net result in comparison with last year. The main explanation for these figures are:

- ✓ The positive cash generation by the receivables is a result of improving in the management of credit collection period and because the month of March has seen a slight reduction of sales;
- ✓ The global value of the inventory has increased in comparison with the trend of last year because we have had a slowing down of sales in the last days of March. It has to be considered that at March 31st around € 2 million worth of finished products for the new models of the Armani brand were included in inventory; and
- ✓ The total value of cash generated from changes in trade payables has remained stable when compared to the first quarter 2002.

Net working capital, which we define as total current assets (excluding cash and cash equivalents) less total current liabilities (excluding the current portion of medium and long-term loans), fluctuated from €291.4 million as of March 31, 2002 to €218.4 million as of March 31, 2003. The reason for this decrease is mainly due by a lower level of the Account Receivables in 2003 first quarter number.

Cash Used in Investment Activities. Net cash used in investment activities consists of additions to tangible fixed assets, net of disposals, acquisitions of equity investments and increases in intangible fixed assets.

Investments in tangible fixed assets amount to around €13.0 million; the main expenditures have included production plants for €5.1 million (of which €2.5 million in capitalised assets), €2.6 million for Solstice and € 3.6 million for warehouse equipment and laptops for agents in other companies of the Group. In the same period of last year the total amount of investment in tangible assets amounted to € 7.6 million. The main differences come from the capital expenditure utilized for the Solstice project (seven new shops during the first quarter 2003) and for the expansion of the Distribution Center in Padova during 2003.

PERSONNEL

Personnel as of 31st March 2003, 31st December 2002 and 31st March 2002 is as follows:

	2003	2002	2002
	Mar	Dec	Mar
Headquarter (Padova – Italy)	602	593	562
Factory personnel	5,075	5,060	4,626
Subsidiaries	895	896	879
Solstice	131	102	50
Total	6,703	6,651	6,117



SÀFILO GROUP

Consolidated Financial Statements For the period January 1st - March 31st 2003

Consolidated Balance Sheets

(€ thousands)	31 March 2003	31 December 2002
ASSETS		
Current assets:		
Cash and cash equivalents	36,324	51,443
Trade receivables (net of provision for doubtful accounts)	236,610	197,024
Inventory (net)	190,856	191,058
Other current receivables	43,109	45,697
Total current assets	506,899	485,222
Non-current assets:		
Property, plant and equipment(net)	181,185	176,875
Intangible assets	444,176	431,255
Investments in associates and long-term financial assets	136,536	131,179
Total non-current assets	761,897	739,309
Total assets	1,268,796	1,224,531
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	56,449	16,082
Trade payables	158,734	151,817
Income tax payables	25,218	18,829
Other current payables and accrued expenses	67,776	73,982
Total current liabilities	308,617	260,710
Non-current liabilities:		
Long-term borrowings	821,791	835,198
Termination Indemnity Liability	27,665	26,546
Long-term provisions	15,704	11,423
Total non-current liabilities	865,160	873,167
Total liabilities	1,173,777	1,133,877
Shareholders' equity attributable to minority shareholders	6,692	6,002
Shareholders' equity:		
Share capital	33,350	33,350
Other reserves and retained earnings	48,544	40,980
Income pertaining to the Group	6,433	10,322
Total shareholders' equity attributable to the Group	88,327	84,652
Total shareholders' equity	95,019	90,654
Total liabilities and shareholders' equity	1,268,796	1,224,531

Consolidated Statements of Operations

(€ thousands)	31 March 2003	31 March 2002
Net sales	244,685	257,970
Cost of sales	(97,671)	(102,724)
Gross profit	147,014	155,246
Selling and marketing expenses	(79,207)	(85,347)
General and administrative expenses	(28,638)	(25,866)
Other income/(expense), (net)	(82)	(456)
Operating income/(loss)	39,087	43,577
Interest income/(expense) and other financial charges	(16,397)	(13,829)
Extraordinary income/(expense), (net)	325	(173)
Amortisation of goodwill	(5,696)	(5,883)
Income/(loss) before taxation	17,319	23,692
Tax expense	(9,896)	(15,906)
Net income/(loss) before minority shareholders	7,423	7,786
Income attributable to minority shareholders	(990)	(971)
Net income	6,433	6,815

Consolidated Statements of Cash Flows

(€ thousands)	31 March 2003	31 December 2002
Cash flows from operating activities		
Net income	6,433	10,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation	8,007	36,413
Depreciation	7,910	29,708
Changes in operating assets and liabilities:		
Trade receivables and other current receivables	(45,555)	1,867
Inventory	(2,563)	(41,531)
Trade payables and other current payables and accrued expenses	10,865	70,419
Pension fund and Termination Indemnity Liability (TFR)	1,119	2,910
Other (net)	4,671	2,641
Net cash provided by (used in) operating activities	(9,113)	112,750
Cash flows from investing activities:		
Purchase of property, plant and equipment	(13,023)	(58,450)
Acquisition/disposal of investments in associates	-	356
Purchase of treasury shares	-	(80,988)
Purchase of shares in public offer	-	(28,948)
Acquisition of intangible assets	(21,657)	(48,815)
Net cash provided from (used in) investing activities:	(34,680)	(216,845)
Cash flows from financing activities:		
Proceeds from borrowings	21	848,278
Dividend paid by Sáfilo S.p.A.	-	(22,011)
Dividends paid by subsidiaries	-	(1,664)
Repayment of bond	-	(10,329)
Repayment of borrowings	(8,870)	(617,238)
Net cash provided from (used in) financing activities	(8,849)	197,036
Effect of exchange rate	(788)	(6,760)
Net increase in cash and cash equivalents	(53,430)	86,180
Cash and cash equivalents at the beginning of the period	44,222	(41,959)
Cash and cash equivalents at the end of the period	(9,208)	44,221
Breakdown of "cash and cash equivalents at the end of the period":		
Cash and cash equivalents	36,324	51,443
Bank overdraft	(1,532)	(686)
Short term loans	(44,000)	(6,536)



Notes to the Consolidated Financial Statements

Basis for the preparation of the consolidated financial statements

The accompanying financial statements are derived from the financial statements that were prepared for Italian legal and statutory purposes in accordance with the law governing the preparation of financial statements in Italy, as interpreted by, and integrated with, the accounting principles established by Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri, the Italian accounting profession. The reclassification, however, does not affect the consolidated results of operations and consolidated shareholders' equity in any of the years presented.

Certain information and footnote disclosure normally included in financial statements and prepared in accordance with accounting principles generally accepted in Italy has been condensed or omitted from this report.

However, the Company believes that the disclosure is adequate to ensure the information presented is not misleading.

The consolidated financial statements of the Company include all majority-owned domestic and foreign subsidiaries. Equity investments, in which the Company has ownership interests between 20% and 50%, are accounted for using the equity method, if such investments are material.

The financial statements of foreign subsidiaries are translated into Euro using the year end exchange rate for balance sheet items and the average exchange rates for the year for statements of income and cash flow items. Translation differences are recorded as Foreign currency translation in consolidated shareholders' equity.

The preparation of the financial statements in conformity with Italian accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimate.

Foreign currency

The following exchange rates were used to convert the financial statements of foreign consolidated subsidiaries:

			As of Mar 31 st 2003	As of Dec 31 st 2002	As of Mar 31 st 2002	Average Mar 31 st 2003	Average Dec 31 st 2002	Average Mar 31 st 2002
1 USD	=	Euro	1.0895	1.0487	0.8724	1.0731	0.9454	0.8766
1 HK\$	=	Euro	8.4975	8.1781	6.8044	8.3695	7.3497	6.7401
1 FSV	=	Euro	1.4764	1.4524	1.4670	1.4662	1.4898	1.4733
1 CAN\$	=	Euro	1.6037	1.6550	1.3923	1.6203	1.4835	1.3977
1 YEN	=	Euro	129.18	124.39	115.51	127.5857	118.0490	116.0511
1 GBP	=	Euro	0.6896	0.6505	0.6130	0.6696	0.6288	0.6147
1 SEK	=	Euro	9.2608	9.1528	9.0304	9.1819	9.1670	9.1821
1 AU\$	=	Euro	1.8076	1.8556	1.6382	1.8095	1.7375	1.6924
1 ZAR	=	Euro	8.6356	9.0094	9.9389	8.9690	9.8737	10.1202
1 SIT	=	Euro	231.9910	230.1580	223.7477	231.2827	225.9635	221.9057
1 R\$	=	Euro	3.67521	3.69444	2.0304	3.7467	2.7850	2.0883
1 RUPIA	=	Euro	53.3438	50.5071	43.7989	52.1220	47.0904	43.6351
1 S\$	=	Euro	1.9211	1.8199	1.6057	1.8724	1.6909	1.6072
1 MYR	=	Euro	4.13955	3.98448	3.3147	4.0774	3.5919	3.3307

Derivative products

The Group uses derivative products to manage exposure to fluctuations in both foreign currency and interest rates. To hedge against exposure to changes in foreign currency exchange rates on assets and liabilities denominated in currencies other than Euro, the Group enters into foreign currency forward contracts mainly, and options. Discounts or premiums on forward contracts and options are amortised over the life of the contract using the straight line method.

The Group periodically enters into foreign currency contracts to hedge commitments, transactions or foreign income. For foreign currency contracts acquired for the purpose of hedging identified commitments, the gain or loss is generally deferred and included in the basis of the transaction underlying the commitment. If the underlying transaction is not completed, the contract is marked to market with any realised or unrealised gains or losses reflected in income. Gains or losses on transaction hedges are recognised in cost of sales and offset the gains or losses on the related transaction.

The Group's policy is to abstain from transactions of a speculative nature relating to the use of financial instruments; consequently all use of these instruments is exclusively devoted to manage and cover exchange or interest rate risks.

The Group periodically enters into interest rate swaps (IRS), which synthetically adjust interest rates on certain indebtedness. IRS involve the exchange of fixed and floating rate interest payments over the life of the agreement without the exchange of the notional amount.

1 Trade receivables (net of provision for doubtful accounts)

(€ thousands)	31 March 2003	31 December 2002
Gross value	252,620	213,128
Provision for doubtful accounts	(16,010)	(16,104)
Net value	236,610	197,024

Safilo S.p.A. participated in a trade receivable securitisation programme. As of 31st March 2003 €83.5 million of receivables had been sold and the related cash collected was €50.0 million . The outstanding amount has been included in long term financial assets.

Provision for doubtful accounts also includes a provision for unsold products that are expected to be returned, in accordance with contract with the final vendor.

2 Inventory (net)

(€ thousands)	31 March 2003	31 December 2002
- Raw materials and supplies	37,637	37,161
- Work in progress	11,940	11,337
- Finished products	141,279	142,560
Total	190,856	191,058

Inventory is recorded net of an obsolescence and slow moving inventory provision; inventories are stated at the lower of purchase or production cost.

3 Other current receivables

(€ thousands)	31 March 2003	31 December 2002
Value added tax (VAT) receivables	6,044	6,812
Tax credits and advance payments	9,731	8,449
Deferred tax assets	14,594	18,026
Prepayments and accrued income	5,404	3,600
Receivables from salespersons	3,387	3,600
Other receivables	3,949	5,210
Total	43,109	45,697

Deferred tax assets represent receivables from tax authorities arising from temporary differences between taxable income and statutory income.

Prepayments and accrued income amount to €5.4 million as at 31st March 2003, €3.6 million as at 31st December 2002 and include:

As at 31 March 2003

- Prepaid advertising expenses of €1.7 million;
- Prepaid lease instalments of €0.5 million;
- Prepaid insurance costs of €0.8 million; and
- Other accrued income and prepayments of €2.4 million.

Receivables from sales persons primarily comprise receivables related to the sale of samples to agents.

4 Property, plant and equipment, net

(€ thousands)	Land and Buildings	Plant and equipment	Furniture, office equipment and vehicles	Assets under construction	Total
<u>Cost</u>					
Balance at 31 December 2002	87,789	140,438	94,071	19,163	341,461
Additions	85	1,640	6,038	6,701	14,464
Translation differences/other transfer	(201)	(219)	(1,093)	(1,439)	(2,952)
Disposals	-	(171)	(223)	-	(394)
Balance at 31 March 2003	87,673	141,688	98,793	24,425	352,579
<u>Accumulated Depreciation</u>					
Balance at 31 December 2002	(16,543)	(90,567)	(57,676)	-	(164,786)
Depreciation charge	(1,555)	(3,070)	(3,285)	-	(7,910)
Translation differences/other transfer	903	8	25	-	936
Disposals	-	165	201	-	366
Balance at 31 March 2003	(17,195)	(93,464)	(60,735)	-	(171,394)
<u>Net Book Value</u>					
Balance at 31 March 2003	70,478	48,224	38,058	24,425	181,185

5 Investments in associates and long term financial assets

(€ thousands)	31 March 2003	Relationship	Interest in share capital %
Investments in associates:			
Banca Popolare di Lodi	10,198	Other shareholdings	0.65%
Elegance International Holdings Lts	6,735	Associate	23.05%
TBR Inc. (USA)	547	Other shareholdings	33.33%
Optifashion As (Turkey)	353	Non consol. related party	50%
Safilens Srl	129	Other shareholdings	17.50%
Other	92	Other shareholdings	-
Total investments in associates	18,054		
Long term financial assets			
	118,482		
Total	136,536		

Investment in associates are stated at cost, determined on the basis of their purchase, subscription or appraised value. No acquisitions in associates were made during the 1st Quarter of 2003.

Long term financial assets at 31 March 2003 include:

- €81.0 million representing n. 3,176,000 shares of Sàfilo S.p.A. equal to 9.52% of share capital;
- €33.5 million representing the difference between receivables sold to Sunlight Srl and cash received upfront. This difference will be collected after 10 years, at the end of the securitisation program;
- €0.7 million relating to tax advances on the reserve for termination indemnities paid by certain Italian Group companies.

6 Short-term borrowings

(€ thousands)	31 March 2003	31 December 2002
Bank overdraft	1,5312	686
Short term loans	44,999	6,536
Current portion of long-term borrowings	10,431	8,359
Current portion in other providers of financing	487	501
Total	57,449	16,082

7 Long-term borrowings

(€ thousands)	31 March 2003	31 December 2002
Loans	526,227	534,274
Less: Current portion of loans	(10,431)	(8,359)
Notes	294,247	299,229
Other providers of financing	11,740	10,167
Less: Current portion in other providers of financing	(487)	(501)
Other long term debt	495	388
Total	821,791	835,198

The Group has entered into hedging arrangements in respect of its foreign currency obligations and interest rate exposures.

Other providers of financing

The balance as at 31 March 2003 includes:

- €1.4 million of a loan granted to Sàfilo by SIMEST S.p.A., a financial institution owned by the Italian Government, for a project involving the commercial penetration of the Japanese market, bearing interest at a fixed rate of 1.44%;
- €1.1 million representing the long-term portion of a loan under the economic development law sponsored by Government of Italy;
- €9.1 million of capital leases.

8 Trade payables

(€ thousands)	31 March 2003	31 December 2002
Purchase of materials	37,498	44,739
Purchase of products and subcontract costs	39,353	35,479
Commission and royalties	20,020	22,605
Advertising and sponsorship costs	12,821	11,005
Services received from third parties	20,622	20,239
Purchase of fixed assets	28,420	17,750
Total	158,734	151,817

9 Income taxes

Income taxes totalled €9.9 million for the three month period ended 31st March 2003 (€15.9 million for the 1st quarter 2002) and take into account available exemptions, benefits and tax credits in 2002, the parent company and the US subsidiaries.

Income taxes include deferred tax assets (net of deferred tax liabilities), and have been calculated on provisions and carry-forward tax losses whose tax benefits are deferred over time. These taxes have been provided for because it is reasonably certain that they will be recovered in future years.

Each entity of the Group is subject to taxation in its country of incorporation. The entities incorporated in Italy are subject to income taxes in Italy (IRPEG tax) which had a statutory rate of 35% for the years ended 31 December 2003 and 36% for the year ended 31 December 2002. Italian entities are also subject to a 4.25% local income tax (IRAP tax). Foreign subsidiaries are subject to income taxes of the countries in which they operate. The relationship between income tax expense and pre-tax accounting income is affected by a number of items, including various tax credits, certain expenses not allowable for income tax purposes and different tax rates applicable to foreign subsidiaries.

Income tax payable

Outstanding payables to the tax authorities are €25.2 million as at 31 March 2003 and €18.8 million and relate to the liability for current income taxes of Group companies.

10 Other current payables and accrued expenses

(€ thousands)	31 March 2003	31 December 2002
Payroll	22,630	17,004
Social security	3,753	7,073
Accruals for bonuses to salespersons	13,761	17,309
Payable to salespersons	2,393	1,315
Payable for services related to financial restructuring	0	7,516
Accrual for advertising and sponsorship expenses	6,308	6,607
Accrual for loan interest expense	1,006	2,692
Accruals for insurance, leasing	344	4,492
Other accrued/deferred expenses/income	8,103	-
Payable to minority shareholders	1,092	2,732
Other payable	8,386	7,103
Total	67,776	73,843

Amounts due to social security institutions amounts to €3.8 million as at 31st March 2003, €7.1 million as at 31st December 2002, and mainly relate to contributions payable one month in arrears by Group companies in relation to employees' wages and salaries.

Payables to minority shareholders includes dividends approved in the previous year's shareholders' meetings and dividends accrued.

11 Provisions

(€ thousands)	Balance as at 1 January 2002	Movements in the year			Balance as at 31 March 2003
		Accruals	Utilisation	Translation difference	
Employee benefits	1,387	520	(1,547)	-	360
Product warranty	2,289	186	(76)	(24)	2,375
Provision for deferred gains on foreign currency exchange rates	5,478	5,236	-	-	10,714
Agents indemnity	2,269	161			2,430
<i>Total long-term provision</i>	<i>11,423</i>	<i>6,103</i>	<i>(1,623)</i>	<i>(24)</i>	<i>15,879</i>
Other current provision	139	125		-	264
Total	11,562	6,228	(1,623)	(24)	16,143

The pensions fund (“Employee benefits”) represents the liability of certain Group companies under supplementary labour agreements to pay additional retirement benefits to their employees. The product warranty reserve has been provided to cover the estimated cost of replacing defective products.

The Agents indemnity provision represents the costs that would be incurred if the agreement with the agents is terminated by the Group. The provision for Agents indemnity is estimated based upon Italian and European law and historical trends.

Provision for deferred gains on foreign currency exchange rates represents the translation gain on loans in US dollars other than those that are current. Such translation gains will be recorded as profit if and when realised.

12 Shareholders’ equity attributable to the Group

Share capital

Safilo's share capital as at 31 March 2003 was made up by 33,350,000 shares, with a par value of €1, for a total of €33,350,000.

13 Cost of sales

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Purchase of materials and finished products	52,617	48,260
Changes in inventories	(2,285)	13,732
Salaries and related contributions	25,450	22,318
Subcontracting costs	13,990	8,074
Industrial depreciation	6,659	6,501
Other costs	1,240	3,839
Total	97,671	102,724

Changes in inventories :

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Finished products	(982)	12,157
Work in progress	(721)	(326)
Raw material	(582)	1,901
Total	(2,285)	13,732

Changes in inventories: the decrease compared with the first quarter of 2002 has been achieved with the aim of the first Quarter of 2003 was to limit the quantity of finished products held as stock in the warehouses.

Salaries and related contributions increased by 14.3% from €22.3 million as at 31 March 2002 to €25.5 million as at 31 March 2003. This increase is mainly due to the greater number of factory personnel; the number of persons increased from 4,626 as of 31st March 2002 to 5,075 as of 31st March 2003.

Subcontracting costs include the cost of third parties which manufacture semi-finished products using materials provided by the Group. The increase of this item (from €8.1 million to €14.0 million as of 31st March 2002 and 2003 respectively), is mainly due to the fact that greater use was made of local suppliers who possess the necessary know-how to carry out certain specific work procedures.

Other costs includes industrial services, maintenance and rental costs related to production and energy costs. Rental costs related to machinery and equipment amounted to €2.2 million as of 31st March 2003 and €1.8 million as of 31st March 2002. Other costs include (gains) / losses on currency swaps totalling (€3.2 million) as of 31st March 2003 (versus €40,000 as of 31st March 2002).

14 Selling and marketing expenses

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Staff costs	10,046	10,378
Services from independent salespersons	21,002	23,632
Royalties	17,532	19,931
Advertising and promotion	21,685	24,108
Other selling expenses	8,942	7,298
Total	79,207	85,347

Other selling expenses

This item refers to:

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Transport, logistics and other sales costs	8,557	6,434
Bad debt provision	361	843
Warranty provision	24	21
Total	8,942	7,298

These costs are closely linked to turnover; their incidence on sales has decreased by 0.7% from the first quarter of 2002 to the same period of 2003. Selling and marketing expenses decreased by 7.2% from €85.3 million in the first quarter of 2002 to €79.2 million in the same period of 2003.

The reduction is due to the positive mix effect, either in the sale of different brands (i.e. for the royalties) or in different markets (i.e. sales people costs).

15 General and administrative expenses

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Staff costs	15,282	14,314
Other staff related costs	1,630	1,268
Depreciation and amortisation	2,537	1,359
Other general and administrative expenses	8,666	8,480
Other provision and annual fees	523	445
Total	28,638	25,866

This item has no relevant variation from the first quarter of 2002 and the first quarter of 2003 which increased 10.4% from €28.6 million as at 31st March 2003 to €25.9 million as at 31st March 2002.

The increase in the item staff salaries and related contributions is due to the increase of employees, above all at the headquarter in Padova – Italy (562 persons as of 31st March 2002 compared to 602 employees as of 31st March 2003).

Other general and administrative expenses include fiscal, legal and administrative consultancy totalling €2.7 million; postage and telephone expenses totalling €718,000, insurance costs totalling €141,000.

16 Other income (expenses), (net)

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Losses on disposal of assets	(7)	-
Other operating charges	(122)	(300)
Gain on disposal of assets	4	9
Other operating income	243	83
Tax relief related to new employees	111	188
Other taxes	(311)	(436)
Total	(82)	(456)



17 Interest income/(expense) and other financial charges

Net interest expense

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Interest expense	15,849	11,758
Less: interest income	(1,026)	(96)
Bank charges	549	353
Debt issuance costs	1,024	1,814
Total	16,396	13,829

Debt issuance costs mainly include the amortization of other capitalised costs. Such costs refer mainly to legal and other fees incurred at the inception of loans. These costs have been deferred and amortised over the repayment period of the loans.

18 Extraordinary income/(expenses), (net)

(€ thousands)	Year ended 31 March 2003	Year ended 31 March 2002
Dividend on investments	-	-
Indemnities and reimbursement	23	28
Other extraordinary expenses/income	302	(201)
Total	325	173

19 Principal subsidiaries

Companies included in the consolidation are:

Entity – Location		Share capital	Ownership %
<i> Holding Company </i>			
Sàfilo S.p.A.	€	32,350,000	
<i> Other Italian entities </i>			
Oxsol Srl – Pieve di Cadore, Belluno	€	45,000	100
Lenti Srl – Bergamo	€	500,000	54
Smith Sport Optics Srl – Firenze	€	102,775	100
<i> Foreign entities </i>			
Sàfilo International BV – Rotterdam, The Netherlands	€	24,165,700	100
Safint BV – Rotterdam, The Netherlands	€	18,200	100
Sàfilo Capital International – Luxembourg	€	7,750	100
Sàfilo Benelux SA – Zaventem, Belgium	€	560,000	100
Sàfilo Espana SA – Madrid, Spain	€	390,650	100
Sàfilo France Sarl – Paris, France	€	960,000	100
Sàfilo GmbH – Cologne, Germany	€	511,300	100
Sàfilo Nordic AB – Taby, Sweden	SEK	500,000	100
Sàfilo Far East Ltd – Hong Kong	HKD	49,700,000	100
Safint Optical Investment – Hong Kong	HKD	10,000	51
Sàfilo Hong-Kong Ltd – Hong Kong	HKD	100,000	51
Sàfilo Singapore Pte Ltd – Singapore	S\$	400,000	100
Sàfilo Optical Sdn Bhd – Kuala Lumpur, Malaysia	MYR	100,000	100
Sàfilo Hellas Ottica SA – Athens, Greece	€	300,000	51
Sàfilo Nederland BV – Bilthoven, The Netherlands	€	18,200	100
Sàfilo South Africa – Bryanston, South Africa	ZAR	3,383	100
Sàfilo Austria GmbH – Traun, Austria	€	217,582	100
Carrera Optyl GmbH – Traun, Austria	€	7,630,648	95
Carrera Optyl D.o.o. – Ormoz, Slovenia	SIT	135,101,000	100
Carrera Optyl Marketing GmbH – Traun, Austria	€	181,683	100
Sàfilo Japan Co Ltd – Tokyo, Japan	YEN	100,000,000	100
Sàfilo Do Brasil Ltda – San Paulo, Brasil	R\$	8,077,500	100
Sàfilo Portugal Lda – Lisbon, Portugal	€	500,000	100
Sàfilo Switzerland – Liestal, Switzerland	SFR	1,000,000	77
Sàfilo India Ltd – Bombay, India	INR	42,000,000	75
Safint Australia Pty Ltd – Sidney, Australia	AUD	3,000,000	100
Sàfilo Australia Partnership – Sidney, Australia	AUD	204,081	51
Safint Optical UK Ltd – United Kingdom	GBP	21,139,001	100
Sàfilo UK Ltd – North Yorkshire, United Kingdom	GBP	250	100
Sàfilo America Inc – Delaware, USA	US\$	8,430	100
Sàfilo USA Inc – New Jersey, USA	US\$	23,289	100
FTL Corp – Delaware, USA	US\$	110	100
Sàfilo Realty Corp – Delaware, USA	US\$	10,000	100
Smith Sport Optics Inc – Idaho, USA	US\$	12,558	98
Solstice Marketing Corp – USA	US\$	1,000	100
2844-2580 Quebec Inc – Montreal, Canada	CAD	100,000	100
Sàfilo Canada Inc – Montreal, Canada	CAD	2,470,425	100
Canam Sport Eyewear Inc – Montreal, Canada	CAD	300,011	100



20 Subsequent events

On May 15, 2003 the Company successfully placed €300 million of Senior Notes. The proceeds were used to repay the outstanding bridge notes from Credit Suisse First Boston. At the same time, to support the additional development and distribution costs associated with the new Armani licence, Safilo obtained:

- an additional €60 million senior secured capex facility from the existing financing banks;
- a €30 million cash injection from the subscription of a 3.0% subordinated PIK convertible an additional €25 million commitment to be injected if required as an additional 3.0% subordinated PIK convertible, both provided by DLJ Merchant Banking Partners III, Inc.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. All statements other than statements of historical fact included in this 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 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 those expressed or implied by these forward-looking statements. These factors include, among other things:

- risks associated with our significant debt and our ability to meet our obligations;
- factors affecting our ability to successfully implement the Armani license;
- factors affecting our ability to design, develop and introduce successful new products;
- factors affecting our ability to compete effectively in the eyewear market, including new products and distribution strategies of our competitors;
- uncertainties associated with changing consumer preferences;
- factors affecting our ability to negotiate, maintain and renew license arrangements on satisfactory terms with leading designers;
- uncertainties associated with general economic conditions;
- governmental factors, including the costs of compliance with regulations and the impact of regulatory changes;
- factors affecting our ability to obtain or maintain intellectual property protection for our products;
- human resource factors, including our ability to retain our senior management and other key personnel and employee costs;
- risks related to our manufacturing and distribution operations and our arrangements with third-party manufacturers;



- the impact of currency exchange rate and interest rate fluctuations; and
- other risks, uncertainties and factors inherent in our business.

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 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.

FURTHER INFORMATION

For further information

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