



SÀFILO GROUP

Interim financial information for January 1st, 2003 – June 30th, 2003

August 13th, 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 1,200 sales representatives.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The second quarter in 2003 reported a decrease of sales of 7.9% compared to the second quarter in 2002 with a downturn, in value, of approximately € 20 million. The causes of that reduction of sales are mainly attributable to:

- ✓ Foreign exchange effect particularly due to the U.S. dollar weakness;
- ✓ The impact of war in Iraq and the SARS outbreak;
- ✓ The global slowdown of the economy.

Concerning the exchange rate impact, the global turnover of the Group in the second quarter on constant currency basis versus 2002 shows an increase of 1.2% in value terms. During the second quarter 2003, as measured in units, our sales decreased 1% compared to the second quarter 2002.

There were a number of factors that had a negative impact on our second quarter results including the war in the Middle East and the outbreak of SARS the impact of which had a strong effect on April and May. In addition the bad weather conditions, particularly in the East coast of USA, has contributed to the slowdown of sales. These events had a particularly negative effect on the sales of our sunglasses. The impact of the war in the Middle East and SARS was partially offset by our sales of prescription frames, which accounted to 48% of sales in second quarter of 2003 and 47% of sales in the first half of 2003.

As far as single brands are concerned, the strongest results have been shown by our owned brand Oxydo which continues its trend of growth also in the second quarter. Among licensed brands strong performances have been achieved by Burberry and Valentino.

Our first half EBITDA decreased by 29.3% from € 104.2 million (20.4% of net sales) in 2002 to € 73.7 million in 2003 (15.4% of net sales). The strengthening of the Euro versus other currencies was a major cause of this decrease (amounting to approximately € 6 million). The mix of sales and the unrecovered fixed costs for lower production compared to expectations have also negatively impacted the gross margin. Finally, the impact of internal staff costs, related to larger number of personnel dedicated to Armani and other projects, has contributed to a reduction in EBITDA compared to the same period of 2002.

The second quarter of 2003 saw the commencement of sales of the initial release of Giorgio Armani and Emporio Armani brands. During the months of May and June we achieved more than 40% of total 2003 budgeted sales for these new brands.

FINANCIAL OVERVIEW

All these reports are to be considered unaudited.

SALES ANALYSIS

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

(in Euro millions)	Quarter				Change ⁽¹⁾	YTD				Change ⁽¹⁾
	2003		2002			Apr-Jun	2003		2002	
	Apr- Jun		Apr- Jun		2003-2002	Jan- Jun		Jan- Jun		2003-2002
	€	%	€	%	% Change	€	%	€	%	% Change
<i>Net Sales:</i>										
Prescription frames	112.0	48.2%	110.7	43.8%	1.2%	224.4	47.0%	224.3	43.9%	0.1%
Sunglasses	119.2	51.3%	139.1	55.1%	-14.3%	245.6	51.5%	277.3	54.3%	-11.4%
Sport goggles	1.1	0.5%	2.6	1.0%	-55.5%	6.5	1.4%	8.3	1.6%	-20.9%
Other	0.1	0.0%	0.1	0.0%	43.3%	0.5	0.1%	0.6	0.1%	-14.0%
Total	232.5	100.0%	252.4	100.0%	-7.9%	477.1	100.0%	510.4	100.0%	-6.5%

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

(in Euro millions)	Quarter				Change ⁽¹⁾	YTD				Change ⁽¹⁾
	2003		2002			Apr-Jun	2003		2002	
	Apr- June		Apr- June		2003-2002	Jan- June		Jan- June		2003-2002
	€	%	€	%	% Change	€	%	€	%	% Change
<i>Net Sales:</i>										
North America	78.3	33.7%	100.0	39.6%	-21.7%	167.9	35.2%	204.3	40.0%	-17.8%
Italy	46.9	20.2%	43.9	17.4%	6.7%	83.6	17.5%	87.6	17.2%	-4.6%
Europe (excluding Italy)	83.7	36.0%	72.5	28.7%	15.4%	172.9	36.2%	154.8	30.3%	11.7%
Far East (excluding Australia)	11.6	5.0%	16.8	6.6%	-30.8%	24.7	5.2%	30.4	5.9%	-18.7%
Other	11.9	5.1%	19.2	7.6%	-37.8%	28.0	5.9%	33.3	6.5%	-15.8%
Total	232.4	100.0%	252.4	100.0%	-7.9%	477.1	100.0%	510.4	100.0%	-6.5%

⁽¹⁾ Percentage change for the period shown may not calculate due to rounding.



Net sales decreased 6.5% from € 510.4 million in the first half of 2002 to € 477.1 million in the same period of 2003. In terms of volume, we sold 13.0 million frames in the first half of 2003 compared to 12.7 million in the first half of 2002, a 2.3% increase. We achieved better performance in the prescription frame market segment (less sensitive to the economic environment) where volumes increased by 10% compared to first half 2002. In unit terms, sales in the sunglasses segment decreased in the first half 2003 of units by 3.2% versus the same period of 2002.

North America. Sales in North America were impacted by consumers' persistent lack of confidence which has reduced our customers sales of our products to the end consumers. Consequently our customers have adjusted the purchasing patterns to reflect this overall sales environment. Additionally, the persistent weakness of the US dollar has reduced sales by more than 15% due to the effect of foreign currency translation. Dollar sales in the United States (accounting for 94.0% of North America sales) have remained stable in the first half of 2003 compared to the same period in 2002. The *Burberry*, *Valentino*, *Kate Spade* and *Yves Saint Laurent* brands performed very well.

At the end of June 2003, a total of 35 specialty retail stores (13 new openings during Q2 2003) in the Solstice network were open in the United States.

Italy. Economic difficulties in the Italian market are continuing. Net sales in Italy decreased by 4.6% from € 87.6 million in the first half of 2002, to € 83.6 million in the first half of 2003. Some recovery signs have, however, been evident in the second quarter of 2003, with an increase in sales of 6.4% when compared to the same period of the previous year, mainly due to the launch of the new collections of the Armani brand.

Europe. The European market has seen an increase of 11.7% from € 154.8 million in the first half of 2002 to € 172.9 million in the same period of 2003. In terms of volumes, there has been an increase of 5.4% from 3.9 million units in the first half of 2002 to 4.2 million units in the first half of 2003. The brands which have experienced the greatest increase in sales are *Dior*, *Oxydo*, and *Yves Saint Laurent*. The increase has principally been seen in Greece, Spain, and the United Kingdom. Sales in Germany, despite the economic recession, have remained in line with the previous year.

Far East. Sales in the Far East decreased by 18.7% in the first half of 2003 compared with the same period of 2002. An increase was, however, seen for the *Burberry*, *Dior* and *Yves Saint Laurent* brands. The Far East continues to suffer from the impact of the SARS outbreak.

SELECTED FINANCIAL DATA

(in Euro millions)	Quarter				YTD			
	2003		2002		2003		2002	
	Apr- Jun		Apr- Jun		Jan- Jun		Jan- Jun	
	€	%	€	%	€	%	€	%
Net sales	232.4	100.0%	252.4	100.0%	477.1	100.0%	510.4	100.0%
Cost of goods sold	105.7	45.5%	94.0	37.2%	202.9	42.5%	196.7	38.5%
Commercial costs	79.5	34.2%	83.7	33.2%	158.7	33.3%	169.0	33.1%
Other expenses	31.6	13.6%	30.1	11.9%	60.3	12.6%	56.5	11.1%
EBITDA	25.4	10.9%	52.8	20.9%	73.7	15.4%	104.2	20.4%

EBITDA for the first half of 2003 was € 73.7 million (15.4% of sales) compared to € 104.2 million in the first half of 2002 (20.4% of sales). When compared to the previous year, EBITDA decreased by € 30.5 million, (a decline of 29.3%).

The general reduction of EBITDA was mainly due to a combination of factors including:

- ✓ Negative impact of different exchange rates (primarily USD weakness);
- ✓ Lower production levels;
- ✓ Increased personnel costs reflecting the full impact of personnel hired during the course of 2002;
- ✓ Start up costs for Armani which has led to an increase of subcontractors, design and logistics costs;
- ✓ Higher costs of obsolescence reflecting the slowdown of sales;
- ✓ Higher marketing and advertising expenses related to obligations under license agreements.

The lower level of production compared to the expectations has led the company to implement cost control policies, that should improve profitability over the coming months.

The variable commercial costs decreased by 6.1% from € 169.0 million in the first semester 2002 to € 158.7 million in the same period of 2003 mainly due to FX effect and the direct correlation to sales of several cost items (i.e., royalties, commissions). These costs absorbed 33.3% of revenue compared to 33.1% in the previous year.

Other expenses increased during the first six months by € 3.8 million compared to the same period of 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 debt refinancing of the Group.

On a constant currency basis rate, the second quarter of 2003 has seen a reduction in profitability of American and Asian subsidiaries, while the European business (excluding Italy) has maintained an EBITDA margin in line with the first quarter 2003. The Italian market has maintained the profitability mainly due the good results of Armani sales.

CASH FLOW

The following table summarizes our cash flow activity during the six months ended 30th June 2003 and the six months ended 30th June 2002.

(€ millions)	2003 YTD	2002 YTD
Net cash flows:		
(Used in)/provided by operating activities.....	11.7	35.0
Used in investment activities.. .. .	(56.7)	(141.1)
(Used in)/provided by financing activities	18.9	17.2

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 half of 2002 is as follows:

(€ in million)	First Half 2003	First Half 2002
Net Income	1.3	16.5
Amortization and depreciation	32.5	35.3
Change in trade receivables and other receivables.....	(59.7)	(72.3)
Change in inventory.....	8.8	10.8
Change in trade payables and other current payables	15.4	42.7
Change in pension fund and TFR.....	2.0	2.3
Other	11.4	(0.3)
Total	11.7	35.0

The net cash from operating activities decreased to € 11.7 million in 2003 from € 35.0 million in the first half of 2002 primarily as a result of lower net income in comparison with same period of last year. The main explanations for these figures are:

- ✓ The cash erosion generated by receivables is the result of the seasonal variation of the turnover. If compared to the previous year there is no significant difference in days of sales outstanding for any of the Business Units. The persistent weakness of the Italian market is compensated for by the good results of several other European countries;
- ✓ The lower turnover realized by the Group during the first six months of the year has, of course, led to a lower level of purchases and of payables for royalties and commissions to agents. The lower level of capital expenditures has contributed to reduce the total amount of payables;
- ✓ The item “other” mainly include deferred gains deriving from the translation at the 30th June 2003 exchange rate of long-term borrowings denominated in US dollars.

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 € 268 million as of 30th June 2002 to € 208 million as of 30th June 2003 principally due to the impact of trade receivables securitization that occurred in December 2002.

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 € 26 million; the main expenditures have included:

- ✓ Capital expenditures in production facilities for € 11 million (of which € 5 million in capitalized assets);
- ✓ Enlargement of headquarter building with the new Distribution Center (€ 5 million);
- ✓ New opening of Solstice stores (€ 5 million);
- ✓ Warehouse or office equipment in subsidiaries (€ 3 million);
- ✓ Other minor capital expenditures.



In the same period of last year the total amount of investment in tangible assets amounted to € 21 million. The main differences come from the capital expenditure utilized for the Solstice project (twenty new shops during the first half of 2003) and for the expansion of the Distribution Center in Padova during 2003.

Cash Flow from Financing Activities. Net cash flows from financing activities are mainly driven by our borrowing activities but also include equity share capital movements and dividend payments to shareholders.

PERSONNEL

Personnel as of 30th June 2003, 31st December 2002 and 30th June 2002 is as follows:

	2003	2002	2002
	Jun	Dec	Jun
Headquarter (Padova – Italy)	618	593	568
Factory personnel	4,886	5,060	4,860
Subsidiaries	918	896	894
Solstice	205	102	56
Total	6,627	6,651	6,378



SÀFILO GROUP

Consolidated Financial Statements For the period January 1st – June 30th 2003

Consolidated Balance Sheets

(€ thousands)	30 th June 2003	31 st December 2002
ASSETS		
Current assets:		
Cash and cash equivalents	61,323	51,443
Trade receivables (net of provision for doubtful accounts)	228,770	197,024
Inventory (net)	176,321	191,058
Other current receivables	55,653	45,697
Total current assets	522,067	485,222
Non-current assets:		
Property, plant and equipment(net)	185,728	176,875
Intangible assets	443,335	431,255
Investments in associates and long-term financial assets	143,051	131,179
Total non-current assets	772,114	739,309
Total assets	1,294,181	1,224,531
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	60,855	16,082
Trade payables	163,924	151,817
Income tax payables	19,496	18,829
Other current payables and accrued expenses	69,222	73,982
Total current liabilities	313,497	260,710
Non-current liabilities:		
Long-term borrowings	813,370	835,198
Termination Indemnity Liability	28,621	26,546
Long-term provisions	22,557	11,423
Total non-current liabilities	864,548	873,167
Total liabilities	1,178,045	1,133,877
Shareholders' equity attributable to minority shareholders	5,205	6,002
Shareholders' equity:		
Share capital	34,350	33,350
Other reserves and retained earnings	75,303	40,980
Income pertaining to the Group	1,278	10,322
Total shareholders' equity attributable to the Group	110,931	84,652
Total shareholders' equity	116,136	90,654
Total liabilities and shareholders' equity	1,294,181	1,224,531

Consolidated Statements of Operations

(€ thousands)	30th June 2003	30th June 2002
Net sales	477,065	510,405
Cost of sales	(202,949)	(196,707)
Gross profit	274,116	313,698
Selling and marketing expenses	(158,752)	(168,981)
General and administrative expenses	(60,070)	(56,036)
Other income/(expense), (net)	(200)	(463)
Operating income/(loss)	55,094	88,218
Interest income/(expense) and other financial charges	(31,878)	(30,785)
Extraordinary income/(expense), (net)	676	361
Amortisation of goodwill	(11,376)	(12,229)
Income/(loss) before taxation	12,516	45,565
Tax expense	(9,738)	(27,304)
Net income/(loss) before minority shareholders	2,778	18,261
Income attributable to minority shareholders	(1,500)	(1,783)
Net income	1,278	16,478

Consolidated Statements of Cash Flows

(€ thousands)	30 th June 2003	31 st December 2002
Cash flows from operating activities		
Net income	1,278	10,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation	16,760	36,413
Depreciation	15,703	29,708
Changes in operating assets and liabilities:		
Trade receivables and other current receivables	(59,731)	1,867
Inventory	8,784	(41,531)
Trade payables and other current payables and accrued expenses	15,415	70,419
Pension fund and Termination Indemnity Liability (TFR)	2,075	2,910
Other (net)	11,437	2,641
Net cash provided by (used in) operating activities	11,720	112,750
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,365)	(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	(30,365)	(48,815)
Net cash provided from (used in) investing activities:	(56,730)	(216,845)
Cash flows from financing activities:		
Proceeds from borrowings	300,000	848,278
Dividend paid by Safilo S.p.A.		(22,011)
Dividends paid by subsidiaries	(1,399)	(1,664)
Increase of Share Capital	30,000	-
Repayment of bond	-	(10,329)
Repayment of borrowings	(309,683)	(617,238)
Net cash provided from (used in) financing activities	18,918	197,036
Effect of exchange rate	(2,332)	(6,760)
Net increase in cash and cash equivalents	(28,424)	86,180
Cash and cash equivalents at the beginning of the period	44,221	(41,959)
Cash and cash equivalents at the end of the period	15,798	44,221
Breakdown of "cash and cash equivalents at the end of the period":		
Cash and cash equivalents	61,323	51,443
Bank overdraft	(1,664)	(686)
Short term loans	(43,861)	(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:

1 Euro =	As of June 30 th 2003	As of Dec 31 st 2002	As of June 30 th 2002	Average June 30 th 2003	Average Dec 31 st 2002	Average June 30 th 2002
USD	1.1427	1.0487	0.9975	1.1050	0.9454	0.8979
HKD	8.9110	8.1781	7.7805	8.6178	7.3497	6.9548
CHF	1.5544	1.4524	1.4721	1.4918	1.4898	1.5152
CAD	1.5506	1.6550	1.5005	1.6048	1.4835	1.4127
JPY	137.32	124.39	118.2000	131.1204	118.0490	116.2646
GBP	0.6932	0.6505	0.6498	0.6855	0.6288	0.6217
SEK	9.2488	9.1528	9.1015	9.1628	9.1670	9.1702
AUD	1.7116	1.8556	1.7702	1.7921	1.7375	1.6792
ZAR	8.5422	9.0094	10.3043	8.9028	9.8737	9.7898
SIT	233.9520	230.1580	226.5670	231.9868	225.9635	223.5612
BRL	3.29611	3.69444	2.8484	3.5720	2.7850	2.1941
INR	53.0970	50.5071	50.8776	53.2272	47.0904	45.0678
SGD	2.0149	1.8199	1.7586	1.9291	1.6909	1.6321
MYR	4.34168	3.98448	3.7900	4.1984	3.5919	3.4115

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.

With respect to the senior credit facility as of June 30th 2003, Sàfilo has entered into 4 years swaps covering 60% of the Tranche A and 70% of Tranche B and C.

1 Trade receivables (net of provision for doubtful accounts)

(€ thousands)	30 th June 2003	31 st December 2002
Gross value	244,651	213,128
Provision for doubtful accounts	(15,881)	(16,104)
Net value	228,770	197,024

Safilo S.p.A. participated in a trade receivables securitization programme. As of 30th June 2003 total amount of receivables sold to Sunlight Srl was € 76.8 million. The difference between cash received and trade receivables sold to the securitisation vehicle 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)	30 th June 2003	31 st December 2002
- Raw materials and supplies	33,748	37,161
- Work in progress	9,927	11,337
- Finished products	132,646	142,560
Total	176,321	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)	30 th June 2003	31 st December 2002
Value added tax (VAT) receivables	3,432	6,812
Tax credits and advance payments	12,809	8,449
Deferred tax assets	21,167	18,026
Prepayments and accrued income	6,448	3,600
Receivables from salespersons	3,214	3,600
Other receivables	8,583	5,210
Total	55,653	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 € 6.4 million as at 30th June 2003, € 3.6 million as at 31st December 2002 and include:

As at 30th June 2003

- Prepaid advertising expenses of € 2.5 million;
- Prepaid rental expenses of € 1.0 million;
- Prepaid insurance costs of € 0.9 million; and
- Other accrued income and prepayments of € 2.0 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	676	3,322	14,273	11,844	30,115
Translation differences/other transfer	(436)	(476)	(2,471)	(49)	(3,432)
Disposals	(56)	(580)	(1,594)	(3,567)	(5,797)
Balance at 30 June 2003	87,973	142,704	104,279	27,391	362,347
<u>Accumulated Depreciation</u>					
Balance at 31 December 2002	(16,543)	(90,367)	(57,676)	-	(164,586)
Depreciation charge	(1,323)	(6,627)	(7,753)	-	(15,703)
Translation differences/other transfer	41	232	1,350	-	1,623
Disposals	21	502	1,524	-	2,047
Balance at 30 June 2003	17,804	96,260	62,555	-	176,619
<u>Net Book Value</u>					
Balance at 30 June 2003	70,169	46,444	41,724	27,391	185,728

5 Investments in associates and long-term financial assets

(€ thousands)	30 th June 2003	Relationship	Interest in share capital %
Investments in associates:			
Banca Popolare di Lodi	10,198	Other shareholdings	0.65%
Elegance International Holdings Lts	6,432	Associate	23.05%
TBR Inc. (USA)	521	Other shareholdings	33.33%
Optifashion As (Turkey)	353	Non consol. related party	50%
Safilens Srl	129	Other shareholdings	17.50%
Other	91	Other shareholdings	-
Total investments in associates	17,715		
Long-term financial assets			125,336
Total			143,051

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 first half of 2003.

Long-term financial assets at 30th June 2003 include:

- € 81.0 million representing 3,176,000 shares of Safilo S.p.A. equal to 9.52% of share capital;
- € 40.2 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;
- € 0.6 million relating to tax advances on the reserve for termination indemnities paid by certain Italian Group companies.

6 Short-term borrowings

(€ thousands)	30 th June 2003	31 st December 2002
Bank overdraft	1,664	686
Short term loans	43,861	6,536
Current portion of long-term borrowings	14,851	8,359
Current portion in other providers of financing	479	501
Total	60,855	16,082

7 Long-term borrowings

(€ thousands)	30 th June 2003	31 st December 2002
Loans	516,548	534,274
Less: Current portion of loans	(14,851)	(8,359)
Notes	300,000	299,229
Other providers of financing	11,775	10,167
Less: Current portion in other providers of financing	(479)	(501)
Other long term debt	467	388
Total	813,370	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 30th June 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;
- € 9.3 million of capital leases.

8 Trade payables

(€ thousands)	30 th June 2003	31 st December 2002
Purchase of materials	31,475	44,739
Purchase of products and subcontracting costs	38,177	35,479
Commissions and royalties	26,550	22,605
Advertising and sponsorship costs	18,941	11,005
Services received from third parties	20,662	20,239
Purchase of assets	28,119	17,750
Total	163,924	151,817

9 Income taxes

Income taxes totalled € 9.7 million for the first half of 2003 (€ 27.3 million for the first half of 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 € 19.5 million as at 30th June 2003 and € 18.8 million as at 31st December 2002 and relate to the liability for current income taxes of Group companies.

10 Other current payables and accrued expenses

(€ thousands)	30th June 2003	31st December 2002
Payroll	24,942	17,004
Social security	3,917	7,073
Accruals for bonuses to customers	13,929	17,309
Payable to salespersons	2,364	1,315
Accrual for advertising and sponsorship expenses	5,637	6,607
Accrual for loan interest expense	5,756	2,692
Accruals for insurance, leasing and other expenses	4,613	4,492
Payable to minority shareholders	2,856	2,732
Other payable	4,912	14,619
Total	68,926	73,843

Amounts due to social security institutions amounts to € 3.9 million as at 30th June 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.

Other payables include also the amount for services related to financial restructuring.

11 Provisions

(€ thousands)	Balance as at 1 st January 2003	Movements in the first half			Balance as at 30 th June 2003
		Accruals	Utilisation	Translation difference	
Employee benefits	1,387	1,180	(1,787)	(93)	687
Product warranty	2,289	180	(103)	(53)	2,313
Provision for deferred gains on foreign currency exchange rates	5,478	11,501	-	-	16,979
Agents indemnity	2,269	309	-	-	2,578
<i>Total long-term provision</i>	<i>11,423</i>	<i>13,170</i>	<i>(1,890)</i>	<i>(146)</i>	<i>22,557</i>
Other current provision	139	256	(99)	-	296
Total	11,562	13,426	1,989	(146)	22,853

The pension 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

The shareholders’ meeting on April 30th, 2003 approved the company’s share capital increase through the issue of 1,000,000 shares (nominal value of a share = 1.00 Euro) 100% underwritten by “Safilo Holding S.p.A.”. The shares have been underwritten at their global nominal value increased by a total share premium amounting to € 29,000,000. Safilo’s share capital as at 30th June 2003 was made up by 34,350,000 shares, with a par value of € 1, for a total of € 34,350,000.

13 Cost of sales

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Purchase of materials and finished products	103,163	100,248
Changes in inventories	9,329	10,857
Salaries and related contributions	48,943	46,029
Subcontracting costs	24,555	19,691
Industrial depreciation	12,971	13,327
Other costs	3,988	6,555
Total	202,949	196,707

Changes in inventories :

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Finished products	4,987	7,007
Work in progress	1,155	(1,264)
Raw material	3,187	5,114
Total	9,329	10,857

Changes in inventories: the decrease compared with the first half of 2002 has been achieved thanks to Sàfilo's focus on limiting the quantity of finished products held as stock in the warehouses.

Sàfilo continuously monitors our end markets and attempts to adjust production and inventories to reflect prevailing market conditions.

Salaries and related contributions increased by 6.3% from € 46.0 million as at 30th June 2002 to € 48.9 million as at 30th June 2003. This increase is mainly due to the greater number of employees hired in order to achieve the budget and the Armani project.

The increase in subcontracting costs from € 19.7 million to € 24.6 million as of 30th June 2002 and 2003 respectively (24.9%), is due to the greater use of local suppliers who possess the necessary know-how to carry out certain specific work procedures for the production and assembly of prescription frames and sunglasses. Subcontracting costs include the cost of third parties which manufacture semi-finished products using materials provided by the Group.

Other costs includes industrial services, maintenance and rental costs related to production and energy costs. Rental costs related to machinery and equipment amounted to € 4.1 million as of 30th June 2003 and € 3.6 million as of 30th June 2002. Other costs include (gains) / losses on currency swaps totalling (€ 5.0 million) as of 30th June 2003 (versus € 1.5 as of 30th June 2002).

14 Selling and marketing expenses

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Staff costs	17,042	16,296
Services from independent salespersons	40,740	47,488
Royalties	39,211	42,104
Advertising and promotion	43,343	46,764
Other selling expenses	18,416	16,329
Total	158,752	168,981

Other selling expenses

This item refers to:

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Transport, logistics and other sales costs	17,505	14,511
Bad debt provision	831	1,793
Warranty provision	80	25
Total	18,416	16,330

These costs are closely linked to turnover; their incidence on sales has increased by 0.2% from the 1st semester of 2002 to the same period of 2003. Selling and marketing expenses decreased by 6.1% from € 169.0 million in the 1st semester of 2002 to € 158.7 million in the same period of 2003.

The reduction is mainly due to a reduction in sales people costs, in royalties and in advertising and promotion expenses.

15 General and administrative expenses

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Staff costs	34,367	33,741
Other staff related costs	3,203	2,946
Depreciation and amortisation	5,666	2,676
Other general and administrative expenses	15,900	15,614
Other provision and annual fees	934	1,059
Total	60,070	56,036

This item had no significant variation from the first half of 2002 versus the first half of 2003; the increase 7.3% from € 56.0 million as at 30th June 2002 to € 60.0 million as at 30th June 2003 is mainly due to the amortisation of brand costs.

The increase in staff salaries and related costs is due to the increase of employees, mainly at the headquarter in Padova – Italy (618 employees as of 30th June 2003 compared to 568 employees as of 30th June 2002).

Other general and administrative expenses include fiscal, legal and administrative consultancy totalling € 4.4 million; postage and telephone expenses totalling € 1.5 million, insurance costs totalling € 0.9 million.

16 Other income (expenses), (net)

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Losses on disposal of assets	63	123
Other operating charges	202	519
Gain on disposal of assets	(14)	(71)
Other operating income	(390)	(667)
Tax relief related to new employees	(390)	(15)
Other taxes	729	574
Total	200	463

17 Interest income/(expense) and other financial charges

Net interest expense

(€ thousands)	Jan - Jun 2003	Jan - Jun 2002
Interest expense	32,888	23,117
Less: interest income	(5,118)	(231)
Bank charges	1,658	865
Debt issuance costs	2,450	7,035
Total	31,878	30,786

The items *Interest expenses* and *Interest income* also include the currency exchange rate differences coming from different timing of costs and payments which had a positive effect in the first half of 2003 (€ 4.7 million) compared to the first half of 2002 where a negative effect (€ 2.2 million) had been highlighted.

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)	Jan - Jun 2003	Jan - Jun 2003
Dividend on investments	217	216
Indemnities and reimbursement	50	59
Other extraordinary (expenses)/income	409	86
Total	676	361

19 Principal subsidiaries

Companies included in the consolidation are:

Entity – Location		Share capital	Ownership %
<i>Holding Company</i>			
Sàfilo S.p.A - Padova.	EUR	32,350,000	
<i>Other Italian entities</i>			
Oxsol Srl – Pieve di Cadore, Belluno	EUR	45,000	100
Lenti Srl – Bergamo	EUR	500,000	54
Smith Sport Optics Srl – Firenze	EUR	102,775	100
<i>Foreign entities</i>			
Sàfilo International BV – Rotterdam, The Netherlands	EUR	24,165,700	100
Safint BV – Rotterdam, The Netherlands	EUR	18,200	100
Sàfilo Capital International – Luxembourg	EUR	7,750	100
Sàfilo Benelux SA – Zaventem, Belgium	EUR	560,000	100
Sàfilo Espana SA – Madrid, Spain	EUR	390,650	100
Sàfilo France Sarl – Paris, France	EUR	960,000	100
Sàfilo GmbH – Cologne, Germany	EUR	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	SGD	400,000	100
Sàfilo Optical Sdn Bhd – Kuala Lumpur, Malaysia	MYR	100,000	100
Sàfilo Hellas Ottica SA – Athens, Greece	EUR	300,000	51
Sàfilo Nederland BV – Bilthoven, The Netherlands	EUR	18,200	100
Sàfilo South Africa – Bryanston, South Africa	ZAR	3,383	100
Sàfilo Austria GmbH – Traun, Austria	EUR	217,582	100
Carrera Optyl GmbH – Traun, Austria	EUR	7,630,648	95
Carrera Optyl D.o.o. – Ormoz, Slovenia	SIT	135,101,000	100
Carrera Optyl Marketing GmbH – Traun, Austria	EUR	181,683	100
Sàfilo Japan Co Ltd – Tokyo, Japan	JPY	100,000,000	100
Sàfilo Do Brasil Ltda – San Paulo, Brasil	BRL	8,077,500	100
Sàfilo Portugal Lda – Lisbon, Portugal	EUR	500,000	100
Sàfilo Switzerland – Liestal, Switzerland	CHF	1,000,000	77
Sàfilo India Ltd – Mumbai, 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	USD	8,430	100
Sàfilo USA Inc – New Jersey, USA	USD	23,289	100
FTL Corp – Delaware, USA	USD	110	100
Sàfilo Realty Corp – Delaware, USA	USD	10,000	100
Smith Sport Optics Inc – Idaho, USA	USD	12,558	98
Solstice Marketing Corp – USA	USD	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 July 30th, 2003 we have acquired all the assets of SRLC LCC, an American company located in Colorado for the purpose of creating a second Distribution Centre in North America.

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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