



## **SÀFILO GROUP**

**Interim financial information for January 1<sup>st</sup>, 2003 – September 30<sup>th</sup>, 2003**

**November 25<sup>th</sup>, 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 company reported 9.6% sales growth in the third quarter of 2003 versus the same period last year. The adverse exchange rates significantly impacted the group's turnover which, on a constant currency basis showed 17.6% growth versus prior year.

The Group's aggressive sales strategy, together with the contribution of new brands, were the main drivers of the growth. The market, however, has yet to return to the sales growth rates seen in recent years.

At the recent Paris eyewear trade fair, considered to be the most important for sunglasses, the new sunglass collections experienced considerable success and unexpected order levels for the month of October. October represented a record month in Safilo's order history, with over € 110 million orders recorded in the month.

In terms of regional performance, France and Germany reported the strongest results (29% and 33% growth respectively), while the Far East division continued to suffer, although in reduced measure, from the continuing lower travel volumes seen earlier in the year. Among the licensed brands, Burberry, Max Mara and Valentino reported the most significant growth versus Q3 last year.

Our September YTD EBITDA decreased by 29.5% from € 140.1 million (20.3% of net sales) in 2002 to € 98.8 million in 2003 (14.7% of net sales). The decline, while highly unsatisfactory, is in line with that experienced by the other major eyewear manufacturers. The third quarter, however, has seen an improvement in the margins compared to the preceding quarter (12.8% in Q3, against 10.9% in Q2), as a result of the company's cost reduction policies.

The strengthening of the Euro in comparison to other currencies, and in particular the US Dollar, had a € 7 million negative impact on EBITDA during the first nine months of the year. Increased production costs, resulting from the planned production ramp-up to accommodate expected demand, remained the principal cause of this margin reduction. The sales mix, with a greater demand for products manufactured in Italy, and the increased personnel costs associated with specific projects, such as the new Armani licence, have also had a significant adverse effect on profitability.

From July 2003, following the acquisition of SRLC LCC ("Outlook"), the Group has begun to distribute Liz Claiborne sunglasses in the American market.

As a result of the unsatisfactory profit margin, the Company has also recently announced a major cost reduction initiative involving the closure of a manufacturing facility in Austria and an expanded outsourcing plan involving the Company's suppliers. The combined effect of this cost reduction initiative, other cost reduction policies and the continued growth in revenues next year (largely underpinned by the full year impact of new licenses) is expected to return the company closer to historic levels of profitability.

The Company was in marginal breach of its leverage test with its three senior bank lenders. Had the impact of the Company's ongoing FX hedging program been included in the EBITDA as defined for covenant calculation purpose, the breach would not have occurred. In the event, the Company's senior bank lenders demonstrated their continuing support of the business by granting an unconditional waiver in respect of the covenant breach. The management believes the Company has no liquidity issues.

## 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				Change (1)	YTD				Change (1)
	2003		2002			Jun-Sep	2003		2002	
	Jul- Sep		Jul - Sep		2003-2002	Jan- Sep		Jan- Sep		2003-2002
	€	%	€	%	% Change	€	%	€	%	% Change
<i>Net Sales:</i>										
Prescription frames	112.5	57.2%	100.7	56.1%	11.7%	337.0	50.0%	324.9	47.1%	3.7%
Sunglasses	72.8	37.0%	68.9	38.4%	5.6%	318.4	47.3%	346.2	50.2%	-8.0%
Sport goggles	10.1	5.2%	9.1	5.0%	12.0%	16.6	2.5%	17.4	2.5%	-4.1%
Other	1.3	0.7%	0.8	0.4%	64.2%	1.8	0.3%	1.4	0.2%	29.3%
<b>Total</b>	<b>196.8</b>	<b>100.0%</b>	<b>179.5</b>	<b>100.0%</b>	<b>9.6%</b>	<b>673.9</b>	<b>100.0%</b>	<b>689.9</b>	<b>100.0%</b>	<b>-2.3%</b>

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

(in Euro millions )	Quarter				Change (1)	YTD				Change (1)
	2003		2002			Jun- Sep	2003		2002	
	Jul- Sep		Jul- Sep		2003-2002	Jan- Sep		Jan- Sep		2003-2002
	€	%	€	%	% Change	€	%	€	%	% Change
<i>Net Sales:</i>										
North America	81.8	41.6%	79.9	44.5%	2.4%	249.7	37.1%	284.2	41.2%	-12.1%
Italy	19.8	10.1%	19.4	10.8%	2.2%	103.4	15.3%	107.0	15.5%	-3.3%
Europe (excluding Italy)	60.7	30.8%	51.1	28.5%	18.6%	233.6	34.7%	205.9	29.9%	13.4%
Far East (excluding Australia)	12.3	6.3%	12.8	7.1%	-4.1%	37.0	5.5%	43.2	6.3%	-14.4%
Other	22.1	11.3%	16.2	9.0%	36.4%	50.1	7.4%	49.5	7.2%	1.2%
<b>Total</b>	<b>196.8</b>	<b>100.0%</b>	<b>179.5</b>	<b>100.0%</b>	<b>9.6%</b>	<b>673.9</b>	<b>100.0%</b>	<b>689.9</b>	<b>100.0%</b>	<b>-2.3%</b>

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

*Net sales.* Net sales decreased by 2.3% from € 689.9 million in the nine-month period ended September 30, 2002 to € 673.9 million in the same period of 2003 largely due to currency effects. Volumes (which exclude direct currency effect) increased by 7.3% over the same period, with sales of 19.0 million frames in the nine-month period ended September 30, 2003 compared to 17.7 million in the same period of 2002.

This increase has been seen in both the prescription frame and sunglass sectors, although the former has experienced a slightly stronger performance. YTD prescription frame and sunglasses sales have increased in volume terms by 10.0% and 4.5% respectively compared to the same period of 2002. Sunglass sales have been effected by an unprecedented combination of events including the Iraq war and SARS (which led to reduced travel) as well as poor weather in the US and other factors.

The third quarter of 2003 reported a significant recovery in revenue, with an increase of 9.6% compared to the same period of the previous year.

*North America.* Sales in North America decreased in the nine-month period ended September 30, 2003 by 12.1% compared to the same period in 2002. However, the third quarter of 2003 reported a 2.4% increase in sales versus the same period last year, substantially due to an improvement in prescription frame sales. The persistent weakness of the US dollar has reduced sales by 19% when expressed in Euros. Dollar sales in the United States (accounting for 97.0% of North America sales) have remained stable in the nine-month period ended September 30, 2003 compared to the same period in 2002. The brands which have reported the strongest growth are *Burberry* and *Kate Spade*. Significant, but more modest, growth was experienced by both *Valentino* and *Yves Saint Laurent*.

At the end of September 2003, the Company had a total of 36 retail stores (one new opening during Q3 2003) in the Solstice network.

*Italy.* Net sales decreased by 3.3% in the nine-month period ended September 30, 2003 compared to the same period of 2002. Volumes were 9.5% below the same period in the prior year. Despite persistent issues in the Italian economy, the third quarter of 2003 has seen a 2.2% increase in sales compared to the same quarter of the last year.

*Rest of Europe.* The European market continues to grow in comparison to the previous year. Sales increased by 13.4% from €205.9 million in the nine-months period ended September 30, 2002 to € 233.6 million in the same period of 2003. In volume terms, there has been an increase of 6.9% from 5.4 million units in the nine-month period ended September 30, 2002, to 5.8 million units in the nine-month period ended September 30, 2003. Both prescription frames and sunglasses reported positive momentum. The brands that have experienced the greatest sales increases are Dior, Oxydo, Polo and Yves Saint Laurent, while sales of the Giorgio Armani and Emporio Armani brands also contributed strongly to the positive development of the market. The increased sales have principally been seen in France, Spain and Germany.

*Far East.* The Far East continues to suffer from the impact of SARS (reduced travel, etc). Sales in the Far East decreased by 14.4% in nine-month period ended September 30, 2003 compared with the same period of 2002 mainly due to the effect of foreign currency conversion that has negatively impacted the sales by 15%. Volumes declined 2.5% in the nine-month period ended September 30, 2003 compared to the same period in the previous year. Despite this decrease, the prescription frames sector has experienced a 11.4% volume increase. The *Burberry*, *Dior* and *Yves Saint Laurent* brands have performed well throughout the period.

## SELECTED FINANCIAL DATA

(in Euro millions)	Quarter				YTD			
	2003		2002		2003		2002	
	Jul - Sep		Jul - Sep		Jan- Sep		Jan- Sep	
	€	%	€	%	€	%	€	%
Net sales	196.8	100.0%	179.5	100.0%	673.9	100.0%	689.9	100.0%
Cost of goods sold	78.8	40.0%	61.7	34.4%	281.7	41.8%	258.4	37.5%
Commercial costs	69.1	35.1%	59.1	32.9%	227.8	33.8%	228.1	33.1%
Other expenses	33.1	16.8%	30.6	17.0%	93.4	13.9%	87.1	12.6%
EBITDA	25.1	12.8%	35.9	20.0%	98.8	14.7%	140.1	20.3%

EBITDA for the nine-month period ended September 30, 2003 was € 98.8 million (or 14.7% of sales) compared to € 140.1 million in the nine-months ended September 30, 2002 (or 20.3% of sales). When compared to the previous year, EBITDA decreased by € 41.3 million, or a decline of 29.5%.

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

- ✓ Negative impact of exchange rates (primarily USD weakness);
- ✓ Lower production levels;
- ✓ Increased personnel costs reflecting the full impact of personnel hired during the course of 2002 / 2003;
- ✓ Start up costs for Armani which has led to an increase of subcontractors, design and logistics costs;
- ✓ Higher costs of obsolescence;
- ✓ Higher marketing and advertising expenses related to obligations under license agreements.

The variable commercial costs (€ 227.8 million) showed no significant variation from the nine-month period ended September 30, 2002 (€ 228.1 million). The decrease in certain costs were directly correlated to the revenue levels (i.e., royalties, commissions), although these have been counteracted by the increase in marketing and advertising expenses driven by licensor contracts which determine the level of the advertising costs dependant on prior year revenue. These costs absorbed 33.8% of revenue compared to 33.1% in the previous year.

Other expenses increased during the nine-month period ended September 30, 2003 by € 6.3 million compared to the same period in the previous year. The increase can be attributed to the higher amortisation of brand costs, the increase in staff salaries and the increase of consultancy costs.

## CASH FLOW

The following table summarizes our cash flow activity during the nine-month period ended September 30, 2003 versus the same period of 2002.

(€ millions)	2003 YTD	2002 YTD
<b>Net cash flows:</b>		
(Used in)/provided by operating activities.....	45.8	32.8
Used in investment activities.....	(70.1)	(153.0)
(Used in)/provided by financing activities .....	13.9	21.0

*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 nine-month period ended September 30, 2002 is as follows:

(€ in million)	Jan - Sep 2003	Jan - Sep 2002
Net Income .....	(6.3)	19.7
Amortization and depreciation .....	48.7	50.4
Change in trade receivables and other receivables.....	(24.3)	(37.3)
Change in inventory.....	11.6	(16.7)
Change in trade payables and other current payables .....	(0.9)	13.6
Change in pension fund and TFR.....	2.9	2.8
Other .....	14.1	0.3
<b>Total .....</b>	<b>45.8</b>	<b>32.8</b>

Net cash from operating activities increased by € 13.0 million from € 32.8 million last year to € 45.8 million in the same period of 2003. The main explanations for this increase are:

- ✓ A lower investment in receivables in comparison with the previous year, correlated to the change in the turnover. In comparison to the previous year, the outstanding days of sales of the Group have slightly improved compared to the prior year;
- ✓ The Group's inventory control policy has led to a significant reduction in stock;
- ✓ The lower Group turnover during the nine-month period ended September 30, 2003 has led to a lower level of purchases and for payables for royalties and commissions to agents; and
- ✓ The "other" category mainly includes deferred gains arising from the conversion of long-term borrowings denominated in US dollars at the 30<sup>th</sup> September 2003 exchange rate.

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), decreased from € 289 million as of 30<sup>th</sup> September 2002 to € 185 million as of 30<sup>th</sup> September 2003 principally due to the following:

- ✓ the sale of part of the trade receivables to the securitization vehicle in December 2002;

- ✓ the increase in both trade payables for fixed assets (capex related) and accrued expense for interest.

*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 € 37 million; the main expenditures included:

- ✓ Capital expenditures for production facilities (€ 17.1 million);
- ✓ Enlargement of headquarter building with the new Distribution Centre (€ 10.8 million);
- ✓ New opening of Solstice stores (€ 5.6 million);
- ✓ Warehouse or office equipment in subsidiaries (€ 3.5 million);
- ✓ Other minor capital expenditures.

In 2002 the total investment in tangible assets amounted to € 35.3 million in the same period. The main differences come from the capital expenditure for the Solstice project (twenty one new shops during the first nine months of 2003) and for the expansion of the Distribution Centre 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 30<sup>th</sup> September 2003, 31<sup>st</sup> December 2002 and 30<sup>th</sup> September 2002 were as follows:

	<b>2003</b>	<b>2002</b>	<b>2002</b>
	<b>Sep</b>	<b>Dec</b>	<b>Sep</b>
Headquarter (Padova – Italy)	629	593	591
Factory personnel	4,754	5,060	5,017
Subsidiaries	978	896	889
Solstice	211	102	71
<b>Total</b>	<b>6,572</b>	<b>6,651</b>	<b>6,568</b>

The increase of personnel in the “Subsidiaries” area is mainly due to the acquisition of SRLC LCC, which added 69 people, as at 30<sup>th</sup> September 2003.

## **SÀFILO GROUP**

### **Consolidated Financial Statements**

**For the period January 1<sup>st</sup> – September 30<sup>th</sup> 2003**

## Consolidated Balance Sheets

(€ thousands)	30 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	59,584	51,443
Trade receivables (net of provision for doubtful accounts)	185,724	197,024
Inventory (net)	172,648	191,058
Other current receivables	60,293	45,697
<b>Total current assets</b>	<b>478,249</b>	<b>485,222</b>
<b>Non-current assets:</b>		
Property, plant and equipment(net)	187,868	176,875
Intangible assets	437,568	431,255
Investments in associates and long-term financial assets	145,031	131,179
<b>Total non-current assets</b>	<b>770,467</b>	<b>739,309</b>
<b>Total assets</b>	<b>1,248,716</b>	<b>1,224,531</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term borrowings	39,665	16,082
Trade payables	134,490	151,817
Income tax payables	16,779	18,829
Other current payables and accrued expenses	82,269	73,982
<b>Total current liabilities</b>	<b>273,203</b>	<b>260,710</b>
<b>Non-current liabilities:</b>		
Long-term borrowings	813,156	835,198
Termination Indemnity Liability	29,488	26,546
Long-term provisions	25,279	11,423
<b>Total non-current liabilities</b>	<b>867,923</b>	<b>873,167</b>
<b>Total liabilities</b>	<b>1,141,126</b>	<b>1,133,877</b>
<b>Shareholders' equity attributable to minority shareholders</b>	<b>6,312</b>	<b>6,002</b>
<b>Shareholders' equity:</b>		
Share capital	34,350	33,350
Other reserves and retained earnings	73,278	40,980
Income pertaining to the Group	(6,350)	10,322
<b>Total shareholders' equity attributable to the Group</b>	<b>101,278</b>	<b>84,652</b>
<b>Total shareholders' equity</b>	<b>107,590</b>	<b>90,654</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,248,716</b>	<b>1,224,531</b>

### Consolidated Statements of Operations

(€ thousands)	30 <sup>th</sup> September 2003	30 <sup>th</sup> September 2002
Net sales	673,851	689,909
Cost of sales	(281,668)	(258,428)
<b>Gross profit</b>	<b>392,183</b>	<b>431,481</b>
Selling and marketing expenses	(227,856)	(228,093)
General and administrative expenses	(93,055)	(86,485)
Other income/(expense), (net)	(314)	(637)
<b>Operating income/(loss)</b>	<b>70,958</b>	<b>116,266</b>
Interest income/(expense) and other financial charges	(48,407)	(42,934)
Extraordinary income/(expense), (net)	1,093	1,204
Amortisation of goodwill	(17,126)	(18,304)
<b>Income/(loss) before taxation</b>	<b>6,518</b>	<b>56,232</b>
Tax expense	(10,574)	(34,077)
<b>Net income/(loss) before minority shareholders</b>	<b>(4,056)</b>	<b>22,155</b>
Income attributable to minority shareholders	(2,294)	(2,395)
<b>Net income</b>	<b>(6,350)</b>	<b>19,760</b>

## Consolidated Statements of Cash Flows

(€ thousands)	30 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
<b>Cash flows from operating activities</b>		
Net income	(6,350)	10,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation	25,190	36,413
Depreciation	23,492	29,708
<b>Changes in operating assets and liabilities:</b>		
Trade receivables and other current receivables	(24,250)	1,867
Inventory	11,592	(41,531)
Trade payables and other current payables and accrued expenses	(926)	70,419
Pension fund and Termination Indemnity Liability (TFR)	2,942	2,910
Other (net)	14,065	2,641
<b>Net cash provided by (used in) operating activities</b>	<b>45,755</b>	<b>112,749</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(36,680)	(58,450)
Acquisition/disposal of investments in associates	1	356
Purchase of treasury shares	-	(80,988)
Purchase of shares in public offer	-	(28,948)
Acquisition of intangible assets	(33,444)	(48,815)
<b>Net cash provided from (used in) investing activities:</b>	<b>(70,123)</b>	<b>(216,845)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	300,027	848,278
Dividend paid by Safilo S.p.A.	-	(22,011)
Dividends paid by subsidiaries	(1,695)	(1,664)
Increase of Share Capital	30,000	-
Repayment of bond	-	(10,329)
Repayment of borrowings	(314,472)	(617,238)
<b>Net cash provided from (used in) financing activities</b>	<b>13,860</b>	<b>197,036</b>
<b>Effect of exchange rate</b>	<b>(2,299)</b>	<b>(6,760)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(12,807)</b>	<b>86,180</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>44,221</b>	<b>(41,959)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>31,414</b>	<b>44,221</b>
<b>Breakdown of "cash and cash equivalents at the end of the period":</b>		
Cash and cash equivalents	59,584	51,443
Bank overdraft	(4,550)	(686)
Short term loans	(23,620)	(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 Sep 30 <sup>th</sup> 2003	As of Dec 31 <sup>st</sup> 2002	As of Sep 30 <sup>th</sup> 2002	Average Sep 30 <sup>th</sup> 2003	Average Dec 31 <sup>st</sup> 2002	Average Sep 30 <sup>th</sup> 2002
USD	1.1652	1.0487	0.9860	1.1119	0.9454	0.9276
HKD	9.0254	8.1781	7.6905	8.6698	7.3497	7.2030
CHF	1.5404	1.4524	1.4611	1.5103	1.4898	1.4973
CAD	1.5717	1.6550	1.5566	1.5869	1.4835	1.4554
JPY	128.8	124.39	119.67	131.4704	118.0490	116.6034
GBP	0.6986	0.6505	0.6295	0.6901	0.6288	0.6264
SEK	8.9625	9.1528	9.1516	9.1629	9.1670	9.1909
AUD	1.7101	1.8556	1.8101	1.7636	1.7375	1.7197
ZAR	8.1393	9.0094	10.4077	8.7109	9.8737	9.9493
SIT	235.4950	230.1580	228.3050	232.9905	225.9635	224.8372
BRL	3.40799	3.69444	3.8794	3.4761	2.7850	2.4928
INR	53.2845	50.5071	48.6891	52.7108	47.0904	46.3060
SGD	2.0125	1.8199	1.7542	1.9433	1.6909	1.6658
MYR	4.42717	3.98448	3.7463	4.2245	3.5919	3.5243

## 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 September 30<sup>th</sup> 2003, Safilo 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 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
Gross value	203,907	213,128
Provision for doubtful accounts	(18,183)	(16,104)
<b>Net value</b>	<b>185,724</b>	<b>197,024</b>

Safilo S.p.A. participated in a trade receivables securitization programme. As of 30<sup>th</sup> September 2003 total amount of receivables sold to Sunlight Srl was € 77.9 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.

During the third quarter of 2003 we were informed that bankruptcy proceedings had been started against two of our larger Italian clients. The total value of the potential loss amounts to € 7.1 million, however, this balance was already provided for in full in the consolidated provision for doubtful accounts.

### 2 Inventory (net)

(€ thousands)	30 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
- Raw materials and supplies	32,032	37,161
- Work in progress	9,379	11,337
- Finished products	131,237	142,560
<b>Total</b>	<b>172,648</b>	<b>191,058</b>

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 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
Value added tax (VAT) receivables	5,931	6,812
Tax credits and advance payments	12,207	8,449
Deferred tax assets	24,640	18,026
Prepayments and accrued income	8,207	3,600
Receivables from salespersons	3,469	3,600
Other receivables	5,839	5,210
<b>Total</b>	<b>60,293</b>	<b>45,697</b>

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

Prepayments and accrued income amount to € 8.2 million as at 30<sup>th</sup> September 2003, € 3.6 million as at 31<sup>st</sup> December 2002 and include:

As at 30<sup>th</sup> September 2003

- Prepaid advertising expenses of € 4.0 million;
- Prepaid royalties expenses € 1.1 million;
- Prepaid rental expenses of € 0.9 million;
- Prepaid insurance costs of € 0.4 million; and
- Other accrued income and prepayments of € 1.8 million.

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

#### 4 Property, plant and equipment, net

(€ thousands)	<b>Land and Buildings</b>	<b>Plant and equipment</b>	<b>Furniture, office equipment and vehicles</b>	<b>Assets under construction</b>	<b>Total</b>
<b><u>Cost</u></b>					
Balance at 31 December 2002	87,789	140,438	94,071	19,163	341,461
Additions	7,405	9,296	17,920	10,827	45,448
Translation differences/other transfer	(554)	(618)	(2,960)	(79)	(4,211)
Disposals	(72)	(1,032)	(2,813)	(8,478)	(12,395)
<b>Balance at 30<sup>th</sup> September 2003</b>	<b>94,568</b>	<b>148,084</b>	<b>106,218</b>	<b>21,433</b>	<b>370,303</b>
<b><u>Accumulated Depreciation</u></b>					
Balance at 31 December 2002	(16,543)	(90,367)	(57,676)	-	(164,586)
Depreciation charge	(1,960)	(9,843)	(11,689)	-	(23,492)
Translation differences/other transfer	54	303	1,656	-	2,013
Disposals	25	880	2,725	-	3,630
<b>Balance at 30<sup>th</sup> September 2003</b>	<b>(18,424)</b>	<b>(99,027)</b>	<b>(64,984)</b>	<b>-</b>	<b>(182,435)</b>
<b><u>Net Book Value</u></b>					
<b>Balance at 30<sup>th</sup> September 2003</b>	<b>76,144</b>	<b>49,057</b>	<b>41,234</b>	<b>21,433</b>	<b>187,868</b>

## 5 Investments in associates and long-term financial assets

(€ thousands)	30 <sup>th</sup> September 2003	Relationship	Interest in share capital %
<b>Investments in associates:</b>			
Banca Popolare di Lodi	10,198	Other shareholdings	0.65%
Elegance International Holdings Lts	6,342	Associate	23.05%
TBR Inc. (USA)	511	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	17,624		
<b>Long-term financial assets</b>	<b>127,407</b>		
<b>Total</b>	<b>145,031</b>		

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 nine-month period ended September 30, 2003.

Long-term financial assets at 30<sup>th</sup> September 2003 include:

- € 81.0 million representing 3,176,000 shares of Safilo S.p.A. equal to 9.52% of share capital;
- € 42.2 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 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
Bank overdraft	4,550	686
Short term loans	23,620	6,536
Current portion of long-term borrowings	11,015	8,359
Current portion in other providers of financing	480	501
<b>Total</b>	<b>39,665</b>	<b>16,082</b>

## 7 Long-term borrowings

(€ thousands)	30 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
Loans	509,056	534,274
Less: Current portion of loans	(11.015)	(8,359)
Notes	300,000	299,229
Other providers of financing	13,413	10,167
Less: Current portion in other providers of financing	(480)	(501)
Other long term debt	2,182	388
<b>Total</b>	<b>813,156</b>	<b>835,198</b>

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 30<sup>th</sup> September 2003 includes:

- € 1.2 million of a loan granted to Safilo 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;
- € 11.1 million of capital leases.

## 8 Trade payables

(€ thousands)	30 <sup>th</sup> September 2003	31 <sup>st</sup> December 2002
Purchase of materials	31,189	44,739
Purchase of products and subcontracting costs	29,847	35,479
Commissions and royalties	14,050	22,605
Advertising and sponsorship costs	14,947	11,005
Services received from third parties	24,238	20,239
Purchase of assets	20,219	17,750
<b>Total</b>	<b>134,490</b>	<b>151,817</b>

## 9 Income taxes

Income taxes totalled € 10.6 million for the nine-month period ending September 30 of 2003 (€ 34.1 million for the nine-month period ending September 30, 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 € 16.8 million as at 30<sup>th</sup> September 2003 and € 18.8 million as at 31<sup>st</sup> December 2002 and relate to the liability for current income taxes of Group companies.

**10 Other current payables and accrued expenses**

<b>(€ thousands)</b>	<b>30<sup>th</sup> September 2003</b>	<b>31<sup>st</sup> December 2002</b>
Payroll	21,690	17,004
Social security	3,198	7,073
Accruals for bonuses to customers	14,863	17,309
Payable to salespersons	2,768	1,315
Accrual for advertising and sponsorship expenses	5,567	6,607
Accrual for loan interest expense	20,045	2,692
Accruals for insurance, leasing and other expenses	7,586	4,492
Payable to minority shareholders	2,773	2,732
Other payable	3,625	14,619
<b>Total</b>	<b>82,115</b>	<b>73,843</b>

Amounts due to social security institutions amounts to € 3.2 million as at 30<sup>th</sup> September 2003, € 7.1 million as at 31<sup>st</sup> 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)	Movements in the first half				Balance as at 30 <sup>th</sup> September 2003
	Balance as at 1 <sup>st</sup> January 2003	Accruals	Utilisation	Translation difference	
Employee benefits	1,387	1,364	(1,613)	(128)	1,010
Product warranty	2,289	149	-	(64)	2,374
Provision for deferred gains on foreign currency exchange rates	5,478	13,684	-	-	19,162
Agents indemnity	2,269	464	-	-	2,733
<i>Total long-term provision</i>	<i>11,423</i>	<i>15,661</i>	<i>(1,613)</i>	<i>(192)</i>	<i>25,279</i>
Other current provision	139	333	(318)	-	154
<b>Total</b>	<b>11,562</b>	<b>15,994</b>	<b>(1,931)</b>	<b>(192)</b>	<b>25,433</b>

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 30<sup>th</sup>, 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 30<sup>th</sup> 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 - Sep 2003	Jan - Sep 2002
Purchase of materials and finished products	147,703	152,405
Changes in inventories	12,180	-15,579
Salaries and related contributions	65,456	63,409
Subcontracting costs	31,525	31,649
Industrial depreciation	19,470	18,086
Other costs	5,334	8,458
<b>Total</b>	<b>281,668</b>	<b>258,428</b>

#### Changes in inventories :

(€ thousands)	Jan - Sep 2003	Jan - Sep 2002
Finished products	5,672	-15,122
Work in progress	1,670	-1,848
Raw material	4,838	1,391
<b>Total</b>	<b>12,180</b>	<b>-15,579</b>

Changes in inventories: representing a decrease in inventories in comparison to the same period in the prior year, achieved thanks to Safilo's focus on limiting the quantity of finished products held as stock in the warehouses.

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

Salaries and related contributions increased by 3.8% from € 63.4 million as at 30<sup>th</sup> September 2002 to € 65.5 million as at 30<sup>th</sup> September 2003. This increase is mainly due to the greater number of employees hired in the first quarter in order to achieve the budget and the Armani project. After the slowdown of sales in the second quarter 2003, the Group has decided to reduce its production personnel and therefore the total charge for salaries compared to the same period of previous year (-5%).

The costs of subcontractors has been heavily reduced during the third quarter 2003 to recover internal capacity.

Other costs includes industrial services, maintenance and rental costs related to production and energy costs. Rental costs related to machinery and equipment amounted to € 6.9 million as of 30<sup>th</sup> September 2003 and € 5.2 million as of 30<sup>th</sup> September 2002. Other costs include (gains)/losses on currency swaps totalling (€ 8.2 million) as of 30<sup>th</sup> September 2003 (versus € 3.4 as of 30<sup>th</sup> September 2002).

#### 14 Selling and marketing expenses

(€ thousands)	Jan - Sep 2003	Jan - Sep 2002
Staff costs	26,185	23,642
Services from independent salespersons	57,200	61,567
Royalties	54,131	55,140
Advertising and promotion	65,315	60,063
Other selling expenses	25,025	27,681
<b>Total</b>	<b>227,856</b>	<b>228,093</b>

#### Other selling expenses

This item refers to:

(€ thousands)	Jan - Sep 2003	Jan - Sep 2002
Transport, logistics and other sales costs	23,499	25,145
Bad debt provision	1,377	2,481
Warranty provision	149	55
<b>Total</b>	<b>25,025</b>	<b>27,681</b>

These costs are closely linked to turnover; as at 30<sup>th</sup> September 2003 selling and marketing expenses have varied only minimally compared to the same period of the previous year, even if their incidence on sales has increased by 0.7% from the nine-month period ended September 30, 2002 to the same period of 2003.

The slight decrease in *Other selling expense* is mainly due to the reduction in sales commission paid to agents (linked to the lower turnover). The increase in *Advertising and promotion* expenses is mostly due to the contractual obligation to calculate these charges on the previous year's turnover.

#### 15 General and administrative expenses

(€ thousands)	Jan - Sep 2003	Jan - Sep 2002
Staff costs	53,865	51,890
Other staff related costs	4,575	4,221
Depreciation and amortisation	8,407	5,756
Other general and administrative expenses	24,932	23,247
Other provision and annual fees	1,276	1,371
<b>Total</b>	<b>93,055</b>	<b>86,485</b>

This item had no significant variation during the nine-month period ended September 30, 2003 compared to the same period of 2002. The 7.0% increase from € 86.5 million as at 30<sup>th</sup> September 2002 to € 93.1 million as at 30<sup>th</sup> September 2003, can be mainly attributed to:

- amortisation of brand costs;

- increase in staff salaries and related costs due to an increased number of employees, mainly at the headquarters in Padova – Italy (629 employees as at 30<sup>th</sup> September 2003, compared to 591 employees as at 30<sup>th</sup> September 2002)

Other general and administrative expenses include fiscal, legal and administrative consultancy fees totalling € 7.6 million; postage and telephone expenses totalling € 2.4 million, insurance and rental costs totalling € 2.2 million. The increase which can be seen compared to 2002 is mainly due to the greater legal and consultancy costs sustained by the Parent Company.

## 16 Other income (expenses), (net)

(€ thousands)	Jan - Sep 2003	Jan - Sep 2002
Losses on disposal of assets	(91)	(167)
Other operating charges	(206)	(896)
Gain on disposal of assets	41	82
Other operating income	746	1,159
Other taxes	(804)	(815)
<b>Total</b>	<b>(314)</b>	<b>(637)</b>

## 17 Interest income/(expense) and other financial charges

### Net interest expense

(€ thousands)	Jan - Sep 2003	Jan - Sep 2002
Interest expense	(49,444)	(33,777)
Less: interest income	7,302	448
Bank charges	(2,586)	(1,362)
Debt issuance costs	(3,679)	(8,243)
<b>Total</b>	<b>(48,407)</b>	<b>(42,934)</b>

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 nine-month period ending September 30, 2003 (€ 7.1 million) compared to the nine month ended September 30, 2002 where a negative effect (€ 0.8 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 - Sep 2003	Jan - Sep 2002
Dividend on investments	862	993
Indemnities and reimbursement	114	162
Other extraordinary (expenses)/income	117	49
<b>Total</b>	<b>1,093</b>	<b>1,204</b>

## 19 Principal subsidiaries

Companies included in the consolidation are:

Entity – Location		Share capital	Ownership %
<i> Holding Company </i>			
Safilo 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>			
Safilo International BV – Rotterdam, The Netherlands	EUR	24,165,700	100
Safint BV – Rotterdam, The Netherlands	EUR	18,200	100
Safilo Capital International – Luxembourg	EUR	7,750	100
Safilo Benelux SA – Zaventem, Belgium	EUR	560,000	100
Safilo Espana SA – Madrid, Spain	EUR	390,650	100
Safilo France Sarl – Paris, France	EUR	960,000	100
Safilo GmbH – Cologne, Germany	EUR	511,300	100
Safilo Nordic AB – Taby, Sweden	SEK	500,000	100
Safilo Far East Ltd – Hong Kong	HKD	49,700,000	100
Safint Optical Investment – Hong Kong	HKD	10,000	51
Safilo Hong-Kong Ltd – Hong Kong	HKD	100,000	51
Safilo Singapore Pte Ltd – Singapore	SGD	400,000	100
Safilo Optical Sdn Bhd – Kuala Lumpur, Malaysia	MYR	100,000	100
Safilo Hellas Ottica SA – Athens, Greece	EUR	300,000	51
Safilo Nederland BV – Bilthoven, The Netherlands	EUR	18,200	100
Safilo South Africa – Bryanston, South Africa	ZAR	3,383	100
Safilo 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
Safilo Japan Co Ltd – Tokyo, Japan	JPY	100,000,000	100
Safilo Do Brasil Ltda – San Paulo, Brasil	BRL	8,077,500	100
Safilo Portugal Lda – Lisbon, Portugal	EUR	500,000	100
Safilo Switzerland – Liestal, Switzerland	CHF	1,000,000	77
Safilo India Ltd – Mumbai, India	INR	42,000,000	75

Safint Australia Pty Ltd – Sidney, Australia	AUD	3,000,000	100
Safilo Australia Partnership – Sidney, Australia	AUD	204,081	51
Safint Optical UK Ltd – United Kingdom	GBP	21,139,001	100
Safilo UK Ltd – North Yorkshire, United Kingdom	GBP	250	100
Safilo America Inc – Delaware, USA	USD	8,430	100
Safilo USA Inc – New Jersey, USA	USD	23,289	100
FTL Corp – Delaware, USA	USD	110	100
Safilo 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
Safilo Canada Inc – Montreal, Canada	CAD	2,470,425	100
Canam Sport Eyewear Inc – Montreal, Canada	CAD	300,011	100

## 20 Subsequent events

The 10<sup>th</sup> of October we have renewed the licence agreement with Valentino.

## 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 these 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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