



## **SÀFILO GROUP**

**Interim financial information for January 1, 2004 – March 31, 2004**

**May 17<sup>th</sup>, 2004**



## **TABLE OF CONTENTS**

- **INTRODUCTION**
- **OPERATING AND FINANCIAL REVIEW AND PROSPECTS**
- **FINANCIAL OVERVIEW**
  - Sales Analysis
  - Selected Financial Data
  - Cash Flow
- **FINANCIAL STATEMENTS**
  - Consolidated Balance Sheets
  - Consolidated Statements of Operations
  - Consolidated Statements of Cash Flows
  - Notes to Consolidated Financial Statements
- **FORWARD-LOOKING STATEMENTS**
- **FURTHER INFORMATION**



## 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 *Sàfilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay*. Our licensed brands include *Alexander McQueen*, *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 27 of our largest geographic markets through company controlled distribution subsidiaries and a sales force of over 1,300 sales representatives.



## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Revenues grew 6.4% in the first quarter of 2004 compared to the prior year, thus continuing the growth trend noted in the second half of 2003. The first quarter of 2004 was again significantly effected by the negative impact of the exchange rate, at constant currency the revenue would have grown 13.2% compared to the prior year.

On a geographical basis we are pleased with the results achieved in the difficult American market, which appears to be demonstrating the early stages of a recovery. Sales in the Far East have been excellent after the difficult trading in 2003 (impact by SARS and tourism). It has proved, nevertheless, more difficult to reach the expected sales targets in Europe where, despite an increase in revenues, the weakness seen in certain specific markets continues, particularly in countries such as Italy.

The Group's profitability continued to recover from the 2003 decline, generating sequential growth in profitability in the first quarter of 2004, with EBITDA of Euro 40.4 million, equivalent to 15.5% of the turnover. The lower EBITDA level in comparison to the strong first quarter in 2003 is essentially due to the exchange rate impact (which has reduced the EBITDA by Euro 6.3 million) and the remaining costs related to the closure of the plant in Traun (completed in April 2004).

The net debt position has improved by Euro 25.6 million in comparison to the prior year position at 31<sup>st</sup> March 2003, but is higher than the year end position at 31<sup>st</sup> December 2003 due to the forecast seasonal fluctuations in the level of working capital.

During the first quarter we renewed the licence contract with *Diesel*, launched the *Alexander McQueen* sunglasses collection and signed a new licence agreement with *Marc Jacobs*.

With evidence of recovery continuing in most markets, the impact of the Company's previously announced outsourcing and manufacturing rationalisation initiative, and a recently announced capital restructuring agreement with the Company's banks and shareholders, we believe the Company is on a solid foundation to pursue profitable growth for 2004 and beyond.



## FINANCIAL OVERVIEW

The following 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
	2004		2003		Q1
	Jan- Mar		Jan- Mar		2004/2003
	€	%	€	%	%
<i>Net Sales:</i>					
Prescription frames	113.8	43.7%	112.4	45.9%	1.2%
Sunglasses	141.5	54.4%	126.4	51.7%	11.9%
Sport goggles	4.5	1.7%	5.5	2.2%	(18.2%)
Other	0.5	0.2%	0.4	0.2%	25.0%
<b>Total</b>	<b>260.3</b>	<b>100.0%</b>	<b>244.7</b>	<b>100.0%</b>	<b>6.4%</b>

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

(in Euro millions)	Quarter				Change
	2004		2003		Q1
	Jan- Mar		Jan- Mar		2004/2003
	€	%	€	%	%
<i>Net Sales:</i>					
North America	91.2	35.0%	89.6	36.6%	1.8%
Italy	33.6	12.9%	36.7	15.0%	(8.4%)
Europe (excluding Italy)	103.7	39.9%	89.2	36.5%	16.3%
Far East (excluding Australia)	16.2	6.2%	13.1	5.4%	23.7%
Other	15.6	6.0%	16.1	6.6%	(3.1%)
<b>Total</b>	<b>260.3</b>	<b>100.0%</b>	<b>244.7</b>	<b>100.0%</b>	<b>6.4%</b>

(\*) Number and percentage for the period shown may not perfectly reconcile due to rounding.

*Net sales.* Despite the negative currency impacts, net sales increased by 6.4% from €244.7 million in the first quarter of 2003 to €260.3 million in the first quarter of 2004. The European and Far East markets saw the strongest revenue growth. In volume terms, the Group sold 9.0 million frames in the first quarter of 2004 compared to 7.0 million in the first quarter of 2003. The large increase in volumes is mainly due to the consolidation of the private



labels business from the acquisition of Outlook. The sunglasses market out-performed the prescription business generating significant increase in both value (an increase of 11.9% compared to the 1<sup>st</sup> quarter of 2003) and volume, partly due to the successful introduction of the new collections for the Armani brands. We consider that this positive sales trend in the sunglasses business is a positive indicator of the forecasted recovery of the eyewear market.

*North America.* During the first quarter of 2004 the U.S. dollar's decline in relation to the euro reduced sales by 16% in euros terms. Despite this negative effect, sales in North America increased in the first quarter 2004 by 1.8% compared to the same period of 2003. Sales in the American market confirm the recovery trend seen in the last quarter of 2003, and in particular for some specific brands (i.e. *Burberry* and *Kate Spade*) which met with particular success.

During Q1 2004 new sunglass collections for the *Giorgio Armani*, *Emporio Armani* and *Liz Claiborne* brands were introduced successfully and well received by the market.

At the end of March 2004, a total of 38 Solstice specialty sunglass retail stores (2 new openings during Q1 2004) were operating in the United States.

*Italy.* Economic difficulties in the Italian market continue. Net sales in Italy decreased by 8.4% from €36.7 million in the first quarter of 2003, to €33.6 million in the first quarter of 2004. The weakness in sales has been seen in both the prescription frames and sunglasses markets, across most brands.

*Europe (excl. Italy).* The European market has seen an increase of 16.3% from €89.2 million in the first quarter of 2003 to €103.7 million in 2004. In volume terms, there has been an increase of 12.7% from 2.2 million units in the first quarter of 2003 to 2.5 million units in the first quarter of 2004. This increase has been seen in both the prescription frame and sunglasses sectors, although the sales of sunglasses outperformed the growth of the prescription frame business. The brands which have experienced the greatest sales increase are *Gucci*, *Polo*, and the new brands *Giorgio Armani* and *Emporio Armani*. The increase has principally been seen in Greece, Switzerland, France, Spain, the United Kingdom and Germany.

*Far East.* In the first quarter of 2004, the Far Eastern market witnessed a reversal of the negative trend seen in 2003. Sales in the Far East have increased by 23.7% from €13.1 million in the first quarter of 2004 to €16.2 in 2003. The growth in turnover has been seen in all Far Eastern countries and is partly due to the introduction of the new Armani collections. Brands that generated strong growth include *Burberry*, *Gucci* and *Max Mara* branded products.



## SELECTED FINANCIAL DATA

(in Euro millions)	Quarter			
	2004		2003	
	Jan- Mar		Jan- Mar	
	€	%	€	%
Net sales	260.3	100.0%	244.7	100.0%
Cost of good sold	105.4	40.5%	96.4	39.4%
Commercial costs	89.7	34.5%	79.2	32.4%
Other expenses	32.4	12.4%	29.9	12.2%
EBITDA	40.4	15.5%	48.3	19.7%

In the first quarter of 2004, reported EBITDA was €40.4 million (15.5% margin) compared to €48.3 million in the first quarter of 2003 (19.7% margin). While the cost reduction measures introduced in the second half of 2003 are beginning to generate the expected results, the majority of the margin increase is expected in the second half of 2004. The significant difference in profitability compared to the first quarter of 2003 is mainly due to the impact of the exchange rate in so far as 2004 is not benefiting to the same extent from the positive impact of the hedging policies which in 2003 reduced the adverse effect of the devaluation of the U.S. dollar.

The €6.6 million increase at the gross profit margin level was mainly due to the volume increase. The decline in operating profit was due to a combination of two factors:

- ✓ Negative exchange rate impact;
- ✓ Remaining costs for the Traun facility that ceased production on the 31<sup>st</sup> March 2004.

The variable commercial costs absorbed 34.5% of the revenue compared to 32.4% in the previous year. This increase in costs as a percent of sales has been a consequence of:

- ✓ An increase in the royalty costs due to a shift in sales mix towards licensed brands and collections with higher royalty incidence;
- ✓ An increase in marketing expenses due to planned launches of licensed and owned brands.

Other expenses increased in absolute value by €2.5 million compared to the prior year. The increase can be attributed to the higher costs associated with the consolidation and establishment of the Outlook business, and the full impact of costs for Solstice stores opened during second and third quarters of 2003.



## CASH FLOW

The following table summarizes our cash flow during the first quarter of 2004 versus the same period of 2003.

(€in million)	31 <sup>st</sup> March 2004	31 <sup>st</sup> March 2003
<b>Net cash flows:</b>		
(Used in)/provided by operating activities.....	(4.4)	(14.2)
Used in investment activities.....	(7.8)	(34.7)
(Used in)/provided by financing activities .....	(1.0)	(3.7)
Cash and cash equivalents, end of period.....	(4.8)	(9.2)

*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 quarter of 2003 is the following:

(€in million)	1 <sup>st</sup> Quarter 2004	1 <sup>st</sup> Quarter 2003
Net Income .....	(1.0)	6.4
Amortisation and depreciation .....	14.9	15.9
Change in trade receivables and other receivables.....	(40.5)	(45.5)
Change in inventory.....	9.1	(2.5)
Change in trade payables and other current payables .....	16.0	11.0
Change in pension fund and TFR.....	1.2	1.1
Other .....	(4.1)	(0.6)
<b>Total .....</b>	<b>(4.4)</b>	<b>(14.2)</b>

The cash flow from operating activities was negative €4.4 million in the first quarter of 2004 compared to negative €14.2 million in the same period in 2003. The main explanations for this difference are:

- ✓ A lower level of inventory at the end of the first quarter 2004 due to the strong orders from the market;
- ✓ A decreased amount of cash out flow from receivables due to a slight improvement in the outstanding days of payment from customers;
- ✓ The category “*other*” has been impacted by the payment of termination costs to the people in the Austrian facility.



*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.

Capital expenditure in the first quarter of 2004 has returned to a normal level and is related to the ordinary running of the company. Throughout 2003 the amount of capital expenditure was heavily influenced by the costs related to the financial restructuring of the Group and brand management and acquisition.

The main investments in the first quarter of 2004 are related to the production area with a value of €2.9 million, and to the enlargement of headquarter building with the Distribution Center of Padova for €3.2 million.

*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 31<sup>st</sup> March 2004, 31<sup>st</sup> December 2003 and 31<sup>st</sup> March 2003 is as follows:

	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>March</b>	<b>December</b>	<b>March</b>
Headquarters (Padova – Italy)	645	637	602
Factory personnel	4,594	4,954	5,075
Subsidiaries	994	973	895
Solstice	191	202	131
<b>Total</b>	<b>6,424</b>	<b>6,766</b>	<b>6,703</b>



## **SÀFILO GROUP**

### **Consolidated Financial Statements For the period January 1<sup>st</sup> - March 31<sup>st</sup> , 2004**



### Consolidated Balance Sheets

(€thousands)	31 March 2004	31 December 2003
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	45,143	38,741
Trade receivables (net of provision for doubtful accounts)	285,569	209,077
Inventory, net	160,253	166,580
Other current receivables	47,420	83,309
<b>Total current assets</b>	<b>538,385</b>	<b>497,707</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	185,211	184,096
Intangible assets	420,625	427,871
Investments in associates and long-term financial assets	108,023	107,593
Deferred income taxes	16,138	12,804
<b>Total non-current assets</b>	<b>729,997</b>	<b>732,364</b>
<b>Total assets</b>	<b>1,268,382</b>	<b>1,230,071</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term borrowings	49,963	28,118
Current portion of long-term debt	21,590	23,388
Trade payables	142,656	141,594
Income tax payables	22,763	16,259
Other current payables and accrued expenses	80,239	70,470
Current provisions	1,717	5,607
<b>Total current liabilities</b>	<b>318,928</b>	<b>285,436</b>
<b>Non-current liabilities:</b>		
Long-term borrowings	789,852	784,301
Termination Indemnity Liability	29,958	28,784
Long-term provisions	28,966	32,981
<b>Total non-current liabilities</b>	<b>848,776</b>	<b>846,066</b>
<b>Total liabilities</b>	<b>1,167,704</b>	<b>1,131,502</b>
<b>Shareholders' equity attributable to minority shareholders</b>	<b>6,505</b>	<b>5,425</b>
<b>Shareholders' equity:</b>		
Share capital	34,350	34,350
Other reserves and retained earnings	60,794	69,727
Income pertaining to the Group	(971)	(10,933)
<b>Total shareholders' equity attributable to the Group</b>	<b>94,173</b>	<b>93,144</b>
<b>Total shareholders' equity</b>	<b>100,678</b>	<b>98,569</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,268,382</b>	<b>1,230,071</b>



### Consolidated Statements of Operations

(€thousands)	31 March 2004	31 March 2003
Net sales	260,287	244,685
Cost of sales	(105,482)	(96,440)
<b>Gross profit</b>	<b>154,805</b>	<b>148,245</b>
Selling and marketing expenses	(89,748)	(79,207)
General and administrative expenses	(32,337)	(29,869)
Other income/(expense)	(156)	(82)
<b>Operating income/(loss)</b>	<b>32,564</b>	<b>39,087</b>
Interest income/(expense) and other financial charges	(18,126)	(16,397)
Extraordinary income/(expense)	331	325
Amortisation of goodwill	(5,851)	(5,696)
<b>Income/(loss) before taxation</b>	<b>8,918</b>	<b>17,319</b>
Tax expense	(8,389)	(9,896)
<b>Net income/(loss) before minority shareholders</b>	<b>529</b>	<b>7,423</b>
Income attributable to minority shareholders	(1,500)	(990)
<b>Net income/(loss)</b>	<b>(971)</b>	<b>6,433</b>



## Consolidated Statements of Cash Flows

(€thousands)	31 March 2004	31 December 2003
<b>Cash flows from operating activities:</b>		
Net income/(loss)	(971)	(10,933)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation	8,469	35,307
Depreciation	6,425	26,415
Assets impairments	—	8,220
Change in accounting method for equity investments	—	(6,862)
Loss/(gain) on disposal of property, plant and equipment	(10)	67
<b>Changes in operating assets and liabilities:</b>		
Trade receivables and other current receivables	(40,507)	(47,323)
Inventory	9,095	11,878
Trade payables and other current payables and accrued expenses	16,009	(1,199)
Pension fund and Termination Indemnity Liability (TFR)	1,174	2,238
Other	(4,083)	6,131
<b>Net cash provided by (used in) operating activities</b>	<b>(4,399)</b>	<b>23,939</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment (net of disposal)	(7,040)	(45,507)
Acquisition/disposal of investments in associates	(77)	—
Purchase of treasury shares	—	—
Purchase of shares in public offer	—	—
Acquisition of intangible assets	(680)	(34,921)
<b>Net cash provided from (used in) investing activities</b>	<b>(7,797)</b>	<b>(80,428)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	—	300,000
Dividends paid by subsidiaries	(273)	(2,202)
Share issuance	—	30,000
Repayment of borrowings	(738)	(305,590)
<b>Net cash provided from (used in) financing activities</b>	<b>(1,011)</b>	<b>22,208</b>
<b>Effect of exchange rate</b>	<b>(2,236)</b>	<b>683</b>
<b>Net increase in cash and cash equivalents</b>	<b>(15,443)</b>	<b>(33,598)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10,623</b>	<b>44,221</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>(4,820)</b>	<b>10,623</b>
<b>Breakdown of “cash and cash equivalents at the end of the period”:</b>		
Cash and cash equivalents	45,143	38,741
Bank overdraft	(12,798)	(152)
Short term loans	(37,165)	(27,966)



## ***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 estimates.



## Foreign currency

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

			As of 31 <sup>st</sup> Mar 2004	As of 31 <sup>st</sup> Dec 2003	As of 31 <sup>st</sup> Mar 2003	Average 31 <sup>st</sup> Mar 2004	Average 31 <sup>st</sup> Dec 2003	Average 31 <sup>st</sup> Mar 2003
1 USD	=	Euro	1.2224	1.2630	1.0895	1.2497	1.1313	1.0731
1 HK\$	=	Euro	9.5228	9.8049	8.4975	9.7201	8.8089	8.3695
1 FSV	=	Euro	1.5594	1.5579	1.4764	1.5686	1.5213	1.4662
1 CAN\$	=	Euro	1.5979	1.6234	1.6037	1.6482	1.5816	1.6203
1 YEN	=	Euro	126.9700	135.05	129.18	133.9720	130.9604	127.5857
1 GBP	=	Euro	0.6659	0.7048	0.6896	0.6799	0.6920	0.6696
1 SEK	=	Euro	9.2581	9.0800	9.2608	9.1844	9.1242	9.1819
1 AU\$	=	Euro	1.6052	1.6802	1.8076	1.6337	1.7378	1.8095
1 ZAR	=	Euro	7.7788	8.3276	8.6356	8.4768	8.5358	8.9690
1 SIT	=	Euro	238.3800	236.7000	231.9910	237.6479	233.7843	231.2827
1 R\$	=	Euro	3.5521	3.6627	3.67521	3.6186	3.4686	3.7467
1 RUPIA	=	Euro	53.4518	57.5820	53.3438	56.5137	53.0608	52.1220
1 S\$	=	Euro	2.0459	2.1450	1.9211	2.1179	1.9704	1.8724
1 MYR	=	Euro	4.6445	4.79902	4.13955	4.7480	4.2984	4.0774
1 CNY	=	Euro	10.1214	10.4576	—	10.3490	10.1724	—

## Derivative instruments

The Group uses derivative instruments to manage exposure to fluctuations in both foreign currency and interest rates. The Group does not enter into derivative instruments for speculative purposes. 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. Discounts or premiums on forward contracts and options (the difference between the current spot exchange rate and the forward exchange rate at the inception of the contract) are amortised over the life of the contract on a straight line basis.

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, gains or losses are recognised in cost of sales and offset the gains or losses on the related transaction. If the underlying transaction is not completed at the end of a given period the contract's fair value is reflected in the notes to the consolidated financial statements.



The Group periodically enters into interest rate swaps (IRS), to adjust the effective interest rates on certain indebtedness. IRS involve the exchange of fixed and floating rate interest payments over the life of the swap contract without the exchange of the notional amount. The differential to be paid or received is accrued as an adjustment to interest expense over the life of the original IRS contract. Upon early termination of an interest rate swap, gains or losses are deferred and amortised as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap.

With respect to the senior credit facility as of 31<sup>st</sup> March 2004, Sàfilo has entered into 4 years swaps covering 60% of the Tranche A, 65% of Tranche B and 81% of Tranche C.

### 1 Trade receivables (net of provision for doubtful accounts)

(€thousands)	31 March 2004	31 December 2003
Gross value	300,235	221,733
Provision for doubtful accounts	(14,666)	(12,656)
<b>Net value</b>	<b>285,569</b>	<b>209,077</b>

The securitisation program, in which Sàfilo S.p.A. participated from 2002, was terminated by the Company in January 2004 and partially replaced by a factoring agreement with Centro Factoring S.p.A. that provides for the sales without recourse of Sàfilo's trade receivables on a rotating basis. As of 31<sup>st</sup> March 2004 €9.5 million of receivables had been sold and the related cash collected was €5.0 million. The outstanding amount has been included in "Other current receivables".

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

### 2 Inventory, net

(€thousands)	31 March 2004	31 December 2003
- Raw materials and supplies	31,453	32,954
- Work in progress	8,672	9,561
- Finished products	120,128	124,065
<b>Total</b>	<b>160,253</b>	<b>166,580</b>

Inventory is recorded net of the obsolescence provision; inventories are stated at the lower of purchase or production cost.

### 3 Other current receivables

(€thousands)	31 March 2004	31 December 2003
Value added tax (VAT) receivables	3,712	2,842
Tax credits and advance payments	11,232	13,890
Current deferred income taxes	14,758	16,378
Receivables due from Centro Italiano Factoring S.p.A./Sunlight S.r.l.	4,574	37,533



Prepayments and accrued income	6,269	4,182
Receivables from salespersons	3,709	4,148
Other receivables	3,166	4,336
<b>Total</b>	<b>47,420</b>	<b>83,309</b>

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

Pre-payments and accrued income amount to €6.2 million as at 31<sup>st</sup> March 2004, €4.2 million as at 31<sup>st</sup> December 2003 and include:

As at 31<sup>st</sup> March 2004:

- Prepaid advertising expenses of €2.9 million;
- Prepaid lease instalments of €0.9 million;
- Prepaid insurance costs of €0.6 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)	Land and Buildings	Plant and equipment	Furniture, office equipment and vehicles	Assets under construction	Total
<b>Cost</b>					
Balance at 31 December 2003	91,336	205,491	52,768	16,897	366,492
Additions	195	1,922	1,080	4,562	7,759
Translation differences/other transfer	40	9	973	6	1,028
Disposals	—	(56)	(11)	(875)	(942)
<b>Balance at 31 March 2004</b>	<b>91,571</b>	<b>207,366</b>	<b>54,810</b>	<b>20,590</b>	<b>374,337</b>
<b>Accumulated Depreciation</b>					
Balance at 31 December 2003	(18,983)	(133,798)	(29,615)	—	(182,396)
Depreciation charge	(563)	(4,460)	(1,428)	—	(6,451)
Translation differences/other transfer	(89)	116	(539)	—	(512)
Disposals	—	203	30	—	233
<b>Balance at 31 March 2004</b>	<b>(19,635)</b>	<b>(137,939)</b>	<b>(31,552)</b>	<b>—</b>	<b>(189,126)</b>
<b>Net Book Value</b>					
<b>Balance at 31 March 2004</b>	<b>71,936</b>	<b>69,427</b>	<b>23,258</b>	<b>20,590</b>	<b>185,211</b>



## 5 Investments in associates and long term financial assets

	Interest in share capital %	Relationship	31 March 2004
<b>(€thousands)</b>			
<b>Investment in associates :</b>			
Banca Popolare di Lodi.....	0.65%	Other shareholdings	10,198
Elegance International Holdings Lts.....	23.05%	Equity investment	11,872
TBR Inc. (USA).....	33.33%	Entity under common control	487
Optifashion As (Turkey).....	50%	Unconsolidated subsidiary	353
Safilens Srl.....	17.50%	Associate	206
Other.....	—	Other shareholdings	91
<i>Total investments in associates</i>			<i>23,207</i>
<b>Long term financial assets</b>			<b>84,816</b>
<b>Total</b>			<b>108,023</b>

Investments in associates that are deemed to be insignificant in the context of the Group's consolidated financial statements are generally stated at cost, determined on the basis of their purchase, subscription or appraised value. No acquisitions in associates were made during the 1<sup>st</sup> Quarter of 2004.

Long term financial assets at 31<sup>st</sup> March 2004 include:

- €1.0 million representing n. 3,176,000 shares of Sàfilo S.p.A. equal to 9.246% of share capital;
- €1.1 million regards guarantee deposits;
- €0.4 million relating to tax advances on the reserve for termination indemnities paid by certain Italian Group companies.

## 6 Short-term borrowings

	31 March 2004	31 December 2003
<b>(€thousands)</b>		
Bank overdraft	12,798	152
Short term loans	37,165	27,966
<b>Total</b>	<b>49,963</b>	<b>28,118</b>



## 7 Long-term borrowings

(€thousands)	31 March 2004	31 December 2003
Loans	496,668	490,873
Less: Current portion of loans	(19,305)	(21,040)
Notes	300,000	300,000
Other providers of financing	13,881	14,608
Less: Current portion in other providers of financing	(2,285)	(2,348)
Other long term debt	893	2,208
<b>Total</b>	<b>789,852</b>	<b>784,301</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 31<sup>st</sup> March 2004 includes:

- €1.0 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;
- €1.8 million of capital leases.

## 8 Trade payables

The following table illustrates in detail the total of trade payables divided according to supply types:

(€thousands)	31 March 2004	31 December 2003
Purchase of materials	41,950	33,483
Purchase of products and subcontract costs	34,710	37,708
Commission and royalties	32,045	33,389
Advertising and sponsorship costs	13,500	14,288
Services received from third parties	13,758	16,291
Purchase of fixed assets	6,693	6,435
<b>Total</b>	<b>142,656</b>	<b>141,594</b>



## 9 Income taxes

Income taxes totalled €8.4 million for the three month period ended 31<sup>st</sup> March 2004 (€9.9 million for the 1<sup>st</sup> quarter 2003) and take into account available exemptions, benefits and tax credits, available to the parent company and the U.S. subsidiaries.

Income taxes include deferred tax assets (net of deferred tax liabilities) that have been calculated on provisions, tax loss carry -forwards, and other temporary differences whose tax benefits are deferred over time. These deferred taxes have been recognised 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 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 €22.8 million as at 31<sup>st</sup> March 2004 and €16.3 million as at 31<sup>st</sup> December 2003 and relate to the liability for current income taxes of Group companies.

## 10 Other current payables and accrued expenses

(€thousands)	31 March 2004	31 December 2003
Payroll	28,983	22,821
Social security	3,976	7,282
Accruals for bonuses to customers	11,143	16,250
Payable to salespersons	3,430	2,481
Accrual for advertising and sponsorship expenses	9,555	4,137
Accrual for loan interest expense	11,625	4,092
Accruals for insurance, leasing and other charges	5,039	4,966
Payable to minority shareholders	2,184	3,169
Other payable	4,304	5,272
<b>Total</b>	<b>80,239</b>	<b>70,470</b>

Amounts due to social security institutions amounts to €9.9 million as at 31<sup>st</sup> March 2004, €7.3 million as at 31<sup>st</sup> December 2003, and mainly relate to contributions payable one month in arrears by Group companies in relation to employees' wages and salaries.

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



## 11 Provisions

(€thousands)	Balance as at 1 January 2004	Movements in the year			Balance as at 31 March 2004
		Accruals	Utilisation	Translation difference	
Employee benefits	1,070	302	(1,103)	17	286
Product warranty	2,753	127	—	13	2,893
Provision for deferred foreign currency gains on long term borrowings	26,686	—	(3,523)	—	23,163
Agents indemnity	2,472	152	—	—	2,624
<i>Total long-term provision</i>	<i>32,981</i>	<i>581</i>	<i>(4,626)</i>	<i>30</i>	<i>28,966</i>
Other current provision	5,607	128	(4,022)	4	1,717
<b>Total</b>	<b>38,588</b>	<b>709</b>	<b>(8,648)</b>	<b>34</b>	<b>30,683</b>

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

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

Provision for deferred gains on foreign currency exchange rates represent the translation gain on loans in U.S. 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

Sàfilo's share capital as at 31<sup>st</sup> March 2004 was made up by 34,350,000 shares, with a par value of €1.00, for a total of €34,350,000.



### 13 Cost of sales

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Purchase of materials and finished products	56,225	52,617
Changes in inventories	8,873	(2,285)
Salaries and related contributions	23,753	24,219
Subcontracting costs	8,677	13,990
Industrial depreciation	5,216	6,659
Other costs	2,738	1,240
<b>Total</b>	<b>105,482</b>	<b>96,440</b>

#### Changes in inventories :

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Finished products	4,835	(982)
Work in progress	2,462	(721)
Raw material	1,576	(582)
<b>Total</b>	<b>8,873</b>	<b>(2,285)</b>

Changes in inventories, represented a decrease in inventories in comparison to the first quarter of 2003 (when the inventory grew), is a consequence of the higher sales volume than the level of production and purchase of finished products .

Salaries and related contributions decreased by 2.1% from €4.2 million as at 31<sup>st</sup> March 2003 to €3.7 million as at 31<sup>st</sup> March 2004. This decrease is mainly due to the lower number of factory personnel; the number of persons decreased from 5,075 as of 31<sup>st</sup> March 2003 to 4,594 as of 31<sup>st</sup> March 2004. This reduction is mainly due to the closure of the Company's production facility in Traun.

Subcontracting costs include the costs of third party outsourcing of manufactured semi-finished products, whereby raw materials are provided by the Group. The costs of subcontractors have been heavily reduced (38%) in the first quarter 2004 when compared to the same period of 2003, in order to increase utilisation of in-house resources.

Other costs include industrial services, maintenance and rental costs related to production and energy costs. Rental costs related to machinery and equipment remained in general stable in the first quarter of 2004 when compared to the first quarter of 2003 (€2.3 million and €2.2 million respectively). Other costs include (gains)/losses on currency swaps totalling (€1.8 million) as of 31<sup>st</sup> March 2004 (versus €3.2 as of 31<sup>st</sup> March 2003).



#### 14 Selling and marketing expenses

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Staff costs	10,874	10,046
Services from independent salespersons	21,339	21,002
Royalties	23,268	17,532
Advertising and promotion	24,668	21,685
Other selling expenses	9,599	8,942
<b>Total</b>	<b>89,748</b>	<b>79,207</b>

#### Other selling expenses

This item refers to:

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Transport, logistics and other sales costs	8,766	8,557
Bad debt provision	798	361
Warranty provision	35	24
<b>Total</b>	<b>9,599</b>	<b>8,942</b>

Selling and marketing expenses increased by 13.3% in the first quarter of 2004 compared with the same period of 2003 due to: (i) the hiring of sales personnel for our Solstice operations and the acquisition of our new distribution centre in North America (Outlook Eyewear); (ii) the increase of royalty expense (33.1%) due to the relative growth in sales of licensed products during 2004 as compared to sales of brands owned by the Group; (iii) the increase of advertising and promotion expenses (13.8%) as a result of our increased use of sponsorship of public events and increased costs associated with launching the new brands, *Giorgio Armani* and *Emporio Armani*.

#### 15 General and administrative expenses

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Staff costs	19,297	16,513
Other staff related costs	1,663	1,630
Depreciation and amortization	2,586	2,537
Other general and administrative expenses	8,185	8,666
Other provision and annual fees	606	523
<b>Total</b>	<b>32,337</b>	<b>29,869</b>

General and administrative expenses increased by 8.4% in the first quarter of 2004, representing a percentage increase in net sales from 12.2% in the first quarter of 2003 to 12.4% in the first quarter of 2004.

General and administrative expenses were negatively impacted in the first quarter of 2004 by a 17.0% increase in staff salaries and related costs which are mainly due to the increased number of employees, primarily at the Padua headquarters. The number of employees increased from 602 to 645 between 31<sup>st</sup> March 2003 and 31<sup>st</sup> March 2004.

Other general and administrative expenses include fees for services related to administrative, legal and tax consulting.



## 16 Other income/(expenses)

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Losses on disposal of assets	—	(7)
Other operating charges	(37)	(122)
Gain on disposal of assets	10	4
Other operating income	133	354
Other taxes	(262)	(311)
<b>Total</b>	<b>(156)</b>	<b>(82)</b>

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

### Net interest expense:

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Interest expense	(16,354)	(15,850)
Less: interest income	689	1,026
Bank charges	(1,221)	(549)
Debt issuance costs	(1,240)	(1,024)
<b>Total</b>	<b>(18,126)</b>	<b>(16,397)</b>

Interest expense includes: (i) interest on senior loans and other debts totalling €15.1 million; (ii) discounts granted to customers for early payments totalling €1.2 million.

Interest income during the first quarter of 2004 includes €0.6 of currency exchange rate gains (€0.8 as of 31<sup>st</sup> March 2003) and excludes any gains or losses on currency swaps, which effects are included in cost of sales.

Debt issuance costs mainly relate to legal and other fees, which were incurred upon the issuance of debt and are amortised over the repayment period of the related borrowings.

## 18 Extraordinary income/(expenses)

(€thousands)	Jan – Mar 2004	Jan – Mar 2003
Dividend on investments	—	—
Indemnities and reimbursement	17	23
Other extraordinary incomes/(expenses)	314	302
<b>Total</b>	<b>331</b>	<b>325</b>



## 19 Principal subsidiaries

Companies included in the consolidation are:

<u>Entity—Location</u>	<u>Share capital</u>	<u>Ownership %</u>
<i> Holding Company</i>		
Sàfilo S.p.A.....	€ 34,350,000	
<i> Other Italian entities</i>		
Oxsol S.r.l.—Pieve di Cadore, Belluno.....	€ 45,000	100.00
Lenti S.r.l.—Bergamo.....	€ 500,000	54.00
Smith Sport Optics S.r.l.—Florence.....	€ 102,775	100.00
<i> Foreign entities</i>		
Sàfilo International B.V.—Rotterdam, The Netherlands.....	€ 24,165,700	100.00
Safint B.V.—Rotterdam, The Netherlands.....	€ 18,200	100.00
Sàfilo Capital International S.A.—Luxembourg.....	€ 31,000	100.00
Sàfilo Benelux S.A.—Zaventem, Belgium.....	€ 560,000	100.00
Sàfilo Espana S.A.—Madrid, Spain.....	€ 390,650	100.00
Sàfilo France S.a.r.l.—Paris, France.....	€ 960,000	100.00
Sàfilo GmbH—Cologne, Germany.....	€ 511,300	100.00
Sàfilo Nordic AB—Taby, Sweden.....	SEK 500,000	100.00
Sàfilo Far East Ltd.—Hong Kong.....	HKD 49,700,000	100.00
Safint Optical Investment —Hong Kong.....	HKD 10,000	51.00
Sàfilo Hong Kong Ltd.—Hong Kong.....	HKD 100,000	51.00
Sàfilo Singapore Pte. Ltd.—Singapore.....	S\$ 400,000	100.00
Sàfilo Optical Sdn. Bhd—Kuala Lumpur, Malaysia.....	MYR 100,000	100.00
Safilo Trading (Shenzhen) Co. Inc. — China.....	CNY 2,481,000	51.00
Sàfilo Hellas Ottica S.A.—Athens, Greece.....	€ 300,000	51.00
Sàfilo Nederland B.V.—Bilthoven, The Netherlands.....	€ 18,200	100.00
Sàfilo South Africa PTY Ltd.—Bryanston, South Africa.....	ZAR 3,383	100.00
Sàfilo Austria GmbH—Traun, Austria.....	€ 217,582	100.00
Carrera Optyl GmbH—Traun, Austria.....	€ 7,630,648	100.00
Carrera Optyl d.o.o.—Ormoz, Slovenia.....	SIT 135,101,000	100.00
Carrera Optyl Marketing GmbH—Traun, Austria.....	€ 181,683	100.00
Sàfilo Japan Co Ltd—Tokyo, Japan.....	YEN 100,000,000	100.00
Sàfilo do Brasil Ltda—San Paulo, Brasil.....	R\$ 8,077,500	100.00
Sàfilo Portugal Lda.—Lisbon, Portugal.....	€ 500,000	100.00
Sàfilo Switzerland A.G.—Liestal, Switzerland.....	SFR 1,000,000	77.00
Sàfilo India PTV Ltd—Mumbai, India.....	INR 42,000,000	75.00
Safint Australia Pty Ltd—Sydney, Australia.....	AUD 3,000,000	100.00
Sàfilo Australia Partnership—Sydney, Australia.....	AUD 204,081	51.00
Safint Optical UK Ltd.—United Kingdom.....	GBP 21,139,001	100.00
Sàfilo UK Ltd.—North Workshire, United Kingdom.....	GBP 250	100.00
Sàfilo America Inc.—Delaware, USA.....	US\$ 8,430	100.00
Sàfilo USA Inc.—New Jersey, USA.....	US\$ 23,289	100.00



FTL Corp.—Delaware, USA .....	US\$	110	100.00
Sàfilo Realty Corp.—Delaware, USA.....	US\$	10,000	100.00
Smith Sport Optics Inc.—Idaho, USA.....	US\$	12,262	100.00
Solstice Marketing Corp.— New Jersey, U SA.....	US\$	1,000	100.00
2844-2580 Quebec Inc.—Montreal, Canada	CAD	100,000	100.00
Sàfilo Canada Inc.—Montreal, Canada.....	CAD	2,470,425	100.00
Canam Sport Eyewear Inc.—Montreal, Canada.....	CAD	300,011	100.00

## 20 Subsequent events

We recently reached an agreement with our senior bank lenders to amend certain of our financial covenants which could not be met after our recent operating results, in Q2 and Q3 2003. The new agreement provides greater operating flexibility under our senior credit facilities going forward. In connection with that agreement, certain shareholders of our parent company, Sàfilo Holding, are required to provide funding for Sàfilo Holding to contribute to us Euro 25 million of equity; and the shareholders will commit to provide contingent funding for Sàfilo Holding of up to Euro 50 million of additional equity under certain circumstances. It is uncertain whether, or what portion, of such contingent commitment will be used by us in the future.



## 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 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.

These risks are not exhaustive. For further discussion of these factors and other risks, see "Risk Factors", "Business" and "Operating and Financial Review and Prospects".

We do not intend to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this 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

Francesco Tagliapietra,  
Director of Administration and Control  
Phone: (+39) 049 6985111