



SÀFILO GROUP

Interim financial information from January 1st, 2004 to June 30th, 2004

August 9th, 2004



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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 own 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*, *Marc Jacobs*, *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

The positive results achieved during the first half of 2004 confirm the trend of growth shown in the last quarters of 2003, despite the weak US Dollar that continues to negatively impact our performance.

Sales increased by 7.6% (+12.1% at fixed exchange rates) when compared to the first half of 2003 and by 8.9% (+11% at fixed exchange rates) in the second quarter of 2004 when compared to the same period of the previous year. Turnover has grown in all our strategic markets other than Italy. In the second quarter of 2004 sales in local currency increased by 22% in the U.S. and by 37% in Japan, while Switzerland and France achieved the best performances in Europe.

In the second quarter of 2004 Safilo generated €41.2 million EBITDA (16.3% of turnover), an increase of 62% when compared to the same period of the previous year. The year-to-date EBITDA amounts to €81.6 million (equivalent to 15.9% of turnover); this represents 11% growth compared to the same period in the prior year. The positive results achieved in terms of profitability are mainly related to the cost cutting initiatives undertaken since the second half of 2003.

The net debt position has improved by €6.4 million compared to December 2003 and by €2.3 million when compared to June 2003.

The production reorganisation towards increased out-sourcing to external suppliers and the closing of the Austrian production plant is proceeding according to plan. The Austrian facility terminated its activities at the end of June 2004.



FINANCIAL OVERVIEW

The following reports are to be considered un-audited.

SALES ANALYSIS

Our net sales by products are summarized in the table below (*):

(in Euro millions)	Quarter				Change	YTD				Change
	2004		2003		Apr-Jun	2004		2003		Jan-Jun
	Apr- Jun		Apr- Jun		2004-2003	Jan- Jun		Jan- Jun		2004-2003
	€	%	€	%	% Change	€	%	€	%	% Change
<i>Net Sales:</i>										
Prescription frames	108.7	43.0%	112.1	48.2%	-3.0%	222.5	43.3%	224.5	47.1%	-0.9%
Sunglasses	138.7	54.8%	119.2	51.3%	16.4%	280.2	54.6%	245.6	51.5%	14.1%
Sport goggles	5.4	2.1%	1.0	0.4%	440.0%	9.9	1.9%	6.5	1.4%	52.3%
Other	0.2	0.1%	0.1	0.0%	100.0%	0.7	0.1%	0.5	0.1%	40.0%
Total	253.0	100.0%	232.4	100.0%	8.9%	513.3	100.0%	477.1	100.0%	7.6%

(*) Numbers and percentages for the period shown may not reconcile due to rounding.

Our net sales by geographic region are summarized in the table below (*):

(in Euro millions)	Quarter				Change	YTD				Change
	2004		2003		Apr-Jun	2004		2003		Jan-Jun
	Apr- June		Apr- June		2004-2003	Jan- June		Jan- June		2004-2003
	€	%	€	%	% Change	€	%	€	%	% Change
<i>Net Sales:</i>										
North America	89.1	35.2%	78.3	33.7%	13.8%	180.3	35.1%	167.9	35.2%	7.4%
Italy	41.2	16.3%	46.9	20.2%	-12.2%	74.8	14.6%	83.6	17.5%	-10.5%
Europe (excluding Italy)	85.8	33.9%	83.7	36.0%	2.5%	189.5	36.9%	172.9	36.2%	9.6%
Far East (excluding Australia)	19.3	7.6%	11.6	5.0%	66.4%	35.5	6.9%	24.7	5.2%	43.7%
Other	17.6	7.0%	11.9	5.1%	47.9%	33.2	6.5%	28.0	5.9%	18.6%
Total	253.0	100.0%	232.4	100.0%	8.9%	513.3	100.0%	477.1	100.0%	7.6%

(*) Numbers and percentages for the period shown may not reconcile due to rounding.



Net sales. Even after the negative impact of the weak U.S. dollar on 2004 sales, the turnover of the first half of 2004 increased by 7.6% to €13.3 million, from €477.1 million in the same period last year. At constant exchange rates, sales increased by approximately 12%. In the second quarter of 2004 turnover grew by 8.9% compared to the same period in the prior year, this significant improvement in sales is mainly due to the success of the existing collections and to the continued growth in sales related to the *Giorgio Armani* and *Emporio Armani* brands, now distributed in all the key worldwide markets. The sunglasses and sport goggles business segments have shown satisfactory growth rates while prescription frames sales have slightly decreased as a consequence of specific difficulties in some markets such as Italy.

North America. During the first half of 2004 turnover in local currency grew by approximately 19%. The combined effects of the positive results from the *Giorgio Armani* and *Emporio Armani* brands, increased sales in new market segments and the American consumers' appreciation of our collections have permitted us to achieve this strong performance. In the second quarter of 2004, without considering the exchange rate effects, revenues increased by approximately 20% supported by excellent results for brands such as *Burberry*, *Kate Spade* and *Liz Claiborne*. Sales in the sport market have also been very positive, with a strong growth for the *Smith* brand. In particular, turnover related to sport goggles in the North America market, excluding exchange rate effects, recorded a 77% increase in the first half of 2004 when compared with the same period of prior year.

Italy. The Italian market is presently the weakest of all the strategic markets where the company distributes its products. During the second quarter of 2004 there has been a decrease in sales for sunglasses as consequence of a slowdown in sales of fashion accessories in the whole Italian market. Sales have also been impacted by a number of actions aimed at improving on working capital management.

Europe (excl. Italy). Our sales in the European market increased in comparison to the first half of the previous year as a result of our ability to gain market share in a static market. The best performances have been achieved in France, Greece and Switzerland where the introduction of the *Giorgio Armani* and *Emporio Armani* brands and the growing success of *Gucci* and *Polo* has allowed us to achieve very positive results. In terms of unit volumes, there has been a 7.9% increase from 4.2 million units in the first half of 2003 to 4.5 million units in the first half of 2004.

Far East. In the first half of 2004 the Far Eastern market trend has been particularly positive if compared to the same period of the previous year, showing approximately 46% growth at fixed exchanged rates. The local markets have overcome the negative effects from SARS and have now returned to the strong performance seen in prior years. Amongst the most important markets, Japan has achieved the best performance due to the introduction of *Armani* brands and to the results of other brands as *Dior* and *Gucci*. In the first half of 2004 we began distribution of our products in the Chinese market through our subsidiary Safilo Trading (Shenzhen) Co. Inc.



SELECTED FINANCIAL DATA

(in Euro millions)	Quarter				YTD			
	2004		2003		2004		2003	
	Apr- June		Apr- June		Jan- June		Jan- June	
	€	%	€	%	€	%	€	%
Net sales	253.0	100.0%	232.4	100.0%	513.3	100.0%	477.1	100.0%
Cost of goods sold	99.6	39.4%	104.2	44.8%	205.0	39.9%	200.6	42.0%
Commercial costs	84.3	33.3%	79.5	34.2%	174.0	33.9%	158.7	33.3%
Other expenses	36.4	14.4%	32.8	14.1%	68.8	13.4%	62.7	13.1%
EBITDA	41.2	16.3%	25.4	10.9%	81.6	15.9%	73.7	15.4%

In the second quarter of 2004, reported EBITDA was €41.2 million (16.3% as a percentage of net sales) compared to €25.4 million (10.9% as a percentage of net sales) in the same period of 2003. The improvement in the 2004 second quarter EBITDA (+62%) compared to the same period of last year is not only due to the increase of sales but also due to the cost cutting initiatives implemented at the cost of goods sold level. Despite the negative impact of the exchange rate environment on the Group's profitability, the cost cutting initiatives are producing the expected results and continuing the trend of improvement in the Group's profitability in the second quarter.

The EBITDA for the first half of 2004 has reached €81.6 million compared to €73.7 million of the first half of 2003.

Profitability at the gross margin level has improved compared to the first half of 2003 due to: (i) the implementation of activities aimed at reducing the cost of production; and (ii) improvement of production efficiency.

These initiatives have partly compensated for the negative exchange rate impacts in 2004, which have not been reduced to the same extent by the hedging policies as in 2003.

Variable commercial costs absorbed 33.9% of the revenue compared to 33.3% in the previous year. This increase in costs as a percentage of sales has been a consequence of: i) an increase in royalty costs due to a shift in the sales mix towards licensed brands as a result of the higher impact of sales of *Armani* brands; ii) an increase in marketing expenses due to planned launches of licensed and own brands.

Other expenses increased in absolute value by €6.1 million compared to the prior year. The increase can be attributed to higher costs associated with consolidation of the Outlook business, the full impact of Solstice stores opened during the second half of 2003 and personnel costs associated with the increased number of employees, primarily at the Padova headquarters specifically in the logistics, product development and customer service areas in order to better service our customers.



CASH FLOW

The following table summarizes our cash flow during the first half of 2004 compared to the same period of 2003.

(€in million)	30 th June 2004	30 th June 2003
Net cash flows:		
(Used in)/provided by operating activities.....	8.0	0.3
Used in investment activities.. ..	(14.7)	(56.8)
(Used in)/provided by financing activities	17.1	30.4
Cash and cash equivalents, end of period.....	17.3	15.8

Net Cash Flow from Operating Activities. Net cash from operating activities consists of net income adjusted for changes in working capital and non-cash items such as depreciation and amortization. The comparison with the first half of 2003 is as follows:

(€in million)	First Half 2004	First Half 2003
Net Income	(1.7)	1.3
Amortisation and depreciation	30.2	32.4
Change in trade receivables and other receivables.....	(44.2)	(59.7)
Change in inventory.....	4.7	8.8
Change in trade payables and other current payables	22.1	15.4
Change in pension fund and TFR.....	2.0	2.1
Other	(5.1)	-
Total	8.0	0.3

The cash flow from operating activities increased by €7.7 from €0.3 million in the first half of 2003 compared to €8.0 million in the same period of 2004. The main explanations for this improvement are:

- ✓ A positive effect in the company's accounts receivable as a result of specific activities made in order to reduce the days of sales outstanding;
- ✓ The positive effect on working capital deriving from a more intense use of external suppliers, partially offset by a lower reduction in inventory;
- ✓ An extraordinary one-time negative effect in the category "other" which has been impacted by the payment of termination costs to the employees of 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.

In the first half of 2004 cash outflows from investment activities returned to a normal level after the extraordinary expenses of 2003.

Investments in tangible fixed assets amount to approximately €13.0 million; the main expenditures in the first quarter of 2004 are related to the production area with a value of €5.8 million, and to the enlargement of the headquarters building for the Distribution Center in Padova for €5.8 million.

Cash Flow from Financing Activities. Cash flows from financing activities have been impacted by the equity injection of €25.0 million which took place during the month of May 2004.

PERSONNEL

Personnel as of 30th June 2004, 31st December 2003 and 30th June 2003 is as follows:

	2004	2003	2003
	June	December	June
Headquarters (Padova – Italy)	675	637	618
Factory personnel	4,647	4,954	4,886
Subsidiaries	1,013	973	918
Solstice	215	202	205
Total	6,550	6,766	6,627



SÀFILO GROUP

**Consolidated Financial Statements
For the period January 1st – June 30th , 2004**



Consolidated Balance Sheets

(€thousands)	30 June 2004	31 December 2003
ASSETS		
Current assets:		
Cash and cash equivalents	25,731	38,741
Trade receivables (net of provision for doubtful accounts)	259,434	209,077
Inventory, net	164,516	166,580
Other current receivables	71,381	83,309
Total current assets	521,062	497,707
Non-current assets:		
Property, plant and equipment, net	184,705	184,096
Intangible assets	412,643	427,871
Investments in associates and long-term financial assets	108,272	107,593
Deferred income taxes	21,478	12,804
Total non-current assets	727,098	732,364
Total assets	1,248,160	1,230,071
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	8,465	28,118
Current portion of long-term debt	27,039	23,388
Trade payables	155,599	141,594
Income tax payables	19,806	16,259
Other current payables and accrued expenses	73,859	70,470
Current provisions	695	5,607
Total current liabilities	285,463	285,436
Non-current liabilities:		
Long-term borrowings	780,870	784,301
Termination Indemnity Liability	30,821	28,784
Long-term provisions	27,648	32,981
Total non-current liabilities	839,339	846,066
Total liabilities	1,124,802	1,131,502
Shareholders' equity attributable to minority shareholders	5,523	5,425
Shareholders' equity:		
Share capital	35,000	34,350
Other reserves and retained earnings	84,508	69,727
Income pertaining to the Group	(1,673)	(10,933)
Total shareholders' equity attributable to the Group	117,835	93,144
Total shareholders' equity	123,358	98,569
Total liabilities and shareholders' equity	1,248,160	1,230,071



Consolidated Statements of Operations

(€ thousands)	Six Months Ended June 30,	
	2004	2003
Net sales	513,284	477,065
Cost of sales	(204,977)	(200,564)
Gross profit	308,307	276,501
Selling and marketing expenses	(174,017)	(158,636)
General and administrative expenses	(68,057)	(62,233)
Other income/(expense)	(718)	(538)
Operating income/(loss)	65,515	55,094
Interest income/(expense) and other financial charges	(36,611)	(31,878)
Extraordinary income/(expense)	(382)	676
Amortisation of goodwill	(11,682)	(11,376)
Income/(loss) before taxation	16,840	12,516
Tax expense	(16,369)	(9,738)
Net income/(loss) before minority shareholders	471	2,778
Income attributable to minority shareholders	(2,144)	(1,500)
Net income/(loss)	(1,673)	1,278



Consolidated Statements of Cash Flows

(€thousands)	Six Months Ended June 30, 2004	Year Ended December 31, 2004
Cash flows from operating activities:		
Net income/(loss)	(1,673)	(10,933)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation	17,008	35,307
Depreciation	13,186	26,415
Assets impairments	—	8,220
Change in accounting method for equity investments	(229)	(6,862)
Loss/(gain) on disposal of property, plant and equipment	9	67
Changes in operating assets and liabilities:		
Trade receivables and other current receivables	(44,221)	(47,323)
Inventory	4,709	11,878
Trade payables and other current payables and accrued expenses	22,131	(1,199)
Pension fund and Termination Indemnity Liability (TFR)	2,037	2,238
Other	(4,982)	6,131
Net cash provided by (used in) operating activities	7,975	23,939
Cash flows from investing activities:		
Purchase of property, plant and equipment (net of disposal)	(13,427)	(45,507)
Acquisition/disposal of investments in associates	(77)	—
Acquisition of intangible assets	(1,218)	(34,921)
Net cash provided from (used in) investing activities	(14,722)	(80,428)
Cash flows from financing activities:		
Proceeds from borrowings	—	300,000
Dividends paid by subsidiaries	(1,893)	(2,202)
Share issuance	25,000	30,000
Repayment of borrowings	(5,987)	(305,590)
Net cash provided from (used in) financing activities	17,120	22,208
Effect of exchange rate	(3,730)	683
Net increase in cash and cash equivalents	6,643	(33,598)
Cash and cash equivalents at the beginning of the period	10,623	44,221
Cash and cash equivalents at the end of the period	17,266	10,623
Breakdown of “cash and cash equivalents at the end of the period”:		
Cash and cash equivalents	25,731	38,741
Bank overdraft	(2,698)	(152)
Short term loans	(5,767)	(27,966)



Notes on 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 the 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 relevant period 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 versus Euros were used to convert the financial statements of foreign consolidated subsidiaries:

	As of June 30, 2004	As of Dec 31, 2003	As of June 30, 2003	Average For the Six Months ended June 30, 2004	Average For the Twelve Months ended December 31, 2004	Average For the Six Months ended June 30, 2003
USD	1.2155	1.2630	1.1427	1.2273	1.1313	1.1050
HK\$	9.4803	9.8049	8.9110	9.5576	8.8089	8.6178
FSV	1.5242	1.5579	1.5544	1.5531	1.5213	1.4918
CAN\$	1.6343	1.6234	1.5506	1.64285	1.5816	1.6048
YEN	132.4	135.05	137.32	133.0932	130.9604	131.1204
GBP	0.67075	0.7048	0.6932	0.6735	0.6920	0.6855
SEK	9.1451	9.0800	9.2488	9.1649	9.1242	9.1628
AU\$	1.7554	1.6802	1.7116	1.6620	1.7378	1.7921
ZAR	7.6177	8.3276	8.5422	8.2137	8.5358	8.9028
SIT	239.9900	236.7000	233.9520	238.2515	233.7843	231.9868
R\$	3.78382	3.6627	3.29611	3.6428	3.4686	3.5720
RUPIA	55.8687	57.5820	53.0970	55.3077	53.0608	53.2272
S\$	2.0901	2.1450	2.0149	2.0851	1.9704	1.9291
MYR	4.61829	4.79902	4.34168	4.6632	4.2984	4.1984
CNY	10.06430	10.4576	—	10.1630	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 on the consolidated financial statements.



The Group periodically enters into interest rate swaps (IRS) in order 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 30th June 2004, Sàfilo has entered into 4 year swaps partially hedging the interest expense due in the next 4 years. 70% of the Tranche A denominated in Euros, 60% of the Tranche A denominated in USD, 84% of the Tranche B and 100% of the Tranche C have been hedged in this manner.

1 Trade receivables (net of provision for doubtful accounts)

(€thousands)	30 June 2004	31 December 2003
Gross value	276,094	221,733
Provision for doubtful accounts	(16,660)	(12,656)
Net value	259,434	209,077

In January 2004, the Company entered into a factoring agreement with Centro Factoring S.p.A. that provides for the sale without recourse for Sàfilo, of trade receivables on a revolving basis. Such arrangement with Centro Factoring S.p.A. substantially replaced Safilo's securitization program. As of 30th June 2004 the total amount of receivables sold to Centro Factoring S.p.A. and still outstanding was €9.3 million. The difference between cash received and trade receivables sold has been included in "Other current receivables".

Provision for doubtful accounts includes allowance for bad debts and an accrual for unsold products that are expected to be returned, in accordance with the contract with the final vendor.

2 Inventory, net

(€thousands)	30 June 2004	31 December 2003
- Raw materials and supplies	29,202	32,954
- Work in progress	9,077	9,561
- Finished products	126,237	124,065
Total	164,516	166,580

Inventories are stated at the lower between purchase or production cost and their net realisable value. The cost of inventories is determined by the weighted average cost method. Obsolete and slow-moving inventories are written down to their estimated net realizable value and such write downs are recorded as part of cost of sales.



3 Other current receivables

(€thousands)	30 June 2004	31 December 2003
Value added tax (VAT) receivables	4,226	2,842
Tax credits and advance payments	12,212	13,890
Current deferred income taxes	10,204	16,378
Receivables due from Centro Factoring S.p.A./Sunlight S.r.l.	30,723	37,533
Prepayments and accrued income	6,308	4,182
Receivables from salespersons	3,654	4,148
Other receivables	4,054	4,336
Total	71,381	83,309

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

Prepayments and accrued income amount to €6.3 million as at 30th June 2004, compared to €4.2 million as at 31st December 2003 and include:

- Prepaid advertising expenses of €3.2 million;
- Prepaid lease instalments of €1.4 million;
- Prepaid insurance costs of €0.3 million;
- Other accrued income and prepayments of €1.4 million.

Receivables from sales persons primarily include 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
Cost					
Balance at 31 December 2003	91,336	205,491	52,768	16,897	366,492
Additions	404	5,600	1,965	8,493	16,462
Translation differences/other transfer	(3)	(198)	1,002	(2,550)	(1,749)
Disposals	(707)	(6,019)	(2,756)	—	(9,482)
Balance at 30 June 2004	91,030	204,874	52,979	22,840	371,723
Accumulated Depreciation					
Balance at 31 December 2003	(18,983)	(133,798)	(29,615)	—	(182,296)
Depreciation charge	(1,277)	(8,936)	(2,973)	—	(13,186)
Translation differences/other transfer	1	138	(573)	—	(434)
Disposals	707	5,900	2,391	—	8,998
Balance at 30 June 2004	(19,552)	(136,696)	(30,770)	—	(187,018)
Net Book Value					
Balance at 30 June 2004	71,478	68,178	22,209	22,840	184,705

5 Investments in associates and long term financial assets

(€thousands)	Interest in share capital %	Relationship	30 June 2004
Investment in associates:			
Banca Popolare di Lodi.....	0.65%	Other shareholdings	10,198
Elegance International Holdings Lts.....	23.05%	Equity investment	12,101
TBR Inc. (USA).....	33.33%	Entity under common control	491
Optifashion As (Turkey).....	50%	Unconsolidated subsidiary	353
Safilens Srl.....	17.50%	Associate	206
Other.....	—	Other shareholdings	91
<i>Total investments in associates</i>			<i>23,440</i>
Long term financial assets			84,832
Total			108,272



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 first half of 2004.

Long term financial assets as at 30th June 2004 include:

- €81.0 million representing 3,176,000 shares of Sàfilo S.p.A. equal to 9.074% of share capital;
- €0.6 of a non-interest bearing loan granted to an associate company;
- €0.4 million of tax advances on the reserve for termination indemnities paid by certain Italian Group companies;
- approximately €2.8 million of guarantee deposits and other receivables with the Italian Government.

6 Short-term borrowings

(€thousands)	30 June 2004	31 December 2003
Bank overdraft	2,698	152
Short term loans	5,767	27,966
Total	8,465	28,118

7 Long-term borrowings

(€thousands)	30 June 2004	31 December 2003
Loans	492,829	490,873
Less: Current portion of loans	(24,988)	(21,040)
Notes	300,000	300,000
Other providers of financing	14,085	14,608
Less: Current portion in other providers of financing	(2,051)	(2,348)
Other long term debt	995	2,208
Total	780,870	784,301

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

Other providers of financing

The account balance as at 30th June 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%;
- €1.0 million representing the long-term portion of a loan under the economic development law sponsored by Government of Italy;
- €2.0 million of capital leases.



8 Trade payables

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

(€thousands)	30 June 2004	31 December 2003
Purchase of materials	39,538	33,483
Purchase of products and subcontract costs	42,618	37,708
Commission and royalties	38,146	33,389
Advertising and sponsorship costs	17,161	14,288
Services received from third parties	12,548	16,291
Purchase of fixed assets	5,588	6,435
Total	155,599	141,594

9 Income tax payable

Outstanding payables to the tax authorities are €19.8 million as at 30th June 2004 and €6.3 million as at 31st December 2003 and relate to the liability for current income taxes of Group companies.

10 Other current payables and accrued expenses

(€thousands)	30 June 2004	31 December 2003
Payroll and social security	31,119	30,103
Accruals for bonuses to customers	14,728	16,250
Payable to salespersons	4,899	2,481
Accrual for advertising and sponsorship expenses	8,081	4,137
Accrual for loan interest expense	3,633	4,092
Accruals for insurance, leasing and other charges	5,926	4,966
Payable to minority shareholders	2,276	3,169
Other payable	3,197	5,272
Total	73,859	70,470

Amounts due to social security institutions 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 30 June 2004
		Accruals	Utilisation	Translation difference	
Employee benefits	1,070	800	(1,330)	36	576
Product warranty	2,753	156	—	(21)	2,888
Provision for deferred foreign currency gains on long term borrowings	26,686	—	(5,278)	—	21,408
Agents indemnity	2,472	304	—	—	2,776
<i>Total long-term provision</i>	<i>32,981</i>	<i>1,260</i>	<i>(6,608)</i>	<i>15</i>	<i>27,648</i>
Other current provision	5,607	250	(5,162)	—	695
Total	38,588	1,510	(11,770)	15	28,343

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.

Other current provision mainly relates to termination costs accrued in the previous year in relation to the closure of one of our Austrian facilities. The 2004 decrease is due to the payment of the above costs.

12 Shareholders’ equity attributable to the Group

Share capital

The shareholders’ meeting on May 19th, 2004 approved the company’s share capital increase through the issue of 650,000 shares (nominal value of a share = 1.00 Euro) 100% underwritten by “Safilo Holding S.p.A.”. Sàfilo’s share capital as at 30th June, 2004 was made up by 35,000,000 shares, with a par value of €1, for a total of €35,000,000.



13 Cost of sales

(€thousands)	Jan – June 2004	Jan – June 2003
Purchase of materials and finished products	122,192	103,163
Changes in inventories	4,053	9,329
Salaries and related contributions	44,508	46,558
Subcontracting costs	17,215	24,555
Industrial depreciation	10,678	12,971
Other costs	6,331	3,988
Total	204,977	200,564

Changes in inventories:

(€thousands)	Jan – June 2004	Jan – June 2003
Finished products	(1,505)	4,987
Work in progress	1,728	1,155
Raw material	3,830	3,187
Total	4,053	9,329

The inventory reduction during the first half of 2004 is mainly due to the normal seasonality of our working capital.

Salaries and related contributions decreased by 4.3% from €46.5 million as at 30th June 2003 to €44.5 million as at 30th June 2004. This reduction is a result of a lower number of employees in the production plants as a consequence of improved efficiency and the transfer of part of our production to external suppliers.

Subcontracting costs include the costs of third party outsourcing of manufactured semi-finished products, where raw materials are provided by the Group. The significant decrease in this kind of costs (-30%) in the first half of 2004 when compared to the same period of 2003, mainly relates to the company's strategy to achieve a full utilization of in-house resources.

Other costs include industrial services, energy costs, maintenance and rental costs related to production. Rental costs related to machinery and equipment amount to €4.8 million as of 30th June 2004 and €4.1 million as of 30th June 2003. Other costs include (gains)/losses on currency swaps for a total amount of (€3.2 million) for the first half of 2004 compared to (€5.0 million) for the same period of prior year.



14 Selling and marketing expenses

(€thousands)	Jan – June 2004	Jan – June 2003
Staff costs	17,783	16,926
Services from independent salespersons	40,934	40,740
Royalties	45,169	39,211
Advertising and promotion	49,018	43,343
Other selling expenses	21,113	18,416
Total	174,017	158,636

Other selling expenses

This item refers to:

(€thousands)	Jan – June 2004	Jan – June 2003
Transport, logistics and other sales costs	19,397	17,505
Bad debt provision	1,560	831
Warranty provision	156	80
Total	21,113	18,416

As a percentage on net sales selling and marketing expenses increased from 33.3% in the first half of 2003 to 33.9% in the same period of 2004 due to:

- ✓ a higher number of sales personnel for our Solstice operations and the acquisition of the Outlook Eyewear, a new distribution centre in North America;
- ✓ a mix change towards licensed products as a consequence of the introduction of Armani brands;
- ✓ an increase of sponsorship of public events and higher costs associated with the new brands.

15 General and administrative expenses

(€thousands)	Jan – June 2004	Jan – June 2003
Staff costs	41,116	36,529
Other staff related costs	3,420	3,203
Depreciation and amortization	5,400	5,666
Other general and administrative expenses	16,963	15,900
Other provision and annual fees	1,158	934
Total	68,057	62,232

The General and Administration expenses increased by 9% in absolute terms in the first half of 2004, due to the negative impact of an 12% increase in staff salaries and related costs. This is mainly driven by an increased number of



employees primarily at the Padua headquarters for the improvement of the customer service and by the consolidation of the Outlook business.

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

16 Other income/(expenses)

(€thousands)	Jan – June 2004	Jan – June 2003
Losses on disposal of assets	(22)	(63)
Other operating charges	(250)	(202)
Gain on disposal of assets	15	14
Other operating income	214	442
Other taxes	(675)	(729)
Total	(718)	(538)

17 Interest income/(expense) and other financial charges

Net interest expense:

(€thousands)	Jan – June 2004	Jan – June 2003
Interest expense	(32,025)	(32,888)
Less: interest income	207	5,118
Bank charges	(2,359)	(1,658)
Debt issuance costs	(2,434)	(2,450)
Total	(36,611)	(31,878)

Interest expense mainly includes: (i) interest on senior loans and other debts totalling €29.9 million; (ii) discounts granted to customers for early payments totalling €2.4 million.

Interest income during the first quarter of 2004 includes €0.4 of currency exchange rate gains (€4.7 as of 30th June 2003) and excludes any gains or losses on currency swaps, whose effects are included in cost of sales.

Debt issuance costs mainly relate to the amortization of 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 – June 2004	Jan – June 2003
Dividend on investments	154	217
Indemnities and reimbursement	49	50
Other extraordinary incomes/(expenses)	(585)	409
Total	(382)	676



19 Income taxes

Income taxes totalled €16.4 million for the six-month period ended 30th June 2004 (€9.7 million for the 1st half 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 losses carry-forward 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.

20 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.....	€	35,000,000	
<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\$	10	100.00
Sàfilo Realty Corp.—Delaware, USA.....	US\$	10,000	100.00
Smith Sport Optics Inc.—Idaho, USA.....	US\$	12,162	100.00
Solstice Marketing Corp.—New Jersey, USA.....	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

21 Subsequent events

No material events have come to our attention which should be considered in reporting on the consolidated financial statements of Safilo Group as at 30th June, 2004.



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 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

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