SÀFILO GROUP

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

November 15th, 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*, *Boucheron*, *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

Despite the negative effects deriving from the U.S. dollar fluctuations, the company reported a 5.8% growth in sales in the nine month period ended September 30, 2004 compared with the same period of last year. At constant exchange rates the increase in turnover is equal to approximately 10.0%, confirming the positive trend shown in the previous quarters.

In terms of regional performance, turnover has increased in all our strategic markets and Italy also begins to show some signals of recovery. On a year-to-date basis Spain and France reported the strongest results (13.1% and 5.6% growth respectively), while the Far East division is performing ahead of forecast. The North American region continued to growth trend shown in the prior year. In the quarterly figures we improved our performance in Europe and Far East while North America experienced a decrease in sales as a consequence of the weakness of the U.S. dollar.

In the third quarter of 2004 Safilo generated €28.1 million EBITDA (14.1% of turnover compared to 12.8% in 2003), an increase of 12.0% when compared to the same period of the previous year. The year-to-date EBITDA amounts to €109.7 million (15.4% of turnover compared with 14.7% in 2003) representing an increase of 11% compared to the prior year. The positive results achieved in terms of profitability are mainly related to the company’s activities aimed at reducing production costs and improving production efficiency. Unfortunately the persistent weakness of the American Dollar is negatively impacting our turnover and profitability, and thereby reducing the positive results obtained with the cost containment activities.

The net debt position has improved by €16.3 million compared to December 2003 and by €12.5 million when compared to September 2003.

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 Jul-Sep		2003 Jul-Sep		Jul-Sep 2004-2003	2004 Jan- Sep		2003 Jan- Sep		Jan-Sep 2004-2003
	€	%	€	%	% Change	€	%	€	%	% Change
Net Sales:										
Prescription frames	112.1	56.1%	112.5	57.2%	-0.4%	334.6	46.9%	337.0	50.0%	-0.7%
Sunglasses	76.4	38.2%	72.8	37.0%	4.9%	356.6	50.0%	318.4	47.3%	12.0%
Sport goggles	10.3	5.2%	10.1	5.1%	2.0%	20.2	2.8%	16.6	2.5%	21.7%
Other	1.1	0.6%	1.3	0.7%	-15.4%	1.8	0.3%	1.8	0.3%	0.0%
Total	**199.9**	**100.0%**	**196.7**	**100.0%**	**1.6%**	**713.2**	**100.0%**	**673.8**	**100.0%**	**5.8%**

(*) 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 Jul-Sep		2003 Jul-Sep		Jul-Sep 2004-2003	2004 Jan- Sep		2003 Jan- Sep		Jan-Sep 2004-2003
	€	%	€	%	% Change	€	%	€	%	% Change
Net Sales:										
North America	74.9	37.5%	81.8	41.6%	-8.4%	255.2	35.8%	249.7	37.1%	2.2%
Italy	26.5	13.3%	23.5	11.9%	12.8%	101.3	14.2%	103.4	15.3%	-2.0%
Europe (excluding Italy)	63.8	31.9%	60.7	30.9%	5.1%	253.3	35.5%	233.6	34.7%	8.4%
Far East (excluding Australia)	14.5	7.3%	12.3	6.3%	17.9%	50.0	7.0%	37.0	5.5%	35.1%
Other	20.2	10.1%	18.4	9.4%	9.8%	53.4	7.5%	50.1	7.4%	6.6%
Total	**199.9**	**100.0%**	**196.7**	**100.0%**	**1.6%**	**713.2**	**100.0%**	**673.8**	**100.0%**	**5.8%**

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

Net sales. The turnover of the first nine months of 2004 increased by 5.8%, from €673.8 million in the nine month period of 2003 to €713.2 million in the same period of 2004. The increase is approximately 10.0% at constant exchange rates, with the strongest revenue growth seen in the sunglasses business segment. In volume terms, the increase seen in the Group's sales of frames in the first nine months of 2004 was equal to 25.4% compared with the same period of the previous year. The significant increase in volume is mainly due to the sunglasses (+53%) and sport goggles (+28%) business segments while the sale of prescription frames has slightly decreased as a consequence of difficulties in specific markets such as Italy. The positive sales trend is driven by a combination of the successful introduction of the *Giorgio Armani* and *Emporio Armani* brands, the consolidation of existing collections, and the extremely positive results achieved in the Far Eastern markets.

North America. In the nine month period ended September 30, 2004 turnover in local currency grew by approximately 14% (+2.2% including exchange rate effects) and 56% in terms of volume as a consequence of the new Outlook business acquired, and the successful introduction of the new *Armani* brands. Significant results have been achieved both in the sunglasses and sport goggles business segments; in terms of volume all the company's business segments showed positive growth. In addition to the above mentioned brands, *Burberry*, *Diesel*, *Kate Spade* and *Valentino* have contributed to a sales increase in 2004. Turnover in North America in the third quarter of 2004 decreased 8.4%, mainly due to a negative exchange rate effect. At constant exchange rates net sales during the third quarter 2004 are substantially in line with the same period of 2003 and, in terms of volume, we have achieved a 5.2% growth.

Italy. Turnover for the nine month period ended September 30, 2004 has been affected by the economic difficulties of the Italian market, both in the sunglasses and prescription frames segments, and shows a slight decrease (-2.0%) when compared with the prior year. The prescription business was most severely impacted by the weakness of the domestic market whilst sales in the sunglasses segment grew approximately 7% in volumes compared to the prior year. Furthermore, Italy showed significant signs of recovery during the third quarter of 2004 where sales in all the company's business segments are significantly higher (+12.8%) than the previous year as a direct consequence of specific initiatives aimed at improving the company's performance and the positive effects derived from several brands including *Giorgio Armani*, *Emporio Armani*, *Dior* and *Valentino*.

Europe (excl. Italy). Our sales in the European market increased by 8.4% in the nine months to September 30, 2004 compared to the same period in 2003. The growth has principally been seen in Spain, Greece, France and Switzerland with positive results seen for all our most important brands. In volume terms there has been a 6.3% increase from 5.8 million units in the nine month period ended September 30, 2003 to 6.1 million units in the same period of 2004 with the sunglasses and sport goggles business segments that outperforming the growth of the prescription frames market. This positive trend continued in the third quarter of 2004 with a 5.1% net sales increase compared to the same period in 2003. In volume terms prescription frames showed important signs of recovery and their increase is higher than the other business segments.

Far East. During the first nine months of 2004 Far Eastern markets have confirmed the strong sales recovery and have returned to the extremely positive results of previous years. Despite the negative exchange rate effects, turnover grew by approximately 35.1% in the nine month period ended September 30, 2004 compared to the same period in 2003. Positive results have been achieved in the third quarter of 2004 with an increase of 17.9% compared to the same period of the prior year. In volume the first nine months of 2004 showed significant growth in both the sunglasses and prescription frames business segments, even if the former has experienced stronger performance. Brands that generated these significant results include *Giorgio Armani, Emporio Armani, Dior, Burberry* e *Gucci*.

SELECTED FINANCIAL DATA

(in Euro millions)	Quarter				YTD			
	2004		2003		2004		2003	
	Jul-Sep		Jul-Sep		Jan- Sep		Jan- Sep	
	€	%	€	%	€	%	€	%
Net sales	199.9	100.0%	196.7	100.0%	713.2	100.0%	673.8	100.0%
Cost of good sold	79.7	39.9%	81.1	41.2%	284.7	39.9%	281.7	41.8%
Commercial costs	68.8	34.4%	69.1	35.1%	242.8	34.0%	227.8	33.8%
Other expenses	30.7	15.4%	30.7	15.6%	99.5	14.0%	93.4	13.9%
EBITDA	28.1	14.1%	25.1	12.8%	109.7	15.4%	98.8	14.7%

In the third quarter of 2004, reported EBITDA was €28.1 million (14.1% of net sales) compared to €25.1 million (12.8% of net sales) in the same period of 2003. The 12% improvement in EBITDA is principally driven by increased sales, despite the negative impact of the exchange rates, and by continuing the outsourcing and manufacturing rationalization initiatives implemented at the cost of goods sold level.

The EBITDA for the first nine months of 2004 reached €109.7 million compared to €98.8 million in the same period of 2003.

The gross profit margin level increased by 9.3% (€36.4 million in absolute value) in the nine month period ended September 30, 2004 compared to the prior year. The reason for this improvement can be attributed to the cost reduction policies and to the production reorganization initiatives undertaken. These efforts have partially been reduced by the impact of negative exchange rates in 2004, which have not been reduced by the company's hedging policies to the same extent as in 2003.

Commercial costs, being substantially variable, increased in line with higher sales from €227.8 million to €242.8 million. The growth in royalties cost as a percentage of turnover is due to the increase in sales of licensed products and has been compensated by a lower level of costs for services from independent sales persons due to a different mix in the company's markets.

Other expenses, which should be substantially fixed costs, increased in absolute value by €6.1 million compared to the prior year as a result of: (i) higher costs associated with the consolidation of the Outlook business, (ii) personnel costs associated with the increased number of employees, primarily at the Padova headquarters in the logistics, product development and customer service areas in order to ensure greater and more timely customer service, and (iii) the full impact of Solstice stores opened during the second half of 2003.

CASH FLOW

The following table summarizes our cash flow during the nine month period ended September 30, 2004 compared to the same period of 2003.

(€ in million)	30th September 2004	30th September 2003
Net cash flows:		
(Used in)/provided by operating activities………………	20.6	32.1
Used in investment activities.. …………………………..	(20.5)	(70.1)
(Used in)/provided by financing activities ………………	17.5	27.5
Cash and cash equivalents, end of period	23.6	31.4

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 nine month period ended September 30, 2004 is as follows:

(€ in million)	30th September 2004	30th September 2003
Net Income ………………………………………………	(6.7)	(6.3)
Amortization and depreciation …………………………..	44.9	48.7
Change in trade receivables and other receivables………	(11.8)	(24.2)
Change in inventory……………………………………	(14.4)	11.6
Change in trade payables and other current payables …..	10.5	(1.0)
Change in pension fund and TFR………………………..	2.3	2.9
Other …………………………………….……………	(4.2)	0.4
Total …………………………………….……………	**20.6**	**32.1**

The cash flow from operating activities decreased by €11.5 million from €32.1 million in the nine month period ended September 30, 2003 to €20.6 million in the same period of 2004. The main reasons for this decrease are:

- ✓ The negative impact deriving from the strong inventory growth at September 30, 2004 compared with the prior year. The increased inventory level, above all for finished products, is mainly due to the company's business strategy aimed at a more timely customer service based on a significant reduction of the delivery time to the market;
- ✓ The positive results on the other components of working capital deriving from the combined effect of: (i) a decrease in trade receivables mainly due to the significant efforts made by the company in order to reduce the outstanding days of payment from customers; (ii) a growth in trade and other current payables that derives from a slight increase in the days of payables outstanding and from a higher level of trade payables as a consequence of the purchases of finished products needed for a prompt reply to the customers' requests.
- ✓ The negative effect in the category "*other*" which has been impacted by the payment of termination costs to the employees of the Austrian facility closed during 2004.

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 nine month period ended September 30, 2004 cash flow used in investment activities decreased by €49.6 million, mainly as a consequence of 2003 extraordinary costs related to the financial restructuring of the Group.

Investments in tangible fixed assets amount to approximately €19.3 million; the main expenditures in the nine month period ended September 30, 2004 are related to the production area for a value of €9.3 million, and to the completion of the enlargement of the headquarters building for the Distribution Centre in Padova for €6.3 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 at 30th September 2004, 31st December 2003 and 30th September 2003 is as follows:

	2004 September	2003 December	2003 September
Headquarters (Padova – Italy)	693	637	629
Factory personnel	4,584	4,954	4,754
Subsidiaries	1,016	973	978
Solstice	208	202	211
Total	**6,501**	**6,766**	**6,572**

SÀFILO GROUP

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

Consolidated Balance Sheets

(€ thousands)	30 September 2004	31 December 2003
ASSETS		
Current assets:		
Cash and cash equivalents	26,604	38,741
Trade receivables (net of provision for doubtful accounts)	208,068	209,077
Inventory, net	182,062	166,580
Other current receivables	89,727	83,309
Total current assets	**506,461**	**497,707**
Non-current assets:		
Property, plant and equipment, net	183,564	184,096
Intangible assets	404,147	427,871
Investments in associates and long-term financial assets	107,089	107,593
Deferred income taxes	20,847	12,804
Total non-current assets	**715,647**	**732,364**
Total assets	**1,222,108**	**1,230,071**
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	2,960	28,118
Current portion of long-term debt	26,648	23,388
Trade payables	135,208	141,594
Income tax payables	20,395	16,259
Other current payables and accrued expenses	79,603	70,470
Current provisions	302	5,607
Total current liabilities	**265,116**	**285,436**
Non-current liabilities:		
Long-term borrowings	777,734	784,301
Termination Indemnity Liability	31,069	28,784
Long-term provisions	30,259	32,981
Total non-current liabilities	**839,062**	**846,066**
Total liabilities	**1,104,178**	**1,131,502**
Shareholders' equity attributable to minority shareholders	**5,909**	**5,425**
Shareholders' equity:		
Share capital	35,000	34,350
Other reserves and retained earnings	83,739	69,727
Income pertaining to the Group	(6,718)	(10,933)
Total shareholders' equity attributable to the Group	**112,021**	**93,144**
Total shareholders' equity	**117,930**	**98,569**
Total liabilities and shareholders' equity	**1,222,108**	**1,230,071**

Consolidated Statements of Operations

	September 30,	
(€ thousands)	**2004**	**2003**
Net sales	713,153	673,851
Cost of sales	(284,689)	(281,668)
Gross profit	**428,464**	**392,183**
Selling and marketing expenses	(242,829)	(227,856)
General and administrative expenses	(98,528)	(93,055)
Other income/(expense)	(973)	(314)
Operating income/(loss)	**86,134**	**70,958**
Interest income/(expense) and other financial charges	(53,612)	(48,407)
Extraordinary income/(expense)	(1,188)	1,093
Amortisation of goodwill	(17,675)	(17,126)
Income/(loss) before taxation	**13,695**	**6,518**
Tax expense	(17,499)	(10,574)
Net income/(loss) before minority shareholders	**(3,840)**	**(4,056)**
Income attributable to minority shareholders	(2,878)	(2,294)
Net income/(loss)	**(6,718)**	**(6,350)**

Consolidated Statements of Cash Flows

(€ thousands)	September 30, 2004	Year Ended December 31, 2003
Cash flows from operating activities:		
Net income/(loss)	(6,718)	(10,933)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	25,687	35,307
Depreciation	19,239	26,415
Assets impairments	—	8,220
Change in accounting method for equity investments	650	(6,862)
Loss/(gain) on disposal of property, plant and equipment	71	67
Changes in operating assets and liabilities:		
Trade receivables and other current receivables	(11,801)	(47,323)
Inventory	(14,360)	11,878
Trade payables and other current payables and accrued expenses	10,529	(1,199)
Pension fund and Termination Indemnity Liability (TFR)	2,285	2,238
Other	(4,918)	6,131
Net cash provided by (used in) operating activities	**20,664**	**23,939**
Cash flows from investing activities:		
Purchase of property, plant and equipment (net of disposal)	(18,736)	(45,507)
Acquisition/disposal of investments in associates	(80)	—
Acquisition of intangible assets	(1,707)	(34,921)
Net cash provided from (used in) investing activities	**(20,523)**	**(80,428)**
Cash flows from financing activities:		
Proceeds from borrowings	—	300,000
Dividends paid by subsidiaries	(2,213)	(2,202)
Share issuance	25,000	30,000
Repayment of borrowings	(5,286)	(305,590)
Net cash provided from (used in) financing activities	**17,501**	**22,208**
Effect of exchange rate	**(4,621)**	**683**
Net increase in cash and cash equivalents	**13,021**	**(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	**23,644**	**10,623**
Breakdown of "cash and cash equivalents at the end of the period":		
Cash and cash equivalents	26,604	38,741
Bank overdraft	(2,960)	(152)
Short term loans	—	(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 Sep 30, 2004	As of Dec 31, 2003	As of Sep 30, 2003	Average For the Nine Months ended Sep 30, 2004	Average For the Twelve Months ended December 31, 2003	Average For the Nine Months ended Sep 30, 2003
USD	1.2409	1.2630	1.1427	1.2255	1.1313	1.1050
HKD	9.6745	9.8049	8.9110	9.5485	8.8089	8.6178
FSV	1.5524	1.5579	1.5544	1.5474	1.5213	1.4918
CAD	1.5740	1.6234	1.5506	1.6281	1.5816	1.6048
YEN	137.17	135.05	137.32	133.5317	130.9604	131.1204
GBP	0.6868	0.7048	0.6932	0.6731	0.6920	0.6855
SEK	9.0588	9.0800	9.2488	9.1625	9.1242	9.1628
AU$	1.7212	1.6802	1.7116	1.6827	1.7378	1.7921
ZAR	7.9792	8.3276	8.5422	8.0627	8.5358	8.9028
SIT	239.9800	236.7000	233.9520	238.8335	233.7843	231.9868
BRL	3.5351	3.6627	3.29611	3.6416	3.4686	3.5720
RUPIA	56.9759	57.5820	53.0970	55.6791	53.0608	53.2272
SGD	2.0937	2.1450	2.0149	2.0856	1.9704	1.9291
MYR	4.71529	4.79902	4.34168	4.6563	4.2984	4.1984
CNY	10.27460	10.4576	—	10.1476	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 September 2004, Sàfilo has entered into 4 year swaps partially hedging the interest expense due in the next 4 years. 80% 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 September 2004	31 December 2003
Gross value	223,728	221,733
Provision for doubtful accounts	(15,660)	(12,656)
Net value	**208,068**	**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 of Safilo's trade receivables on a revolving basis. Such arrangement with Centro Factoring S.p.A. substantially replaced Safilo's securitization program. As of 30th September 2004 the total amount of receivables sold to Centro Factoring S.p.A. and still outstanding was €67.6 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 September 2004	31 December 2003
- Raw materials and supplies	28,781	32,954
- Work in progress	9,197	9,561
- Finished products	144,084	124,065
Total	**182,062**	**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 September 2004	31 December 2003
Value added tax (VAT) receivables	6,497	2,842
Tax credits and advance payments	17,834	13,890
Current deferred income taxes	11,942	16,378
Receivables due from Centro Factoring S.p.A./Sunlight S.r.l.	35,939	37,533
Prepayments and accrued income	9,944	4,182
Receivables from salespersons	3,519	4,148
Other receivables	4,052	4,336
Total	**89,727**	**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 €9.9 million as at 30th September 2004, compared to €4.2 million as at 31st December 2003 and include:

- Prepaid advertising expenses of €5.2 million;
- Prepaid lease instalments of €1.0 million;
- Prepaid insurance costs of €0.7 million;
- Other accrued income and prepayments of €3.0 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	460	8,621	2,753	7,524	19,358
Translation differences/other transfer	(67)	(310)	459		82
Disposals	(707)	(8,786)	(3,124)	—	(12,617)
Balance at 30 September 2004	**91,022**	**205,016**	**52,856**	**24,421**	**373,315**
Accumulated Depreciation					
Balance at 31 December 2003	(18,983)	(133,798)	(29,615)	—	(182,396)
Depreciation charge	(1,917)	(12,898)	(4,424)	—	(19,239)
Translation differences/other transfer	10	179	(229)	—	(40)
Disposals	707	8,498	2,719	—	11,924
Balance at 30 September 2004	**(20,183)**	**(138,019)**	**(31,549)**	—	**(189,751)**
Net Book Value					
Balance at 30 September 2004	**70,839**	**66,997**	**21,307**	**24,421**	**183,564**

5 Investments in associates and long term financial assets

	Interest in share capital %	Relationship	30 September 2004
(€ thousands)			
Investment in associates:			
Banca Popolare di Lodi	0.65%	Other shareholdings	10,198
Elegance International Holdings Ltd	23.05%	Equity investment	11,037
TBR Inc. (USA)	33.33%	Entity under common control	479
Optifashion As (Turkey)	50%	Unconsolidated subsidiary	353
Safilens Srl	17.50%	Associate	200
Other	—	Other shareholdings	100
Total investments in associates			*22,367*
Long term financial assets			84,722
Total			**107,089**

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 nine months of 2004.

Long term financial assets as at 30th September 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;
- €0.3 million of tax advances on the employees' termination indemnity paid by certain Italian Group companies;
- approximately €2.5 million of guarantee deposits and other receivables with the Italian Government.

6 Short-term borrowings

(€ thousands)	30 September 2004	31 December 2003
Bank overdraft	2,960	152
Short term loans	—	27,966
Total	**2,960**	**28,118**

7 Long-term borrowings

(€ thousands)	30 September 2004	31 December 2003
Loans	489,206	490,873
Less: Current portion of loans	(24,586)	(21,040)
Notes	300,000	300,000
Other providers of financing	13,951	14,608
Less: Current portion in other providers of financing	(2,062)	(2,348)
Other long term debt	1,225	2,208
Total	**777,734**	**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 September 2004 includes:

- €0.8 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;

- €12.1 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 September 2004	31 December 2003
Purchase of materials	30,309	33,483
Purchase of products and subcontract costs	52,938	37,708
Commission and royalties	19,132	33,389
Advertising and sponsorship costs	14,982	14,288
Services received from third parties	12,627	16,291
Purchase of fixed assets	5,220	6,435
Total	**135,208**	**141,594**

9 Income tax payable

Outstanding payables to the tax authorities amount to €20.4 million as at 30th September 2004 and €16.3 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 September 2004	31 December 2003
Payroll and social security	29,693	30,103
Accruals for bonuses to customers	13,888	16,250
Payable to salespersons	3,733	2,481
Accrual for advertising and sponsorship expenses	9,917	4,137
Accrual for loan interest expense	11,225	4,092
Accruals for insurance, leasing and other charges	4,570	4,966
Payable to minority shareholders	2,004	3,169
Other payable	4,573	5,272
Total	**79,603**	**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 include 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: Accruals	Utilisation	Translation difference	Balance as at 30 September 2004
Employee benefits	1,070	1,198	(1,444)	23	847
Product warranty	2,753	173	—	7	2,933
Provision for deferred foreign currency gains on long term borrowings	26,686	—	(3,135)	—	23,551
Agents indemnity	2,472	456	—	—	2,928
Total long-term provision	*32,981*	*1,827*	*(4,579)*	*30*	*30,259*
Other current provision	5,607	443	(5,744)	(4)	302
Total	**38,588**	**2,270**	**(10,323)**	**26**	**30,561**

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 provision has been provided to cover the estimated cost of replacing defective products.

The Agents' leaving indemnity represents the costs that would be incurred if the agreement with the agents is terminated by the Group. This provision is estimated according to Italian and European law and historical trends.

The provision for deferred gains on foreign currency exchange rates represents 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 September 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 – Sep 2004	Jan – Sep 2003
Purchase of materials and finished products	185,041	147,703
Changes in inventories	(15,253)	12,180
Salaries and related contributions	64,080	65,456
Subcontracting costs	24,738	31,525
Industrial depreciation	15,502	19,470
Other costs	10,581	5,334
Total	**284,689**	**281,668**

Changes in inventories:

(€ thousands)	Jan – Sep 2004	Jan – Sep 2003
Finished products	(20,987)	5,672
Work in progress	1,532	1,670
Raw material	4,202	4,838
Total	**(15,253)**	**12,180**

The increase of the finished products inventory during the nine month period ended September 30, 2004 is mainly due to a new market strategy based on an increased level of inventory aimed at reducing delivery time to market and to customers' demand, increasing the company's competitiveness.

Salaries and related contributions decreased by 2.1% from €65.5 million as at 30th September 2003 to €64.1 million as at 30th September 2004. This reduction is mainly the result of a lower number of employees in the production plants deriving from an improved production efficiency and the closure of the Austrian facility in Traun, only partially offset by an increased number of workers in other group entities.

Subcontracting costs include the costs of third parties which manufacture semi-finished products using materials provided by the Group. The significant decrease in this kind of costs (-21.6%) in the first nine months of 2004 when compared to the same period of 2003, is mainly due to the strong use made of subcontractors' services during the first half of 2003 in order to launch the company's new collections.

Other costs include industrial services, energy costs, maintenance and rental costs related to production. Rental costs related to machinery and equipment amount to €7.2 million as of 30th September 2004 and €6.9 million as of 30th September 2003. Other costs include gains on currency swaps for a total amount of €3.9 million as of 30th September 2004 compared to €8.2 million for the same period of prior year.

14 Selling and marketing expenses

(€ thousands)	Jan – Sep 2004	Jan – Sep 2003
Staff costs	26,452	26,185
Services from independent salespersons	57,311	57,200
Royalties	61,234	54,131
Advertising and promotion	66,763	65,315
Other selling expenses	31,069	25,025
Total	**242,829**	**227,856**

Other selling expenses

This item refers to:

(€ thousands)	Jan – Sep 2004	Jan – Sep 2003
Transport and other sales costs	28,576	23,499
Bad debt provision	2,376	1,377
Warranty provision	117	149
Total	**31,069**	**25,025**

Selling and marketing expenses increased by approximately €15.0 million in the nine month period ended September 2004 when compared with the same period of 2003 as a consequence of: (i) higher royalty expenses due to the relative growth in sales of licensed products compared to the group owned brands sales; (ii) the acquisition of a new distribution centre in North America (Outlook Eyewear); (iii) higher advertising costs related to the launch of licensed brands and to the increase in sponsorship costs.

15 General and administrative expenses

(€ thousands)	Jan – Sep 2004	Jan – Sep 2003
Staff costs	59,388	53,865
Other staff related costs	4,999	4,575
Depreciation and amortization	8,093	8,407
Other general and administrative expenses	24,304	24,932
Other provision and annual fees	1,744	1,276
Total	**98,528**	**93,055**

General and Administrative expenses increased by approximately €5.5 million (+5.9%) in the first nine months of 2004, mainly due to the negative impact deriving from a higher number of employees for the improvement of the company's customer service and the consolidation of the Outlook business in the United States.

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

16 Other income/(expenses)

(€ thousands)	Jan – Sep 2004	Jan – Sep 2003
Losses on disposal of assets	(193)	(91)
Other operating charges	(213)	(206)
Gain on disposal of assets	122	41
Other operating income	377	746
Other taxes	(1,066)	(804)
Total	**(973)**	**(314)**

17 Interest income/(expense) and other financial charges

Net interest expense:

(€ thousands)	Jan – Sep 2004	Jan – Sep 2003
Interest expense	(48,244)	(49,444)
Less: interest income	1,785	7,302
Bank charges	(3,498)	(2,586)
Debt issuance costs	(3,655)	(3,679)
Total	**(53,612)**	**(48,407)**

Interest expense mainly includes: (i) interest on senior loans and other debts totalling €44.7 million; (ii) discounts granted to customers for early payments totalling €3.4 million.

Interest income during the nine month period ended September 30, 2004 includes €1.5 million of currency exchange rate gains (€6.7 as of 30th September 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 – Sep 2004	Jan – Sep 2003
Dividend on investments	154	862
Indemnities and reimbursement	184	114
Other extraordinary incomes/(expenses)	(1,526)	117
Total	**(1,188)**	**1,093**

19 Income taxes

Income taxes totalled €17.5 million for the nine month period ended 30th September 2004 (€10.6 million for the same period of 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:

Entity—Location		Share capital	Ownership %
Holding Company			
Sàfilo S.p.A.	€	35,000,000	
Other Italian entities			
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
Foreign entities			
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 Yorkshire, 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 September, 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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