



SÀFILO GROUP

Financial information from January 1st, 2005 to March 31st, 2005

May 18th, 2005



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INTRODUCTION

We are the world's second largest eyewear producer and worldwide leader in the premium eyewear market segment both 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 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*, *Marc by 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 our own subsidiaries and a sales force of over 1,300 sales representatives.



OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The net Group turnover continued to increase also in the first quarter of 2005 compared to previous year. Despite the continuous weakness of the U.S. dollar, revenues grew by approximately €19.9 million (+7.6%) compared to the previous year; at constant exchange rates, the 2005 sales would have been higher by about 9.7% when compared with 2004 .

The positive performances in the net sales have been reached in the Italian, Asian and North American markets. The extraordinary growth of the net sales in the Far East area (+39.7%) is still continuing; also the Western markets, although to a less extent, continue to show a strong appreciation for the collections of the Group with growths of 9.4% (at constant exchange rates) in North America and of 25.8% in Italy. This confirms the strong recovery of the domestic market with a substantial increase of the net sales (+€8.7 million) in comparison with the first quarter of 2004.

The profitability of the Group continues to improve, achieving at the end of the first quarter the 17.3% of the net sales versus the 15.1% of the first quarter 2004. the performance is particularly positive if we consider that the first quarter 2004 already achieved a substantial improvement and the negative impact due to the devaluation of the American Dollar is still present. These results confirm the stability of the improvements achieved and denote that the Group is recovering the loss of profitability due to the weakness of the American currency.

The net debt position at the end of the quarter amounts to € 773 million, slightly worst in comparison to December 31st, 2004 and the same period of the previous year as a consequence of the increase of the working capital necessary to support the growth of the net sales.

Starting first quarter 2005 the Group reports its results according the IFRS GAAP. The transition date for the new accounting GAAP has been set in the 1st January 2004. In this report all necessary reconciliations with previous GAAP are fully disclosed. The IFRS GAAP don't impact substantially the figures reported according to the previous Italian GAAP.



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
	2005		2004		Q1
	Jan- Mar		Jan- Mar		2005-2004
	€	%	€	%	%
<i>Net Sales:</i>					
Prescription frames	109.7	39.0%	114.1	43.7%	-3.9%
Sunglasses	163.9	58.3%	141.9	54.4%	15.5%
Sport goggles	7.0	2.5%	4.5	1.7%	54.5%
Others	0.4	0.1%	0.5	0.2%	-25.1%
Total	281.0	100.0%	261.1	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
	2005		2004		Q1
	Jan- Mar		Jan- Mar		2005-2004
	€	%	€	%	%
<i>Net Sales:</i>					
North America	95.7	34.0%	91.9	35.2%	4.1%
Italy	42.3	15.0%	33.6	12.9%	25.8%
Europe (excluding Italy)	102.4	36.5%	103.7	39.7%	-1.3%
Far East (excluding Australia)	22.6	8.0%	16.2	6.2%	39.7%
Other	18.0	6.4%	15.7	6.0%	14.7%
Total	281.0	100.0%	261.1	100.0%	7.6%

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



Net sales. Turnover for the period ended March 31, 2005 grew by 7.6%, from €261.1 million in 2004 to €281 million in 2005; the negative impact of the devaluation of the American Dollar is continuing to reduce the growth, that should have reached 9.7%. The increase of the net sales has been achieved mainly in Far East (+39.7%) and Italian markets (+25.8%); growth of 4.1% reached in North America is positive, although lower than the other two areas. Particularly positive sales performances have been reached in griffes business by *Dior*, *Giorgio Armani* and *Gucci* and in the owned brand *Carrera*. The sunglass sales out-performed the prescription business mainly due to the growth mix that is more concentrated in markets which prefer the more fashion-oriented products.

North America. Despite the weak US dollar, the sales in North America during the first quarter 2005 increased by 4.1% when compared with the same period of previous year. The US market has showed a strong appreciation of our sunglasses collections of *Armani*, *Dior*, *Gucci* and *Liz Claiborne* (this latter brand is distributed only in the American market). The sales of the retail chain *Solstice* are extremely positive and higher than internal expectations.

Italy. Despite the difficulties of the Italian economy, the turnover of the Group in the domestic market are constantly growing in the last quarters and they confirm the efficacy of our collections and of the sales strategies implemented during year 2004. The net sales have increased by 25.8% confirming the positive performance of *Armani*, *Dior* and *Gucci* brands achieved by the Group. The growth has been performed mostly in the sunglasses segment although the prescription business has increased too.

Europe (excl. Italy). During the first quarter of 2005 the European market has under-performed compared to the other Business Units, recording a slight decrease of 1.3% comparing to the same period of the previous year. England is the market with the major difficulties; this is due to the interruption of the commercial relations with the most important local customer. Looking at the other countries, Spain, Portugal and Turkey reached the best performances, while France and Germany remain stable. The positives signs of the market, coming from the good level of the collection of the orders, let us suppose a recovery in the next months. Particularly positive performances come from *Dior* and *Giorgio Armani* brands.

Far East. The growth of the turnover in this area continues to be very positive. During the first quarter 2005, despite the weakness of the American Dollar, the turnover increase compared to the same period of the previous year reached 39.7%. Sensible increases have been obtained in the Japanese, Korean and Philippines markets, supported by the excellent growth rates of *Giorgio Armani*, *Burberry*, *Gucci*, *Dior*, and *Yves Saint Laurent*.



SELECTED FINANCIAL DATA

(in Euro millions)	Quarter			
	2005		2004	
	Jan- Mar		Jan- Mar	
	€	%	€	%
Net sales	281.0	100.0%	261.1	100.0%
Cost of goods sold	112.6	40.1%	105.7	40.5%
Selling and Mktg expenses	102.3	36.4%	98.1	37.6%
G&A and other	26.2	9.3%	26.7	10.2%
EBITDA	48.6	17.3%	39.5	15.1%

The EBITDA of the first quarter 2005 as a percentage on turnover grew from 15.1% to 17.3%; in absolute value the EBITDA increased by approximately 23%, from €39.5 million in 2004 to €48.6 million.

The gross profit margin level (considered as the difference between net sales and cost of goods sold) increased by 8.4% (+€13 million in absolute value) in the first quarter 2005 when compared to the previous year. The actions taken by the Group during the last two years guarantee the stability of the improvement of the gross margin which, despite the weakness of the US Dollar, is slightly better than the first quarter of 2004.

Selling and marketing expenses amount to €102.3 million, decreasing from 36.4% of the revenues in the first quarter 2004 to 37.6% in 2005. This reduction mainly relates to savings in marketing expenses and to a lower incidence of the cost of the commercial personnel.

G&A expenses amount to €26.2 million and are substantially stable in comparison with the same period of the previous year; the slight increase of the costs are compensated by a decrease of the consultancy costs.

CASH FLOW

The following tables summarize our cash flow activity during the year ended March 31, 2005 compared to the same period of 2004.

(€in million)	At 31 March	
	2005	2004
Net cash flows:		
(Used in)/provided by operating activities	(33.2)	29.4
(Used in)/provided by investment activities	(5.5)	(8.3)
(Used in)/provided by financing activities	(0.6)	(52.0)
Net increase (decrease) in cash and cash equivalents	(39.3)	(30.9)



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 year ended March 31, 2004 is as follows:

(€in million)	At 31 March	
	2005	2004
Net Income	8.5	4.3
Amortization and depreciation	8.7	8.9
Trade receivables and other current assets	(57.1)	(6.4)
Inventory	8.9	8.8
<u>Trade payables and other current liabilities</u>	<u>(4.9)</u>	<u>15.4</u>
Changes in working capital	(53.1)	17.8
Other	2.7	(1.6)
Total	(33.2)	29.4

The cash flow from operating activities decreased by €2.6 million from €9.4 in the year period ended March 31, 2004 to a negative position of €3.2 million in the same period of 2005. The main reason for this decrease is the start of the factoring program in 2004 through which trade receivables have been sold to Centro Factoring S.p.A., with a net effect as cash generation of €5 million. As far as other effect is concerned, we have:

- ✓ The positive impact of the increase of the net income
- ✓ The increase of the Trade receivable due to the higher level of net sales
- ✓ The absorption of cash coming from Trade payables mainly derives from the large amount of payments to suppliers consequent of the increased purchases of finished products and raw materials in Q42004 compared to the same period of the previous year.
- ✓ The positive effect in the category "other" is due to the lack of payment of termination costs that impact 2004 cash flow for the closure 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.

Cash flow used in investment activities for the period ended March 31, 2005 slightly decreased by €2.7 million. The investments in tangible assets impact for €5.2 million in comparison to €7.6 million of the previous year and are mainly due to replacements of obsolete moulds in the facilities and to the new opening of Solstice' stores.

Cash Flow from Financing Activities. Financing activities have absorbed €0.6 million in the quarter, substantially in line with the first quarter of 2004, where the large amount of cash absorption was consequent to the closure of the securitization program (€50 million).



PERSONNEL

Personnel as of 31st March 2005, 31st December 2004 and 31st March 2004 is as follows:

	2005	2004	2004
	March	Dec	March
Headquarter (Padova – Italy)	734	707	645
Factory personnel	4,294	4,561	4,594
Subsidiaries	1,031	1,024	994
Solstice	236	221	191
Total	6,295	6,513	6,424



SÀFILO GROUP

**Consolidated Financial Statements
For the period January 1st – March 31st, 2005**



Consolidated Balance Sheets

(€thousands)	Note	At 31 March 2005	At 31 December 2004
ASSETS			
Current assets			
Cash and cash equivalents		25,630	33,795
Trade receivables, net	1	277,554	215,943
Inventories, net	2	187,785	192,196
Other current assets	3	60,252	59,593
Total current assets		551,221	501,527
Non-current assets			
Property, plant and equipment, net	4	194,532	195,768
Intangible assets	5	20,225	21,226
Goodwill	5	363,802	363,161
Investments in associated companies	6	10,624	10,167
Available for sale investments	6	7,334	6,932
Deferred income taxes	7	43,632	44,517
Other non-current receivables	8	1,889	1,791
Total non-current assets		642,038	643,562
Total assets		1,193,259	1,145,089
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	9	73,897	43,398
Trade payables	10	162,464	173,527
Income tax payables	11	28,337	19,179
Other current liabilities	12	65,928	65,463
Current provisions	13	167	136
Total current liabilities		330,793	301,703
Non-current liabilities:			
Long-term borrowings	14	725,141	718,006
Retirement benefit obligations	13	35,693	34,607
Provisions	13	6,748	6,356
Deferred tax liabilities	15	8,536	7,379
Other non-current liabilities	16	7,188	8,479
Total non-current liabilities		783,306	774,827
Total liabilities		1,114,099	1,076,530
Shareholders' equity			
Share capital		35,000	35,000
Share premium		53,350	53,350
Treasury shares, at cost		(80,988)	(80,988)
Retained earnings and other reserves		64,526	40,856
Fair Value reserve		(6,113)	(6,342)
Income pertaining to the Group		7,322	21,610
Shareholders' equity		73,097	63,486
Minority interests		6,063	5,073
Total Equity	17	79,160	68,559
Total liabilities and Equity		1,193,259	1,145,089



Consolidated Statements of Operations

(€thousands)	Note	Three months ended 31 March	
		2005	2004
Net sales		280,961	261,088
Cost of sales	18	(112,567)	(105,746)
Gross profit		168,394	155,342
Selling and marketing expenses	19	(102,274)	(98,105)
General and administrative expenses	20	(26,325)	(26,432)
Other operating incomes/(expenses)	21	85	(224)
Operating income/(loss)		39,880	30,581
Share of results of associated companies		(9)	(4)
Finance costs, net	22	(18,920)	(18,827)
Income/(loss) before taxation		20,951	11,750
Tax expense	23	(12,447)	(7,456)
Net income/(loss) before minority shareholders		8,504	4,294
Income attributable to minority shareholders		1,182	1,551
Net income/(loss)		7,322	2,743



Consolidated Statements of Cash Flow

	Three months ended 31 March	
	2005	2004
Cash flows from operating activities		
Net income / (loss)	8,504	4,294
Amortisation and depreciation	8,695	8,915
Fees amortized cost	1,114	1,134
Revaluation of equity investments, associated companies	9	5
Trade receivables and other current assets	(57,081)	(6,385)
Inventory	8,930	8,763
Trade payable and other current liabilities	(4,891)	15,370
Retirement benefit obligations	1,082	1,130
Other (net)	411	(3,808)
Net cash provided by (used in) operating activities	(33,227)	29,418
Cash flows from investing activities:		
Purchase of property, plant and equipment (net of disposal)	(5,171)	(7,644)
Acquisition/disposal of equity investments	0	(98)
Disposal of investments in associates	72	0
Acquisition intangible assets	(391)	(511)
Net cash provided from (used in) investing activities:	(5,490)	(8,253)
Cash flows from financing activities:		
Proceeds from borrowings	106	3,375
Dividend paid by Safilo S.p.A.		
Dividend paid to minority shareholders	(220)	(446)
Repayment of borrowings	(446)	(54,945)
Net cash provided from (used in) financing activities	(560)	(52,016)
Effect of exchange rate	1,356	2,355
Net increase (decrease) in cash and cash equivalents	(37,921)	(28,496)
Cash and cash equivalents net, at the beginning of the period	18,151	23,234
Cash and cash equivalents net, at the end of the period	(19,770)	(5,262)



Statement of changes in shareholders' equity

	Note	Balance at 1 January 2004	Increase	Decrease	Allocation of 2003 net income	Balance at 31 December 2004
Share Capital		34,350	650			35,000
Share premium		29,000	24,350			53,350
Treasury Shares		(80,988)				(80,988)
Retained earnings and other reserves		62,651	(4,500)		(17,294)	40,856
Fair Value Reserves		(826)		(5,516)		(6,342)
Net income for the year		(17,294)	21,610		17,294	21,610
Total Equity Group		26,893	42,110	(5,516)	0	63,486
Minority interests		5,876	3,125	(3,928)	0	5,073
Total Equity	17	32,769	45,235	(9,444)	0	68,559

	Note	Balance at 1 January 2005	Increase	Decrease	Allocation of 2004 net income	Balance at 31 March 2005
Share Capital		35,000				35,000
Share premium		53,350				53,350
Treasury Shares		(80,988)				(80,988)
Retained earnings and other reserves		40,856	2,060		21,610	64,526
Fair Value Reserves		(6,342)	229			(6,113)
Net income for the period		21,610	7,322		(21,610)	7,322
Total Equity Group		63,486	9,611	0	0	73,097
Minority interests		5,073	1,210	(220)	0	6,063
Total Equity	17	68,559	10,821	(220)	0	79,160



Notes on the IFRS Consolidated Financial Statements

Basis for the preparation of the IFRS consolidated financial statements

The Group's financial statements for the year ending December 31st, 2005 will be the first annual financial statements that comply with IFRS (International Financial Reporting Standards).

These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements. The IFRS standards and IFRIC interpretations that will be applicable at December 31st, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

In preparing this form as at March 31st, 2005 the Group has applied IFRS n. 1, *First-time adoption of IFRS*, and IAS n. 34, *Interim Financial Reporting*, being March 2005 financial statements part of the period covered by the Group's first IFRS financial statements for the year ending December 31st, 2005.

The accounting policies adopted by the Group are described in the paragraph "Summary of significant accounting policies - Basis of preparation".

Safilo Group transition date is 1st January 2004. The Group prepared its opening IFRS balance sheet at that date.

The reporting date of this interim consolidated financial statements is March 31st, 2005. The Group's IFRS adoption date is 1st January 2005.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS as described in the paragraphs "Basis of transition to IFRS – exemptions from full retrospective application elected by the Group" and "Basis of transition to IFRS – exceptions from full retrospective application followed by the Group".

Reconciliations and descriptions of the effect of the transition from Italian GAAP to IFRS on the Group's equity and net income are provided in the paragraph "Reconciliations between Italian GAAP and IFRS".

The preparation of the financial statements in conformity with IFRS 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 against the Euro were used to convert the financial statements of foreign consolidated subsidiaries:

	As of March 31, 2005	As of Dec 31, 2004	As of March 31, 2004	Average For the Three Months ended March 31, 2005	Average For the Twelve Months ended December 31, 2004	Average For the Three Months ended March 31, 2004
USD	1.2964	1.3621	1.2224	1.3113	1.2439	1.2497
HKD	9.5228	10.5881	9.5228	10.2257	9.6881	9.7201
CHF	1.5594	1.5429	1.5594	1.5488	1.5438	1.5686
CAD	1.5979	1.6416	1.5979	1.6083	1.6167	1.6482
JPY	126.9700	139.6500	126.9700	138.0126	134.4446	133.9720
GBP	0.6659	0.70505	0.6659	0.6936	0.6787	0.6799
SEK	9.2581	9.0206	9.2581	9.0736	9.1244	9.1844
AUD	1.6052	1.7459	1.6052	1.6910	1.6905	1.6337
ZAR	7.7788	7.6897	7.7788	7.8793	8.0092	8.4768
SIT	238.3800	239.76	238.3800	239.7361	239.0874	237.6479
BRL	3.5510	3.67282	3.5521	3.4975	3.6329	3.6186
IND	53.4518	59.7404	53.4518	57.3218	56.3422	56.5137
SGD	2.0459	2.2262	2.0459	2.1452	2.1016	2.1179
MYR	4.6445	5.17529	4.6445	5.1695	4.7262	4.7480
CNY	10.7341	11.27810	10.1214	10.8575	10.2975	10.3490



1 Trade receivables (net of provision for doubtful accounts)

(€thousands)	31 March 2005	31 December 2004
Gross value	300,210	236,318
Provision for doubtful accounts	(22,656)	(20,375)
Net value	277,554	215,943

The Company has in place 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. As of 31st March 2005 the total amount of receivables sold and still outstanding was €58.3 million. The difference between cash received and trade receivables sold has been included in "Other current assets".

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)	31 March 2005	31 December 2004
- Raw materials	31,132	33,144
- Work in progress	9,488	9,001
- Finished products	147,165	150,051
Total	187,785	192,196

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 assets

(€thousands)	31 March 2005	31 December 2004
Value added tax (VAT) receivables	3,343	3,953
Tax credits and advance payments	8,114	7,972
Prepayments and accrued income	9,148	5,450
Receivables from salespersons and employees	3,453	4,379
Receivables from Factors	32,147	31,604
Derivate financial instruments	536	1,911
Other receivables	3,511	4,324
	60,252	59,593

Prepayments and accrued income amount to €1.1 million as at 31st March 2005, compared to €5.4 million as at 31st December 2004 and include:

- Prepaid advertising expenses of €2.8 million;
- Prepaid lease instalments of €0.5 million;
- Prepaid insurance costs of €0.6 million;
- Prepaid rental costs of €0.6 million;
- Other accrued income and prepayments of €4.6 million, mainly represented from royalties paid in advance;

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

The Group periodically enters into foreign currency contracts to hedge commitments, transactions or foreign income. The Group does not enter into derivative instruments for speculative purposes. For foreign currency contracts acquired for the purpose of hedging identified highly probable sales forecasted transactions, gains or losses are recognised in sales; if the underlying transaction is not completed at the end of a given period, the contract's fair value of derivatives that are designated and qualified as Cash flow hedges and that are highly effective is reflected in the fair value reserve in equity.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.



4 Property, plant and equipment, net

(€thousands)	Balance at 1 January 2005	Additions	Translation difference	Other transfer	Disposals	Balance at 31 March 2005
Cost						
Land and Buildings	109,527	151	168	24	0	109,870
Plant and equipment	205,856	3,462	135	0	(54)	209,398
Furniture, Office Equip. And vehicules	51,123	1,734	1,373	(16)	(766)	53,447
Assets under construction	3,542	301	21	0	0	3,864
Total Cost	370,048	5,648	1,697	8	(820)	376,580
Accumulated depreciation						
Land and Buildings	20,473	763	27	26	(11)	21,278
Plant and equipment	123,291	5,081	60	(60)	(87)	128,285
Furniture, Office Equip. And vehicules	30,515	1,367	788	70	(255)	32,485
Assets under construction	0	0	0	0	0	0
Total Accumulated depreciation	174,280	7,211	875	36	(354)	182,048
Net Book Value	195,768	(1,563)	821	(28)	(467)	194,532

5 Goodwill and Intangible assets

(€thousands)	Balance at 1 January 2005	Additions	Translation difference	Other transfer	Disposals	Balance at 31 March 2005
Cost						
Software	6,972	223	65	(49)	(5)	7,206
Trademarks and licenses	33,827	30	20	0	0	33,878
Assets under construction	17,740	91	108	(749)	0	17,190
Other	162	47	4	0	0	212
Total Cost	58,701	391	196	(798)	(5)	58,487
Accumulated depreciation						
Software	5,257	429	46	(49)	(5)	5,678
Trademarks and licenses	14,818	978	4	0	0	15,800
Assets under construction	17,400	77	48	(741)	0	16,784
Other	0	0	0	0	0	0
Total Accumulated depreciation	37,475	1,484	98	(790)	(5)	38,262
Net Book Value	21,226	(1,093)	99	(7)	0	20,225

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested at least annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Intangible assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.



As a result of the impairment tests performed by the Group, no impairment losses have been accounted for in the first quarter of 2005.

6 Investments in associated companies and Available for sale investments

(€thousand)	Interest in share capital %	Relationship	At 31 March 2005
<u>Investments in associated companies:</u>			
Elegance International Holdings Ltd	23.05%	Associate	10,328
Optifashion As (Turchia)	50%	Associate	296
Total			10,624
<u>Available-for-sale financial assets:</u>			
Banca Popolare di Lodi		Other shareholding	6,458
TBR Inc. (USA)		Other shareholding	459
Safilens Srl		Other shareholding	209
Other		Other shareholding	208
Total			7,334

Investments in associates are accounted for under the equity method. No acquisitions in associates were made during 2005.

The Company owns financial assets, which may be sold in response to liquidity requirements; accordingly, they are classified as “Available-for-sale”. Financial assets are carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value are recognized directly in the equity account, “*Fair value reserve*”.

The fair value of the financial assets is determined through reference to quoted market prices at the balance sheet date. Financial assets gross value as at March 31, 2005 amounts approximately to €10.2 million. The cumulated fair value negative adjustments as at March 31, 2005 amounts to approximately €3.6 million.

7 Deferred income tax assets

Deferred tax assets have been calculated on provisions, tax loss carry-forwards and other temporary differences whose tax benefits are deferred over time. These deferred taxes have been recognized because it is reasonably certain that they will be recovered in future years.

8 Other non current assets

Other non current assets as at 31st March 2005 include:

- €0.5 of a non-interest bearing loan granted to an associate company;
- €0.1 million of tax advances on the employees’ termination indemnity paid by certain Italian Group companies;



– approximately €1.2 million of guarantee deposits and other receivables.

9 Short-term borrowings

(€thousands)	31 March 2005	31 December 2004
Bank overdraft	401	12,144
Bank borrowings	45,000	3,500
Current portion of long-term loans	26,216	25,237
Current portion in other providers of financing	1,867	2,103
Current portion in other long term debt	413	414
Total	73,897	43,398

10 Trade payables

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

(€thousands)	31 March 2005	31 December 2004
Purchase of materials	35,848	33,794
Purchase of products and subcontract costs	59,051	71,336
Commissions and royalties	23,608	23,091
Advertising and sponsorship costs	15,966	14,519
Services received from third parties	17,076	18,046
Purchase of fixed assets	10,915	12,741
Total	162,464	173,527

11 Income tax payable

Outstanding payables to the tax authorities amount to €28.3 million as at 31st March 2005 and €19.2 million as at 31st December 2004 and relate to the liability for current income taxes of Group companies.



12 Other current liabilities

(€thousands)	31 March 2005	31 December 2004
Payroll and social security	32,951	30,199
Accruals for bonuses to customers	8,858	15,851
Payable to salespersons	2,247	2,379
Accrual for advertising and sponsorship expenses	2,262	1,931
Accrual for loan interest expense	11,575	3,618
Accruals for insurance, leasing and other expenses	4,406	5,475
Payable to minority shareholders	1,314	2,264
Other payable	2,315	3,746
Total	65,928	65,463

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 years' shareholders' meetings and still to be paid as at March 31st, 2005.

13 Provisions

(€thousands)	Movements of the year				Balance at 31 March 2005
	Balance at 1 January 2005	Accruals	Utilization	Translation difference	
Total Retirement benefit obligations	34,607	1,633	551	4	35,693
<u>Provision:</u>					
Product warranty	3,119	83			3,202
Agents' leaving indemnities	2,860	375		1	3,236
Other reserves for risks and charges	376	17	95	11	309
Total Provision	6,356	475	95	12	6,748

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.

Other provisions mainly include legal claims and other risks and charges. Provisions are not recognised for future operating losses.



14 Long-term borrowings

(€thousands)	31 March 2005	31 December 2004
Long term loans	712,725	705,489
Other providers of financing	11,160	11,055
Other long term debt	1,256	1,462
Total	725,141	718,006

Long term loans include a Bond for a nominal value of €300 million (expiring date May 2013) and a Senior loan with the banks CSFB, UBM and S.Paolo IMI.

Other providers of financing only includes capital leases.

Other long term debt includes long term loans sponsored by the Italian Government.

15 Deferred tax liabilities

Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax liability is settled.

16 Other non current liabilities

Other non current liabilities as at 31st March 2005 include:

- €6.0 million IRS stated at their fair value;
- €1.2 million of long term payables to minority interests;

The Group periodically enters into interest rate swaps (I.R.S.) in order to adjust the effective interest rates on certain indebtedness. The Group does not enter into derivative instruments for speculative purposes. 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 effective portion of changes in the fair value of IRS that are designated and qualify as cash flow hedges are recognised in the fair value reserve in equity.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of the hedging instruments is estimated by reputable financial institutions on the basis of market conditions.



17 Shareholders' equity attributable to the Group

Share capital

Sàfilo's share capital as at March 31, 2005 was made up by 35,000,000 shares, with a par value of €1, for a total of €35,000,000.

Treasury shares

The parent Company Safilo S.p.A. owns 3.176.000 treasury shares, equal to 9.074% of the total shares included in common stock for a total amount of €80.988 thousands. In accordance with IFRS they are classified as a deduction from stockholders' equity.

Fair value reserve

The movements in the fair value reserve from December 31, 2004 to March 31, 2005 are as follows:

(€thousands)	Movements of the year				Balance at 31 March 2005
	Balance at 1 January 2005	Increase	Decrease	Translation difference	
Interest rate swaps	(4,918)	896		0	(4,022)
Foreign exchange contracts	1,280	359	(1,280)	0	359
"Available for sale" items	(2,705)	255		0	(2,450)
Total Provision	(6,343)	1,510	(1,280)	0	(6,113)



18 Cost of sales

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Purchase of materials and finished products	67,851	54,104
Changes in inventories	7,267	8,535
Payroll and related contributions	22,674	25,751
Subcontracting costs	4,843	7,401
Industrial depreciation	6,027	6,378
Other costs	3,905	3,577
Total	112,567	105,746

The increase of purchases is related mainly to finished products and it is the consequence of the policy of outsourcing and to the increase in the units sold.

Changes in inventories:

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Finished products	5,377	7,378
Work in progress	(308)	(419)
Raw material	2,198	1,576
Total	7,267	8,535

Payroll decreased by 11.9% from €25.8 million as at 31st March 2004 to €22.7 million as at 31st March 2005. This reduction comes from a lower number of employees in the production plants deriving both from the closure of the Austrian facility in Traun and from specific actions aimed to improve the efficiency in the production facilities.

Subcontracting costs include the costs of third parties which manufacture semi-finished products using materials provided by the Group. In the quarter the trend of reduction of these costs continues as to saturate at the maximum level the production capacity of the facilities of the Group.

Other costs include industrial services, energy costs, maintenance and consultancy costs related to the production.



19 Selling and marketing expenses

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Staff costs	20,906	20,334
Services from independent salespersons	20,248	18,626
Royalties	25,869	23,268
Advertising and promotion	22,541	23,629
Depreciation and amortisation	556	560
Other operating and general expenses	12,154	11,688
Total	102,274	98,105

Selling and marketing expenses increased by approximately €4.2 million in the year period ended March 31, 2005 when compared with the same period of 2004, with a lower impact on the net turnover, in comparison with the previous year. The main reason of this improvement comes from a lower incidence of the advertising and promotion expenses due to large amounts spent in 2004 for the launching of the new brands.

Other operating and general expenses refer to:

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Transport, logistics	3,251	2,561
Consultancy	1,122	1,087
Rental and utilities	1,417	1,183
Warranty and other risks provision	458	184
Other selling expenses	5,906	6,673
Total	12,154	11,688

20 General and administrative expenses

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Staff costs	12,463	12,264
Other staff related costs	830	828
Bad debt provision	860	925
Depreciation and amortisation	2,112	1,976
Other operating and general expenses	10,060	10,439
Total	26,325	26,432

General and Administrative expenses are in line with the previous year.



Other operating and general expenses refers to:

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Consultancy	2,088	2,870
Rental and utilities	2,627	2,067
Other non-income taxes	606	415
Other administrative expenses	4,739	5,087
Total	10,060	10,439

The consultancy costs decreased in the first quarter 2005 compared to the previous year as a result of some cost savings and for the postponement of some activities.

21 Other income/(expenses)

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Losses on disposal of assets	2	1
Other operating expenses	190	630
Gain on disposal of assets	(5)	0
Other operating incomes	(272)	(407)
Total	(85)	224

22 Finance costs, net

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Interest expense	15,966	15,033
Less: interest income	(72)	(225)
Bank charges	1,013	1,222
Other finance costs	2,013	2,797
Total	18,920	18,827



Other finance costs refers to:

(€thousand)	2005 Jan - Mar	2004 Jan - Mar
Positive exchange differences	(4,962)	(744)
Negative exchange differences	5,809	2,312
Cash discounts	1,213	1,234
Other	(47)	(5)
Total	2,013	2,797

Positive and negative exchange differences are mainly related to the US Dollar fluctuation.

23 Income taxes

Income taxes totalled €12.4 million for the year period ended March 31, 2005 (€7.5 million for the same period of 2004) and take into account available exemptions, benefits and tax credits, available to the parent company and the foreign 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.



24 Principal subsidiaries

Companies included in the consolidation are:

Entity—Location	Share capital	Ownership %
<i>Holdings Company</i>		
Safilo S.p.A.....	EURO 35.000.000	
<i>Other Italian entities</i>		
Oxsol S.p.A—Pieve di Cadore, Belluno.....	EURO 121.000	100.00
Lenti S.r.l—Bergamo.....	EURO 500.000	54.00
Smith Sport Optics S.r.l—Florence.....	EURO 102.775	100.00
<i>Foreign entities</i>		
Safilo International B.V.—Rotterdam, The Netherlands.....	EURO 24.165.700	100.00
Safint B.V.—Rotterdam, The Netherlands.....	EURO 18.200	100.00
Safilo Capital International S.A.—Luxembourg.....	EURO 31.000	100.00
Safilo Benelux S.A.—Zaventem, Belgium.....	EURO 560.000	100.00
Safilo Espana S.A.—Madrid, Spain.....	EURO 390.650	100.00
Safilo France S.a.r.l.—Paris, France.....	EURO 960.000	100.00
Safilo GmbH—Cologne, Germany.....	EURO 511.300	100.00
Safilo Nordic AB—Tabv, Sweden.....	SEK 500.000	100.00
Safilo Far East Ltd.—Hong Kong.....	HKD 49.700.000	100.00
Safint Optical Investment—Hong Kong.....	HKD 10.000	51.00
Safilo Hong Kong Ltd.—Hong Kong.....	HKD 100.000	51.00
Safilo Singapore Pte. Ltd.—Singapore.....	SGD 400.000	100.00
Safilo Optical Sdn. Bhd—Kuala Lumpur, Malaysia.....	MYR 100.000	100.00
Safilo Trading (Shenzhen) Co. Inc. — China.....	CNY 2.481.000	51.00
Safilo Hellas Ottica S.A.—Athens, Greece.....	EURO 489.990	70.00
Safilo Nederland B.V.—Bilthoven, The Netherlands.....	EURO 18.200	100.00
Safilo South Africa PTY Ltd.—Brvanston, South Africa.....	ZAR 3.383	100.00
Safilo Austria GmbH—Traun, Austria.....	EURO 217.582	100.00
Carrera Optvl Brillen Vertrieb GmbH—Traun, Austria.....	EURO 7.630.648	100.00
Carrera Optvl d.o.o.—Ormoz, Slovenia.....	SIT 135.101.000	100.00
Safilo Japan Co Ltd—Tokyo, Japan.....	JPY 100.000.000	100.00
Safilo do Brasil Ltda—San Paulo, Brasil.....	BRL 8.077.500	100.00
Safilo Portugal Lda.—Lisbon, Portugal.....	EURO 500.000	100.00
Safilo Switzerland A.G.—Liestal, Switzerland.....	CHF 1.000.000	77.00
Safilo India PTV Ltd—Mumbai, India.....	IND 42.000.000	75.00
Safint Australia Pty Ltd—Svdnev, Australia.....	AUD 3.000.000	100.00
Safilo Australia Partnership—Svdnev, Australia.....	AUD 204.081	61.00
Safint Optical UK Ltd.—United Kingdom.....	GBP 21.139.001	100.00
Safilo UK Ltd.—North Yorkshire, United Kingdom.....	GBP 250	100.00
Safilo America Inc.—Delaware, USA.....	USD 8.430	100.00
Safilo USA Inc.—New Jersey, USA.....	USD 23.289	100.00
FTL Corp.—Delaware, USA.....	USD 10	100.00
Safilo Realtv Corp.—Delaware, USA.....	USD 10.000	100.00
Smith Sport Optics Inc.—Idaho, USA.....	USD 12.162	100.00
Solstice Marketing Corp.—New Jersey, USA.....	USD 1.000	100.00
2844-2580 Ouebec Inc.—Montreal, Canada.....	CAD 100.000	100.00
Safilo Canada Inc.—Montreal, Canada.....	CAD 2.470.425	100.00
Canam Sport Ewewear Inc.—Montreal, Canada.....	CAD 300.011	100.00



25 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 March 31st, 2005.



APPENDIX

Summary of significant accounting policies

Basis of preparation

This March 2005 interim consolidated financial statements of Safilo Group are for the three months ended 31st March 2005. They have been prepared in accordance with IAS 34, Interim Financial Reporting, and are covered by IFRS 1, First-time Adoption of IFRS, because they are part of the period covered by the Group's first IFRS financial statements for the year ending 31st December 2005. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements. The IFRS standards and IFRIC interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. The policies set out below have been consistently applied to all the periods presented.

Safilo Group's consolidated financial statements were prepared in accordance with Italian Generally Accepted Accounting Principles (Italian GAAP) until 31st December 2004. GAAP differs in some areas from IFRS. In preparing Safilo Group 2005 consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods applied in the Italian GAAP financial statements in order to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments, except as described in the accounting policies.

Reconciliations and descriptions of the effect of the transition from Italian GAAP to IFRS on the Group's equity and its net income are provided in the paragraph "reconciliations between Italian GAAP and IFRS".

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. Actual results could differ from those estimates.



Exemptions from full retrospective application elected by the Group

Safilo Group has elected to apply the following optional exemptions from full retrospective application.

Business combinations exemption

Safilo Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

Fair value as deemed cost exemption

Safilo Group has not adopted this exemption.

Employee benefits exemption

Safilo Group has elected to recognise all cumulative actuarial gains and losses as at 1 January 2004. Safilo Group has not applied the "corridor" approach and therefore has not adopted the exemption related to employee benefits.

Cumulative translation differences exemption

Safilo Group has elected to set the previously accumulated cumulative translation to zero at 1 January 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

Compound financial instruments exemption

The Group has not issued any compound instruments; this exemption is not applicable. Financial Reporting

Assets and liabilities of subsidiaries, associates and joint ventures exemption

This exemption is not applicable for Safilo Group.

Exemption from restatement of comparatives for IAS 32 and IAS 39.

The Group has not applied this exemption so the transition date for IAS 32 and 39 is January 1, 2004. In addition the Company has early adopted the IAS n. 39 amendment issued on April 2005.

Designation of financial assets and financial liabilities exemption

This exemption is not applicable for Safilo Group.

Share-based payment transaction exemption

The Group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005. The application of the exemption is detailed in the paragraph "employee benefits - stock option plans" of accounting policies.

Insurance contracts exemption

This exemption is not applicable for Safilo Group.

Decommissioning liabilities included in the cost of property, plant and equipment exemption

This exemption is not applicable for Safilo Group.

Fair value measurement of financial assets or liabilities at initial recognition

This exemption is not applicable for Safilo Group.



Exceptions from full retrospective application followed by the Group

Safilo Group has applied the following mandatory exceptions from retrospective application.

Derecognition of financial assets and liabilities exception

Management chose to apply the IAS 39 derecognition criteria starting from January 1, 2004.

Hedge accounting exception

Management has claimed hedge accounting from 1 January 2004. The hedge relationship meets all the hedge accounting criteria under IAS 39.

Estimates exception

Estimates under IFRS as at 1 January 2004 are consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Assets held for sale and discontinued operations exception

Management applies IFRS 5 from 1 January 2004. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2004. Safilo Group did not have any assets that met the held-for-sale criteria during the period presented. No adjustment was required.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate



equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

- buildings 20-33 years
- plant and machinery 5-12 years
- equipment and motor vehicles 5 years
- other tangible assets 3-10 years



Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Borrowing costs related to the construction of fixed assets are expensed.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Trademarks and licences

Trademarks and licences are recognised at cost. They have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets only when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested at least annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's



carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category during the year.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or



prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables

Trade receivables are recognised at their fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement in general and administrative expenses.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred



income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Employee benefits

The liability for termination indemnities ("TFR" or "Trattamento di fine rapporto") relates to the Sàfilo Group's employees in its Italian operations. In accordance with Italian Severance Pay Statutes, the company is registered to record an indemnity liability for severance of employment. This liability accrues during the employment relationship and payment of the employee severance benefit is due immediately upon termination of employment. The amount due is calculated in accordance with local civil and labor laws based on the employee's length of service, employment category and remuneration. The liability is adjusted annually accounting for a cost of living index, which is determined by the Italian Government. There is no vesting period or funding requirement associated with the liability. In accordance with IAS n. 19 the liability for termination indemnities is calculated on an actuarial basis.

In certain territories outside of Italy, the Group contributes independently to state pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed when incurred. Discretionary pensions and other post-employment benefits are included in staff costs, salaries and related contributions costs in the statement of operations.

Stock option plans

On March 25, 2003 Safilo Holding S.p.A. and Safilo S.p.A. shareholders' meetings have approved the "2003-2007 stock option plan for Safilo Holding S.p.A. and Safilo S.p.A." which provides for the free option to subscribe new issued shares for selected managers of some companies of the Safilo Group.

Stock options are exercisable over a number of maximum 992,128 ordinary redeemable shares of Safilo Holding S.p.A. or, in certain circumstances, over a number of maximum 672,510 ordinary redeemable shares of Safilo S.p.A..

The above stock options vest over a three year period of time starting from the date of grant (April 2003) to March 1, 2005 and are exercisable from June 1, 2006 to June 30, 2007. Vesting of options accelerates in the case of certain defined events. The fair value of the options, in accordance with IFRS, is recognised as an employee benefits expense with a corresponding increase in a specific reserve of equity over the vesting period, being the stock option plan at issue an "equity-settled share based payment".

In accordance with IFRS n. 2, regardless of which company is obliged to issue new shares, the cost for the benefit of the services provided by Safilo Group employees has been charged to the companies that received the above benefit.

The proceeds received net of any directly attributable transaction costs will be credited to share capital (nominal value) and share premium when the options are exercised.

With reference to the above stock option plan the Group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005. The application of the exemption means that only the third tranche of the "2003-2007 stock option plan has been accounted for as an expense in Safilo Group income statement.



Provisions

Provisions for restructuring costs, legal claims and other risks and charges are recognised when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; (iii) the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. The provisions reflect the best estimate of losses to be incurred based on the information available.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

(a) Sales of goods

We recognize revenue from sales of products at the time of shipment, when title and the risks and rewards of ownership of the goods have been assumed by the customers, or upon receipt by the customer, depending on the terms of the sales agreement. If sales include the right of the dealer to return unsold products (generally these terms are available in the United States only), we recognize the sale upon shipment to the customer net of a provision that represents our best estimate of products that will be returned that we will not be able to resell. This provision is estimated based upon historical trends and specific knowledge concerning our customers, and we have not experienced any historical material product return percentage that has exceeded our expectations.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues accreting the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(d) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair



value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Interim measurement note

Seasonality of the business

Revenues are partially influenced by seasonality, as Safilo Group experiences the highest level of demand during the first semester due to sales of sunglasses leading up to the summer months, and the lowest level of sales demand in the third quarter because, traditionally, the majority of shops are closed for some portion of the summer season.

Current income tax

Current income tax expense is recognised in these interim consolidated financial statements based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

Costs

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.



Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not enter into derivative instruments for speculative purposes.

Risk management is carried out by our central Finance, Treasury and Credit Department (Group Finance Department) under powers granted by the Board of Directors. Group Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Some entities in the Group use forward contracts, under the Group Finance Department control, to manage their foreign exchange risk arising from future commercial transactions. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available for sale. The Group is not exposed to significant commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Finance Department aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (IRS). Such IRS have the economic effect of converting borrowings from floating rates to fixed rates. The Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating market rates interest amounts calculated with reference to the agreed notional principal amounts.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether



the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivatives as hedges of highly probable forecast transactions (cash flow hedge). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of derivative instruments used for hedging purposes are disclosed in the paragraphs "other current assets" and "other non current liabilities". Movements on the hedging reserve in shareholders' equity are shown in the paragraph "Shareholders' equity attributable to the Group".

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion, if any, is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

The Group does not enter into derivative instruments for speculative purposes. There are no derivative instruments that do not qualify for hedge accounting.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods (i.e. discounted cash flow models) and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Critical accounting estimates, judgements and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.



(a) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated for goodwill. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) *Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



Reconciliations between Italian GAAP and IFRS

The following reconciliations provide a quantification of the effect of the transition to IFRS on:

- equity at January 1st, 2004;
- equity at March 31st, 2004;
- equity at December 31st, 2004;
- net income 31 March 31st, 2004;
- net income December 31st, 2004;
- cash flows March 31st, 2004;



(€ thousands)	Note	At 1 January 2004		
		ITA GAAP	Effect of transition	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	a	38,741	12,992	51,733
Trade receivables, net and other receivables	b	280,164	32,084	312,248
Inventories, net	c	166,580	(4,425)	162,155
Total current assets		485,485	40,651	526,136
Non-current assets				
Property, Plant and Equipment	d	184,096	16,550	200,646
Intangible assets	e	63,045	(38,888)	24,157
Goodwill		364,826	0	364,826
Investments in associated companies		11,530	0	11,530
Available-for-sale investments	f	15,274	(7,599)	7,675
Treasury shares	g	80,988	(80,988)	0
Deferred tax assets	h	35,637	4,551	40,188
Other long term receivables	i	3,957	(1,917)	2,040
Total non-current assets		759,353	(108,291)	651,062
Total assets		1,244,838	(67,640)	1,177,198
LIABILITIES & SHAREHOLDER'S EQUITY				
Current liabilities				
Trade payables		141,594	0	141,594
Other short term payables	l	74,036	2,012	76,048
Financial debts	m	54,150	50,482	104,632
Accrued exp. and deferred inc.	n	13,195	(632)	12,563
Total current liabilities		282,975	51,862	334,837
Non-current liabilities				
Bank borrowings	e	767,957	(33,129)	734,828
Provisions	o	38,588	(27,598)	10,990
Retirement benefit obligation	p	28,784	(237)	28,547
Deferred tax liabilities	h	6,455	11,418	17,873
Other long term liabilities	q	21,510	(4,156)	17,354
Total non-current liabilities		863,294	(53,702)	809,592
EQUITY				
Share capital		34,350	0	34,350
Share premium		29,000	0	29,000
Treasury shares, at cost	g	80,988	0	80,988
Cumulative translation adjustment	r	(10,575)	10,575	0
Retained earnings and other reserves	g, s	(40,619)	(76,000)	(116,619)
Fair value reserve		0	(826)	(826)
Total shareholders' equity		93,144	(66,251)	26,893
Minority interest		5,425	451	5,876
Total equity and liabilities		1,244,838	(67,640)	1,177,198



Notes on January 1st, 2004 reconciliation

- a) Effect deriving from the securitization program for a total amount of about €12.9 million.
- b) Most of the IFRS effect derives from the consolidation of a special purpose financial vehicle (securitization program) excluded from consolidation under Italian GAAP.
- c) Advertising material written-off for IFRS purposes.
- d) Most of the IFRS effect derives from the review of the useful life of the category “plant and machinery” made by the parent company Safilo S.p.A. in 2003. For Italian statutory purposes the net book value of the assets as at December 31st, 2002 has been depreciated over the remaining period of the new estimated useful life whilst for IFRS purposes the net book value has been recalculated as at December 31st, 2003 as if the company had always depreciated its plant and machineries considering the revised useful life. Minor effects are due to leasehold improvements reclassification and to the offsetting of cumulated depreciation on land allowed in some specific circumstances by Italian GAAP.
- e) For IFRS purposes borrowings are stated at amortised cost. This means (i) a reclassification of fees capitalized by the Company as intangible assets as a reduction of the related senior loan and of the bond in Safilo Capital; (ii) a charge of interest expenses on the income statement based on an effective interest rate. Minor IFRS effects are due to leasehold improvements reclassification and to the write-off of intangibles that do not meet the IFRS definition of an asset.
- f) Equity investments stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- g) Treasury shares classified as a reduction of equity and not as an asset.
- h) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- i) Miscellaneous IFRS adjustments made by some subsidiaries.
- l) Most of the impact derives from additional payroll costs accounted for in some subsidiaries in accordance with IFRS n. 19.
- m) Effect deriving from the securitization program for a total amount of about €50 million.
- n) Accounting of a government grant received for the purchases of tangible assets in accordance with IFRS n. 20.
- o) Derecognition of the provision for deferred currency translation gains on long term loans in US dollars which had been accounted for in accordance with Italian GAAP plus some small reclassifications.
- p) Calculation of the employees’ termination indemnity on an actuarial basis.
- q) Most of the IFRS effects is due to Interest rate swaps (I.R.S.) stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- r) Currency translation reserve has been set to zero as at January 1, 2004 (see the paragraph “exemptions from full retrospective application elected by the Group”).
- s) Reclassification of treasury shares plus the impact of all IFRS adjustments.



(€ thousands)	Note	At 31 March 2004		
		ITA GAAP	Effect of	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		45,152	0	45,152
Trade receivables, net and other receivables	a	317,686	(1,571)	316,115
Inventories	b	160,253	(4,089)	156,164
Total current assets		523,091	(5,660)	517,431
Non-current assets				
Property, plant and equipment, net	c	185,211	15,907	201,118
Intangible assets	d	61,140	(37,363)	23,777
Goodwill	e	359,485	5,346	364,831
Available-for-sale investments	f	11,335	(4,536)	6,799
Investments in associated companies		11,872	0	11,872
Treasury shares	g	80,988	(80,988)	0
Other long term receivables		2,195	(13)	2,182
Deferred tax assets	h	37,384	7,865	45,249
Total non-current assets		749,610	(93,782)	655,828
Total assets		1,272,701	(99,442)	1,173,259
LIABILITIES & SHAREHOLDER'S EQUITY				
Current liabilities				
Trade payables	i	142,655	99	142,754
Other short term payables	l	79,151	48	79,199
Financial debts		71,724	7	71,731
Accrued exp. and deferred inc.	m	26,701	469	27,170
Total current liabilities		320,231	623	320,854
Non-current liabilities				
Bank borrowings	d	787,886	(33,295)	754,591
Provisions	n	30,680	(23,482)	7,198
Retirement benefit obligation	o	29,955	(256)	29,699
Deferred tax liabilities	p	710	14,920	15,630
Other long term liabilities	q	2,562	10,273	12,835
Total non-current liabilities		851,793	(31,840)	819,953
Equity				
Share capital		34,350	0	34,350
Share premium		29,000	0	29,000
Treasury shares, at cost	g	80,988	0	80,988
Fair value reserve		0	(7,448)	(7,448)
Retained earnings and other reserves	g,r	(50,165)	(61,273)	(111,438)
Total Shareholders' equity		94,173	(68,721)	25,452
Minority interest		6,504	496	7,000
Total equity and liabilities		1,272,701	(99,442)	1,173,259



Notes on March 31st, 2004 reconciliation

- a) Most of the IFRS effects is due to cash flow hedges derivatives stated at their fair value and miscellaneous reclassifications.
- b) Advertising material written-off for IFRS purposes.
- c) Most of the IFRS effect derives from the review of the useful life of the category plant and machineries made by the parent company Safilo S.p.A. in 2003. For Italian statutory purposes the net book value of the assets as at December 31, 2002 has been depreciated over the remaining period of the new estimated useful life whilst for IFRS purposes the net book value has been recalculated as at December 31, 2003 as if the company had always depreciated its plant and machineries considering the revised useful life. Minor effects are due to leasehold improvements reclassification and to the offsetting of cumulated depreciation on land allowed in some circumstances for Italian GAAP purposes.
- d) For IFRS purposes borrowings are stated at amortised cost. This means a reclassification of fees paid as a reduction of the senior loan and of the bond in Safilo Capital and a charge of interest expenses on the income statement based on an effective interest rate. Minor IFRS effects are due to leasehold improvements reclassification and to the write-off of intangibles that do not meet the IFRS definition of an asset.
- e) Most of the effect derives from goodwill amortization, not required by IFRS (impairment test).
- f) Equity investments stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- g) Treasury shares classified as a reduction of equity and not as an asset.
- h) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- i) Miscellaneous reclassifications.
- l) Reclassification of tax receivables and other minor items.
- m) Most of the effect is due to the accounting of a government grant received for the purchases of tangible assets in accordance with IFRS n. 20.
- n) The IFRS adjustment mainly derives from the derecognition of the provision for deferred currency translation gains on long term loans in US dollars which had been accounted for in accordance with Italian GAAP.
- o) Calculation of the employees' termination indemnity on an actuarial basis.
- p) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- q) Interest rate swaps (I.R.S.) are stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- r) Reclassification of treasury shares plus the impact of all IFRS adjustments.



Three months ended 31 March 2004				
(€thousands)	Note	ITA GAAP 10Q form	Effect of IFRS adjustments and reclassifications	IFRS
Net sales	a	260,287	801	261,088
Cost of sales	b	(105,482)	(264)	(105,746)
Gross Profit		154,805	537	155,342
Selling and Marketing costs	c	(89,748)	(8,143)	(97,891)
General and admin. expenses	c	(32,337)	5,690	(26,647)
Goodwill amortization	d	(5,851)	5,851	0
Other operating income/exp.	e	175	(398)	(223)
Operating profit		27,044	3,537	30,581
Share of results of associated companies		(4)	0	(4)
Financial income/expenses	f	(18,122)	(705)	(18,827)
Profit before taxes		8,918	2,832	11,750
Income tax expenses	g	(8,389)	933	(7,456)
Net result for the period		529	3,765	4,294



Notes on March 31st, 2004 reconciliation

- a) Most of the effect derives from the adjustment to revenues in dollars hedged by forward exchange contracts. For Italian GAAP the gain or losses on the portion of accounts receivable in U.S. dollars hedged by forward exchange contracts were classified in "Cost of sales". For IFRS purposes they must be accounted for in the account balance "net sales".
- b) The IFRS effects are mainly due to (i) some reclassifications made in order to get a more accurate division for the different categories of costs (CoS, G&A, S&M), (ii) the difference in depreciation expenses on tangible assets and the write-off of advertising material in inventory (iii) the reclassification of revenues in dollars hedged by forward exchange contracts (note a).
- c) Most of the IFRS effect derives from reclassifications between general and administrative expenses and selling and marketing costs as a consequence of the more precise criteria used for the division between the two categories. Minor part of the IFRS effect is due to the accounting for stock option costs.
- d) Most of the IFRS effect is due to goodwill amortization, not required by IFRS (only impairment tests).
- e) Costs deriving from the recognition of expenses related to the securitization program (SPV Sunlight).
- f) The IFRS effects are mainly due to the reversal of the provision for deferred currency translation gains on long term loans in US dollars and to IFRS interest expenses calculated at an effective interest rate in accordance with the amortised cost method.
- g) Overall tax effect on IFRS adjustments in accordance with IFRS n. 12.



(€ thousands)	Note	At 31 December 2004		
		ITA GAAP	Effect of	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		33,795	0	33,795
Trade receivables, net and other receivables	a	278,418	(2,882)	275,536
Inventories, net	b	196,254	(4,058)	192,196
Total current assets		508,467	(6,940)	501,527
Non-current assets				
Property, Plant and Equipment	c	184,108	11,660	195,768
Intangible assets	d	55,417	(34,191)	21,226
Goodwill	e	339,932	23,229	363,161
Investments in associated companies		10,160	7	10,167
Available-for-sale investments	f	10,969	(4,037)	6,932
Treasury shares	g	80,988	(80,988)	0
Deferred income taxes	h	41,181	3,336	44,517
Other non-current assets		1,784	6	1,790
Total non-current assets		724,539	(80,978)	643,561
Total assets		1,233,006	(87,918)	1,145,088
LIABILITIES & SHAREHOLDER'S EQUITY				
Current liabilities				
Short-term borrowings		43,398	0	43,398
Trade payables	i	173,747	(220)	173,527
Other current liabilities	l	82,136	2,506	84,642
Current provision		136	0	136
Total current liabilities		299,417	2,286	301,703
Non-current liabilities				
Long-term borrowings	d	747,943	(29,936)	718,007
Retirement benefit obligations	m	31,869	2,738	34,607
Provisions	n	6,406	(50)	6,356
Deferred tax liabilities	h	7,675	(296)	7,379
Other non-current liabilities	o	1,139	7,340	8,479
Total non-current liabilities		795,032	(20,204)	774,828
EQUITY				
Share capital		35,000	0	35,000
Share premium		53,350	0	53,350
Treasury shares, at cost	g	80,988	0	80,988
Retained earnings and other reserves	g,p	(35,532)	(63,980)	(99,512)
Fair Value reserve		0	(6,342)	(6,342)
Total Shareholders' equity		133,806	(70,322)	63,484
Minority interests		4,751	322	5,073
Total equity and liabilities		1,233,006	(87,918)	1,145,088



Notes on December 31st, 2004 reconciliation

- a) Most of the IFRS effects is due to cash flow hedges derivatives stated at their fair value and miscellaneous reclassifications.
- b) Advertising material written-off for IFRS purposes.
- c) Most of the IFRS effect derives from the review of the useful life of the category plant and machineries made by the parent company Safilo S.p.A. in 2003. For Italian statutory purposes the net book value of the assets as at December 31, 2002 has been depreciated over the remaining period of the new estimated useful life whilst for IFRS purposes the net book value has been recalculated as at December 31, 2003 as if the company had always depreciated its plant and machineries considering the revised useful life. Minor effects are due to leasehold improvements reclassification and to the offsetting of cumulated depreciation on land allowed in some circumstances for Italian GAAP purposes.
- d) For IFRS purposes borrowings are stated at amortised cost. This means (i) a reclassification of fees capitalized by the Company as intangible assets as a reduction of the related senior loan and of the bond in Safilo Capital; (ii) a charge of interest expenses on the income statement based on an effective interest rate. Minor IFRS effects are due to leasehold improvements reclassification and to the write-off of intangibles that do not meet the IFRS definition of an asset.
- e) Goodwill amortization, not required by IFRS (impairment test).
- f) Equity investments stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- g) Treasury shares classified as a reduction of equity and not as an asset.
- h) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- i) Miscellaneous IFRS adjustments made by some subsidiaries.
- l) Most of the effect refers to debts due to personnel accounted for in some subsidiaries in accordance with IFRS n. 19.
- m) Effect deriving from the calculation of the employees' termination indemnity on an actuarial basis
- n) Derecognition of a provision that do not meet the IFRS requirements.
- o) Interest rate swaps (I.R.S.) stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- p) Reclassification of treasury shares plus the impact of all IFRS adjustments.



Twelve months ended 31 December 2004				
(€thousands)	Note	ITA GAAP 10Q form	Effect of IFRS adjustments and reclassifications	IFRS
Net sales	a	939,764	4,975	944,739
Cost of sales	b	(379,275)	(2,254)	(381,529)
Gross Profit		560,489	2,721	563,210
Selling and Marketing costs	c	(310,433)	(33,634)	(344,067)
General and administrative expenses	c	(130,741)	23,862	(106,879)
Goodwill amortization	d	(23,509)	23,509	0
Other operating income/exp.	e	24,509	(25,375)	(866)
Operating profit		120,315	(8,917)	111,398
Share of results of associated companies		(42)	0	(42)
Financial income/expenses	f	(65,930)	(219)	(66,149)
Profit before taxes		54,343	(9,136)	45,207
Income tax expenses	g	(31,310)	10,836	(20,474)
Net result for the period		23,033	1,700	24,733



Notes on December 31st, 2004 reconciliation

- a) Most of the effect derives from the adjustment to revenues in dollars hedged by forward exchange contracts. For Italian GAAP the gain or losses on the portion of accounts receivable in U.S. dollars hedged by forward exchange contracts were classified in "Cost of sales". For IFRS purposes they must be accounted for in the account balance "net sales".
- b) The IFRS effects are mainly due to (i) some reclassifications made in order to get a more accurate division for the different categories of costs (CoS, G&A, S&M), (ii) the difference in depreciation expenses on tangible assets and the write-off of advertising material in inventory (iii) the reclassification of revenues in dollars hedged by forward exchange contracts (note a).
- c) Most of the IFRS effect derives from reclassifications between general and administrative expenses and selling and marketing costs as a consequence of the more precise criteria used for the division between the two categories. Minor part of the IFRS effect is due to the accounting for stock option costs and the write-off of some intangible assets that do not meet the IFRS definition of an asset.
- d) Most of the IFRS effect derives from goodwill amortization, not required by IFRS (only impairment tests).
- e) The main effects derive from costs related to the recognition of the securitization program (Sunlight) and from the reversal of the provision for deferred currency translation gains on long term loans in US dollars (offsetting of an extraordinary income accounted for Italian GAAP).
- f) The IFRS effects are mainly due IFRS interest expenses calculated at an effective interest rate in accordance with the amortised cost method.
- g) Overall tax effect on IFRS adjustments in accordance with IFRS n. 12.



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

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