



SÀFILO GROUP

Financial information from January 1st, 2005 to June 30th, 2005

August 10th, 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*, *Imatra*, *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 Group has experienced an excellent quarter with positive results both in terms of sales and profitability. The net Group turnover in the six months to 30th June 2005 was €561.8 million, an improvement of 8.9% compared to the same period in 2004 (+10.9% at constant exchange rates).

Sales increased in all the main markets worldwide including in Europe, where commercial results were very positive reversing the weakness seen in the first quarter of 2005. The recovery of the Italian and North American markets led to growth of +20.9% and +3.0% respectively in the quarter while the Far East continued the strong trajectory seen in the first quarter (+21.8% in the second quarter 2005).

Group profitability increased recording an EBITDA margin of 17.5% (of net sales) in the quarter, showing a significant improvement compared to the same period in the prior year (15.3%) despite the weakness of the U.S Dollar that negatively impacted the results for the period. The stability of the core business and the profitability improvements achieved confirm the effectiveness of the actions taken by the Group both in terms of commercial offering and cost containment initiatives. An additional industrial rationalization program is currently in progress and significant benefits are expected starting from early 2006.

Net debt position at the end of the quarter was €773 million, which was a slight improvement to the same period last year, but higher than at 31st December 2004 as a consequence of the increased working capital required to support the sales growth.

During the second quarter of 2005 Safilo reached a constructive agreement with the Senior Lenders that included the waiver of any historic covenant breaches and the re-set and amendment of future covenants from a new prudent business plan to provide increased headroom and therefore greater operating flexibility. The Company believes that the revised covenant structure provides the appropriate long-term solution more suited to Safilo's future operations

Starting first quarter 2005 the Group is reporting its results according to the IFRS GAAP. The transition date for the new accounting GAAP has been set as 1st January 2004. In this report all necessary reconciliations with previous GAAP are fully disclosed. The introduction of IFRS GAAP does not substantially impact 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	YTD				Change
	2005		2004		Q2	2005		2004		YTD
	Apr-Jun		Apr-Jun		2005-2004	Jan-Jun		Jan-Jun		2005-2004
	€	%	€	%	%	€	%	€	%	%
<i>Net Sales:</i>										
Prescription frames	110.6	39.4%	109.5	43.0%	1.0%	220.3	39.2%	223.6	43.4%	-1.5%
Sunglasses	167.8	59.7%	139.7	54.9%	20.1%	331.7	59.0%	281.6	54.6%	17.8%
Sport goggles	2.6	0.9%	5.4	2.1%	-51.9%	9.5	1.7%	9.9	1.9%	-4.0%
Others	0.0	0.0%	0.1	0.0%	-100.0%	0.3	0.1%	0.7	0.1%	-57.1%
Total	281.0	100.0%	254.7	100.0%	10.3%	561.8	100.0%	515.8	100.0%	8.9%

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

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

(in Euro millions)	Quarter				Change	YTD				Change
	2005		2004		Q2	2005		2004		YTD
	Apr-Jun		Apr-Jun		2005-2004	Jan-Jun		Jan-Jun		2005-2004
	€	%	€	%	%	€	%	€	%	%
<i>Net Sales:</i>										
North America	93.4	33.2%	90.7	35.6%	3.0%	189.1	33.6%	182.6	35.4%	3.6%
Italy	49.7	17.7%	41.2	16.2%	20.6%	92.0	16.4%	74.8	14.5%	23.0%
Europe (excluding Italy)	94.1	33.5%	85.8	33.7%	9.7%	196.5	35.0%	189.5	36.7%	3.7%
Far East (excluding Australia)	23.5	8.4%	19.3	7.6%	21.8%	46.1	8.2%	35.5	6.9%	29.9%
Other	20.3	7.2%	17.7	6.9%	14.7%	38.1	6.8%	33.4	6.5%	14.1%
Total	281.0	100.0%	254.7	100.0%	10.3%	561.8	100.0%	515.8	100.0%	8.9%

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



Net sales. Turnover for the six months ended June 30th, 2005 grew by 8.9%, from €15.8 million in 2004 to €61.8 million in 2005 with second quarter growth of 10.3%. The overall sales results were marginally impacted by the appreciation of the Euro against other currencies and at constant exchange rates the sales growth would have been approximately 10.9% for the six months period. On a geographical basis, the highest revenue growth has been recorded in the Far East (+ 29.9%) and in the Italian (+23.0%) markets, where the Group launched the promising *Imatra* collection. In the second quarter sales in Europe reversed the weak performance recently experienced returning to a positive trend (+3.7%) for the six months period. Despite the negative impact of the weak U.S. dollar North America's sales growth reached 3.6% for the six months to June 2005. The 2005 Group volume growth was up 4.7% compared with the same period in the prior year. These positive trends have been driven by a combination of the continued growth in sales related to the *Gucci*, *Dior* and *Armani* brands. The sunglasses sales continued their good performance with a growth of 17.8% in the first half and of 20.1% in the second quarter of 2005 while the prescription frames business remained substantially stable with a marginal decrease in the semester but an improvement in the second quarter.

North America. In the six-months period ended June 30th, 2005 turnover in local currency grew by approximately 10.1% (+3.6% including exchange rate effects). In volume terms, there has been a 7.7% increase with the best results achieved by the sunglasses business segment. Positive results have been achieved both in U.S. and Canadian markets with the extremely good performance for the Solstice retail chain. The collections of *Dior*, *Gucci* and *Liz Claiborne* have experienced the most evident growth in the period.

Italy. Despite the slump of the Italian economy, the domestic market's sales growth has improved in the last two quarters. The net sales have increased by 23.0% in the first half and by 20.6% in the second quarter of 2005. We achieved extremely good growth in both the sunglasses and frames business segments. The driving brands for this period have been *Armani*, *Dior* and *Gucci*. During the second quarter we have successfully launched the new collection of the licensed brand *Imatra* sponsored by the MotoGP World Champion Valentino Rossi.

Europe (excl. Italy). During the second quarter of 2005 the European market has achieved an extremely strong performance (+9.7%) and has reversed the trend seen in the first quarter. In the first half of 2005 we recorded very positive results in all major European markets while in the quarter the best results have been reached in the Spanish and English markets. The licensed brands *Armani*, *Gucci*, *Dior* and the owned brand *Smith* produced the best performances. In terms of product lines, the major increase has been seen in the sunglasses sector.

Far East. Despite the weakness of the American Dollar, the improvement of sales for the first half of 2005 achieved 29.9%, continuing to show a very positive growth trend over the last quarters. The increase in turnover has been seen in all Far Eastern countries, particularly in the Japanese, Korean and Philippines markets, supported by the excellent growth rates of *Armani*, *Gucci*, *Dior*, and *Yves Saint Laurent*. In volume terms the increase reached approximately 28% with excellent results achieved by both the sunglasses and prescription frames business segments (+26% and +31% respectively).



SELECTED FINANCIAL DATA

(in Euro millions)	Quarter				YTD			
	2005		2004		2005		2004	
	Apr-Jun		Apr-Jun		Jan-Jun		Jan-Jun	
	€	%	€	%	€	%	€	%
Net sales	281.0	100.0%	254.7	100.0%	561.8	100.0%	515.8	100.0%
Cost of good sold	110.6	39.4%	102.7	40.3%	223.1	39.7%	208.4	40.4%
Selling and Mktg expenses	102.1	36.3%	95.2	37.4%	204.4	36.4%	193.3	37.5%
G&A	28.2	10.0%	26.4	10.4%	54.4	9.7%	53.1	10.3%
EBITDA	49.1	17.5%	38.9	15.3%	97.7	17.4%	78.4	15.2%

EBITDA for the first half of 2005 was €97.7 million (17.4% of net sales) compared to €78.4 million in the first half of 2004 (15.2% of net sales). The significant improvement of the EBITDA (+25%) demonstrates the improved profitability trend driven by both the strong commercial growth and cost containment activities implemented by the Group at the cost structure level.

During the six months of 2005 the profitability at gross profit level (considered as the difference between net sales and cost of goods sold) improved by €1.3 million (+10.2%) compared to the same period of 2004. The improvement in the performance has increased in recent quarters (in the last quarter +€18.4 million in value and +12.1%) due to the good commercial performance and to the increasing positive impact of the manufacturing rationalization. The actions taken by the Group during the last two years aimed at reducing production inefficiencies are assuring a stable on-going improvement of the gross margin.

Selling and marketing expenses amount to €204.4 million, decreasing from 37.5% of the revenues in the first half of 2004 to 36.4% in 2005. This reduction mainly relates to a lower impact of fixed costs associated with the sales network and to a significant saving in marketing expenses.

General & Administrative expenses slightly reduced their relative impact on turnover (about 0.6%) while they increased in absolute value by €1.3 million compared to the previous year as a result of higher costs related to the full impact of Solstice stores opened during the second half of 2004 and personnel costs associated with an increased number of employees in specific strategic areas, primarily marketing and product development at the Padova headquarters.

CASH FLOW

The following tables summarize our cash flow during the first half of 2005 compared to the same period of 2004.

(€in million)	30th June 2005	30th June 2004
Net cash flows:		
(Used in)/provided by operating activities	12.4	9.9
(Used in)/provided by investment activities	(12.1)	(14.9)
(Used in)/provided by financing activities	(7.8)	(3.5)
Net increase (decrease) in cash and cash equivalents	(7.5)	(8.5)



Net Cash Flow from Operating Activities. Net cash from operating activities consists of net income adjusted for changes in working capital and non-cash items such as depreciation and amortization. The comparison with the first half of 2004 is as follows:

(€in million)	First Half 2005	First Half 2004
Net Income	26.0	6.1
Amortization and depreciation	17.5	18.5
Changes in working capital:		
Trade receivables and other current assets	(65.3)	(38.3)
Inventory	19.0	5.1
<u>Trade payables and other current liabilities</u>	<u>9.0</u>	<u>20.5</u>
Total Changes in working capital	(37.3)	(12.7)
Other	6.2	(2.0)
Total	12.4	9.9

The cash flow from operating activities increased by €2.5 million from €9.9 in the first half of 2004 to €12.4 million in the same period of 2005. The increase of cash is a combination of factors, including the improved cash flow from the increased income partially offset by the cash absorption due to the seasonal working capital increase expected in the first half of the year. In particular:

- ✓ The increase of net sales during the second quarter of 2005 comparing to the same period of 2004 has negatively affected trade receivables;
- ✓ The seasonal inventory fluctuation has been higher than last year due to the large amount of stock held at December 31st, 2004;
- ✓ The lower generation of cash coming from trade payables mainly derives from the large amount of payments to suppliers consequent of increased purchases of finished products and raw materials in Q4 2004;
- ✓ The positive effect in the category “*other*” is due to the lack of payment of termination costs that impacted 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 outflows in investment activities for the period ended June 30th, 2005 slightly decreased by €2.8 million. Tangible assets additions impact for a total amount of €1.2 million in comparison to €3.5 million of the previous year and mainly refer to replacements of equipment in the facilities and to the new opening of Solstice’ stores.

Cash Flow from Financing Activities. Financing activities absorbed cash for approximately €7.8 million during the first semester 2005, whereas the outflows in the previous year amounted €3.5 million as a result of the combined effects of a large amount of cash absorption consequent of the closure of the securitization program (€0 million) partially offset by the start of the factoring program in January 2004 (€28.5 million) and by a share capital increase of €25 million.



PERSONNEL

Personnel as of 30th June 2005, 31st December 2004 and 30th June 2004 is as follows:

	2005	2004	2004
	June	Dec	June
Headquarter (Padova – Italy)	765	707	675
Factory personnel	4,224	4,561	4,647
Subsidiaries	1,049	1,024	1,013
Solstice	266	221	215
Total	6,304	6,513	6,550



SÀFILO GROUP

Consolidated Financial Statements For the period January 1st – June 30th, 2005



Consolidated Balance Sheets

(€thousands)	Note	30 June 2005	31 December 2004
ASSETS			
Current assets			
Cash and cash equivalents		52,492	33,795
Trade receivables, net	1	336,538	274,067
Inventories, net	2	185,302	192,196
Held for sale property	4	3,039	-
Other current assets	3	30,402	27,989
Total current assets		607,773	528,047
Non-current assets			
Property, plant and equipment, net	4	191,438	195,768
Intangible assets	5	19,540	21,226
Goodwill	5	364,766	363,161
Investments in associates companies	6	11,687	10,167
Available for sale investments	6	6,817	7,018
Deferred income taxes	7	56,119	44,517
Other non-current assets	8	2,133	1,705
Total non-current assets		652,500	643,562
Total assets		1,260,273	1,171,609
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	9	110,970	69,918
Trade payables	10	181,158	173,527
Income tax payables	11	26,477	19,179
Other current liabilities	12	67,979	65,463
Current provisions		217	136
Total current liabilities		386,801	328,223
Non-current liabilities:			
Long-term borrowings	14	714,421	718,006
Retirement benefit obligations	13	36,706	34,607
Provisions	13	7,228	6,356
Deferred tax liabilities	15	8,790	7,379
Other non-current liabilities	16	10,556	8,479
Total non-current liabilities		777,701	774,827
Total liabilities		1,164,502	1,103,050
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		69,628	40,856
Fair Value reserve		(10,940)	(6,342)
Income pertaining to the Group		24,032	21,610
Shareholders' equity		90,082	63,486
Minority interests			
Total Equity	17	95,771	68,559
Total liabilities and Equity		1,260,273	1,171,609



Consolidated Statements of Operations

(€thousands)	Note	Six months ended June 30,	
		2005	2004
Net sales		561,841	515,816
Cost of sales	18	(223,124)	(208,431)
Gross profit		338,717	307,385
Selling and marketing expenses	19	(204,409)	(193,346)
General and administrative expenses	20	(54,430)	(53,092)
Other operating incomes/(expenses)	21	362	(1,128)
Operating income/(loss)		80,240	59,819
Share of results of associated companies		214	(25)
Finance costs, net	22	(42,098)	(38,313)
Income/(loss) before taxation		38,356	21,481
Tax expense	23	(12,310)	(15,370)
Net income/(loss) before minority shareholders		26,046	6,111
Income attributable to minority shareholders		2,014	2,092
Net income/(loss)		24,032	4,019
EBITDA		97,705	78,355



Consolidated Statements of Cash Flow

	Six months ended 30 June,	
	2005	2004
Cash flows from operating activities		
Net income / (loss)	26,046	6,111
Amortisation and depreciation	17,547	18,536
Fees amortised cost	2,273	847
Associated companies Equity method	(7)	25
Trade receivables and other current assets	(65,313)	(38,304)
Inventory	18,952	5,113
Stock Option costs	918	0
Trade payables and other current liabilities	9,018	20,489
Retirement benefit obligations	2,076	1,960
Other (net)	918	(4,921)
Net cash provided by (used in) operating activities	12,428	9,856
Cash flows from investing activities:		
Purchase of property, plant and equipment (net of disposal)	(11,224)	(13,505)
Acquisition of equity investments, associated companies	(35)	(119)
Disposal of equity investments, associated companies	86	0
Acquisition of intangible assets	(956)	(1,253)
Net cash provided from (used in) investing activities:	(12,129)	(14,877)
Cash flows from financing activities:		
Proceeds from borrowings	4,493	32,964
Dividend paid by Safilo S.p.A.	0	0
Dividends paid by subsidiaries to minority shareholders	(1,647)	(2,074)
Share capital increase	0	25,000
Repayment of borrowings	(10,634)	(59,437)
Net cash provided from (used in) financing activities	(7,788)	(3,547)
Effect of exchange rate	1,372	2,492
Net increase (decrease) in cash and cash equivalents	(6,117)	(6,076)
Cash and cash equivalents at the beginning of the period	18,151	23,234
Cash and cash equivalents at the end of the period	12,034	17,158



Statement of changes in shareholders' equity

	Note	Balance at 1 January 2004	Increase	Decrease	Allocation of 2003 net income	Changes in Consolidation Area	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		45,357	(5,279)			778	40,856
Fair Value Reserve		(826)		(5,516)			(6,342)
Net income for the year		-	21,610				21,610
Total Equity Group		26,893	41,331	(5,516)	-	778	63,486
Minority interests		5,876	3,123	(3,926)	-		5,073
Total Equity	17	32,769	44,454	(9,442)	-	778	68,559

	Note	Balance at 1 January 2005	Increase	Decrease	Allocation of 2004 net income	Changes in Consolidation Area	Balance at 30 June 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	7,162		21,610		69,628
Fair Value Reserve		(6,342)		(4,598)			(10,940)
Net income for the period		21,610	24,032		(21,610)		24,032
Total Equity Group		63,486	31,194	(4,598)	-	-	90,082
Minority interests		5,073	2,263	(1,647)	-		5,689
Total Equity	17	68,559	33,457	(6,245)	-	-	95,771



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 consolidated financial statements have been prepared in accordance with those IFRS validated by the European Commission. The IFRS consolidated financial statements for the year ending December 31st, 2004 here attached will constitute the values published for comparative purposes in the first comprehensive IFRS consolidated financial statements. These values might change if any of the IFRS is revised or amended before the publication of the above-said consolidated financial statements. In this regard, it should be noted that, as a consequence of certain additional interpretations regarding the application of IAS 39, the company has performed further analyses related to the accounting treatment of the factoring agreement stipulated in early 2004 and determined that not all conditions provided for by said standard for the de-recognition of the receivables sold pursuant to this contract are met. Hence, the receivables sold pursuant to this contract may not be de-recognized from the balance sheet. In the balance sheet at December 31st, 2004 and at March 31st, 2005 included in the interim financial information published on May 18th, 2005, the receivables sold pursuant to the mentioned contract were de-recognized from the balance sheet. In these consolidated interim financial statements the factoring contract has been accounted for as a financing contract and the related receivables still outstanding at the date of the balance sheet have not been de-recognized, while the balance sheet at December 31st, 2004 has been restated accordingly. The restatement brought a higher amount of trade receivables for a total amount of €58.1 million, a decrease in other current assets of €31.6 million and an increase in financial debts of €26.5 million, whereas no adjustments were required neither to the income statement nor to the net equity.

In preparing these interim consolidated financial statements as at and for the six-month period ended June 30th, 2005 the Group has applied IFRS n. 1, First-time adoption of IFRS, and IAS n. 34, Interim Financial Reporting, being June 2005 consolidated financial statements part of the period covered by the Group's first IFRS consolidated 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 these interim consolidated financial statements is June 30th, 2005. The Group's IFRS adoption date is 1st January 2005.

In preparing these interim consolidated financial statements in accordance with IFRS n. 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 June 30, 2005	As of Dec 31, 2004	As of June 30, 2004	Average For the Six Months ended June 30, 2005	Average For the Twelve Months ended December 31, 2004	Average For the Six Months ended June 30, 2004
USD	1.2092	1.3621	1.2155	1.2847	1.2439	1.2273
HK\$	9.399	10.5881	9.4803	10.0124	9.6881	9.5576
CHF	1.5499	1.5429	1.5242	1.5462	1.5438	1.5531
CAN\$	1.49	1.6416	1.6343	1.5875	1.6167	1.64285
YEN	133.95	139.65	132.4	136.1992	134.4446	133.0932
GBP	0.6742	0.70505	0.67075	0.6859	0.6787	0.6735
SEK	9.4259	9.0206	9.1451	9.1425	9.1244	9.1649
AU\$	1.5885	1.7459	1.7554	1.6643	1.6905	1.662
ZAR	8.0254	7.6897	7.6177	7.982	8.0092	8.2137
SIT	239.47	239.76	239.99	239.6369	239.0874	238.2515
REAL	2.84761	3.67282	3.78382	3.3089	3.6329	3.6428
RUPIA	52.6268	59.7404	55.8687	56.0872	56.3422	55.3077
SG\$	2.0377	2.2262	2.0901	2.1162	2.1016	2.0851
MYR	4.596	5.17529	4.61829	4.9732	4.7262	4.6632
CNY	10.0079	11.2781	10.0643	10.6352	10.2975	10.163



1 Trade receivables (net of provision for doubtful accounts)

(€thousands)	30 June 2005	31 December 2004
Gross value	361,189	294,442
Provision for doubtful accounts	(24,651)	(20,375)
Net value	336,538	274,067

The increase of trade receivables is mainly due to the normal seasonality of our working capital as we experience our highest level of demand during the first semester due to sales of sunglasses leading up to the summer months.

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

2 Inventory, net

(€thousands)	30 June 2005	31 December 2004
- Raw materials	31,979	33,144
- Work in progress	7,937	9,001
- Finished products	145,386	150,051
Total	185,302	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.

The 2005 decrease in inventories mainly relates to the normal seasonality of the Company's working capital. This fluctuation has been emphasized by the large amount of stock held in warehouse at December 31st, 2004.



3 Other current assets

(€thousands)	30 June 2005	31 December 2004
Value added tax (VAT) receivables	3,483	3,953
Tax credits and advance payments	7,841	7,972
Prepayments and accrued income	11,432	5,450
Receivables from salespersons and employees	3,935	4,379
Derivate financial instruments	-	1,911
Other receivables	3,711	4,324
	30,402	27,989

Prepayments and accrued income amount to €1.4 million as at 30th June 2005, compared to €5.4 million as at 31st December 2004 and include:

- Prepaid advertising expenses of €4.1 million;
- Prepaid lease instalments of €0.4 million;
- Prepaid insurance costs of €0.4 million;
- Prepaid rental costs of €0.7 million;
- Other accrued income and prepayments of €5.8 million, mainly including prepaid royalties costs;

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



4 Property, plant and equipment, net

(€thousands)	Balance at 1 January 2005	Additions	Translation differenc	Reclassification	Disposals	Balance at 30 June 2005
Cost						
Land and Buildings	109,527	363	432	(5,444)	-	104,878
Plant and equipment	205,856	7,835	412	-	(1,677)	212,426
Furniture, Office Equip. And vehicules	51,123	3,238	3,548	-	(1,037)	56,872
Assets under construction	3,542	820	65	-	-	4,427
Total Cost	370,048	12,256	4,457	(5,444)	(2,714)	378,603
Accumulated depreciation						
Land and Buildings	20,473	1,532	102	(2,405)	-	19,702
Plant and equipment	123,292	10,318	119	-	(1,268)	132,461
Furniture, Office Equip. And vehicules	30,515	2,784	2,115	-	(412)	35,002
Assets under construction	0	0	0	-	-	0
Total Accumulated depreciation	174,280	14,634	2,336	(2,405)	(1,680)	187,165
Net Book Value	195,768	(2,378)	2,121	(3,039)	(1,034)	191,438
Held for sale property						
Cost	-	-	-	5,444	-	5,444
Accumulated depreciation	-	-	-	(2,405)	-	(2,405)
Net Book Value	-	-	-	3,039	-	3,039

The reclassification refers to the building located in Carrera Optyl Brillen (Austria). As the Company is currently in liquidation, its building, in accordance with IFRS, has been reclassified in the line "held for sale property".



5 Intangible assets and Goodwill

(€thousands)	Balance at 1 January 2005	Additions	Translation difference	Other transfer	Disposals	Balance at 30 June 2005
Intangible assets						
<u>Cost</u>						
Software	6,972	693	185	-	-	7,850
Trademarks and licenses	33,827	98	52	-	-	33,977
Other	17,740	33	302	-	(131)	17,944
Assets under construction	162	-	6	(59)	-	109
Total Cost	58,701	824	545	(59)	(131)	59,880
<u>Accumulated amortisation</u>						
Software	5,257	858	129	-	-	6,244
Trademarks and licenses	14,818	1,958	11	-	-	16,787
Other	17,400	95	135	(190)	(131)	17,309
Assets under construction	-	-	-	-	-	-
Total Accumulated amortisation	37,475	2,911	275	(190)	(131)	40,340
Net Book Value	21,226	(2,087)	270	131	-	19,540
Goodwill						
Cost	424,830	-	2,537	-	-	427,367
Accumulated amortisation	61,669	-	932	-	-	62,601
Net Book Value	363,161	-	1,605	-	-	364,766

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 2005.



6 Investments in associated companies and Available for sale investments

(€thousand)	Interest in share capital %	Relationship	30 June 2005
<u>Investments in associated companies:</u>			
Elegance International Holdings Ltd	23.05%	Associate	11,391
Optifaschion As (Turchia)	50%	Non consolidated	296
Total			11,687
<u>Available-for-sale financial assets:</u>			
Banca Popolare di Lodi	0.65%	Other shareholding	5,877
TBR Inc. (USA)	33.33%	Other shareholding	492
Safilens Srl	17.50%	Other shareholding	209
Other	==	Other shareholding	239
Total			6,817

Investments in associates are accounted for under the equity method. No acquisitions in associates were made during the first half of 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, "Available-for-sale 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 June 30, 2005 amounts approximately to €1.0 million and the cumulated fair value negative adjustments as at June 30, 2005 amount approximately to €4.2 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 30th June 2005 include:

- €0.6 million 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 €1.4 million of guarantee deposits and other receivables.



9 Short-term borrowings

(€thousands)	30 June 2005	31 December 2004
Bank overdraft	458	12,144
Bank borrowings	40,000	3,500
Current portion of long-term loans	38,060	23,448
Current portion in other providers of financing	1,508	2,103
Current portion in other long term debt	30,944	28,723
Total	110,970	69,918

10 Trade payables

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

(€thousands)	30 June 2005	31 December 2004
Purchase of materials	48,681	33,794
Purchase of products and subcontract costs	47,059	71,336
Commissions and royalties	38,392	23,091
Advertising and sponsorship costs	18,372	14,519
Services received from third parties	19,122	18,046
Purchase of fixed assets	9,532	12,741
Total	181,158	173,527

11 Income tax payable

Outstanding payables to the tax authorities amount to €26.5 million as at 30th June 2005 and €19.2 million as at 31st December 2004; they mainly relate to the liability for current income taxes of Group companies.



12 Other current liabilities

(€thousands)	30 June 2005	31 December 2004
Payroll and social security	36,523	30,199
Accruals for bonuses to customers	11,885	15,851
Payable to salespersons	1,972	2,379
Accrual for advertising and sponsorship expenses	3,538	1,931
Accrual for loan interest expense	4,563	3,618
Accruals for insurance, leasing and other expenses	5,256	5,475
Payable to minority shareholders	1,448	2,264
Derivative financial instruments	708	-
Other payable	2,086	3,746
Total	67,979	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 June 30th, 2005.

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.



13 Provisions

(€thousands)	Balance at 1 January 2005	Movements of the year			Balance at 30 June 2005
		Accruals	Utilization	Translation difference	
Retirement benefit obligations	34,607	3,817	(1,741)	23	36,706
Provision:					
Product warranty	3,119	134	-	-	3,253
Agents' leaving indemnity	2,861	750	-	5	3,616
Other reserves for risks and charges	376	46	(94)	31	359
Total Provision	6,356	930	(94)	36	7,228

Retirement benefit obligations fund represents the liability of certain Group companies under supplementary labour agreements to pay additional retirement benefits to their employees. The product warranty provision has been provided to cover the estimated cost of replacing defective products.

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

Other provisions mainly include legal claims and other risks and charges.

14 Long-term borrowings

(€thousands)	30 June 2005	31 December 2004
Long term loans	702,361	705,488
Other providers of financing	10,991	11,055
Other long term debt	1,069	1,463
Total	714,421	718,006

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

Other providers of financing are represented only by financial leasing liabilities mainly related to property, plant and equipment.

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 basis 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 30th June 2005 include:

- €0.3 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 June 30th, 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 31st, 2004 to June 30th, 2005 are shown as follows:

(€thousands)	Movements of the year				Balance at 30 June 2005
	Balance at 1 January 2005	Increase	Decrease	Translation Conversion difference	
Fair Value Reserve	(6,342)	-	(4,598)	-	(10,940)
Total	(6,342)	-	(4,598)	-	(10,940)

18 Cost of sales

(€thousand)	2005 Jan - June	2004 Jan - June
Purchase of materials and finished products	133,782	118,478
Changes in inventories	14,338	4,962
Payroll and related contributions	46,383	50,975
Subcontracting costs	8,724	14,599
Industrial depreciation	12,081	13,044
Other costs	7,816	6,373
Total	223,124	208,431

The increase of purchases is mainly related to finished products and it is a consequence of both the increased sales and the Group's policy of outsourcing to external suppliers.

Changes in inventories:

(€thousand)	2005 Jan - June	2004 Jan - June
Finished products	11,194	587
Work in progress	1,445	545
Raw material	1,699	3,830
Total	14,338	4,962

The rise of *Changes in inventories* has been achieved thanks to Sàfilo Group's focus on limiting the quantity of finished products held as stock in the warehouses.

The Group continuously monitors its own end markets attempting to adjust production and inventories level in order to meet customers' demand on a timely basis.



Salaries and related contributions decreased by 9.0%. This reduction is the result of a lower number of employees in the production plants deriving from an improved production efficiency and the closure of the Austrian facility in Traun, only partially offset by an increased number of workers in other group entities.

Subcontracting costs include the costs of third party outsourcing of manufactured semi-finished products, where the Group provides raw materials. The significant decrease in this kind of costs (approximately 40.2%) in the first half of 2005 when compared to the same period of 2004, mainly relates to the company's strategy to achieve a full utilization of in-house resources.

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

19 Selling and marketing expenses

(€thousand)	2005	2004
	Jan - June	Jan - June
Staff costs	41,900	38,449
Services from independent salespersons	40,307	35,967
Royalties	53,032	45,226
Advertising and promotion	43,202	47,693
Depreciation and amortisation	1,156	1,304
Other operating and general expenses	24,812	24,707
Total	204,409	193,346

Selling & marketing expenses increased approximately by €1.1 million (5.7%) as a consequence the increased net sales. Nevertheless, as a percentage on turnover, their impact decreased by 1.1% from the first half of 2004 to the same period of 2005.

This improvement primarily derives from the combined effects of:

- a lower incidence of advertising and promotion expenses due to large amounts spent in 2004 for the launching of new brands (approximately 1.5%);
- a higher impact of royalties costs as a consequence of a different mix of licensed products sold comparing to the first half of 2004 (approximately 0.6%).

Other operating and general expenses refer to:

(€thousand)	2005	2004
	Jan - June	Jan - June
Transport, logistics	6,955	6,215
Consultancy	1,949	1,742
Rental and utilities	2,868	2,618
Warranty and other risks provision	884	339
Other selling expenses	12,156	13,793
Total	24,812	24,707

For the first semester of 2005 these expenses are substantially in line with the same period of 2004.



20 General and administrative expenses

(€thousand)	2005 Jan - June	2004 Jan - June
Staff costs	27,088	25,564
Bad debt provision	1,543	1,787
Depreciation and amortisation	4,227	4,189
Other operating and general expenses	21,572	21,552
Total	54,430	53,092

General and Administrative expenses increased by approximately €1.3 million (+2.5%) in the period ended June 30th, 2005, mainly due to the negative effect deriving from a higher number of employees at the Padova headquarter in order to support the launch of new products and the improvement of the Company's customer service.

Other operating and general expenses refers to:

(€thousand)	2005 Jan - June	2004 Jan - June
Consultancy	4,686	4,874
Rental and utilities	5,941	5,335
Other non-income taxes	1,044	974
Other administrative expenses	9,901	10,369
Total	21,572	21,552

Other operating and general expenses are in line with the previous year.

21 Other income/(expenses)

(€thousand)	2005 Jan - June	2004 Jan - June
Losses on disposal of assets	(367)	(27)
Other operating expenses	(468)	(2,588)
Gain on disposal of assets	42	25
Other operating incomes	1,155	1,462
Total	362	(1,128)



22 Finance costs, net

(€thousand)	2005	2004
	Jan - June	Jan - June
Interest expense	32,467	32,331
Less: interest income	(258)	(202)
Bank charges	2,202	2,455
Other finance costs	7,687	3,729
Total	42,098	38,313

Finance costs rose 9.9% over that of the previous year, maintaining the same percentage incidence on net sales. Their increase mainly derives from positive and negative exchange differences substantially related to US Dollar fluctuation.

Interests expenses include charges related to the Group's senior loans, on the €300 million bond and on other minor debts.

Other finance costs refers to:

(€thousand)	2005	2004
	Jan - June	Jan - June
Positive exchange differences	(11,183)	(4,399)
Negative exchange differences	16,304	6,864
Cash discounts	2,791	2,469
Dividends on investments	(211)	(154)
Other	(14)	(1,051)
Total	7,687	3,729

23 Income taxes

Income taxes amount to €12.3 million for the period ended June 30th, 2005 (€15.4 million for the same period of 2004) and take into account available exemptions, benefits and tax credits, available to the parent company and 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 area:

<u>Entity—Location</u>	<u>Currency</u>	<u>Share capital</u>	<u>Ownership %</u>
Holding Company			
Sàfilo S.p.A.	EURO	35,000,000	
Other Italian entities			
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 – <i>in liquidation</i>	EURO	102,775	100.00
Foreign entities			
Sàfilo International B.V. —Rotterdam, The Netherlands	EURO	24,165,700	100.00
Safint B.V.—Rotterdam, The Netherlands	EURO	18,200	100.00
Sàfilo Capital International S.A. —Luxembourg	EURO	31,000	100.00
Sàfilo Benelux S.A.—Zaventem, Belgium	EURO	560,000	100.00
Sàfilo Espana S.A.—Madrid, Spain	EURO	390,650	100.00
Sàfilo France S.a.r.l.—Paris, France	EURO	960,000	100.00
Sàfilo GmbH—Cologne, Germany	EURO	511,300	100.00
Sàfilo Nordic AB—Taby, Sweden	SEK	500,000	100.00
Sàfilo Far East Ltd.—Hong Kong	HKD	49,700,000	100.00
Safint Optical Investment—Hong Kong	HKD	10,000	51.00
Sàfilo Hong Kong Ltd.—Hong Kong	HKD	100,000	51.00
Sàfilo Singapore Pte. Ltd. —Singapore	SGD	400,000	100.00
Sàfilo Optical Sdn. Bhd—Kuala Lumpur, Malaysia	MYR	100,000	100.00
Safilo Trading (Shenzhen) Co. Inc. — China	CNY	2,481,000	51.00
Sàfilo Hellas Ottica S.A. —Athens, Greece	EURO	489,990	70.00
Sàfilo Nederland B.V.—Bilthoven, The Netherlands	EURO	18,200	100.00
Sàfilo South Africa PTY Ltd. —Bryanston, South Africa	ZAR	3,383	100.00
Sàfilo Austria GmbH—Traun, Austria	EURO	217,582	100.00
Carrera Optyl Brillen Vertrieb GmbH—Traun, Austria – <i>in liquidation</i>	EURO	7,630,648	100.00
Carrera Optyl d.o.o.—Ormož, Slovenia	SIT	135,101,000	100.00
Sàfilo Japan Co Ltd—Tokyo, Japan	JPY	100,000,000	100.00
Sàfilo do Brasil Ltda —San Paulo, Brasil	BRL	8,077,500	100.00
Sàfilo Portugal Lda.—Lisbon, Portugal	EURO	500,000	100.00
Sàfilo Switzerland A.G. —Liestal, Switzerland	CHF	1,000,000	77.00
Sàfilo India PTV Ltd—Mumbai, India.	IND	42,000,000	75.00
Safint Australia Pty Ltd—Sydney, Australia	AUD	3,000,000	100.00
Sàfilo Australia Partnership—Sydney, Australia	AUD	204,081	61.00
Safint Optical UK Ltd.—United Kingdom	GBP	21,139,001	100.00
Sàfilo UK Ltd.—North Yorkshire, United Kingdom	GBP	250	100.00
Sàfilo America Inc.—Delaware, USA	USD	8,430	100.00
Sàfilo USA Inc. —New Jersey, USA	USD	23,289	100.00
FTL Corp.—Delaware, USA	USD	10	100.00
Sàfilo Realty 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 Quebec Inc.—Montreal, Canada	CAD	100,000	100.00
Sàfilo Canada Inc.—Montreal, Canada	CAD	2,470,425	100.00
Canam Sport Eyewear Inc.—Montreal, Canada	CAD	300,011	100.00



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 June 30th, 2005.



APPENDIX

Summary of significant accounting policies

Basis of preparation

This June 2005 interim consolidated financial statements of Safilo Group are for the six months ended 30th June 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. Italian 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.

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.

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.

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(All amounts in euro thousands unless otherwise stated)

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 i 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 June 30th, 2004;
- equity at December 31st, 2004;
- net income March 31st, 2004;
- net income June 30th, 2004;
- net income December 31st, 2004;



Equity at 1st January 2004

(€thousands)	Note	At 1 January 2004		
		ITA GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	a	38,741	12,992	51,733
Trade receivables, net	b	209,077	71,049	280,126
Inventories, net	c	166,580	(4,425)	162,155
Other short term receivables	d	71,087	(38,965)	32,122
Total current assets		485,485	40,651	526,136
Non-current assets				
Property, Plant and Equipment	e	184,096	16,550	200,646
Intangible assets	f	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	g	15,274	(7,599)	7,675
Treasury shares	h	80,988	(80,988)	0
Deferred tax assets	i	35,637	4,551	40,188
Other long term receivables	l	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
Current liabilities				
Trade payables		141,594	0	141,594
Other short term payables	m	74,036	2,012	76,048
Financial debts	n	54,150	50,482	104,632
Accrued exp. and deferred inc.	o	13,195	(632)	12,563
Total current liabilities		282,975	51,862	334,837
Non-current liabilities				
Bank borrowings	f	767,957	(33,129)	734,828
Provisions	p	38,588	(27,598)	10,990
Retirement benefit obligation	q	28,784	(237)	28,547
Deferred tax liabilities	i	6,455	11,418	17,873
Other long term liabilities	r	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	h	80,988	0	80,988
Cumulative translation adjustment	s	(10,575)	10,575	0
Retained earnings and other reserves	h, t	(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) De-recognition 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 are 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 1st, 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.

**Equity at 31st March 2004**

At 31 March 2004

(€thousands)	Note	ITA GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		45,152	0	45,152
Trade receivables, net and other receivables	a	317,686	33,429	351,115
Inventories	b	160,253	(4,089)	156,164
Total current assets		523,091	29,340	552,431
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	(64,442)	1,208,259
Current liabilities				
Trade payables	i	142,655	99	142,754
Other short term payables	l	79,151	48	79,199
Financial debts	m	71,724	35,007	106,731
Accrued exp. and deferred inc.	n	26,701	469	27,170
Total current liabilities		320,231	35,623	355,854
Non-current liabilities				
Bank borrowings	d	787,886	(33,295)	754,591
Provisions	o	30,680	(23,482)	7,198
Retirement benefit obligation	p	29,955	(256)	29,699
Deferred tax liabilities	q	710	14,920	15,630
Other long term liabilities	r	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, s	(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	(64,442)	1,208,259



Notes on March 31st, 2004 reconciliation

- a) Most of the IFRS effects derive from the de-recognition of Safilo trade receivables sold without recourse to a factoring company on a revolving basis; minor effects are 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 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 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 derives from the de-recognition of factoring of receivables (see note a).
- n) 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.
- o) The IFRS adjustment mainly derives from the de-recognition 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.
- p) Calculation of the employees' termination indemnity on an actuarial basis.
- q) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- r) Interest rate swaps (I.R.S.) are stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- s) Reclassification of treasury shares plus the impact of all IFRS adjustments.

Equity at 30th June 2004

At 30 June 2004

(€thousands)	Note	ITA GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		25,778	0	25,778
Trade receivables, net and other receivables	a	317,332	26,789	344,121
Inventories, net	b	164,516	(4,827)	159,689
Total current assets		507,626	21,962	529,588
Non-current assets				
Property, plant and equipment	c	184,705	14,241	198,946
Intangible assets	d	58,977	(36,134)	22,843
Goodwill	e	353,666	11,503	365,169
Investments in associated companies		12,455	(130)	12,325
Available-for-sale investments	f	10,985	(4,410)	6,575
Treasury shares	g	80,988	(80,988)	0
Deferred tax assets	h	36,538	6,725	43,263
Other non-current assets		2,216	0	2,216
Total non-current assets		740,530	(89,193)	651,337
Total assets		1,248,156	(67,231)	1,180,925
Current liabilities				
Short-term borrowings	i	34,090	28,624	62,714
Trade payables		158,817	0	158,817
Other current liabilities	l	90,606	2,121	92,727
Total current liabilities		283,513	30,745	314,258
Non-current liabilities				
Long term borrowings	d	770,426	(32,928)	737,498
Retirement benefit obligations	m	30,821	(311)	30,510
Provisions	n	27,631	(21,548)	6,083
Deferred tax liabilities	o	289	14,964	15,253
Other non-current liabilities	p	12,118	3,289	15,407
Total non-current liabilities		841,285	(36,534)	804,751
Equity				
Share capital		35,000		35,000
Share premium		53,350		53,350
Treasury shares, at cost	g	80,988		80,988
Fair value reserve		0	(3,413)	(3,413)
Retained earnings and other reserves	g, q	(51,503)	(58,421)	(109,924)
Total Shareholders' equity		117,835	(61,834)	56,001
Minority interests		5,523	392	5,915
Total equity and liabilities		1,248,156	(67,231)	1,180,925



Notes on June 30th, 2004 reconciliation

- a) Most of the IFRS effects derive from the de-recognition of Safilo trade receivables sold without recourse to a factoring company on a revolving basis; minor effects are due 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 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 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) The effect is mainly related to the factoring agreement de-recognition (see note a).
- l) Most of the effect is due to payroll costs accounted for by some companies of Safilo Group in accordance with IFRS n. 19 and a government grant received for the purchases of tangible assets accounted for in accordance with IFRS n. 20.
- m) Calculation of the employees' termination indemnity made by some companies of Safilo Group in accordance with IFRS n. 19.
- n) The IFRS adjustment mainly derives from the de-recognition 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) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- p) Interest rate swaps (I.R.S.) are stated at their fair value with a corresponding decrease in the fair value reserve in equity plus other miscellaneous reclassifications.
- q) Reclassification of treasury shares plus the impact of all IFRS adjustments.

Equity at 31st December 2004

At 31 December 2004

(€thousands)	Note	ITA GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		33,795	0	33,795
Trade receivables, net and other receivables	a	278,418	23,638	302,056
Inventories, net	b	196,254	(4,058)	192,196
Total current assets		508,467	19,580	528,047
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	(61,398)	1,171,608
Current liabilities				
Short-term borrowings	i	43,398	26,520	69,918
Trade payables	l	173,747	(220)	173,527
Other current liabilities	m	82,136	2,506	84,642
Current provision		136	0	136
Total current liabilities		299,417	28,806	328,223
Non-current liabilities				
Long-term borrowings	d	747,943	(29,936)	718,007
Retirement benefit obligations	n	31,869	2,738	34,607
Provisions	o	6,406	(50)	6,356
Deferred tax liabilities	h	7,675	(296)	7,379
Other non-current liabilities	p	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, q	(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	(61,398)	1,171,608



Notes on December 31st, 2004 reconciliation

- a) Most of the IFRS effects derive from the de-recognition of Safilo trade receivables sold without recourse to a factoring company on a revolving basis; minor effects are 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 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 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) The effect is mainly related to the factoring agreement de-recognition (see note a).
- 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) De-recognition of a provision that do not meet the IFRS requirements.
- o) Overall impact of recognising deferred taxes in accordance with IAS n. 12.
- p) Interest rate swaps (I.R.S.) stated at their fair value with a corresponding decrease in the fair value reserve in equity.
- q) Reclassification of treasury shares plus the impact of all IFRS adjustments.

**Net Income at 31st March 2004**

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 line "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 (SP V 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.

**Net Income at 30th June 2004**

Six-months ended 30 June 2004				
(€thousands)	Note	ITA GAAP 10Q form	Effect of IFRS adjustments and reclassifications	IFRS
Net sales	a	513,284	2,532	515,816
Cost of sales	b	(204,977)	(3,454)	(208,431)
Gross Profit		308,307	(922)	307,385
Selling and Marketing costs	c	(174,017)	(19,329)	(193,346)
General and admin. expenses	c	(68,057)	14,965	(53,092)
Goodwill amortization	d	(11,682)	11,682	0
Other operating income/exp.	e	(1,081)	(47)	(1,128)
Operating profit		53,470	6,349	59,819
Share of results of associated companies		(19)	(6)	(25)
Financial income/expenses	f	(36,611)	(1,702)	(38,313)
Profit before taxes		16,840	4,641	21,481
Income tax expenses	g	(16,369)	999	(15,370)
Net result for the period		471	5,640	6,111



Notes on June 30, 2004 reconciliation

- a) Most of the effect derives from the adjustment to revenues in dollars hedged by forward exchange contracts. In the 10Q form 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.
- 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) and miscellaneous reclassifications.
- 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.

**Net Income at 31st December 2004**

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

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