



SÀFILO GROUP

Financial information from 1 January 2005 to 30 September 2005

October 31st , 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*, *55DSL*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Imatra*, *Jennifer Lopez*, *Juicy Couture*, *Kate Spade*, *Liz Claiborne*, *Marc Jacobs*, *Marc by Marc Jacobs*, *Max Mara*, *Nine West*, *Oliver by Valentino*, *Pierre Cardin*, *Polo Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino* and *Yves Saint Laurent*.

Our products are sold in 130 countries and are supplied to approximately 130,000 points of sale worldwide. We distribute our products directly in 30 of our largest geographic markets through 28 company controlled distribution subsidiaries and a sales force of over 1,400 sales representatives. In the countries where we do not have distribution subsidiaries, we sell our products through an established network of approximately 170 third-party distributors.



OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The positive results achieved in the third quarter of 2005 confirm the trend growth shown during the year both in terms of sales and profitability. Sales in the nine months ended 30 September 2005 were €776.7 million, showing an improvement of 8.3% compared to the same period in the prior year; at constant exchange rates, the growth would have been 9.4%. The third quarter turnover has increased in all main markets (+6.8%) with particularly good performances in Far East and America where sales have improved by 14% and 11.2% respectively.

Despite the weakness of the US dollar, Group profitability in the first nine months of 2005 significantly improved compared to the same period in 2004, providing for a year-to-date EBITDA margin of 16.4% (of net sales). The positive results achieved in terms of profitability are mainly related to the higher level of sales and to the cost containment initiatives undertaken by the Group. Additional industrial rationalization projects have been planned by the management who expects to obtain savings up to €15 and €23 million within 2006 and 2007 respectively.

Net debt position at the end of the quarter was €763 million, accounting for an improvement of about €17 million as compared to the same period last year. When compared with the 31st December 2004 the net debt is slightly higher, mainly as a consequence of the US dollar appreciation during the first nine months of 2005 thus increasing the value of the debt portion stated in US dollars.

The Group has extended for an additional two years the licence agreements of some of the most important brands currently present in its portfolio. The new expiry dates of these licences are 2010 for *Dior* and *Gucci* (previously 2008) and 2012 for *Giorgio Armani* and *Emporio Armani* (previously 2010).

On October 2005, the extraordinary shareholders' meeting of Sàfilo Group S.p.A., the parent Company of Sàfilo S.p.A., made application to Borsa Italiana S.p.A. for the admission to listing of its shares on the Italian Stock Exchange. Once the necessary approvals are obtained, Sàfilo Group S.p.A. expects to launch a primary and secondary public offer on the Italian market, by the end of 2005.

Starting first quarter 2005 the Group is reporting its results according to IFRS (International Financial Reporting Standards). 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 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

Starting from this 10Q form, the tables representing net sales by products and by geographical areas have been changed.

The main changes can be summarized as follows:

- *Sales by products*: the category *Sport* (in the past called *Sport goggles*), instead of representing only the goggles, now includes all the products (such as goggles, helmets, sunglasses, etc.) sold through the sport distribution channel; the category *Others* now includes sales of accessories and spare parts;
- *Sales by geographic region*: the region *America* (in the past called *North America*) now also includes sales performed in South and Middle America; the *Europe* region now includes some Italian significant chains (previously included in the Italian region) as they essentially serve international markets; the region *Far East* now includes the sales of Australia and the sales made to the Duty Free Shops.

A detail of net sales represented with this new classification for the past quarters of 2005 and for all the quarters of 2004 is disclosed in the Appendix.

In accordance with the new classification criteria, our net sales by *products* are summarized in the table below (*):

(In Euro millions)	Quarter				Change	YTD				Change
	2005		2004			Q3 2005-2004 %	2005		2004	
	Jul-Sep		Jul-Sep		Jan-Sep		Jan-Sep			
	€	%	€	%	€		%	€	%	
<i>Net Sales:</i>										
Prescription frames	108.7	50.6%	110.4	54.8%	(1.5)%	325.9	42.0%	331.9	46.3%	(1.8)%
Sunglasses	84.5	39.3%	69.1	34.3%	22.3%	401.4	51.7%	337.8	47.1%	18.8%
Sport	18.4	8.6%	17.3	8.6%	6.4%	38.3	4.9%	37.5	5.2%	2.1%
Others	3.3	1.5%	4.5	2.2%	(26.7)%	11.1	1.4%	9.9	1.4%	12.1%
Total	214.9	100.0%	201.3	100.0%	6.8%	776.7	100.0%	717.1	100.0%	8.3%



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

(In Euro millions)	Quarter				Change	YTD				Change
	2005		2004		Q3	2005		2004		YTD
	Jul-Sep		Jul-Sep		2005-2004	Jan-Sep		Jan-Sep		2005-2004
	€	%	€	%	%	€	%	€	%	%
<i>Net Sales:</i>										
Italy	23.6	11.0%	22.5	11.2%	4.9%	101.9	13.1%	88.2	12.3%	15.5%
Europe (excluding Italy)	65.4	30.4%	65.0	32.3%	0.6%	264.9	34.1%	252.6	35.2%	4.9%
America	91.4	42.5%	82.2	40.8%	11.2%	290.3	37.4%	274.2	38.2%	5.9%
Far East	26.0	12.1%	22.8	11.3%	14.0%	89.2	11.5%	72.9	10.2%	22.4%
Rest of World	8.5	4.0%	8.8	4.4%	(3.4)%	30.4	3.9%	29.2	4.1%	4.1%
Total	214.9	100.0%	201.3	100.0%	6.8%	776.7	100.0%	717.1	100.0%	8.3%

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



Net sales. Turnover for the first nine months of 2005 increased by 8.3%, from €717.1 million in 2004 to €776.7 million in 2005, confirming the positive trend built on an already positive first half of the year. The appreciation of the Euro against other currencies marginally affected the overall sales results; in fact, assuming constant exchange rates, the increase would have been approximately 9.4% for the nine-month period. The strongest revenue growth has been seen in the sunglasses and sport business segments while, on a geographic basis, the Far East and Italy achieved the best performances in the first nine months of 2005 compared with the same period last year. In volume terms, the 2005 Group turnover increase was equal to 7.9%, mainly driven by the growth in sunglasses (+21.1%) that outperformed prescription frames. This extremely positive sales trend is mainly driven by sales growth posted by the Group's luxury licensed brands, such as *Armani*, *Dior* and *Gucci*. It is important to note that during this quarter the Group extended the expiry dates of some of the best performing licence agreements.

Italy. Despite the unfavourable economic climate, revenues in Italy were up 15.5% over the first nine months of 2004, showing an extremely good performance in both the sunglasses and prescription frames business segments (respectively +20.3% and +8.4%). The third quarter confirms the positive trend of sales, up 4.9% over the third quarter of 2004. The collections of *Armani*, *Dior*, *Gucci*, and *Valentino* have experienced the best performances in the period. The new collection of the licensed brand *Imatra* sponsored by the MotoGP World Champion Valentino Rossi and the new Marc Jacobs brand posted very positive growth rates and promise additional growth potential.

Europe (excl. Italy). Sales in the European market increased by 4.9% in the first nine months of 2005, while in the quarter they remained approximately stable. These positive results reflect the good performance in the sunglasses (+12.0%) and sport (+28.0%) product segments. With respect to licensed brands, *Dior*, *Gucci*, *Armani* were the best performing brands, while in terms of house brands, *Smith* and *Oxydo* reached a very positive result. The two new brands *Imatra* and *Marc Jacobs* confirmed in Europe, like in Italy, their successful introduction in the market.

America. Sales in America increased by 8.1% over the first nine months of 2004 (+5.9% at current rates). Despite the bad weather conditions in the Southeastern regions, sales in the third quarter were up 11.2% over 2004, confirming the strong performance of that market. This significant growth has been experienced thanks to the consolidation of the Solstice retail stores and to the excellent result both of the licensed brands such as *Dior*, *Gucci* and *Armani* and the local collections *Liz Claiborne*, *Kate Spade* and *J. Lo*.

Far East. The third quarter of 2005 was another solid quarter for the Far Eastern area, building on an already positive first half of the year; in fact, sales in the quarter were up 14.0% and in the year-to-date period showed an increase of 24.8% at constant exchange rates (+22.4% at current rates). Extremely good performances were experienced in the prescription frames segment (+22.5%) even better than the growth of the sunglasses business (+22.3%). The driving brands of this success were *Dior*, *Gucci*, *Armani* and *Yves Saint Laurent*.



SELECTED FINANCIAL DATA

(in Euro millions)	Quarter				YTD			
	2005		2004		2005		2004	
	Jul-Sep		Jul-Sep		Jan-Sep		Jan-Sep	
	€	%	€	%	€	%	€	%
Net sales	214.9	100.0%	201.3	100.0%	776.7	100.0%	717.1	100.0%
Cost of goods sold	85.6	39.8%	79.8	39.6%	308.7	39.7%	288.2	40.2%
Selling and Mktg expenses	83.2	38.7%	76.4	38.0%	287.6	37.0%	269.7	37.6%
G&A	25.1	11.7%	26.8	13.3%	79.5	10.2%	79.9	11.1%
EBITDA ¹	29.7	13.8%	25.8	12.8%	127.4	16.4%	104.2	14.5%

For the first nine months of 2005 EBITDA reached €127.4 million (16.4% of net sales) compared to €104.2 million in the same period of 2004 (14.5% of net sales). Aside from sales growth, a significant contribution was made to this improvement by the optimisation activities related to the manufacturing processes and to the Group's organisational structures, which took place during the recent quarters.

Gross profit (considered as the difference between net sales and cost of goods sold) improved by €39.1 million (+9.1%) compared to the same period in 2004. This improvement has been mainly driven by the increased level of sales and by the 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 €287.6 million, decreasing from 37.6% of the revenues in the first nine months of 2004 to 37.0% in 2005. The reduction mainly relates to a lower impact of fixed costs associated with the sales network and to some savings in marketing expenses.

General and Administrative expenses slightly reduced their relative impact on turnover (about 0.9%); however the absolute value remained stable. Cost saving activities and the devaluation of US dollar compensated the higher costs related to the full impact of Solstice stores opened during the first nine months of 2004.

The net result of the period has been negatively impacted by the increase of interest expenses due to the fact that the estimated time for the reimbursement of certain debts has been reviewed. In particular, it is considered probable that certain debts will be reimbursed earlier than the maturity date. Hence, the amortized cost of these debts has been reviewed with a non-recurring charge to profit & loss of €9.1 million.

¹ We define EBITDA as operating income before depreciation and amortisation of intangible assets excluding goodwill and debt issuance costs amortisation.



CASH FLOW

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

(In Euro millions)	30 September 2005	30 September 2004
Net cash flows:		
(Used in)/provided by operating activities	37.9	22.0
(Used in)/provided by investment activities	(17.7)	(19.9)
(Used in)/provided by financing activities	7.4	(2.6)
Net increase (decrease) in cash and cash equivalents	27.6	(0.5)

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

(In Euro millions)	30 September 2005	30 September 2004
Net Income	20.7	10.4
Amortization and depreciation	26.1	26.8
Changes in working capital:		
Trade receivables and other current assets	(16.5)	(10.3)
Inventory	14.3	(13.8)
<u>Trade payables and other current liabilities</u>	<u>(23.5)</u>	<u>6.0</u>
Total Changes in working capital	(25.7)	(18.1)
Other	16.8	2.9
Total	37.9	22.0

The cash flow from operating activities increased by €15.9 million from €22.0 in the first nine months of 2004 to €37.9 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 working capital growth. In particular:

- ✓ The increase of net sales during the second and third quarter of 2005 compared to the same period of 2004 has negatively affected trade receivables;
- ✓ The seasonal inventory fluctuation has generated cash flow as a result of the large amount of stock held at 31 December 2004;
- ✓ The impact on cash coming from trade payables mainly derives from the large amount of payments to suppliers at the beginning of 2005 consequent of increased purchases of finished products and raw materials in Q4 2004;
- ✓ The positive effect in the category “*other*” is mainly due to the amortised costs of the debt that negatively impacted the net result.



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 30 September 2005 slightly decreased by €2.2 million. Tangible assets additions impact for a total amount of €16.4 million in comparison to €18.8 million of the previous year and mainly refer to replacements of equipment in the facilities and to the new opening of Solstice stores.

Cash Flows from Financing Activities. Financing activities generated cash for approximately €7.4 million during the period ended 30 September 2005, whereas the outflows in the previous year amounted to €2.6 million mainly as a result of the combined effects of a large amount of cash absorption consequent of the closure of the securitization program (€50 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 September 30, 2005, December 31, 2004 and September 30, 2004 is shown in the following table:

	2005	2004	2004
	Sep	Dec	Sep
Headquarter (Padua – Italy)	765	707	693
Factory personnel	4,185	4,561	4,584
Subsidiaries	1,037	1,024	1,016
Solstice	311	221	208
Total	6,298	6,513	6,501



SÀFILO GROUP

**Consolidated Condensed Interim Financial Statements
For the period 1 January – 30 September 2005**



CONSOLIDATED INTERIM BALANCE SHEET

(In thousands of Euro, unless otherwise stated)

	Note	30 September 2005	31 December 2004
ASSETS			
Current assets			
Cash and cash equivalents		50,094	33,795
Trade receivables, net	1	273,465	274,067
Inventories, net	2	190,196	192,196
Held for sale property	4	3,012	0
Other current assets	3	34,932	27,989
Total current assets		551,699	528,047
Non-current assets			
Property, plant and equipment, net	4	189,819	195,768
Intangible assets	5	18,417	21,226
Goodwill	5	364,826	363,161
Investments in associated companies	6	13,196	10,167
Available-for-sale investments	6	6,564	7,018
Deferred income tax assets	7	61,214	44,517
Other non-current assets	8	4,217	1,705
Total non-current assets		658,253	643,562
Total assets		1,209,952	1,171,609
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings and bank overdrafts	9	81,640	69,918
Trade payables	10	140,401	173,527
Income tax payables	11	21,345	19,179
Other current liabilities	12	77,669	65,463
Current provisions		217	136
Total current liabilities		321,272	328,223
Non-current liabilities			
Long-term borrowings	13	731,228	718,006
Retirement benefit obligations	14	36,734	34,607
Provisions	14	8,336	6,356
Deferred tax liabilities	15	9,459	7,379
Other non-current liabilities	16	7,737	8,479
Total non-current liabilities		793,494	774,827
Total liabilities		1,114,766	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		72,956	40,856
Fair Value reserve		(8,747)	(6,342)
Profit (Loss) pertaining to the Group		18,280	21,610
Shareholders' equity		89,851	63,486
Minority interests		5,335	5,073
Total Equity	17	95,186	68,559
Total liabilities and Equity		1,209,952	1,171,609

(The accompanying Notes are an integral part of these Consolidated Condensed Financial Statements).



CONSOLIDATED INTERIM STATEMENT OF OPERATIONS

(In thousands of Euro, unless otherwise stated)¹

		Nine months ended September 30,	
	Note	2005	2004
Net sales		776,726	717,051
Cost of sales	18	(308,676)	(288,231)
Gross profit		468,050	428,820
Selling and marketing expenses	19	(287,606)	(269,707)
General and administrative expenses	20	(79,482)	(79,884)
Other operating incomes/(expenses)	21	374	(1,857)
Operating profit		101,336	77,372
Share of results of associated companies		1,532	579
Finance costs, net	22	(68,926)	(54,082)
Profit/(loss) before income tax		33,942	23,869
Income Tax expense	23	(13,231)	(13,508)
Net profit/(loss) for the period		20,711	10,361
Net profit/(loss) attributable to minority shareholders		2,431	2,868
Group net profit/(loss)		18,280	7,493
Earnings per share¹ - basic		0,57	0,24
Earnings per share¹ - diluted		0,56	0,24

(The accompanying Notes are an integral part of these Consolidated Condensed Financial Statements).

¹ Except earnings per share, which are expressed in Euro



CONSOLIDATED INTERIM CASH FLOW STATEMENT
(In thousands of Euro, unless otherwise stated)

	Nine months ended 30 September,	
	2005	2004
Cash flows from operating activities		
Net profit/(loss) for the period (minority interests included)	20,711	10,361
Amortisation and depreciation	26,103	26,830
Fees amortised cost	12,528	3,547
Write-downs and (revaluations) of investments in associates	(1,152)	361
(Increase) Decrease of trade receivables and other current assets	(16,506)	(10,296)
(Increase) Decrease of inventories	14,318	(13,777)
Stock Option costs	1,316	202
Increase (Decrease) of trade payables and other current liabilities	(23,542)	6,048
Retirement benefit obligations	2,113	3,589
Changes in other provisions	2,024	(4,869)
Net cash provided by/(used in) operating activities	37,913	21,996
Cash flows from investing activities:		
Purchases of property, plant and equipment (net of disposal)	(16,446)	(18,790)
Acquisition of investments in associates and available-for-sale financial assets	0	(142)
Disposal of investments in associates and available-for-sale financial assets	116	0
Acquisition of intangible assets	(1,353)	(943)
Net cash provided by/(used in) investing activities:	(17,683)	(19,875)
Cash flows from financing activities:		
Proceeds from borrowings	20,763	35,635
Dividends paid to minority shareholders	(2,371)	(2,388)
Share capital increase	0	25,000
Repayment of borrowings	(10,960)	(60,811)
Net cash provided by/(used in) financing activities	7,432	(2,564)
Net increase/(decrease) in cash and cash equivalents	27,662	(443)
Effect of exchange rate	3,759	853
Cash and (bank overdrafts) at the beginning of the period	18,151	23,234
Cash and (bank overdrafts) at the end of the period	49,572	23,644

(The accompanying Notes are an integral part of these Consolidated Condensed Financial Statements).



CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of Euro, unless otherwise stated)

	Note	Balance at 1 January 2004	Increase	Decrease	Allocation of 2003 net profit	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	(4,501)			40,856
Fair Value Reserve		(826)		(5,516)		(6,342)
Net profit/(loss) for the year		-	21,610			21,610
Total Equity Group		26,893	42,109	(5,516)	-	63,486
Minority interests		5,876	3,123	(3,926)	-	5,073
Total Equity	17	32,769	45,232	(9,442)	-	68,559

	Note	Balance at 1 January 2005	Increase	Decrease	Allocation of 2004 net profit	Balance at 30 September 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	10,490		21,610	72,956
Fair Value Reserve		(6,342)		(2,405)		(8,747)
Net profit/(loss) for the period		21,610	18,280		(21,610)	18,280
Total Equity Group		63,486	28,770	(2,405)	-	89,851
Minority interests		5,073	2,633	(2,371)	-	5,335
Total Equity	17	68,559	31,403	(4,776)	-	95,186

(The accompanying Notes are an integral part of these Consolidated Condensed Financial Statements).



Sàfilo Group Subsidiaries

Companies included in the consolidation area:

	Currency	Share capital	Ownership %
Italian Entities			
Sàfilo S.p.A.- Pieve di Cadore, Belluno – <i> Holding Company</i>	EURO	35.000.000	-
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. (in liquidation) – Florence	EURO	102.775	100,00
Foreign Entities			
Sàfilo International B.V. - Rotterdam (NL)	EURO	24.165.700	100,00
Safint B.V. - Rotterdam (NL)	EURO	18.200	100,00
Sàfilo Capital International S.A. (Lussemburgo)	EURO	31.000	100,00
Sàfilo Benelux S.A. - Zaventem (B)	EURO	560.000	100,00
Sàfilo Espana S.A. - Madrid (E)	EURO	390.650	100,00
Sàfilo France S.a.r.l. - Paris (F)	EURO	960.000	100,00
Sàfilo Gmbh - Köln (D)	EURO	511.300	100,00
Sàfilo Nordic AB - Taby (S)	SEK	500.000	100,00
Sàfilo Far East Ltd. - Hong Kong	HKD	49.700.000	100,00
Safint Optical Investment Ltd -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
Sàfilo Trading (Shenzhen) Co. Inc. China	CNY	2.481.000	51,00
Sàfilo Hellas Ottica S.a. – Athens (GR)	EURO	489.990	70,00
Sàfilo Nederland B.V. - Bilthoven (NL)	EURO	18.200	100,00
Sàfilo South Africa – Bryanston (Sudafrica)	ZAR	3.383	100,00
Sàfilo Austria Gmbh -Traun (A)	EURO	217.582	100,00
Carrera Optyl Gmbh (in liquidation) –Traun (A)	EURO	7.630.648	100,00
Carrera Optyl D.o.o. - Ormoz (SLO)	SIT	135.101.000	100,00
Carrera Optyl Marketing Gmbh – Traun (A)	EURO	181.683	100,00
Sàfilo Japan Co Ltd (Tokyo)	JPY	100.000.000	100,00
Sàfilo Do Brasil Ltda – San Paulo (Brasil)	BRL	8.077.500	100,00
Sàfilo Portugal Lda – Lisbona (P)	EURO	500.000	100,00
Sàfilo Switzerland – Liestal (Switzerland)	CHF	1.000.000	77,00
Sàfilo India Ltd	INR	42.000.000	75,00
Safint Australia Pty Ltd.- Sidney (Australia)	AUD	3.000.000	100,00
Sàfilo Australia Partnership – Sidney (Australia)	AUD	204.081	61,00
Safint Optical UK Ltd. (UK)	GBP	21.139.001	100,00
Sàfilo UK Ltd. - North Workshire (UK)	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
Sàfilo Services LLC - New Jersey (USA)	USD	-	100,00
Smith Sport Optics Inc. - Idaho (USA)	USD	12.162	100,00
Solstice Marketing Corp. – (USA)	USD	1.000	100,00
2844-2580 Quebec Inc. – Montreal (CAN)	CAD	100.000	100,00
Sàfilo Canada Inc. - Montreal (CAN)	CAD	2.470.425	100,00
Canam Sport Eyewear Inc. Montreal (CAN)	CAD	300.011	100,00



Foreign currency

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

	As of 30 September 2005	As of 31 December 2004	As of 30 September 2004	Average For the Nine Months ended 30 September 2005	Average For the Twelve Months ended 31 December 2004	Average For the Nine Months ended 30 September 2004
USD	1.2042	1.3621	1.2409	1.2626	1.2439	1.2255
HK\$	9.3412	10.5881	9.6745	9.8297	9.6881	9.5485
CHF	1.5561	1.5429	1.5524	1.5486	1.5438	1.5474
CAN\$	1.4063	1.6416	1.574	1.5462	1.6167	1.6281
YEN	136.25	139.65	137.17	136.0002	134.4446	133.5317
GBP	0.68195	0.70505	0.6868	0.6848	0.6787	0.6731
SEK	9.3267	9.0206	9.0588	9.2189	9.1244	9.1625
AU\$	1.5828	1.7459	1.7212	1.6442	1.6905	1.6827
ZAR	7.6765	7.6897	7.9792	7.9673	8.0092	8.0678
SIT	239.52	239.76	239.98	239.5863	239.0874	238.8335
REAL	2.66655	3.67282	3.5351	3.1552	3.6329	3.6416
RUPIA	52.9186	59.7404	56.9759	55.1324	56.3422	55.6791
SG\$	2.0353	2.2262	2.0937	2.0914	2.1016	2.0856
MYR	4.5389	5.17529	4.71529	4.8458	4.7262	4.6563
CNY	9.7444	11.2781	10.2746	10.3923	10.2975	10.1476



Notes on the IFRS Consolidated Financial Statements

Basis for the preparation of the IFRS consolidated condensed interim financial information

This interim condensed consolidated financial information, including the interim consolidated balance sheet as at 30 September 2005, the interim consolidated statements of income, cash flows and changes in shareholders' equity for the period ended 30 September 2005 and the related explanatory notes, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

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

These consolidated condensed 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 consolidated financial statements for the year ending 31 December 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 31 December 2004 and at 31 March 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, as well as in the 10Q form at 30 June 2005, 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 31 December 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.

Sàfilo Group transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is 30 September 2005. The Group's IFRS adoption date is 1 January 2005.

Reconciliations and descriptions of the adjustments on the 2004 consolidated financial statements prepared in accordance with Italian generally accepted accounting principles to IFRS were included in the consolidated financial information prepared in accordance with IFRS for the year ended December 31, 2004. The reconciliations include:

- Reconciliation of the shareholders' equity for January 1, 2004 and December 31, 2004 and of net loss for the year ended December 31, 2004
- Reconciliation of the consolidated income statement for the year ended December 31, 2004
- Reconciliation of the consolidated balance sheet as at January 1, 2004 and December 31, 2004



This consolidated condensed financial information for the nine months ended 30 September 2005 in accordance with IFRS has been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments.

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.

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 Group uses the purchase method of accounting to account for the acquisition of subsidiaries. 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 Euro, 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 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) are 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 5-15 years
- Furniture, Office Equipment and vehicles 4-8 years

Lands are not depreciated.

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.

Held-for-sale property

Held-for-sale properties include non-current assets whose net book value will be recovered through its sale. They are stated at the lower of their net book value and net realisable value.

Impairment of assets

Goodwill is not subject to amortisation and is 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).

Financial instruments

The Group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments 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.

Available-for-sale financial assets

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables 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.

Treasury shares

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's holders until the shares are cancelled, reissued or disposed of.

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

Termination benefits and Pension obligations

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 labour 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

Stock option plans provide for the free option to subscribe new issued shares for selected managers of some companies of the Sàfilo Group. 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 Sàfilo Group employees is 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.

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) Royalty income

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

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

Current income tax

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

Costs

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



Financial risk management

Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Price risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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



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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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.

The fair value of the stock options is estimated using the Black-Scholes option-pricing model.



Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to the Group (net of the profit attributable to the participating preference shares) by the weighted average number of ordinary shares in issue during the period.

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (for example stock options, warrants, etc.).

Critical accounting estimates, judgements and assumptions

The preparation of these financial statements requires management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. The resulting accounting estimates will, by definition, seldom equal the related actual results; hence, Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. We have summarized below our accounting estimates that require the more subjective judgment of our management in making assumptions or estimates regarding the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect the results reported in the combined and consolidated financial statements.

- *Estimated impairment of goodwill:* The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policies used to prepare the financial statements. The recoverable amounts of cash-generating units have been determined based on *fair value* calculations. Should the *fair values* result in a lower value than the book value of the asset, the goodwill requires impairment. The allocation of goodwill amongst the cash-generating units and the valuation under *fair value* requires management to make estimates that depend on factors that can change through time with the possibility of causing significant differences on the final valuation accounted for.
- *Impairment of long-lived assets:* Assets that are subject to depreciation and amortisation are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable. If any such indication exists, the assets are tested to determine whether the assets have suffered an impairment loss. An impairment loss is recognised for the amount by which an 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. Such impairment loss is recognised in the income statement. Management judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect asset values; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result could affect the Group's financial condition and results of operations.



- *Deferred income tax:* deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recorded where it is probable that the assets will be realized. In this respect, we have considered future taxable income and tax planning strategies in assessing the need for any valuation allowance. In the event that we were to determine that we would be able to realize the deferred tax assets in the future in excess of the net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination were made. In the event that we were to determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the valuation allowance would be charged to income in the period such determination were made.



1 Trade receivables (net of provision for doubtful accounts)

(€thousands)	30 September 2005	31 December 2004
Gross value	298,484	294,442
Provision for doubtful accounts	(25,019)	(20,375)
Net value	273,465	274,067

Trade receivables remain substantially stable if compared to 31 December 2004, even if, considering exchange rate effects, they should have decreased by €9.8 million as a consequence of the normal seasonality of the Company's working capital as the Group experiences a higher level of demand during the last quarter if compared to the third.

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

2 Inventory, net

(€thousands)	30 September 2005	31 December 2004
- Raw materials	35,227	33,144
- Work in progress	8,371	9,001
- Finished products	146,598	150,051
Total	190,196	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 amount of inventories, net of exchange rate effects, decreased by €4.3 million as a consequence of the large amount of stock held in warehouse at 31 December 2004 aimed at reducing delivery time for customer orders.



3 Other current assets

(€thousands)	30 September 2005	31 December 2004
Value added tax (VAT) receivables	6,453	3,953
Tax credits and advance payments	8,157	7,972
Prepayments and accrued income	12,542	5,450
Receivables from salespersons and employees	4,059	4,379
Derivate financial instruments	-	1,911
Other receivables	3,721	4,324
	34,932	27,989

Prepayments and accrued income amount to €12.5 million as at 30 September 2005, compared to €5.4 million as at 31 December 2004 and include:

- Prepaid advertising expenses of €7.3 million;
- Prepaid lease instalments and rental costs of €1.2 million;
- Prepaid insurance costs of €0.5 million;
- Prepaid royalties costs of €0.8 million;
- Other accrued income and prepayments of €2.7 million;

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 difference	Reclassification	Disposals	Balance at 30 June 2005
Cost						
Land and Buildings	109,527	777	449	(5,444)	(1,025)	104,284
Plant and equipment	151,193	3,788	334	-	(1,559)	153,756
Furniture, Office Equip. And vehicles	105,785	11,760	3,854	-	(1,421)	119,978
Assets under construction	3,542	1,623	74	-	-	5,239
Total Cost	370,047	17,948	4,711	(5,444)	(4,005)	383,257
Accumulated depreciation						
Land and Buildings	20,473	2,443	79	(2,432)	(272)	20,291
Plant and equipment	80,406	8,361	149	-	(1,068)	87,848
Furniture, Office Equip. And vehicles	73,400	10,843	2,219	-	(1,163)	85,299
Assets under construction	-	-	-	-	-	-
Total Accumulated depreciation	174,279	21,647	2,447	(2,432)	(2,503)	193,438
Net Book Value	195,768	(3,699)	2,264	(3,012)	(1,502)	189,819
Held for sale property						
Cost	-	-	-	5,444	-	5,444
Accumulated depreciation	-	-	-	(2,432)	-	(2,432)
Net Book Value	-	-	-	3,012	-	3,012

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	886	147	-	-	8,005
Trademarks and licenses	33,827	162	54	-	-	34,043
Other	17,740	471	313	-	(704)	17,820
Assets under construction	162	-	9	(62)	-	109
Total Cost	58,701	1,519	523	(62)	(704)	59,977
<u>Accumulated amortisation</u>						
Software	5,257	1,290	86	-	-	6,633
Trademarks and licenses	14,818	2,938	12	-	-	17,768
Other	17,400	228	131	-	(600)	17,159
Assets under construction	-	-	-	-	-	-
Total Accumulated amortisation	37,475	4,456	229	-	(600)	41,560
Net Book Value	21,226	(2,937)	294	(62)	(104)	18,417
<u>Goodwill</u>						
Cost	424,830	-	2,618	-	-	427,448
Accumulated amortisation	61,669	-	953	-	-	62,622
Net Book Value	363,161	-	1,665	-	-	364,826

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 September 2005
Investments in associated companies:			
Elegance International Holdings Ltd	23.05%	Associate	12,506
TBR Inc. (USA)	33.33%	Associate	494
Optifashion As (Turchia)	50%	Non consolidated	196
Total			13,196
Available-for-sale financial assets:			
Banca Popolare di Lodi	0.65%	Other shareholding	6,086
Safilens Srl	17.50%	Other shareholding	209
Other	==	Other shareholding	269
Total			6,564

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 30 September 2005 amounts approximately to €10.6 million and the cumulated fair value negative adjustments as at 30 September 2005 amount approximately to €4.0 million.

7 Deferred income tax assets

As at 30 September 2005 deferred tax assets amount to €61.2 million and 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 30 September 2005 amount to €4.2 million and include:

- €0.6 million of a non-interest bearing loan granted to an associate company;
- €2.3 million representing the fair value of Sàfilo Capital's option for the partial reimbursement, earlier than the expiring date, of the €300 million bond. The fair value has been calculated applying appropriate pricing financial models on the basis of market conditions;
- approximately €1.3 million of guarantee deposits and other receivables.

9 Short-term borrowings

(€thousands)	30 September 2005	31 December 2004
Bank overdraft	522	12,144
Bank borrowings	10,000	3,500
Current portion of long-term loans	39,272	23,448
Current portion in other providers of financing	1,191	2,103
Current portion in other long term debt	30,655	28,723
Total	81,640	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 September 2005	31 December 2004
Purchase of materials	39,029	33,794
Purchase of products and subcontract costs	45,828	71,336
Commissions and royalties	15,836	23,091
Advertising and sponsorship costs	12,499	14,519
Services received from third parties	17,227	18,046
Purchase of fixed assets	9,982	12,741
Total	140,401	173,527



11 Income tax payable

Outstanding payables to the tax authorities amount to €1.3 million as at 30 September 2005 and €19.2 million as at 31 December 2004; they relate to the liability for current income taxes for an amount of €1.3 million, for €4.8 million to the VAT liability and for €3.1 million to local taxes.

12 Other current liabilities

(€thousands)	30 September 2005	31 December 2004
Payroll and social security	35,794	30,199
Accruals for bonuses to customers	13,826	15,851
Payable to salespersons	2,717	2,379
Accrual for advertising and sponsorship expenses	3,554	1,931
Accrual for loan interest expense	11,322	3,618
Accruals for insurance, leasing and other expenses	5,709	5,475
Payable to minority shareholders	1,850	2,264
Derivative financial instruments	581	-
Other payable	2,316	3,746
Total	77,669	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 including dividends approved in the previous years' shareholders' meetings and still to be paid as at 30 September 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 Long-term borrowings

(€thousands)	30 September 2005	31 December 2004
Long term loans	719,057	705,488
Other providers of financing	11,307	11,055
Other long term debt	864	1,463
Total	731,228	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.

14 Provisions

(€thousands)	Movements of the year				Balance at 30 September 2005
	Balance at 1 January 2005	Accruals	Utilization	Translation difference	
Retirement benefit obligations	34,607	5,061	(2,934)	-	36,734
Provision:					
Product warranty	3,119	275	-	-	3,394
Agents' leaving indemnity	2,861	375	(19)	3	3,220
Other reserves for risks and charges	376	1,513	(200)	33	1,722
Total Provision	6,356	2,163	(219)	36	8,336

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 were terminated by the Group. This provision is estimated according to Italian and European law and historical trends.



Other reserves for risks and charges mainly include the cost related to a reliable estimate of legal or constructive obligations resulting of past events.

15 Deferred tax liabilities

Deferred tax liabilities amount to €9.5 million; they 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 30 September 2005 amount to €7.8 million and include:

- €6.5 million IRS stated at their fair value;
- €1.3 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.

Hedging instruments fair value 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 30 September 2005 was made up of 35,000,000 shares, with a par value of €1, for a total of €35,000,000.



Treasury shares

The parent Company Sàfilo 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 31 December 2004 to 30 September 2005 are shown as follows:

(€thousands)	Movements of the year				
	Balance at		Translation		Balance at
	1 January	Increase	Decrease	Conversion difference	30 September
Fair Value Reserve	(6,342)	-	(2,405)	-	(8,747)
Total	(6,342)	-	(2,405)	-	(8,747)

Stock Option Plans

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

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

The above stock options vest over a two 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 Sàfilo 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 Sàfilo Group income statement.



18 Cost of sales

(€thousand)	2005 Jan - Sep	2004 Jan - Sep
Purchase of materials and finished products	190,876	179,790
Changes in inventories	9,601	(13,803)
Payroll and related contributions	67,361	74,389
Subcontracting costs	12,053	24,784
Industrial depreciation	17,150	17,700
Other costs	11,635	5,371
Total	308,676	288,231

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 - Sep	2004 Jan - Sep
Finished products	10,175	(18,373)
Work in progress	1,014	369
Raw material	(1,588)	4,201
Total	9,601	(13,803)

The *inventories variation* is mainly due to Sàfilo Group's efforts to limit 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 9.4%. 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 51.4%) in the first nine months 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 Jan - Sep	2004 Jan - Sep
Staff costs	61,818	55,490
Services from independent salespersons	56,125	50,413
Royalties	71,197	61,234
Advertising and promotion	60,742	64,669
Depreciation and amortisation	1,774	1,879
Other operating and general expenses	35,950	36,022
Total	287,606	269,707

Selling & marketing expenses increased approximately by €17.9 million (6.6%) as a consequence of the increased net sales. As a percentage on turnover, their impact decreased by 0.6% from the first nine months 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;
- a higher impact of royalties' costs as a consequence of a different mix of licensed products sold comparing to the period ended 30 September 2004.

Other operating and general expenses refer to:

(€thousand)	2005 Jan - Sep	2004 Jan - Sep
Transport, logistics	9,805	9,688
Consultancy	2,473	2,889
Rental and utilities	4,393	3,927
Warranty and other risks provision	2,050	546
Other selling expenses	17,229	18,972
Total	35,950	36,022

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



20 General and administrative expenses

(€thousand)	2005 Jan - Sep	2004 Jan - Sep
Staff costs	37,802	37,971
Bad debt provision	1,672	2,615
Depreciation and amortisation	7,179	7,251
Other operating and general expenses	32,829	32,047
Total	79,482	79,884

General and Administrative expenses at 30 September 2005 are substantially in line with the same period of last year.

Other operating and general expenses refers to:

(€thousand)	2005 Jan - Sep	2004 Jan - Sep
Consultancy	6,515	7,258
Rental and utilities	9,129	8,605
Other non-income taxes	1,607	1,505
Other administrative expenses	15,578	14,679
Total	32,829	32,047

21 Other income/(expenses)

(€thousand)	2005 Jan - Sep	2004 Jan - Sep
Losses on disposal of assets	(533)	(361)
Other operating expenses	(731)	(2,837)
Gain on disposal of assets	161	108
Other operating incomes	1,477	1,233
Total	374	(1,857)



22 Finance costs, net

(€thousand)	2005	2004
	Jan - Sep	Jan - Sep
Interest expense	57,808	48,317
Less: interest income	(413)	(258)
Bank charges	3,456	3,498
Other finance costs	8,075	2,525
Total	68,926	54,082

Finance costs rose 27.4% over that of the previous year. Their increase mainly derives from the combined effect of positive and negative exchange differences mainly 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.

The interest expenses increased as compared to the corresponding period of the previous year due to the fact that the estimated time for the reimbursement of certain debts has been reviewed. In particular, it is considered probable that certain debts will be reimbursed earlier than the maturity date. Hence, the amortized cost of these debts has been reviewed with a non-recurring charge to profit & loss of €9.1 million.

Other finance costs refers to:

(€thousand)	2005	2004
	Jan - Sep	Jan - Sep
Positive exchange differences	(11,520)	(1,887)
Negative exchange differences	18,273	2,289
Cash discounts	3,942	3,448
Dividends on investments	(229)	(154)
Other	(2,391)	(1,171)
Total	8,075	2,525

23 Income taxes

Income taxes amount to €13.2 million for the period ended 30 September 2005 (€13.5 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.



Tax incidence at 30 September 2005 significantly decreased if compared to the same period of last year, which was much higher than the theoretical values as a consequence of the tax cost for IRAP registered in Sàfilo S.p.A. being calculated on a different taxable income.

24 Subsequent events

No material events have come to the Group's attention, which should be considered in reporting on the consolidated financial statements as at 30 September 2005.

25 Segment Information

The following tables summarize the segmental information deemed essential by the Group's management for the purpose of evaluating the Group's performance and making decisions about future allocations of resources. The geographic areas have been identified as the primary segments and they are based on the legal entity domicile where the sale originated.

The Group has not identified secondary segments, such as *wholesale* and *retail*, as the majority of the turnover is performed through the wholesale distribution operations.

The geographic segments include *Italy* (1); *Europe* (2), excluding Italy; *America* (3), which includes the United States of America, Canada and Brazil; *Asia* (4), which includes Japan, China, Australia, Singapore, Hong-Kong and Malaysia; *Corporate* (5), which includes holding companies. The "Inter-segment transactions" column includes the elimination of inter-segment activities.

<i>In thousands of Euro</i>	Italy	Europe	America	Asia	Corporate	Inter-Segment Transactions Consolidated	
	(1)	(2)	(3)	(4)	(5)		
9 months ended September 30, 2005							
Net sales:							
-toward other segments	204,749	25,308	1,109	24	20	(231,210)	0
-toward third parties	177,982	224,131	285,342	89,267	4		776,726
Total Net Sales	382,731	249,439	286,451	89,291	24	(231,210)	776,726
Gross Profit	158,340	113,896	150,744	45,244	23	(197)	468,050
Operating profit	25,274	46,335	30,450	16,126	1,061	(17,910)	101,336
Depreciation & Amortisation	18,616	4,182	2,657	633	15	0	26,103
<i>Gross profit margin</i>	<i>41%</i>	<i>46%</i>	<i>53%</i>	<i>51%</i>			<i>60%</i>
<i>Operating profit margin</i>	<i>7%</i>	<i>19%</i>	<i>11%</i>	<i>18%</i>			<i>13%</i>



In thousands of Euro

	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Inter-Segment Transactions	Consolidated
9 months ended September 30, 2004							
Net sales:							
-toward other segments	205,953	34,321	962	3	0	(241,239)	0
-toward third parties	163,947	213,443	266,700	72,944	17	0	717,051
Total Net Sales	369,900	247,764	267,662	72,947	17	(241,239)	717,051
Gross Profit	148,567	104,400	141,410	39,109	17	(4,683)	428,820
Operating profit	26,726	20,058	23,383	14,451	679	(7,925)	77,372
Depreciation & Amortisation	17,994	5,294	3,006	528	8	0	26,830
<i>Gross profit margin</i>	40%	42%	53%	54%			60%
<i>Operating profit margin</i>	7%	8%	9%	20%			11%

26 Related parties transactions

The balances as of 30 September 2005 deriving from transactions with related parties are detailed in the table below. Transactions were entered into with related parties during the ordinary course of business on the basis of normal market conditions.

Year-to-date balances

Balance Sheet	Relationship	30 September 2005	31 December 2004
<i>(In thousands of Euro)</i>			
Trade receivables:			
Safilens Srl	Investment recorded at cost	207	-
Trade payables:			
Elegance International Holdings Ltd	Associate	6.958	10.715
Safilens Srl	Investment recorded at cost	132	-
Other current assets:			
Elegance International Holdings Ltd	Associate	595	525



Transactions with related parties

Profit & Loss	Relationship	30 September 2005	31 December 2004
<i>(In thousands of Euro)</i>			
Net Sales:			
Optifashion As Istanbul	Unconsolidated subsidiary	117	185
Safilens	Investment recorded at cost	3	199
Elegance International Holdings Ltd	Associate	-	7
Cost of sales:			
Elegance International Holdings Ltd	Associate	14.163	16.523
Safilens Srl	Investment recorded at cost	74	280
Rent:			
TBR Inc (USA)	Investment recorded at cost	804	801



APPENDIX

The following tables allow a comparison of revenues split by product type and by geographical area for all the past quarters, according to the new classification adopted starting from this quarter.

Net Sales by products:

(In Euro millions)	Quarter						Year-to-Date	
	Jan-Mar		Apr-Jun		Jul-Sep		Jan-Sep	
	€	%	€	%	€	%	€	%
2005								
<i>Net Sales:</i>								
Prescription frames	108.2	38.5%	109.0	38.8%	108.7	50.6%	325.9	42.0%
Sunglasses	156.5	55.7%	160.4	57.1%	84.5	39.3%	401.4	51.7%
Sport	12.3	4.4%	7.6	2.7%	18.4	8.6%	38.3	4.9%
Others	4.0	1.4%	3.8	1.4%	3.3	1.5%	11.1	1.4%
Total	281.0	100.0%	280.8	100.0%	214.9	100.0%	776.7	100.0%

(In Euro millions)	Quarter								Year-to-Date	
	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Jan-Dec	
	€	%	€	%	€	%	€	%	€	%
2004										
<i>Net Sales:</i>										
Prescription frames	112.9	43.2%	108.6	42.6%	110.4	54.8%	93.1	40.9%	425.0	45.0%
Sunglasses	133.4	51.1%	135.3	53.1%	69.1	34.3%	107.7	47.3%	445.5	47.2%
Sport	10.8	4.1%	9.4	3.7%	17.3	8.6%	20.0	8.8%	57.5	6.1%
Others	4.0	1.5%	1.4	0.5%	4.5	2.2%	6.8	3.0%	16.7	1.8%
Total	261.1	100.0%	254.7	100.0%	201.3	100.0%	227.6	100.0%	944.7	100.0%

Net Sales by *geographic region*:

(In Euro millions) 2005	Quarter						Year-to-Date	
	Jan-Mar		Apr-Jun		Jul-Sep		Jan-Sep	
	€	%	€	%	€	%	€	%
<i>Net Sales:</i>								
Italy	36.2	12.9%	42.1	15.0%	23.6	11.0%	101.9	13.1%
Europe (excluding Italy)	103.0	36.7%	96.5	34.4%	65.4	30.4%	264.9	34.1%
America	99.9	35.6%	99.0	35.3%	91.4	42.5%	290.3	37.4%
Far East	30.6	10.9%	32.6	11.6%	26.0	12.1%	89.2	11.5%
Rest of World	11.3	4.0%	10.6	3.8%	8.5	4.0%	30.4	3.9%
Total	281.0	100.0%	280.8	100.0%	214.9	100.0%	776.7	100.0%

(In Euro millions) 2004	Quarter								Year-to-Date	
	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Jan-Dec	
	€	%	€	%	€	%	€	%	€	%
<i>Net Sales:</i>										
Italy	29.9	11.5%	35.8	14.1%	22.5	11.2%	35.3	15.5%	123.5	13.1%
Europe (excluding Italy)	101.9	39.0%	85.7	33.6%	65.0	32.3%	77.0	33.8%	329.6	34.9%
America	95.9	36.7%	96.1	37.7%	82.2	40.8%	77.1	33.9%	351.3	37.2%
Far East	23.3	8.9%	26.8	10.5%	22.8	11.3%	26.9	11.8%	99.8	10.6%
Rest of World	10.1	3.9%	10.3	4.0%	8.8	4.4%	11.3	5.0%	40.5	4.3%
Total	261.1	100.0%	254.7	100.0%	201.3	100.0%	227.6	100.0%	944.7	100.0%



Reconciliations between Italian GAAP and IFRS

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

- equity at 1 January 2004;
- equity at 30 September 2004;
- equity at 31 December 2004;
- net income 30 September 2004;
- net income 31 December 2004;



Equity at 1 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 1 January 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 Sàfilo 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 Sàfilo 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 30 September 2004

At 30 September 2004				
(€thousands)	Note	ITA GAAP - 10Q	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		26.608	0	26.608
Trade receivables, net and other receivables	a	297.795	10.427	308.222
Inventories, net	b	182.062	(5.009)	177.053
Total current assets		506.465	5.418	511.883
Non-current assets				
Property, plant and equipment	c	183.564	13.182	196.746
Intangible assets	d	56.739	(34.884)	21.855
Goodwill	e	347.408	16.819	364.227
Investments in associated companies		11.869	324	12.193
Available-for-sale investments	f	10.498	(4.152)	6.346
Treasury shares	g	80.988	(80.988)	0
Deferred tax assets	h	20.847	30.101	50.948
Other non-current assets	i	3.734	(1.521)	2.213
Total non-current assets		715.647	(61.119)	654.528
Total assets		1.222.112	(55.701)	1.166.411
Current liabilities				
Short-term borrowings	d	29.612	31.716	61.328
Trade payables		142.576	0	142.576
Other current liabilities	l	92.932	505	93.437
Total current liabilities		265.120	32.221	297.341
Non-current liabilities				
Long term borrowings	d	777.734	(32.409)	745.325
Retirement benefit obligations	m	31.069	1.057	32.126
Provisions	n	30.259	(24.267)	5.992
Deferred tax liabilities	h	0	16.746	16.746
Other non-current liabilities	o	0	7.598	7.598
Total non-current liabilities		839.062	(31.275)	807.787
Equity				
Share capital		35.000	0	35.000
Share premium		53.350	0	53.350
Treasury shares, at cost	g	80.988	(80.988)	0
Fair value reserve		0	(5.972)	(5.972)
Retained earnings and other reserves	p	(57.317)	29.879	(27.438)
Total Shareholders' equity		112.021	(57.081)	54.940
Minority interests		5.909	434	6.343
Total equity and liabilities		1.222.112	(55.701)	1.166.411



Notes on 30 September 2004 reconciliation

- a) Most of the effect derives from the trade receivables sold to a factoring company. For Italian GAAP receivables sold without recourse to a factoring company can be derecognised from the company's financial statements. For IFRS purposes, as not all the conditions given by IAS n.39 were respected, the above trade receivables had to be recognised in the company's financial statements. The results of the entries made for IAS n. 39 can be summarized in an increase of *trade receivables*, representing the amounts sold to the factoring company, for a total amount of about € 67.7 million, a decrease of *other receivables*, representing trade receivables sold and not yet paid by the factoring company, for approximately €36.0 million and an increase of *financial debts*, representing the amount anticipated by the factoring company, for a total amount of about € 31.7 million. Minor effects are due to cash flow hedges derivatives stated at their fair value and to 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 Sàfilo S.p.A. in 2003. For Italian statutory purposes the net book value of the assets as at December 31, 2002 has been depreciated over the remaining period of the new estimated useful life whilst for IFRS purposes the net book value has been recalculated as at December 31, 2003 as if the company had always depreciated its plant and machineries considering the revised useful life. Minor effects are due to leasehold improvements reclassification and to the offsetting of cumulated depreciation on land allowed in some circumstances for Italian GAAP purposes.
- d) For IFRS purposes borrowings are stated at amortised cost. This means a reclassification of fees paid as a reduction of the senior loan and of the bond in Sàfilo 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) Most of the effect is due to payroll costs accounted for by some companies of Sàfilo 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 Sàfilo 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) Interest rate swaps (I.R.S.) stated at their fair value with a corresponding decrease in the fair value reserve in equity plus other miscellaneous reclassifications.
- p) Impact deriving from all IFRS adjustments.



Equity at 31 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 31 December 2004 reconciliation

- a) Most of the IFRS effects derive from the de-recognition of Sàfilo 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 Sàfilo 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 Sàfilo 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 30 September 2004

Nine-months ended 30 Sept 2004				
(€thousands)	Note	ITA GAAP 10Q form	Effect of IFRS reclassifications and adjustments	IFRS
Net sales	a	713.153	3.898	717.051
Cost of sales	b	(284.689)	(3.542)	(288.231)
Gross Profit		428.464	356	428.820
Selling and Marketing costs	c	(242.829)	(26.878)	(269.707)
General and admin. expenses	c	(98.528)	18.644	(79.884)
Goodwill amortization	d	(17.675)	17.675	0
Other operating income/exp.	e	(2.161)	303	(1.858)
Operating profit		67.271	10.101	77.372
Share of results of associated companies	f	(103)	682	579
Financial income/expenses	g	(53.509)	(573)	(54.082)
Profit before taxes		13.659	10.210	23.869
Income tax expenses	h	(17.499)	3.991	(13.508)
Net result for the period		(3.840)	14.201	10.361



Notes on 30 September 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 (iii) the reclassification of revenues in dollars hedged by forward exchange contracts (see note a).
- c) Most of the IFRS effect derives from reclassifications between general and administrative expenses and selling and marketing costs as a consequence of the more precise criteria used for the division between the two categories. Minor part of the IFRS effect is due to the accounting for stock option costs.
- d) Most of the IFRS effect is due to goodwill amortization, not required by IFRS (only impairment tests).
- e) Costs deriving from the recognition of expenses related to the securitization program (SPV Sunlight) and miscellaneous reclassifications.
- f) Most of the effect derives from the revaluation of the equity investment in the associated company Elegance as a consequence of the updated Financial Statements received.
- g) 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.
- h) Overall tax effect on IFRS adjustments in accordance with IFRS n. 12.



Net Income at 31 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 31 December 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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