Safilo GROUP

www.safilo.com

SAFILO GROUP S.P.A.
2008 ANNUAL REPORT

Safilo GROUP

CONSOLIDATED FINANCIAL STATEMENTS OF THE SAFILO GROUP
AT 31 DECEMBER 2008

"Nature is amazing. A billion years ago it would never have thought that we'd wear glasses but it gave us ears all the same".
(Milton Berle)

Showrooms

Safilo showrooms can be found in the most prestigious international fashion capitals: New York, London, Paris, Barcelona and Madrid. Additionally, two showrooms were recently opened in New Delhi and Milan.

Milan

New Delhi

Barcelona

New York

Paris

London

Exposition room

Entrance Museum

Exposition room

Cube Zone

Galleria Guglielmo Tabacchi

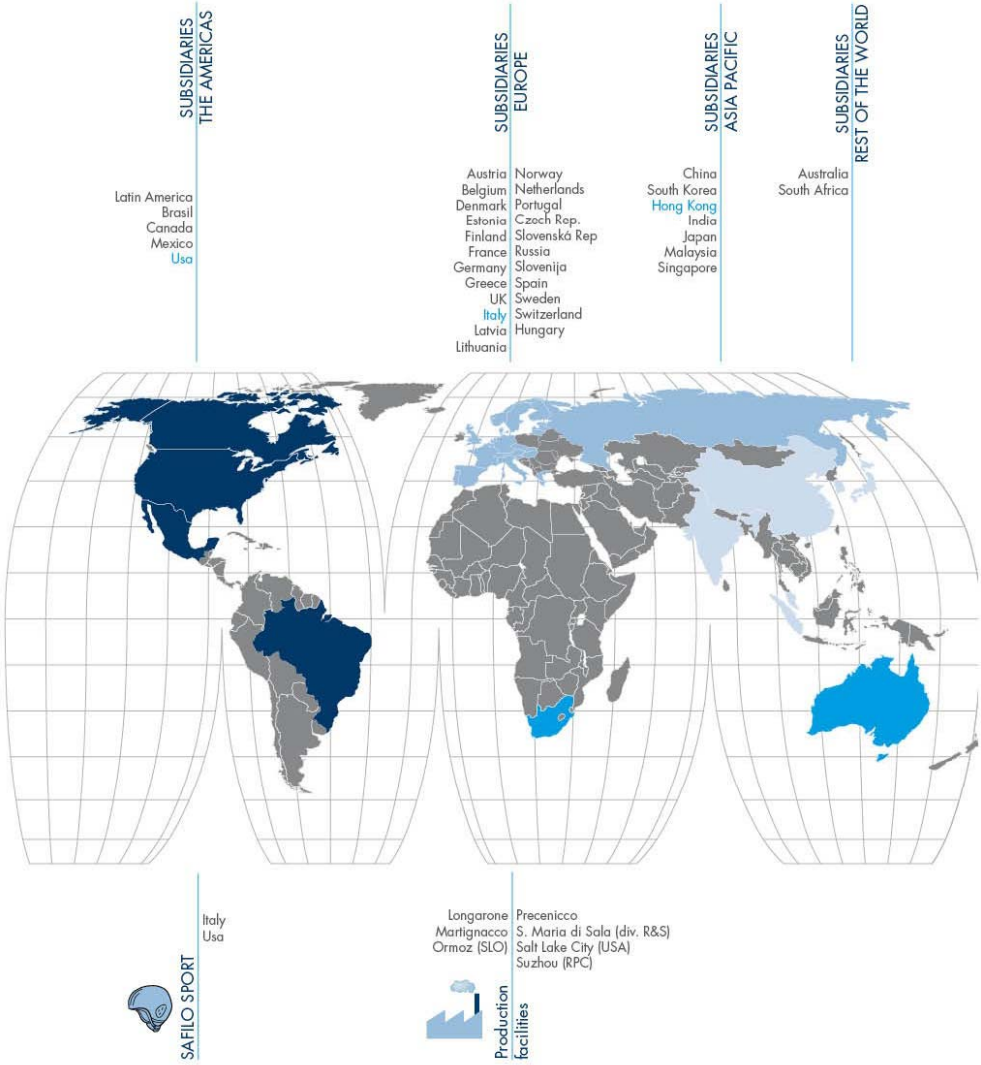
Since 1996 the headquarters of Safilo Group at Padua has hosted the most comprehensive private collection of spectacles and objects linked to the world of eyewear.

Entrance to Museum

Ground Floor

First Floor

The Safilo Universe



The Safilo Group has 39 commercial subsidiaries and a network of 170 indipendent distributors able to reach 130,000 selected points of sale all over the world.

THE SAFILO GROUP AND ITS BRANDS

Company profile

The Safilo Group is the second largest eyewear manufacturer in the world

The Safilo Group has been in the eyewear market for 75 years and is the second largest manufacturer in the world of sunglasses and optical frames in addition to being active in the creation, production and wholesale distribution of eyewear products. The Group is also the global leader in the high-end eyewear segment of the market and one the three top sports eyewear producers and distributors worldwide.

Over recent years, Safilo has also developed its retail business by opening or acquiring more than 300 retail points of sale in prestigious locations in Europe, America and the Far East.

The Group manages a brand portfolio of both licensed and house brands, selected according to competitive positioning and international prestige criteria, and implements a specific customer segmentation strategy.

Safilo designs, produces and distributes high quality optical frames, sunglasses, sports goggles and accessories. Distribution is through specialist stores and retail chains.

The Group directly controls the entire production-distribution process, divided into the following phases: research and technological innovation, product design and development, planning, programming and purchases, production, quality, marketing and communications, sales, distribution and logistics. Safilo is strongly oriented towards product development and design; this activity is conducted by a team of designers able to ensure the continual stylistic and technical innovation which has always been a distinguishing feature of the Company.

Blue Bay
for dreamers only

CARRERA
RACING SUNGLASSES SINCE 1956

OXYDO
remark your identity

Safilo
FREEDOM TO LOOK

SMITH

GIORGIO ARMANI

EMPORIO ARMANI

ALEXANDER MCQUEEN

BALENCIAGA

BOSS
HUGO BOSS

HUGO
HUGO BOSS

BOTTEGA VENETA

GUCCI

JIMMY CHOO

MARC JACOBS

MAX&Co.

MaxMara
OCCHIALI

pierre cardin
PARIS

VALENTINO

YVES SAINT LAURENT

CONVOCATION OF THE ORDINARY SHAREHOLDERS' ASSEMBLY

The Shareholders are convened to the ordinary Shareholders' Assembly to be held in Padua, Settima Strada 15, on 24 April 2009 at 11.00, the date of the first meeting and, if necessary, on 27 April 2009 for the second meeting, in the same place and at the same time, in order to to discuss and deliberate on the following:

Agenda:

1. *Financial statements at 31 December 2008 – Presentation of the Consolidated Financial Statement at 31 December 2008 – Directors' Report, Board of Statutory Auditors' Report and Audit Company Report – Relative resolutions.*
2. *Confirmation of Director – Relative and consequent resolutions.*
3. *Integration of the Board of Statutory Auditors and appointment of the Chairman – Relative and consequent resolutions.*

Documentation

The Board of Directors' proposal relative to the items on the agenda, including the dossier with the Company and Consolidated Financial Statements at 31 December 2008 and the relative reports, will be available to the public - at least 15 days before the date fixed for the first meeting in the Company's registered office - at Borsa Italiana S.p.A. and in the company website *www.safilo.com*. Shareholders may obtain a copy.

Warnings

Pursuant to law and article 10 of the Articles of Association, Shareholders who filed - at least two business days before the Assembly - a specific notification at the Company's registered office which has been issued by an authorised broker and which has not been recalled before the Meeting may attend the Assembly, in compliance with art. 85, paragraph 4, Legislative Decree 24/02/1998 n. 58 and art. 34-*bis* of the Consob resolution n. 11768 of 23/12/1998.
Each shareholder may be represented in the Assembly in compliance with legal dispositions in force.

In relation to item 2 on the agenda "Confirmation of Director – Relative resolutions", you should note that, in compliance with article 15, item b) of the Articles of Association, the "vote by list" procedure is not applied.
In this specific case, a candidate taken from the majority list presented during 2008, which the outgoing director belonged to, will not be elected as there are no candidates remaining in the list who had not been previously elected.

Vote by list to integrate the Board of Statutory Auditors

In relation to item 3 on the agenda, in order to respect the principle of minority representation, in compliance with article 24 of the Articles of Association, you should note that:

- The Board of Statutory Auditors will be appointed on the basis of lists presented by shareholders who, alone or jointly, own shares that represent at least 2% of the share capital formed of shares with voting right in the ordinary Shareholders' assemblies, and who are registered in the Shareholders' Register to said extent when the lists are presented and remain so until the date of the Assembly, barring the terms of article 24, letter B) of the Articles of Association in the event just one list is presented or lists are presented by shareholders who are correlated to each other.
- The lists, with the names of the candidates for the office numbered progressively and undersigned by the shareholders who present them, must be filed at the company's registered office at least 15 days before the first date fixed for the Meeting, barring article 24, letter B) of the Articles of Association in the event just one list is presented or lists are presented by shareholders who are correlated to each other. The lists must be accompanied by the documents and declarations as detailed in article 24, letter A) of the Articles of Association .
- Each entitled shareholder may present and vote directly or indirectly for a single list. The lists that are presented without observing the dispositions of article 24, letter A) of the Articles of Association will be considered as void.

For any other information about the preparation, presentation and vote of the lists, reference should be made to article 24 of the Articles of Association, available at the company's registered office, at the secondary offices and in the company website *www.safilo.com*.

To enable checking the documentation relative to the lists for integrating the Board of Statutory Auditors, the Shareholders who present the lists should forward said documentation by mail to SAFILO GROUP S.p.A. – Legal and Company Affairs Department - Settima Strada n. 15, 35129 Padua or by fax to 0039 049 698 7173.

Given the shareholding structure of the company and on the basis of previous events, it is foreseen that the Shareholders' Assembly will be held and will deliberate on 27 April 2009 on the second meeting.

Padua, 21 March 2009

For the Board of Directors
The Chairman: Vittorio Tabacchi

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CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Vittorio Tabacchi

Dear Shareholders,

2008 will be remembered as the year when the first signs of the global crisis were seen, initially in the financial markets and then in the real economy. This downturn also affected the eyewear industry, where Safilo has always been the leader in the luxury sector, by reducing the normal growth trend and squeezing the economic results.

In 2008 the Group recorded a drop in margins mainly deriving from the impossibility to apply in the short-term an important rescaling of the industrial costs organisation in Italy and, generally, of the fixed costs in a scenario of reduced production volumes.

However, I will personally remember 2008, above all, for certain fundamental goals that were reached and which will guarantee a better future for the Group. Taking them in order through the year, we began with a significant stimulus to the luxury retail store development: the acquisitions in Mexico and Australia brought us several top quality sales points which helped to develop our strategy to attract more sophisticated and discerning clients in terms of product design and quality.

In the meantime we continued to develop our wholesale business and, during the year, we opened two new subsidiaries in Mexico and Russia and began direct distribution in Hungary, the Czech Republic and Slovakia with the aim of gradually directly controlling distribution in all the economically advanced countries.

Looking to the future, one of the most important events was the renewed ten-year partnership with the Gucci brand. This Group, which owns and manages one of the most important fashion brands in the world, continues to prefer Safilo as its partner to develop and market its brand products, a clear demonstration of the product quality and service that our Group guarantees to the leading luxury brands.

I would also like to mention the great increase in sales of Carrera products, which have met with a level of success, especially in Italy, that has rarely been seen before. Apart from the amazing economic results, I am particularly proud of this growth as it shows, once again, the capacity of Safilo in adapting to changing markets as well as leveraging the value of its brand portfolio, whether licensed or proprietary.

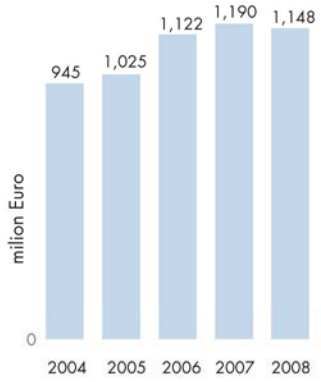
Finally, in terms order, at the end of the year the company top management was reorganised to reinforce the managerial team for the future. The coming year will be a difficult one, but we have all the right tools to face the global crisis: we have the products, brands, distribution and the management who are best able to guide our company through what will probably be a very turbulent period. We must exploit the Group's leadership in the market to strengthen Safilo's position with respect to the competition and to also lay the foundations for sustainable growth in the future.

The Chairman

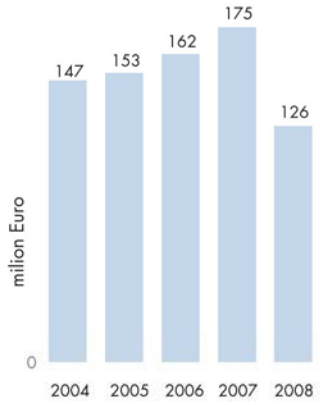
Vittorio Tabacchi

SUMMARY OF KEY CONSOLIDATED PERFORMANCE INDICATORS

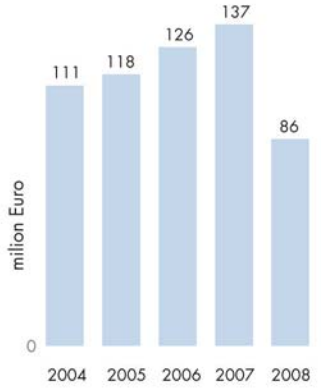
Net Sales



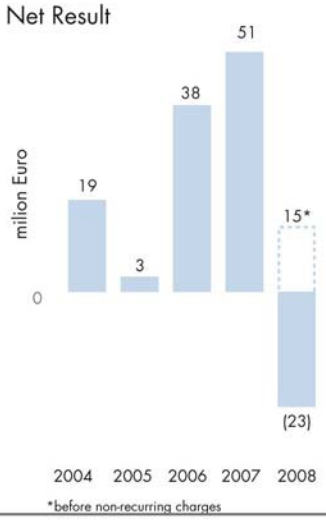
EBIT



EBITDA

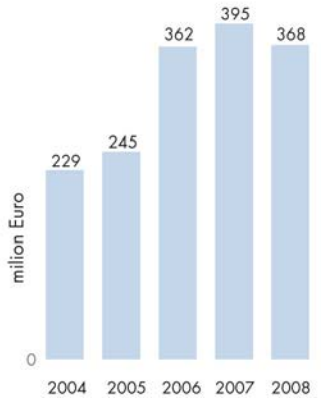


Net Result

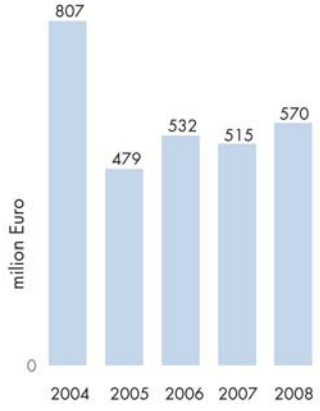


*before non-recurring charges

Net working capital



Net Financial Position



Economic data *(Euro in millions)*	2008	%	2007	%
Net sales	1,147.8	100.0	1,190.4	100.0
Cost of sales	(484.9)	42.2	(492.6)	41.4
Gross profit	663.0	57.8	697.8	58.6
Ebitda	126.3	11.0	175.3	14.7
Operating profit	86.3	7.5	137.2	11.5
Profit before taxes	29.4	2.6	93.6	7.9
Group profit before non recurring taxes	14.6	1.3	51.0	4.3
Profit/(loss) attributable to the Group	(23.3)	2.0	51.0	4.3

Balance sheet data *(Euro in millions)*	Dec 31, 2008	%	Dec 31, 2007	%
Total assets	1,817.4	100.0	1,772.0	100.0
Total non-current assets	1,138.6	62.6	1,080.8	61.0
Capital expenditure	61.2	3.4	45.0	2.5
Net invested capital	1,374.3	75.6	1,355.5	76.5
Net working capital	368.3	20.3	395.4	22.3
Net financial position	(570.0)	31.4	(514.6)	29.0
Group Shareholders' equity	795.9	43.8	836.0	47.2

Financial data *(Euro in millions)*	2008	2007
Cash flow operating activity	56.3	53.3
Cash flow investing activity	(88.4)	(43.8)
Cash flow financing activity	30.0	(45.7)
Closing net financial indebtedness (short-term)	(20.4)	(28.5)

Financial indicators *(in %)*	2008	2007
ROS	7.5%	11.5%
ROI	6.3%	10.1%
ROE before non-recurring taxes	1.8%	6.1%
ROE	-2.9%	6.1%

Share and market data *(in Euro)*	2008	2007
Earnings per share base - before non-recurring taxes	0.05	0.18
Earnings/(losses) per share - base	(0.08)	0.18
Earnings per share diluted - before non-recurring taxes	0.05	0.18
Earnings/(losses) per share - diluted	(0.08)	0.18
No. shares in share capital at December 31	285,394,128	285,394,128
Group Shareholders' equity per share	2.79	2.93
Share price at the end of the financial year	0.60	2.29
Maximum share price of the financial year	2.33	4.96
Minimum share price of the financial year	0.51	2.20
Stock Market value at the end of the financial year	171,949,962	653,552,553

Group personnel	2008	2007
Punctual at December 31	8,804	8,002
Average in the financial year	8,710	7,949

It should be noted that:

- *certain figures in the Directors' Report on operations have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be algebraic sums of the figures which precede them.*
- *The percentage variations and incidences in the tables have been calculated on the basis of data expressed in thousands and not those which are shown, rounded to the nearest million.*

Certain "alternative performance indicators", which are not foreseen in the IFRS accounting principles and are applied to the financial statements being audited, have been used in this Report. Their meaning and content is given below:

- *"Ebitda" means operating profit before amortization and depreciation.*
- *"Capital expenditure" refers to purchases of tangible and intangible fixed assets.*
- *"Net invested capital" refers to the algebraic sum of shareholders' equity of the Group and minority interests and the "Net financial position" (see below).*
- *"Net working capital" means the algebraic sum of inventories, trade receivables and trade payables.*
- *"Net financial position" means the sum of bank borrowings, short, medium and long-term borrowings, net of cash held in hand and at bank.*
- *"ROS" is the ratio between operating profit and sales.*
- *"ROI" is the ratio between operating profit and net invested capital.*
- *"ROE" is the ratio between Group net profit (loss) and Group shareholders' equity.*

Disclaimer

This report and, in particular, the section entitled "Significant events after December 31st 2080" contains forward looking statements based on current expectations and projects of the Group in relation to future events. Due to their specific nature, these statements are subject to inherent risks and uncertainties, as they depend on certain circumstances and facts, most of which being beyond the control of the Group. Therefore actual results could differ, even to a significant extent, with respect to those reported in the statements.

DIRECTORS' REPORT ON OPERATIONS

INFORMATION ON THE OPERATIONS

The year 2008 confirmed the strength of the Safilo Group in a difficult market scenario: the company managed to maintain the turnover virtually unchanged at constant rates with respect to the previous year. The downturn in wholesales was mainly due to the weak American dollar but was offset by the entry of the new retail sales points in Mexico and Australia following the acquisition of the Sunglass Island and Just Spectacles chains and the further development of the wholly-owned Solstice chain in the USA. However, the wholesale business continued to develop; a new branch was opened in Mexico and another in Russia at the end of the year. These new openings were accompanied by the large increase in retail business which, at 31 December 2008, accounts for 321 stores in Spain, Mexico, the USA, Australia and China against the total of 180 at 31 December 2007.

Renewed Gucci Group, Nine West, J.Lo and Fossil licences

During the year, the relationships with the main licensors continued to develop positively, particularly with the Gucci Group which has extended the licence for the production and worldwide distribution of their top collections of optical frames and sunglasses. In fact, the licence with Gucci, one of the most important names in the entire industry, has been renewed until the end of 2018. At the same time, licence agreements with Bottega Veneta and Alexander McQueen have been respectively extended to 2010 and 2013. Among the other brands, the exclusive licence for the Nine West brand has been renewed for an additional three years. Furthermore, at the beginning of 2009 the Group announced that the licence agreements for the J.LO by Jennifer Lopez and Fossil brands had been renewed.

At industrial level, in 2008 the operations for the new production facility in China underwent considerable progress and the plant began the planned production activities.

Synthetic comments on the operations

There was a downturn in economic results with respect to the previous year, mainly due to the general market situation which slowed down the economies of all leading countries. Above all, consumers buying choices changed, still addressed to high-end products but at a more accessible price. In fact, the high-end segment, especially for sunglasses, was mostly affected by the slump in demand and most clearly subject to reduced buying power and frequency.

Net profit of the Group before non-recurring charges was 14.6 million Euro. Given the difficult market scenario, a provision was prudentially accounted for to cover the deferred tax assets calculated by the parent company and some of its subsidiaries. This sum, which has no effects on cash flow, generated non-recurring charges for 37.9 million Euro. The sum of deferred taxes could

be reversed in the future in the case that their recovery through assessable income becomes likely again.

On the other hand, cash flow management was benefited from efforts that were made to reduce the working capital; cash flows from operating activities generated by the Group totalled 56.3 million Euro, a slight improvement over 2007.

The Group's net financial position at the end of the year was around 570 million Euro, with respect to 514.6 million Euro on 31 December 2007, mainly due to the payment of dividends and increased investments in 2008.

GROUP ECONOMIC RESULTS

Consolidated statement of operations		%		%	Change
(Euro in millions)	2008		2007		%
Net sales	1,147.8	100.0	1,190.4	100.0	-3.6%
Cost of sales	(484.9)	(42.2)	(492.6)	(41.4)	-1.6%
Gross profit	**663.0**	**57.8**	**697.8**	**58.6**	**-5.0%**
Selling and marketing expenses	(446.1)	(38.9)	(439.6)	(36.9)	1.5%
General and administrative expenses	(131.8)	(11.5)	(122.4)	(10.3)	7.8%
Other income/(expenses), net	1.3	0.1	1.4	0.1	-3.8%
Operating profit	**86.3**	**7.5**	**137.2**	**11.5**	**-37.1%**
Net financial charges	(56.9)	(5.0)	(43.6)	(3.7)	30.4%
Profit before taxation	**29.4**	**2.6**	**93.6**	**7.9**	**-68.5%**
Income taxes	(12.0)	(1.0)	(39.0)	(3.3)	-69.1%
Non-recurring taxes	(37.9)	(3.3)	-	-	n.s.
Profit/(loss) for the year	**(20.5)**	**(1.8)**	**54.5**	**4.6**	**n.s.**
Profit attributable to minority interests	2.8	0.2	3.5	0.3	-21.3%
Profit/(loss) for the year attributable to the Group	**(23.3)**	**(2.0)**	**51.0**	**4.3**	**n.s.**
EBITDA	**126.3**	**11.0**	**175.3**	**14.7**	**-27.9%**
Earnings per share base - before non-recurring taxes	0.05		0.18		
Earnings/(losses) per share - base	(0.08)		0.18		
Earnings per share diluted - before non-recurring taxes	0.05		0.18		
Earnings/(losses) per share - diluted	(0.08)		0.18		

Changes and percentage impact have been calculated on figures in thousand.

Group turnover remained unchanged at constant exchange rates

The Safilo Group's net sales reached 1,147.8 million Euro in 2008, with a downturn of 3.6% against the 1,190.4 million in 2007, however sales were in line with the previous year when taken at constant exchange rates.

In the last quarter, Safilo reported sales of 282.1 million Euro, a slight decrease of 1.6% with respect to the same period in 2007. At constant exchange rates the drop in the last quarter was 3.6%.

Downturn in wholesale business and an increase in retail.

Sales by distribution channel	**Full year**				
(Euro in millions)	**2008**	**%**	**2007**	**%**	**Change %**
Wholesale	1,040.0	90.6	1,120.7	94.1	-7.2
Retail	107.8	9.4	69.7	5.9	+54.6
Total	**1,147.8**	**100.0**	**1,190.4**	**100.0**	**-3.6**

Analysis of performance by distribution channel highlights a downturn in the wholesale business of 4.0% at constant exchange rates (-7.2% at current rates) in all the main reference markets due to the general trend of buying eyewear collections at a more competitive price. In 2008 wholesales amounted to 1,040.0 million Euro against 1,120.7 million the previous year. A reduction in the average price of the products purchased by the Group's main direct clients, opticians, department stores and buying groups, has been recorded.

At year- end, the retail business, relying on a network of 321 directly managed points of sale (180 at the end of 2007), reported a yearly growth of 63.7% at constant exchange rates (+54.6% at current rates); this was primarily due to the conclusion, at the beginning of the year, of the two acquisitions in Australia and Mexico (for a total of 77 points of sale).

In the USA, the Solstice chain showed an increase in sales at constant exchange rates due to the continuous expansion coming from the new store openings, while the Loop Vision stores were affected by the slump in the Spanish market.

Analysis by geographic region

Net sales by geographical area					
(Euro in millions)	**2008**	**%**	**2007**	**%**	**Change %**
Europe	543.8	47.4	570.6	47.9	-4.7
The Americas	423.0	36.8	423.8	35.6	-0.2
Asia Pacific	147.5	12.9	149.5	12.6	-1.3
Rest of world	33.5	2.9	46.5	3.9	-28.0
Total	**1,147.8**	**100.0**	**1,190.4**	**100.0**	**-3.6**

In terms of performance by geographic region, the Americas reported an increase at constant exchange rates of 6.7% (unchanged at constant rates); this was mainly due to the contribution from the Mexican Sunglass Island chain - acquired at the beginning of 2008 – as well as the new Solstice stores opened during the year and the positive trend of the

prescription frames from the independent opticians channel. In the last quarter, there was a downturn at constant exchange rates of 7.3% (-1.5% at current exchange rates), due to weak purchases during the greater part of the Christmas season, particularly in the sunglasses market in the USA.

Europe was the only market for the Group that reported a falling trend throughout the year, closing with a drop of 4.7%, with special problems in the last quarter in Spain, the UK and Northern Europe leading to an overall fall of -5.5% in the period.

Sales in Asia, up at constant rates by 2.3% over the year (-1.3% at current rates), recorded a decrease in the last quarter at constant exchange rates of 14.2% (-6.4% at current rates). In the last months of 2008 the trend seen in the middle of the year was confirmed, when strong decreases in the Japanese market and in duty free sales in the region were no longer compensated by growth in other important emerging markets like China, India and South Korea.

Analysis by product

Sales by product	Year				
(Euro in millions)	2008	%	2007	%	Change %
Prescription frames	455.3	39.6	456.3	38.3	-0.2
Sunglasses	606.7	52.9	641.4	53.9	-5.4
Sport products	62.6	5.5	67.9	5.7	-7.8
Other	23.2	2.0	24.8	2.1	-6.7
Total	**1,147.8**	**100.0**	**1,190.4**	**100.0**	**-3.6**

The sales by product analysis shows that prescription frames managed to maintain their level when compared with the previous year and their contribution to the overall Group sales increased. The performance of the other product lines fell, especially sunglasses which are an accessory that is strongly tied to fashion and therefore more subject to the worsened macro-economic prospects and consequent fall in consumption that marked the second half of 2008.

This fall was slightly offset by the highly successful sales of the Carrera brand eyewear; this was primarily achieved through a series of combined marketing actions which enabled this housebrand to reach excellent results, in contrast to trends of other brands in Europe and particularly in Italy.

Gross profit fell by 5%

Gross profit reached 663.0 million Euro, a fall of 5% against 2007, guaranteeing a sales margin of 57.8% against 58.6% the previous year.

Industrial profitability was particularly affected by the fall in sales volumes, especially in high-end markets where the products developed internally by the Group are sold. This negative effect was partly offset by specific actions to limit production costs and make product industrialisation more efficient. In the second half of the year, the construction and opening of the new industrial site in China was speeded up, producing start-up costs which were in line with forecasts.

EBITDA equal to 11% of sales against 14.7% the previous year

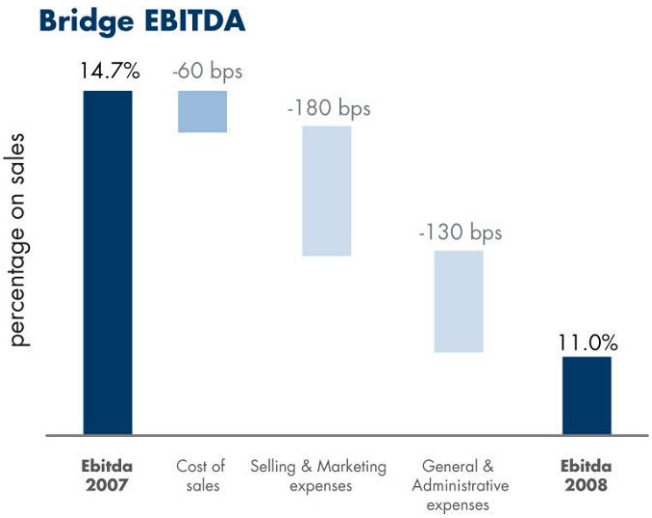
EBITDA reached 126.3 million Euro in 2008 against 175.3 million in 2007, with a margin on sales of 11.0% compared to 14.7% the previous year.

The Group operating profit was strongly conditioned by the reduced operating leverage, both industrially and commercially, and the new directly managed sales point openings. Retail profitability was also affected by the difficult market conditions in the USA and Spain, where the majority of the directly managed stores are situated.

The general slowing of global markets and the subsequent effect on Group sales had a particular impact, in terms of profitability, on marketing expenses and general costs recovery which were penalised by the negative effect of the operating leverage.

Increased advertising costs for the year were mainly due to regulations governing the main brand licence agreements which provide for marketing investments in proportion to results obtained the previous year. The great success in house-brand sales was also helped by an exceptional marketing investment, which is forecast will continue to bear fruit in the coming years as well.

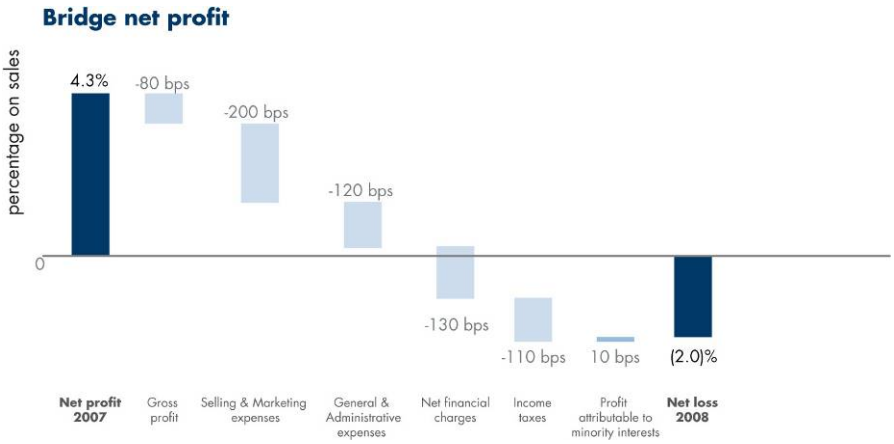
The increase in commercial and structure costs is justified by the large increase in the number of stores further to the new takeovers. In absolute terms, the increase in general overheads in the wholesale channel in 2008, with respect to the previous year, is in line with the general inflation rate.



Group net profit at 14.6 million Euro before non-recurring provision for deferred taxes

The net profit for the year before the non-recurring charges was 14.6 million Euro, against 51.0 million in 2007 with a margin on sales falling from 4.3% the previous year to 1.3% in 2008.

However, the net result for 2008 was a loss of 23.3 million Euro due to a non-recurring provision that was made to write-down deferred tax assets. The current market situation led the Group to take the precaution to write down deferred tax assets of the parent company and of some of its subsidiaries in those cases where the recovery of the deferred taxes through future taxable income is not likely.



ANALYSIS BY DISTRIBUTION CHANNEL – WHOLESALE / RETAIL

The following table shows the main data by distribution channel:

	WHOLESALE				RETAIL			
(Euro/000)	2008	2007	Change	Change %	2008	2007	Change	Change %
Net sales to 3rd parties	1,040.0	1,120.7	(80.7)	-7.2%	107.8	69.7	38.1	54.6%
EBITDA	127.2	174.4	(47.2)	-27.0%	(0.9)	0.9	(1.8)	n.s.
%	*12.2%*	*15.6%*			*-0.8%*	*1.3%*		

Wholesale sales down by 4% at constant exchange rates

Group sales from the wholesale channel fell by 4%, at constant exchange rates, with respect to 2007. The main cause is the fall in market demand when compared with the previous year. This trend has taken on two forms: on one hand, consumers are seeking products in lower price brackets while still searching for top quality, and on the other hand the percentage of replacement purchases of sunglasses has fallen by end consumers given that they are considered fashion accessories which are not a necessary and immediate purchase. Sales of prescription frames have remained very high, instead, as they are considered a prime need product.

Wholesale profitability fell considerably due to the previously mentioned operating leverage problems both at the industrial level and in terms of general costs. A series of projects were started in 2008 for the purposes of improving the gross profit margin; however the results from these were absorbed in 2008 by the failure to recover the fixed costs. It is forecasted that in the future these projects will help recover industrial profitability.

The retail sector has grown fast due to recent takeovers

The retail sector has grown considerably due to the takeovers and new openings during the year. At the end of 2008 the Group had a total of 321 points of sale, against a total of 180 at the end of 2007. Comparable sales (with equal number of stores and constant exchange rates) reported a slight downturn during the year (-4%), mainly due to the difficult economic scenario in the USA and Spain.

In terms of profitability, the retail sector was negatively affected by the fall in comparable sales, which meant that the operating leverage was not improved despite certain specific cost reduction campaigns that were implemented. Furthermore, more than 70 stores were opened during the year, thereby further reducing retail profitability given the time required for each new store to reach breakeven.

CONDENSED BALANCE SHEET

Main balance sheet items

The following table summarises the more important item groupings in the balance sheet at 31 December 2008 and 31 December 2007:

Condensed balance sheet *(Euro in millions)*	**December 31, 2008**	**December 31, 2007**	**Change**
Trade receivables, net	301.6	315.8	(14.2)
Inventories	272.1	274.3	(2.2)
Trade payables	(205.4)	(194.7)	(10.7)
Net working capital	**368.3**	**395.4**	**(27.1)**
Tangible assets	228.8	201.9	26.9
Intangible assets and goodwill	829.9	778.4	51.5
Financial assets	13.2	14.7	(1.5)
Net fixed assets	**1,071.9**	**995.0**	**76.9**
Employee benefit liability	(42.1)	(37.8)	(4.3)
Other assets/(liabilities), net	(23.8)	2.9	(26.7)
Net invested capital	**1,374.3**	**1,355.5**	**18.8**
Cash in hand and at bank	53.7	56.9	(3.2)
Short-term borrowings	(162.6)	(161.7)	(0.9)
Long-term borrowings	(461.1)	(409.8)	(51.3)
Net financial position	**(570.0)**	**(514.6)**	**(55.4)**
Group Shareholders' equity	(795.9)	(836.0)	40.1
Minority interests	(8.4)	(4.9)	(3.5)
Total Shareholders' equity	**(804.3)**	**(840.9)**	**36.6**

Net working capital

Significant reduction in NWC in absolute terms

The value of the working capital from operating activities fell by 27.1 million Euros with respect to 31 December 2007, improving its ratio on the year's turnover.

Net working capital *(Euro in millions)*	**Dec 31, 2008**	**Dec 31, 2007**	**Change**
Trade receivables, net	301.6	315.8	(14.2)
Inventories	272.1	274.3	(2.2)
Trade payables	(205.4)	(194.7)	(10.7)
Net working capital	**368.3**	**395.4**	**(27.1)**
% net sales	*32.1%*	*33.2%*	

Reduced impact of NWC on turnover

The 7% decrease in net working capital with respect to the end of 2007 was mainly due to the following dynamics:

- reduced incidence of trade receivables due to the fall in sales in the last quarter and the greater contribution in turnover of certain countries with short collection times;
- improved inventories management; the positive results in this field were absorbed by the increase in warehouses further to the development of the retail channel;
- a slight increase in trade payables at the end of the year, due to the higher purchases from Chinese suppliers.

Fixed assets and investments in tangible and intangible fixed assets

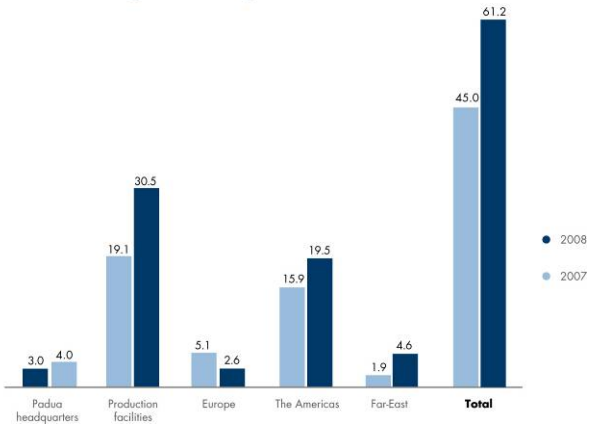
High increase in fixed assets and capital expenditure

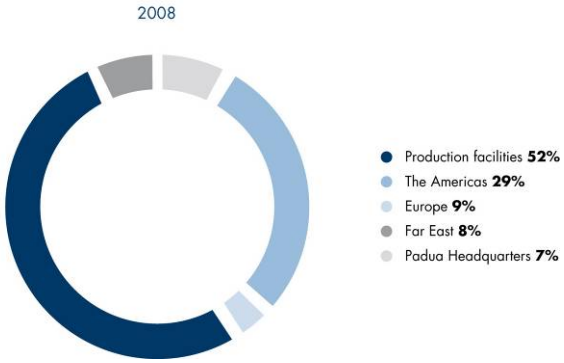
Fixed assets at 31 December 2008 stood at 1,071.9 million Euro, greatly increased with respect to the same date in 2007; this was mainly due to retail channel acquisitions at the beginning of the year and progress in the construction of the new Chinese industrial plant.

Cash out for the Group for the acquisitions, net of the acquired cash, amounted to 25 million Euro, while the investment in tangible fixed assets for the Chinese industrial plant amounted to approximately 15.8 million Euro during the year.

At the consolidated level, investments in tangible and intangible fixed assets of the Group stand at a total of 61.2 million Euro against 45.0 million in the previous year, and can be divided by geographic regions as follows:

Investments in tangible and intangible fixed assets



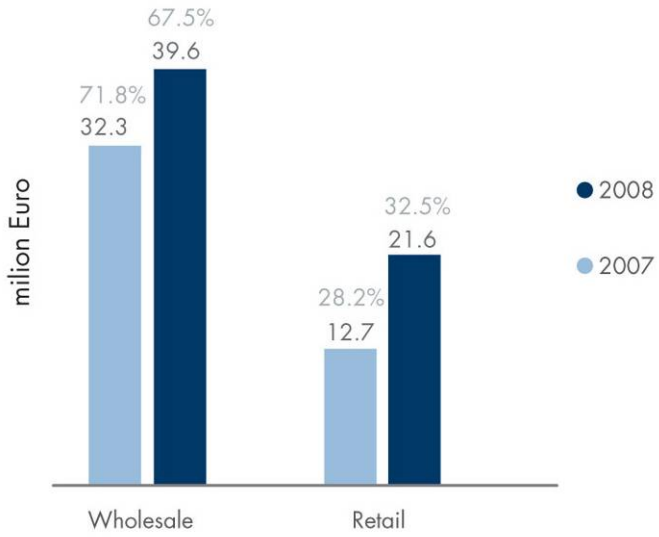


About 30% of overall investments in tangible fixed assets consisted in the ordinary renewal and improvement of plants, machinery and equipment in production sites in Italy and Slovenia, while 28% of the investments were for the new industrial plant in China. The investments in Europe and, above all, America were mainly addressed at developing the retail business.

Investments by distribution channel

In terms of investments by distribution channel, there was a considerable increase in the retail channel given the investments in both tangible and intangible fixed assets, up circa 8.9 million Euros with respect to the same period in the previous year. The major project in the wholesale channel is the construction and start up of the new industrial facility in China.

Capital expenditure by distribution channel



THE FINANCIAL SITUATION

The main items of the net financial situation at 31 December 2008, as well as free cash flow figures, are reported below in comparison with the previous year :

Net financial position

Net financial position *(Euro in millions)*	December 31, 2008	December 31, 2007	Change
Current portion of long-term borrowings	(37.6)	(34.5)	(3.1)
Bank overdrafts and short-term bank borrowings	(74.1)	(85.4)	11.3
Other short-term borrowings	(50.9)	(41.8)	(9.1)
Cash in hand and at bank	53.7	56.9	(3.2)
Short-term net financial position	**(108.9)**	**(104.8)**	**(4.1)**
Long-term borrowings	(461.1)	(409.8)	(51.3)
Long-term net financial position	**(461.1)**	**(409.8)**	**(51.3)**
Net financial position	**(570.0)**	**(514.6)**	**(55.4)**

The NFP increases with respect to 31 December 2007

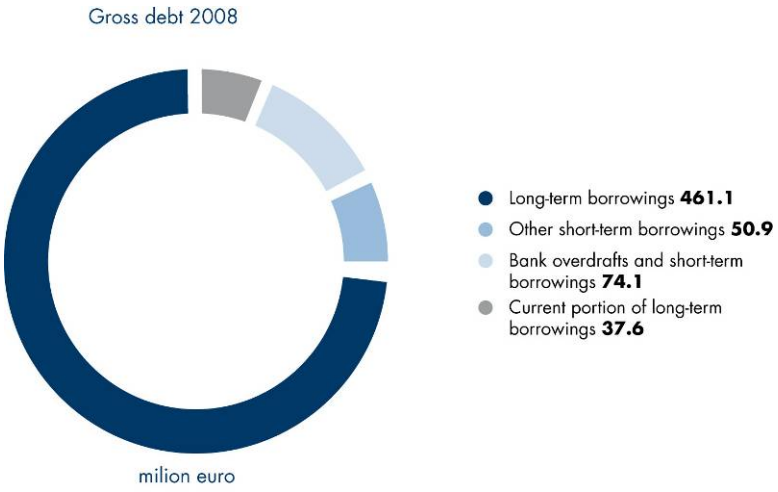
The net financial position increased to 570.0 million Euros against 514.6 million at 31 December 2007. The increase in total borrowings is mainly due to the acquisitions at the beginning of the year and the dividends policy.

Revision of covenants at November 2008

The covenants under the medium- long-term borrowing, denominated "senior loan", are calculated as the ratio between net financial position and EBITDA and between EBITDA and interest expenses in the period. During November 2008, in view of a possible misalignment of the covenants at the end of the year, new levels were negotiated with lender banks; these are now more in line with year-end forecasts.

At 31 December 2008, the levels of covenants defined is equal to 4.85x for the ratio between net financial position and EBITDA, and 3x for the ratio between EBITDA and interest expenses in the period.

Further negotiations are in progress with the banks to prevent a possible misalignment of the covenants at 30 June 2009 and subsequent periods.



Free cash flow

Free cash flow *(Euro in millions)*	**2008**	**2007**	**Change**
Cash flow operating activity	56.3	53.3	3.0
Cash flow investing activity	(88.4)	(43.8)	(44.6)
Free cash flow	**(32.1)**	**9.5**	**(41.6)**

Free cash flows decreased due to the implemented investments

Free cash flows for 2008 were characterized by cash flows from operating activities slightly growing with respect to the previous year, reaching 56.3 million Euros against 53.3 million in 2007. Given the fall in net profit, the cash flow generated from the net working capital helped improve the cash flow from the operating activities.


COLORI
1967
COMBINAZIONE
ALTA MODA
OCCHIALE
PIÙ
FOULARD
Sàfilo
...dal 1870
Safilo
Mod. GOLDMAN/GT
SOLEIL
SOLE
SUN
SA'FILO
for a smart shape
Cellonet
SAFILO
PIEVE DI
CADORE
montatura
brevettata
indeformabile
SAFILO
SAFILO
è l'occhiale
di forma universale
SAFILO
Safilo
OCCHIALI
Sàfilo
SERVICE
OCCHIALI
Sàfilo
OCCHI DI DONNA
Sàfilo

HISTORY OF THE GROUP

Sàfilo was founded in 1934

Sàfilo was founded in 1934 when Guglielmo Tabacchi (father of the current Chairman, Vittorio Tabacchi) assumed control over the company "Società Azionaria Fabbrica Italiana Lavorazione Occhiali" which produced lenses and frames. This company had been founded in 1878 in northeast Italy with its production unit in Calalzo di Cadore (Belluno), the region that houses the eyewear district. In 1964 the second production unit in Santa Maria di Sala (Venice) was inaugurated and the production of acetate and cellulose frames was transferred there. In the Seventies the production unit in Calalzo di Cadore was extended and the offices in Padua were opened; the latter currently serve as the secondary office and main distribution centre for the Group (1975 - 1977).

The first commercial subsidiaries were opened in Europe and the USA in the 80s

In the Eighties, the first commercial subsidiaries were opened in Belgium, Spain, Germany and France. Between 1983 and 1986, Starline Optical Corp. (now Sàfilo USA Inc.), a leading eyewear sales company in the USA which had already been distributing the Group's products since 1962, was taken over.

The industrial development plan was implemented in 1989 when the production facility in Longarone (Belluno) was built, and is still the largest Italian unit in the Group. It became operative in 1990; it was and continues to be one of the most technologically advanced factories in the eyewear industry in Europe. In 2001, the central, automated distribution centre was inaugurated in the Padua headquarters.

Over the last 15 years the Group has pursued a policy to strengthen and expand the distribution network by opening subsidiaries in the most promising markets with the final aim of directly controlling distribution in the main geographic regions. In order to implement this strategy, relationships with the Group's clients have been constantly strengthened.

The first commercial subsidiary was opened in the Far East in the 90s

In 1994, Sàfilo Far East, the distribution branch in Hong Kong was established, thereby opening the gateway to the Asian and Australian markets. At the end of the Nineties, the Group's presence in Europe was further strengthened by opening subsidiaries in the United Kingdom, Greece, Austria, Portugal and Switzerland, and in the rest of the world in Australia, South Africa, Japan, Brazil, India, Singapore, Hong Kong and Malaysia. Finally, in 2004, a branch was opened in Shenzhen - China, one of the markets with greatest growth margins.

In 1996 the acquisition of a business unit of Carrera GmbH, a specialised manufacturer of sports eyewear, led the Group to acquire the know-how of Optyl for the production of plastic frames as well as the two factories in Traun (Austria) and in Ormoz (Slovenia). Due to these acquisitions, Safilo has become one of the leading manufacturers and distributors of sports eyewear and ski goggles in Europe. The acquisition in the same year of the American company Smith Sport Optics Inc. added a range of sports goggles - specifically

Delisting in 2001

addressed to the American market - to the Group collections.

In July 2001 and after acquiring a majority shareholding in the company, the Chairman of Safilo S.p.a., Vittorio Tabacchi, launched a takeover bid through a purposely established vehicle company, Programma 2002 S.p.A. The original offer was launched at €12.50 per share, for an overall value of €161.3 million; the takeover bid for the remaining shares was launched at a price of €14.48, for an overall value of €9.4 million. After the takeover bid was completed, Safilo s.p.A. was delisted in December 2001, almost 14 years after it was first listed in 1987.

"Leverage buy-out" in 2002 by Cavalier Vittorio Tabacchi

During 2002, Sàfilo S.p.A. was incorporated into the aforementioned Programma 2002 S.p.A., which in turn was incorporated into Programma 2001, another vehicle company owned by Vittorio Tabacchi's family; the name "Sàfilo S.p.A." was retained.

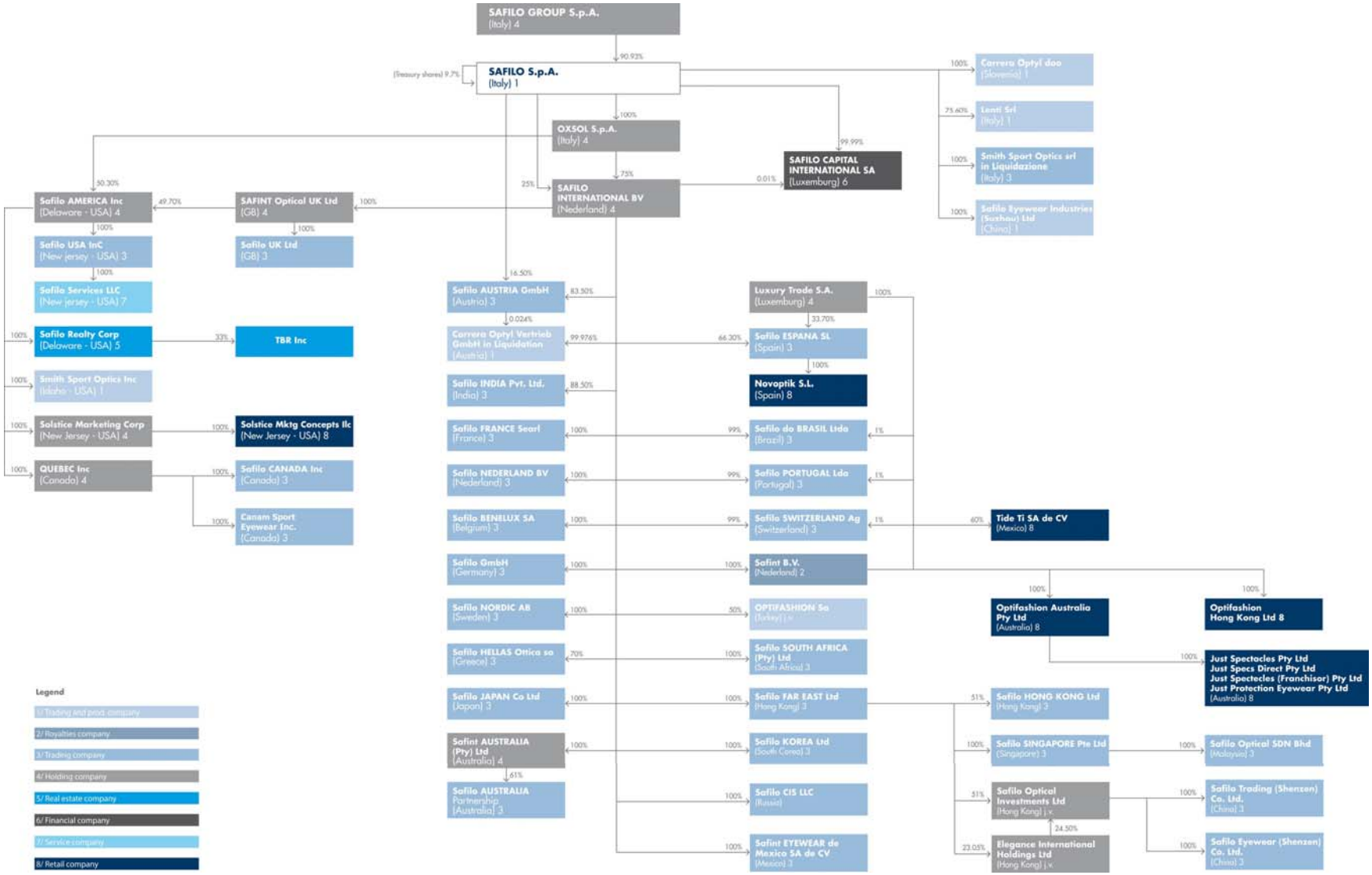
In December 2002, the parent company Sàfilo Holding S.p.A. (now Sàfilo Group S.p.A.) acquired 100% of the remaining share capital in Sàfilo S.p.A. by a contribution in kind. In December 2002 two vehicle companies, SunlightLuxco S.à.r.l. and SunlightLuxco II S.à.r.l., directly controlled by CSFB Private Equity, became shareholders of the parent company. Their shareholdings were then later transferred respectively to SunlightLuxco A S.à.r.l. and SunlightLuxco III S.à.r.l.

In 2005 the Safilo Group was back in the stock Exchange after the delisting in 2001; listing of Safilo Group S.p.A.

On 14 September 2005, further to a resolution by an extraordinary Shareholders' assembly, the parent company changed its name from Sàfilo Holding S.p.A. to Sàfilo Group S.p.A.

On 9 December 2005, the shares of Sàfilo Group S.p.A. were listed in the Stock Exchange at an opening price of 4.90 Euro per share.

GROUP STRUCTURE



The Group was strengthened in the world scenario

During 2008, the Safilo Group strengthened its worldwide presence.

In the wholesale business, on 25 February 2008 the Group set up Safint de Mexico S.A. de C.V. - with a 60% controlling majority and a registered office in Cancun - in order to develop the business in Mexico which is considered an area with great potential.

On 29 October 2008 the new wholly-owned Russian subsidiary, named Safilo CIS-LLC, was founded in Moscow. Safilo CIS has started its operations on 1 January 2009 and markets the Safilo brand portfolio in Russia, with special focus on the luxury market. This is a direct approach to the market through four regional offices in extremely interesting locations that are full of opportunities for the Group, with the precise aim of serving around 400 selected points of sale of opticians and department stores in the medium term.

To control the Eastern European area even further, Safilo has opened three other branches, one each in the Czech Republic, Slovakia and Hungary and, despite the difficult economic scenario, has continued to invest in those countries where consumers are very keen on high-end design products that are Made in Italy.

During 2008, the Group developed its retail business in China by opening the Optifashion branch in Hong Kong, which was established at the end of 2007. This company is part of a business penetration plan for the area through directly managed stores. The Safilo Retail Co. Ltd is part of the same project and was established on 7 May 2008 and is controlled 100% by the Dutch company Safint B.V.

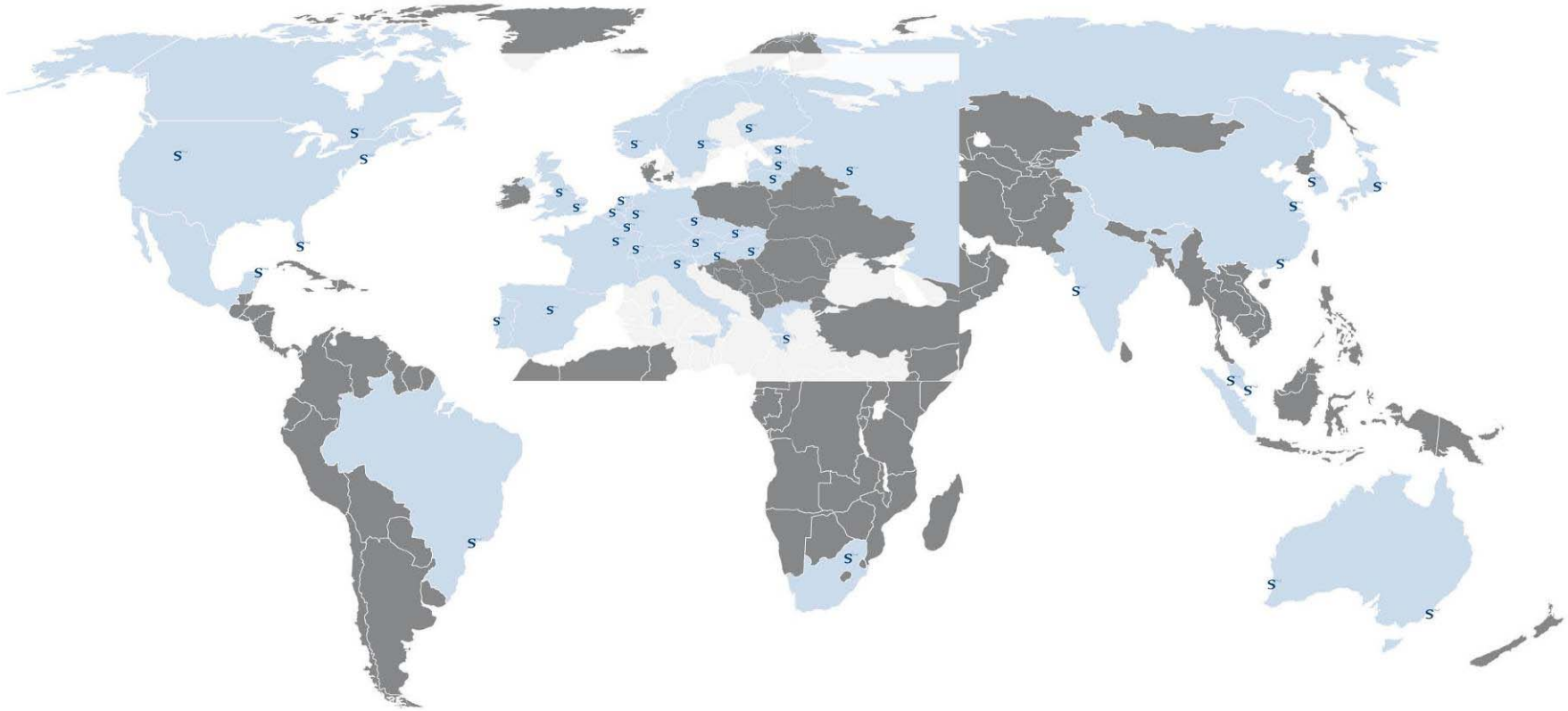
Takeover of retail chains: Sunglass Island in Mexico and Just Spectacles in Australia

On 5 February 2008 the Group consolidated its structure even further by acquiring the retail chains Sunglass Island in Mexico and Just Spectacles in Australia.

When 60% of the Mexican retail chain Sunglass Island was acquired, the latter managed 38 Sunglass Island points of sale and 7 Island Optica points of sale, two of the leading luxury signs in the Mexican market for prescription frames and sunglasses. The stores offer high-level products and services and are all situated in highly prestigious tourist resorts in Mexico, from Cancun to Playa del Carmen, Acapulco and Los Cabos. At the end of 2007 the chain generated sales of circa 26 million dollars (approximately 19 million Euros). The acquisition cost was circa 22 million dollars (approximately 14 million Euros).

When the Australian retail chain Just Spectacles was acquired, it had 44 points of sale (12 of which in franchising) mainly situated in Western and South Australia. Just Spectacles has been operational for more than 20 years and, in 2007, generated sales of circa 24 million Australian dollars (approximately 14 million Euros). The acquisition cost was circa 21 million Australian dollars (approximately 13 million Euros).

The following map shows the locations of Group subsidiaries:



CRITICAL FACTORS FOR THE GROUP'S SUCCESS

The Safilo Group business model is based on production flexibility, product quality, a prestigious brand portfolio and an international distribution capacity

The group owes its success to a number of areas of strength, which, taken together, distinguish it within the worldwide eyewear industry:

- Excellence in design, innovation and product quality; Group products are strongly recognised by opticians and end consumers for their superior quality and highly innovative content in terms of materials used and design. The high level of attention that management places on quality is a key factor for success in the high-end market brackets and for efficient management of the brand portfolio;

- Production flexibility; for some years now the Group has been focusing on streamlining the organisation and production processes so as to increase efficiency and productivity levels and reduce overall production times. The Group's recourse to outsourcing has granted the necessary production flexibility in order to adapt to fluctuations in demand;

- Portfolio of prestigious brands, with a leading position in the luxury and high-end segment; the Group has always pursued a policy of selective rationalisation and consolidation of its brand portfolio while carefully monitoring the market to grasp any new high potential opportunities in specific geographic regions. Over the years, the Group has progressively and carefully integrated its proprietary and licensed brands with long-lasting agreements being established with leading names for the latter (on average between 5 and 8 years);

- Worldwide distribution platform, presence in the markets and excellent customer service; the Group's distribution platform covers all the main world markets, a key factor for supporting the global development strategies for the leading fashion names. The diversified income sources help reduce any risks caused by an economic slump in any of the markets and allow the opportunities offered by emerging markets to be exploited. Safilo is recognised as the leader for its excellent customer service, providing: (i) a large, expert sales force with agents able to cover the entire market; (ii) a team of key account managers dedicated to assisting the main distribution chains; and (iii) modern, multi-language call centres to manage orders and customer service, using specialised developed software, such as the so-called CRM – customer relationship management – which enables monitoring the market, storing data and creating precise customer profiles so as to personalise the services even further;

- Diversified revenues; in both the wholesale and retail channels through direct management of the Group's own stores. For several years the Group has been pursuing the development of its wholesale business

and strengthening the retail business, given its conviction that the synergies that are offered and the direct contact with markets will help improve the visibility and the prestigious image of the high-end brands.

CRITICAL RISK FACTORS FOR THE GROUP

The Group implements all the possible measures to contrast any risks and uncertainties arising from its business. The risks are both internal and external and are explained below.

Internal risks

Strategic risks

The Group could be unable:

- to grasp new business opportunities in the wholesale and retail sectors or in the geographic regions where it operates;
- to allocate the resources to the most profitable and potential markets, or to more economically beneficial initiatives;
- to protect its brands and patents;
- to maintain the licence contracts required for its business and fulfil the relative obligations and commitments;
- to contrast the competition by not sufficiently maintaining and strengthening its own distribution and sales networks.

Operating risks

The Group business is subject to:

- the risk of being unable to organise and coordinate integrated supply/production/logistics and commercial processes in order to provide a rapid response to the needs of the increasingly attentive and discerning customers;
- the risk of being unable to identify and purchase raw materials, semi-processed and finished products of a sufficient quality to support the Group's very high quality standards;
- the operational risks of industrial facilities, distribution centres and supplier relationships; for example: there could be the risk of the outsourcing relationships being broken off with Asian suppliers, or halts in work in the industrial units or distribution centres due to broken equipment, lack of labour, natural disasters and the like;
- the risk of being unable to launch innovative products on the market that meet consumer tastes and follow the fashion trends;

- the risk of being unable to open new stores, renew current ones and increase their competitiveness, meaning that certain locations could become unsuitable due to demographic or commercial changes;
- the risk of non-compliance with internal control procedures as well as the Italian and foreign legislation that are applicable to the Group (for example local tax laws).

External risks

Business risks

In terms of business risks, the Group is exposed to:

- policies implemented by the competition and the possible entry of new market players;
- the effects of the macro-economic and political and social environment, in terms of changed consumer buying power and their level of loyalty and buying trends, also considering the instable political and social climates;
- changes in National and International regulations that could condition the competitive advantage that has been reached (for example, legislation changes that allow or eliminate the refund by social security institutes of the costs for buying prescription lenses or any possible customs restrictions);
- climatic conditions, such as very bad weather in the spring or summer which could drastically reduce sales of sunglasses;
- the diffusion of alternative products and techniques to correct eyesight, other than glasses, for example, laser surgery.

Financial risks

The Group pays constant attention to financial risk management

The Group constantly monitors the financial risk it is exposed to in order to assess in advance any possible negative impact and to undertake corrective measures aimed at mitigating or correcting the risks in question.
The Group is exposed to a variety of risks of a financial nature: credit risk, market risks and cash flow risks, which are centrally managed on the basis of hedging policies which also include the use of derivatives in order to minimise the effects deriving from fluctuations in exchange rates (especially of the American dollar) and interest rates.

Credit risks

The Group minimises risk through instruments to control customer insolvency

The Group strives to reduce risk deriving from the insolvency of its customers through rules ensuring that sales are made to reliable and soluble customers. Such rules, based on the available information on client solubility and reliable historic data, combined with exposure limits per individual client, allow a limited concentration of credit and thus minimise the relative risk. Credit exposure is, moreover, divided among a large number of counterparties and clients.

Significant positions in terms of amounts for which the Group identifies situations of objective, total or partial, non-recoverability, taking into consideration any guarantees obtained and the costs and expenses of recovery, are written off individually.

It is deemed that the maximum theoretical exposure to credit risk is represented by the book value of the financial assets present in the financial statement.

Market risks

Market risks can be divided into the following categories:

Exchange rate risk

Exchange rate risk. The Group operates at international level and is therefore exposed to exchange rate risk.

The Group holds shares in subsidiaries in countries not belonging to the Euro area; as a result, variations of shareholders' equity deriving from fluctuations in exchange rates between the local currency and the Euro are booked within a reserve of the consolidated shareholders' equity denominated "translation difference reserve".

Some companies operate in currencies other than the local currency and these operations primarily involve the U.S. dollar given that a significant part of the transactions of these companies are conducted in U.S. dollars.

The Group constantly tries to reduce the effects deriving from fluctuations in the American currency by getting its supplies from local suppliers in areas where purchases are made in American dollars and thus implementing a sort of "natural hedging". For incomes in dollars not compensated by the expenditures for purchases, the Group policy is to use hedging instruments such as forward contracts in dollars. Exposure is thus covered by simple forward contracts ("plain vanilla") whose duration is always less than twelve months. Information on the fair value and on the method of accounting of derivatives is given in the notes to the financial statements.

Changes in fair value

Changes in fair value risk. The Group holds some assets and liabilities subject

risk

to changes in value over time depending on the fluctuations of the market where they are traded.

Interest rate risk

Interest rate risk. Borrowing from banks exposes the Group to the risk of variations in the interest rates. Specifically, loans at variable rates determine the risk of a change in cash flow whereas fixed rate loans entail a potential variation of the fair value of the said loans.

The Group regularly assesses its exposure to the risk of interest rate fluctuations and manages such risk through the use of derivatives, denominated interest rate swaps (I.R.S.); the latter are used solely for the purpose of hedging cash flows. The counterparties are primary financial institutions and, for these contracts, at the beginning of the hedge operation, there is a formal designation and documentation relative to the hedge.

It must be emphasised that the Group never uses financial instruments for speculative purposes.

Liquidity risk

The Group constantly monitors its cash flows

This risk could generate the inability to find, at economic conditions, the financial resources needed to sustain operations in the necessary time. Cash flows, the need for borrowings and company liquidity are constantly monitored at a central level by the Group treasury in order to ensure effective and efficient management of the financial resources.

The senior loan contracts that have been granted to certain Group companies by a banking pool coordinated by Bayerische Hypo und Vereinsbank AG, include a series of operational and financial obligations. In particular, the defined levels of the covenants must be respected which are calculated on the basis of final financial statement data at the end of each half-year. If these parameters are not respected, the conditions to continue the loan agreement must be renegotiated, the so-called waivers or the suitable adaptations to the parameters. If this were not the case an event of default could arise, which would involve the compulsory advance payment of the loan.

The covenants in the current medium/long term loan are calculated as the relationship between the net financial position and EBITDA and between EBITDA and the interest due. During November 2008, in view of a possible misalignment of the covenants at the end of the year, new rates were negotiated with the loan banks which are more in line with the yearend forecasts. Further negotiations are in progress with the banks to prevent a possible misalignment of the covenants at 30 June 2009 and the following periods.

The Group has therefore adopted a series of policies and processes aimed at optimising the handling of financial resources. Management believes that the

funds and lines of credit which are currently available, as well as those generated by operating and financing activities, will enable the Group to satisfy its requirements deriving from investing activities, working capital management and reimbursement of debts at their natural expiry date.

PRIMARY GROUP PROCESSES AND ACTIVITIES

Production and distribution chain

On the basis of the success factors described above and in an attempt to reduce the risk factors as far as possible, the Safilo Group directly controls the entire production-distribution chain; the latter is divided into the following phases and processes:

Research, development and design

R&D is based on product design and the development of new materials and production processes

The Research & Development department primarily focuses on two types of activity:

- product design;
- research and development of new materials, technologies, production processes and instruments/machinery.

Product design is carried out by three internal styling departments (in Italy, USA and Hong Kong) focused on the specific design requirements of the different markets they operate in, while the research and development on materials, production processes and machinery is performed by an internal department called "The Research and Technological Innovation Division".

Product design, and constant attention paid to the market and consumer tastes are fundamental

Product design

In relation to the development of products positioned at the high-end of the market, the Group has, for over a decade, identified the design of the product as a strategic feature.

The Group's constant attention to consumer tastes, fashion trends and technological innovation all imply the constant introduction of new models and the updating of current ones.

Research and development of the design consists, amongst other activities, in the development of forms and combinations of colours/materials for the creation of new models. This division is organised in three departments known as Style Centres and is composed of designers and staff responsible for producing the prototypes. The main Style Centre is in Italy, while the other two, situated in the United States and Hong Kong, perform specific stylistic activities for collections suited to their respective areas. In particular, the Group develops special *Asian fitting* frames for products marked in Asia; these frames are specifically adapted to the features of the Asian population with specific focus on the Japanese

market. Product design function, given its strategic nature, has been constantly strengthened over the years.

The Style Centres of the Group, on average, develop more than 2,500 new models of prescription frames, sunglasses and sports products every year, providing the public with more than 4,500 models of eyewear. The Group's products stand out for their high complementary nature, as sunglasses are mainly linked to fashion trends while prescription frames are mainly linked to population dynamics. Furthermore, the different product lines are addressed to different consumer targets, with products positioned in the top end retail brackets.

Constant research is applied to new materials and more effective and efficient production processes

Research and development of materials, production processes and instruments/machinery

Research and development into materials and production processes aims, on one hand, to improve the technical characteristics of the products and, on the other, to develop innovations of the production process which increase its efficacy, efficiency and quality.

Safilo has always believed in investing in research and development with its own R&D Centre, which was opened in the beginning of the Seventies and operates with a team of 20 expert engineers and researchers who are constantly employed in researching new cutting edge techniques.

Due to the considerable efforts that go into research and development, the Group is able to constantly introduce new models and update the current ones, following consumer tastes, fashion trends and technological innovations.

During the course of 2008, the Research and Technological Innovation Division focused on the:

- research of new materials in order to improve the characteristics of resistance and duration of the products;
- innovation of the sports products;
- innovation of sunglass lenses, both as aesthetic and a protective factor;
- study of new solutions aimed at achieving increasingly lightweight, comfortable to wear and variable fit frames;
- design and construction of new machinery which could improve the efficiency and quality of the production process.

Such activity, over recent years, has led to the registration of numerous patents, such as elastic frames, fixtures for the nose and face, the "base" of the lenses, nose pads, and internal and external protection of ski goggles.

Research and development activity into instruments/machinery is aimed at internally designing and developing precision instruments and moulds with the purpose of improving the efficacy, efficiency and quality of the production

process. Management believes that the organisation of this activity within the Company allows the reduction of the products' time-to-market, thereby obtaining constant savings in production costs.

The entire industrialisation process, from design to production, is directly controlled; this helps to even further reduce the time between product development and marketing so that the latest news is always on the market in time.

Planning, programming and purchases

Production is planned on the basis of information that is gathered internally and externally

The Planning, Programming and Purchases departments are managed directly by the Operations Management.

The Planning Office uses the information that has been collected internally (about sales activities, promotional campaigns, sales forecasts and historic data) and externally (such as customer orders, feedback from trend setter customers about market trends) so as to define the production needs on a weekly basis and which are then submitted to programming.

The Programming Office analyses the production needs received from Planning in order to develop a weekly production plan and order the materials by taking into account the warehouse stocks, the models to be produced and the production capacity limitations. Programming uses an analysis system called the Global Planning System (GPS). GPS corrects the weekly production plan every day and breaks it down between internal production and external purchases.

The Purchases Department is mainly responsible for buying the raw materials (like resins and catalysis for Optyl, steel, acetate, metal, lenses, cases and other components) and other semi-finished products, such as arms, noses, etc. This office is managed by the Central Buying Office in Padua.

In order to guarantee the quality of the raw materials and semi-finished products, the Group relies on a group of highly selected suppliers who are constantly appraised in terms of delivery times as well as their capacity to guarantee predetermined quality standards and their production capacity.

The raw materials and semi-finished products are mainly bought in from Europe, with a small part from other markets. The takeover of Lenti S.r.l. in 1996 now means that Safilo has the know-how to produce lenses for sunglasses.

Production and quality control

Internal production is carried out in six factories divided between Italy and abroad

Internal production is in the six units owned by the group, four of them are in Italy, one in Slovenia and one in China. There is a specific team that controls the quality of the bought-in products to ensure their quality is in line with the elevated standards of the Group.

Internal production

The processes have been simplified over recent years to improve production efficiency and flexibility. In accordance with our lean manufacturing plan, we have broken down production so that all the specific work involving metals, acetate and Optyl is carried out in one or two production units and where each one produces products from a single material.

The following table illustrates the sites and area of specialisation of our production units on the date of the Financial Statements:

Product division	Production unit	Country	Specialisation
Plastic materials	Santa Maria di Sala	Italy	Finished products
	Precenicco	Italy	Assembly and finishing
	Ormoz	Slovenia	Semi-finished, Optyl and injected
	Suzhou	China	Semi-finished acetate and metal
Metals and semi-finished	Longarone	Italy	Finished products
	Martignacco	Italy	Components and accessories

Outsourced production

Outsourced production aims at reducing costs and obtaining greater production flexibility

Outsourcing policies aim at optimising production capacity and reducing costs. We work with manufacturers in Italy, Asia and the USA. The decision to assign a product to an Italian or Asian contractor is based on specific product quality parameters, origins and special production needs.
This policy means we are able to manage both production peaks and drops in demand, and to concentrate our production on products for the luxury sector.

Quality control

The quality control procedures focus both on product safety and quality

Our quality control procedures aim to provide our customers with products that comply with current safety legislation and which satisfy the very high quality standards applied by Safilo. We have a special team coordinated by a manager in each of our production units and distribution centres.
We conduct tests on the raw materials and semi-finished products we purchase, and on the production and distribution processes and finished products.
The outsourced finished products are randomly inspected before sending them to our distribution centres. We have several quality control teams, one in the Padua Headquarters, one in Hong Kong, one in the USA, one in each production unit and small teams in other local branches. The majority of our Asian suppliers have obtained ISO certification.

All the Safilo Group products have "EC" marking and ISO 9001:2000 certification. After obtaining ISO 9002:1994 quality certification in 1996, Safilo also obtained

ISO 9001:2000 Det Norske Veritas (DNV) certification in 2003 and has also obtained the International Quality Rating System (IQRS). The combined ISO 9000 standards are a collection of International quality management standards, defined by the International Organization for Standardization in Geneva, Switzerland. The ISO 9002:1994 standard provides 20 regulations for developing, implementing and maintaining an effective quality management system.

Marketing and communications

Marketing actions are defined at world level on the basis of medium-long term plans

The Marketing and communications campaigns to support the Group's housebrands, the licensed brands and the products are one of the key factors for the Group's success and continuously growing profit.

The main aims of the Group marketing strategies include:

- guaranteeing the correct position for all the brands in the portfolio, with special focus on the high-end range and high fashion and luxury sectors;
- guaranteeing the development of the housebrands, through a correct marketing mix and adequate investments in product development, communications and trade marketing;
- communicating distinctive features in terms of product design and technology within the different categories (prescription, sunglasses, sports).

The Group develops a marketing and communications strategy at world level through a medium-long term marketing plan (three years) and the short-term plan (yearly). The plans consider market information, end consumer and customer needs and tastes as well as competitive factors such as price, product type and advertising and promotion investments.

The Group develops a specific market plan for each brand in its portfolio, adopting different strategies and actions in order to guarantee the best position for each one. The Group develops the strategy in close collaboration with the licensors for the licensed brands.

Overall Group investments in marketing and advertising in 2008 reached 100.3 million Euros (against 96.6 million in 2007), circa 8.7% of consolidated Group revenue (against 8.1% in 2007).

Marketing actions are addressed to consumers on one hand and to sales points of customers and the group on the other (trade marketing)

Marketing and communications actions are mainly divided between direct consumer campaigns and trade marketing focused on the customers' points of sale.

Direct campaigns addressed to consumers account for about two thirds of the Group's advertising and promotion costs. The main media that are used are weekly and monthly press, bill posters, sponsorships (mainly for sports with the Carrera and Smith brands), public relations with journalists and opinion leaders

in the fashion, show business and sports worlds.

Trade marketing actions focus on the main customers' points of sale and account for about one third of the Group's advertising and promotion costs; they are of fundamental importance to guide the end customer's choice to the Group brands and products and to build up customer loyalty. The main instruments for this purpose include in-store display materials (posters, banners, displays, durantrans), special window displays, combined consumer promotion campaigns addressed to both consumers and the leading optician customers, training courses and training materials, and updating into the features of the Group's brands and products for the sales assistants in the opticians.

The creative communications strategy is always in line with the Group's specific choices but is adapted to specific market needs to guarantee it will reach the set target groups.

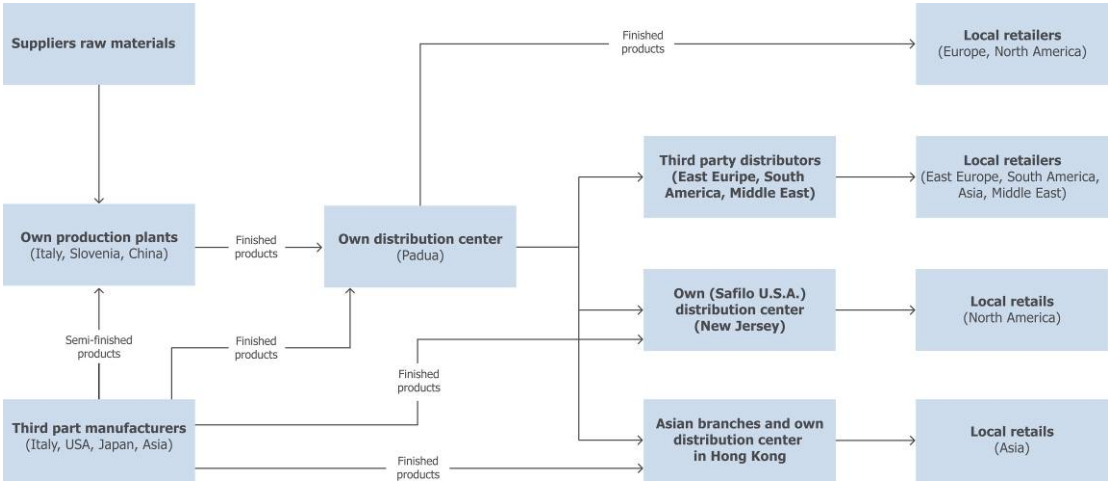
The media strategy is managed at Group level, but with specific optimisation campaigns in the single local markets.

Sales and distribution

Distribution

The products are distributed through specialised distribution centres in Italy, the USA and the Far East

Selective distribution takes place through three main distribution centres based in Padua, Parsippany (New Jersey, USA) and Hong Kong as well as through other minor distribution centres in Denver (Colorado) and Utah (USA), Japan, Australia, India, South Africa, Canada, Greece, Brazil, Singapore and China, each one serving its own specific geographic region.

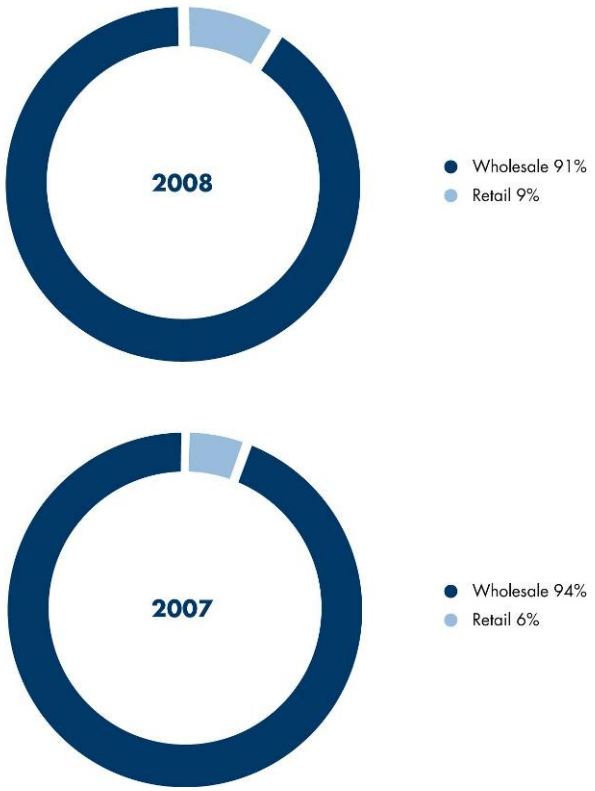


By means of its distribution centres around the world, the Group can ensure an excellent level of customer service in all its current markets. In 2004, the project to improve and streamline the distribution centre in Padua was completed, which enabled offering a much more precise service to the customers thanks to the highly automated activities. The Padua distribution centre currently handles more than 100,000 articles a day.

In order to guarantee minimum shipment times and reduced costs, shipping agents and couriers are selected on the basis of their efficiency and reliability. Our European suppliers mainly ship by road while Asian suppliers ship by sea. Finished products are sent from Asia both by sea and air.

Once the production process is complete the finished products are sent to the Padua warehouse. The shipment orders, costs and courier orders are processed during the night, and the processing system considers the area where the products must be sent so as to minimize transport costs and the number of trips required to restock each single customer. Once the orders and transport plans have been prepared, the products are collected and prepared for distribution in the morning. On average, telephone orders can guarantee a delivery to Italian customers within 24-48 hours and to European customers within 48-72 hours.

Net sales by distribution channel



Distribution through the wholesale channel

The Group operates in 130 countries through its own branches and independent distributors

The Safilo Group sells its products in around 130 countries, in many cases through its own 29 sales branches and through more than 170 independent distributors in the other countries. Each Group branch coordinates a solid network of local agents with exclusive contracts, reaching the clientele of more than 130,000 points of sale including opticians, optometrists, ophthalmologists, distribution chains, department stores, specialised retailers, our licensors' own stores, duty free shops and sports shops.

In our leading markets like Europe and the USA, we have created sales teams managed by Key Account Managers; the latter directly manage the main chains of eyewear in the reference regions.

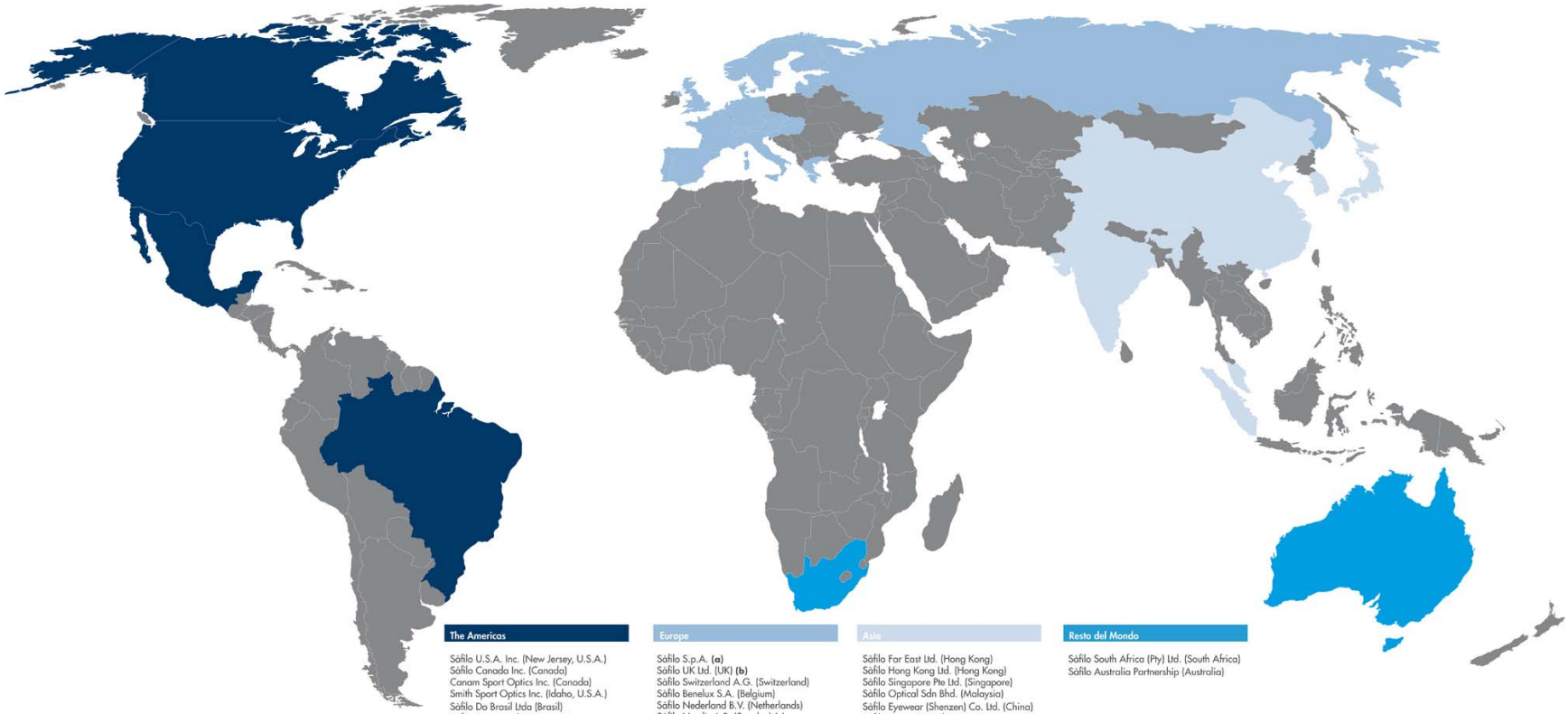
The Group maintains efficient customer relations and controls and the high Group quality standards ensure the right positioning for both proprietary and licensed brands. In particular, the strategic choice of selecting retailers for the products and their position within the points of sale is one of the strengths in our relationships with the licensors of the top brands and marks us out with

respect to our main competitors. Normally, distribution contracts with local partners require minimum purchase amounts and impose territorial limits; furthermore, and within the limits allowed by local legislation, we exclusively authorise our product distribution through authorised sales points and qualified agents.

Over recent years the Group has opened showrooms in highly prestigious locations in Milan, New York, London, Paris, Barcelona, Madrid and New Delhi to present products to clientele.

The wholesale distribution network is divided in 3 divisions managed by top managers who report directly to the World Sales Manager

Our distribution network is divided geographically into 3 divisions, which cover, respectively, North and South America, Asia and Australia, Europe and the rest of the world. Each division is managed by a top manager who reports directly to the World Sales Manager who is responsible for their coordination.



The Americas

Sáfilo U.S.A. Inc. (New Jersey, U.S.A.)
Sáfilo Canada Inc. (Canada)
Canam Sport Optics Inc. (Canada)
Smith Sport Optics Inc. (Idaho, U.S.A.)
Sáfilo Do Brasil Ltda (Brasil)
Safint Eyewear de Mexico S.A. de C.V. (Mexico)

Europe

Sáfilo S.p.A. **(a)**
Sáfilo UK Ltd. (UK) **(b)**
Sáfilo Switzerland A.G. (Switzerland)
Sáfilo Benelux S.A. (Belgium)
Sáfilo Nederland B.V. (Netherlands)
Sáfilo Nordic A.B. (Sweden) **(c)**
Sáfilo France S.à r.l. (France)
Sáfilo G.m.b.H. (Germany)
Sáfilo Austria G.m.b.H. (Austria)
Carrera Optyl D.o.o. (Slovenija)
Sáfilo Espana S.L. (Spain)
Sáfilo Portugal Lda (Portugal)
Sáfilo Hellas Ottica S.A. (Greece)

(a) include also the branches in Hungary, Slovenská Rep. and Czech Rep.
(b) include also Irland e Island.
(c) include Sweden, Denmark, Finland, Norway e le Baltic Republic (Estonia, Lithuania, Latvia)

Asia

Sáfilo Far East Ltd. (Hong Kong)
Sáfilo Hong Kong Ltd. (Hong Kong)
Sáfilo Singapore Pte Ltd. (Singapore)
Sáfilo Optical Sdn Bhd. (Malaysia)
Sáfilo Eyewear (Shenzen) Co. Ltd. (China)
Sáfilo Japan Co. Ltd. (Japan)
Sáfilo India (Pty) Ltd. (India)
Sáfilo Korea Ltd. (South Corea)

Resto del Mondo

Sáfilo South Africa (Pty) Ltd. (South Africa)
Sáfilo Australia Partnership (Australia)

Below is a brief description of the 3 divisions:

EUROPE

Europe. The main centre is in Padua in Italy. The division manager is also responsible for other areas in the world, including the Middle East, Africa, India and South Africa. The Group's European clientele is very varied: in Italy the majority of customers are independent opticians while in the UK they are mainly chain stores and in Germany they are buying groups and distribution chains. We directly distribute our products to 25 European countries. Around 60% of our more than 650 agents are independent and are paid on a commission basis while the rest are employees, in accordance with specific local legislation, and receive a basic salary plus commission. The majority of the sales force is linked by PC to the central computerised distribution system, so as to reduce order processing time. This means that the sales and marketing data are available every day. There is also another specific sports products division (ski goggles and glasses, helmets and other sports eyewear). A key account manager has also been created and is based in Padua with the task of centrally managing the leading European distribution chains. In those countries where the Group has no sales branches, long-standing relationships have been established with the local distributors, the majority of them having exclusive agreements with us.
Since the beginning of 2007, the Group has been operating directly in the Baltics, having opened local branches there and in 2008 Safilo S.p.A. set up stable branches in the Czech Republic, Slovakia and Hungary for direct management of this high potential markets.

ASIA - PACIFIC

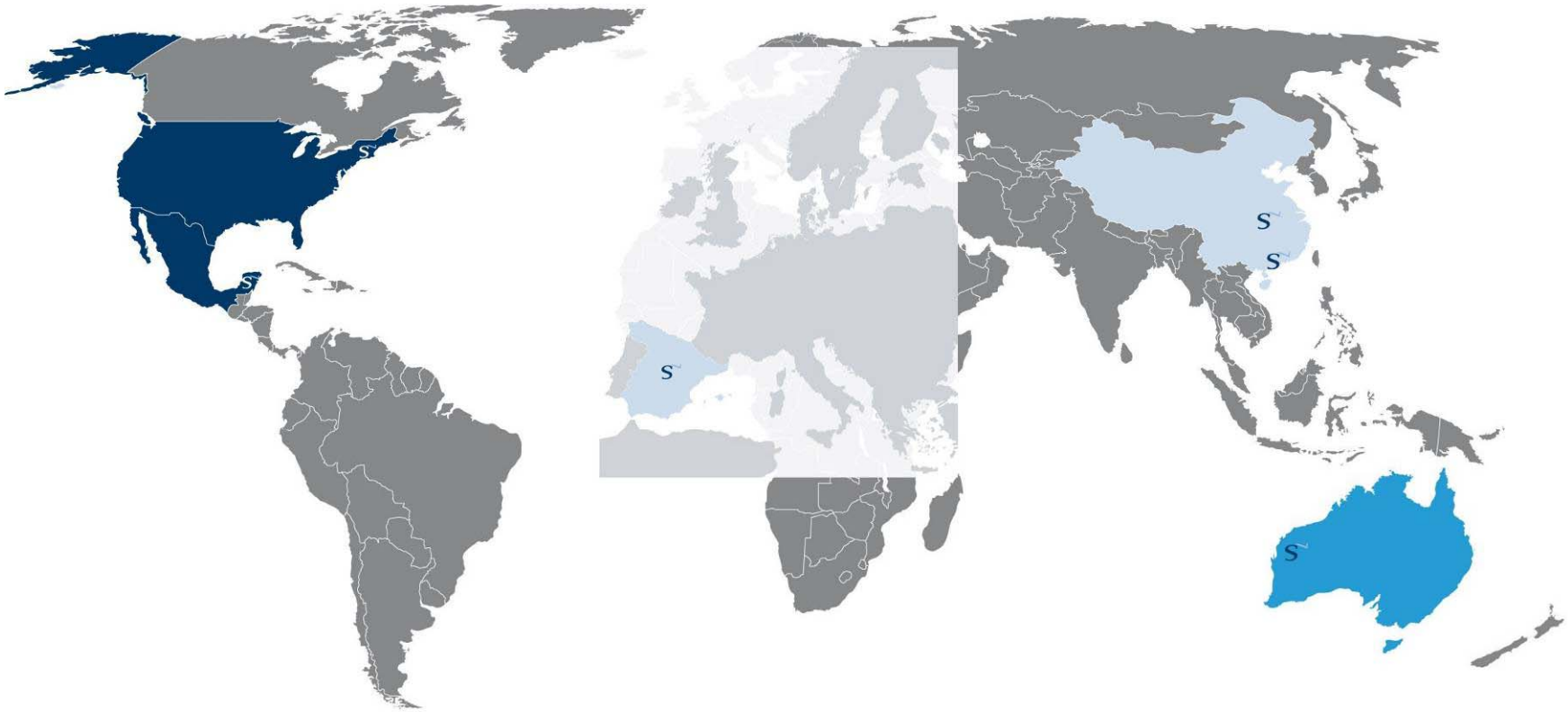
Asia - Pacific. The head office is in Hong Kong and the division manager is also responsible for Oceania and the global duty free business through a specific key account manager.
The Group currently distributes its products in this region through sales branches in China, Australia, Hong Kong, Japan, Malaysia, Singapore and South Korea, and through outside distributors with exclusive distribution contracts in other key markets. The clientele is very varied and mainly comprises opticians, independent stores and department stores.

AMERICAS

Americas. The Division Manager also has mandates for the markets in the USA, Canada, Southern and Central American markets and for the Solstice chain sales. The division head office is in New Jersey in the USA.
Marketing and distribution in the USA is implemented through three distribution chains: (i) opticians, ophthalmologists and optometrists; (ii) the retail market of department stores and specialised shops; (iii) sports shops. Direct sales are made to opticians, ophthalmologists and optometrists that are organised in large retail chains and to single stores.
More than 500 independent agents manage the American markets. There are around 70 in Canada and in the USA there are around 450 independent agents, of which 315 manage opticians, ophthalmologists and optometrists, 40 manage retail outlets such as department stores and specialised shops and 97

manage the specific product category, such as sports eyewear. The Group has a showroom in New York that presents all its product lines.
The main distribution chains are managed by key account managers,while the distributors for Central and South America are managed by the Sales Department of Sàfilo U.S.A. in Miami.

Distribution through the retail channel



The Americas

Solstice Marketing Concepts LLC
(Delaware, U.S.A.)
Tide Ti S.A. de C.V. (Mexico)

Europe

Navoptik S.L. (Spain)

Asia Pacific

Optifashion Hong Kong Ltd. (China)
Safilo Eyewear Retail Shanghai (China)

Rest of the world

Optifashion Australia Pty Ltd. (Australia)
Just Spectacles Pty Ltd. (Australia)
Just Specs Direct Pty Ltd. (Australia)
Just Spectacles (Franchisor) Pty Ltd. (Australia)
Just Protection Eyewear Pty Ltd. (Australia)

Over recent years, the Group has developed its direct retail market project

Over recent years, the Group has strongly pursued a downstream vertical strategy and is firmly convinced that a direct presence in the retail market gives much greater market control and better service to the end customer in adition to being a key factor in relationships with licensors who can directly benefit from the increased brand visibility in our retail chain. The real time flow of information is also fundamentally important directly from the market about the reactions to our new products, price positioning and any other general marketing intelligence information.

Solstice was taken over in 2002

The Group's first entry into the American retail market involved the takeover of Solstice from the LVMH Group, a chain of specialised retail stores for sunglasses in the high and luxury brackets. At the beginning of 2002, the company had six sales points, and since then the focus has been on finding attractive sales outlets to guarantee rapid returns on investment. By following this strategy, numerous sales outlets have been opened over the years in both leading cities and high class shopping malls.

In 2006 the Spanish chain, Loop Vision was taken over

In November 2006, the Group entered the retail market in the old continent with the takeover of Loop Vision, a Spanish chain (mainly in the opticians – "sight" field) which runs sales points in town locations and shopping malls. Since the takeover the strategy for this chain has focused on renewing certain stores which were not considered up to the Group's standard, in accordance with the aim of repositioning the product range within the "medium-high bracket" and developing and upgrading back-office structures.

During 2008 the Group's International retail network continued to grow, both internally (organic growth) and through acquisitions.

Two new companies were set up in 2007, one in Asia and the other in Australia

To enter two very interesting retail markets, Hong Kong and Australia, in terms of future growth potential, two new companies have been set up for the sole purpose of managing retail initiatives:

- Optifashion Hong Kong Ltd., with a registered office in Hong Kong and a share capital of 300,000 HKD;

- Optifashion Australia Pty Ltd, with a registered office in Sydney and a share capital of 900,000 AUD.

Optifashion Australia owns the full share holding in Just Spectacles, a chain that has been operating in the Australian market for more than 20 years, mainly in Western and South Australia. The cost for taking over the Australian chain, which was announced on 5 February 2008, was around 21 million Australian dollars (around 13 million Euros).

In 2008 the acquisition of the Just Spectacles chain in Australia and Sunglass Island in Mexico

The growth of external product lines which started in 2008 continued - besides the takeover of Just Spectacles - with the acquisition of a 60% shareholding (with pre-emption right to the remaining 40%) of Tide Ti S.A. de C.V., a Mexican chain running stores with the Sunglass Island and Island Optica

brands which are positioned in the luxury end of the local market for prescription frames and sunglasses. The stores are in prestigious locations in the main tourist resorts, from Cancun to Playa del Carmen, Acapulco and Los Cabos. The cost for the acquisition was circa 22 million dollars (around 14 million Euros).

Further development in the Asian market in 2008

During 2008 a new branch was also opened, Safilo Retail Shangai Co. Ltd., which will monitor a market that the Group considers has enormous potential.

The Safilo Group intends to continue growing over the coming years by following these strategies as well as developing its own chains and exploiting any opportunities that may arise externally while always giving high priority to its commitment to offer its customers products and services that are in line with the highest quality standards. The growth strategy will be very precise and selective in order to exploit interesting opportunities through very disciplined management of financial resources and prudent assessments of the growth prospects of target companies.

The Group's proprietary and licensed brands

The Group's portfolio contains both own and licensed brands

The brand portfolio of the Group is composed of its own proprietary brands, used for prescription frames, sunglasses and sports goggles as well as licensed brands for collections of frames and sunglasses. The latter are mainly positioned at the high-end of the market with a strong presence in the luxury segment. Safilo has gradually completed its portfolio of housebrands with others from the luxury and fashion world, setting up long term agreements with the licensors for an average of 5 to 8 years, the majority of which are constantly renewed. 2008 sales for licensed brands were 81.2% against 80.9% in the previous year.

In order to minimise the risk associated with the volatility of consumer tastes, the Group pursues a policy aimed at constituting a brand portfolio that is diversified in terms of geographic position, age, gender, income targets and final consumer requirements.

Proprietary brands

The strategic importance of proprietary brands

Proprietary brands are of extreme strategic importance for the expansion objectives of the Group in the medium/high end of the market and for the Fashion and Casual-Sport segments in all product categories (frames, sunglasses and sports goggles such as, for example, ski masks and helmets and technical goggles for various sports).

Sàfilo is the Group's historic brand and has been the backbone of development since the 30's in developing prescription frames at the international level. Today the Safilo brand is considered the family master brand and is positioned in the prescription frames sector. The Safilo brand then has other sub-brands, like Safilo Design, Safilo Glamour and Safilo Seventh Street, each one with specific collections addressed to consumers belonging to specific age brackets.

- *Sàfilo Design*: the collection of sunglasses has gradually been reduced due to the limits of geographic distribution and the concentrated efforts on Carrera. However the strong personality of the collection of prescription frames is well represented by the square acetate frames, with strong tones and the Safilo logo on the beginning of the arms, which are virtually perfect for the refined, mature and elegant tastes of male consumers. The lightweight silhouettes in the wide range of colours are made from precious, hyper-allergic and ultra-light titanium.

- *Sàfilo Glamour:* Safilo Glamour prescription frames and sunglasses have the elegant charm of the 60's and are addressed to women of class with

models that stand out for their precious details, sparkling strass and refined colours.

- *Sàfilo Library* and *Elasta*: these are lines that are maintained for tactical reasons to cover the needs of the mass consumers who require a good quality/price ratio.

- *Seventh Street*: colour is the prime feature of these models, which are attractive for their colour choices and their young, modern style. The clean, essential lines are ideal for lovers of young, linear shapes with stylish details.

Oxydo: collections of sunglasses and prescription frames for young people between 18 and 35, with a very trendy style and unisex seductive models with irresistible colours. This brand is searching for its own strong identity that makes it stands out from the competitors and is clearly perceived by consumers.
The advertising campaigns for this brand pursue the same aim so as to create a strong brand identity that distinguishes it from the others and projects a very clear image. The key values are its fashion content, seduction, transgression, exclusiveness, irony, refined materials, innovation, appeal, creative design and product quality. Oxydo is addressed to young consumers who want a cool and trendy style.
The online campaigns are crucial, both classic methods (websites, banners, etc.) and innovative ones (web monitoring, public relations on line, seeding activities, etc.).

Blue Bay: this is a collection of prescription frames and sunglasses with a modern style and cool colours, with very attractive models for teenagers and the younger generation. The simple, chic style is based on a myriad of colours that clearly emphasise the brand's affinity to a young and modern world.

Carrera: this collection of sunglasses originally primarily targeted adult males, who followed the new fashions, styles and technology. With these classic bases they were targeted at adult males between 25 and 35 years old. However, as new models were developed with a new creative strategy, the Carrera target has been moved to a specific social target with a much more exciting appeal and now the Carrera core target also includes the 16 to 30 year old age group, bothmale and female; these new models adapt perfectly to this group and are characteristic of the success of the new unisex collections.

There are two souls to this brand in terms of product and message:

RACING – models that carry the sporting soul of the brand into the

collections of both sunglasses and prescription frames; the sporting spirit is crucial in Carrera history, like its bond with concepts of performance and technology (the latest collections include ultrapolar polarised crystal lenses made by Barberini, an internationally famous name for its high quality).

VINTAGE – models designed with great focus and on the basis of trends emerging in the fashion world, they are positioned in the vintage sector which is the main trend at the moment. The winning strategy was to bring Carrera closer to the vintage market, thereby fitting in perfectly with the brand's DNA. In fact, the most successful models, Champion and Safari, recall the 80's but with a modern style. The models have been designed in a rich colour range, guaranteed by Made in Italy and the Carrera logo on the front of the frames.

Smith was born in 1965 when Mr Bod Smith invented the first sports goggles with double lenses. Today Smith Optics is one of the leading manufacturers of skiing and motorbike goggles, sunglasses and ski helmets. Further to the takeover by Safilo in 1996, Smith continued to grow both in Europe and the rest of the world, especially in the sunglasses sector. Designed for active sports lovers, such as snowboarding, freestyle or off-track skiing, surf and mountain biking, Smith products target young people who are interested in technological innovation with a high design and fashion content.

Licensed brands

A very important brand portfolio

Each of our licensed brands is designed and positioned for a specific market sector. Safilo Group's portfolio of licensed brands is one of the most important and diversified in the eyewear market. Numerous fashion houses rely on the Group, many of them world famous brands such as Armani, Dior, Gucci, and others which are solely associated with certain specific countries, such as Kate Spade, Nine West and Saks Fifth Avenue. The Group's licences with these brands are regulated by exclusive contracts that provide for the recognition of royalties to the licensors, calculated as a percentage of net sales generated from the collections and with minimum annual guaranteed amounts. In many cases such guaranteed annual royalties are based on a percentage of the turnover achieved by the licensed brand in the previous year while, in a few cases, they consist of sums defined in advance.

Below is a summary and brief description of the licensed brands:

Alexander McQueen. The Alexander McQueen brand was launched in April 2004, and belongs to the Gucci Group. It contains creativity and innovation, using unusual materials like wood, lace and very exclusive colours. It mainly targets women between 25 and 45 years of age in the luxury sector. Alexander McQueen eyewear is sold throughout the world but mainly in Europe and Asia.

A/X Armani Exchange. The A/X Armani Exchange is young, fun, metropolitan with a very strong character. It targets ethnic customers, music lovers with an insatiable appetite for style and fashion. It is a young urban style collection with models in acetate and metal. The sunglasses have a competitive price and the opticians' lines satisfy the dynamic and multi-style spirit of the brand, with the AX logo printed in an innovative way on the frames.

Balenciaga. The Balenciaga collection proposes creative and sophisticated eyewear of excellent quality, synonym for a high luxury level brand. The products are sold worldwide through an International distribution network in line with the Balenciaga image.

Banana Republic. Banana Republic is a global brand of accessible luxury offering the best of urban style. With high design content and luxury processing, Banana Republic lifestyle collections include clothing, shoes, bags, jewellery and perfume. Since it was launched in 2008 the collection of eyewear

has met with great success; this is also due to top quality materials as well as Made in Italy features, sophisticated colours, special treatments for the arms and components that distinguish the brand, thereby creating a collection of timeless appeal.

Bottega Veneta. The first Bottega Veneta collection was launched in March 2003 and communicates an exclusive and elegant impression of expert craftsmanship. The models are very distinguished with the use of the plaited motif, which is the trademark without any special use of a logo. Bottega Veneta collections fall into the luxury sector and are mainly addressed to a female public between 30 and 45 years of age. The products are sold worldwide but mainly in Europe and the USA.

Diesel. The Diesel brand was born with jeans with an aggressive and ironic air, always up with the latest fashion trends. The sunglasses target a young mixed public between 15 and 40 years of age attentive to fashion. Diesel products are sold worldwide.

55DSL. This is a new brand of the Diesel group, which was designed to attract urban consumers who love the vintage style and products inspired by the 70s. 55DSL products with their angel logo, are addressed to young people of both genders up to 25 years of age, and are positioned in the fashion sector of the market.

Dior. Dior is one of the leading French luxury brands. Dior products are sophisticated and fashionable, with exclusive top quality features and highly distinguished elements. The collections mainly target a female public between 30 and 40 years of age who are trend setters but always elegant.
Dior Homme, the line for men, expressing elegance, geometric design and simplicity.

Emporio Armani. Emporio Armani is a casual, versatile and across the board brand targeting youth of both genders. It is a fashion brand that is trendy and sporty at the same time, with a wide range of concepts inspired by the Emporio Armani lifestyle and the use of different materials in the same product. The collections of sunglasses and prescription frames are sold worldwide.

Fossil. Fossil is inspired by the typical designs of the mid 20s mixed with the desires of modern consumers. This modern vintage philosophy suggests a classic but, at the same time, modern style. The collection targets consumers who want fashionable eyewear with simple, colourful lines. The sunglasses are young, sporting and easy to wear with polarised lenses and flexible hinges. They include a wide range of prescription frames for both men and women, in metal, acetate and titanium.

Giorgio Armani. The Giorgio Armani style means elegance and

exclusiveness, in very essential lines with utmost attention paid to details and finishes. Top quality exclusive materials are used for this brand and each model has its own exclusive features. These functional and comfortable to wear products are the result of cutting edge technology that guarantees a sophisticated and refined product for men and women, which are sold worldwide.

Gucci. This is one of the most famous brands in the world and definitely one of the most recognised in the eyewear market. There is a wide range of models which combine style and class with the typical Gucci elegance and unmistakeable iconic features of the brand. The products are sold worldwide and target male and female consumers between 20 and 50 years of age in the premium and luxury market sectors.

Hugo Boss. This brand combines class and fine elegance, attention paid to details and excellent quality materials. The Boss Black products are ideal in any situation and are of classic inspiration, while the HUGO collection is made by using highly valuable quality materials (titanium and beta-titanium) and offers a wide range of unconventional contrasts in a post-modern style.

Jennifer Lopez. The J.LO collection by Jennifer Lopez is unique and has a very audacious and reassuring appeal with an elegant style for top quality products at an accessible price for individual, self-assured, fashionable and practical women.

Jimmy Choo. Jimmy Choo is an icon of top-end market accessories with sunglasses in acetate and metal. The innovative design highlights the distinctive Jimmy Choo style with bright colours and luxury decorations that recall the brand accessories.

Juicy Couture. Juicy Couture is known throughout the world for the style of its tracksuits and soon became one of the fast growing fashion brands in the world. The recently launched Shades of Couture collections by Juicy Couture and the line of Juicy's prescription frames present classic forms with unmistakeable Juicy style fashion details. Both these casual, attractive collections stand out for their lively appeal, with famous logos and slogans for the brand fans.

Kate Spade. Inspired by a timeless chic style, the Kate Spade collection recalls the 60s and their influence is seen in both the design and the colours. The ophthalmic sunglass lenses contain many of the fine and distinctive details of the bags and accessories from this brand, with audacious yet sophisticated collections as well as very attractive and easy to wear shapes and typically feminine colours.

Liz Claiborne. The Liz Claiborne collection of prescription frames and Rxable sunglasses, like the women's clothing collections, target women who

want a modern, top quality style where fit means design ranging from classic to modern.

Marc Jacobs. This is a high-end luxury brand featuring an eyewear collection with very sophisticated slightly retro forms which stands out for its exclusive and glamorous style. We perceive a discreet collection with a very sophisticated image, heightened even further by the top quality materials and scrupulous care paid to details. The collection targets women between 25 and 45 years of age which want to affirm their identity and personality.

Marc by Marc Jacobs. Young and irreverent, the chic design of *Marc by Marc Jacobs* is combined with the practical urban style with irony and colourful details. The vintage inspired collection follows the current trends, and is young and modern, created for those who are self-assured in their own style and want quality products and original details of Marc Jacobs but at an accessible price. Marc by Marc Jacobs targets youth between 18 and 35 years of age, who want the urban image of New York.

Max Mara. Max Mara means femininity and genuine timeless elegance: its products stand out for their top quality materials, modern design and tailored cut. Max Mara products combine modern and tradition, elegance and simplicity. The first collection of Max Mara prescription frames was launched in 1998 to get over the image of elegance and sophistication that is inspired by the other Max Mara brand products and accessories. Max Mara targets modern women between 30 and 50 years of age who are independent and want smart, sophisticated eyewear with classic and discreet details. The products are sold worldwide, especially in Europe and the Far East.

Max & Co. Max & Co. mainly targets young, fashionable women. The brand fits in perfectly with the Group portfolio, extending the range of customers that our targeted by our products. The first collection of Max & Co. prescription frames was launched in 2007; in January 2008 there was the International launch of both the collection of prescription frames and sunglasses bearing the Max & Co. brand.

Nine West. Nine West is an icon brand of women's shoes founded in 1978. It is now one of the liveliest and most distinctive brands in the market and women consider Nine West as their favourite brand for shoes, describing it as fashionable, sexy and modern. The collections are inspired by the Nine West brand philosophy in order to satisfy the constant search for top fashion products at accessible prices. The collection offers a wide range of products from those of the latest trends to the timeless classics. They have an excellent fit with clean and feminine lines along with distinctive details for women of all ages.

Pierre Cardin. The Pierre Cardin products are typically refined, confirming a style that characterises successful products. Classic and always modern, with

very precious and elegant details. This is a well-known and highly appreciated brand with a modern design. The collections of eyewear are all at extremely reasonable prices, but at the same time the collection goes beyond traditions to explore new styles: some models are inspired by a very futuristic design, made with the elegance that has always distinguished the brand.

Saks Fifth Avenue. The Saks Fifth Avenue collection is addressed to smart, stylish, practical women who love fashion. The collections of prescription frames and sunglasses are refined and classic with beautiful details that capture the attention of women between 25 and 55 years of age.

Valentino. The Valentino brand is the flag bearer of Italian style, creativity and elegance. Valentino products stand out for the special, precious details, with very sophisticated and smart lines. The collections are in the luxury and premium sectors and target men and women between 25 and 50 years old; they are sold worldwide.

Yves Saint Laurent. Yves Saint Laurent proposes classic, refined French design with sophisticated collections, exclusive materials, variety of forms, all personalised by the icons of style that distinguish the creations from this fashion house. The collections target men and women between 25 and 50 years of age, and are positioned - and sold worldwide - in the luxury and premium sectors.

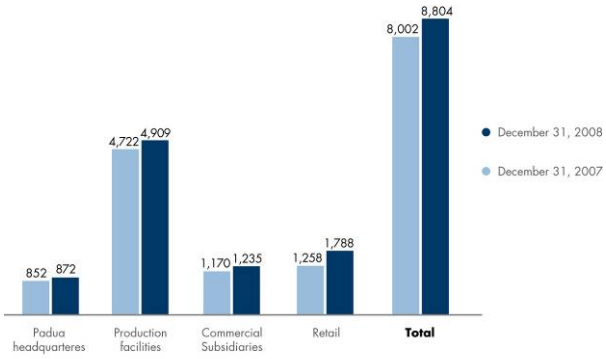
The licence contracts for the Boucheron and Stella McCartney brands expired on 31 December 2008.

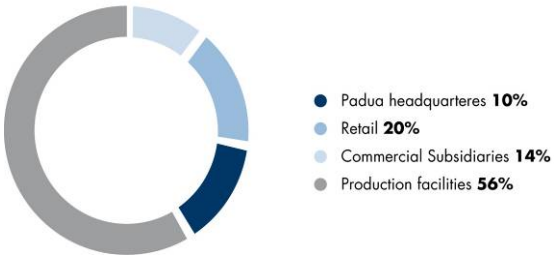
HUMAN RESOURCES AND THE ENVIRONMENT

Human Resources

Group employees increased by 802 people

At the end of 2008 the Group had 8,804 employees compared to 8,002 at the end of 2007, with an overall increase of 802 people.





Increase in both commercial and production areas

The increase in personnel in the production area is mainly due to opening the China subsidiary with 345 employees, while in the commercial area the increase in personnel is mainly due:

- on the wholesale side, to the Far East area and the opening of the Korea branch;
- on the retail side, to the acquisitions in 2008 and the increased number of points of sale.

The Group realises that personnel are a key factor

Safilo recognises the fundamental importance of its human resources and the importance of valorising them as an asset for the group and its competitive ability. Development of technical skill and ability are constantly backed up by special training courses to guarantee career and personal development for personnel, thereby combining their personal expectations and values with those of the company.

Recognition of merit and responsibilities are guaranteed by specific processes and tools to guarantee correct appraisal of our human resources, beginning with selection, through constant monitoring of their personal contribution and career growth.

Selection

Selection must guarantee that qualified, skilled and motivated people are employed by the Group. This process is definitely made easier by the fame and visibility of the Safilo name, to the extent that every year more than 60,000 separate CV's are received by the company, and during 2008 around 7,000 interviews were conducted for both specific positions and internships.

Training and "Safilo Third Time"

Training is provided to all Group personnel and the courses are studied to strengthen their professional skills; personal courses are designed to improve computer and language skills as well as the use of new technologies and safety at work. Overall circa 55,000 training hours were dedicated during the year, with specific reference to courses that develop specific and managerial skills.

The company atmosphere is also developed through informal meetings outside the work place by means of the so-called "Safilo Third Time" (coining a rugby term) program and company team building initiatives that are developed with the aid of specialised consultancy firms.

Safety at work

The Safilo Group is constantly committed to pursuing workplace safety and health

The Safilo Group is constantly committed to developing initiatives to guarantee its personnel's health and safety at work by constantly improving working conditions and reducing the risks of accidents and correlated effects.

During 2008 the processes were consolidated for:

- implementing the health plan;

- auditing the production units;

- improving safety on production machinery;

- updating operators and management in the prevention and protection service;

- carrying out fire-fighting practice, with evacuation tests and training operators in emergency management;

- updating the risk assessment documentation on the basis of the recent legislative development, constantly updating the part of the intranet site dedicated to safety;

- environmental analysis to control the correspondence to chemical and acoustic pollution, with technical/organisational/procedural actions to reduce the relative risks;

- implementing a continuous improvement process of ergonomics in the workstations, experimenting and implementing actions to redesign the workplace, machine automation, job rotation and job enlargement.

Environment

Safilo is aware of its social and

Safilo Group is aware of its social responsibility and of the performance of relevant duties in relation to the development and wellbeing of the

environmental responsibilities

communities where it operates. The Group strategy is based on optimising the use of Energy sources and natural resources as well as reducing negative environmental effects and spreading a correct approach to the environment, with the specific aim of progressively improving the Group's environmental performance.

The cooperation with Universities and Research Centres is fundamental

Safilo pays continual attention to the environment and to running its activities in strict observance of the principles of environmental conservation and protection. The Group - also due to collaboration agreements and memorandums of intent with leading public institutions and university bodies - places great importance on the identification and use of technologies which respect the environment in addition to investigating innovative elements able to lead to greater environmental sustainability.

The Group cooperates, or has cooperated in the past, with various research institutes, such as Padua University, Udine University, Verona University, the Daedeok Daejon Science Park in Korea, the Philips Eindhoven Research Centre in Holland and the FITA Research Centre in Turin.

One of the most important Group initiatives is the memorandum of intent which it signed in July 2007 in collaboration with the professionals and technicians of Arpa, University of Udine, for the purposes of experimenting innovative techniques designed to:

- reduce the use of solvents in the coating of eyewear (improving the transfer procedure and increasing the capitation efficiency of the suction hoods);
- introduce and control the effectiveness of new technology using water or nitrogen based coatings.

SAFILO IN THE STOCK EXCHANGE AND INVESTOR RELATIONS

2008 was a difficult year for the Stock Exchange and for Safilo

2008 was a year of serious fall in all the main International stock exchanges due to the worsened financial crisis and the progressive worsening of the macro-economic and market environment in which the companies operate.

The Milan Stock Exchange was one of the stock markets that was most severely affected by the crisis, recording a fall in the general Mibtel index of 49%, while the reference index for average capitalisation companies, Midex, fell by around 52%.

2008 was a year of turnaround and change in the eyewear industry, with the first slow down after years of continuous growth.

However, the Safilo Group remained the leading reference point for the designer brand eyewear and sunglasses markets; its products continue to be produced and distributed around the world for the leading international fashion brands.

The performance of company stock was also negatively affected by the Group trend during 2008, characterized by a fall in margins which was mainly due to being unable to streamline, in the short term, the industrial costs involved with "Made in Italy" and, generally the overheads in a general scenario of reduced production volumes.

At the end of 2008 Safilo shares closed at a reference price of € 0.603, with a fall of 73.7% with respect to the closing price of €2.29 recorded at the end of 2007. The average daily volumes during the year were 2.3 million shares, with very heavy trading during the main moments of darta communication on the part of the company.

Furthermore, the Safilo shares were also affected negatively by fears as to whether the long-standing partnership with the Gucci Group would be confirmed. However, the financial markets then reacted well to the long-term extension announced on 10 November 2008 of the Gucci licence before its natural expiry date.

A capitalisation in the Stock Exchange at 31 December 2008 of circa €172 million

The stock exchange capitalisation of the Safilo Group was strongly affected and at the end of December had a market value of little more than 172 million Euro.

During the six-monthly review of companies that form the main trading factors in the Online Stock Exchange, the ordinary Safilo Shares, further to the above reduced capitalisation, were transferred from the Blue Chip to the Standard sector, with the resulting change in trading time. Since 22 September 2008, Safilo shares are now traded between 11.00 and 16.30 local time.

Investor relations

The relationship between the Safilo Group and investors and analysts is crucial

In 2008, investor relations involving analysts and institutional investors continued and was primarily focused on the first half-year.

During the year, the company organised an Investor Day in Milan and 3 conference calls to present the results for the related period. The company also took part in two of the many Italian Investor Conferences organised by the Italian Stock Exchange in Vienna and New York.

A series of road shows were organised in cooperation with various brokers in the main financial sites.

The coverage of Safilo shares was kept constant during the year; however there was a slight fall in the first months of 2009 due to the closing of certain analyst offices in banks and brokerage companies that previously traded in Safilo shares.

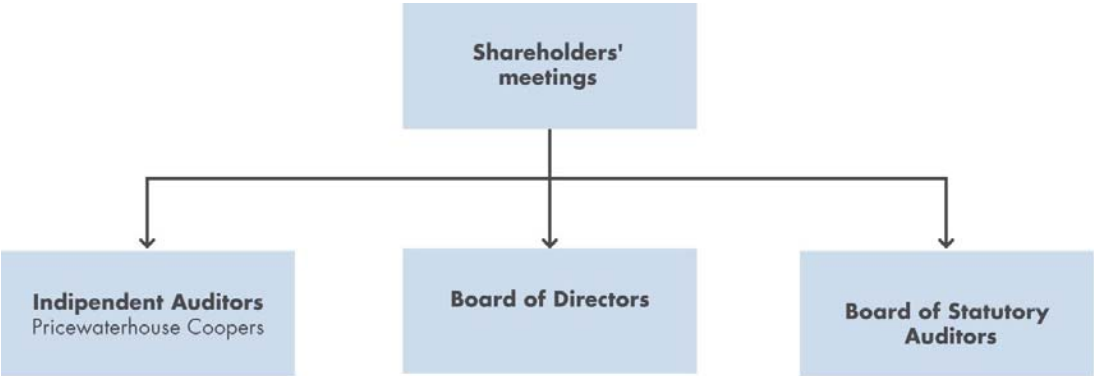
Financial calendar

Board of Directors' Meeting planned for 2009:

12 February	Preliminary data for 2008
16 March	Draft Financial Statements for 2008
6 May	Interim Report on Operations for the 1st quarter 2009
29 July	Half-year financial report
11 November	Interim Report on Operations for the 3rd quarter 2009

CORPORATE GOVERNANCE

Corporate bodies as of 31 December 2008

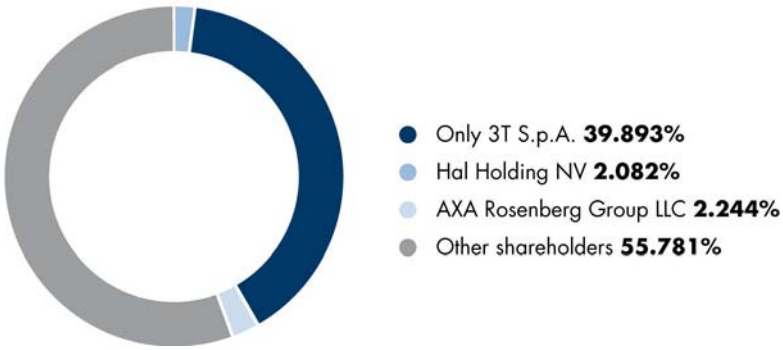


Information on shareholding structure

Shareholding structure of Safilo Group S.p.A.

On 31 December 2008 the share capital of Safilo Group S.p.A. comprised 285,394,128 ordinary shares with a face value of 0.25 Euro each, of which 39.893% were held by the company Only 3T S.p.A., with a registered office in Vicenza, Stradella dell'Isola 1.

Holders of ordinary shares in the Safilo Group at December 31st, 2008 were as follows:



Transfer restrictions

At December 31st, 2008 no restrictions on the transfer of shares or the shareholders' right to vote exist, and as far as the company knows no shareholders agreement exists, in accordance with Article 122 of Italy's Consolidated Financial Act,.

Restrictions on the right to vote and

The Articles of Association do not provide restrictions to the right to vote and

special rights	the company has not issued shares with special controlling rights.
Own shares	During the year, Safilo Group S.p.A. did not buy or sell any of its own shares, nor shares in subsidiaries, directly or through subsidiaries, trust companies and third parties.

The Board of Directors

Vittorio Tabacchi	**Massimiliano Tabacchi**	**Roberto Vedovotto**
(Chairman)	(Executive Vice Chairman)	(Managing Director since 11 December 2008)
Born in Belluno in 1939, after engineering studies he jointed the company in 1970. He was appointed Board Director on 27 March 1974 and over the years has held the office of Managing Director, then Executive Vice Chairman, making an important contribution to streamlining production and to the Group's international development. He is now Chairman of both the Safilo Group S.p.A. and Safilo S.p.A. He was appointed *Cavaliere del Lavoro (Italian Knighthood for business accomplishment)* and in 2004 he received a Laurea Honoris Cause in Mechanical Engineering from Padua University in recognition for his work and passion in studying processes and innovative materials for the production of eyewear frames.	Born in Padua in 1970. He graduated in Mechanical Engineering from Padua University and initially worked for Safilo U.S.A. and in the production unit in Santa Maria di Sala (VE). After extensive experience with OTIS, first as Contract Project Manager and then in the Special Projects (Lean manufacturing and Total quality), he rejoined the company in 2001 as Chief Operating Officer. Since 2002 he has been on the Board of Directors of Safilo Group S.p.A. and is currently Executive Vice Chairman for Safilo Group S.p.A. and Safilo S.p.A. as well as Chairman of Oxsol S.p.A., another company in the Safilo Group.	Born in Bassano del Grappa in 1965. He graduated in Business Economics from Bocconi University in Milan and then took his Master in Business Administration at the London Business School. He worked for Morgan Stanley for 11 years. From 2002 to 2006 he was Managing Director of Safilo Group and was responsible, amongst other duties, for reorganising the Group's financial structure and its subsequent listing on the Stock Exchange. From 2006 to December 2008 he was manager of the Investment Banking Division in Italy of Lehman Brothers and then of Nomura in addition to being a member of the Executive European Committee and Chairman of the Luxury Goods Sector for Europe. He is member of the Advisory Board of the Bocconi University in Milan and the Global Advisory Board of the London Business School.

Ennio Doris

(Director)

Born in Tombolo (PD) in 1940. After getting his Accountancy diploma he began working for the Banca Antoniana in Padua. From 1969 to 1971 he worked in savings management for Fideuram (IMI Group), and from 1971 to 1981, for Dival (Gruppo Ras). In 1972 he founded Programma Italia, an important financial brokerage network. In June 1997 Programma Italia Sim became Banca Mediolanum S.p.A., the current parent company of the Mediolanum banking group. He has been recognized as a *Cavaliere del Lavoro Italian Knighthood for business accomplishment)*, and has received a Master *ad honorem* in Banking and Finance and a Laurea *ad honorem* in Commercial Sciences. Besides being Chairman of Banca Mediolanum S.p.A., he holds various posts as director in several companies in the Mediolanum Group.

Antonio Favrin

(Director)

Born in Oderzo (TV) in 1938. He graduated in Electrotechnical Engineering from Padua University (1963-64) and then took his Master in Business Administration at Istud. Now, amongst other duties, he holds the following positions: Chairman of Marzotto SpA (since June 2004); Director for Sole 24 Ore S.p.A. (since December 2007); Director of Finanziaria Canova S.p.A. (since 2001). Among his various Association positions: President of the European Association of Hollow Glass (1996-97) and member of its Board of Directors (1993-2002) in Brussels; Member of the Council of Confindustria Rome since June 2006; Vice President of Confindustria Veneto since January 2009; President of Neafidi società cooperativa per Azioni; Member of the Assonime Council since June 2005.

Carlo Gilardi

(Director)

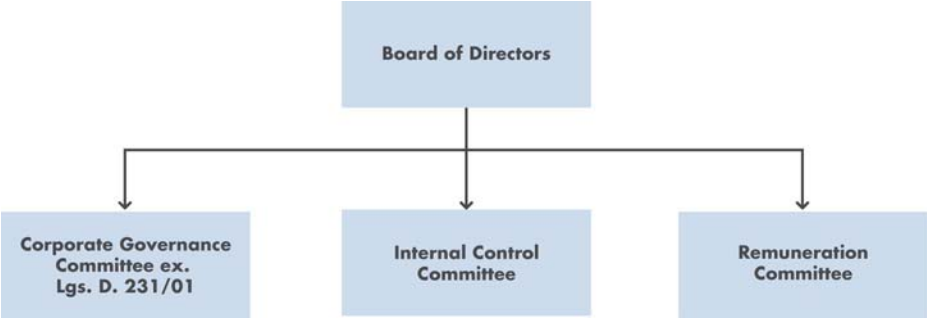
Born in Spoleto (PG) in 1942. After getting his first class degree in Statistics and Demographic Sciences from the "La Sapienza" University in Rome and two years of work experience as assistant to this same Demographic course (1966-1968), he gained almost twenty years experience (1968-1985) in Banca d'Italia, initially as Co-director of the Monetary and Financial Market Service and later as Director of the Foreign Relations Service and Head of Operations Management. From 1986 to 1988 he was General Director of Administration, Finance and Control of the Benetton Group S.p.A., where he then became Managing Director in 1995 after experience in Banca di Roma as Central Director where he managed the Foreign Finance and Commercial Department. From 2001 to 2003 he was Managing Director of Cofiri S.p.A. Among his current offices: Director of Banca di Treviso (since 2003); Director of Vegagest S.g.r. S.p.A. (since 2005); Director of Sorgente S.g.r. S.p.A. (since 2006) and of Sorgente Holding S.p.A. (since 2007).

Giannino Lorenzon

(Director)

Born in 1939 in Villorba (TV). From 1962 to 1973 he held various positions in Administration, Finance and Control, until he became Administration Manager for Chiari e Forti. In 1973 he joined Safilo as Administration, Finance and Control Director. He later became responsible as well for the IT, Personnel, legal and Company Affairs departments, assisting the governance in the Group's international development. Since 1985 he has been a member of the Board of Directors and from 1986 to 2004 he was Managing Director. Since October 1995 he has been Vice Chairman of Certottica S.c.a.r.l.; since May 2007 he has been a Statutory Auditor for Banca di Treviso S.p.A.; since September 2007 he has been on the Board of Directors of ANFAO (National Eyewear Manufacturers' Association).

Below is the structure of the Corporate Bodies and Committees of Safilo Group S.p.A.:



Corporate Governance Committee	
	Franco Corgnati Carlo Gilardi Simone Valentini

Internal Control Committee	
Chairman	Carlo Gilardi Antonio Favrin Giannino Lorenzon

Remuneration Committee	
Chairman	Antonio Favrin Giannino Lorenzon Carlo Gilardi

The Board of Statutory Auditors (*)

Giampietro Sala

(Chairman)

Born in Vicenza in 1938, he has been registered within the Vicenza Chartered Accountants' Register since 1967 and actively exercises the profession. He was appointed Official Accounts Auditor in 1983 and then Auditor. Since 1991, he has been registered with the Role of Expert Consultants for the Judge. He has worked as Vice Chairman of section and as Fiscal Judge for the Fiscal Commission of Vicenza from 1973 to 1999. He holds offices as Director and Statutory Auditor for various industrial companies. Dr. Sala was previously a substitute auditor and then took over as Chairman of the Board of Auditors from Dr. Carlo Domenico Vanoni, who resigned on 19 June 2008.

Franco Corgnati

(Statutory Auditor)

Born in Milan in 1942. He has a degree in Economics and Commerce from Padua University and has been registered with the Vicenza Chartered Accountants' Register and has worked as a self-employed accountant since 1970. He was appointed Official Accounts Auditor in 1976 has been registered with the Role of Expert Consultants for the Civil and Criminal Court in Vicenza since 1980; he is registered as an Expert for the Vicenza Criminal Court (for the category of "accounting, financial statements and companies" since 1994); he has been registered with the Accounts Auditors Register since 1995. From 1997 to 2007 he was a member and from 2000 to 2007 Vice Chairman of the Vicenza Order of Chartered Accountants. From 1980 to 1985 he was Finance and Budget Councillor for Arcugnano Municipality (province of Vicenza). He was and still is a statutory auditor for companies listed on the Italian Stock Exchange as well as other industrial, commercial, financial and para-banking companies in addition to collective trust companies and municipal companies. He is Chairman of the Board of Auditors of Safilo S.p.A., a Group operating company and Statutory Auditor of Oxsol S.p.A., a subsidiary of Safilo S.p.A.

Nicola Gianese

(Statutory Auditor)

Born in Padua in 1962. He has been registered with the Padua Chartered Accountants' Register since 1989. He holds a degree in Economics and Commerce from Cà Foscari University in Venice and has been registered with the Official Accounts Auditor Register since 1995. Since 1989 he has been working as a freelance advisor in the economic, legal, corporate and fiscal fields for joint stock companies or enterprise groups, with mandates assigned by Padua Court. He acts as a statutory auditor for industrial and commercial companies in the Triveneto Regions. Dr. Gianese was previously a substitute auditor of Safilo Group S.p.A., and then became Statutory Auditor after Dr. Paolo Mazzi resigned on 10 October2008.

(*) The Board of Auditors will be integrated by the Shareholders' Assembly that approves the Financial Statements on 31 December 2008

Corporate Governance Report

The complete version of the report on corporate governance can be found in the Investor Relations section in the site www.safilo.com

The complete version of the report on corporate governance, which is highlighted in just the main points below, is available in the Group website (www.safilo.com) and in a printed version in the company headquarters.

The company adopts a traditional governance method in that:

- The company is managed by the Board of Directors,
- the Corporate Governance Committee which ensures compliance with the law, the Articles of Association and correct administration principles is the Board of Auditors;
- The independent audit company implements auditing tasks.

Corporate governance, in accordance with the Articles of Association and in line with current legislation and regulations, and as provided by the Self-Governance code for listed companies (below the Code) published in March 2006 by Borsa Italiana S.p.A., is entrusted to the following bodies:

The Board of Directors

Governance is based on the criteria and principles of the Self-Governance Code for listed companies

During 2008, the Board of Directors completed the adaptation of the company's and group's corporate governance system to the principles and criteria applied by the Code.

In particular, since 2007, while maintaining unchanged the company governance structure for the part that was not amended and implementing the innovation introduced by the code with respect to previous instructions, the Board of Directors:

- amended the Articles of Association and introducing an election procedure for the members of the Board of Directors based on lists of candidates in order to ensure that the appointment is implemented through a transparent procedure which guarantees timely and adequate information about the personal and professional nature of the candidates;
- fixed the maximum number of positions as directors or auditors which can be in other companies quoted on Italian and foreign stock exchanges as well as in financial companies, banks, insurance companies or of large entity - and which are compatible with the position as director of the company- in addition to defining the criteria to identify these companies, as noted in the corporate governance report;

- integrated and updated the powers and tasks of the Internal Control Committee and the Board of Auditors, formalising the appointment for internal control of the Internal Audit Manager for the Group;
- amended the Articles of Association relative to appointing the members of the Board of Auditors, adapting them to the previous regulations introduced by Law 28 December 2005 n. 262 and Legislative Decree 29 December 2006 n. 303;
- adopted the "Guidelines for carrying out significant operations and operations with correlated parties", where the significant operations and operations with correlated parties are defined, and the procedure for their approval;
- approved the "Internal regulations for company information", that replaces and combines the single procedures that were previously adopted by the company in separate documents, and which discipline: (1) managing company information, with special reference to preferential or price sensitive information; (2) the internal dealing procedure and (3) setting-up, keeping and updating the insider register;
- appointed Dr. Francesco Tagliapietra, Director of Accounting and Controlling, as the director responsible for preparing the financial statements and company reports, after receiving the approval of the Board of Statutory Auditors and the Internal Control Committee;
- adopted measures to improve relationships with shareholders.

In compliance with current legislation and further to adhesion to the Code, the company publishes a report every year on its adhesion to codes of conduct, following the methods and terms provided by art. 89-b of the Issuers Regulations. The report can be consulted in the Group website in the section IR/Corporate Governance, and should be referred to for more detailed and precise information about the Company and Group corporate governance system, in compliance with art 123 bis of the Consolidated Financial Act.

The Board of Statutory Auditors

Appointing auditors

The Board of Statutory Auditors is appointed and replaced in compliance with article 24 of the Articles of Association, published in the website in the section IR/Corporate Governance, and should be referred to for details.

In particular, the auditors are appointed by the Shareholders' Assembly on the basis of lists presented by the shareholders, to allow minority shareholders to appoint a statutory auditor and a substitute auditor.

In compliance with the Italian Civil Code and Principle 10.P.2. of the Code, Auditors act autonomously and independently and therefore are not representatives of the majority or minority that proposed or elected them.

The Board of Statutory Auditors ensures compliance with the law and the Articles of Association as well as with the principles of correct administration. It also monitors the adequacy of the company's organisation structure, for those matters of its responsibility as well as the internal control system and the administration and accounts system in order to verify the reliability of the same to correctly represent company facts and the adequacy of the dispositions given by the company to its subsidiaries, in compliance with article 114, paragraph 2 of the Consolidated Financial Act.

In compliance with Application Criteria 10.C.5. and 10.C.6. of the Code, the Board of Auditors: (i) controls the independence of the Audit Company, checking it respects the legislation, nature and the entity of the services other than accounts audits that the Audit Company may provide to the company and its subsidiaries, and (ii) can ask the internal audit office to carry out controls on certain operations areas or on company operations.

In compliance with article 159 of the Consolidated Financial Act., as later amended and integrated the Board of auditors is able to make a motivated proposal relative to granting the audit appointment by the Shareholders' Assembly.

The Board of Statutory Auditors, as part of its legal responsibilities, checks the correct application of the criteria and procedures to control independence that are adopted by the Board of directors to appraise the independence of its members; the outcome of the control is notified to the market every year, as part of the company governance report or in the Auditors' report to the Shareholders' Assembly.

The Audit Company

PWC appointed until 2013

The Shareholders Assembly of 14 September 2005 entrusted PricewaterhouseCoopers S.p.A. with the mandate of auditing the yearly and consolidated financial statements for 2005, 2006, 2007 as well as the half-year audits on 30 June 2005, 2006 and 2007. With the Shareholders' Assembly resolution on 14 May 2007 the PWC appointment was extended and integrated until approval of the Financial Statements of 31 December 2013, further to the changes in the provisions of the Consolidated Financial Act, which govern accounts audits of issuers and relative groups, and particularly in accordance with the amendments to Art. 159 of Law 28 December 2005 n. 262 and Legislative Decree 29 December 2006 n. 303.

Financial reporting manager

Appointment of the financial reporting manager

Further to L. 262/2005 the Financial Reporting Manager must prepare the adequate administration and accounts procedures for drafting the annual financial statements, the consolidated financial statements and any other financial communications and documents, and he must certify that the procedures:

- have been defined in line with the administration-accounts system and the structure of the company;
- have been assessed for their adequacy;
- have been effectively applied during the period relative to the annual financial statement, the consolidated financial statement and any other financial communication or document.

Given that art. 154-bis of the Consolidated Financial Act does not recall a specific model for assessing the adequacy of the administration and accounts procedures, to satisfy the needs for applying the regulations, the Company has opted for applying a theoretic reference model that is universally recognised and is the most accredited: the CoSO Report – Internal Control Integrated Framework.

The activities required to assess the adequacy and effectiveness of the procedures and processes that generate financial statement data began at the end of May 2008, with the definition of the companies/processes subject to analysis.

The subsequent phases in the control process are as follows:

- Identifying the control systems necessary to reduce the identified risks.
- Carrying out the control tests.
- Implementing corrective actions that may be required to adapt the control system.

So far, the actions have been completed to highlight the processes and their tests, and the corrective actions are being implemented.

The Board of Directors' meeting on 27 June 2007, further to approval from the Board of Directors, appointed the Financial Reporting Manager (the "Financial Reporting Manager " below), as the Group Administration and Management Control Director, which is currently held by Dr. Francesco Tagliapietra, who has the prerequisites of professionalism, specific skills and extensive experience in accounts and finance that are necessary for the tasks required for this position. It has been established that the manager will remain in office

until such time he is revoked by the Board of Directors or he resigns.

Art 36 SIB Regulations 16191/2007

Article 36 SIB regulation 16191/2007

In compliance with art. 2.6.2. of the Regulations for markets organised and managed by Borsa Italiana S.p.A., Safilo Group S.p.A. declares the conditions subsist as given in art. 36 of SIB regulation 16191/2007, letters a), b) and c).

Shares held by Directors and Statutory Auditors and Managers with strategic responsibilities (Art. 79 of Consob Regulations, resolution no. 11971 of 14.5.1999)

Name and surname	Office	Company	No. of shares as of Dec 31, 2007	Change in no. shares for new hired/(resigned)	No. of shares purchased	No. of shares sold	No. of shares as of Dec 31, 2008	Title
Directors								
Vittorio Tabacchi	Chairman	Safilo Group S.p.A.						
Massimiliano Tabacchi	Executive Vice Chairman	Safilo Group S.p.A.	66,800	-	-	-	66,800	ownership
Roberto Vedovotto (*)	Chief Executive Officer	Safilo Group S.p.A.	-	1,200,000	-	-	1,200,000	ownership
Claudio Gottardi	Director	Safilo Group S.p.A.	-	-	-	-	-	
Ennio Doris	Director	Safilo Group S.p.A.	-	-	-	-	-	
Antonio Favrin	Director	Safilo Group S.p.A.	-	-	5,500,000	-	5,500,000	ownership
Carlo Gilardi	Director	Safilo Group S.p.A.	12,000	-	12,000	-	24,000	ownership
Giannino Lorenzon	Director	Safilo Group S.p.A.	450,000	-	30,000	-	480,000	ownership
Riccardo Ruggiero	Director	Safilo Group S.p.A.	-	-	-	-	-	
Board of Statutory Auditors								
Giampietro Sala	Chairman	Safilo Group S.p.A.	-	-	-	-	-	
Franco Corgnati	Regular auditor	Safilo Group S.p.A.	-	-	-	-	-	
Nicola Gianese	Regular auditor	Safilo Group S.p.A.	-	-	-	-	-	
Paolo Mazzi	Regular auditor	Safilo Group S.p.A.	-	-	-	-	-	
Domenico Vanoni	Chairman	Safilo Group S.p.A.	-	-	-	-	-	
Managers with strat. resp.								
Aggregated amount		Safilo Group S.p.A.	42,680	4,300	80,000	65,000	191,980	ownership
Other								
Tatiana Amboni	V. Tabacchi's wife	Safilo Group S.p.A.	100,500	-	-	-	100,500	ownership

ONLY 3T holds 113,853,160 ordinary shares in Safilo Group S.p.A.

As stated in the previous paragraph "information on shareholders", the company Only 3T. S.p.A., jointly managed by Sir Vittorio Tabacchi, Mr. Massimiliano Tabacchi and Ms. Samantha Tabacchi, held n. 113,853,160 ordinary shares in the Safilo Group S.p.A. on 31 December 2008.

Stock option plans

Resolution for the "2004 Plan"

On 24 November 2004, the Extraordinary Shareholders' Assembly of Safilo Group S.p.A. approved the "Stock Option plans of Group S.p.A. and Safilo S.p.A. 2004–2008" (in short "2004 Plan") which provides for the free vesting of rights - for the subscription of new shares issued at the current value of the company - to some employees and consultants of the companies.

Resolution for the "2006 Plan"

Further to the mandate granted by the Extraordinary shareholders' Assembly on October 24th, 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31st, 2006 to a maximum nominal amount of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares with a value of Euro 0.25 each and with a share premium of Euro 4.16. These shares were available for subscription by the beneficiaries listed in the new "Stock Option Plan of Safilo Group S.p.A. 2006-2010" that was approved by the above Board (in short "2006 Plan"). This plan is valid for four financial periods (2006–2010) and, like the previous ones, is addressed to certain

directors, executives and consultants of Safilo Group and provides accruing option rights equal to 1/4 for each financial period in the Plan. The accrual criteria for the options is based on reaching certain conventional EBITDA consolidated levels in the financial statements of Safilo Group S.p.A., that have been fixed by the Board of Directors.

Establishing the fair value of the equity-settled options

The fair value of the options, in accordance with the requirements of IFRS, is recorded under personnel costs with a corresponding increase in a specific shareholders' equity reserve over the duration of the maturity period, as the stock option plans are of an "equity-settled" type. In compliance with the requirements of IFRS 2, irrespective of which company issues the new shares, the stock option costs are recorded in the company in which the employees carry out their employment. The amount received, net of the costs directly attributable to the transaction, will be credited to the share capital (nominal value) and the share premium reserve, when the options are exercised.

Extinguishing the 2004 Plan

The "2004 Plan" expired on 20 September 2008 and consequently is now extinguished and the remaining options have expired.

RECONCILIATION OF THE PARENT COMPANY'S NET PROFIT AND SHAREHOLDERS' EQUITY WITH THE CONSOLIDATED BALANCES

(Euro in millions)	Equity as of December 31, 2008	Net profit/(loss) of the year	Equity as of December 31, 2007	Net profit/(loss) of the year
Balances as per Safilo Group S.p.A.'s statutory financial statements	851.8	29.6	846.8	14.8
Shareholders' equity of consolidated companies	1,439.3	128.4	1,420.3	161.0
Write-off of the book value of consolidated subsidiaries	(2,184.7)	-	(2,131.5)	-
Goodwill	748.0	(0.5)	716.2	(0.2)
Fair value attributable to tangible assets	10.5	(0.5)	11.0	(0.5)
Elimination of dividends paid within the Group	-	(139.8)	-	(116.9)
Elimination of intercompany gains within the Group	(44.2)	(31.3)	(12.9)	(3.3)
Elimination of intercompany profits included in inventory	(19.1)	(1.9)	(16.6)	(0.8)
Investments in associates - equity method	6.3	(0.7)	6.6	1.1
Other consolidation entries	(3.6)	(3.7)	0.8	(0.7)
Total Shareholders' equity	**804.3**	**(20.5)**	**840.9**	**54.5**
Equity attributable to minority interests	8.4	2.8	4.9	3.5
Shareholders' equity attributable to the Group	**795.9**	**(23.3)**	**836.0**	**51.0**

SIGNIFICANT EVENTS AFTER THE YEAR-END AND OUTLOOK

No events occurred subsequent to the end of the financial year which might significantly influence the data contained in this document.

In February the Company's Corporate Rating was subject to review by the following three rating agencies: *downgrade* to B- with negative outlook (S&P), *downgrade* to B2 with negative outlook (Moody's), under observation with negative rating watch (Fitch).

An industrial restructuring plan has been approved to streamline production and create production facilities which can guarantee more efficient and effective processes and improve Group industrial profitability in the medium and long term; this will also aid in adapting to the current economic scenario. With this in mind, the production activities will be reduced in Precenicco (UD), Martignacco (UD) and Ormoz (Slovenia).

With regards the foreseeable outcome, there was a gradual worsening of market conditions in the last quarter of 2008, particularly in the sunglasses sector, making even more difficult to forecast the sales for this year; as a result, the company's management had decided not to give any forecasts as to 2009 performance.

When the quarterly data is published, the financial markets will be updated on the trends and forecasts for 2009, even though we can already presume that the first quarter will be particularly difficult. There should be improvements in the second half of the year when the industrial restructuring actions will begin to show their benefits.

For the Board of Directors
The Chairman
Vittorio Tabacchi

CONSOLIDATED FINANCIAL STATEMENTS
at 31st DECEMBER 2008

SAFILO GROUP S.p.A.

Share Capital Euro 71,348,532 fully paid up

Belluno Companies Office and Tax Code 03032950242

Belluno Chamber of Commerce reg. n. 90811

Registered Office: Pieve di Cadore (BL)

Consolidated financial statements as of and for the years ended 31st December 2008 and 31st December 2007

Consolidated balance sheet

(Euro/000)	*Note*	31/12/2008	of which related parties	31/12/2007	of which related parties
ASSETS					
Current assets					
Cash in hand and at bank	*4.1*	53,653		56,882	
Trade receivables, net	*4.2*	301,562	172	315,792	
Inventory	*4.3*	272,102		274,283	
Derivative financial instruments	*4.4*	772		271	
Other current assets	*4.5*	50,703	434	44,009	603
Total current assets		**678,792**		**691,237**	
Non-current assets					
Tangible assets	*4.6*	228,758		201,858	
Intangible assets	*4.7*	22,725		23,526	
Goodwill	*4.8*	807,209		754,920	
Investments in associates	*4.9*	12,298		12,279	
Financial assets available for sale	*4.10*	861		2,443	
Deferred tax assets	*4.11*	53,434		75,495	
Derivative financial instruments	*4.4*	455		1,608	
Other non-current assets	*4.12*	12,838		8,628	
Total non-current assets		**1,138,578**		**1,080,757**	
Total assets		**1,817,370**		**1,771,994**	

(Euro/000)	*Note*	31/12/2008	of which related parties	31/12/2007	of which related parties
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	*4.13*	162,645	429	161,709	
Trade payables	*4.14*	205,363	7,310	194,714	8,259
Tax payables	*4.15*	22,587		20,568	
Other current liabilities	*4.16*	76,437		73,725	622
Provisions for risks and charges	*4.17*	1,053		803	
Total current liabilities		**468,085**		**451,519**	
Non-current liabilities					
Long-term borrowings	*4.13*	461,084	1,720	409,827	
Employee benefit liability	*4.18*	42,075		37,840	
Provisions for risks and charges	*4.17*	13,263		12,789	
Deferred tax liabilities	*4.11*	5,184		11,080	
Derivative financial instruments	*4.4*	5,740		359	
Other non-current liabilities	*4.19*	17,662	143	7,642	
Total non-current liabilities		**545,008**		**479,537**	
Total liabilities		**1,013,093**		**931,056**	
Shareholders' equity					
Share capital	*4.20*	71,349		71,349	
Share premium reserve	*4.21*	747,471		747,471	
Retained earnings and other reserves	*4.22*	7,980		(33,540)	
Fair value and cash flow reserve	*4.23*	(7,620)		(280)	
Profit/(loss) attributable to the Group		(23,315)		51,018	
Total shareholders' equity attributable to the Group		**795,865**		**836,018**	
Minority interests		**8,412**		**4,920**	
Total shareholders' equity		**804,277**		**840,938**	
Total liabilities and shareholders' equity		**1,817,370**		**1,771,994**	

Consolidated statement of operations

(Euro/000)	*Note*	2008	of which, related parties	2007	of which, related parties
Net sales	*5.1*	1,147,818	151	1,190,424	223
Cost of sales	*5.2*	(484,860)	(17,748)	(492,593)	(24,459)
Gross profit		**662,958**		**697,831**	
Selling and marketing expenses	*5.3*	(446,075)	(353)	(439,612)	-
General and administrative expenses	*5.4*	(131,849)	(1,402)	(122,360)	(1,108)
Other operating income/(expenses), net	*5.5*	1,301		1,352	
Operating profit		**86,335**		**137,211**	
Share of income/(loss) of associates	*5.6*	866		1,772	
Interest expenses and other financial charges, net	*5.7*	(57,753)	(304)	(45,409)	-
Profit before taxation		**29,448**		**93,574**	
Income taxes	*5.8*	(12,043)		(39,031)	
Non-recurring taxes	*5.8*	(37,945)		-	
Net profit/(loss)		**(20,540)**		**54,543**	
Net profit attributable to minority interests		2,775		3,525	
Net profit/(loss) attributable to the Group		**(23,315)**		**51,018**	
Earnings per share - *base (Euro) before non-recurr. taxes*	*5.9*	0.05		0.18	
Earnings/(losses) per share - *base (Euro)*	*5.9*	(0.08)		0.18	
Earnings per share - *diluted (Euro) before non-recurr. taxes*	*5.9*	0.05		0.18	
Earnings/(losses) per share - *diluted (Euro)*	*5.9*	(0.08)		0.18	

Consolidated statement of recognized profit and loss at 31st December 2008 and 31st December 2007

(Euro/000)	*Note*	2008	2007
Profit (loss) attributable to the cash flow reserve	*4.23*	(5,911)	151
Profit (loss) attributable to the fair value reserve	*4.23*	(1,429)	(1,311)
Profit (loss) attributable to the conversion fund	*4.22*	20,592	(53,224)
Profit (loss) attributable to shareholders' equity	*4.22*	(2,705)	307
Total profit / (loss) attributable to shareholders' equity		**10,547**	**(54,077)**
Net profit/(loss) for the year		(20,540)	54,543
Total recognized profit / (loss) for the year		**(9,993)**	**466**
Attributable to:			
Group		(13,415)	(2,898)
Minority interests		3,422	3,364
Total recognized profit / (loss) for the year		**(9,993)**	**466**

Consolidated statement of cash flow

(Euro/000)	*Note*	2008	2007
A - Opening net cash and cash equivalents (net financial indebtedness - short term)		**(28,469)**	**6,989**
B - Cash flow from (for) operating activities			
Net profit/(loss) for the period (including minority interests)		(20,540)	54,543
Depreciation and amortization	*4.6 - 4.7*	39,983	38,044
Stock option	*4.24*	(695)	557
Share income/(loss) on equity investments	*4,9*	706	(1,145)
Net movements in the employee benefit liability	*4.18*	619	(1,819)
Net movements in other provisions	*4.17*	717	238
Interest expenses, net	*5.7*	43,066	41,494
Income tax expenses	*5.8*	49,988	39,031
Income from operating activities prior to movements in working capital		**113,844**	**170,943**
(Increase) Decrease in trade receivables and other current receivables		5,674	1,272
(Increase) Decrease in inventory, net		8,267	(12,332)
Increase (Decrease) in trade payables and other current payables		(415)	(34,095)
Interest expenses paid		(35,550)	(43,466)
Income tax paid		(35,552)	(29,034)
Total (B)		**56,268**	**53,288**
C - Cash flow from (for) investing activities			
Purchase of tangible assets (net of disposals)		(54,363)	(36,690)
Acquisition of subsidiaries (net of cash acquired)		(24,963)	-
Disposal of investments and bonds		152	(85)
Purchase of intangible assets		(9,190)	(7,052)
Total (C)		**(88,364)**	**(43,827)**
D - Cash flow from (for) financing activities			
Proceeds from borrowings		94,313	5,279
Reimbursement of loan given to parent company		(37,504)	(49,304)
Repayment of borrowings		-	6,243
Dividends paid		(26,840)	(7,920)
Total (D)		**29,969**	**(45,702)**
E - Cash flow for the period (B+C+D)		**(2,127)**	**(36,241)**
Translation exchange difference		10,154	783
Total (F)		**10,154**	**783**
G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)		**(20,442)**	**(28,469)**

Statement of changes in consolidated shareholders' equity

(Euro/000)	Share capital	Share premium reserve	Translation difference	Fair value and cash flow reserves	Retained earnings	Net profit	Total equity
Group shareholders' equity at January 1, 2007	**70,843**	**751,276**	**(22,726)**	**1,859**	**42**	**37,467**	**838,761**
Previous year's profit allocation	-	-	-	-	37,467	(37,467)	-
Cover of losses carried forward	-	(9,544)	-	-	9,544	-	-
Share capital increase	506	5,739	-	-	-	-	6,245
Dividends distribution	-	-	-	-	(5,667)	-	(5,667)
Changes in other reserves	-	-	(53,079)	(2,139)	879	-	(54,339)
Net profit for the year	-	-	-	-	-	51,018	51,018
Group shareholders' equity at December 31, 2007	**71,349**	**747,471**	**(75,805)**	**(280)**	**42,265**	**51,018**	**836,018**
Minority interests at January 1, 2007	**-**	**-**	**(2)**	**-**	**2,045**	**3,346**	**5,389**
Previous year's profit allocation	-	-	-	-	3,346	(3,346)	-
Changes in other reserves	-	-	(145)	-	(1,596)	-	(1,741)
Dividends distribution	-	-	-	-	(2,253)	-	(2,253)
Net profit for the year	-	-	-	-	-	3,525	3,525
Minority interests at December 31, 2007	**-**	**-**	**(147)**	**-**	**1,542**	**3,525**	**4,920**
Consolidated net equity at December 31, 2007	**71,349**	**747,471**	**(75,952)**	**(280)**	**43,807**	**54,543**	**840,938**

(Euro/000)	Share capital	Share premium reserve	Translation difference	Fair value and cash flow reserves	Retained earnings	Net profit/ (loss)	Total equity
Group shareholders' equity at January 1, 2008	**71,349**	**747,471**	**(75,805)**	**(280)**	**42,265**	**51,018**	**836,018**
Previous year's profit allocation	-	-	-	-	51,018	(51,018)	-
Changes in other reserves	-	-	19,916	(7,340)	(5,155)	-	7,421
Dividends distribution	-	-	-	-	(24,259)	-	(24,259)
Net (loss) for the year	-	-	-	-	-	(23,315)	(23,315)
Group shareholders' equity at December 31, 2008	**71,349**	**747,471**	**(55,889)**	**(7,620)**	**63,869**	**(23,315)**	**795,865**
Minority interests at January 1, 2008	**-**	**-**	**(147)**	**-**	**1,542**	**3,525**	**4,920**
Previous year's profit allocation	-	-	-	-	3,525	(3,525)	-
Changes in other reserves	-	-	676	-	1,491	-	2,167
Dividends distribution	-	-	-	-	(1,450)	-	(1,450)
Net profit for the year	-	-	-	-	-	2,775	2,775
Minority interests at December 31, 2008	**-**	**-**	**529**	**-**	**5,108**	**2,775**	**8,412**
Consolidated net equity at December 31, 2008	**71,349**	**747,471**	**(55,360)**	**(7,620)**	**68,977**	**(20,540)**	**804,277**

1. General information

1.1 General information

The holding company, Safilo Group S.p.A., is a joint stock company established in Italy in 2002 registered with the Business and Trade registry of Vicenza. On April 27th, 2006 the company moved its head office from Vicenza to Pieve di Cadore (Belluno) and on the same date opened a secondary office at the headquarters of the subsidiary Safilo S.p.A. in Padua.

These consolidated financial statements are presented in thousands of Euro and cover the financial period from 1st January 2008 to 31st December 2008. They also include information relating to the financial period from 1st January 2007 to 31st December 2007 for comparison purposes.

These financial statements were approved by the Board of Directors on 16th March 2009.

The companies included in the consolidation area are listed in paragraph 2.3 "Consolidation area and methodology".

2. Summary of accounting principles adopted

2.1 General information

The accounting principles described here below have been applied during the preparation of these consolidated financial statements in a comparative manner for both financial years presented and on the going concern assumption.

Further details are given in the Directors' Report on operations, in the chapter on the liquidity risk.

Consolidated financial information relating to the financial years ended 31st December 2008 and 31st December 2007 was prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Commission as at 31st December 2008. The application of the amended accounting principles or interpretations issued by IFRIC and applicable to the financial statements at 31st December 2008 did not have any significant impact on results.

These consolidated financial statements are presented in Euro. The majority of the economies in which the Group operates are within the Euro area, and for this reason the Group has chosen to adopt the Euro as official currency.

These consolidated financial statements were prepared in accordance with "cost" criteria with the exception of financial assets available-for-sale and some financial assets and liabilities, including derivative instruments, for which the "fair value" criteria was adopted.

The preparation of the financial statements in accordance with IFRS accounting principles requires the management to make estimates and assumptions that may affect the amounts reported in the financial statements and explanatory notes. Actual results may differ from these estimates. The areas of the financial statements that are most affected by such estimates and assumptions are listed in section 2.21 "Use of estimates".

<u>Accounting principles, amendments and interpretations applied in 2008</u>

On 13th October 2008 the IASB issued an amendment to IAS 39 entitled "*Financial Instruments: Recognition and*

Measurement" and also to IFRS 7 entitled "*Financial Instruments: Disclosures*" which allows, in particular circumstances, to reclassify certain financial assets, other than derivatives, classified under the "fair value through income statement" category. The amendment also allows for the transfer of loans and credits from the "available for sale" category to the "held to maturity" category if the company intends and has the capacity to hold such assets for the foreseeable future. The amendment is applicable from 1st July 2008, however its adoption has not had any effect for this document, since the Group has not made any of the allowed reclassifications.

Accounting principles, amendments and interpretations not yet applicable and not adopted in advance by the Group

On 30th November 2006, the IASB issued accounting principle IFRS 8 – *Operating segments* – which is applicable from 1st January 2009 replacing IAS 14 – Segment Reporting. This new accounting principle requires companies to base segment information on elements that the management uses for operational decision-making, and therefore requires operating segments to be identified on the basis of internal reporting used by the management to allocate resources to various segments and for performance analysis. The adoption of this principle does not produce any effect from the point of view of the evaluation of financial statement items.

On March 29th, 2007, the IASB issued a reviewed version of IAS 23 – *Financial charges* – which is applicable from 1st January 2009. The main change from the previous version is the removal of the option by which companies can immediately recognize financial charges relating to assets that take a substantial period of time to become available for use or sale. The principle will be applicable in perspective to financial charges relating to activated assets as from 1st January 2009. At the date of these financial statements, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this principle.

On September 6th, 2007, the IASB issued a revised version of IAS 1 – *Presentation of financial statements* – which is applicable from 1st January 2009. This new version of the accounting principle requires the company to provide information of all the variations generated by transactions with shareholders in a statement of shareholders' equity. All transactions generated with third parties ("*comprehensive income*") must be presented in a single statement of comprehensive income or in two separate statements (a separate income statement followed by a statement of comprehensive income). In any case, the variations generated by transactions with third parties cannot be presented in the statement of variations in shareholders' equity. At the date of these financial statements, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this principle.

On January 10th 2008 the IASB issued an updated version of IFRS 3 – *Business combinations*, and amended IAS 27 – *Consolidated and separate financial statements*. The main changes to IFRS 3 regard the elimination of the obligation to assess the subsidiary's single asset and liability at fair value at each step in the case of a step acquisition of subsidiaries. In such cases, goodwill will be determined as a differential between the value of the investment held before acquisition, the transaction price and the net value of the assets acquired. Furthermore, if the company does not buy 100% of the equity, the portion of the shareholders' equity held by the third party may be estimated either at fair value, or according to the method previously prescribed by IFRS 3. The revised version of the standard also requires the posting at income statement of all costs connected to the business combination and the recognition, at the date of the acquisition, of the liabilities for payments subject to a condition. In the amendment to IAS 27, however, the IASB has established that the modifications to the portion of equity held that do not result in the loss of control must be treated as *equity transactions* and they must therefore be recognised in the shareholders' equity. It has also been ruled that when a holding company transfers its majority stake to one of its own subsidiaries but continues, in any case, to hold an interest in the company, the holding company should account for the retained investment at fair value and recognise any profit or loss deriving from the loss of control in the income statement.

Lastly, the amendment to IAS 27 requires all losses attributable to minority shareholders to be allocated to the shareholders' equity of such minority shareholders, even if they exceed their portion of the subsidiary company's share capital. The new rules must be applied prospectively from 1st January 2010. At the date of these financial statements, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of the standard and of the amendment.

On January 17th 2008 the IASB issued an amendment to IFRS 2 – *Vesting conditions and cancellations*, pursuant to which, for the share based payments measurement, only the service and performance conditions can be considered as vesting conditions. The amendment also clarifies that, in the case of the cancellation of the plans, the same accounting treatment must be applied whether it derives from the company or from the counterpart. The amendment must be applied from 1st January 2009. When this document was drafted, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this amendment.

On February 14th 2008 the IASB issued an amendment to IAS 32 – *Financial Instruments: Presentation*, and to IAS 1 – *Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation*. In particular, the standard prescribes the company to classify the puttable financial instruments and instruments that commit the company to an obligation to deliver to a third party a pro rata share in the company net assets as equity instruments. This amendment must be applied as of 1st January 2009. When this document was drafted, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

On May 22nd 2008 the IASB issued a series of improvements to the IFRS; below is a list of those prescriptions resulting in accounting changes for presentation, recognition and measurement according to the indications of the IASB, omitting those which involve only a change in terminology or modifications with minimum effects on accounting:

- IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*: the amendment, which must be applied from January 1st 2010, prescribes that if a company is engaged in a sale plan involving loss of control of a subsidiary, all the assets and liabilities of the subsidiary must be reclassified in the assets held for sale, regardless whether the company will still hold a minority stake in the subsidiary after the sale.

- IAS 1 – *Presentation of Financial Statements* (revised in 2007): according to this modification, which must be applied from 1st January 2009, the assets and liabilities deriving from derivative financial instruments that are not held for trading must be classified on the financial statements as current or non-current assets and liabilities.

- IAS 16 – *Property, Plant and Equipment*: the amendment must be applied from January 1st 2009 and requires that companies whose core business is renting must reclassify assets that cease to be rented and are destined for sale as inventory. Consequently, the proceeds deriving from their sale must be recognised as revenue. The amounts paid to build or buy property to be rented to others, and the proceeds received from the successive sale of such assets, are to be classified, in the statement of cash flows, as cash flows from operating activity (and not from investing activity).

- IAS 19 – *Employee Benefits*: the amendment must be applied prospectively from January 1st 2009 for changes occurring after that date and clarifies the definition of cost/income relating to past service and states that in the case of a curtailment, the effect to be entered immediately on the income statement must include only the

reduction of benefits relative to future period, while the effect deriving from any reductions linked to previous service periods must be considered a negative cost relating to the past service. The Board has also revised the definition of short-term benefits and long-term benefits and has modified the definition of return on plan assets, establishing that this item must be entered net of any administrative charges that have not already been included in the value of the obligation.

- IAS 20 –*Government Grants and Disclosure of Government Assistance*: the modification, to be applied prospectively from January 1st 2009, establishes that the benefits from governmental loans granted at a much lower than market rate must be classified as government grants and must therefore follow the rules for recognition established by IAS 20.

- IAS 23 – *Borrowing costs*: the amendment, which must be applied from 1st January 2009, redefines the definition of borrowing costs.

- IAS 28 – *Investments in Associates*: this amendment, to be applied from 1st January 2009, (also only prospectively), prescribes that in the case of investments accounted for according to the equity method, any loss in value must not be allocated to the single assets (in particular to the goodwill, if any) composing the value of the investment, but to the carrying amount of the associated company as a whole. Therefore, if the value is later recovered, the reversal of the impairment loss must be entirely recognised.

- IAS 28 – *Investments in Associates*, and IAS 31 – *Investments in joint ventures*: these amendments, which is effective from January 1st 2009, require additional information to be provided also for investments in associated companies and in joint ventures recognised at fair value according to IAS 39. IFRS 7 - *Financial Instruments: Disclosures* and IAS 32 – *Financial Instruments: Presentation*, have also been coherently modified.

- IAS 29 – *Financial Reporting in Hyperinflationary Economies*: the previous version of the standard did not reflect the fact that some assets and liabilities could be accounted for in the financial statement on the basis of their current value instead of their original cost. The amendment, introduced to take into consideration such a possibility, must be applied from 1st January 2009.

- IAS 36 – *Impairment of Assets*: this amendment, to be applied from January 1st 2009, requires additional information to be given if the company determines the recoverable value of the cash generating unit using the discounted cash flow method.

- IAS 38 – *Intangible Assets*: the amendment must be applied from 1st January 2009 and requires advertising and promotional costs to be recognised in the income statement. Furthermore, if the company sustains charges that will lead to future economic benefits without recognition of intangible assets, these costs must be posted in the income statement when the company acquires the right to access the goods, in the case of purchased goods, or when the service is rendered in the case of the purchase of services. The standard has also been modified to allow companies to determine depreciation of the intangible assets with a defined useful life by means of the unit of production method.

- IAS 39 – *Financial Instruments*: *Recognition and Measurement*: this amendment, which must be applied from 1st January 2009, clarifies how to calculate the new effective interest rate of a financial instrument at the end of a fair value hedge operation. It also clarifies that the prohibition to reclassify in the financial instruments at fair value through income statement category must not be applied to derivative financial instruments that can no

longer be qualified as hedging instruments or which, on the contrary, become hedging instruments. Lastly, to avoid conflicts with the new IFRS 8 – *Operating Segments*, it eliminates references to the designation of hedging instruments at a sector level.

- IAS 40 – *Investment Property*: this amendment, to be applied prospectively from January 1st, 2009, rules that investment property whose construction is still in progress must be accounted for according to IAS 40 and not to IAS 16.

At the date of these financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of the above described improvements.

On July 3rd 2008 the IFRIC issued the interpretation IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*, which has eliminated the possibility of applying hedge accounting to operations hedging foreign exchange differences originating between the functional currency of the foreign company and the presentation currency of the consolidated financial statements. The interpretation also clarifies that, in the case of operations hedging an investment in a foreign company, the hedge instrument can be held by any company belonging to the group, and in the case of the sale of the shareholding, the value to be reclassified from the shareholders' equity to the income statement must be determined pursuant to IAS 21 - *The Effects of Changes in Foreign Exchange Rates*. The interpretation must be applied from 1st January 2009. At the date of these financial statements, the competent organs of the European Union had not yet completed the approval process necessary for its application.

On July 31st 2008 the IASB issued an amendment to IAS 39 – *Financial Instruments: Recognition and Measurement*, to be applied from 1st January 2010 retrospectively. The amendment clarifies the application of the standard for defining the underlying object of the hedging in particular situations. At the moment this document was drawn up, the competent organs of the European Union had not yet completed the approval process necessary for its application.

Finally, the following interpretations, which discipline events and cases that are not present within the Group, have also been issued:

- IFRIC 12 – *Service Concession Arrangements* (which must be applied from 1st January 2008 and which has not yet been approved by the European Union);

- IFRIC 13 – *Customer Loyalty Programmes* (which must be applied from 1st January 2009 and which has not yet been approved by the European Union).

- IFRIC 14 – IAS 19 - *The Limit on a Defined Benefit Asset and Minimum Funding Requirements* (which must be applied from 1st January 2008 and which has not yet been endorsed by the European Union).

- IFRIC 15 – *Agreements for the Construction of Real Estate* (which must be applied from 1st January 2009 and which has not yet been approved by the European Union).

The Safilo Group has decided not to apply the new accounting standards, amendments and interpretations in advance, and it is at present assessing the possible impact of such changes.

2.2 Format of financial statements

Safilo Group presents the income statement by function (so-called “cost of sales”). This is considered to be more representative with respect to presentation by type of expenses, as it conforms more closely to the internal reporting and business management methods and is in line with international practice in the eyewear sector.

For the balance sheet, a distinction is made in the assets and liabilities between current and non-current as described in paragraphs 51 and following of IAS 1. The indirect method for the financial report and the cash flow statement was used, therefore the net profit of the period is adjusted by the effects of non-monetary operations, changes in the working capital and financial flows deriving from the investing and financing activities.

2.3 Consolidation area and methodology

The direct and indirect holdings included in the consolidation area under the line-by-line method, in addition to the parent company Safilo Group S.p.A, are the following:

	Value	Share capital	Quota held %
ITALIAN COMPANIES			
Safilo S.p.A. – Pieve di Cadore (BL)	EUR	35,000,000	100.0
Oxsol S.p.A. - Pieve di Cadore (BL)	EUR	121,000	100.0
Lenti S.r.l. – Bergamo	EUR	500,000	75.6
Smith Sport Optics S.r.l. (in liquidation) – Padua	EUR	102,775	100.0
FOREIGN COMPANIES			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100.0
Safint B.V. - Rotterdam (NL)	EUR	18,200	100.0
Safilo Capital Int. S.A. - Luxembourg (L)	EUR	31,000	100.0
Luxury Trade S.A - Luxembourg (L)	EUR	1,650,000	100.0
Safilo Benelux S.A. - Zaventem (B)	EUR	560,000	100.0
Safilo Espana S.L. - Madrid (E)	EUR	3,343,960	100.0
Navoptik S.L. - Madrid (E)	EUR	664,118	100.0
Safilo France S.a.r.l. - Paris (F)	EUR	960,000	100.0
Safilo Gmbh - Cologne (D)	EUR	511,300	100.0
Safilo Nordic AB - Taby (S)	SEK	500,000	100.0
Safilo CIS - LLC	RUB	10,000,000	100.0
Safilo Far East Ltd. - Hong Kong (RC)	HKD	49,700,000	100.0
Safint Optical Investment Ltd - Hong Kong (RC)	HKD	10,000	51.0
Safilo Hong-Kong Ltd – Hong Kong (RC)	HKD	100,000	51.0
Safilo Singapore Pte Ltd - Singapore (SGP)	SGD	400,000	100.0
Safilo Optical Sdn Bhd – Kuala Lumpur (MAL)	MYR	100,000	100.0
Safilo Trading Shenzen Limited- Shenzen (RC)	CNY	2,481,000	51.0
Safilo Eyewear (Shenzen) Company Limited - (RC)	USD	700,000	51.0
Safilo Eyewear (Suzhou) Industries Limited - (RC)	USD	3,000,000	100.0
Safilo Retail Shangai Co. Ltd - (RC)	USD	2,100,000	100.0
Safilo Korea Ltd – Seoul (K)	KRW	300,000,000	100.0
Safilo Hellas Ottica S.a. – Athens (GR)	EUR	489,990	70.0
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100.0
Safilo South Africa (Pty) Ltd. – Bryanston (ZA)	ZAR	3,383	100.0
Safilo Austria Gmbh -Traun (A)	EUR	217,582	100.0
Carrera Optyl D.o.o. - Ormoz (SLO)	EUR	563,767	100.0
Safilo Japan Co Ltd - Tokyo (J)	JPY	100,000,000	100.0
Safilo Do Brasil Ltda – San Paolo (BR)	BRL	8,077,500	100.0
Safilo Portugal Lda – Lisbon (P)	EUR	500,000	100.0
Safilo Switzerland AG – Liestal (CH)	CHF	1,000,000	100.0
Safilo India Pvt. Ltd - Mumbay (IND)	INR	42,000,000	88.5
Safint Australia Pty Ltd.- Sydney (AUS)	AUD	3,000,000	100.0
Safilo Australia Partnership – Sydney (AUS)	AUD	204,081	61.0
Optifashion Australia Pty Ltd. - Sydney (AUS)	AUD	23,000,000	100.0
Just Spectacles Pty Ltd - Perth (AUS)	AUD	2,000	100.0
Just Spectacles (Franchisor) Pty Ltd - Perth - (AUS)	AUD	200	100.0
Just Specs Direct Pty Ltd - Perth (AUS)	AUD	400	100.0
Just Protection Eyewear Pty Ltd - Perth (AUS)	AUD	2	100.0
Optifashion Hong Kong Ltd - Hong Kong (RC)	HKD	300,000	100.0
Safint Optical UK Ltd. - London (GB)	GBP	21,139,001	100.0
Safilo UK Ltd. - North Yorkshire (GB)	GBP	250	100.0
Safilo America Inc. - Delaware (USA)	USD	8,430	100.0
Safilo USA Inc. - New Jersey (USA)	USD	23,289	100.0
Safilo Realty Corp. - Delaware (USA)	USD	10,000	100.0
Safilo Services LLC - New Jersey (USA)	USD	-	100.0
Smith Sport Optics Inc. - Idaho (USA)	USD	12,162	100.0
Solstice Marketing Corp. – Delaware (USA)	USD	1,000	100.0
Solstice Marketing Concepts LLC – Delaware (USA)	USD	-	100.0
Safint Eyewear de Mexico - Cancun (MEX)	MXP	100,000	60.0
Tide Ti S.A. de C.V. - Cancun (MEX)	MXP	52,010,000	60.0
2844-2580 Quebec Inc. – Montreal (CAN)	CAD	100,000	100.0
Safilo Canada Inc. - Montreal (CAN)	CAD	2,470,425	100.0
Canam Sport Eyewear Inc. - Montreal (CAN)	CAD	300,011	100.0

Investments in subsidiaries

The companies in which the Group exercises control ("subsidiary companies"), as defined in IAS 27, either due to direct shareholdings or by indirectly holding the majority of the voting rights, having the power to determine even indirectly the financial and managerial choices of the companies and thus obtaining the relative benefits regardless of the relationships deriving from the share ownership, are consolidated using the line-by-line method. Potential exercisable voting rights existing at the balance sheet date are considered in order to determine control. The subsidiary companies are consolidated from the date on which control is assumed and are deconsolidated from the date when control ceases.

The business combinations, in which the control of a company is acquired, are accounted for by applying the "purchase method" where the assets and liabilities acquired are initially measured at their current market value at the acquisition date. If the difference between the market value and the purchase cost is positive, this amount is allocated to goodwill, otherwise it is recorded in the income statement. The acquisition cost is defined on the basis of the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and of any other accessory charges.

Upon consolidation, the amounts resulting from intra-group operations between consolidated companies are eliminated, in particular in relation to receivables and payables at the balance sheet date, costs and revenues as well as financial income and charges. In addition, gains and losses between the subsidiary companies that are fully consolidated are also eliminated.

The accounting principles adopted by the subsidiary companies have been modified where necessary, to comply with those adopted by the parent company.

The share of the shareholders' equity and the result of the period attributable to minority shareholders are indicated separately in the line items "Minority interests" and "Net profit of the period attributable to minority interests" that can be found in the consolidated balance sheet and statement of operations, respectively.

Investments in associated companies

The holdings in companies/entities in which a significant influence is exercised ("associated companies"), that is presumed to exist when the percentage held is between 20% and 50%, are valued under the "equity" method. Due to the application of the equity method, the value of the investment is aligned to the shareholders' equity that is adjusted, where necessary, to reflect the application of the IFRS approved by the European Commission, and includes the recording of any goodwill identified at the moment of acquisition. The share of gains/losses realised by the associated companies after the acquisition is recorded on the income statement, while the share of movements of reserves after the acquisition is recorded in the equity reserves. When the share of losses of the Group in an associated company is equal to or exceeds its holding in the associated company, taking into account all receivables not guaranteed, the value of the investment is fully written down and the Group does not record further losses above its share, except where the Group has the obligation to cover these losses. Gains and losses not realised that are generated on operations with associated companies are eliminated for the part pertaining to the Group.

2.4 Segment information

Segment information by sector (retail/wholesale) and by geographic area is presented according to the indications of IAS 14 – Segment Information.

As from the financial year 2008, the Group's retail structure now having been consolidated, the management has decided to present the information on the sector of activity in which the Group operates as primary segment and the geographic information as secondary segment.

The criteria used to identify these segments are based on the modalities by which the management directs the Group and attributes managerial responsibilities.

The geographic information is defined on the basis of the location of the head offices of the companies belonging to the Group, and the sales indicated for this segmentation are determined by origin of invoicing rather than the target market.

2.5 Conversion of financial statements and transactions into currencies other than Euro

Foreign currency transactions are converted into the functional currency using the actual exchange rates at the date of the transaction. Gains and losses on exchange rates resulting from the close of such transactions and from the translation of the monetary assets and liabilities in foreign currencies at the exchange rates at end of the year are accounted for in the income statement.

The rules for the conversion of financial statements of companies expressed in currencies different from the Euro are the following:

- assets and liabilities are converted using the actual exchange rates at the balance sheet date;
- costs, revenues, income and charges are converted at the average exchange rate of the period;
- the "conversion reserve" includes foreign exchange differences generated from the conversion of the opening shareholders' equity and the movements during the year at a rate different from that at the end of the year;
- the goodwill and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the period.

The exchange rates applied in the conversion of financial statements prepared in currencies other than Euro at 31st December 2008 and 31st December,2007 are given in the following table; appreciation (figures with a minus sign in the table below) indicates a gain on the currency compared to the Euro.

Currency	Code	As of December 31, 2008	As of December 31, 2007	(Appreciation) / Depreciation %	Avg. for the financial year 2008	Avg. for the financial year 2007	(Appreciation) / Depreciation %
US Dollar	USD	1.3917	1.4721	-5.5%	1.4708	1.3705	7.3%
Hong-Kong Dollar	HKD	10.7858	11.4800	-6.0%	11.4541	10.6912	7.1%
Swiss Franc	CHF	1.4850	1.6547	-10.3%	1.5874	1.6428	-3.4%
Canadian Dollar	CAD	1.6998	1.4449	17.6%	1.5594	1.4679	6.2%
Japanese Yen	YEN	126.1400	164.9300	-23.5%	152.4541	161.2526	-5.5%
British Pound	GBP	0.9525	0.7334	29.9%	0.7946	0.6843	16.1%
Swedish Krown	SEK	10.8700	9.4415	15.1%	9.6152	9.2501	3.9%
Australian Dollar	AUD	2.0274	1.6757	21.0%	1.7360	1.6348	6.2%
South-African Rand	ZAR	13.0667	10.0298	30.3%	12.0746	9.6596	25.0%
Russian Ruble	RUB	41.2830	n/a	n/a	36.4207	n/a	n/a
Brasilian Real	BRL	3.2436	2.6178	23.9%	2.6698	2.6638	0.2%
Indian Rupee	INR	67.6360	58.0210	16.6%	63.7343	56.5716	12.7%
Singapore Dollar	SGD	2.0040	2.1163	-5.3%	2.0762	2.0636	0.6%
Malaysian Ringgit	MYR	4.8048	4.8682	-1.3%	4.8893	4.6974	4.1%
Chinese Reminbi	CNY	9.4956	10.7524	-11.7%	10.2244	10.4178	-1.9%
Korean Won	KRW	1,839.1300	1,377.9600	33.5%	1,606.0872	1,273.0192	26.2%
Mexican Peso	MXN	19.2333	n/a	n/a	16.2909	n/a	n/a

2.6 Tangible fixed assets

Tangible fixed assets are assessed at purchase or production cost, net of accumulated depreciation and of any possible loss in value. The cost includes all charges directly incurred in bringing assets to their current location and condition. Costs incurred after purchase of assets are recorded only if they increase the future economic benefits of the asset they refer to. Interest charges relating to the construction of property, plant and equipment are charged directly to the income statement.

Charges incurred for the maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the statement of operations of the period in which the costs are incurred. The capitalisation of costs relating to the expansion, modernisation or improvement of proprietary structural assets or of those used by third parties, is made only when they satisfy the requirements to be separately classified as an asset or part of an asset. The book value is adjusted for depreciation on a systematic basis, over its useful life.

Capitalised costs for leasehold improvements are attributed to the category of the assets they refer to and are depreciated over the shorter of either the remaining duration of the rental contract or the remaining useful lifetime of the assets improved.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, and any loss is recorded in the income statement. When the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and depreciation had been recorded.

Assets held through financial leasing contracts, where the majority of the risks and benefits related to the ownership of an asset have been transferred to the Group, are recognised as assets of the Group at their fair value or, if lower, at the current value of the minimum lease payments. The corresponding liability due to the lessor is recorded on the financial statements under financial debts. The assets are depreciated by applying the criteria and rates indicated below.

The leased assets where the lessor bears the majority of the risks and benefits related to an asset are recorded as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease contract.

Depreciation is calculated on a straight-line basis over the estimated useful lifetime of the asset, in accordance with the following depreciation rates:

Category	Useful lifetime in years
Buildings	20-33
Plant, machinery and equipment	5-15
Furniture, office equipment and vehicles	4-8

Land is not depreciated.

When the asset to be depreciated is composed of separately identifiable elements whose useful lifetime differs significantly from that of the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the "component approach" principle.

The remaining value of the assets and their useful lifetime are reviewed at the end of each financial year. The capital gains or losses from the sale of the fixed assets are posted to the income statement and valued as the difference between the sale proceeds and the net book value.

2.7 Intangible fixed assets

Intangible fixed assets consist of clearly identifiable non-monetary assets, without any physical substance and capable of generating future economic benefits. These assets are assessed at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated depreciation and of any possible loss in value. Amortisation begins when the asset is available for use and is recorded on a systematic basis over the course of its useful lifetime.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, and any loss is recorded on the income statement. When the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and depreciation had been recorded.

The amounts paid for the control of real estate located in prestigious areas (key money) are indicated under "intangible fixed assets", when such assets satisfy the requirements of IAS 38. These assets are depreciated on the basis of the duration of the leasing contract.

Goodwill

Goodwill represents the excess of the purchase cost compared to the fair value of the share of equity in the subsidiary or associated company, or of the business unit acquired, at the purchase date. The goodwill deriving from the purchase of subsidiaries is recorded under the intangible assets on the balance sheet, while that deriving from

the purchase of associated companies is included in the investments in associated companies. Goodwill is not amortised, but is subject to an impairment test on an annual basis to verify if any loss in value occurred.

Goodwill and fair value adjustments generated from the acquisition of a foreign company are recorded in the relative foreign currencies and are converted at the exchange rate at the end of the period.

Trademarks

Trademarks are recorded at cost. They have a definite useful lifetime and are recorded at cost net of any accumulated amortisation. Amortisation is calculated on a straight-line basis allocating the cost of trademarks over the relative useful lifetime.

Software

All software licenses purchased are capitalised on the basis of the costs incurred for their acquisition and in bringing them to their current condition. Amortisation is calculated on a straight-line basis over their estimated useful lifetime (from 3 to 5 years).

The costs associated with the development and maintenance of software programs are posted to the income statement of the period in which they were incurred. The costs directly associated with the production of unique and identifiable software products controlled by the Group are recorded as intangible fixed assets on the balance sheet only if the following conditions are respected: the costs can be reliably calculated, the Group has the technical and financial resources to complete the products and intends to conclude such activities, the technical feasibility of the products is guaranteed and the use of the products will generate probable future economic benefits for more than one year.

Direct costs include costs relating to employees developing the software as well as any appropriate share of general costs.

2.8 Impairment of non financial assets

Assets with an indefinite useful lifetime are not subject to amortisation but undergo an impairment test at least on an annual basis to control whether their book value has been reduced.

Assets subject to amortisation undergo impairment tests when events or circumstances arise that indicate that the book value cannot be recovered. In both cases any loss in value is posted for the share of book value exceeding the recoverable value. This value is the higher of either the fair value of the asset net of the costs for sale or its value for use. If the value for use of an asset cannot be established individually, the recoverable value of the unit that generates cash flows (so-called "cash generating units" or CGU) to which the asset belongs must be established. Assets are regrouped at the lowest level for which there are independent cash flows and the Group will then calculate the current value of the estimated future cash flows for the CGU, gross of taxes, applying a before tax discount rate, that reflects the current market evaluations of the long term value of the cash and specific risks with the asset.

When a loss on an asset, other than goodwill, no longer exists or is reduced, the book value of the asset or cash-generating unit is increased to the new estimated recoverable value, which cannot exceed the value that would have been established if there had been no loss due to reduction in value.

A reversal of loss in value is calculated according to the revaluation model and recorded in the income statement in accordance with the provisions of IAS 16.

2.9 Financial instruments

The classification of financial instruments depends on the purpose for which the financial instrument was acquired. The management determines the classification of its financial instruments on the initial recognition in the financial statements. The purchase and sale of financial instruments are recognised at the transaction date or at the date when the Group undertakes the commitment to purchase or sell the asset. All financial instruments are initially recognised at fair value.

Financial assets

Financial assets are classified according to the following categories:

- financial assets at fair value through the income statement: this category includes financial assets acquired primarily for sale in the short-term or those designated as such by the management, in addition to derivative instruments that are not designated as hedges (in relation to the treatment of derivatives, reference should be made to the following paragraph). The fair value of these instruments is determined with reference to the market value (offer price) at the balance sheet date; in the case of non-quoted instruments they are determined through commonly used technical financial valuation methods. Fair value variations of the instruments belonging to this category are recognised in the income statement. Financial instruments of this category are classified in the short-term if they are "held for trading" or if it is expected that they will be sold within twelve months from the balance sheet date. The only financial assets of this category held by the Group and recorded on the financial statements are derivative financial instruments.

- loans and receivables: these are non-derivative financial instruments, with fixed or determinable payments, not quoted on an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. The latter are classified as non-current assets. These assets are measured at amortised cost on the basis of the "effective interest rate" method. Any loss in value determined through an impairment test is recognised in the income statement. In particular, trade receivables are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions of the allowance for doubtful accounts are recorded in the income statement.

- investments held to maturity: these are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed according to the "amortised cost" method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.

- financial assets available-for-sale: these are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is

considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset depends on the intentions of the management and on the real liquidity of the security; they are recorded under current assets when they are expected to be realised within twelve months.

Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument ceases and the Group has transferred all risks and benefits relating to the instrument.

Loans

Loans are initially recorded at fair value less any transaction costs. After initial recognition, they are assessed at amortised cost; all differences between the amount financed (net of initial transaction costs) and the nominal value are recognised in the income statement over the duration of the loan using the "effective interest" method. If there is a significant variation in the expected cash flow that can be reliably estimated by the management, the value of the loans is recalculated to reflect the expected change in the cash flow. The value of the loans is recalculated on the basis of the current value of the new expected cash flow and the internal rate of return.

Loans are classified under current liabilities unless the company has an unconditional right to defer the payment for at least twelve months after the balance sheet date, and are removed from the balance sheet when they expire and the Group has transferred all risks and obligations relating to the instrument.

Derivative instruments

In accordance with the provisions of IAS 39 as approved by the European Commission, the derivative financial instruments used by the Group with the intention of hedging in order to reduce the foreign currency and interest rate risks, can be recorded according to the "hedge accounting" methodology only when:

- a formal designation and documentation relating to the hedge exists at the beginning of the hedge,
- it is presumed that the hedge is highly effective,
- the effectiveness can be reliably measured and the hedge is highly effective over the different financial periods for which it was designated.

All derivative financial instruments are measured at fair value, in accordance with IAS 39. When the financial instruments possess the characteristics required to be recorded according to the hedge accounting, the following accounting procedures are applied:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the current value of an asset or liability on the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognised in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognised on the income statement. In the financial periods described herein there were no fair value hedges.
- *Cash flow hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the cash flows of an asset or liability recorded on the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or losses of

the financial instrument is recognised in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated with a hedge or with that part of the hedge that has become ineffective, are immediately recorded in the income statement. If a hedge instrument or a relation of a hedge is closed, but the hedged operation has not yet been realised, the cumulative profits and losses, up to that moment recorded in equity, are recognised in the income statement when the relative operation is realised. If the operation hedged is no longer considered probable, the profits or losses not yet realised in equity are recognised immediately in the income statement.

If hedge accounting cannot be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognised in the income statement.

2.10 Inventory

Inventories are measured at the lower of either the purchase or production cost or the net realisable value. The cost of raw materials and purchased finished products is calculated using the "weighted average cost" method. The cost of semi-finished products and internally produced finished products includes raw material, direct labour costs and the indirect costs allocated based on normal production capacity.

The net realisable value is determined on the basis of the estimated selling price under normal market conditions, net of direct sales costs.

Against the value of stock as determined above, provisions are made in order to take account of obsolete or slow moving stock.

2.11 Trade receivables

Trade receivables are initially classified on the financial statements at their current value and subsequently recalculated with the "amortised cost" method, net of any write-downs for loss in value. A provision for doubtful accounts is allocated when there is evidence that the Group will not succeed in collecting the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.

The Group also transfers trade receivables to factoring companies. Since such receivables represent legally sold credit, they do not comply with all the conditions of paragraphs 17 and following of IAS 39. They are removed from the balance sheet, but are maintained on the financial statement with a contra entry as a financial debt towards the factoring company.

2.12 Cash in hand and at bank

Cash and cash equivalents include cash, bank deposits on demand and other highly liquid short-term investments available at three months from purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recorded in the income statement. Bank overdrafts are posted under current liabilities.

2.13 Employee benefits

<u>Pension plans</u>

The Group recognises different forms of defined benefit plans and contribution plans, in line with the local conditions

and practices in the countries in which it carries out its activities.

The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year.

The defined benefit plans are based on the working life of the employees and on the remuneration received by the employee during a predetermined period of employment.

The obligation of the company to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent consultants using the "projected unit credit" method. The related costs are recorded in the income statement on the basis of the estimated employment period of employees. The Group does not suspend actuarial gains or losses further to applying the "projected unit credit" method, but records them in an equity reserve in the period in which they arise.

The employee severance fund of Italian companies ("TFR") has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of 27th December 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- with reference to the amounts of employee benefit liability matured from 1st January 2007, whether transferred to selected pension funds or transferred to the treasury account set-up with Italian Social Security Institute (INPS), represents a "defined contribution plan";

- with reference to the amounts of employee benefit liability matured as of 31st December 2006, the employee benefit liability represents a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

For an analysis of the accounting effects deriving from this decision, reference should be made to paragraph 4.18 "employee benefit liability".

<u>Remuneration plans under the form of share capital participation</u>

The Group recognises additional benefits to some employees and consultants through "equity settled" type stock options. In accordance with IFRS 2 - *Share-based payments*, the current value of the stock options determined at the vesting date through the application of the "Black & Scholes" method is recognised in the income statement under personnel costs in constant quotas over the period between the vesting date of the stock options and the maturity date, counterbalanced by an equity reserve.

The effects of the vesting conditions not related to the market are not taken into consideration in the fair value of the vested options, but are relevant to the valuation of the number of options which are expected to be exercised.

At the balance sheet date the Group revises its estimates on the number of options which are expected to be exercised. The impact of the revision of the original estimates is recognised in the income statement over the maturity period and directly in equity reserves.

At the time of exercising the stock option, the amounts received from the employee, net of the costs directly attributable to the transaction, are credited to share capital for an amount equal to the nominal value of the shares

issued and to the share premium reserve for the remaining part.

2.14 Provisions for risks and charges

The Group records provisions for risks and charges when:

- has a legal or implicit obligation to third parties;
- it is probable that it will be necessary to use resources of the Group to settle the obligation;
- a reliable estimate of the amount can be made.

Changes in estimates are recorded in the income statement of the period in which the changes occur.

2.15 Revenue recognition

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognises the revenues from the sale of goods sold at the shipment date, when all the risks and rewards relating to the ownership of the goods have been transferred to the client, or on delivery to the client, in accordance with the sales terms agreed. If the sale includes the right for the client to return unsold goods, the revenue is recognised on the date of shipment to the client, net of a provision which represents the best estimate of the products to be returned by the client and which the Group will no longer be able to place on the market. This provision is based on specific historical data and on the specific knowledge of the clients; historically there have not been significant differences between the estimates made and the products actually returned.

2.16 Public contributions

The Group recognises public contributions when there is reasonable certainty that they will be received and that the conditions required for the contribution have been or will be respected.

The contributions received are recorded in the income statement for the time required to relate them to the relative costs and they are considered as deferred income.

2.17 Royalties

The Group recognises royalty income and expenses in accordance with the accruals principle and in compliance with the substance of the contracts agreed.

2.18 Dividends

Dividends are recorded when the right of the Shareholders to receive the payment arises, which normally occurs when the Shareholders' meeting for the distribution of dividends. The distribution of dividends is therefore recorded as a liability on the financial statements in the period in which the distribution is approved by the Shareholders' meeting.

2.19 Income taxes

Income taxes include all taxes calculated on the assessable profits of the companies of the Group. Income taxes are recorded in the income statement, with the exception of those relating to balances directly credited or debited to equity, in which case the fiscal effect is recognised directly to equity.

The deferred taxes are calculated on fiscal losses that can be carried forward and all the timing differences between the assessable income of an asset or liability and the relative book value. The deferred tax assets are recognised only for those amounts for which it is probable there will be future assessable income allowing for the recovery of the amounts.

The current deferred tax assets and liabilities are compensated when the income tax is applied by the same fiscal authority and when there is a legal right of compensation. The deferred tax assets and liabilities are determined with the fiscal rates that are expected to be applied, in accordance with the regulations of the countries in which the Group operates, in the years in which the temporary differences will be realised or extinguished.

2.20 Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit or loss of the Group by the weighted average number of ordinary shares in circulation during the year.

Diluted

Diluted earnings per share are calculated by dividing the profit or loss of the Group by the weighted average number of ordinary shares in circulation during the year. In order to calculate the diluted earnings per share, the weighted average number of shares in circulation is adjusted in respect of the dilutive potential ordinary share (stock options and convertible bonds), while the profit or loss of the Group is adjusted to take into account the effects, net of income taxes, of the conversion.

2.21 Use of estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting standards and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on past experience and assumptions which are from time to time considered reasonable and realistic according to the relative circumstances. The application of these estimates and assumptions affect the amounts posted in the financial statements, such as the balance sheet, the income statement, the cash flow statement and the notes thereto. Actual results of the balances on the financial statements, resulting from the above-mentioned estimates and assumptions, may differ from those reported on the financial statements due to the uncertainty which characterises the assumptions and the conditions on which the estimates are based. The accounting standards that are more subject to the directors' estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the consolidated financial statements of the Group are described briefly below.

- *Goodwill*: in accordance with the accounting standards adopted for the preparation of the financial statements, the company annually verifies the goodwill in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the verification results in the determination of the fair value allocated to the financial cash-generating units. This value is determined according to their current value in use. The allocation of the goodwill to the cash-generating units and the determination of their value require estimates which depend on factors that may change over time with consequent effects, which may be significant, compared to the Directors' assessments.

- *Write-down of fixed assets*: in accordance with the accounting standards applied by the Group, the fixed assets

are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulty in recovering the relative net book value through use. The verification of the existence of such difficulty requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is deemed that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential loss in value as well as the estimates for the determination depend on factors which may vary over time, influencing the Directors' evaluations and estimates.

- *Allowance for bad or doubtful debts*: the allowance for bad or doubtful debts reflects the management's best estimate regarding losses concerning the credit portfolio towards the final client. This estimate is based on the losses expected by the Group, determined on the basis of past experience for similar credits, current and historic overdue, careful monitoring of credit quality and projections regarding the economic and market conditions.

- *Allowance for inventory obsolescence*: the inventory of finished products which are obsolescent or slow moving are regularly subjected to specific assessment tests, which take into consideration past experience, historic results and the probability of sale under normal market conditions. If the need to reduce the value of the stock should arise following these analyses, the management proceeds with the appropriate write-downs.

- *Product warranty provision*: when a product is sold, the Group estimates the relative costs of performing work under guarantee and allocates a provision on the basis of historic information and a series of statistical data regarding the nature, frequency and the average cost of such work. The Group operates constantly to minimize the costs of work performed under guarantee and to improve the quality of its products.

- *Contingent liabilities*: the Group is subject to legal and fiscal actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when expenditure is considered probable and the amount can be reasonably estimated, adequate funds are allocated.

- *Pension plans*: the companies of the Group participate in pension plans, the costs of which are calculated by the management, with the assistance of the Group's actuarial consultants, on the basis of statistical assumptions and assessment factors regarding in particular the discount rate to be used, relative mortality and resignation rates.

- *Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future assessable income. The valuation of the expected assessable income, in order to record the deferred taxes, depends on factors that may change over time and can have a significant influence on the estimate of the deferred tax assets.

2.22 Fair value estimates

The fair value of the financial instruments traded on an active market is based on the listed price at the balance sheet date.

The fair value of the financial instruments not traded on an active market is calculated in accordance with valuation techniques, by applying models and techniques that are widely used in financial sectors and in particular:

- the fair value of the interest rate swaps is calculated on the basis of the current value of future cash flows;
- the fair value of the forward currency hedging contracts is determined on the basis of the current value of the differences between the contracted forward exchange rate and the spot market rate at the balance sheet date;
- the fair value of stock options is calculated using the Black & Scholes model.

3. Risk management

The operations of the Safilo Group are subject to various financial risks, in particular:

- credit risks, relative to normal business relations with clients and to financial assets in the financial statements;
- market risks (mainly interest and exchange rate risks), since the Group operates internationally and uses financial instruments that generate interests;
- cash flow risks, with particular regard to the ability to promptly find resources on financial markets under normal market conditions when needed.

The Group constantly monitors the financial risks to which it is exposed, in order to assess potentially negative effects in advance and to take appropriate corrective measures with the aim of eliminating or, at the least, limiting the negative effects deriving from the risks in question.

The risks to which the Group is exposed are managed centrally on the basis of hedging policies that may also include the use of derivative instruments with the aim of minimizing the effects deriving from exchange rate (especially in relation to the US dollar) and interest rate fluctuations.

Credit risk

The Group strives to reduce the risk relating to the insolvency of its customers by, as far as possible, avoiding sales to customers that are not deemed reliable and solvent. The relative assessment is based on information regarding the solvency of customers and statistical historical data, and by setting limits to the exposure of each single client. However, the credit risk is mitigated by the fact that credit exposure is spread over a very large number of clients.

Positions of a significant amount for which the Group recognizes that total or partial recovery will be effectively impossible, also taking into account any guarantees obtained, as well as the charges and expenses that will have to be sustained for the attempted credit recovery, are subject to individual write-down.

The Group's theoretical maximum exposure to the credit risk at the date of the balance sheet is represented by the book value of the financial assets.

As required by IFRS 7.36 the following table gives an analytical illustration of the ageing of trade receivables due at 31st December 2008 and 31st December 2007, which have been subjected to total or partial write-down due to situation of bad debts:

in Euro/000	at December 31, 2008		at December 31, 2007	
Ageing of trade receivables - impaired	Nominal value trade receivables	Allowance for bad and doubtful debts	Nominal value trade receivables	Allowance for bad and doubtful debts
Overdue:				
up to 6 months	4.197	(1.576)	5.515	(1.738)
6 to 12 months	2.171	(1.323)	2.674	(1.334)
12 to 24 months	2.848	(1.816)	2.103	(1.163)
over 24 months	11.119	(8.791)	9.629	(7.003)
Grand total	**20.334**	**(13.506)**	**19.921**	**(11.238)**

At 31st December 2008, the receivables not covered by the allowance for bad or doubtful debts amounted to 3,274 thousand Euro compared to 2,744 thousand Euro at 31st December 2007; the increase is mainly due to the difficult economic situation. The Group has not recorded any write-downs relating to these receivables as it is considered that such amounts may be entirely recovered in the future.

Market risks

Market risks can be divided into the following categories:

Exchange risk

The Group operates internationally and is therefore exposed to risks deriving from variations in exchange rates that may influence the value of its shareholders' equity and financial results.

In particular, the Group is exposed to risks regarding the exchange rate between the Euro and the US Dollar, since some of the companies of the Group usually sell goods on the North American market and on other markets where the US dollar is the main currency used for business trades (Far-East).

The Group constantly attempts to reduce the impact deriving from variations in the US dollar by procuring suppliers located in areas where it is possible to buy in US dollars, thereby performing a sort of "natural hedging". For incomes in dollars that are not compensated by expenses in dollars, the Group policy advocates the use of hedging instruments such as foreign currency contracts in dollars. Any exposure is covered by plain vanilla contracts with a duration of no more than twelve months. Information regarding the fair value and the accounting methods of derivative financial instruments are detailed in a specific paragraph of the notes to the financial statements.

Furthermore, the Group owns shareholdings in subsidiaries located in areas outside the European Monetary Union, and the variations in the shareholders' equity deriving from variations in the exchange rates of the local currency against the Euro are recorded in a reserve of the consolidated shareholders' equity named "conversion reserve".

As far as the sensitivity analysis is concerned, it may be noted that an increase or decrease of 1% of the US dollar against the Euro would result respectively in an increase or a decrease of the 2008 operating profit of the Group of around 1.1 million Euro, substantially in line with 2007.

Again in terms of the sensitivity analysis, it must be pointed out that the variation in the fair value of derivative financial instruments of exchange risk management (currency forward) held by the Group at 31st December 2008, as

a consequence of a hypothetical and immediate depreciation of the US dollar by 10% compared to the Euro would be equal to approximately 1.8 million Euro (1.1 million Euro at 31st December 2007). Vice versa, an appreciation of the US dollar by 10% would result in a negative variation in fair value, merely hypothetical and potential, equal to approximately 2.2 million Euro (1.3 million Euro at 31st December 2007).

It should be noted that future receivables, payables and commercial flows against which the analysed hedging operations have been put in place, and for which it can be reasonably assumed that variations in fair value may offset the hedged transactions, have not been considered in the sensitivities reported above.

The tables below summarise the financial assets and liabilities of the Group per currency at 31st December 2008 and 31st December 2007:

(Euro/000)	**December 31, 2007**			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	23.509	19.196	14.177	56.882
Trade receivables, net	202.922	62.984	49.886	315.792
Derivative financial instruments	222	-	49	271
Other current assets	33.482	6.473	4.054	44.009
Total	**260.135**	**88.653**	**68.166**	**416.954**
Derivative financial instruments	1.608	-	-	1.608
Other non-current assets	6.313	3.739	1.019	11.071
Total	**7.921**	**3.739**	**1.019**	**12.679**
Trade payables	116.617	65.946	12.151	194.714
Short-term borrowings	141.380	15.129	5.201	161.709
Derivative financial instruments	-	-	-	-
Tax and other current payables	71.211	7.684	15.398	94.293
Total	**329.208**	**88.759**	**32.750**	**450.716**
Long-term borrowings	343.588	66.239	-	409.827
Derivative financial instruments	359	-	-	359
Other non-current liabilities	6.406	1.062	174	7.642
Total	**350.353**	**67.301**	**174**	**417.828**

(Euro/000)	December 31, 2008			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	20.110	11.036	22.507	53.653
Trade receivables, net	194.503	57.129	49.930	301.562
Derivative financial instruments	772	-	-	772
Other current assets	38.598	6.244	5.861	50.703
Total	**253.983**	**74.409**	**78.298**	**406.690**
Derivative financial instruments	455	-	-	455
Other non-current assets	7.764	4.181	1.754	13.699
Total	**8.219**	**4.181**	**1.754**	**14.154**
Trade payables	111.938	76.371	17.054	205.363
Short-term borrowings	128.240	21.478	12.927	162.645
Derivative financial instruments	-	-	-	-
Tax and other current payables	75.948	8.711	14.365	99.024
Total	**316.126**	**106.560**	**44.346**	**467.032**
Long-term borrowings	407.691	48.589	4.804	461.084
Derivative financial instruments	4.156	1.584	-	5.740
Other non-current liabilities	16.705	764	193	17.662
Total	**428.552**	**50.937**	**4.997**	**484.486**

Fair value variation risk

The Group holds some assets that are subject to variations in value over time according to the variations of the market on which they are traded. This risk is predominantly concentrated within the "available for sale" portfolio and is constantly monitored by the Group through real time information regarding the assets in question.

With regard to trade payables and receivables and other current and non-current assets, it is assumed that their book value is approximately equal to their fair value.

Interest rate risk

Bank borrowings expose the Group to the risk of variations in interest rates. In particular, variable rate borrowings represent a risk of change in the cash flows, while fixed rate borrowings represent a potential variation in the fair value of the borrowings themselves.

The Group regularly assesses its exposure to the risk of variation of interest rates and manages this risk through recourse to derivative financial instruments called interest rate swaps (IRS), which are used exclusively to hedge the cash flows. The interest rate swap contracts are stipulated with primary financial institutions and, at the beginning of the hedge, the formal designation is made and the documentation relating to the hedge is prepared.

As far as the sensitivity analysis is concerned, a positive (negative) variation of 50 b.p. in the level of the short-term interest rates applied to the variable rate financial liabilities not subject to hedging would represent a greater (lower) annual financial charge, gross of taxes, of around 1,419 thousand Euro (1,468 thousand Euro at 31st December 2007).

In terms of sensitivity analysis, we additionally highlight that a reduction of 50 b.p. in the level of the short-term

interest rates would represent a negative variation of the fair value of the IRS of 1,810 thousand Euro, gross of taxes (1,603 thousand Euro at 31st December 2007). On the other hand, an increase of 50 b.p. would represent a positive variation in the fair value of the IRS of 1,781 thousand Euro, gross of the fiscal effect (1,571 thousand Euro at 31st December 2007).

The following table summarises the main characteristics of the most significant variable and fixed rate medium and long term borrowings, at 31st December 2008 and 31st December, 2007:

31st December 2007 *(Euro/000)*	Currency	Nominal interest rate	Internal interest rate	Book value	Expiry
Facility A1	*EURO*	Euribor + 0.55%	5.9248%	71,351	31/12/2011
Facility A2	*USD*	Libor + 0.55%	6.0373%	37,889	31/12/2011
Facility A3	*USD*	Libor + 0.55%	5.8489%	43,478	31/12/2011
Revolving facility	*EURO*	Euribor + 0.55%	5.2414%	90,000	31/12/2012
High Yield	*EURO*	9.625%	10.6887%	188,731	15/05/2013

31st December 2008 *(Euro/000)*	Currency	Nominal interest rate	Internal interest rate	Book value	Expiry
Facility A1	*EURO*	Euribor + 1.80%	5.3494%	55,597	31/12/2011
Facility A2	*USD*	Libor + 1.80%	3.7938%	32,645	31/12/2011
Facility A3	*USD*	Libor + 1.80%	3.6140%	37,422	31/12/2011
Revolving facility	*EURO*	Euribor + 1.80%	6.3664%	165,000	31/12/2012
High Yield	*EURO*	9.625%	10.6887%	189,688	15/05/2013

Liquidity risk

This risk could generate the inability to find the necessary financial resources to back up the operating activities at good market terms within the timeframe available. The cash flow needs for finance and liquidity of the company are constantly monitored centrally by the Group treasury, to guarantee effective and efficient management of the financial resources.

The Group has therefore adopted a series of policies and processes with the aim of optimising the management of financial resources and the management maintains that the funds and lines of credit currently available, in addition to those that will be generated by the operating and financing activities, will be sufficient to satisfy the requirements deriving from the investing activity, the working capital management and financial debts.

The following table details the lines of credits granted to the Group, the uses and the lines of credit available at 31st December 2007 and 31st December 2008, net of factoring and leasing operations:

at 31st December 2007 *(Euro/000)*	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	233,338	81,395	151,943
Credit lines on long-term bank loans	358,743	248,743	110,000
Total	**592,081**	**330,138**	**261,943**

at 31st December 2008 *(Euro/000)*	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	199,191	74,083	125,108
Credit lines on long-term bank loans	334,442	299,442	35,000
Total	**533,633**	**373,525**	**160,108**

The table below summarises the financial assets and liabilities of the Group at 31st December 2007 and 31st December 2008 according to expiry date:

(Euro/000)	December 31, 2007			
	Within 1 year	Between 2 and 5 years	Beyond 5 years	Total
Cash in hand and at bank	56,882	-	-	56,882
Trade receivables, net	315,792	-	-	315,792
Derivative financial instruments	271	-	-	271
Other current assets	**44,009**	**-**	**-**	**44,009**
Total	**416,954**	**-**	**-**	**416,954**
Derivative financial instruments	-	1,608	-	1,608
Other non-current assets	**-**	**11,071**	**-**	**11,071**
Total	**-**	**12,679**	**-**	**12,679**
Trade payables	194,693	21	-	194,714
Tax payables	20,567	1	-	20,568
Short-term borrowings	161,709	-	-	161,709
Derivative financial instruments	-	-	-	-
Other current liabilities	**73,725**	**-**	**-**	**73,725**
Total	**450,694**	**22**	**-**	**450,716**
Long-term borrowings	-	216,652	193,175	409,827
Derivative financial instruments	-	359	-	359
Other non-current liabilities	**-**	**7,507**	**135**	**7,642**
Total	**-**	**224,518**	**193,310**	**417,828**

(Euro/000)	December 31, 2008			
	Within 1 year	Between 2 and 5 years	Beyond 5 years	Total
Cash in hand and at bank	53,653	-	-	53,653
Trade receivables, net	301,562	-	-	301,562
Derivative financial instruments	772	-	-	772
Other current assets	50,703	-	-	50,703
Total	**406,690**	**-**	**-**	**406,690**
Derivative financial instruments	-	455	-	455
Other non-current assets	-	13,614	85	13,699
Total	**-**	**14,069**	**85**	**14,154**
Trade payables	205,363	-	-	205,363
Tax payables	22,587	-	-	22,587
Short-term borrowings	162,645	-	-	162,645
Derivative financial instruments	-	-	-	-
Other current liabilities	76,437	-	-	76,437
Total	**467,032**	**-**	**-**	**467,032**
Long-term borrowings	-	457,015	4,069	461,084
Derivative financial instruments	-	5,740	-	5,740
Other non-current liabilities	-	16,200	1,462	17,662
Total	**-**	**478,955**	**5,531**	**484,486**

Cash flows expected from the foreign forward currency contracts and interest rate swaps are described in paragraph 4.4 “derivative financial instruments”.

Classification of financial instruments

The table below shows the financial instruments present on the balance sheet, according to the analyses requested by IFRS 7, with indication of the assessment criteria applied and, in the case of “financial instruments measured at fair value”, the impact on the income statement or the shareholders' equity. If applicable, the last column of the table shows the fair value of the financial instrument.

Financial instruments *(Euro/000)*	Financial instruments at fair value through income statement	Financial instruments at fair value through equity	Financial instruments at amortised cost	Investments and non-listed financial assets at cost	Current value at Dec. 31, 2007	Fair value at Dec. 31, 2007
ASSETS						
- Cash in hand and at bank	-	-	56,882	-	56,882	56,882
- Trade receivables, net	-	-	315,792	-	315,792	315,792
- Foreign currency contracts	271	-	-	-	271	271
- Interest rate swaps - cash flow hedge	-	926	-	-	926	926
- Options	682	-	-	-	682	682
- Financial assets available for sale	-	2,118	-	325	2,443	2,443
- Other current assets	-	-	44,009	-	44,009	44,009
- Other non current assets	-	-	8,628	-	8,628	8,628
LIABILITIES						
- Short-term and long-term borrowings	-	-	382,805	-	382,805	382,805
- High Yield	-	-	188,731	-	188,731	206,521
- Interest rate swaps - cash flow hedge	-	359	-	-	359	359
- Other current liabilities	-	-	73,725	-	73,725	73,725
- Other non current liabilities	-	-	7,642	-	7,642	7,642

Financial instruments (Euro/000)	Financial instruments at fair value through income statement	Financial instruments at fair value through equity	Financial instruments at amortised cost	Investments and non-listed financial assets at cost	Current value at Dec. 31, 2008	Fair value at Dec. 31, 2008
ASSETS						
- Cash in hand and at bank	-	-	53,653	-	53,653	53,653
- Trade receivables, net	-	-	301,562	-	301,562	301,562
- Foreign currency contracts	772	-	-	-	772	772
- Options	455	-	-	-	455	455
- Financial assets available for sale	-	688	-	173	861	861
- Other current assets	-	-	50,703	-	50,703	50,703
- Other non current assets	-	-	12,838	-	12,838	12,838
LIABILITIES						
- Short-term and long-term borrowings	-	-	434,041	-	434,041	434,041
- High Yield	-	-	189,688	-	189,688	54,941
- Interest rate swaps - cash flow hedge	-	5,740	-	-	5,740	5,740
- Other current liabilities	-	-	76,437	-	76,437	76,437
- Other non current liabilities	-	-	17,662	-	17,662	17,662

Foreign currency contracts that were closed during the course of the 2008 financial year have resulted in positive income components on the income statement for a total of 754 thousand Euro (1,758 thousand Euro in 2007), gross of taxes.

Furthermore, during 2008, the Group has recorded financial income equal to 873 thousand Euro before taxes (1,452 thousand Euro in 2007), in relation to the total amount of spreads between fixed rate and variable rate relating to the interest rate swaps "IRS" contracts.

4. Notes to the consolidated balance sheet

4.1 Cash in hand and at bank

This item represents the temporary availability of liquidity held at market rates conditions. The book value of the liquidity available is aligned with the fair value at the date of the balance sheet and the related credit risk is very limited as the counterparts are primary credit institutes.

The following table shows the reconciliation of the entry "Cash in hand and at bank" with the net financial position presented on the cash flow statement:

(Euro/000)	December 31, 2008	December 31, 2007
Cash in hand and at bank	53,653	56,882
Bank overdrafts	(74,095)	(85,351)
Total	**(20,442)**	**(28,469)**

4.2. Trade receivables, net

This item is composed as follows:

(Euro/000)	December 31, 2008	December 31, 2007
Gross value	324,809	335,329
Allowance for doubtful accounts	(23,247)	(19,537)
Net value	**301,562**	**315,792**

At constant exchange rates, the trade receivables net of the allowance for bad or doubtful debts, decreased by 12,349 thousand Euro due in particular to the decrease in sales during the fourth quarter of 2008 compared to the same period of the previous year.

The Group's credit risk is not significantly concentrated since credit exposure is spread over a large number of customers. Furthermore the book value of trade receivables is considered to be approximately equal to their fair value.

At 31st December 2008, the trade receivables include receivables, that do not comply with the requirements of IAS 39 for their removal from the balance sheet, transferred to a major factoring company for a total amount of Euro 70,511 thousand (58,449 thousand Euro at 31st December 2007).

The allowance for sales returns includes the provision for products delivered to clients which, in accordance with specific contractual clauses, may not be sold to final consumers and therefore may be returned in the future. This provision is accounted for in the income statement as a reduction of sales.

The allowance for bad and doubtful debts also includes the provision for insolvency posted on the income statement under the item "general and administrative expenses" (note 5.4).

The following table shows movements in the provision for bad and doubtful debts:

(Euro/000)	Balance at January 1, 2008	Posted to income statement	Use (-)	Transl. diff.	Balance at December 31, 2008
Allowance for bad debts	11,238	3,372	(895)	(209)	13,506
Allowance for sales returns	8,299	950	-	492	9,741
Total	**19,537**	**4,322**	**(895)**	**283**	**23,247**

4.3 Inventories

This item can be broken down as follows:

(Euro/000)	December 31, 2008	December 31, 2007
Raw materials	50,754	49,176
Work-in-progress	6,315	7,313
Finished products	251,621	243,737
Gross	**308,690**	**300,226**
Obsolescence provision (-)	(36,588)	(25,943)
Total	**272,102**	**274,283**

The stock of raw materials and work-in-progress remained substantially stable compared to 31st December 2007; the increase in the stock of finished products is due to the development of the retail chain.

In order to deal with obsolete or slow-moving stock, a specific provision has been allocated, calculated on the basis of the possibility for future sale or use. This provision is included in the item "cost of sales" of the income statement.

The movements in the aforementioned provision are shown below:

(Euro/000)	Balance at January 1, 2007	Posted to income statement	Transl. diff.	Balance at December 31, 2007
Obsolescence provision	25,529	1,413	(999)	25,943
Total	**25,529**	**1,413**	**(999)**	**25,943**

(Euro/000)	Balance at January 1, 2008	Posted to income statement	Transl. diff.	Balance at December 31, 2008
Obsolescence provision	25,943	10,126	519	36,588
Total	**25,943**	**10,126**	**519**	**36,588**

4.4 Derivative financial instruments

The following table summarizes the total amount of financial instruments on the balance sheet:

(Euro/000)	December 31, 2008	December 31, 2007
Current assets:		
- Foreign currency contracts - at fair value through P&L	772	271
- Foreign currency contracts - at fair value through shareholders' equity	-	-
- Interest rate swaps - at fair value through P&L	-	-
Total	**772**	**271**
Non-current assets:		
- Interest rate swaps - cash flow hedge	-	926
- Options	455	682
Total	**455**	**1,608**
Current liabilities:		
- Foreign currency contracts - at fair value through P&L	-	
- Interest rate swaps - at fair value through P&L	-	-
Total	**-**	**-**
Non-current liabilities:		
- Interest rate swaps - cash flow hedge	5,740	359
Total	**5,740**	**359**

The fair value of the foreign currency contracts is determined on the basis of the present value of the differences between the contracted forward exchange rate and the forward market rate at the balance sheet date.

The market value of interest rate swaps is determined by specialist financial institutes on the basis of normal market conditions. The Group's interest rate risk management policies involve the hedging of the future cash flows that will be accounted for also in successive years; it is therefore reasonable to maintain that the relative suspended hedging effect of the cash flow reserve should be entered in the income statement of the successive periods when such expected cash flows actually take place. At the balance sheet date, there was no over-hedging for covering future cash flows.

The following table shows the characteristics and the fair value of the interest rate contracts in force at 31st December 2008 and at 31st December 2007:

Interest rate swaps	**December 31, 2008**			**December 31, 2007**	
(Euro/000)	**Contractual value**		**Fair value**	**Contractual value**	**Fair value**
	(USD/000)	*(Euro/000)*	*(Euro/000)*	*(Euro/000)*	*(Euro/000)*
Expiry year 2010	-	55,000	(1,612)	25,000	(96)
Expiry year 2011	-	81,000	(2,545)	100,000	663
Expiry year 2011	70,038	-	(1,584)	-	-
Total	**70,038**	**136,000**	**(5,740)**	**125,000**	**567**

The expected cash flows of interest rate swaps contracts are summarized in the following table:

Expected cash flows *(in Euro/000)*	**2008**	**2007**
2008	-	406
2009	(3,338)	67
2010	(1,786)	24
2011	(616)	70
Total expected cash flows from IRS in Euro	**(5,740)**	**567**

4.5 Other current assets

This item is composed as follows:

(Euro/000)	**December 31, 2008**	**December 31, 2007**
VAT receivable	8,715	4,980
Tax credits and payments on account	8,523	10,175
Prepayments and accrued income	10,857	6,658
Receivables from agents	633	1,018
Other current receivables	21,975	21,178
Total	**50,703**	**44,009**

The tax credits and payments on account principally relate to tax credits and prepayments made during the financial year which will be compensated against the relative tax payable.

Accrued income and deferred charges at 31st December 2008 amount to 10,857 thousand Euro and include mainly:

- prepaid advertising costs of 1,316 thousand Euro;
- prepaid rent and operating leases of 1,,803 thousand Euro;
- prepaid costs for the financing operation called "Revolving Facility" for 983 thousand Euro;
- prepaid insurance premiums of 390 thousand Euro;
- other prepaid costs, mainly of a commercial nature, for 1,323 thousand Euro.

The receivables from agents mainly refer to receivables deriving from the sale of samples.

The other short term receivables amount to 21,975 thousand Euro and refer to:

- payments of minimum annual guarantees relating to 2009 royalties for a total amount of 13,643 thousand Euro;
- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for Euro 2,213 thousand, referring to receivables due from bankrupt customers for the amount of credit relating to VAT which, pursuant to Italian tax legislation, can only be recovered when the distribution plan of the bankruptcy procedure is executed;

- deposit payments due within 12 months for 732 thousand Euro;
- receivables for insurance repayments and other receivables in the financial statements of some companies of the Group.

It is considered that the book value of the other current assets is approximately equal to their fair value.

4.6 Tangible fixed assets

The movements in the tangible fixed assets for the financial years closed on 31st December 2008 and 31st December 2007 are presented below:

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at December 31, 2007
Gross value							
Land and buildings	108,783	3,105	(1,082)	5,666	-	(422)	116,050
Plant and machinery	163,406	8,351	(5,088)	(356)	-	(424)	165,889
Equipment and other assets	153,862	26,719	(7,381)	(7,089)	-	(5,105)	161,006
Assets under constructions	6,019	3,703	-	(3,365)	-	(69)	6,288
Total	**432,070**	**41,878**	**(13,551)**	**(5,144)**	**-**	**(6,020)**	**449,233**
Accumulated depreciation							
Land and buildings	23,112	4,504	(64)	3,154	-	(148)	30,558
Plant and machinery	100,623	11,148	(4,500)	(68)	-	(194)	107,009
Equipment and other assets	106,384	16,619	(7,216)	(3,610)	-	(2,369)	109,808
Total	**230,119**	**32,271**	**(11,780)**	**(524)**	**-**	**(2,711)**	**247,375**
Net book value	**201,951**	**9,607**	**(1,771)**	**(4,620)**	**-**	**(3,309)**	**201,858**

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at December 31, 2008
Gross value							
Land and buildings	116,050	16,141	(874)	(3,833)	1,024	540	129,048
Plant and machinery	165,889	9,253	(1,660)	3,842	-	589	177,913
Equipment and other assets	161,006	30,659	(5,677)	(547)	4,763	2,351	192,555
Assets under constructions	6,288	2,980	-	(2,872)	-	43	6,439
Total	**449,233**	**59,033**	**(8,211)**	**(3,410)**	**5,787**	**3,523**	**505,955**
Accumulated depreciation							
Land and buildings	30,558	4,285	(915)	(421)	240	(39)	33,708
Plant and machinery	107,009	10,315	(1,676)	512	-	145	116,305
Equipment and other assets	109,808	19,443	(5,206)	(247)	2,075	1,311	127,184
Total	**247,375**	**34,043**	**(7,797)**	**(156)**	**2,315**	**1,417**	**277,197**
Net book value	**201,858**	**24,990**	**(414)**	**(3,254)**	**3,472**	**2,106**	**228,758**

A total of 56,161 thousand Euro was invested in tangible fixed assets in the financial period (38,513 thousand Euro at 31st December 2007), mainly as follows:

- 12,534 thousand Euro by the subsidiary Safilo S.p.A. mainly for the renewal of plants in the Italian production facilities and for the purchase and production of equipment relating to new models;
- 15,775 thousand Euro for the development of the new factory in China;
- 17,606 thousand Euro in American companies mainly for the development of the retail chains in the United States and Mexico;
- 3,546 thousand Euro in the production facility of the Slovenian subsidiary Carrera d.o.o.;
- the remaining part in the other companies of the Group.

Several companies of the Group have purchased tangible fixed assets under financial lease contracts. The following table shows the gross value and the related accumulated depreciation fund, while the relating debt to the lessor is reported in paragraph 4.13 "Borrowings".

(Euro/000)	December 31, 2008	December 31, 2007
Land and buildings	15,422	14,261
Accumulated depreciation (-)	(1,452)	(917)
Net book value	**13,970**	**13,344**
Plant and machinery	3,249	3,249
Accumulated depreciation (-)	(2,620)	(2,364)
Net book value	**629**	**885**
Equipment and other assets	3,063	393
Accumulated depreciation (-)	(1,087)	(77)
Net book value	**1,976**	**316**
Total	**16,575**	**14,545**

In December, the subsidiary Safilo S.p.A., in order to more easily obtain future bank loans, carried out a real estate spin-off operation, consisting in the transfer of its real estate property to the subsidiary "Oxsol S.p.A.".

The assets transferred are land, buildings and plants. The agreed price was 101.5 million Euro and was the result of a survey carried out by an external professional.

The subsidiary Safilo S.p.A. continues to hold and use the property transferred pursuant to a rental contract with fees in line with market values.

The effects of the operation were offset in the consolidated financial statements, except for those connected to deferred taxation.

4.7 Intangible fixed assets

The changes in the intangible fixed assets for the financial periods closed on 31st December 2008 and 31st December 2007 are presented below:

(Euro/000)	Balance at January 1, 2007	Increase	Decrease and write-off	New acquisition	Transl. diff.	Balance at December 31, 2007
Gross value						
Software	10,522	3,101	(410)	1,841	(359)	14,695
Trademarks and licenses	41,857	513	-	(18)	(39)	42,313
Other intangible assets	6,413	2,806	-	(34)	(146)	9,039
Intangible assets in progress	15	76	-	(7)	(1)	83
Total	**58,807**	**6,496**	**(410)**	**1,782**	**(545)**	**66,130**
Accumulated depreciation						
Software	7,694	1,727	(73)	632	(127)	9,853
Trademarks and licenses	23,066	3,441	(3)	(12)	(15)	26,477
Other intangible assets	5,773	605	(26)	(43)	(35)	6,274
Total	**36,533**	**5,773**	**(102)**	**577**	**(177)**	**42,604**
Net book value	**25,580**	**(2,918)**	**(414)**	**184**	**(158)**	**22,274**

(Euro/000)	Balance at January 1, 2008	Increase	Decrease and write-off	Reclass.	New acquisition	Transl. diff.	Balance at December 31, 2008
Gross value							
Software	14,695	2,286	(382)	610	91	454	17,754
Trademarks and licenses	42,313	625	(2)	-	3	(9)	42,930
Other intangible assets	9,039	1,790	(996)	(239)	-	(21)	9,573
Intangible assets in progress	83	346	-	-	-	2	431
Total	**66,130**	**5,047**	**(1,380)**	**371**	**94**	**426**	**70,688**
Accumulated depreciation							
Software	9,853	1,947	(372)	493	68	151	12,140
Trademarks and licenses	26,477	3,394	-	-	-	(2)	29,869
Other intangible assets	6,274	599	(788)	(142)	-	11	5,954
Total	**42,604**	**5,940**	**(1,160)**	**351**	**68**	**160**	**47,963**
Net book value	**23,526**	**(893)**	**(220)**	**20**	**26**	**266**	**22,725**

Depreciation and amortisation expenses related to tangible and intangible fixed assets for the 2008 and 2007 financial years are divided as follows in the income statement:

(Euro/000)	*note*	2008	2007
Cost of sales	*5.2*	20,134	19,473
Selling and marketing expenses	*5.3*	6,735	4,511
General and administrative expenses	*5.4*	13,114	14,060
Total		**39,983**	**38,044**

4.8 Goodwill

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	Transl. diff.	Balance at December 31, 2007
Goodwill	804,911	858	(5,931)	(44,918)	754,920
Net value	**804,911**	**858**	**(5,931)**	**(44,918)**	**754,920**

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Transl. diff.	Balance at December 31, 2008
Goodwill	754,920	39,151	-	13,138	807,209
Net value	**754,920**	**39,151**	**-**	**13,138**	**807,209**

Variations during the financial year were mainly due to the acquisition of the Sunglass Island (Mexico) and Just Spectacles (Australia) retail chains and to the currency exchange differences generated in the period.

Business combinations

Sunglass Island - Mexico

As already mentioned in the Directors' Report on operations, in January 2008 the Safilo Group bought 60% of Tide Ti, with head office in Cancun (Mexico), for approximately 13.8 million Euro.

Sunglass Island	*(Euro/000)*
Fair value of assets/liabilities acquired	1,465
Goodwill	12,332
Price paid	**13,797**

The table below reports the total fair value of the assets and liabilities purchased and the portion of the same used for the calculation of the goodwill value resulting from the business combination:

Assets and liabilities acquired *(Euro/000)*	**Total fair value of assets and liabilities acquired**	**60% fair value of assets and liabilities acquired**
Trade receivables, net	306	184
Inventories	3,243	1,946
Other current assets	673	404
Tangible assets, net	2,264	1,358
Other non-current assets	2,322	1,393
Cash in hand and at bank	500	300
Trade payables	(2,951)	(1,771)
Tax payables	(324)	(194)
Other current liabilities	(2,672)	(1,603)
Other non-current liabilities	(64)	(38)
Bank borrowings	(856)	(514)
Total net assets	**2,441**	**1,465**
Goodwill		12,332
Price paid		**13,797**

The value of the put options held by the minority shareholders for the remaining 40% of the Mexican company's equity, together with a slight adjustment of the originally agreed price, increased the goodwill value by 8,658 thousand Euro. The total goodwill value generated by the combination thus amounted to 20,990 thousand Euro.

Just Spectacles

On 31st January 2008 the Safilo Group bought 100% of the Australian companies Just Spectacles PTY Ltd, Just Spectacles Franchisor PTY Ltd, Just Spectacles Direct PTY Ltd and Just Protection Eyewear PTY Ltd with head office in Perth (Australia) for approximately 12.6 million Euro.

Just Spectacles	*(Euro/000)*
Fair value of assets/liabilities acquired	367
Goodwill	12,221
Price paid	**12,588**

The table below gives the total fair value of the assets and liabilities purchased used for the calculation of the goodwill value resulting from the business combination:

Assets and liabilities acquired *(Euro/000)*	**Total fair value of assets and liabilities acquired**
Cash in hand and at bank	1,126
Trade receivables, net	520
Inventories	998
Other current assets	524
Tangible assets, net	2,209
Trade payables	(2,958)
Other current liabilities	(607)
Borrowings from leasing companies	(1,444)
Total net assets	**367**
Goodwill	12,221
Price paid	**12,588**

Both transactions were entered in the accounts according to the "purchase" method, and the difference between the purchase price and the fair value of the net assets was posted to goodwill.

The companies bought in Australia and Mexico recorded a profit for the year of 670 thousand Euro, before consolidation adjustments.

In compliance with IFRS 3 – paragraph 62, the fair value of the assets and liabilities of the companies bought was calculated provisionally at the moment of the takeover. When the financial statement at 31.12.2008 was drawn up, the value was recalculated and the new fair value led to a reduction of 910 thousand Euro in the goodwill of the Mexican chain, and a reduction of 1,170 thousand Euro in the goodwill of the Australian chain.

Impairment test

For impairment test purposes, the Group has identified its cash-generating units (CGUs), which substantially correspond with the entities operating in each country. At the beginning of 2008 the Group bought the two new retail chains Tide Ti and Just Spectacles, which is why two new CGUs appear within the Group and which are also subjected to impairment tests.

The goodwill broken down according to CGU groups is illustrated below:

Goodwill *(Euro/000)*	Italy and Europe	Americas	Asia Pacific	Total
December 31, 2008	285,362	234,472	287,375	807,209
December 31, 2007	289,020	213,014	252,886	754,920

The recoverable amount of the CGUs is based on their value in use determined on estimated future cash flow projections. This calculation is based on five-year financial plans, approved by the management in consideration of the forecast market and Group development. Only for two subsidiaries, nine-year plans were used because of the very particular and exceptional situations linked to the economic context in which the said companies currently operate.

The cash flows taken into consideration for the impairment tests have been reconstructed starting from the 2009 budget approved by the Board of Directors and developed for the following years, on the basis of the best knowledge available within the company and confirmed by external analyses carried out by leading specialist institutes.

To determine the terminal value, the cash flow projections that were obtained were actualised at a discount rate (WACC – weighted average cost of capital) at the reference date of the test, which considers the specific nature and risks of each area in which the Group operates.

Cash flows beyond the five-year period are extrapolated using the estimated perpetual growth rate ("g rate") that does not exceed the long-term average growth rate forecast by analysts for the business in which the Group operates.

The following table sums up the "WACC" and the "g rates" used by the Group:

Key assumptions	"WACC" discount rate		Growth rate "g"	
	2008	2007	2008	2007
Euro zone	6.3%	6.9%	1.0%	1.0%
USA zone	5.4%	7.0%	1.0%	1.0%
Far East zone	7.5%	8.2%	2.4%	2.2%
Australia	7.2%	8.8%	1.0%	1.0%
Japan	4.4%	4.3%	1.0%	1.0%
South Africa	10.3%	10.6%	6.0%	5.5%
Mexico	8.3%	n.s.	3.6%	n.s.
India	11.1%	10.7%	4.8%	5.2%
Brasil	9.7%	10.6%	3.7%	4.0%

The Group's impairment test brought to light no need for writing down the goodwill value. It must be underlined that the estimates and budget data considered and the hypotheses referred to above were defined by the management on the basis of their past experience and the forecasts of the future market scenarios in which Safilo operates. The pessimistic forecasts for 2009 induced the management to consider the Group's expected revenues and margins in a very prudent and cautious manner; nevertheless, there were no significant indications of impairment for the CGUs and the goodwill entered in the financial statements. The trend of the results in the first two months of the year shows no evidence of situations any worse than the parameters used for the impairment test. The circumstances and events that could cause loss of value will be constantly monitored by the Group, although the discretion and risk inherent to the estimations used by the management cannot guarantee that no loss in the goodwill value may have to be posted in the future.

The management also maintains that the present prices of the shares, depressed by the negative world economic situation and by the generalised and exceptional fall in the lists of all the main world stock exchanges, do not reflect the Group's real economic value and potential.

In monitoring the goodwill value, the management developed sensitivities on the basis of various hypothetical future scenarios. For the impairment test, the sales and profitability trend forecasts used were particularly prudent, to the extent that were included in the most conservative range of the various sensitivities. In particular, these parameters lead to an estimate, at the consolidated level, of sales and net profit trends lower than those reached in the three years prior to 2008. The sensitivity analysis on the impairment test results, based on the changes of the underlying hypothesis of the impairment test itself, gave the following results:

- if the WACC used were increased by 50 basis points, the goodwill value of certain CGUs would result as impaired by about 30 million Euro;

- if the Gordon rate were reduced by 10%, the goodwill value of certain CGUs would result as impaired by about 10 million Euro.

In both cases, the goodwill measured on the business units as a whole would not result as subject to any write-off.

4.9 Investments in associated companies

This account balance is composed of the following companies:

Company	Registered head office or headquarters	% of share capital	Type of investment	Main activity
TBR Inc.	USA	33.3%	Associated company	Real estate
Elegance I. Holdings Ltd	Hong Kong	23.05%	Associated company	Commercial
Optifashion As	Turkey	50.0%	Non-consolidated subsidiary	Commercial

The movements of shareholdings during the financial period are the following:

	31.12.2007			Movements for the year		
(Euro/000)	Gross value	Revaluation/ (write-down)	Value at December 31, 2007	Share of results and write-down of divid. of assoc. comp.	Transl. diff.	Value at December 31, 2008
TBR Inc.	404	576	980	(807)	10	183
Elegance I. Holdings Ltd	4,986	6,072	11,058	101	715	11,874
Optifashion As	353	(112)	241	-	-	241
Total	**5,743**	**6,536**	**12,279**	**(706)**	**725**	**12,298**

During 2008 no shareholdings in associated companies were purchased. The changes compared to 31st December 2007 are primarily due to the gains realised in the year from the companies listed above, net of dividends distributed. The table below shows the principal data relating to the last approved financial statements of the above-mentioned companies:

December 31, 2008 *(Euro/000)*	Assets	Liabilities	Equity	Sales	Net profit	% Group	Group shareholders' equity
Elegance Ltd	60,304	10,752	49,552	49,304	2,133	23.05%	11,422
Optifashion As	565	142	423	1,533	34	50.00%	212
TBR Inc.	6,273	5,723	550	1,084	434	33.33%	183
Total	**67,142**	**16,617**	**50,525**	**51,921**	**2,601**		**11,817**

The associated company Elegance Ltd closes its financial period on 31st March every year. In order to evaluate the shareholding according to the "equity" method, the last approved quarterly balance sheet, at 30th September 2008, prepared for the Hong Kong stock exchange, was used. The fair value which reflects the stock exchange listing at December 31st, 2008 is 3.8 million Euro. In view of the present financial crisis, it is maintained that the market price does not represent the recoverable value of the said shareholding.

The company Optifashion A.s. with registered office in Istanbul (Turkey), a 50% held subsidiary of the Group, is not included in the consolidation perimeter, since the amounts are considered insignificant for the purpose of representing a true and fair view of the Group's financial position and result.

4.10 Financial assets available-for-sale

This item includes financial assets that may be sold. They are measured at fair value with counterbalance in the

shareholders' equity, according to the modalities indicated in paragraph 2.9.

(Euro/000)	Relationship	Value at December 31, 2008	Value at December 31, 2007
Gruppo Banco Popolare	Other equity investment	638	1,954
Unicredit S.p.A.	Other equity investment	50	164
Others	Other equity investment	173	325
Total		**861**	**2,443**

The movements of the financial period of the item in question are reported below:

	December 31, 2007			Movements for the year		
(Euro/000)	Gross value	Revaluation / (write-down)	Net value	Increase / (Decrease)	Revaluation / (write-down)	Value at December 31, 2008
Gruppo Banco Popolare	4,096	(2,142)	1,954	-	(1,316)	638
Unicredit S.p.A.	48	116	164	-	(114)	50
Others	325	-	325	(152)	-	173
Total	**4,469**	**(2,026)**	**2,443**	**(152)**	**(1,430)**	**861**

The value of the stakes in Gruppo Banco Popolare and Unicredit S.p.A. was determined with reference to the prices quoted on the official markets at the balance sheet date. Due to the present crisis in the financial markets, it is maintained that the stock exchange price does not represent the recoverable value of the investments in Gruppo Banco Popolare and in Unicredit S.p.A.

4.11 Deferred tax assets and deferred tax liabilities

Deferred tax assets net of deferred tax liabilities in the financial statements of some companies of the Group, have been written down through a provision, in order to take into account the recent market trend and the changed expectations of future levels of profitability. This prudential provision of 40,004 thousand Euro has been allocated to the income statement under the item "non-recurring taxes" (note 5.8) for an amount equal to Euro 37,945 thousand and the difference has been directly subtracted from the shareholders' equity as it refers to items that are directly recorded in the shareholders' equity. The said write-off may be annulled, as prescribed by international accounting standard n. 12, in future financial years if the assessable income is sufficient to absorb the fiscal losses and the temporary differences between the book value of the assets and liabilities and the relative fiscal value.

The tables below show the values of deferred tax assets and of the deferred tax liabilities, net of provision accounted for:

Deferred tax assets

(Euro/000)	Balance at January 1, 2008	Impact at income statement	Impact at equity	Reclass.	Transl. diff.	Balance at December 31, 2008
- Tax losses	38,604	(29,913)	-	(3,630)	(223)	4,838
- ICO profits on inventories and obsolescence	16,376	(1,542)	-	-	726	15,560
- Adjustments on receivables	5,107	(401)	-	-	244	4,950
- Contingent liabilities	2,201	(1,961)	-	-	(20)	220
- Employee benefit liability	990	(35)	-	-	102	1,057
- Intangible assets	7,628	(3,921)	-	-	2	3,709
- Tangible assets	125	16,731	-	-	88	16,944
- Fair value of derivative instruments	105	-	(105)	-	-	-
- Investments	-	322	-	-	18	340
- Goodwill amortisation	1,065	(93)	-	-	29	1,001
- Other payables	1,715	207	-	-	(171)	1,751
- Other temporary differences	1,579	1,413	-	-	72	3,064
Total	**75,495**	**(19,193)**	**(105)**	**(3,630)**	**867**	**53,434**

Deferred tax liabilities

(Euro/000)	Balance at January 1, 2008	Impact at income statement	Impact at equity	Transl. diff.	Balance at December 31, 2008
- Differences on tangible and intangible assets depreciation	2,437	(974)	-	(92)	1,371
- Goodwill	2,821	(2,311)	-	5	515
- Investments	1,074	345	-	82	1,501
- Fair value of derivative instruments	255	-	(255)	-	-
- Dividends	352	58	-	(3)	407
- ICO profits on inventories	52	(1)	-	6	57
- Adjustments on receivables and payables	2,439	(2,357)	-	(7)	75
- Employee benefit liability	1,154	(506)	(648)	-	-
- Other temporary differences	496	765	-	(3)	1,258
Total	**11,080**	**(4,981)**	**(903)**	**(12)**	**5,184**

The following table shows the deferred tax assets and of the deferred tax liabilities, gross of the provision accounted for, reconciling the impact on the income statement and on the shareholders' equity.

(Euro/000)	Balance at January 1, 2008	Impact at income statement	Impact at equity	Reclass.	Transl. diff.	Balance at December 31, 2008
Deferred tax assets	75,495	27,339	2,272	(3,630)	867	102,343
Deferred tax liabilities	(11,080)	(3,606)	585	-	12	(14,089)
Total gross	64,415	23,733	2,857	(3,630)	879	88,254
Provision	-	(37,945)	(2,059)	-	-	(40,004)
Total net	**64,415**	**(14,212)**	**798**	**(3,630)**	**879**	**48,250**

The table below shows the accumulated fiscal losses of some of the Group's companies, on which deferred tax assets have been accounted for. As mentioned above, deferred tax assets calculated on the losses of some of the Group's companies have been written down because the recovery through future assessable income was considered unlikely.

Financial year	Expiry date	Tax losses *(Euro/000)*	Calculated deferred tax assets *(Euro/000)*
1997	2012	182	55
1998	2013	909	273
1999	2014	464	139
2000	2015	527	158
2001	2016	2,797	839
2002	2017	2,126	638
2003	2018	2,256	677
2004	2009	277	83
2005	2010	74,785	20,566
2005	2020	1,349	405
2006	2011	3,416	939
2006	2021	3,543	1,063
2007	2012	4,194	1,069
2008	2013	7,996	2,175
2008	2015	1,133	446
2008	2023	2,764	829
Total		**108,718**	**30,353**
Provision			(25,515)
Total deferred tax assets on losses carried forward at Dec. 31, 2008			**4,838**

(Euro/000)	December 31, 2008	December 31, 2007
Deferred tax assets		
- recoverable within one year	13,841	34,133
- recoverable beyond one year	39,593	41,362
Total	53,434	75,495
Deferred tax liabilities		
- recoverable within one year	594	2,878
- recoverable beyond one year	4,590	8,202
Total	5,184	11,080
Total net	**48,250**	**64,415**

4.12 Other non-current assets

At 31st December 2008 other non-current assets amount to 12,838 thousand Euro against 8,628 Euro in the previous financial year and refer to:

- 3,358 thousand Euro for deposits relating primarily to rental contracts for stores of the Spanish subsidiary Navoptik, the new Mexican subsidiary Tide Ti S.A. de C.V. and the American subsidiary Solstice;
- 5,665 thousand Euro for the receivables on the balance sheet of the subsidiary Safilo S.p.A. relating to the shares of the employee benefit liability transferred to the Treasury Fund set up by INPS (Italian Social Security Institute) following the modifications introduced by the Italian financial law n. 296/06;
- the remaining part for receivables present in the balance sheets of the Group companies.

It is considered that the book value of the other non-current assets is approximately equal to their fair value.

4.13 Borrowings

This item is composed as follows:

(Euro/000)	December 31, 2008	December 31, 2007
Short-term borrowings		
Bank overdrafts	4,238	2,395
Short-term bank loans	69,857	82,956
Short-term portion of long-term bank loans	37,646	34,516
Short-term portion of financial leasing	1,522	1,197
Debt to the factoring company	49,279	39,300
Other short-term loans	103	1,345
Total	**162,645**	**161,709**
Long-term borrowings		
Medium long-term loans	450,660	400,567
Payables for financial leasing	9,863	8,595
Other medium long-term loans	561	665
Total	**461,084**	**409,827**
Total borrowings	**623,729**	**571,536**

The short term portion of the long-term bank loans corresponds for Euro 37,284 thousand to the portion of the “senior” loan stipulated at the end of June 2006 expiring within one year and for the difference of the reimbursable portion within 12 months of the bank loan obtained by other companies of the Group.

The long term portion of the above mentioned “senior” loan, equal to 253,380 thousand Euro, is included in the medium - long term loans. This loan is divided as follows:

- Euro 200 million, relating to "Facility A", with six monthly amortisation starting from December 2006 until

December 2011. Facility A is in turn divided in three tranches, one of which is in Euro (tranche A1, for a nominal value of Euro 80 million) at the Euribor rate plus an initial spread of 0.60%, while the other two tranches are in US dollars (Tranche A2 and Tranche A3 for nominal values of USD 70.4 million and USD 80.5 million respectively) at the Libor rate plus an initial spread of 0.60%, with expiry at 31st December 2011. At 31st December 2008, the long term portion of this loan amounts to 88,380 thousand Euro and the spread applied is currently equal to 1.80%;

- Euro 200 million for the "Revolving Facility" divided into two tranches, which may also be issued in US dollars (Tranche B1 for a nominal value of Euro 170 million, Tranche B2 for a nominal value of Euro 30 million), of which 165 million Euro had been used at 31st December 2008. The Revolving Facility expires on 31st December 2012.

The contractual agreements relating to the aforementioned "senior loan" granted to several companies of the Group by a pool of banks coordinated by Bayerische Hypo und Vereinsbank AG include a series of obligations that regard operational and financial aspects. In particular, predefined levels must be respected relating to certain covenants, which are calculated on the basis of figures at the balance sheet date on a half-year basis. If these covenants are not met, conditions will have to be negotiated with the lenders to be able to continue with the loan agreement, or rather the opportune waivers or adjustments to the covenants. Otherwise, there is risk of an event of default which could result in the forced advanced repayment of the loaned sums.

The covenants in the current medium long-term loan contract are calculated as the ratio between the net financial position and EBITDA and between EBITDA and the net financial interests. In November 2008, foreseeing a possible misalignment of the covenants at 31st December 2008 in respect of the levels specified in the contractual agreements relative to the senior loan, new levels more closely in line with the full- year forecasts were negotiated with the lending banks.

The medium and long term borrowings also include:

- The High Yield bond issued for a nominal amount of 195 million Euro.
- The long-term portion of the borrowings present in the balance sheet of other Group companies, amounting to 7,592 thousand Euro;

The collateral for the above loans, which are evaluated according to the amortised cost method, is composed mainly of pledges on Safilo S.p.A. shares and guarantees supplied by the companies directly financed.

The payables for financial leasing refer to tangible fixed assets owned under lease contracts by some companies of the Group. The lease contracts will expire in about 6.5 years. All the lease contracts in force involve repayments at constant instalments and no restructuring of the original plans is foreseen.

The following table illustrates the short term and medium/long term portions relating to lease contracts at 31st December 2008:

(Euro/000)	**December 31, 2008**	**December 31, 2007**
Short-term portion of financial leasing	1,522	1,197
Long-term portion of financial leasing	9,863	8,595
Totale debt	**11,385**	**9,792**

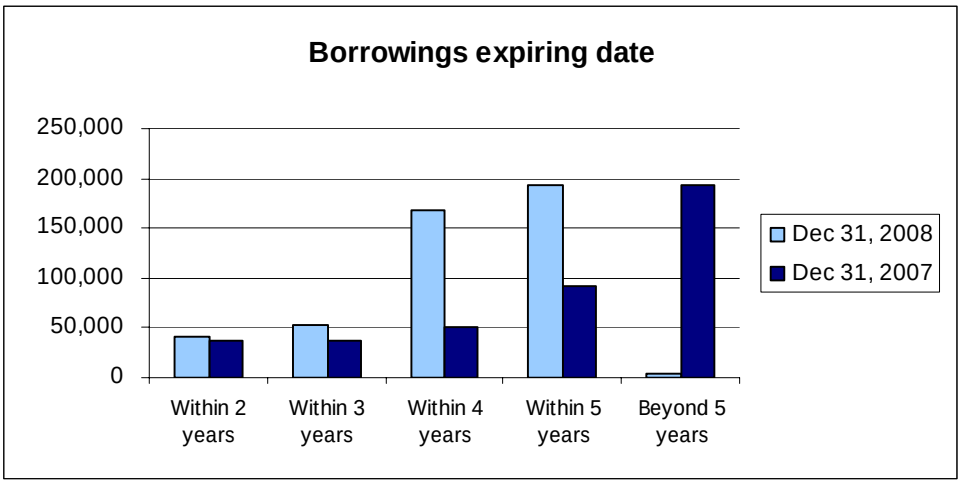
Some companies of the Group have stipulated operating lease contracts. The rental costs for operating leases are posted in the income statement under "Cost of sales" (note 5.2), "Selling and marketing expenses" (note 5.3) and "General and administrative costs" (note 5.4).

The "other medium and long-term loans" mainly refer to a loan granted to the subsidiary Safilo S.p.A. valid under law 46/82 at a rate of 0.705%.

The short-term payables towards factoring companies are for contracts stipulated with leading factoring companies by the subsidiary Safilo S.p.A. for 46,681 thousand Euro and by the subsidiary Safilo do Brasil for 2,598 thousand Euro.

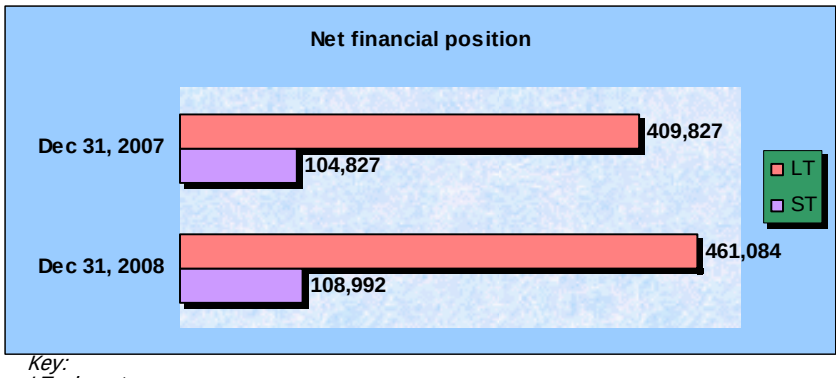
The expiry dates of medium and long term loans are the following:

(Euro/000)	December 31, 2008	December 31, 2007
Within 2 years	41,950	37,265
Within 3 years	53,695	37,423
Within 4 years	168,047	50,728
Within 5 years	193,323	91,237
Beyond 5 years	4,069	193,174
Total	**461,084**	**409,827**



The net financial position of the Group at 31st December 2008 compared with the same position at 31st December 2007 is as follows:

Net financial position	**December 31,**		
(Euro/000)	**2008**	**2007**	**Change**
Current portion of long-term borrowings	(37,646)	(34,516)	(3,130)
Bank overdrafts and short-t. bank borrowings	(74,095)	(85,351)	11,256
Other short-term borrowings	(50,904)	(41,842)	(9,062)
Cash and cash equivalents	53,653	56,882	(3,229)
Short-term net financial position	**(108,992)**	**(104,827)**	**(4,165)**
Long-term borrowings	(461,084)	(409,827)	(51,257)
Long-term net financial position	**(461,084)**	**(409,827)**	**(51,257)**
Net financial position	**(570,076)**	**(514,654)**	**(55,422)**



Key:
LT= long term
ST= short term

The following table shows borrowings divided by currency:

(Euro/000)	**December 31, 2008**	**December 31, 2007**
Short-term		
Euro	128,240	141,380
US Dollar	21,478	15,129
Brasilian Real	2,597	2,744
Japanese Yen	793	1,213
Chinese Reminbi	9,057	-
Honk-Kong Dollar	-	1,245
South-African Dollar	8	-
Mexican Peso	472	-
Total	**162,645**	**161,709**
Medium long-term		
Euro	407,691	343,588
US Dollar	48,589	66,239
Japanese Yen	2,378	-
Mexican Peso	1,670	-
Australian Dollar	756	-
Total	**461,084**	**409,827**
Total borrowings	**623,729**	**571,536**

4.14 Trade payables

This item can be broken down as follows:

(Euro/000)	December 31, 2008	December 31, 2007
Trade payables for:		
- purchase of raw materials	42,371	43,242
- purchase of finished goods	76,108	60,525
- suppliers from subcontractors	4,842	8,280
- tangible and intangible assets	5,129	3,683
- commissions	5,677	5,933
- royalties	14,703	20,318
- advertising and marketing costs	25,820	24,349
- services	30,713	28,384
Total	**205,363**	**194,714**

The book value of the trade payables is maintained as being approximately the same as the fair value.

4.15 Tax payables

Tax payables at December 31st, 2008 amount to Euro 22,587 thousand, of which 11,445 thousand Euro refers to income taxes for the year, 2,517 thousand Euro relates to V.A.T., and the remaining portion is for withholding and local taxes. Current income taxes for the year are explained in the note on income taxes (5.8).

4.16 Other current liabilities

This item is composed as follows:

(Euro/000)	December 31, 2008	December 31, 2007
Payables to personnel and social security institutions	30,497	30,158
Premiums to clients	25,476	27,231
Agent fee payables	2,082	1,792
Payables to pension funds	1,106	881
Accrued advertising and sponsorship costs	775	484
Accrued interests on long-term loans	7,811	3,283
Other accruals and deferred income	2,830	3,519
Payables for dividends	2,630	3,726
Other current liabilities	3,230	2,651
Total	**76,437**	**73,725**

Payables to personnel and social security institutions principally refer to salaries and wages for December and for holidays matured and not taken.

Payables to minority shareholders refer to dividends that have already been deliberated by the shareholders' meetings but had not yet been paid at the balance sheet date.

It is considered that the book value of the "other current liabilities" approximates their fair value.

4.17 Provision for risks and charges

This item is composed as follows:

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2007
Product warranty provision	3,801	949	(287)	-	-	4,463
Agents' severance indemnity	3,689	165	(55)	-	-	3,799
Other provisions for risks and charges	2,988	210	(645)	2,026	(52)	4,527
Provisions for risks - long term	**10,478**	**1,324**	**(987)**	**2,026**	**(52)**	**12,789**
Provisions for risks - short term	**828**	**-**	**(99)**	**74**	**-**	**803**
Total	**11,306**	**1,324**	**(1,086)**	**2,100**	**(52)**	**13,592**

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Transl. diff.	Balance at December 31, 2008
Product warranty provision	4,463	1,190	(1,057)	6	4,602
Agents' severance indemnity	3,799	1,160	(71)	-	4,888
Other provisions for risks and charges	4,527	698	(1,453)	1	3,773
Provisions for risks - long term	**12,789**	**3,048**	**(2,581)**	**7**	**13,263**
Provisions for risks - short term	**803**	**350**	**(100)**	**-**	**1,053**
Total	**13,592**	**3,398**	**(2,681)**	**7**	**14,316**

The product warranty provision was recorded against the costs to be incurred for the replacement of products sold before the balance sheet date.

The agents' severance indemnity was created against the risk deriving from the payment of indemnities in the case of termination of the agency agreement. This provision has been calculated based on existing laws at the balance sheet date considering all the future expected financial cash outflows.

The provisions for other risks and charges refer to provisions made mainly in previous financial years for litigation still pending at the balance sheet date. It is maintained that the said allocations are sufficient to cover the risks existing at the balance sheet date.

4.18 Employee benefit liability

During the financial years under analysis, the item showed the following movements:

(Euro/000)	Balance at January 1, 2007	Posted to income statement	Actuarial gains/(losses)	Uses/ Payments	Transl. diff.	Balance at December 31, 2007
Defined contribution plan	-	5,081	-	(1,984)	-	3,097
Defined benefit plan	40,952	3,766	(6,299)	(3,620)	(56)	34,743
Total	**40,952**	**8,847**	**(6,299)**	**(5,604)**	**(56)**	**37,840**

(Euro/000)	Balance at January 1, 2008	Posted to income statement	Actuarial gains/(losses)	Uses/ Payments	Transl. diff.	Balance at December 31, 2008
Defined contribution plan	3,097	3,002	-	-	-	6,099
Defined benefit plan	34,743	(267)	3,380	(2,116)	236	35,976
Total	**37,840**	**2,735**	**3,380**	**(2,116)**	**236**	**42,075**

This item refers to different forms of defined benefit and defined contribution pension plans, in line with the local conditions and practices in the countries in which the Group carries out its business.

The employee severance fund of Italian companies ("TFR"), which constitutes the main part of such benefits, has always been considered to be a defined benefit plan. However, following the changes in legislation governing the employment severance fund introduced by Italian law no. 296 of 27th December 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- the portion of the employee benefit liability matured from 1st January 2007, whether transferred to selected pension funds or transferred to the treasury account established with INPS, must be classified as a "defined contribution plan";
- the portion of the employee benefit liability matured as of 31st December 2006, must be classified as a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

Actuarial estimates used for calculating the employee severance liability matured up to 31st December 2006 are based on a system of probable factors based on:

a) demographic parameters;

b) economic parameters;

c) financial parameters.

Demographic parameters are normally summarised in tables based on samples deriving from different institutes (Istat, Inail, Inps, General Accounts Office, etc.).

Economic parameters principally refer to long-term inflation rates, dynamic remuneration of the collective employment agreements and financial yield rate, crucial for the revaluation of amounts accrued in the employee severance fund.

The main financial parameter is given by the discount rate. In order to calculate the discount rate, the structure of zero coupon bonds deducted from the swap rates at 31st December 2008 was used.

The amounts recorded in the financial statements relating to the financial years 2008 and 2007 can be divided as follows:

(Euro/000)	2008	2007
Service cost	1,380	7,534
Interest cost	1,355	1,313
Actuarial gain/(loss)	3,380	(6,299)
Total	**6,115**	**2,548**

4.19 Other non-current liabilities

The other non-current liabilities at 31st December 2008 amount to Euro 17,662 thousand (Euro 7,642 thousand at December 31st, 2007) and include:

- 899 thousand Euro for the medium and long-term portion of payables to licensors deriving from contracts for the production and marketing of branded products;
- 1,291 thousand Euro for the actual value of the debt deriving from the agreement reached by an American subsidiary for the settlement of a dispute arisen in relation to the use of a patent;
- 3,828 thousand Euro relating to the fair value of the put option on the shares of Safilo Hellas belonging to the minority shareholder;
- 9,634 thousand Euro relating to the fair value of the put option on the equity belonging to the minority shareholder of the newly acquired Mexican subsidiary Tide Ti;
- the remaining part regards non-current liabilities recorded in the balance sheet of the companies of the Group.

SHAREHOLDERS' EQUITY

Shareholders' equity is made of the value contributed by the shareholders of Safilo Group S.p.A. (the share capital and the share premium reserve), plus the value generated by the Group in terms of profit gained from its operations (profit carried forward and other reserves). At 31st December 2008, the shareholders' equity amounted to 804,277 thousand Euro (of which 8,412 thousand Euro represent the minority interests), against 840,938 thousand Euro (of which 4,920 thousand Euro are the minority interests).

Managing its capital, the Group's aim is to create value for the shareholders, developing its business and thus guaranteeing the continuity of the company.

The Group constantly monitors the ratio between indebtedness and shareholders' equity, for the purpose of maintaining a balance, also in respect of the long-term loans currently in force.

4.20 Share capital

The capital stock of the parent company Safilo Group S.p.A. at 31st December 2008 amounted to Euro 71,348,532 and consisted of 285,394,128 ordinary shares with a nominal value of Euro 0.25 per share.

4.21 Share premium reserve

The share premium reserve amounts to Euro 747,471 thousand and consists of:

- the higher value attributed on the conferment of shares by the subsidiary Safilo S.p.A. compared to the nominal value of the corresponding increase in share capital;
- the higher price paid compared to the nominal value of the shares, at the moment of placing the shares on the Telematic Stock Market, less the quotation charges sustained;
- the higher amount deriving from the conversion of the convertible bonds;
- the higher value cashed in from stock options exercised.

During 2008, the above reserve did not undergo any changes.

4.22 Retained earnings and other reserves

The retained earnings and other reserves include both the reserves of the subsidiary companies generated after their inclusion in the consolidation area and the translation differences deriving from the translation into Euro of the financial statements of consolidated companies denominated in other currencies.

(Euro/000)	Balance at January 1, 2007	Previous year's profit allocation	Impact on equity	Recl. from share premium reserve	Divid. distribution	Change in consolidation scope	Balance at December 31, 2007
Translation differences - Group	(22,726)	-	(53,079)	-	-	-	(75,805)
Translation differences - Minority	(2)	-	(145)	-	-	-	(147)
Total	**(22,728)**	**-**	**(53,224)**	**-**	**-**	**-**	**(75,952)**
Other reserves - Group	42	37,467	879	9,544	(5,667)	-	42,265
Other reserves - Minority	2,045	3,346	(16)	-	(2,253)	(1,580)	1,542
Total	**2,087**	**40,813**	**863**	**9,544**	**(7,920)**	**(1,580)**	**43,807**
Total Group	(22,684)	37,467	(52,200)	9,544	(5,667)	-	(33,540)
Total Minority	2,043	3,346	(161)	-	(2,253)	(1,580)	1,395
Total	**(20,641)**	**40,813**	**(52,361)**	**9,544**	**(7,920)**	**(1,580)**	**(32,145)**

(Euro/000)	Balance at January 1, 2008	Previous year's profit allocation	Impact on equity	Recl. from share premium reserve	Divid. distribution	Change in consolidation scope	Balance at December 31, 2008
Translation differences - Group	(75,805)	-	19,916	-	-	-	(55,889)
Translation differences - Minority	(147)	-	676	-	-	-	529
Total	**(75,952)**	**-**	**20,592**	**-**	**-**	**-**	**(55,360)**
Other reserves - Group	42,265	51,018	(5,155)	-	(24,259)	-	63,869
Other reserves - Minority	1,542	3,525	2,843	-	(1,450)	(1,352)	5,108
Total	**43,807**	**54,543**	**(2,312)**	**-**	**(25,709)**	**(1,352)**	**68,977**
Total Group	(33,540)	51,018	14,761	-	(24,259)	-	7,980
Total Minority	1,395	3,525	3,519	-	(1,450)	(1,352)	5,637
Total	**(32,145)**	**54,543**	**18,280**	**-**	**(25,709)**	**(1,352)**	**13,617**

4.23 Fair value and cash flow reserves

This item is composed as follows:

(Euro/000)	Balance at January 1, 2007	Impact at equity	Impact at income statement	Balance at December 31, 2007
Cash flow reserve	1,221	151	(979)	393
Fair value reserve	638	(1,311)	-	(673)
Total	**1,859**	**(1,160)**	**(979)**	**(280)**

(Euro/000)	Balance at January 1, 2008	Impact at equity	Impact at income statement	Balance at December 31, 2008
Cash flow reserve	393	(5,911)	-	(5,518)
Fair value reserve	(673)	(1,429)	-	(2,102)
Total	**(280)**	**(7,340)**	**-**	**(7,620)**

The cash flow reserve refers to the current value of the interest rate swap contracts, while the fair value reserve refers to the current value of the investments classified under financial assets available for sale (see note 4.10).

During the period no financial charges or income were deducted from the cash flow reserve and posted to the income statement.

4.24 Stock option plans

On 24th November 2004, the Extraordinary shareholders' Meeting of Safilo Group S.p.A. approved the "Stock Option Plan of Safilo Group S.p.A. and Safilo S.p.A. 2004-2008" (in short, the "2004 Plan"), which provides for the free vesting of rights for the subscription of new shares issued at the current value of the company, to some employees and consultants of the companies of the Group.

Further to the mandate granted by the Extraordinary shareholders' Meeting on 24th October 2005, the Board of Directors of Safilo Group S.p.A., on 31st May 2006, resolved to increase the share capital to a maximum nominal figure of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares with a value of Euro 0.25 each and a share premium of Euro 4.16. These shares were offered to the beneficiaries listed in the Rules of the new "Stock Option Plan of Safilo Group S.p.A. 2006-2010" (in short, the "2006 Plan"), approved by the said Board. This plan is valid for 4 financial periods (2006 - 2010) and, like the previous ones, is addressed to certain directors, executives and consultants of Safilo Group and allows for the accrual of option rights equal to 1/4 for each financial year of the Plan. The accrual criteria for the options is based on reaching certain agreed EBITDA consolidated levels, set by the Board of Directors, in the financial statements of Safilo Group S.p.A..

It should be noted that the options of the 2004 Plan give each beneficiary the right to underwrite 4 shares at the average strike price.

The 2006 Plan, instead, allows the beneficiary to underwrite one share per option at the strike average price.

The fair value of the options, in accordance with the requirements of IFRS, is recorded under personnel costs with a corresponding increase in a specific equity reserve over the duration of the maturity period, being the stock option plans of an "equity-settled" type. In compliance with the requirements of IFRS 2, irrespective of which company issues the new shares, the stock option costs are recorded in the company in which the employees carry out their service. The amount received, net of the costs directly attributable to the transaction, will be credited to the share capital (nominal value) and the share premium reserve for the remaining part, when the options are exercised.

In December 2005 the holders of the options relative to the "2003 Plan" and "2004 Plan", in occasion of the listing of Safilo Group S.p.A. on the Stock Market, exercised part of the rights in their possession.

In June 2007 the beneficiaries of the "2003 Plan" (expired at the end of 2007) and several beneficiaries of the "2004 Plan" exercised 227,350 and 277,969 rights in their possession respectively. This led, on 26th June 2007, to the issue of 909,400 and 1,111,876 shares respectively for a total proceed for the holding company Safilo Group S.p.A. of 505,319 Euro in terms of nominal value and 5,738,003 Euro in terms of share premium.

The 2004 Plan is now considered as expired and the options forfeited, since none of the beneficiaries exercised their rights within the expiry date of 20th September 2008.

The total costs in 2008 and 2007, posted in the income statement, can be summarised as follows:

(Euro/000)	**December 31, 2008**	**December 31, 2007**
2006 Plan	(695)	557
Total	**(695)**	**557**

Unlike the previous years, in 2008 an income instead of costs was posted in the financial statements, subsequent to the reversal of the costs allocated in the previous periods for the 2006 Plan. In fact, pursuant to the rulings of IFRS n. 2, in paragraph 19, on equity settled plans with non-market performance conditions to achieve, the effect of the assignment conditions not linked to the market are not taken into consideration in the assessment of the fair value of the options assigned but are relevant, however, in the evaluation of the number of options that are expected to be available for exercise.

At the balance sheet date the Group, taking into account that the 2006 Plan was based on reaching pre-determined EBITDA levels established under more favourable market conditions, reviewed the estimates on the number of options expected to be available for exercise and the effect of the review was accounted for in the income statement under personnel costs, generating total net revenues of 695 thousand Euro.

The following table shows the main elements relating to the stock option plans in force:

SOP 2003-2007	2008 Strike	2008 no. shares	2008 no. rights	2007 Strike	2007 no. shares	2007 no. rights
At January 1,	-	-	-	2.5325	909,400	227,350
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	2.5325	(909,400)	(227,350)
At December 31,	-	-	-	-	-	-
- Tot. Exercisable	-	-	-	-	-	-
- Max res. life (years)			-			-

SOP 2004-2008	2008 Strike	2008 no. shares	2008 no. rights	2007 Strike	2007 no. shares	2007 no. rights
At January 1,	3.5438	1,925,956	481,489	3.5438	3,037,832	759,458
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	3.5438	(1,925,956)	(481,489)	-	-	-
Exercised	-	-	-	3.5438	(1,111,876)	(277,969)
At December 31,	-	-	-	3.5438	1,925,956	481,489
- Tot. Exercisable	-	-	-	*3.5438*	*1,925,956*	*481,489*
- Max res. life (years)			-			*0.7*

SOP 2006-2010	2008 Strike	2008 no. shares	2008 no. rights	2007 Strike	2007 no. shares	2007 no. rights
At January 1,	4.4100	2,552,109	2,552,109	4.4100	3,514,803	3,514,803
Issued	-	-	-	-	-	-
Granted	-	-	-	-	59,735	59,735
Cancelled	-	-	-	-	-	-
Forfeited	4.4100	(1,692,436)	(1,692,436)	-	(1,022,429)	(1,022,429)
Exercised	-	-	-	-	-	-
At December 31,	4.4100	859,673	859,673	4.4100	2,552,109	2,552,109
- Tot. Exercisable	-	-	-	-	-	-
- Max res. life (years)			*2.0*			*3.0*

TOTALE	2008 Strike	2008 no. shares	2008 no. rights	2007 Strike	2007 no. shares	2007 no. rights
At January 1,	4.2725	4,478,065	3,033,598	4.1690	7,462,035	4,501,611
Issued		-	-		-	-
Granted		-	-	4.4100	59,735	59,735
Cancelled		-	-		-	-
Forfeited	4.2182	(3,618,392)	(2,173,925)	4.4100	(1,022,429)	(1,022,429)
Exercised		-	-	3.0888	(2,021,276)	(505,319)
At December 31,	**4.4100**	859,673	859,673	4.2725	4,478,065	3,033,598
- Tot. Exercisable	*4.4100*	*859,673*	*859,673*	*3.5438*	*1,925,956*	*481,489*
- Strike range (min)	*4.4100*			*3.5438*		
- Strike range (max)	*4.4100*			*4.4100*		
- Max avg. res. life (years)			*2.0*			*2.6*

5. Notes to the consolidated statement of operations

5.1 Net sales

Group sales during 2008 totalled 1,148 thousand Euro, representing a decrease of 3.6% compared to the previous year (1,190 thousand Euro). The fluctuation in the average Euro/US dollar exchange rate during 2008 compared to 2007 had a negative impact on the sales of the year; in fact, at constant exchange rates sales would have been in line with the previous year.

Further information on the sales trend is given in the Directors' report on operations (Group economic results).

5.2 Cost of sales

This item is composed as follows:

(Euro/000)	2008	2007
Purchase of raw materials and finished goods	337,030	358,956
Capitalisation of costs for increase in tangible assets (-)	(10,001)	(11,343)
Change in inventories	8,505	(12,329)
Payroll and social security contributions	103,548	102,872
Subcontracting costs	14,241	25,225
Depreciation	20,134	19,473
Rental and operating leases	1,465	971
Other industrial costs	9,938	8,768
Total	**484,860**	**492,593**

The change in inventories can be broken down as follows:

(Euro/000)	2008	2007
Finished products	8,603	(13,680)
Work-in-progress	1,637	402
Raw materials	(1,735)	949
Total	**8,505**	**(12,329)**

The cost of salaries and contributions for production staff is substantially in line with the previous financial year. The average number of employees per category is summarised as follows:

	2008	2007
Executives	119	91
Clerks and middle management	3,682	2,964
Factory workers	4,909	4,894
Total	**8,710**	**7,949**

Subcontracting costs have undergone a significant decrease compared to 2007 due to the internalisation of several processing activities within production sites of the Group that had previously been processed externally.

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

5.3 Selling and marketing expenses

This item is composed as follows:

	2008	2007
Payroll and social security contributions	110,156	102,795
Commissions to sales agents	72,333	77,671
Royalty expenses	88,520	97,710
Advertising and promotional costs	100,269	96,592
Amortization and depreciation	6,735	4,511
Logistic costs	18,455	19,468
Consultants fees	4,539	4,708
Rental and operating leases	19,072	12,119
Utilities	1,850	1,515
Provision for risks	1,815	809
Other sales and marketing expenses	22,331	21,714
Total	**446,075**	**439,612**

The increase in salaries is mainly due to the development of the retail sector, whereas advertising costs are higher due to the expenses related to the launch of new licensed brands and to a renewed focus on owned brands.

5.4 General and administrative expenses

This item is composed as follows:

(Euro/000)	2008	2007
Payroll and social security contributions	56,869	54,175
Allowance for doubtful accounts	3,923	2,913
Amortization and depreciation	13,114	14,060
Consultants fees	12,916	11,813
Rental and operating leases	8,188	7,103
EDP costs	3,927	3,877
Insurance costs	2,886	2,336
Utilities, security and cleaning	7,905	6,609
Taxes (other than on income)	5,902	2,732
Other general and administrative expenses	16,219	16,742
Total	**131,849**	**122,360**

Personnel costs have increased compared to 2007, both due to the normal salary increases and for the development of the retail business.

5.4.1 Remuneration (including all possible or deferred remuneration) and benefits in kind received by Directors, Statutory Auditors and managers with strategic responsibilities (Consob resolution no. 15520)

The remuneration paid to Directors, members of the Board of Statutory Auditors and managers with strategic responsibilities for the financial year closed on 31st December 2008, in office at the date of the approval of the financial statements, for the execution of their roles and responsibilities, and also on behalf of subsidiary companies, is as follows:

Name and surname	Office	Period covered	Expiring	Compensation related to the company drawing up the financial statements (in Euro/000)	Other (in Euro/000)
Directors					
Vittorio Tabacchi	Chairman	2008	Approval of 2010 fin. statements	10.0	2,569.0
Massimiliano Tabacchi	Executive Vice Chairman	2008	Approval of 2010 fin. statements	10.0	814.4
Roberto Vedovotto (*)	Chief Executive Officer	from Dec 11, 2008	Approval of 2010 fin. statements	0.5	2.2
Claudio Gottardi	Director	Until Nov 14, 2008	-	8.6	1,504.0
Ennio Doris	Director	2008	Approval of 2010 fin. statements	10.0	40.0
Antonio Favrin	Director	2008	Approval of 2010 fin. statements	60.4	-
Carlo Gilardi	Director	2008	Approval of 2010 fin. statements	100.0	20.6
Giannino Lorenzon	Director	2008	Approval of 2010 fin. statements	70.0	941.6
Riccardo Ruggiero	Director	Until Apr 29, 2008	-	3.3	40.0
Board of Statutory Auditors					
Giampietro Sala	Chairman	from Jun 19, 2008	Approval of 2010 fin. statements	3	2
Franco Corgnati	Regular auditor	2008	Approval of 2010 fin. statements	46	51
Nicola Gianese	Regular auditor	from Oct 10, 2008	Approval of 2010 fin. statements	23	-
Paolo Mazzi	Regular auditor	from Jan 01, 2008 until Oct 10, 2008	-	24	30
Domenico Vanoni	Chairman	from Apr 30, 2008 until Jun 19, 2008	-	1	-
Managers with strat. resp.					1,382

(*) from December 11th, 2008

5.4.2 Stock option attributed to Directors, Statutory Auditors and managers with strategic responsibilities (Consob resolution n. 15520)

Name and surname	Office	Options held at the beginning of the year			Change in no. options for new hired/(resigned)	Options granted during the year		
		No. of options	*Average strike price*	*Average expiring date*		*No. of options*	*Average strike price*	*Average expiring date*
Directors								
Vittorio Tabacchi	Chairman							
Massimiliano Tabacchi	Executive Vice Chairman	240,953	4.3416	2.82				
Roberto Vedovotto (*)	Chief Executive Officer							
Ennio Doris	Director							
Antonio Favrin	Director							
Carlo Gilardi	Director							
Giannino Lorenzon	Director	37,650	3.5438	0.72				
Riccardo Ruggiero	Director							
Board of Statutory Auditors								
Giampietro Sala	Chairman							
Franco Corgnati	Regular auditor							
Nicola Gianese	Regular auditor							
Management with strat. resp.								
Aggregate		239,441	4.2218	2.51	59,184			

Name and surname	Office	Options exercised during the year			Options expired during the year	Options held at the end of the year		
		No. of options	*Average strike price*	*Average expiring date*	*No. of options*	*No. of options*	*Average strike price*	*Average expiring date (in years)*
Directors								
Vittorio Tabacchi	Chairman							
Massimiliano Tabacchi	Executive Vice Chairman				(164,422)	76,531	4.4100	2.00
Roberto Vedovotto (*)	Chief Executive Officer							
Ennio Doris	Director							
Antonio Favrin	Director							
Carlo Gilardi	Director							
Giannino Lorenzon	Director				(37,650)	-	-	-
Riccardo Ruggiero	Director							
Board of Statutory Auditors								
Giampietro Sala	Chairman							
Franco Corgnati	Regular auditor							
Nicola Gianese	Regular auditor							
Management with strat. resp.								
Aggregate					(213,588)	85,037	4.4100	2.00

(*) from 11th December 2008

5.5 Other income and expenses, net

This item is composed as follows:

(Euro/000)	2008	2007
Losses on disposal of assets	(287)	(519)
Other operating expenses	(826)	(1,159)
Gains on disposal of assets	26	223
Other operating incomes	2,388	2,807
Total	**1,301**	**1,352**

Other operating expenses refer mainly to costs not directly related to the ordinary activity carried out during the year, while other operating revenues mainly include insurance reimbursements.

5.6 Share of income (losses) of associated companies

This item amounts to 866 thousand Euro (Euro 1,775 thousand in 2007) and consists of the profits and losses deriving from the consolidation according to the "equity" method of the holdings in associated companies (note 4.9).

5.7 Financial charges, net

This item is composed as follows:

(Euro/000)	2008	2007
Interest expense on loans	23,340	21,881
Interest expense and charges on High Yield	19,726	19,613
Bank commissions	5,000	3,678
Negative exchange rate differences	23,162	12,523
Financial discounts	2,721	2,968
Other financial charges	768	2,526
Total financial charges	**74,717**	**63,189**
Interest income	1,116	1,435
Positive exchange rate differences	14,900	13,833
Gains on financial assets disposal	2	3
Dividends	85	657
Other financial income	861	1,852
Total financial income	**16,964**	**17,780**
Total financial charges, net	**57,753**	**45,409**

Compared to the previous financial year, the net financial charges have increased, both as an effect of the increase in the Group's borrowings and above all as the strong impact of the negative exchange rate differences.

5.8 Income taxes and non recurring taxes

(Euro/000)	2008	2007
Current taxes	(35,776)	(31,094)
Deferred taxes	23,733	(7,937)
Subtotal income taxes	***(12,043)***	***(39,031)***
Non-recurring taxes	(37,945)	-
Subtotal non-recurring taxes	***(37,945)***	**-**
Total income taxes at P&L	**(49,988)**	**(39,031)**

The taxes for the year can be reconciled with the theoretical tax burden as follows:

(Euro/000)	%	2008	%	2007
Profit before taxation	**100%**	**29,448**	**100.0%**	**93,574**
Theoretical taxes	27.5%	8,098	33.0%	30,879
IRAP (current and deferred) and other taxes	10.7%	3,157	6.5%	6,042
Effect of foreign tax rates	11.1%	3,256	-6.5%	(6,087)
Non taxable incomes	-10.9%	(3,217)	-0.6%	(541)
Non deductible costs	5.2%	1,523	1.5%	1,381
Advance taxes not earmarked	7.9%	2,312	0.3%	317
Use of tax losses carried forward	-10.5%	(3,086)	-0.2%	(217)
Effect of change in tax rate on Italian companies	0.0%	-	7.8%	7,257
Other permanent differences	0.0%	-	0.0%	-
Total	**40.9%**	**12,043**	**41.7%**	**39,031**

Theoretical income taxes are calculated at 27.5% on the estimated assessable income. This percentage represents the tax rate (IRES) to which the income of the Italian holding company is subject to for the 2008 financial year.

As explained in note 4.11 ”Deferred tax assets and deferred tax liabilities”, the difference between deferred tax assets and deferred tax liabilities on the financial statements of the parent company Safilo Group S.p.A. and some of its subsidiaries has been entirely written down for the full amount (Euro 37,945 thousand) by an adjusting provision in order to take into account the recent market trend and the changed future profit prospects.

5.9 Earnings per share

The calculation of basic and diluted earnings per share is presented in the tables below:

	2008	2007
Profit/(loss) for ordinary shares (in Euro/000)	14,630	51,018
Average number of ordinary shares (in thousands)	285,394	284,417
Earnings per share - base before non recurring taxes	**0.05**	**0.18**

(Euro)	2008	2007
Profit/(loss) for ordinary shares (in Euro/000)	(23,315)	51,018
Average number of ordinary shares (in thousands)	285,394	284,417
Earnings per share - base	**(0.08)**	**0.18**

(Euro)	2008	2007
Profit/(loss) for ordinary shares (in Euro/000)	14,630	51,018
Profit for preferred shares	-	-
Profit/(loss) in income statement	**14,630**	**51,018**
Average number of ordinary shares (in thousands)	285,394	284,417
Dilution effects:		
- stock option (in thousands)	-	194
Total	**285,394**	**284,611**
Earnings per share - diluted before non recurring taxes	**0.05**	**0.18**

(Euro)	2008	2007
Profit/(loss) for ordinary shares (in Euro/000)	(23,315)	51,018
Profit for preferred shares	-	-
Profit/(loss) in income statement	**(23,315)**	**51,018**
Average number of ordinary shares (in thousands)	285,394	284,417
Dilution effects:		
- stock option (in thousands)	-	194
Total	**285,394**	**284,611**
Earnings per share - diluted	**(0.08)**	**0.18**

5.10 Dividends

In May 2008, the holding company Safilo Group S.p.A. paid to the shareholders the dividends resolved by the Shareholders' meeting that approved the financial statements at 31st December 2007 for a total amount of Euro 24,259 thousand, equal to Euro 0.085 per share.

5.11 Segment information

Information according to business sector (retail/wholesale) and geographic area is given, pursuant to IAS 14 – *Segment Information*.

As from the financial year 2008, the group's retail structure now being consolidated, the management has decided to give the information relative to the business sector as primary segment, and the geographic data as secondary segment. The criteria applied for the identification of the segments depend on the modalities by which the management organises the Group and attributes managerial responsibilities.

It must be noted that grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

Full year 2008 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	10,951	55	(11,006)	-
-to third parties	1,040,007	107,810	-	1,147,818
Total net sales	**1,050,959**	**107,866**	**(11,006)**	**1,147,818**
Gross profit	**593,075**	**69,796**	**88**	**662,958**
Operating profit	**93,855**	**(7,555)**	**35**	**86,335**
Share of income of associates	866	-		866
Financial charges, net				(57,753)
Income taxes				(49,988)
Net (loss)				**(20,540)**
Gross profit margin	*56%*	*65%*		*58%*
Operating profit margin	*9%*	*-7%*		*8%*
Other information				
Segment assets	1,584,336	163,495		1,747,830
Investment in associates	12,298	-		12,298
Unallocated corporate assets				57,241
Consolidated total assets				**1,817,370**
Segment liabilities	321,436	14,211		335,647
Unallocated corporate liabilities	-	-		677,446
Consolidated total assets				**1,013,093**
Capital expenditure	39,644	21,564		61,208
Depreciation & amortization	33,322	6,662		39,983
Non-cash expenses other than depreciation	16,046	720		16,766

Full year, 2007 *(Euro/000)*	**WHOLESALE**	**RETAIL**	**Elimin.**	**Total**
Net sales				
-to other segments	8,634	-	(8,634)	-
-to third parties	1,120,717	69,707	-	1,190,424
Total net sales	**1,129,351**	**69,707**	**(8,634)**	**1,190,424**
Gross profit	**652,138**	**45,512**	**181**	**697,831**
Operating profit	**140,477**	**(3,263)**	**(2)**	**137,211**
Share of income of associates	1,772	-		1,772
Financial charges, net				(45,409)
Income taxes				(39,031)
Net profit				**54,543**
Gross profit margin	*58%*	*65%*		*59%*
Operating profit margin	*12%*	*-5%*		*12%*
Other information				
Segment assets	1,591,315	105,417		1,696,732
Investment in associates	12,279	-		12,279
Unallocated corporate assets				62,984
Consolidated total assets				**1,771,994**
Segment liabilities	308,413	7,819		316,232
Unallocated corporate liabilities				614,824
Consolidated total assets				**931,056**
Capital expenditure	32,262	12,747		45,009
Depreciation & amortization	33,874	4,171		38,044
Non-cash expenses other than depreciation	7,424	(594)		6,830

December 31, 2008 *(Euro/000)*	**Italy (1)**	**Europe (2)**	**America (3)**	**Asia (4)**	***Corporate* (5)**	**Eliminat.**	**Total**
Net sales							
-to other segments	287,538	64,036	3,272	6,719	-	(361,565)	-
-to third parties	259,590	324,342	419,006	144,880	-	-	1,147,818
Total net sales	**547,128**	**388,378**	**422,278**	**151,599**	**-**	**(361,565)**	**1,147,818**
Gross profit	**179,935**	**166,704**	**231,869**	**78,778**	**-**	**5,671**	**662,958**
Operating profit	**(4,545)**	**32,622**	**43,214**	**17,037**	**(304)**	**(1,690)**	**86,335**
Interest expense							(74,717)
Interest income							16,964
Share of income of associates	-	46	145	676	-		866
Income taxes							(49,988)
Net (loss)							**(20,540)**
Gross profit margin	*33%*	*43%*	*55%*	*52%*			*58%*
Operating profit margin	*-1%*	*8%*	*10%*	*11%*			*8%*
Other information							
Segment assets	333,831	443,971	468,351	392,586	109,091		1,747,830
Investment in associates	-	-	183	11,874	241		12,298
Unallocated corporate assets							57,242
Consolidated assets							**1,817,370**
Segment liabilities	198,723	51,195	48,028	20,217	17,484		335,647
Unallocated corporate liabilities							677,446
Consolidated liabilities							**1,013,093**
Capital expenditure	14,844	6,195	19,494	20,635	40		61,208
Depreciation & amortization	23,204	6,738	7,944	1,864	233		39,983
Non-cash expenses other than depreciation	12,381	1,976	2,280	129	-		16,766

(1) Operating companies with registered head office in Italy.
(2) Operating companies with registered head office in European countries other than Italy, in India and in South Africa.
(3) Operating companies with registered head office in USA, Canada and Brazil.
(4) Operating companies with registered head office in the Far East and Australia.
(5) Non-operating companies.

December 31, 2007 *(Euro/000)*	Italy (1)	Europe (2)	America (3)	Asia (4)	*Corporate* (5)	Eliminat.	Total
Net sales							
-to other segments	337,141	54,503	2,426	444	-	(394,514)	-
-to third parties	278,229	353,755	416,908	141,532	-	-	1,190,424
Total net sales	**615,370**	**408,258**	**419,334**	**141,976**	**-**	**(394,514)**	**1,190,424**
Gross profit	**237,014**	**172,753**	**211,065**	**73,201**	**-**	**3,797**	**697,831**
Operating profit	**48,625**	**37,839**	**30,018**	**23,219**	**(21)**	**(2,470)**	**137,211**
Interest expense							(63,189)
Interest income							17,780
Share of income of associates	-	(1)	149	1,585	39		1,772
Income taxes							(39,031)
Net profit							**54,543**
Gross profit margin	*39%*	*42%*	*50%*	*52%*			*59%*
Operating profit margin	*8%*	*9%*	*7%*	*16%*			*12%*
Other information							
Segment assets	463,778	455,718	433,884	323,730	11,160		1,688,270
Investment in associates	-	-	980	11,058	241		12,279
Unallocated corporate assets							71,445
Consolidated assets							**1,771,994**
Segment liabilities	203,693	51,687	43,912	13,450	3,490		316,232
Unallocated corporate liabilities							614,824
Consolidated liabilities							**931,056**
Capital expenditure	17,110	8,486	15,906	3,386	120		45,009
Depreciation & amortization	24,036	6,721	6,179	1,051	59		38,044
Non-cash expenses other than depreciation	1,479	1,488	852	3,011	-		6,830

6. Transactions with related parties

The nature of the related party transactions is illustrated in the following table:

Related parties transactions *(Euro/000)*	Relationship	December 31, 2008	December 31, 2007
Receivables			
Optifashion As	(a)	146	-
Elegance International Holdings Ltd	(b)	443	603
Island Cabo S.A. de C.V.	(c)	16	-
Maat S. de R.L. de C.V.	(c)	-	-
Total		**605**	**603**
Payables			
Elegance International Holdings Ltd	(b)	7,292	8,881
Minority shareholders	(c)	5	-
Leasing Cancun S.A. de C.V.	(c)	2,292	-
Servicios Optico del Caribe, S.C.	(c)	14	-
Total		**9,602**	**8,881**

Related parties transactions *(Euro/000)*	Relationship	2008	2007
Revenues			
Elegance International Holdings Ltd	(b)	8	69
Optifashion As	(a)	143	154
Total		**151**	**223**
Costs			
Elegance International Holdings Ltd	(b)	17,748	24,459
TBR Inc.	(b)	1,084	1,108
Minority shareholders	(c)	121	-
Island Cabo S.A. de C.V.	(c)	50	-
Leasing Cancun S.A. de C.V.	(c)	439	-
Macromerc S.C.	(c)	1	-
Optica Island S.A. de C.V.	(c)	72	-
Opticmart S.C. de R.L.	(c)	1	-
Servicios Optico del Caribe, S.C.	(c)	291	-
Total		**19,808**	**25,567**

(a) Non-consolidated subsidiary;
(b) Associated company;
(c) Company with minority shareholders of the Mexican company Tide Ti S.A. de C.V.

Transactions with related parties, including infra-group transactions, relate to commercial relationships on the basis of prices defined at normal market conditions, similar to transactions with third parties.

Optifashion As is a production and commercial company based in Istanbul, Turkey, of which the Safilo Group owns 50%.

Safilo Far East Limited, a subsidiary of Safilo Group S.p.A., holds 23.05% of Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange. Elegance is a producer of eyewear products in Asia, to which the Group assigns part of its production. The price and other conditions of the production contract between Safilo Far East Limited and Elegance are in line with those applied by Elegance to the other clients. Massimiliano Tabacchi, director of Safilo Group S.p.A., and Mario Pietribiasi, executive of the Group, are non-

executive directors of Elegance. In addition, Mario Pietribiasi is a shareholder of the company with a holding of less than 0.5%.

Safilo USA Inc. rents its headquarters and distribution centre in the USA (New Jersey), based on a rental contract with TBR Inc., a company one third owned by Vittorio Tabacchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., one third by a subsidiary of the Safilo Group S.p.A. and the remaining share by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for 629 thousand Euro. In 2008 the Group paid Euro 1,084 thousand to TBR Inc. in rental fees. The terms and conditions of the rental contract, including the rental fee, are in line with market conditions for similar contracts.

The economic and financial relationships with the parties grouped under letter c) of the above table refer to transactions between the Mexican subsidiary Tide Ti and companies owned by the minority shareholders of the said subsidiary.

7. Contingent liabilities

The Group does not have any significant contingent liabilities that have not been discussed in the previous notes or not covered by appropriate provisions. Nevertheless at 31st December 2008 various claims and legal actions involving companies of the Group are pending. Although the company considers these claims and actions to be groundless, a negative outcome beyond estimates could have adverse effects on the financial results of the Group.

The most significant claims in monetary terms include the following: (i) a June 2005 claim against Safilo S.p.A. for the payment of legal fees allegedly owed to a law firm for legal and fiscal services provided to various companies of the Group from 1999 to 2001 in relation to the IPO; (ii) a claim filed by one of our clients alleging unfair business practices on the part of Safilo S.p.A. The client later filed bankruptcy, and the claim has been taken over by the plaintiff's receiver, who seeks damages; and (iii) two claims against Safilo S.p.A. filed by two companies with the same owner and which have both subsequently filed bankruptcy. The two claims have since been extinguished and no further litigation is expected against the Group.

8. Commitments

At the balance sheet date, the Group had no significant purchase commitments.

At the balance sheet date, however, the Group had contracts in force with designers for the production and sale of sunglasses and frames bearing their signatures. The contracts not only establish minimum guarantees, but also a commitment for advertising investments.

9. Significant events after December 31st, 2008

In the period subsequent to 31st December 2008, no events occurred that could be considered to significantly affect the data contained in this report.

10. Significant non-recurring events and transactions

During 2008, the Group did not put in place any significant non-recurring events, as defined by Consob Communication of 28th July 2006, except as reported in paragraphs 4.6 Tangible fixed assets (the real estate spin-off) and 4.11 Deferred tax assets and deferred tax liabilities.

11. Transactions resulting from unusual and/or abnormal operations

Pursuant to Consob Communication of 28th July 2006, in 2008 the Group did not put in place any unusual and/or atypical operations, as defined in the said Communication.

APPENDIX

INFORMATION REQUESTED BY ART. 149-DUODECIES OF THE "REGOLAMENTO EMITTENTI" ISSUED BY CONSOB

The following table, prepared in accordance with Art. 149-duodecies of the Issuers" Regulations (*Regolamento Emittenti*) issued by Consob, reports the amount of fees charged in 2008 relating to the audit and other audit related services rendered by the same Audit company.

(Euro/000)	Service provider	Entity	2008 fees
Audit	PricewaterhouseCoopers S.p.A.	Holding company - Safilo Group S.p.A.	43
	PricewaterhouseCoopers S.p.A.	Subsidiaries	143
	PricewaterhouseCoopers network	Subsidiaries	997
Attestation	PricewaterhouseCoopers S.p.A.	Holding company - Safilo Group S.p.A.	-
	PricewaterhouseCoopers S.p.A.	Subsidiaries	46
	PricewaterhouseCoopers network	Subsidiaries	-
Other services	PricewaterhouseCoopers S.p.A.	Holding company - Safilo Group S.p.A.	-
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-
	PricewaterhouseCoopers network	Subsidiaries	387
Total			**1,616**

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS OF LEGISLATIVE DECREE 58/98

The undersigned, Roberto Vedovotto, as Chief Executive Officer, and Francesco Tagliapietra, as the manager responsible for preparing SAFILO GROUP S.p.A.'s financial statements, hereby certify, having also taken into consideration the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24th February 1998:

- the adequacy with respect to the company structure and
- the effective application

of the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2008 fiscal year.

The undersigned also certify that:

a) the consolidated financial statements at 31st December 2008:

- correspond to the results documented in the books, accounting and other records;

- have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005 and, based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the Group companies included in the scope of consolidation;

b) the Directors' report on operations gives a reliable analysis of:

- the operations trend and the relative results;

- the issuer's situation and that of all the companies as a whole included in the consolidation scope;

- the main risks and uncertainties to which the Group is exposed.

16th March 2009

The Chief Executive Officer	The manager responsible for preparing the company's financial statements
Roberto Vedovotto	*Francesco Tagliapietra*

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the shareholders of
Safilo Group SpA

1 We have audited the consolidated financial statements of Safilo Group SpA and its subsidiaries (Safilo Group) as of 31 December 2008, which comprise the balance sheet, the income statement, the statement of regognized profit and loss, the cash flow statement, the statement of changes in equity, and related notes. The directors of Safilo Group SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 11 April 2008.

3 In our opinion, the consolidated financial statements of Safilo Group SpA as of 31 December 2008 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, recognized profit and loss, cash flows and changes in equity of Safilo Group SpA for the period then ended.

PRICEWATERHOUSECOOPERS

4 The directors of Safilo Group SpA are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by art. 156, paragraph 4-bis, letter d), of the Legislative Decree 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the consolidated financial statements of Safilo Group SpA as of 31 December 2008.

Padova, 7 April 2009

PricewaterhouseCoopers SpA

Signed by

Massimo Dal Lago
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. We have not examined the translation of the financial statements referred to in this report.