SAFILO GROUP S.P.A.
2009 ANNUAL REPORT

*CONSOLIDATED FINANCIAL STATEMENTS OF THE SAFILO GROUP*
*at 31st DECEMBER 2009*

# SAFILO 1934 – 2009: 75 YEARS OF HISTORY

Safilo celebrates its 75th birthday in 2009, an important milestone which the company has reached thanks to unfailing commitment and hard work. Since its founding on March 17 1934 Safilo has continued to grow steadily to become a leading global manufacturer of eyewear.

# Showrooms

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

Milan

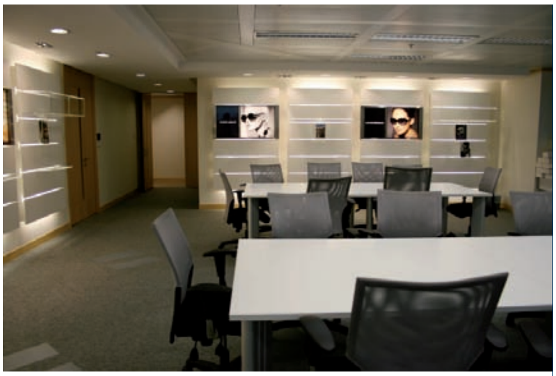
New Delhi

Barcelona


New York

Paris

London



Hong Kong

Stockholm

Exposition room

Entrance Museum

Exposition room

Cube Zone

# Guglielmo Tabacchi Gallery

Since 1996 the headquarters of Safilo 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 GROUP AND ITS BRANDS

## Company profile

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

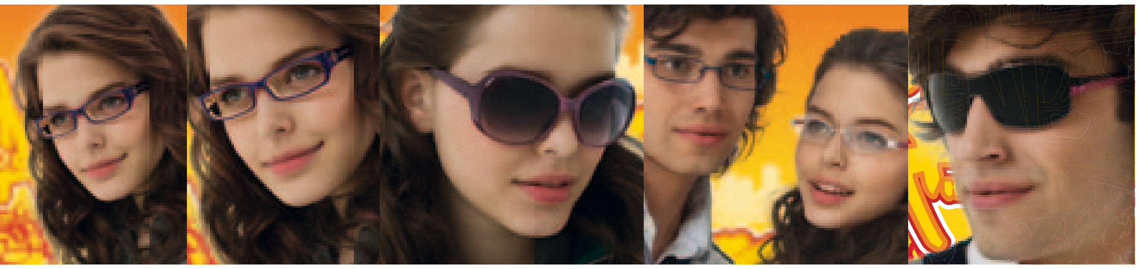
With 75 years of experience in the eyewear industry, the Safilo Group is the world's second largest manufacturer of sunglasses and prescription eyewear and is engaged in the creation, production and wholesale and retail distribution of products for the eyewear market. The Group is a worldwide leader in high-end eyewear and is one of the world's top three manufacturers and distributors of sports eyewear.

The Group manages a portfolio of its house and licensed brands, which are selected based on their competitive positioning and international prestige by way of a precise strategy of customer segmentation.

The Group designs, produces and distributes prescription eyewear, sunglasses, sports eyewear and high-quality accessories. Distribution takes place through sales to specialist shops and retail distribution chains.

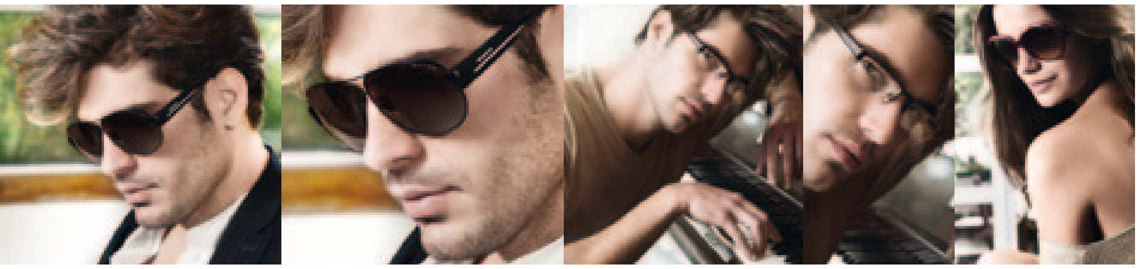
The Group directly controls the entire production-distribution process, divided into the following phases: research and technological innovation, product design and development, planning, programming and purchases, production, quality, marketing and communications, sales, distribution and logistics. 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.

The keys to the Group's success, and which create a distinctive identity in the world's eyewear industry, are its highly prestigious brand portfolio in the luxury and high-fashion segment, its excellence in design and innovation, the quality of its products, its coverage of the marketplace by way of a worldwide sales, distribution and customer service network, and the diverse nature of offering in terms of clientele and target markets.

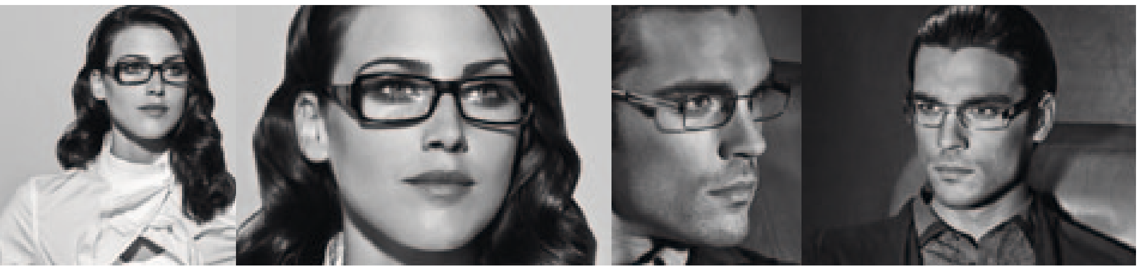


Blue Bay
for dreamers only

CARRERA
RACING SUNGLASSES SINCE 1956

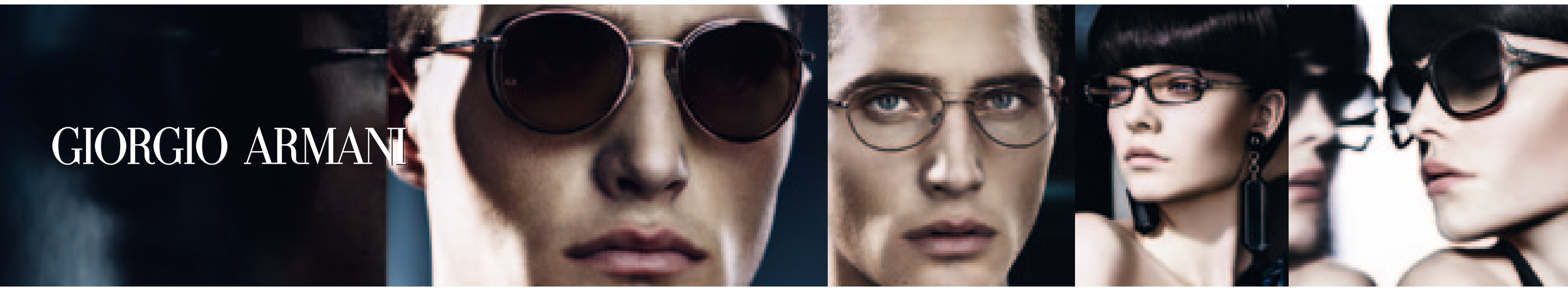


OXYDO

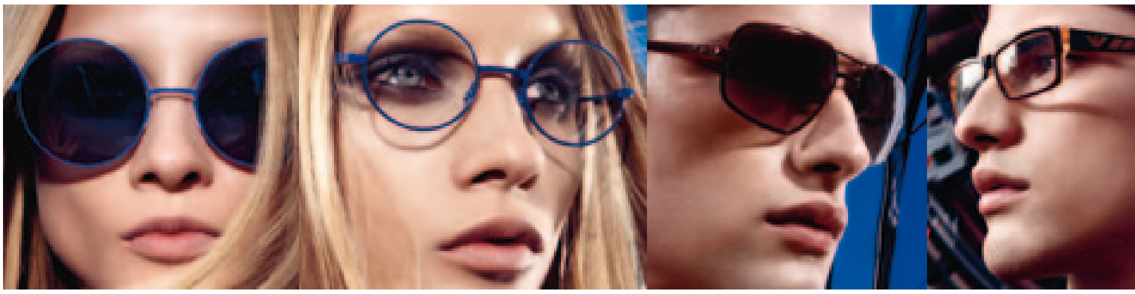


Safilo®
FREEDOM TO LOOK

Smith optics

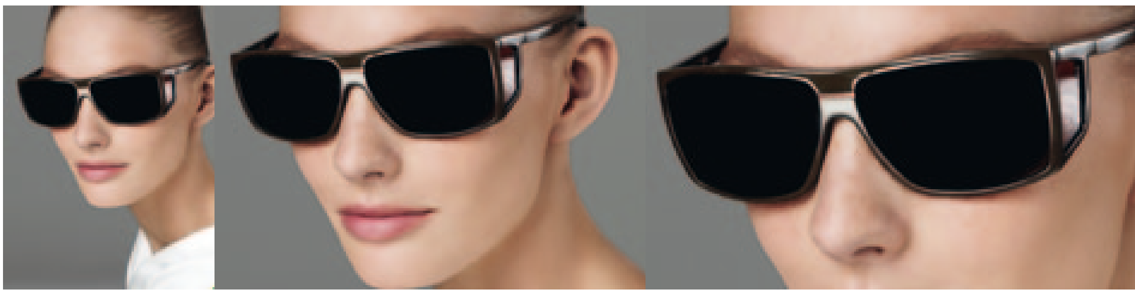


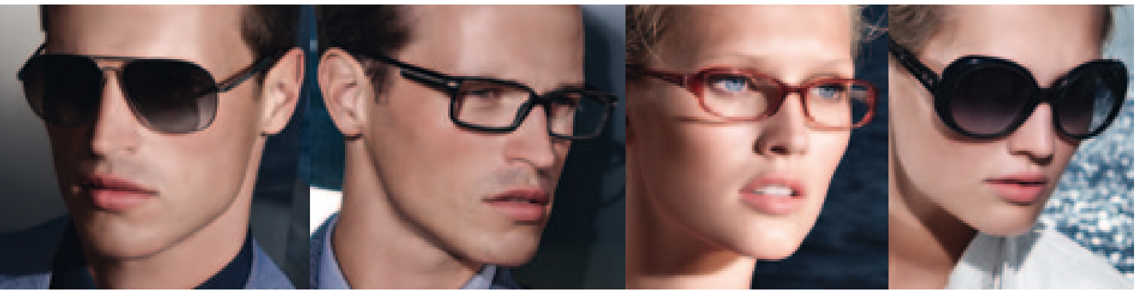

EMPORIO ARMANI



ALEXANDER McQUEEN

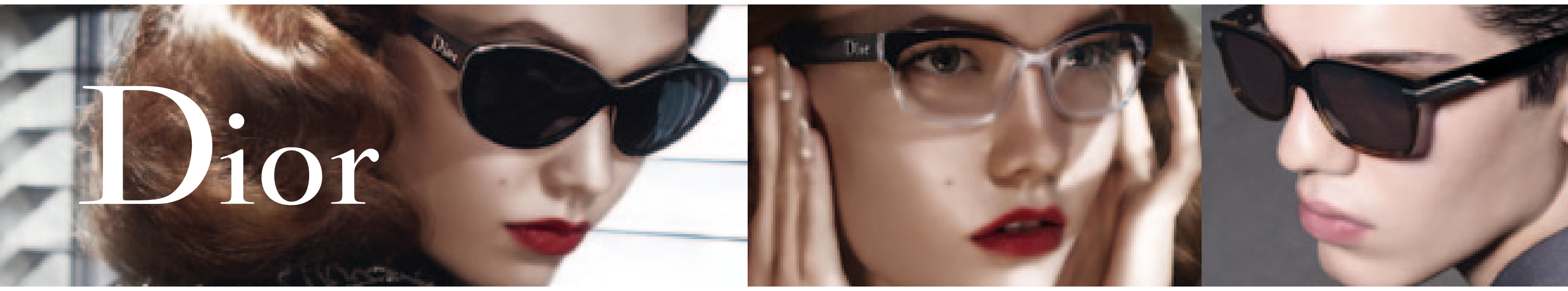
BALENCIAGA

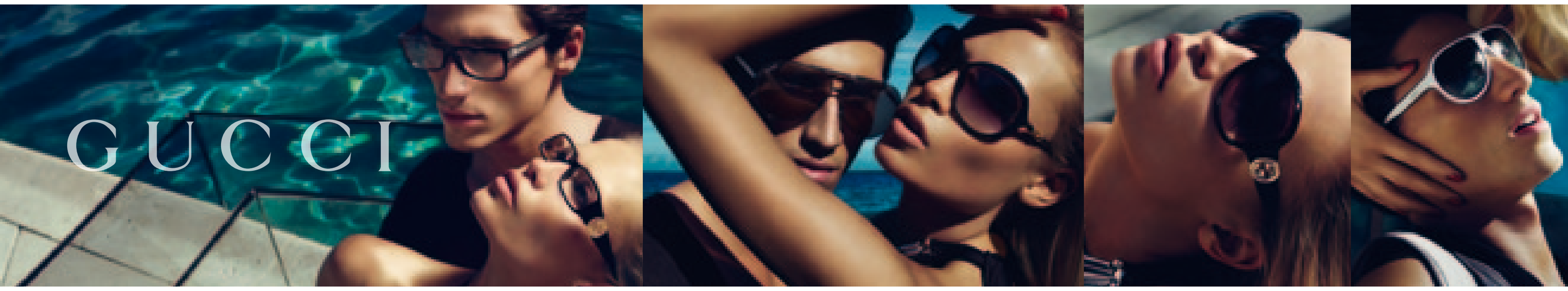




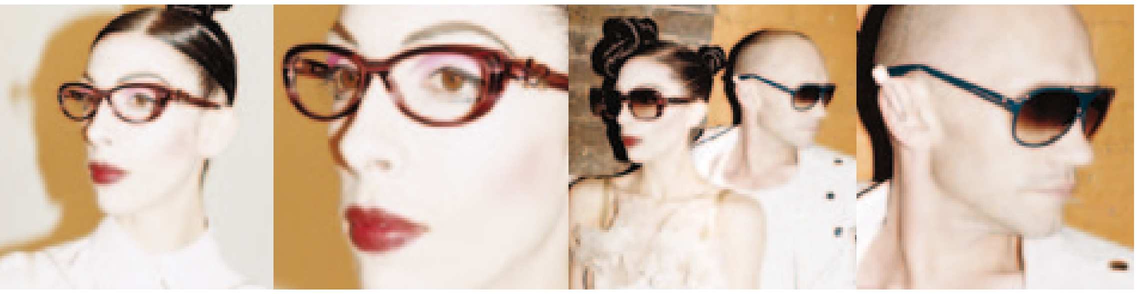
BOSS
HUGO BOSS

HUGO
HUGO BOSS

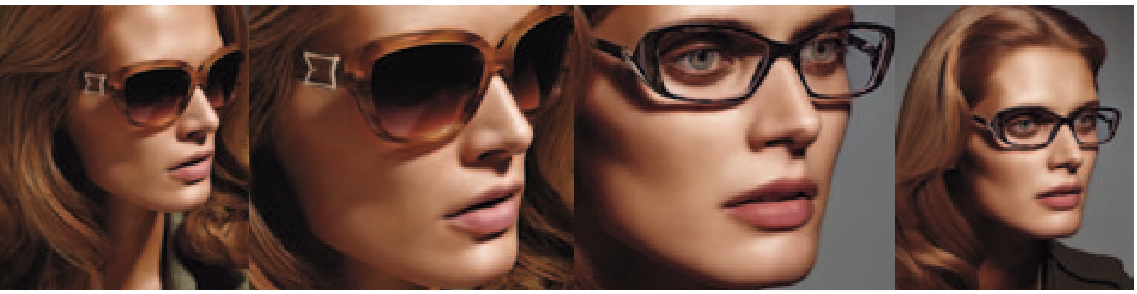

JIMMY CHOO



MARC JACOBS

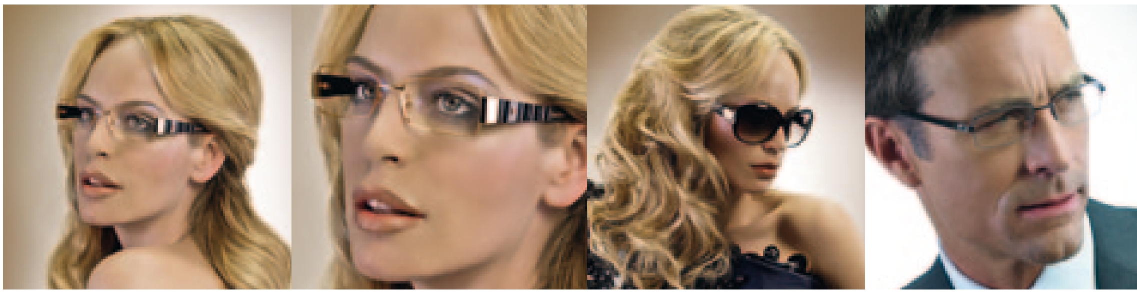
MARC BY MARC JACOBS

MAX&Co.



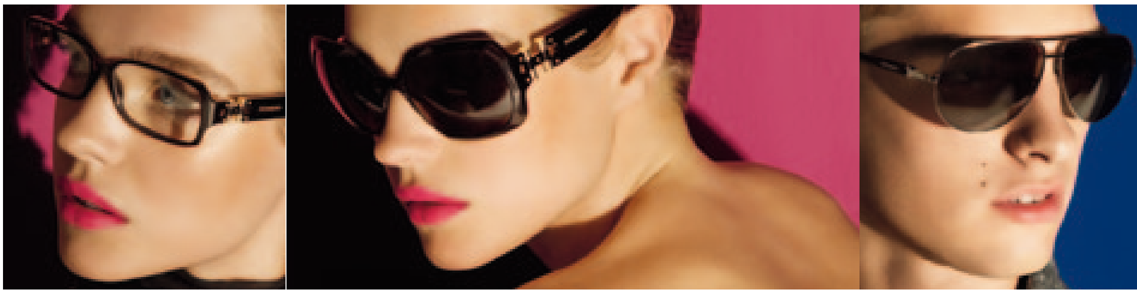
MaxMara
OCCHIALI

pierre cardin
PARIS



VALENTINO

YVES SAINT LAURENT



# The Safilo Universe

**SUBSIDIARIES THE AMERICAS**

Latin America
Brasil
Canada
Mexico
Usa

**SUBSIDIARIES EUROPE**

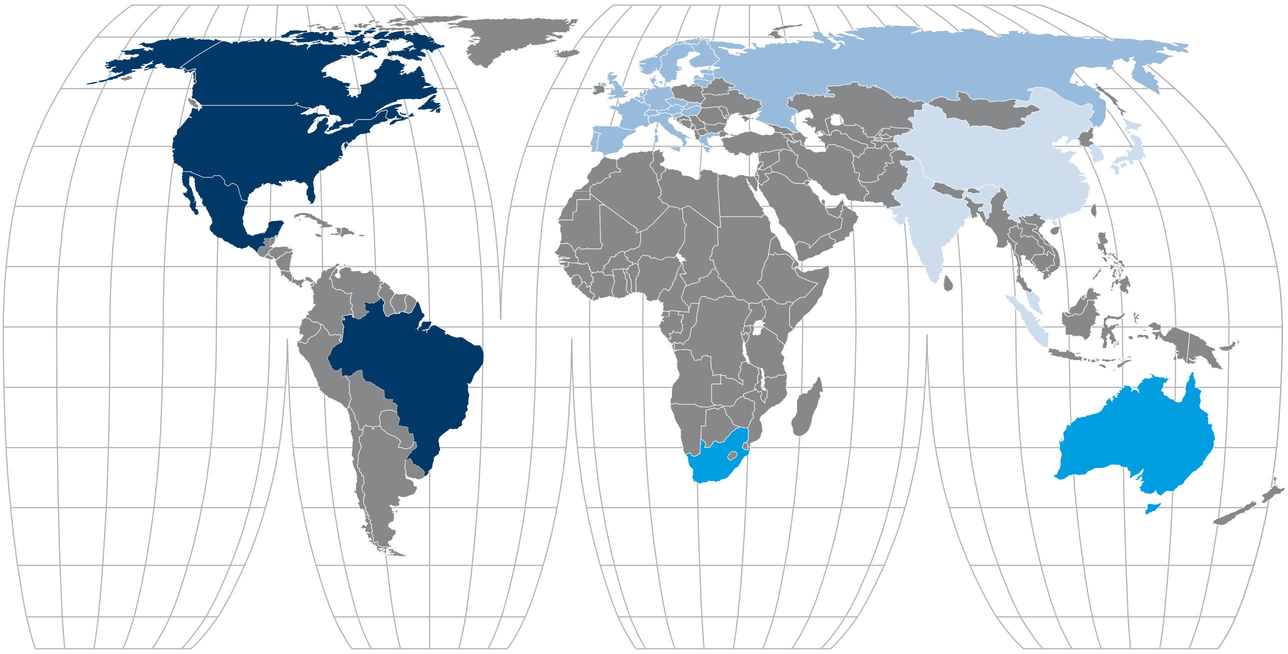
Austria
Belgium
Denmark
Estonia
Finland
France
Germany
Greece
UK
Italy
Latvia
Lithuania
Norway
Netherlands
Portugal
Czech Rep.
Slovenská Rep
Russia
Slovenija
Spain
Sweden
Switzerland
Hungary

**SUBSIDIARIES ASIA PACIFIC**

China
South Korea
Hong Kong
India
Japan
Malaysia
Singapore

**SUBSIDIARIES REST OF THE WORLD**

Australia
South Africa



**SAFILO SPORT**

Italy
Usa

**Production facilities**

Longarone
Martignacco
Ormoz (SLO)
S. Maria di Sala (div. R&S)
Salt Lake City (USA)
Suzhou (RPC)

The Safilo Group has 32 commercial subsidiaries and a network of 170 indipendent distributors able to reach 80,000 selected sales outlets all over the world.

## CALL OF SHAREHOLDERS' MEETING

The Shareholders are hereby invited to attend the Ordinary and Extraordinary Shareholders' Meeting to be held at the secondary office of Safilo Group S.p.A. (hereinafter, the "Company") in Padua, Settima Strada no. 15 – as far as the ordinary and extraordinary session is concerned – on April 29, 2010, at 10.00, in first call and, if necessary, on April 30, 2010, at 10.00, in second call and – as far as the extraordinary session only is concerned –, if necessary, also on May 3, 2010, at 10.00, in third call, in order to discuss and resolve on the following

AGENDA

*Ordinary session:*

1. *Financial statements as of December 31, 2009; Presentation of the consolidated financial statements as of December 31, 2009; Reports of the Board of Directors, the Board of Statutory Auditors and the Auditing company; Pertinent and consequent resolutions*
2. *Amendments to the Shareholders' Meeting Rules*

*Extraordinary session:*

1. *Proposal of Reverse Stock Split; Amendments to article 5 of the Company's Bylaws; Pertinent and consequent resolutions*
2. *Amendments to articles 5, 14, 15, 17, 21, 22, 24, and 29 of the Company's Bylaws; Pertinent and consequent resolutions*

Warnings:

Pursuant to Section 126-bis of the Legislative Decree no. 58/1998, the Shareholders that, on their own or jointly with other Shareholders, own a shareholding representing at least 2.5% of share capital of the Company may request, within 5 working days from the publication of this notice, that the Agenda be integrated with additional items, specifying the latter in such request.

In accordance with the law and article 10 of the Company's Bylaws, the Shareholders are entitled to attend the Shareholders' Meeting if they have filed the appropriate communication issued by authorised intermediaries at the Company's registered office at least two working days prior to the date of the Shareholders' Meeting and have not withdrawn the same before the Meeting takes place, pursuant to article 85, paragraph 4 of Legislative Decree no. 58/1998, and in any case in compliance with applicable laws. Each Shareholder may be represented in the Meeting by written proxy, in the cases and to the extent allowed by the law. In particular, the entities and companies may be represented by, in addition to their legal representative, a special attorney-in-fact vested with a written proxy, which may be a simple letter signed by the legal representative. The form at the bottom of the communication of the authorised intermediaries may be used as proxy form.

The share capital is divided into no. 1.136.439.310 ordinary shares, of a nominal amount equal to 0.25 Euro each; each share gives the right to one vote.

The Company's Bylaws and the Shareholders' Meeting Rules, whose current versions can be consulted by the Shareholders at the Company's registered office, are also available online on the Company's web site: www.safilo.com/it/investors.html.

The documentation relating to the items of the Agenda of both the Ordinary and Extraordinary sessions will be made available to the public, in accordance with the timeline set forth by the applicable laws, at the Company's registered office and at Borsa Italiana S.p.A. (at the Italian Stock Exchange), as well as online on the Company's web site: www.safilo.com/it/investors.html. The Shareholders are also entitled to obtain a copy thereof.

Padua, March 30, 2010

# Indice

## BOARD OF DIRECTORS AND AUDITORS AS AT 31st DECEMBER 2009[1]

### Board of Directors

| | |
|---|---|
| *Chairman* | Vittorio Tabacchi |
| *Executive Vice Chairman* | Massimiliano Tabacchi |
| *Chief Executive Officer* | Roberto Vedovotto |
| *Director* | Ennio Doris |
| *Director* | Antonio Favrin |
| *Director* | Carlo Gilardi |
| *Director* | Giannino Lorenzon |

### Board of Statutory Auditors

| | |
|---|---|
| *Chairman* | Franco Corgnati |
| *Regular Auditor* | Lorenzo Lago |
| *Regular Auditor* | Giampietro Sala |
| *Alternate Auditor* | Nicola Gianese |
| *Alternate Auditor* | Ornella Rossi |

### Internal Control Committee

| | |
|---|---|
| *Chairman* | Carlo Gilardi |
| | Antonio Favrin |
| | Giannino Lorenzon |

### Remuneration Committee

| | |
|---|---|
| *Chairman* | Antonio Favrin |
| | Giannino Lorenzon |
| | Carlo Gilardi |

### Independent Auditors

PricewaterhouseCoopers S.p.a.

[1] The Ordinary Shareholders' Meeting held on March 29th, 2010 appointed the new Board of Directors that will remain in office for the years 2010-2011-2012. For the composition of the new Board of Directors, see the press release available on the website www.safilo.com

## CHAIRMAN'S LETTER TO THE SHAREHOLDERS

### Vittorio Tabacchi

Dear Shareholders,

It is not without emotion that I write this letter, which is my last communication as Chairman of the Company founded by my Father and, up until now, led by myself.

2009 will be remembered as the year in which the definitive recapitalisation plan took place, and my family and I took a step back to leave the way open to a new reference shareholder, to whom I now symbolically pass the baton.

The capital operations, which began in the year 2000 and which led to my family having full control and the Company's subsequent exit from the Italian stock exchange, meant that the Group took on considerable debt, which then became unsustainable in light of the serious economic crisis.

Considering this situation, I decided to open the Company to a new shareholder with strong financial stability and consolidated experience in the sector, a shareholder who would be able to ensure continuity in the success which has made Safilo leader in the luxury and high end eyewear sector. I did this to safeguard both you as Shareholders as well as the thousands of employees who have shared with me the achievements of the past years.

The 2009 Financial Statements reflect this market situation, which up until a few months ago would have been unthinkable. The net result, showing a substantial loss, was in fact penalised by the writing down of company assets which, in the current economic situation, present values which are no longer sustainable. Over the year we revised the Group's industrial organisation and sold the chains which were showing no prospects of profitability. Furthermore, we laid the foundations for extending some of our license agreements and for renegotiating the Company's capital structure in a more propitious manner.

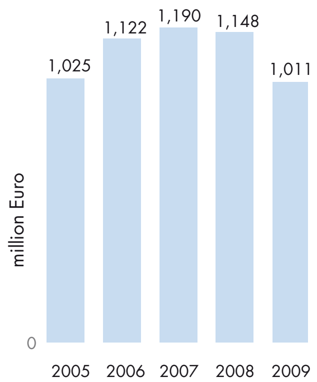
2009, as well as being the 75th anniversary of the company, saw a succession of projects which I hope will lead to a recovery of future profitability that will be visible over the next few years.

I therefore leave this Company with the absolute confidence that we have faced this terrible year with the sole objective of giving real continuity to this Group which, thanks to the new reference shareholders, management and thousands of people who continue to give their support on a daily basis to the company's success, will face the challenges that the future brings with ever-increasing resources and ever-renewed passion.

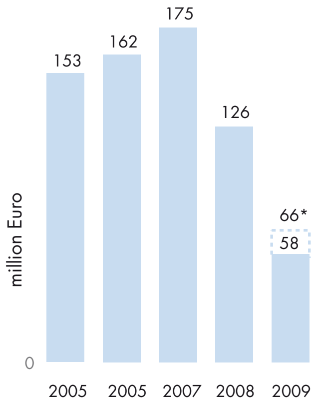
The Chairman
Vittorio Tabacchi

## SUMMARY OF KEY CONSOLIDATED PERFORMANCE INDICATORS

Net Sales

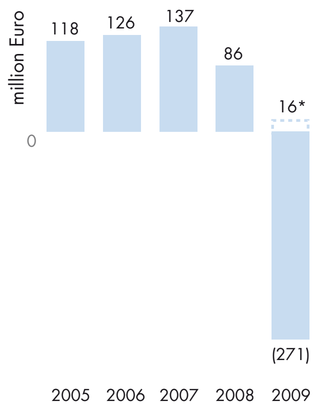



EBITDA



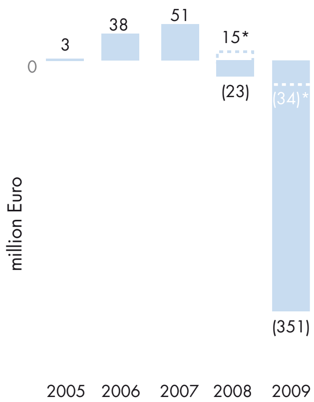

*before non-recurring charges

EBIT



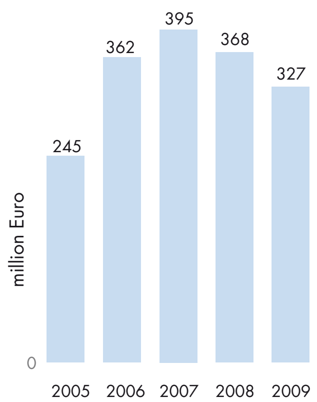

*before non-recurring charges

Net Result

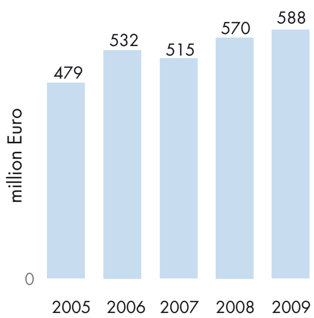



*before non-recurring charges

Net working capital




Net Financial Position



| Economic data *(Euro in millions)* | 2009 | % | 2008 | % |
|---|---|---|---|---|
| Net sales | 1,011.2 | 100.0 | 1,147.8 | 100.0 |
| Cost of sales | (438.8) | (43.4) | (484.9) | (42.2) |
| Gross profit | 572.5 | 56.6 | 663.0 | 57.8 |
| Ebitda | 58.2 | 5.8 | 126.3 | 11.0 |
| Ebitda pre non-recurring | 65.7 | 6.5 | 126.3 | 11.0 |
| Operating profit/(Loss) | (270.7) | (26.8) | 86.3 | 7.5 |
| Operating profit/(Loss) pre non-recurring | 16.1 | 1.6 | 86.3 | 7.5 |
| Group profit (Loss) before taxes | (324.6) | (32.1) | 29.4 | 2.6 |
| (Loss) attributable to the Group | (351.4) | (34.8) | (23.3) | (2.0) |
| Profit/(Loss) attributable to the Group pre non-recurring | (33.7) | (3.3) | 14.6 | 1.3 |

| Balance sheet data (Euro in millions) | 2009 | % | 2008 | % |
|---|---|---|---|---|
| Total assets | 1,390.6 | 100.0 | 1,817.4 | 100.0 |
| Total non-current assets | 811.8 | 58.4 | 1,138.6 | 62.6 |
| Capital expenditure | 36.9 | 2.7 | 61.2 | 3.4 |
| Net invested capital | 1,034.0 | 74.4 | 1,374.3 | 75.6 |
| Net working capital | 327.1 | 23.5 | 368.3 | 20.3 |
| Net financial position | (588.0) | 42.3 | (570.0) | 31.4 |
| Group Shareholders' equity | 438.4 | 31.5 | 795.9 | 43.8 |

| Financial data *(Euro in millions)* | 2009 | 2008 |
|---|---|---|
| Cash flow operating activity | 11.5 | 56.3 |
| Cash flow investing activity | (22.3) | (88.4) |
| Cash flow financing activity | 15.4 | 30.0 |
| Closing net financial indebtedness (short-term) | (20.9) | (20.4) |

| Financial indicators *(in %) (*)* | 2009 | 2008 |
|---|---|---|
| ROS | 1.6% | 7.5% |
| ROI | 1.6% | 6.3% |
| ROE | -7.7% | 1.8% |

| Share and market data *(in Euro)* | 2009 | 2008 |
|---|---|---|
| Earnings/(losses) per share base - before non-recurring | (0.12) | 0.05 |
| Earnings/(losses) per share - base | (1.23) | (0.08) |
| Earnings/losses per share diluted - before non-recurring | (0.12) | 0.05 |
| Earnings/(losses) per share - diluted | (1.23) | (0.08) |
| No. shares in share capital at December 31 | 285,394,128 | 285,394,128 |
| Group Shareholders' equity per share | 1.54 | 2.79 |
| Share price at the end of the financial year | 0.58 | 0.60 |
| Maximum share price of the financial year | 0.76 | 2.33 |
| Minimum share price of the financial year | 0.28 | 0.51 |
| Stock Market value at the end of the financial year | 165,528,594 | 171,949,962 |

| Group personnel | 2009 | 2008 |
|---|---|---|
| Punctual at December 31 | 7,931 | 8,804 |
| Average in the financial year | 8,380 | 8,710 |

*(*) pre non recurring items*

*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" stands for Earnings Before Interest, Taxes, Depreciation and Amortisation and is also stated before impairment losses to intangible assets such as goodwill;*
- *"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.*
- *"Non-recurring changes" refers to charges not related to ordinary operations and include: restructuring charges, the impairment of goodwill, losses on the sale of the retail companies, and the write-down of deferred tax assets.*

# DIRECTORS' REPORT ON OPERATIONS

## INFORMATION ON THE OPERATIONS

Crisis in the luxury market

The year 2009 will be remembered as the year in which the real economy felt the effects of the great crisis that had affected the financial markets the year before.

This had a twofold effect on the industry in which Safilo operates. On the one hand, it led to a general contraction in sales volumes (particularly in the sunglasses segment), while on the other, we saw a progressive reduction in average prices (including in the prescription eyewear segment) due both to a tendency for consumers to turn to the lower-end products and brands and for the shift towards the cheaper models within a given collection.

It is to be expected that this rapid change in consumer buying habits would have a significant impact on the high end of the market, where Safilo has always been a recognised leader. In a few short months, it was necessary to face a radical change in the buying habits of a great many consumers. Our reaction to this changing landscape was fast, within the limits of the time needed to put out new collections, and we were able both to limit the impact on the year under review and to lay the groundwork for approaching 2010 with a product offering that is more in line with the new competitive landscape.

With regard to 2009, the brands that were the most heavily hit by the contraction of the luxury market were those that, due to the characteristics of the brand and of the product, were positioned at the highest end of the segment. Conversely, the collections in the more accessible segment were able to limit their decline in sales volumes. One notable exception was the Carrera brand. The effective investments in marketing and design choices that hit their mark helped this house brand to post extraordinary performance, particularly in Italy, thereby giving new life to a brand that had thus far been relegated purely to the sports eyewear segment.

The sale of non-strategic retail chains

In terms of sales, the most significant event was the disposal of the retail business in Australia and Spain, which were no longer seen as having strategic importance. This move was part of the agreement that led to the entrance of the new primary shareholder, HAL Holding N.V., which owns 4,000 points of sale and is an important client for the Group. Within Safilo, these two chains were unable to achieve the performance expected of them because they were too small and largely located in countries that are undergoing profound economic crises. The payment received for this transaction came to 13.7 million Euro.

The start of the production facilities in China

The start of operations for the new facilities in China was very encouraging. Although the facilities have yet to reach their full capacity as expected at the start of the project, the results achieved both financially and in terms of production are satisfactory and in line with expectations. At year-end, the Chinese plant employed 655 people.

Synthetic comments on the operations

The least satisfying aspect of 2009 concerns financial performance. The contraction in sales mentioned above, together with the short-term difficulty in reducing fixed costs and the existence of a number of non-recurring charges related to the industrial reorganisation, resulted in a sharp decline in earnings from ordinary operations. The changing marketplace and, above all, the more prudent expectations for recovery in the world economy also led management to revise its parameters for measuring the carrying value of goodwill. This resulted in a significant impairment loss on this intangible asset, which then had a considerable impact on net income for the period, which fell to a loss of more than 350 million Euro.

Given this performance for the year and the general financial difficulties that clients and vendors are facing generally, the management of operating cash flows has been satisfying.

Problems of liquidity overcome

Finally, the Group's restructuring of capital, which was completed in the first quarter of 2010, has definitively resolved all problems of liquidity that had been weighing heavily on operations in 2009.

## GROUP ECONOMIC RESULTS

| **Consolidated statement of operation** *(Euro in millions)* | **2009** | **%** | **2008** | **%** | **Change %** |
|---|---|---|---|---|---|
| Net sales | 1,011.2 | 100.0 | 1,147.8 | 100.0 | -11.9% |
| Cost of sales | (438.8) | (43.4) | (484.9) | (42.2) | -9.5% |
| **Gross profit** | **572.5** | **56.6** | **663.0** | **57.8** | **-13.6%** |
| Selling and marketing expenses | (427.3) | (42.3) | (446.1) | (38.9) | -4.2% |
| General and administrative expenses | (131.4) | (13.0) | (131.8) | (11.5) | -0.3% |
| Other operating income/(expenses), net | 2.3 | 0.2 | 1.3 | 0.1 | 79.1% |
| Restructuring cost non recurring | (7.4) | (0.7) | - | - | 0.0% |
| Impairment loss on goodwill and loss on disposal of retail subsidiaries | (279.4) | (27.6) | - | - | 0.0% |
| **Operating profit (Loss)** | **(270.7)** | **(26.8)** | **86.3** | **7.5** | **n.s.** |
| Interest expense and other financial charges, net | (53.9) | (5.4) | (56.9) | (5.0) | -5.3% |
| **Profit (Loss) before taxation** | **(324.6)** | **(32.1)** | **29.4** | **2.6** | **n.s.** |
| Income taxes | 4.7 | 0.5 | (12.0) | (1.0) | n.s. |
| Write downs of deferred tax assets | (30.9) | (3.1) | (37.9) | (3.3) | -18.6% |
| **Net profit (Loss)** | **(350.8)** | **(34.7)** | **(20.5)** | **(1.8)** | **n.s.** |
| Net profit attributable to minority interests | 0.7 | 0.1 | 2.8 | 0.2 | -76.3% |
| **Net profit (Loss) attributable to the Group** | **(351.4)** | **(34.8)** | **(23.3)** | **(2.0)** | **n.s.** |
| **EBITDA** | **58.2** | **5.8** | **126.3** | **11.0** | **-53.9%** |

| **Economic indicators pre non-recurring items** | **2009** | **%** | **2008** | **%** | **Change %** |
|---|---|---|---|---|---|
| **EBIT pre non recurring** | **16.1** | **1.6** | **86.3** | **7.5** | **-81,3%** |
| **EBITDA pre non recurring** | **65.7** | **6.5** | **126.3** | **11.0** | **-48,0%** |
| **Net Profit(Loss) attributable to the Group pre non recurring** | **(33.7)** | **(3.3)** | **14.6** | **1.3** | **n.s.** |

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

Turnover for the Group down 13.1% at constant exchange rates

Consolidated turnover for the Group reached 1,011.2 million Euro, down 11.9% from the previous year. At constant exchange rates, the decline in sales would have been 13.1%.

The fourth quarter, which was penalised in part by exchange rates (at constant exchange rates the decline would have been 11.5%), highlighted the continuing difficulties especially in Europe.

The gradual realignment of the new collections to the changing buying habits of consumers led to a more marked drop in average sales prices compared to the first part of the year. This means that, in terms of products sold, the efforts to defend market share are producing the results hoped for. This trend is, of course, more evident in sunglasses and, within this segment, in the licensed collections, in that these were originally positioned at a higher price point and were, therefore, more heavily impacted by the new buying habits.

In 2009, in addition to the market contraction and the aforementioned reduction in average sales prices, opticians continued with their policy of reducing inventories, which further penalised turnover for the year. This factor led manufacturers not wanting to take on this inventory themselves to implement a series of initiatives aimed at improving their forecasting abilities and their flexibility in production processes.

| **Net sales by geographical area** *(Euro in millions)* | **2009** | **%** | **2008** | **%** | **Change %** |
|---|---|---|---|---|---|
| Europe | 444,7 | 44,0 | 543,8 | 47,4 | -18,2 |
| America | 400,0 | 39,6 | 423,0 | 36,8 | -5,4 |
| Asia | 130,6 | 12,9 | 147,5 | 12,9 | -11,5 |
| Rest of the world | 35,9 | 3,6 | 33,5 | 2,9 | 7,2 |
| **Total** | **1.011,2** | **100,0** | **1.147,8** | **100,0** | **-11,9** |

Analysis by geographic region

This breakdown by geographic region shows that the most critical area is that of the European market, as is also confirmed by the sales performance for the fourth quarter. If we exclude the Iberian peninsula, which was hit particularly hard by the economic crisis and has been declining rapidly for a number of quarters, there are no substantial differences in performance among the various European countries, as they have all, to one degree or another, been affected by a general weakness in sales.

The Asian market has also posted declines, although here the situation varies from one country to another, as the various domestic markets feature different dynamics despite belonging to the same geographic area. The performance for the year was also much different from Europe, so much so that, at constant exchange rates, sales in the Far East began growing again in the fourth quarter of 2009. The markets that were most heavily penalised in the Far East were Japan and China. However, while the difficulties in Japan depend on the particularly problematic economic landscape in the country, the slowdown in sales in China depends largely on decisions made by the Group to safeguard trade receivables, which resulted in delivering goods gradually to those customers that were not able to provide adequate guarantees of solvency. Growth was satisfactory in other important countries, such as South Korea and Hong Kong, particularly in the fourth quarter.

Sales in the Americas were affected by the serious consumption crisis that characterised the United States in 2009. However, the situation improved in the latter part of the year, as the performance of the Solstice chain (owned by the Group) demonstrates, and the poor sales performance in the fourth quarter was essentially due to the weakening of the U.S. dollar. At constant exchange rates, sales in the Americas in the latter part of the year would have declined by just 1.7% year on year.

| **Sales by product** | | | **Year** | | |
|---|---|---|---|---|---|
| *(Euro in millions)* | **2009** | **%** | **2008** | **%** | **Change %** |
| Prescription frames | 402,0 | 39,8 | 455,3 | 39,6 | -11,7 |
| Sunglasses | 524,6 | 51,9 | 606,7 | 52,9 | -13,5 |
| Sports products | 60,1 | 5,9 | 62,6 | 5,5 | -4,0 |
| Other | 24,5 | 2,4 | 23,2 | 2,0 | 5,6 |
| **Total** | **1.011,2** | **100,0** | **1.147,8** | **100,0** | **-11,9** |

This breakdown of sales by product type shows a contraction in sunglasses, as well as a marked slowdown in prescription frames. This phenomenon, which in entirely anomalous in terms of its size, was particularly evident in the fourth quarter and concerned Europe above all, and without significant differences from country to country or from one collection to another.

The deterioration of industrial profitability

The declining performance of sales and the trend in sales prices have resulted in a significant drop in industrial profitability.

As seen in the past, 2009 was characterised by declining turnover, particularly in the high end of the market, which features collections that are typically produced in Italy. In addition, the desire to contain working capital led the Group to favour policies that reduced inventories.

All of this resulted in a reduction in the use of industrial capacity, after having already exhausted all actions for flexibility that normally ensure full saturation of production capacity, even in periods of declining sales. Therefore, in 2009, the Group implemented an industrial reorganization that led to the closure of one production plant and the downsizing of others, with a consequent reduction in the workforce of 750 people.

As a result, the lower absorption of fixed industrial costs, the greater ratio of sales-related product costs (samples, transport, obsolescence), and the trend in prices led to a gradual erosion of industrial margins. In the fourth quarter, the drop in average sales prices was particularly sharp and was not yet offset by efforts to limit product costs in the latest collections. This temporary situation, together with a higher than normal provision for the risk of obsolescence given the need to renew the collections, resulted in a worsening of industrial performance in the latter part of 2009.

Increase in the ratio of commercial costs to sales

Commercial costs for the year declines in absolute terms, but increased as a ratio to sales, going from the 38.9% of 2008 to 42.3% in 2009. For the portion that is not directly variable, such as agency commissions, these costs suffered the effects of rigidity in licensing contracts and the impact of rules of measurement. Examples of the former are the clauses that call for guaranteed minimums in royalties regardless of actual sales or references to previous years for marketing expenses. Regarding the latter, this includes rules of prudent measurement concerning whether or not to increase the depreciation of the assets of companies or stores located in areas with limited expectations for a recovery. Then there are certain costs that are entirely fixed, such as staff overhead in sales and marketing, particularly in the retail segment.

General expenses remained unchanged from 2008, although featured a different dynamic. While there were savings resulting from efforts to reduce overhead in light of the changing outlook on growth, the Group felt in was appropriate to increase provisions to cover credit risk, given that the difficult context for consumer sales would point to an increase in customer default, particularly in Italy.

In 2009, a number of non-recurring events occurred that greatly penalised earnings for the year. In order to provide greater transparency regarding financial performance for the year, we felt it was appropriate to separate these components into their own individual line items.

These events were:

- the industrial reorganisation, which resulted in the closure of one plant in Italy and had an impact of 7.4 million Euro;

- the sale of the retail chains as part of the investment agreement with HAL, for a impact of 21.7 million Euro;
- the impairment of goodwill given the changing outlook on growth, for an impact of 257.7 million Euro.

As a result of these non-recurring charges, which did not have an impact on the Group's financial standing, the company posted an operating loss of 270.7 million Euro.

EBITDA before non-recurring charges at 6.5% of sales vs. 11% last year

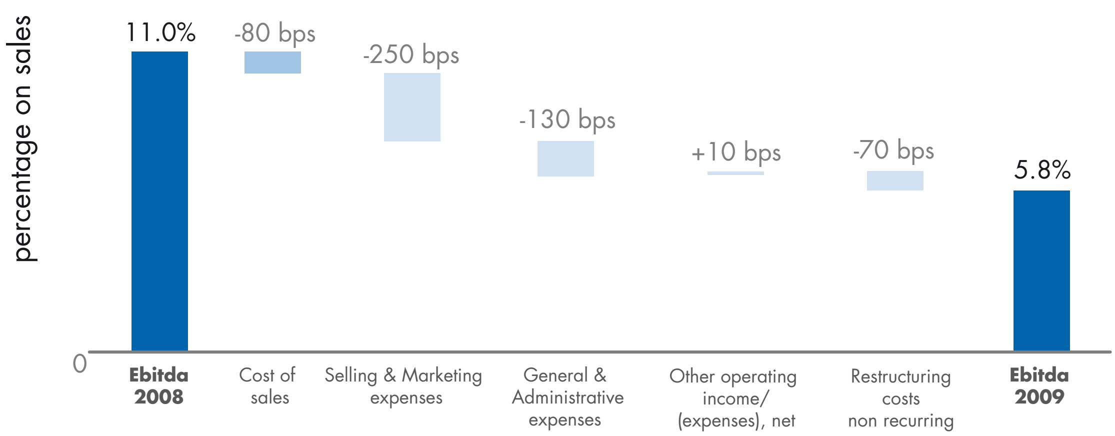
EBITDA before non-recurring charges, which better represents the performance on the company's core business, came to a positive 65.7 million Euro, but is still a significant drop from the 126.3 million Euro of the previous year.

Financial expenses did not vary much from the previous year. Indeed, which there were fewer costs for changes in exchange rates, capital losses were posted on equity investments in publicly listed companies, in addition to the negative impact of interest rates swap (I.R.S.) on medium and long-term loans, for which there is already a commitment for renegotiation.

Again this year, the Group felt it was prudent to write-down deferred tax assets related to the fiscal losses of the companies that did not show signs of recoverability over the short term.

This decision led to a further worsening of earnings, with the year closing at a net loss of 351.4 million Euro.

## Bridge EBITDA



## ANALYSIS BY DISTRIBUTION CHANNEL – WHOLESALE / RETAIL

The following table shows the main data by distribution channel:

| | WHOLESALE | | | | RETAIL | | | |
|---|---|---|---|---|---|---|---|---|
| *(Euro/000)* | 2009 | 2008 | Change | Change % | 2009 | 2008 | Change | Change % |
| Net sales to 3rd parties | 904,4 | 1.040,0 | (135,6) | -13,0% | 106,8 | 107,8 | -1,0 | -0,9% |
| EBITDA | 64,9 | 127,2 | (62,3) | -49,0% | (6,7) | (0,9) | (5,8) | n.s. |
| *%* | *7,2%* | *12,2%* | | | *-6,2%* | *-0,8%* | | |
| EBITDA pre non recurring | 72,4 | 127,2 | (54,8) | -43,1% | (6,7) | (0,9) | (5,8) | n.s. |
| *%* | *8,0%* | *12,2%* | | | *-6,2%* | *-0,8%* | | |

Wholesale sales down by 14,4% at constant exchange rates

Group sales in the wholesale segment declined by 14.4% at constant exchange rates compared with 2008. As described in greater detail above, this slowdown was the result of a general contraction in consumption, which was particularly marked in the luxury segment, and this led to a decline in sales volumes and a reduction in average sales prices.

The effects of this drop in turnover, particularly for its consequences on production volumes, were seen mainly in the wholesale segment, which remains particularly penalised in terms of industrial margins.

Of course, the efforts to reduce overhead costs were not sufficient to offset the drop in turnover, although they did mitigate the effects of the decline in sales.

The retail segment experienced a particularly difficult year. On the one hand, the crisis in consumption, which effected all retailers generally, had a particularly heavy impact in the U.S. and Spain, where a large part of the Group's stores are located. On the other, the Mexican chain, which posted solid performance in 2008, was greatly affected by the swine flu emergency, which, of course, started in Mexico, leading to a collapse in tourism for much of the year.

Profitability for the segment, which obviously depends a great deal on sales, was thereby compromised. Nonetheless, the last few months of 2009 provided encouraging signs of a return to sales growth comparable to that of the United States.

At the end of 2009, the retail chains were sold in Spain (56 stores) and Australia (50 stores), which posted a total of 36.3 million Euro in turnover in 2009.

## CONDENSED BALANCE SHEET

Main balance sheet items

The table below shows the highlights from the balance sheet as at 31st December 2009 compared with those of 31st December 2008:

| **Condensed balance sheet** *(Euro in millions)* | **December 31, 2009** | **December 31, 2008** | **Change** |
|---|---|---|---|
| Trade receivables, net | 268.8 | 301.6 | (32.9) |
| Inventories | 208.4 | 272.1 | (63.7) |
| Trade payables | (150.1) | (205.4) | 55.3 |
| **Net working capital** | **327.1** | **368.3** | **(41.2)** |
| Tangible assets | 208.6 | 228.8 | (20.2) |
| Intangible assets and goodwill | 536.5 | 829.9 | (293.4) |
| Financial assets | 12.0 | 13.2 | (1.1) |
| **Net fixed assets** | **757.1** | **1,071.9** | **(314.7)** |
| Employee benefit liability | (41.8) | (42.1) | 0.2 |
| Other assets/(liabilities), net | (8.4) | (23.8) | 15.4 |
| **Net invested capital** | **1,034.0** | **1,374.3** | **(340.3)** |
| Cash in hand and at bank | 37.4 | 53.7 | (16.3) |
| Short-term borrowings | (178.1) | (162.6) | (15.5) |
| Long-term borrowings | (447.3) | (461.1) | 13.8 |
| **Net financial position** | **(588.0)** | **(570.0)** | **(18.0)** |
| Group Shareholders' equity | (438.4) | (795.9) | 357.5 |
| Minority interests | (7.6) | (8.4) | 0.8 |
| **Total Shareholders' equity** | **(446.0)** | **(804.3)** | **358.3** |

## Net working capital

Significant reduction in NWC in absolute terms

The value of working capital related to commercial operations declined by a further 41.2 million Euro from 31 st December 2008, following the good results posted in 2008 as well.

| **Net working capital** *(Euro in millions)* | **December 31, 2009** | **December 31, 2008** | **Change** |
|---|---|---|---|
| Trade receivables, net | 268.8 | 301.6 | (32.8) |
| Inventories | 208.4 | 272.1 | (63.7) |
| Trade payables | (150.1) | (205.4) | 55.3 |
| **Net working capital** | **327.1** | **368.3** | **(41.2)** |
| *% net sales* | *32.3%* | *32.1%* | |

The impact of NWC remain constant

The ratio of working capital to sales remained essentially unchanged, despite the significant drop in turnover, due to policies aimed at limiting finished goods inventories.

For the component related tot trade payables and receivables, there were no significant changes in payment terms; therefore, the changes in working capital were the result of fluctuation in the business.

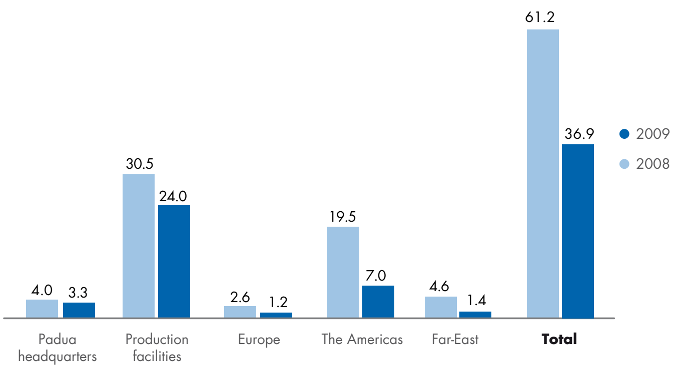
## Fixed assets and investments in tangible and intangible fixed assets

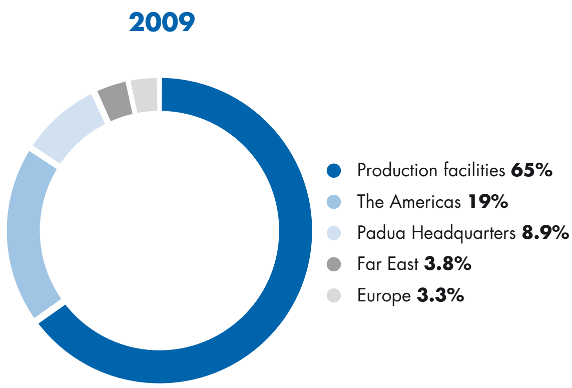
Decrease in fixed assets and capital expenditure

Fixed assets totalled 757.1 million Euro as at 31st December 2009. The reduction from 2008 is due mainly to the impairment of goodwill in the amount of 257.7 million Euro, which was recognised during the year following in response to the more prudent expectations for future growth.

Investments in both tangible and intangible fixed assets totalled 36.9 million Euro, as compared to the 61.2 million Euro of the previous year, and may be broken down by geographic region as follows:

Investments in tangible and intangible fixed assets

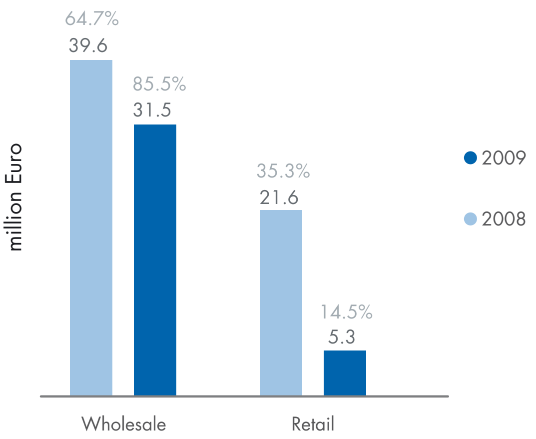



The routine improvement and renewal of the plant and equipment of the production facilities in Italy and Slovenia accounted for nearly half of all investments, while roughly a third went to the production site in China.

The sharp economic slowdown, the consequent drop in consumption and the recessions particularly in Mexico and Spain led the Group to significantly reduce the opening of new points of sale. Therefore, the amount of investment was substantially lower than for the previous year.

## Capital expenditure by distribution channel



## THE FINANCIAL SITUATION

The main items of the net financial situation at 31st December 2009, 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, 2009** | **December 31, 2008** | **Change** |
|---|---|---|---|
| Current portion of long term borrowings | (77.3) | (37.6) | (39.7) |
| Bank overdrafts and short term bank borrowings | (58.3) | (74.1) | 15.8 |
| Other short term borrowings | (42.5) | (50.9) | 8.4 |
| Cash in hand and at bank | 37.4 | 53.7 | (16.3) |
| **Short term net financial position** | **(140.7)** | **(108.9)** | **(31.8)** |
| Long term borrowings | (447.3) | (461.1) | 13.8 |
| **Long term net financial position** | **(447.3)** | **(461.1)** | **13.8** |
| **Net financial position** | **(588.0)** | **(570.0)** | **(18.0)** |

The NFP increases with respect to 31st December 2008

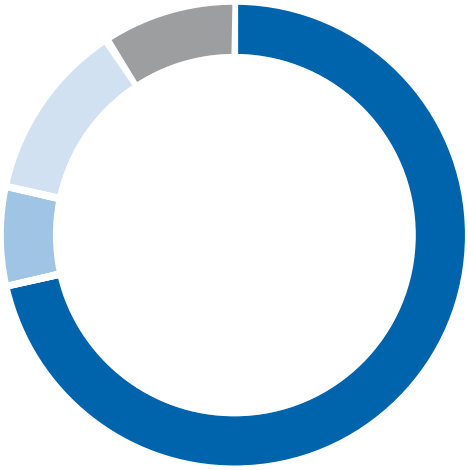
Net financial position increased to a net debt balance of 588 million Euro, as compared to the 570 million Euro as at 31st December 2008. This increase was the result of the Group's financial performance, given that, as discussed above, the operating profit was insufficient to offset the financial expenses and the cash outflows for taxes.

The exception to the verification of the covenants in light of the restructuring of senior debt

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. In 2009, in expectation of a potential failure to meet the covenants, the Group requested and received from the lending banks an exemption from verifying such covenants both for 30th June 2009 and 31st December 2009, as well as a deferment of payment of the principal due on those dates to mid-2010.

This waiver was granted on an interim basis in expectation of the execution in 2010 of the Group's debt restructuring defined in October 2009 as part of the investment agreement with the partner HAL Holding N.V. For more information about this transaction, see the section of this report regarding liquidity risk.

## Gross debt 2009




### Free cash flow

| **Free cash flow** *(Euro in millions)* | **2009** | **2008** | **Change** |
|---|---|---|---|
| Cash flow operating activity | 11.5 | 56.3 | (44.8) |
| Cash flow investing activity | (22.3) | (88.4) | 66.1 |
| **Free cash flow** | **(10.8)** | **(32.1)** | **21.3** |

Improved free cash flow due to extraordinary investment and other extraordinary items

The improvement in free cash flow over 2008 was the result of the management of extraordinary investing activities and not of operating activities. Indeed, while the cash outflows in 2008 were for acquisitions, for the most recent financial year non-recurring items related to the sale of the retail business generated a cash inflow of 13.7 million Euro.

Nonetheless, it should be noted that operating activities generated cash flows in the amount of 11.5 million Euro.

## 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. From 1983 to 1986, a controlling interest was acquired in Starline Optical Corp. (now Sàfilo USA Inc.), a leading U.S. commercial firm active in the eyewear industry that had been a distributor of the Group's products in the United States since 1962.

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.

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.

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

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 addressed to the American market - to the Group collections.

Delisting in 2001

In July 2001, the chairman of Sàfilo S.p.A., Vittorio Tabacchi, acquired a majority stake in the Company and launched a public takeover bid through a special-purpose vehicle, Programma 2002 S.p.A. The initial bid was at a price of 12.50 Euro per share, for a total value of 161.3 million Euro. The bid on the remaining shares was launched at a price 14.48 Euro, for a total value of 9.4 million Euro. 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 14th 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.

Investment agreement with HAL in 2009

On 19th October 2009, Safilo Group S.p.A. and Only 3T, as majority shareholder, signed a binding investment agreement with HAL Holding N.V., an international investment firm.

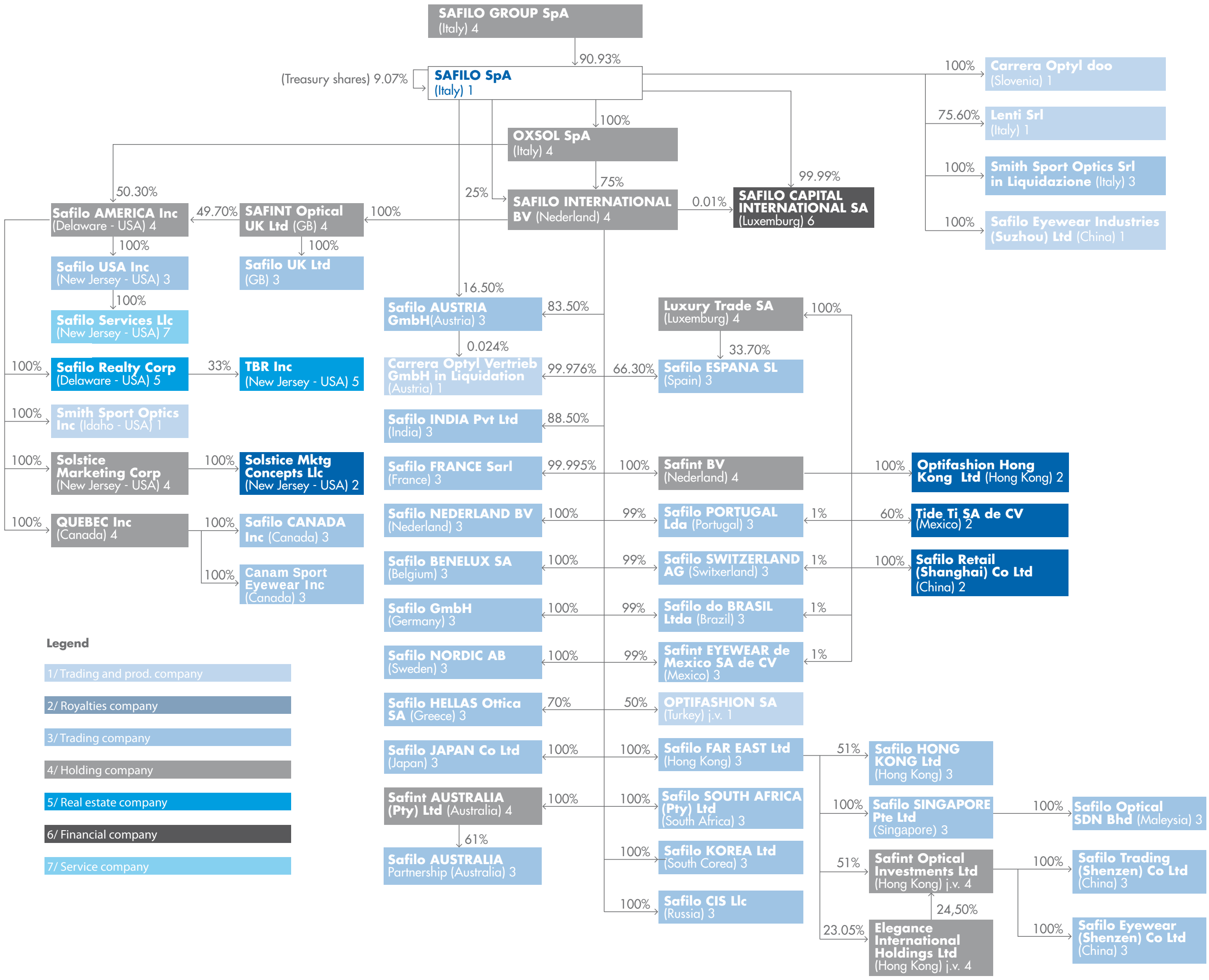
HAL is both a financial and industrial partner for the Group and has had a strong presence in the industry of eyewear retail sales since 1996 with a vast retail network, which numbered roughly 4,000 shops in 37 countries at the end of 2008, for total sales of some 2.6 billion Euro. This network features chains such as Grand Vision, Pearle, Solaris and Avanzi.

The investment agreement seeks to implement a plan for the recapitalization of the Company and of the Group by way of the following actions:

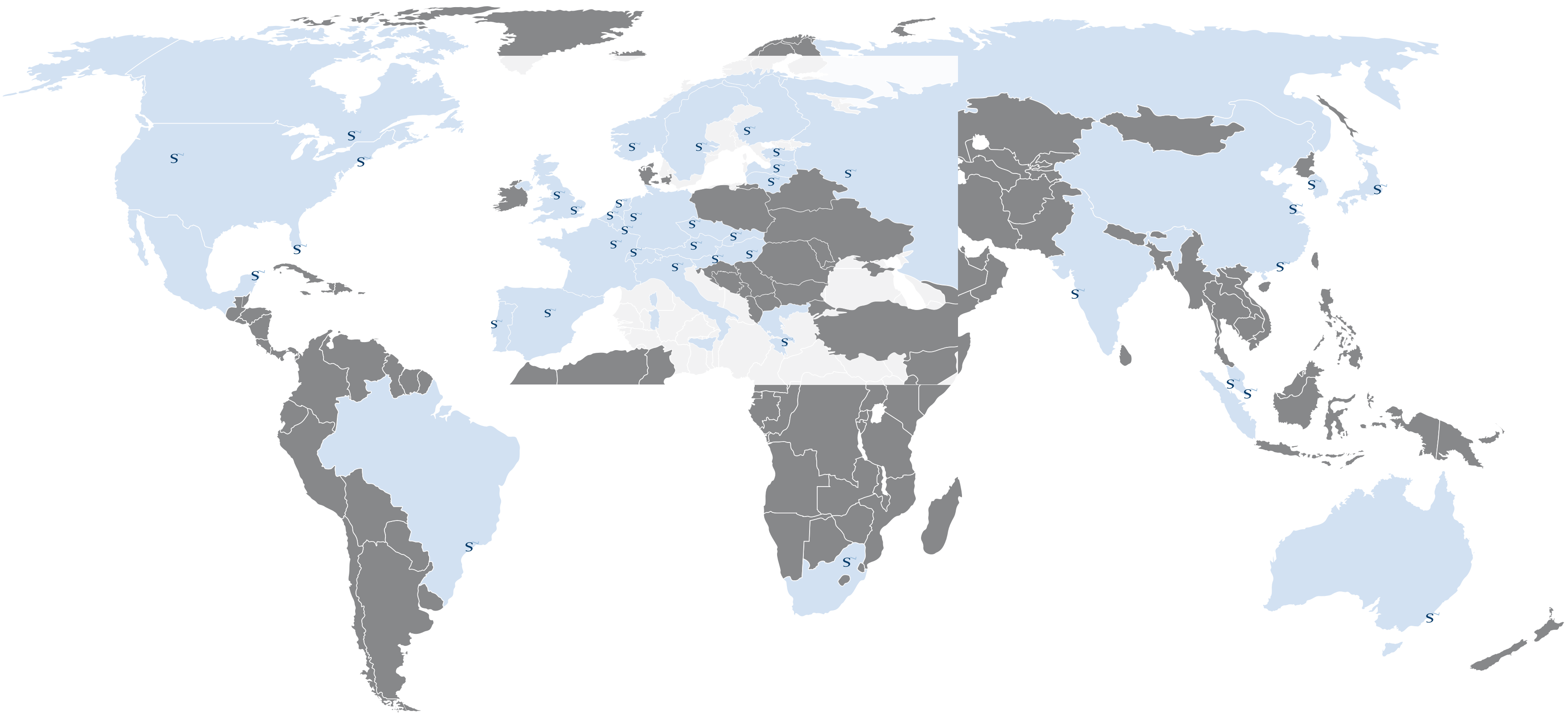
- the launch of a tender offer by HAL in order gain control of the high-yield bonds issued by the Group and maturing in May 2013, so as to free the Group from the restrictions deriving from the change-of-control clause established by the rules of the bond issue;

- the contribution of additional risk capital in the parent company, which is to be done by way of an initial increase in capital reserved to HAL and a second increase to be offered as an option to shareholders for a total of 262.8 million Euro. This transaction will make HAL the new primary shareholder with an equity interest of 37.23%;
- the restructuring of senior debt by way of an agreement with Safilo's lending banks and aimed at reducing debt using the funds raised through the capital increase and redefining the payment plan and related covenants;
- the sale of a number of retail chains that are no longer deemed to be of strategic importance, with the exception of the U.S. chain Solstice and the points of sale in Hong Kong. This plan particularly concerns the Spanish chain Loop Vision, the points of sale in China, the Mexican retail chains Sunglass Island and Island Optical, and the Australian chain Just Spectacles.

## GROUP STRUCTURE



The following map shows the locations of Group subsidiaries:



## CRITICAL FACTORS FOR THE GROUP'S SUCCESS

The Safilo Group's business model is based on product quality, a portfolio of prestigious brands, production flexibility, international distribution capabilities, and product diversity

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

- design excellence, innovation and product quality: the Group's products are very well received by eyewear resellers and by the consumer due to their superior quality and their innovation in both materials and design. The Group sees quality to be key to success in the high end of the market and in effectively managing its brand portfolio;

- a highly prestigious brand portfolio and a high-profile presence in the luxury segment and in fashion: the Group manages a select portfolio of brand names based on standards that take account of their specific competitive positioning and international prestige, as well as on a precise strategy of customer segmentation and the desire to mitigate exposure the risk of any one brand, which is typical of the luxury segment. To this end, the Group has gradually and carefully integrated its own brands and various licensed brands, for which it has established long-term partnerships (on average 5-8 years) with the brand owners through contracts that are repeatedly renewed over the years;

- production flexibility: for a number of years, the Group has been engaged in rationalising its organisation and production processes in order to increase efficiency and productivity and to reduce total production times. The use of outsourcing also provides the necessary flexibility in production in order to manage peaks and troughs in demand;

- global distribution platform and territorial coverage: the Group's logistics platform is key competitive advantage in supporting the business model thanks, above all, to the high level of coverage of all of the world's main markets. This plays a significant role both in supporting development strategies worldwide for fashion's leading labels and in enhancing the brand portfolio emerging in local markets, and the distribution system is designed to reach more than 80,000 select points of sale in 130 nations. The Group ensures its market presence through a mixed distribution model comprising direct management (presence in 40 of the most important markets, with approximately 1,300 sales agents) and indirect management, through exclusive agreements with independent distributors (approximately 70 in the optical channel and more than 100 in the sports channel). Factors behind its success include the high level of training of the sales force, which focuses on certain product lines. Through its sales network, the Group maintains relations and effective control in respect of its customers, the high quality of which ensures a suitable position of house and licensed brands. In particular, the strategic selection of retailers and the positioning of Group's products in their points of sale is a key to success in relations with prestigious brand licensors and is a distinctive feature of the Group in comparison to its leading competitors;

- excellence in customer service: the Group is a recognised leader in providing excellent levels of customer service, which features: (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;

- diversification in revenues: diversification in the portfolio of house and licensed brands and in the target markets and customer segments concerned enables the Group both to mitigate the risks related to potential slowdowns in the performance of specific markets and the general risk of changes in customer buying habits, as well as to take advantage of opportunities in emerging markets and customer segments.

## 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 take advantage of business opportunities in the market segments and geographic areas in which 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 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, the 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 risk

*Changes in fair value risk.* The Group holds some assets and liabilities subject 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 contractual agreements related to the senior loan granted to a number of Group companies by a pool of banks led by Unicredit Bank AG include a series of covenants regarding both financial and operational aspects. 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. Covenants in the current contractual agreement are calculated as a ratio between net financial position and EBITDA and EBITDA and financial income and expenses.

The Group's debt restructuring agreement

In 2009, the Group posted a significant decline in turnover and a progressive deterioration in profitability. The ongoing difficulties in the global economy, which led to a marked contraction in consumption of discretionary durable goods and the possibility that the Group will have to continue operating in this environment for some time to come, has led to considerable uncertainty about the Group's ability to meet its financial commitments in the ordinary course of business. In addition, despite the fact that steps have been taken to continue increasing efficiency in the management of working capital, it was not possible to significantly reduce the level of financial resources absorbed, thereby resulting in a increased use of bank borrowings in the form of a greater use of revocable lines of credit. In this context of financial and liquidity crisis, the Group implemented a plan of financial restructuring and recapitalisation as defined in the binding investment agreement signed on 19th October 2009 by HAL Holding N.V., the partner in the transaction, Only 3T S.p.A. and Safilo Group S.p.A, as approved by the shareholders of Safilo Group S.p.A. in their extraordinary meeting of 15th December 2009. On 24th December 2009, within the scope of this transaction, the lending banks formally approved the content of a debt restructuring agreement for the Group, which calls for the following changes to the contract of the senior loan:

- the redefinition of the Facility A1 tranches of the senior loan into Tranche 1 Facility A1 (in the amount of roughly €3 million) and Tranche 2 Facility A1 (in the amount of 25 million Euro);
- the redefinition of the purpose of the revolving line of the senior loan (Facility B) in order to also allow for the redemption of the high-yield (HY) bonds upon maturity in 2013;
- the revising, to the benefit of the Group, of the interest spreads applied to the various lines of credit, with the provision, for the revolving line (Facility B), of a system of reducing the spread in accordance with the change in the leverage ratio (i.e. consolidated net debt to consolidated EBITDA);
- a change in the methods of repayment and the final expiration for repayment of the lines of credit as follows: Tranche 1 of Facility A1, Facility A2 and Facility A3 is to be changed from a semi-annual payment plan with a final payment of 31st December 2011 to payment in lump sum on 30th June 2012; Tranche 2 of Facility A1 is to be changed from a semi-annual repayment plan with a final payment on 31st December 2011 to a lump-sum payment on 30th June 2014; and final payment of the revolving line (Facility B) is to be deferred from 31st December 2012 to 30th June 2015;
- a covenant holiday until 30th June 2012, with the exception of those covenants related to the observance, beginning on the effective date of the restructuring agreement, of a general threshold of net debt. Beginning on 30 th June 2012, with verifications on 30th June and 31st December of each year, the covenants regarding the leverage ratio (Net financial position to EBITDA), and the interest cover ratio (EBITDA to net interest for the period) are to be kept within the new levels defined by the agreement.

The main conditions for the validity of this restructuring agreement, the content of which was approved on 24th December 2009, concern:

- the completion of the increase in share capital by the parent company, Safilo Group S.p.A., both for the portion reserved to HAL Holding N.V.

(including, at the partner's discretion, through its subsidiaries) and for the optional portion called for by the binding investment agreement of 19th October 2009;

- evidence that a portion of the funds from the optional capital increase, in the amount of at least 185 million Euro, are to be used to repay the senior loan.

Indeed, the restructuring agreement requires that a portion of the funds raised by the capital increase be used to reduce the Group's debt related to the senior loan. This partial repayment must primarily concern the revolving line, i.e. Facility B, in the amount of roughly 160 million Euro, as well as Facility A1 in the amount of roughly 28 million Euro.

Following this repayment, the amount of the senior loan used for cash will go from its current 319 million Euro to roughly 140 million Euro, with an available revolving line of credit of roughly 150 million Euro.

On 24 December 2009, in anticipation of meeting the conditions for the agreement, and the signing and payment of the capital increase in particular, which was completed in the first quarter of 2010 as described in greater detail in the section regarding significant events subsequent to year-end, the Group obtained a waiver from the lending banks for verification of the covenants on 31st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

HAL's commitment to finance the redemption of the high-yield bonds at maturity

With regard to the High Yield bond, and within the scope of the HY Tender Offer launched by HAL and completed with the acquisition of 50.59% of the bonds in circulation (the "HAL Bonds"), as an integral part of the restructuring agreement, Safilo, Safilo Capital International S.A., the financing banks and HAL are to sign the agreements by which HAL will undertake the following commitments:

- to grant, either directly or indirectly, financing to Safilo Capital International S.A. aimed at redeeming the HY bonds in the event that, at the moment of maturity of the HY bonds (i.e. 2013), the Safilo Group should have insufficient funds (taking into account available funds under the revolving line of credit of the Senior loan) to redeem the HY Bonds with a maximum amount equal to the difference between the principal amount of the HAL bonds repaid on the final maturity date of the HY bonds and the aggregate purchase price paid by HAL for the HAL bonds. The loan will have the same financial conditions and guarantees of the Senior Loan made on a pari passu basis;

- to hold more than 50% of the HY Bonds until their final maturity.

This agreement, too, is subject to a number of conditions tied mainly to HAL maintaining an equity investment in the group of at least 20%, or of at least 30% in the event another party can appoint the majority of the Board of Directors.

Group management believes that the restructuring agreement defined in the fourth quarter of 2009, which was finalised in the first quarter of 2010 following completion of the capital increase, places the Group in a position of renewed financial equilibrium, thereby minimising the risks related to insufficient liquidity and the raising of financial resources.

## 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

Research and development mainly focuses on two types of activity:

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

- 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*

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

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 task is carried out by three structures called Style Centres, comprising designers and staff responsible for producing 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.

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

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

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 2009, 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 function is managed by the Central Buying Office in Padua.

In order to ensure the quality of raw materials and semi-finished goods, the Group carefully selects suppliers and evaluates them on an ongoing basis based on their delivery times and their ability to ensure certain quality standards, as well as on their available production capacity.

The provisioning of raw materials and semi-finished goods is done both in Europe and in 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

Safilo products are produced both within the facilities of the Group and by third parties. Safilo directly produces roughly 40% of the prescription frames and sunglasses in five of its six facilities – in Italy, Slovenia, China and the U.S. – with the remainder being produced by third parties in Asia and Italy 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.

Between 2006 and 2008, the Group completed its Lean Manufacturing and Time to Market projects, through which it was significantly able to reduce internal production lead times and production costs, and to manage new product development more effectively and efficiently. The results achieved with these projects have now been fully consolidated in the current organisation.

*Internal production*

The processes have been simplified over recent years to improve production efficiency and flexibility. The rationalisation of production resulted in a specialisation of each plant based on the materials and production technologies applied.

In 2008, the Group launched production at its plant in Suzhou (China), dedicated to the manufacturing of unfinished components in metal and acetate. As at the end of 2009, the plant employed more than 650 people, with production growing rapidly.

As a result of the industrial reorganisation in 2009, direct production by the Group is now conducted in three plants in Italy, by the plant in Ormoz, Slovenia, and the one in Suzhou, China, as well as in the plant in Salt Lake City, Utah (USA) for ski goggles.

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

| Division | Production unit | Country | Production specialisation |
|---|---|---|---|
| Plastic materials | Santa Maria di Sala (VE) | Italy | Finished products |
| | Ormoz | Slovenia | Semi-finished and finished goods, Optyl, and injection |
| | Suzhou | China | Acetate semi-finished goods |
| Metals and semi-finished goods | Longarone (BL) | Italy | Finished products |
| | Martignacco (UD) | Italy | Components and accessories |
| | Salt Lake City | U.S.A. | Ski goggles |

*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

High product quality is one of the key elements of the Group's strategy, which is why quality control is handled directly by personnel within the Group.
The quality control process seeks to provide our customers with products that not only comply with legal requirements with regard to safety, but also to meet the highest quality standards applied within Safilo.
We conduct tests on the raw materials and semi-finished products we purchase, and on the production and distribution processes and finished products.
Finished products from third-party suppliers are inspected when they arrive at distribution centres. The Group has several quality control teams with a great deal of experience in the sector, based within the facilities in Parsippany and Hong Kong, and at the headquarters in Padua.

All Group products comply with the laws in force in the countries in which they are sold. With regard to European Union legislation in particular, when required, products have the EC marking. In addition, after obtaining ISO 9001:2004 certification in 1996, Safilo has now been ISO 9001:2000 (i.e. "vision 2000") certified since 2003. The certification body used by Safilo is DNV – Den Norske Veritas. Safilo's ISO 9001:2000 certification has also been accredited by Sincert.

## **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 house brands, the licensed brands and the products are one of the key factors for the Group's success and continuously growing profit.

In January 2009, the Group was reorganised based on the following guidelines:

- expansion and redefinition of the roles of the brand management structure, with reference to own brands
- development of the role of brand management with a more central importance in company processes;
- inclusion of the Design structure within the Marketing and Licensing department
- more central role for the Marketing and Licensing department of the headquarters in Padua in defining international marketing strategies.

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 house brands, through a correct marketing mix and adequate investments in product development, communications and trade marketing;
- to communicate the distinctive features in terms of design and

technology of products in the different categories (prescription, sunglasses, sports).

The Group develops its global marketing and advertising strategy through the marketing plan. 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. For licensed brands, the Group develops the strategy in close partnership with the licensors.

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

In 2009, the Group's total investment in marketing and communication came to 93.9 million Euro (vs. 100.3 million Euro in 2008), equal to roughly 9.3% of consolidated revenues for the Group (vs. 8.7% in 2008).

Marketing and communications activities mainly consist of direct consumer campaigns and trade marketing activities focused on customers' points of sale.

Consumer-oriented activities account for roughly two-thirds of the Group's marketing and advertising investment, and the main outlets used are the press (both weekly and monthly publications), billboards, sponsorships (mainly in sports for the brands Carrera and Smith), and public relations with journalists and opinion leaders in fashion and the sports and entertainment industries.

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.

Corporate communication

The Group also attributes great importance to corporate communication, which it develops as a priority with its participation in the main international fairs in the sector and with internet communication through the sites www.safilo.com, www.carreraworld.com, www.smithoptics.com and www.oxydo.net.

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.

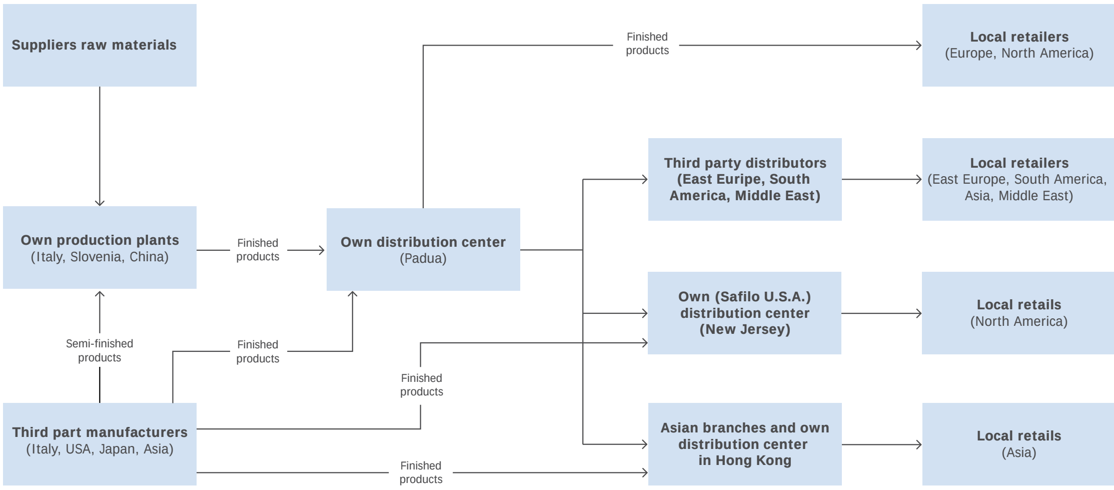
The media strategy is managed at Group level, but with specific optimisation campaigns in the single local markets.

## 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.




The Group has developed a common information platform for the main European companies, for Safilo Far East Ltd. in Hong Kong and for Safilo South Africa. This platform permits direct linking, from the logistics standpoint, of the highly automated Padua distribution centre in Italy with individual European opticians, Asian distributors and South African customers. The platform enables the Group to offer customers direct shipment from the Padua distribution centre to the individual retailers without the need to ship the products to any intermediate warehouse. This logistical organisation provides both excellent service to the customer and allows stocks of finished products to be constantly monitored.

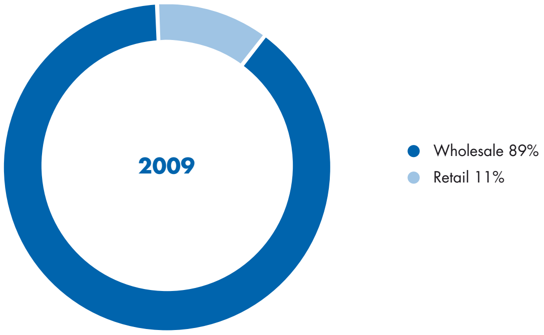
By means of its distribution centres around the world, the Group can ensure an excellent level of customer service in all its current markets.

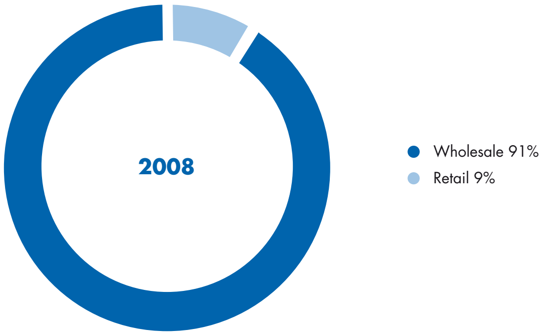
In order to guarantee minimum shipment times and reduced costs, shipping agents and couriers are selected on the basis of their efficiency and reliability. Our European suppliers mainly ship by road while Asian suppliers ship by sea. Finished products are sent from Asia both by sea and air.

Once the production process is complete the finished products are sent to the

Padua warehouse. Shipment orders, related costs and courier orders are processed overnight. The system processing all this data takes into count the destination to which products have to be shipped so as to minimise freight costs and the number of trips needed to supply each individual 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 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 32 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 80,000 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. Distribution agreements with local partners usually establish purchase quantity minimums and impose territorial restrictions. In addition, to the extent allowed by local legislation, we authorise distribution of our products solely via authorised retail stores and qualified sales 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 structured in 3 divisions managed by top managers reporting to the World Sales Manager

Our distribution network is geographically organised in 3 divisions, which respectively cover North and South America, Asia and Australia, and Europe plus countries elsewhere in the world, such as India and South Africa (EMEIA). Each division is managed by a top manager who reports directly to the World Sales Manager who is responsible for coordinating them.

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

**Europe**

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

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

**Asia**

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

**Rest of the world**

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

Below is a brief description of the 3 divisions:

EMEIA (Europa, India e Sud Africa)

*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, in the UK they are mainly chain stores, while in Germany the main customers are buying groups and distribution chains. We directly distribute our products to 25 European countries. Around 60% of the more than 600 agents are independent and paid on a commission basis, while the remainder are employees in accordance with specific local legislation, and receive a basic salary plus commission. Most of the sales force is linked by PC to the central computerised distribution system so as to reduce order processing time. Sales and other marketing data can therefore be obtained on a daily basis. There is also a division specifically dedicated to sports products (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*.
Thanks to the inauguration of local representation offices, the Group has been operating directly in the Baltic republics since the beginning of 2007. During 2008 Safilo S.p.A. set up stable organisation units (i.e. branches) in the Czech Republic, Slovak Republic and Hungary for direct coverage of these markets, considered to offer high growth potential and where consumers pay great attention to high-end products and to "Made in Italy" design.

1st January 2009 marked the start of operations of our new, wholly owned, Russian sales branch, Safilo CIS-LLC. The branch, founded with registered offices in Moscow on 29th October 2008, brings the entire Safilo brand portfolio to Russia, with special attention to 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.

ASIA - PACIFIC

*Asia - Pacific*. The head office is in Hong Kong. The division manager is also responsible for Oceania, as well as for global duty-free business via the key account managers specifically assigned to the latter.
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 independent opticians and department stores.

AMERICAS

*Americas.* This divisional manager is responsible for markets in the USA, Canada, and the main South and Central American countries. The Americas' division headquarters is in New Jersey, USA.

Marketing and distribution in the USA is implemented through three distribution channels: *(i)* opticians, ophthalmologists and optometrists; *(ii)* the retail market, comprising department stores and specialised shops; *(iii)* sports shops. Sales are made directly to opticians, ophthalmologists and optometrists organised in large retail chains and to individual stores.

More than 500 independent agents manage the American markets. About 60 operate in Canada, while in the USA, of the some 460 independent agents, about 320 handle opticians, ophthalmologists and optometrists, about 30 focus on retail stores, i.e. department stores and specialist stores, and about 100 handle a specific product category, like sports eyewear, for example. The Group has a showroom in New York that presents all its product lines.

The major retail chains are handled by the key-account organisation. All Central and South American distributors are managed by the Miami-based sales office of Sàfilo U.S.A.

During 2009 the Group bought 40% of capital held by minority shareholders and gained 100% ownership of the company Safint de Mexico S.A., based in Cancun. The company was founded on 25$^{th}$ February 2008 and is intended to develop business in the Mexican area, which is considered to offer high growth potential.

## Distribution through the retail channel

Group presence in the retail market

In 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 addition to being a key factor in relationships with licensors who can directly benefit from the increased brand visibility in our retail chain.

Solstice was taken over in 2002

The Group entered the US retail market with acquisition from the LMVH Group of Solstice, a retail store chain specialised in the sale of sunglasses positioned in the high-end and luxury segments of the market. At the beginning of 2002, at the time of acquisition, the US chain numbered 6 stores. Since then, the Group's strategy has focused on the quest for attractive sales space, also able to assure fast and adequate return on investment. Based on these criteria, over the years numerous stores have been opened, both in prime metropolitan locations and in top-quality shopping malls, leading to achievement of a total of 157 stores at 2009 year-end.

In 2006 the Spanish chain, Loop Vision was taken over

As of November 2006, the Group entered the retail market in mainland Europe, thanks to acquisition of Loop Vision. The Spanish chain (mainly active in the prescription eyewear segment) manages stores located both in downtown locations and in shopping malls. Since the takeover the strategy for this chain has focused on refurbishing 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.

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

During 2007 the Group's International retail network continued to grow, both internally (organic growth) and through acquisitions. To enter two retail markets very attractive in terms of future growth potential, i.e. Hong Kong and Australia, two new companies were set up for the sole purpose of managing retail initiatives: Optifashion Hong Kong Ltd., based in Hong Kong and Optifashion Australia Pty Ltd., based in Sydney.

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

In 2008, the Group acquired via its subsidiary Optifashion Australia Pty the Just Spectacles chain, present on the Australian market for over 20 years, and a 60% stake (with a call option on the remaining 40%) in Tide Ti S.A. de C.V., a Mexican company owning the Sunglass Island and Island Optica chains. These two store signs are positioned in the luxury segment of the local eyewear market, both prescription and sunglasses.

In 2009 refocusing of Group strategy and disposal of non-strategic chains

During 2009, following continuation of the global economic crisis and considering the economic results of these acquisitions, the Group – as part of its financial structuring plan – decided to sell the retail chains considered non-strategic to HAL Holding N.V. The latter is the Group's partner in the restructuring operation and is already present in the retail eyewear segment , where it has been active since 1996, via an extensive retail sales network. At the end of 2008 the network consisted of some 4,000 stores in 37 different countries, with total sales of approximately Euro 2.6 billion and including chains such as Grand Vision, Pearle, Solaris and Avaniz.

The above disposal plan involves the retail chain Loop Vision in Spain, Sunglass Island and Island Optical in Mexico, and Just Spectacles in Australia, as well as 5 retail stores present in China.

At 2009 year-end disposal of the Spanish and Australian chains was completed for a total amount of Euro 13.7 million. For the Mexican chain a binding put option on 100% of the Mexican company's capital was signed, the efficacy of which is subject to prior acquisition by the Group of minority shareholders' 40% interest in the company. Based on the original contractual agreements with minority shareholders this should take place in two instalments, in 2012 and 2014.

## 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 house brands 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. 2009 sales for inwardly licensed brands accounted for 77% of the total vs. 81.2% 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.

As part of its diversification policy, the Group generally concludes global licensing contracts, except when the brand in question has a strong resonance limited to a specific region.

The Group's licensed brand portfolio includes luxury brands of global renown (e.g. Armani, Dior and Gucci) and locally famous brands (for example, Liz Claiborne and Nine West in the North American market).

The specific actions undertaken by the Group to minimise the impact of the non-renewal of licences on Group revenues included the signing of new licensing agreements with leading fashion houses. Starting in 2006 we renewed the license agreements for brands already in our portfolio, due to expire in 2006, 2007, 2008. In this respect, we particularly highlight 10-year renewal of the license agreement for the Gucci brand. This renewal in fact provides recognition of the Group's product quality, design and image in the luxury eyewear segment.

In 2009 the license agreement with Tommy Hilfiger

In December 2009 the Group concluded a global license agreement with the Tommy Hilfiger Group. The agreement is valid until 2015 with the option for a further 5-year extension and concerns prescription frames and sunglasses under the Tommy Hilfiger brand.

As at 2009 year-end the Group's brand portfolio consisted of 38 main brands, of which 29 inwardly licensed and 9 proprietary.

## 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 1930s in developing prescription frames at the international level. Today the Safilo brand is considered the "*family master brand*" and is positioned in several segments, offering a quality product that is a sound alternative to the designer-brand offering. *The Safilo brand then has other sub-brands, like* Safilo Design, Safilo Glamour and Safilo Seventh Street, each with specific collections targeting 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-allergenic and ultra-light titanium.

- *Sàfilo Glamour:* Safilo Glamour prescription frames and sunglasses have the elegant charm of the 1960'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 basic collections dedicated to an adult target, attentive above all to the product's functional practicality and reliability. Library is the collection of reading eyeglasses.

- *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, both male 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 1980s 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, and 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.

ALEXANDER McQUEEN
A|X ARMANI EXCHANGE
BALENCIAGA
BANANA REPUBLIC
BOTTEGA VENETA
DIESEL FOR SUCCESSFUL LIVING
55DSL
Dior
EMPORIO ARMANI
FOSSIL
GIORGIO ARMANI
GUCCI
BOSS HUGO BOSS
HUGO HUGO BOSS
JIMMY CHOO
JLO BY JENNIFER LOPEZ
JUICY COUTURE
kate spade NEW YORK
liz claiborne
MARC JACOBS
MARC BY MARC JACOBS
MaxMara OCCHIALI
MAX&Co.
NINE WEST
pierre cardin PARIS
SAKS FIFTH AVENUE
VALENTINO
YVES SAINT LAURENT
TOMMY HILFIGER

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 aged 25 to 45, and is positioned within the luxury segment. *Alexander McQueen* glasses are sold worldwide, 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 its launch in 2008, the eyewear collection has enjoyed great success. This is also the merit of "Made in Italy" materials and items, sophisticated colours, and special treatments of arms and components that highlight the brand, to create a collection with 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 US.

*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 sunglasses and prescription frame collections are sold worldwide.

*Fossil. Fossil is inspired by the typical designs of the mid 1920s mixed with the desires of modern consumers. This "modern vintage" philosophy alludes to both classical and contemporary aesthetics. The collection targets consumers looking for fashionable sunglasses with clean and coloured shapes.*

*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. Il prodotto funzionale e comodo è il frutto delle tecnologie avanzate che garantiscono un prodotto dallo stile sofisticato e raffinato, sia per uomini che per donne. These products 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.

*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 emphasises the distinctive *Jimmy Choo* style, with lively colours and luxury trimmings that recall the brand's accessories.

*Juicy Couture.* Juicy Couture is known throughout the world for the style of its tracksuits and soon became one of the fastest growing fashion brands in the world. The collections combine classical forms with the unmistakable details of the *Juicy* world and style, with logos and slogans recognisable to fans of the brand.

*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.* The brand is positioned at the high end of the luxury market. The Marc Jacobs eyewear collection, featuring sophisticated and slightly retro shapes, stands out for its exclusive, 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 who 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 combines with the styles of the moment. Young and modern, this collection has been created for people who, aware and confident of their own style, seek quality products and the original Marc Jacobs details, but at an affordable price. Marc by Marc Jacobs targets young people aged 18-35 looking to create New York's cosmopolitan image.

*Max Mara*. Max Mara is an expression of femininity and a truly timeless elegance: It is marked by the high quality of its materials, its modern design and its tailored style. Max Mara products combine modernity and tradition, elegance and simplicity. The first Max Mara collection of prescription frames was launched in 1998, with a view to creating that image of elegance and sophistication that draws inspiration from the other Max Mara-branded product lines and accessories. The Max Mara brand targets modern women: aged 30-50, financially independent, looking for elegant and sophisticated eyewear with classical and unostentatious details. The products are sold worldwide, particularly in Europe and the Far East.

*Max & Co.* The Max & Co. brand mainly targets young, fashion-conscious, female consumers. The first collection of prescription frames branded Max & Co. was presented to the market in 2007. January 2008 marked the international launch both of the collection both of prescription frames and sunglasses.

*Nine West*. *Nine West* is an iconic women's footwear brand founded in 1978. Today it is one of the liveliest and most distinctive brands on the market. In effect, women consider Nine West their favourite footwear brand and describe it as fashionable, sexy and modern. The eyewear collections are inspired by the philosophy of the *Nine West* brand of satisfying the continuous search for the latest in fashion, at affordable prices. The collection offers a wide range of products, ranging from the latest fashions to timeless classics. They are extremely wearable, with clean lines, feminine shapes and distinctive details, for women of all ages.

*Pierre Cardin*. The Pierre Cardin products are typically refined, confirming a style that characterises successful products. Classical yet always current, they are also adorned with precious and classy details.
This is a very-well known and esteemed brand, with a contemporary design; eyewear collections are sold at very affordable prices.
The collection goes beyond tradition, exploring new routes in style: some models take inspiration from a futuristic design, made in keeping with the elegance of 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.

*Tommy Hilfiger* is one of the most famous names in the fashion design sector, with a portfolio of lifestyle premium brands that includes Tommy Hilfiger and Hilfiger Denim. The Group's main objective is to create and sell high-quality collections with men's, women's, children's and denim clothing lines. The Tommy Hilfiger collection has a young style, and combines coloured materials with unexpected details, creating a complete range of prescription frames and sunglasses, from the smart casual to the businessman.

*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 aimed at men and women aged 25-50, and are positioned in the luxury and premium segments of the market. The products are sold worldwide.

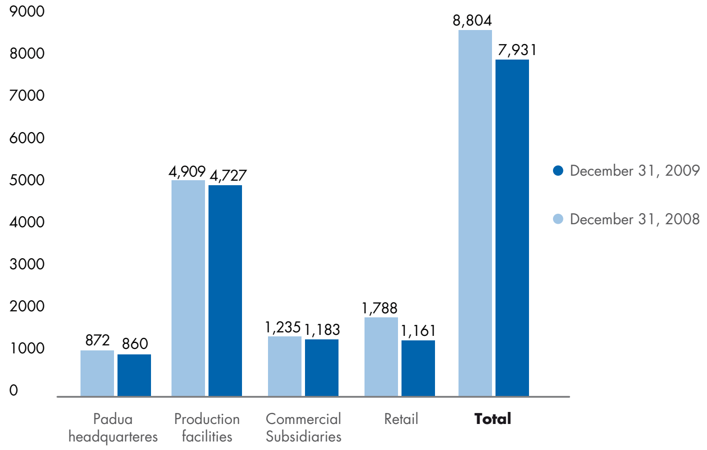
*Yves Saint Laurent*. Yves Saint Laurent proposes classic, refined French design with sophisticated collections, exclusive materials, variety of forms, all personalised by the icons of style that distinguish the creations from this fashion house. The collections are aimed at both men and women aged 25-50, and are positioned in the luxury and premium segments of the market. The products are sold worldwide.

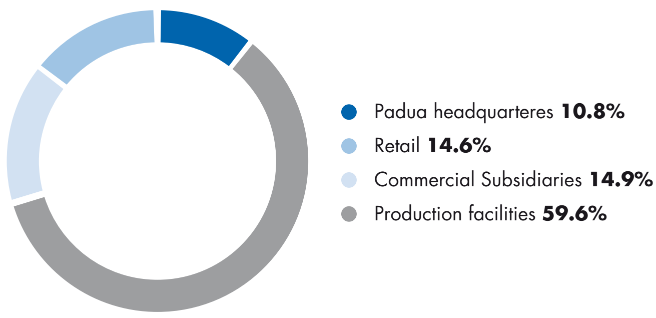
## HUMAN RESOURCES AND THE ENVIRONMENT

### *Human Resources*

Group workforce

At 2009 year-end the Group had 7,931 reduction vs. 8,804 at the end of 2008. The workforce thus decreased by a total of 873 heads.




Reduction of employee headcount following disposal of the retail sales area

Employee headcount reduction was mainly due to disposal of the retail chains at the end of December.

As regards the manufacturing side, the manufacturing reorganisation plan led to reduction of personnel by about 182 heads. This was mainly due to downsizing of the Slovenian factory only partly offset by the increase of the Chinese factory's workforce, which in 2009 grew by 305 heads reaching a total of 655.

The Group realises that personnel are a key factor

The Safilo Group recognises the fundamental contribution of human resources and the importance of using the value of its human assets to benefit the Group's competitiveness. The development of technical skills and managerial capabilities are continuously supported by means of tailor-made educational programmes to aid staff's professional and personal growth, conjugating their personal expectations and values with the corporate culture..

Recognition of merit and responsibility is assured by structured processes and tools. These are designed to ensure proper appraisal of people, starting from the recruitment phase, via constant monitoring of the contribution made to corporate results and of individual progress..

Recruitment

Recruitment must guarantee that qualified, skilled and motivated people are employed by the Group. The Safilo brand and its visibility assure an extraordinary spontaneous inflow of CVs – normally more than 60,000 a year. During 2009 there were some 5,000 recruitment interviews, both for specific positions and for training internships..

Training and development

Training and development initiatives target all members of Group staff. They are designed to (a) map our human assets in relation to expected business results, (b) enhance their professional capabilities via focused initiatives, and (c) ensure upgrading of those capabilities in relation to the growth opportunities offered by the Group. In 2009, we invested in priority training and development activities, then planning wider ranging products for 2010 and subsequent years, in line with business objectives.

## *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 2009 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 document based on recent regulatory developments and ongoing updating based on regulatory evolution;

- 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 environmental responsibilities

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

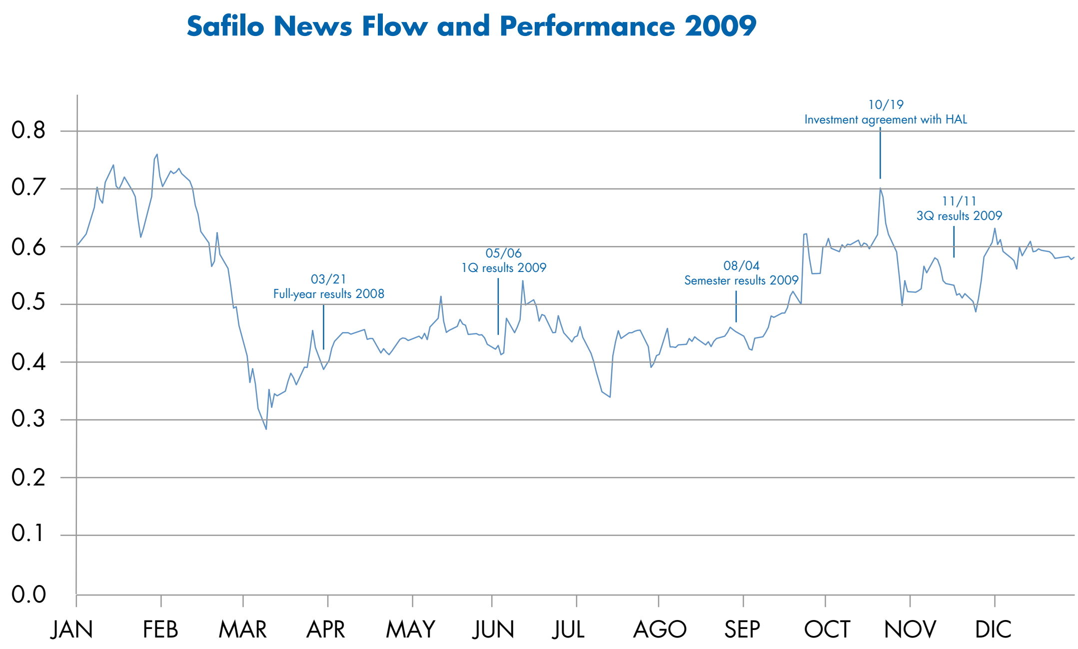
Safilo pays continual attention to the environment and to running its activities in strict observance of the principles of environmental conservation and

Universities and Research Centres is fundamental

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.

## SAFILO IN THE STOCK EXCHANGE AND INVESTOR RELATIONS

### *Safilo in the stock exchange*




In 2009, Safilo stock's performance was affected by the weakness of the Group's business and financial results

2009 was a two-speed year for global financial markets, with the main stock markets hitting all-time lows in March 2009, then returning to growth and achieving good overall year-end performance. The Milan Stock Exchange ended 2009 with the general FTSE MIB index showing progress of 19.5%, while the index that includes Safilo stock, the FTSE Italia Small Cap index, achieved an increase of 17.5%.

2009 was a particularly difficult year for the Safilo Group, both as regards business performance – which made it necessary to reorganise the company's manufacturing set-up – and also a tight financial and liquidity situation – which made it necessary to undertake capital and financial restructuring to redress the balance.

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.

About € 165 mln of market capitalisation on 31st December 2009

Safilo stock ended 2009 at a reference price of 0.58 Euro, with a decrease of 3.7% vs. the 2008 year-end price of 0.60 Euro. Daily trading volume during the year averaged about 2 million shares, with particularly heavy trading during the numerous moments of communication with the market.

At the end of December, the Safilo Group's market capitalisation was around 165 million Euro.

Throughout the year Safilo share prices felt the effects of deterioration of the Group's business results – in the wake of the persistently troubled world economy and the consequent major contraction of consumer spending on discretionary goods.

The stock's performance was also negatively affected by uncertainties concerning the Group's possible capital and financial restructuring. On 19th October 2009, HAL Holding N.V. made a binding offer to the company concerning Group's financial and capital reinforcement. Implementation of the material steps of the recapitalisation operation (successfully concluded at the end of March 2010) helped to steadily restore the financial market's trust in the company and the company's credibility.

## *Investor relations*

Major improvements in online financial communication

In 2009, Investor Relations activity, directed towards the usual public of analysts and institutional investors, also focused on improving online financial communication via the corporate website.

This effort – forming part of the wide-ranging project for total revamping of the corporate site – led to the launch, at the end of July 2009, of the new corporate portal www.safilo.com. The Investor Relations site has been considerably enhanced both in terms of user services offered (RSS, Podcast, and e-mail alert, etc.) but also in terms of content – not only financial but also business-related, with the possibility, for exampled, of interactively going into the detail of the Company's business model.

The new site received important recognition in the H&H Webranking 2009 Italy Top 100 study (performed by the Swedish communication company Hallvarsson & Halvarsson) – an annual study that evaluates the quality of online financial and institutional communication. In H&H Webranking Fashion, which rates only companies active in the fashion sector, Safilo's site was among the winners, achieving a No.3 ranking.

During the year the Group organised its usual presentations of periodical business results via conference calls and webcasts.

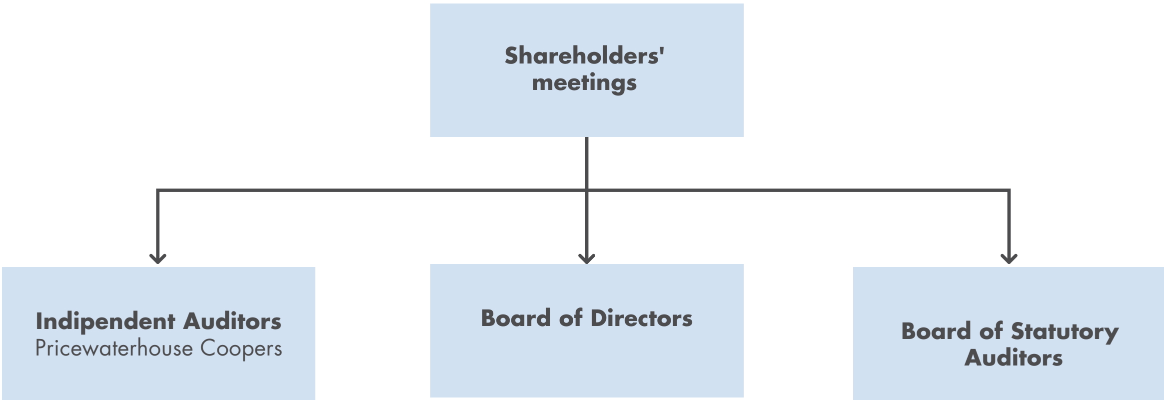
## *Financial calendar*

Board of Directors' meetings planned for 2010:

| | |
|---|---|
| 29th March | Draft Annual Financial Report for 2009 |
| 3rd May – 7th May | Interim Management Statement as at 31th March 2010 |
| 26th July – 30th July | Half-yearly Financial Report |
| 8th November – 12nd November | Interim Management Statement as at 30th September 2010 |

# CORPORATE GOVERNANCE

## Corporate bodies as at 31st December 2009

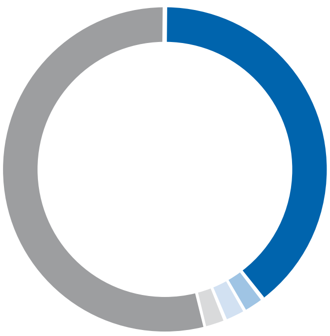



## Information on shareholders (pursuant to Article 123-bis, paragraph 1, of Italian Consolidated Finance Act)

Shareholding structure of Safilo Group S.p.A.

On 31st December 2009 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 registered offices in Vicenza, Stradella dell'Isola 1.

The following chart lists owners of Safilo Group ordinary shares as at 31 st December 2009 with shareholdings exceeding 2% of share capital



- Only 3T S.p.A. **39.893%**
- Hal Holding NV **2.082%**
- Diego Della Valle & C. S.a.p.a. **2.059%**
- FIL Limited **2.020%**
- Other shareholders **53.946%**

Transfer restrictions

As at 31st December 2009 there were no restrictions either of share transfer or of shareholders' voting rights.

Restrictions on the right to vote and special rights

As regards the existence of shareholder agreements, as defined by Article 122 of the Italian Consolidated Finance Act, as at 31 st December 2009 the Company noted the existence of two shareholder agreements, the first between HAL Holding N.V., Only 3T. S.p.A. and Safilo Group S.p.A., and the second between HAL Holding N.V. and Mr. Roberto Vedovotto, both signed on

19th October 2009.

More specifically, as regards the agreement between HAL Holding N.V., Only 3T. S.p.A. and Safilo Group S.p.A., (i) Only 3T. S.p.A. owned 113,853,160 shares, accounting for 39.893% of share capital and (ii) HAL owned 5,941,187 shares, accounting for 2.082% of share capital. The shares covered by the agreement were all the shares owned by the parts, for a total 41.975% of share capital.

As regards the agreement between HAL Holding. N.V. and Mr. Roberto Vedovotto, (i) HAL owned 5,941,187 shares, accounting for 2.082% of share capital and (ii) Mr. Roberto Vedovotto owned 1,200,00 shares, accounting for 0.42% of share capital. The shares covered by the agreement were all the shares owned by the part for a total of 2.5%.

As regards the first agreement, we disclose that the provisions contained in that agreement as part of the binding Investment Agreement, relevant for the purposes of Article 122 of the Italian Consolidated Finance Act, ceased to be effective between the parties on 19 th February 2010.

The Articles of Association do not envisage restrictions on the right to vote and 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, or shares in subsidiaries, directly or through subsidiaries, trust companies and third parties.

## The Board of Directors

**Vittorio Tabacchi**

(Chairman)

Born in Belluno in 1939, after engineering studies he joined the company in 1970. He was appointed Board Director on 27th 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 currently Chairman both of Safilo Group S.p.A. and Safilo S.p.A.. A holder of the Italian honour *Cavaliere del Lavoro* (the equivalent of a knighthood awarded for business achievement), in 2004 he received an honorary degree in Mechanical Engineering from Padua University as recognition for his commitment and passionate enthusiasm in the study of innovative processes and materials for the creation and production of eyeglass frames.

**Massimiliano Tabacchi**

(Executive Vice Chairman)

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.

**Roberto Vedovotto**

(Chief Executive Officer)

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)

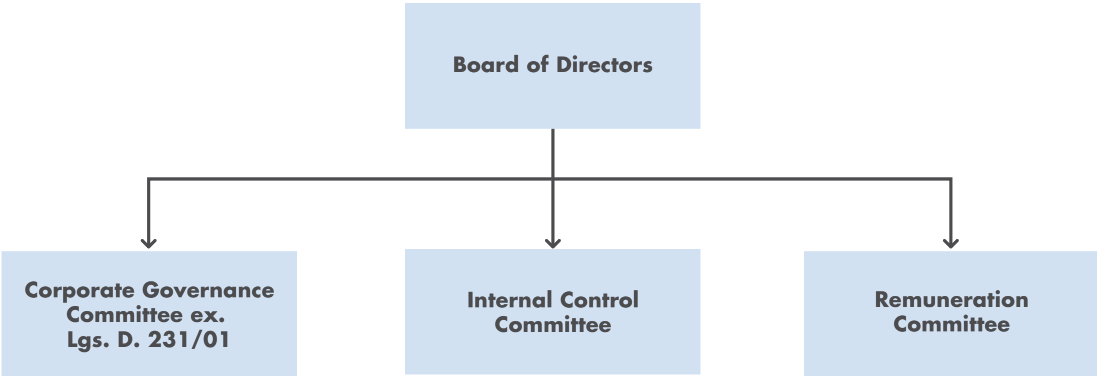
Born in Spoleto (PG) in 1942. After getting his first class degree in Statistics and Demographic Sciences from the "La Sapienza" University in Rome and two years of work experience as assistant to this same Demographic course (1966-1968), he gained almost twenty years experience (1968-1985) in Banca 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<br>Carlo Gilardi<br>Simone Valentini |

| Internal Control Committee | |
|---|---|
| *Chairman* | Carlo Gilardi<br>Antonio Favrin<br>Giannino Lorenzon |

| Remuneration Committee | |
|---|---|
| *Chairman* | Antonio Favrin<br>Giannino Lorenzon<br>Carlo Gilardi |

## The Board of Statutory Auditors (*)

**Franco Corgnati**

(Chairman)

Born in Milan in 1942, he is a graduate in Economics & Commerce of Padua University. He was registered in the Vicenza Chartered Accountants' Register in 1970 and since then has worked exclusively as a chartered accountant. Appointed as an Official Accounts Auditor in 1976, he has been registered with the Roll of Technical Advisors of the court at the civil and criminal courts of Vicenza since 1980. He has been registered in the roll of experts at the criminal court of Vicenza (for the category "accounting, financial reporting and companies") since 1994. He has been registered in the Legal Auditors Register since 1995. From 1997 to 2007 he was a member and from 2000 to 2007 vice president 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.

**Giampietro Sala**

(Standing Statutory Auditor)

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 Roll of Expert Consultants for the Judge. He has acted as section vice present as Tax Judge of the Vicenza Tax Tribunal from 1973 to 1999. He holds directorships and statutory-auditor offices in several industrial companies.

**Lorenzo Lago**

(Standing Statutory Auditor)

Born in Padua on 1st February 1966, he gained his secondary school diploma majoring in science at the Liceo Scientifico Statale "Paolo Lioy" of Vicenza. He graduated in Business Economics from the Cà Foscari University of Venice on 7th July 1993. He was chartered as a professional accountant after passing the state examination at Messina University in the second session of 1995. He has been registered in the Vicenza Chartered Accountants Register since 12 th February 1997. He has been registered with the Roll of Technical Advisors of the court at the civil and criminal courts of Vicenza since 18 th May 1998, He has been registered in the Legal Auditors Register since 18th February 2000 (as published in the Italian Official Gazette no. 14, 4 special series). He has been working exclusively as a chartered accountant since 1997. He holds office as a standing statutory auditor and chairman of the board of statutory auditors in industrial, commercial and financial companies. He has performed numerous assignments as an expert appraiser appointed by the president of the courts for premier companies. He acts as the liquidator of industrial and commercial companies and as a bankruptcy receiver for the Vicenza courts, Bankruptcy Section. He has held office as president of the oversight committee pursuant to Italian Legislative Decree 231/2001.

*(*) The Board of Statutory Auditors with this membership was elected by the Shareholders Meeting held on 27 th April 2009, which had been called to supplement this control body.*

## 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), in a printed version in the company headquarters and it's available on Borsa Italiana S.p.A. web site (www.borsaitaliana.it).

The company adopts a traditional governance method in that:

- the company's management body is 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 Statutory Auditors;
- the independent audit company performs 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

The Board of Directors has completed adjustment of the Company's corporate governance system to the principles and applicational criteria introduced 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 Mr. Francesco Tagliapietra, Administration & Control Officer, as the manager 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 regulatory obligations, in particular with the requirements of Article 123-bis of the Italian Consolidated Finance Act, and following adherence to the Code, every year the Company publishes a report on adherence to codes of conduct, in the ways and terms established by Article 89-bis of the Issuers' Regulation. The report can be consulted at the Group website in the IR/Corporate Governance section, and should be referred to for more detailed and precise information about the Company and Group corporate governance system, in compliance with Article 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 14th 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 30th June 2005, 2006 and 2007. With the Shareholders' Assembly resolution on 14th May 2007 the PWC appointment was extended and integrated until approval of the Financial Statements of 31st 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.

On 27 June 2007, after receiving the favourable opinion of the Board of Statutory Auditors, the Board of Directors appointed as the manager responsible for drawing up corporate financial reporting documents (hereinafter "Financial Reporting Manager"), the Group's Administration & Control Officer. The latter function is currently held by Mr. Francesco Tagliapietra, who possesses the professional requisites – featuring specific skills as well as many years of experience in accounting and financial matters – required for performance of the tasks assigned by regulations to the Financial Reporting Manager. It has been established that the Financial Reporting Manager will remain in office until such time as he is revoked by the Board of

Directors or he resigns.

Art 36 Italian Stock Market Regulation 16191/2007

Article 36, Italian stock market regulation 16191/2007

In compliance with Article 2.6.2. of the Regulations for markets organised and managed by Borsa Italiana S.p.A., Safilo Group S.p.A. declares existence of and compliance with the conditions indicated in Art. 36 of the CONSOB Italian stock market regulation 16191/2007, letters a), b) and c) [concerning regular financial disclosure and also administration and financial reporting compliance of subsidiaries].

## 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, 2008 | Change in no. Shares for new hired/(resigned) | No. Of shares purchased | No. Of shares sold | No. Of shares as of Dec 31, 2009 | Possessory 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 |
| 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. | 24,000 | - | 50,000 | - | 74,000 | ownership |
| Giannino Lorenzon | Director | Safilo Group S.p.A. | 480,000 | - | - | - | 480,000 | ownership |
| **Board of Statutory Auditors** | | | | | | | | |
| Franco Corgnati | Chairman | Safilo Group S.p.A. | - | - | - | - | - | |
| Lorenzo Lago | Regular auditor | Safilo Group S.p.A. | - | - | 10,000 | - | 10,000 | ownership |
| Giampietro Sala | Regular auditor | Safilo Group S.p.A. | - | - | - | - | - | |
| **Managers with strat. resp.** | | | | | | | | |
| Aggregate | Dirigenti | Safilo Group S.p.A. | 191,980 | - | - | - | 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 section "Information on shareholders", as at 31 st December 2009 the company Only 3T. S.p.A. - jointly owned by Mr. Vittorio Tabacchi, Mr. Massimiliano Tabacchi and Ms. Samantha Tabacchi - owned 113,853,160 ordinary shares of Safilo Group S.p.A..

## Stock option plans

Resolution for the "2006 Plan"

Further to the mandate granted by the Extraordinary shareholders' Assembly on 24th October 2005 the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on 31st May 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 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 conventional EBITDA consolidated levels in the financial statements of Safilo Group S.p.A., that have been fixed by the Board of Directors. For options relating to the 2006 Stock Option Plan, it is established that each option gives the right to subscribe one share at average exercise price. Following the amendment made to the 2006 Stock Option Plan, disclosed to the market on 8th February 2008, all options accrued will be exercisable in just one exercise period starting after at least 3 years have elapsed since the granting of such options, i.e. in the period from the date of shareholder approval of consolidated accounts for the year ended on 31st December 2009 to 15th December 2010.

Extinguishing the 2006 Plan

Residual rights as at 31st December 2009 have been considered to have lapsed following non-achievement of EBITDA targets calculated on 2009 year-end accounts. Considering that during the validity of the 2006 Plan the conditions for the vesting of the granted options were never met, the options are not exercisable and therefore the 2006 Plan may be considered extinguished ahead of time.

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

| *(Euro in millions)* | Equity as of December 31, 2009 | Net profit / (loss) of the year | Equity as of December 31, 2008 | Net profit / (loss) of the year |
|---|---|---|---|---|
| Balances as per Safilo Group S.p.A.'s statutory financial statements | 489.5 | (360.0) | 851.8 | 29.6 |
| Shareholders' equity of consolidated companies | 1,335.3 | 1.0 | 1,439.3 | 128.4 |
| Write-off of the book value of consolidated subsidiaries | (1,799.5) | 383.5 | (2,184.7) | - |
| Goodwill | 475.8 | (254.7) | 748.0 | (0.5) |
| Fair value attributable to tangible assets | 10.0 | (0.5) | 10.5 | (0.5) |
| Elimination of dividends paid within the Group | - | (114.7) | - | (139.8) |
| Elimination of intercompany gains within the Group | (41.9) | 2.6 | (44.2) | (31.3) |
| Elimination of intercompany profits included in inventory | (20.5) | (1.0) | (19.1) | (1.9) |
| Investments in associates - equity method | 6.2 | 0.2 | 6.3 | (0.7) |
| Other consolidation entries | (8.7) | (7.0) | (3.6) | (3.7) |
| **Total Shareholders' equity** | **446.0** | **(350.8)** | **804.3** | **(20.5)** |
| Equity attributable to minority interests | 7.6 | 0.7 | 8.4 | 2.8 |
| **Shareholders' equity attributable to the Group** | **438.4** | **(351.4)** | **795.9** | **(23.3)** |

## SIGNIFICANT EVENTS AFTER YEAR-END AND OUTLOOK

The first quarter of 2010 has featured full implementation of the Group's recapitalisation and financial restructuring plan, as established by the binding investment agreement signed on 19 th October 2009 by HAL Holding N.V., our partner in the operation, Only 3T S.p.A. and Safilo Group S.p.A. and approved by the extraordinary meeting of Safilo Group S.p.A. shareholders on 15 December 2009.

The capital increase resolved by the extraordinary meeting of Safilo Group S.p.A. shareholders on 15 December 2009 took place according to the following steps and timing.

Capital increase of Euro 12.8 million reserved for partner HAL

- on 5th February 2010 Multibrands Italy B.V. (a company owned by HAL Holding B.V.) subscribed and paid in the reserved capital increase totalling Euro 12,842,735.40 (including share premium), within the limit of 10% of previously existing share capital with exclusion of option right pursuant to Article 2441, paragraph 4, second sentence, of the Italian Civil Code. This capital increase was subscribed via the issue of 28,539,412 Safilo Group S.p.A. shares at a per-share subscription price of Euro 0.45, of which Euro 0.25 par value and Euro 0.20 premium.

Capital-increase rights issue of Euro 250 million

- On 8th February 2010 marked the start of the period for offer of rights to shareholders of a maximum of 822,505,770 Safilo Group S.p.A. shares, pursuant to Article 2441, paragraph 1, of the Italian Civil Code. The rights-issue capital increase was divisible, paid, and for a maximum total amount of Euro 250,041,754 (including share premium), via issue of 822,505,770 Safilo Group S.p.A. ordinary shares, at a per-share subscription price of Euro 0.304, of which Euro 0.25 par value and Euro 0.054 premium, offered as an option to all shareholders at a ratio of 131 new ordinary shares for every 50 ordinary shares already owned.

The rights offering ended on 26th February 2010 with extremely positive results. 257,021,000 option rights were exercised and 676,395,020 newly issued ordinary shares subscribed, i.e. 81.87% of the total number of shares offered as an option, for a total amount of Euro 204,712,086.08.
As per the provisions of the investment agreement signed on 19th October 2009, Multibrands Italy B.V. exercised 142,392,550 option rights to subscribe 373,068,481 newly issued shares, for a total amount of Euro 113,412,818.22. In addition, HAL International Investments N.V. (a subsidiary of HAL Holding N.V.) exercised 5,941,150 option rights to subscribe 15,565,813 newly issued shares for a total amount of Euro 4,732,007.15.
The other shareholders exercised 108,687,300 option rights to subscribe 284,760,726 newly issued ordinary shares, for a total amount of Euro 86,567,260.70.

At the end of the rights offer period, there were therefore 56,912,500 unopted rights, i.e. 18.13% of the rights offered, valid for subscription of a total of 149,110,750 newly issued ordinary shares, for a total amount of Euro 45,329,668.00.

In compliance with the rules of Article 2441, third paragraph, of the Italian Civil Code, were offered on the Italian Stock Exchange on five trading days starting on 3$^{rd}$ March 2010. This offer featured strong market interest with full placement of rights and total cash-in for the Company of Euro 7,079,915.

For the rights placed, 149,109,964 newly issued shares were subscribed, i.e. 99.99% of the total number of shares, for a total amount of Euro 45,329,429.06.

The intervention of the partner HAL Holding N.V., which had undertaken to subscribe any portion of the capital increase remaining unopted at the end of the Stock Exchange auction, up to a maximum of 64.88% of total option rights, was thus limited to subscription of the 786 remaining shares that had not been subscribed. There was therefore no need for any subscription by Banca IMI S.p.A. and Unicredit Bank AG which, in their capacity as underwriter banks, had severally undertaken to subscribe any further unopted rights up to a maximum of 288,880,358 shares.

The rights-issue part of the capital increase thus ended with full subscription of 822,505,770 newly issued Safilo Group S.p.A. ordinary shares, for a total amount of Euro 250,041,754 (including premium).

### Restructuring of Senior Loan Agreement

As already described in the section concerning liquidity risk, on 24 December 2009 the main lender banks approved the contents of an agreement restructuring the Senior Loan Agreement, execution of which is part of the parent company Safilo Group S.p.A.'s capital-increase operation. In March 2010, with completion of the capital increase and accomplishment of the further suspensive conditions established, the contractual provisions contained in this Restructuring Agreement have taken effect.

### Moody's upgrade of Corporate rating

The successful outcome of the capital increase – as a key step for completion of the Group's restructuring plan – has already had an initial effect in March 2010 in terms of the Group's rating. On 9$^{th}$ March 2010 Moody's advised that it had upgraded the Company's Corporate from Caa2 to Caa1, with a positive outlook.

### Outlook for the year

Lastly, as regards the business outlook, progress in the first three months of the year shows stabilisation of the market, thus with a situation showing improvement over previous quarters.

On behalf of the Board of Directors

Vittorio Tabacchi
Chairman

**CONSOLIDATED FINANCIAL STATEMENTS**
**at 31st DECEMBER 2009**

## Consolidated financial statements as of and for the years ended 31st December 2009 and 31st December 2008

### Consolidated balance sheet

| *(Euro/000)* | *Note* | 31/12/2009 | of which related parties | 31/12/2008 | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash in hand and at bank | *4.1* | 37,386 | | 53,653 | |
| Trade receivables, net | *4.2* | 268,750 | 15 | 301,562 | 146 |
| Inventory, net | *4.3* | 208,373 | | 272,102 | |
| Derivative financial instruments | *4.4* | - | | 772 | |
| Other current assets | *4.5* | 64,311 | 419 | 50,703 | 443 |
| **Total current assets** | | **578,820** | | **678,792** | |
| **Non-current assets** | | | | | |
| Tangible assets | *4.6* | 208,579 | | 228,758 | |
| Intangible assets | *4.7* | 18,106 | | 22,725 | |
| Goodwill | *4.8* | 518,419 | | 807,209 | |
| Investments in associates | *4.9* | 12,032 | | 12,298 | |
| Financial assets available-for-sale | *4.10* | 806 | | 861 | |
| Deferred tax assets | *4.11* | 41,718 | | 53,434 | |
| Derivative financial instruments | *4.4* | 228 | | 455 | |
| Other non-current assets | *4.12* | 11,916 | | 12,838 | |
| **Total non-current assets** | | **811,804** | | **1,138,578** | |
| **Total assets** | | **1,390,624** | | **1,817,370** | |

| (Euro/000) | Note | 31/12/2009 | of which related parties | 31/12/2008 | of which related parties |
|---|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Short-term borrowings | 4.13 | 178,124 | | 162,645 | |
| Trade payables | 4.14 | 150,068 | 5,956 | 205,363 | 7,292 |
| Tax payables | 4.15 | 18,651 | | 22,587 | |
| Derivative financial instruments | 4.4 | 5,549 | | - | |
| Other current liabilities | 4.16 | 63,437 | | 76,437 | |
| Provisions for risks and charges | 4.17 | 4,087 | | 1,053 | |
| **Total current liabilities** | | **419,916** | | **468,085** | |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | 4.13 | 447,282 | | 461,084 | |
| Employee benefit liability | 4.18 | 41,818 | | 42,075 | |
| Provisions for risks and charges | 4.17 | 20,968 | | 13,263 | |
| Deferred tax liabilities | 4.11 | 3,531 | | 5,184 | |
| Derivative financial instruments | 4.4 | - | | 5,740 | |
| Other non-current liabilities | 4.19 | 11,117 | | 17,662 | |
| **Total non-current liabilities** | | **524,716** | | **545,008** | |
| **Total liabilities** | | **944,632** | | **1,013,093** | |
| **Shareholders' equity** | | | | | |
| Share capital | 4.20 | 71,349 | | 71,349 | |
| Share premium reserve | 4.21 | 745,105 | | 747,471 | |
| Retained earnings (losses) and other reserves | 4.22 | (26,605) | | 7,980 | |
| Fair value and cash flow reserves | 4.23 | 32 | | (7,620) | |
| Income attributable to the Group | | (351,448) | | (23,315) | |
| **Total shareholders' equity attributable to the Group** | | **438,433** | | **795,865** | |
| **Minority interests** | | **7,559** | | **8,412** | |
| **Total shareholders' equity** | | **445,992** | | **804,277** | |
| **Total liabilities and shareholders' equity** | | **1,390,624** | | **1,817,370** | |

## Consolidated income statement

| *(Euro/000)* | *Note* | 2009 | of which related parties | 2008 | of which related parties |
|---|---|---|---|---|---|
| Net sales | *5.1* | 1,011,236 | 70 | 1,147,818 | 151 |
| Cost of sales | *5.2* | (438,752) | (13,952) | (484,860) | (17,748) |
| **Gross profit** | | **572,484** | | **662,958** | |
| Selling and marketing expenses | *5.3* | (427,271) | | (446,075) | |
| General and administrative expenses | *5.4* | (131,402) | (1,200) | (131,849) | (1,084) |
| Other oper. income/(expenses), net | *5.5* | 2,330 | | 1,301 | |
| Restructuring cost non recurring | *5.6* | (7,422) | | - | |
| Impairment loss on goodwill and loss on disposal of *retail* subsidiaries | *4.8-5.7* | (279,400) | | - | |
| **Operating profit/(loss)** | | **(270,681)** | | **86,335** | |
| Share of income/(loss) of associates | *5.8* | 360 | | 866 | |
| Int. expenses and other fin. charges, net | *5.9* | (54,257) | | (57,753) | |
| **Profit/(Loss) before taxation** | | **(324,578)** | | **29,448** | |
| Income taxes | *5.10* | 4,677 | | (12,043) | |
| Write down of deferred tax assets | *5.10* | (30,888) | | (37,945) | |
| **Net profit/(loss)** | | **(350,789)** | | **(20,540)** | |
| **Net profit/(loss) of the period attributable to:** | | | | | |
| The Group | | (351,448) | | (23,315) | |
| Minority interests | | 659 | | 2,775 | |
| Earnings/(losses) per share - base (Euro) | *5.11* | (1.23) | | (0.08) | |
| Earnings/(losses) per share - diluted (Euro) | *5.11* | (1.23) | | (0.08) | |

## Consolidated statement of comprehensive income

| *(Euro/000)* | ***Note*** | **2009** | **2008** |
|---|---|---|---|
| | | | |
| **Net profit (loss) for the period** | | **(350,789)** | **(20,540)** |
| | | | |
| Gains/(Losses) on cash flow hedges | *4.23* | 5,518 | (5,911) |
| Gains/(Losses) on fair value of available-for-sale financial assets | *4.23* | 2,134 | (1,429) |
| Gains/(Losses) on exchange differences on translating foreign operations | *4.22* | (6,921) | 20,592 |
| Other Gains/(Losses) | *4.22* | 2,281) | (2,705) |
| **Other comprehensive income / (loss), net of tax** | | **3,011** | **10,547** |
| | | | |
| **Total Comprehensive income / (loss)** | | **(347,778)** | **(9,993)** |
| | | | |
| **Attributable to:** | | | |
| Group | | (348,171) | (13,415) |
| Minority interests | | 394 | 3,422 |
| **Total Comprehensive income / (loss)** | | **(347,777)** | **(9,993)** |

*(*) there is no tax effect because the deferred tax assets have not been recognised.*

## Consolidated statement of cash flows

| *(Eur/000)* | *Note* | 2009 | 2008 |
|---|---|---|---|
| **A - Opening net cash and cash equivalents (net financial indebtedness - short term)** | | **(20,442)** | **(28,469)** |
| **B - Cash flow from (for) operating activities** | | | |
| Net profit (loss) for the period (including minority interests) | | (350,789) | (20,540) |
| Depreciation and amortization | *4.6 - 4.7* | 49,530 | 39,983 |
| Impairment loss on goodwill | *2.8-5.7* | 257,716 | - |
| Loss on disposal of retail subsidiaries | *2.8-3.7* | 21,684 | - |
| Stock option | *4.24* | - | (695) |
| Share income/(loss) on equity investments | *4,9* | 1,910 | 706 |
| Net movements in the employee benefit liability | *4.18* | 2,468 | 619 |
| Net movements in other provisions | *4.17* | 7,677 | 717 |
| Interest expenses, net | *5.9* | 42,574 | 43,066 |
| Income tax expenses | *5.10* | 26,211 | 49,988 |
| **Income from operating activities prior to movements in working capital** | | **58,981** | **113,844** |
| (Increase) Decrease in trade receivables | | 32,785 | 13,175 |
| (Increase) Decrease in inventory, net | | 56,603 | 8,267 |
| Increase (Decrease) in trade payables | | (51,783) | 2,547 |
| (Increase) Decrease in other current receivables | | (3,424) | (7,501) |
| Increase (Decrease) in other current payables | | (9,520) | (2,962) |
| Interest expenses paid | | (42,376) | (35,550) |
| Income tax paid | | (29,791) | (35,552) |
| **Total (B)** | | **11,476** | **56,268** |
| **C - Cash flow from (for) investing activities** | | | |
| Purchase of property, plant and equipment (net of disposals) | | (31,332) | (54,363) |
| Acquisition of subsidiaries (net of cash acquired) | | - | (24,963) |
| Disposal of retail subsidiaries (net of cash disposed of) | *5.7* | 12,175 | - |
| (Acquisition) Disposal of investments and bonds | | 128 | 152 |
| Purchase of intangible assets | | (3,245) | (9,190) |
| **Total (C)** | | **(22,274)** | **(88,364)** |
| **D - Cash flow from (for) financing activities** | | | |
| Proceeds from borrowings | | 34,500 | 94,313 |
| Repayment of borrowings | | (15,948) | (37,504) |
| Dividends paid | | (3,143) | (26,840) |
| **Total (D)** | | **15,409** | **29,969** |
| **E - Cash flow for the period (B+C+D)** | | **4,611** | **(2,127)** |
| Translation exchange difference | | (5,088) | 10,154 |
| **Total (F)** | | **(5,088)** | **10,154** |
| **G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)** | | **(20,919)** | **(20,442)** |

## Consolidated statement of changes in equity

| (Euro/000) | Share capital | Share premium reserve | Translation diff. | 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 | - | - | - | - | (2,479) | - | (2,479) |
| Dividends distribution | - | - | - | - | (24,259) | - | (24,259) |
| Totale comprehensive income for the period | - | - | 19,916 | (7,340) | (2,676) | (23,315) | (13,415) |
| **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) | - |
| Retained earnings | - | - | - | - | 1,520 | - | 1,520 |
| Dividends distribution | - | - | - | - | (1,450) | - | (1,450) |
| Totale comprehensive income for the period | - | - | 676 | - | (29) | 2,775 | 3,422 |
| **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** |

| (Euro/000) | Share capital | Share premium reserve | Translation diff. | Fair value and cash flow reserves | Retained earnings | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|
| **Group shareholders' equity at January 1, 2009** | **71,349** | **747,471** | **(55,889)** | **(7,620)** | **63,869** | **(23,315)** | **795,865** |
| Previous year's profit allocation | - | - | - | - | (23,315) | 23,315 | - |
| Changes in other reserves | - | (2,366) | - | - | (6,896) | - | (9,261) |
| Dividends distribution | - | - | - | - | - | - | - |
| Totale comprehensive income for the period | - | - | (6,640) | 7,652 | 2,265 | (351,448) | (348,171) |
| **Group shareholders' equity at December 31, 2009** | **71,349** | **745,105** | **(62,529)** | **32** | **35,923** | **(351,448)** | **438,433** |
| **Minority interests at January 1, 2009** | **-** | **-** | **529** | **-** | **5,108** | **2,775** | **8,412** |
| Previous year's profit allocation | - | - | - | - | 2,775 | (2,775) | - |
| Retained earnings | - | - | - | - | - | - | - |
| Dividends distribution | - | - | - | - | (1,247) | - | (1,247) |
| Totale comprehensive income for the period | - | - | (281) | - | 16 | 659 | 394 |
| **Minority interests at December 31, 2009** | **-** | **-** | **248** | **-** | **6,652** | **659** | **7,559** |
| **Consolidated net equity at December 31, 2009** | **71,349** | **745,105** | **(62,281)** | **32** | **42,575** | **(350,789)** | **445,992** |

# 1. General information

## 1.1 General information

The holding company, Safilo Group S.p.A., is a joint stock company established in Italy on October 14th 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.

The parent company is subject to dominant influence by Only 3T. S.p.A. that with the 39.893% of the share capital in the assembly, following the fragmentation of the shareholders, exercises de facto control. Only 3T. S.p.A. is a joint stock company headquartered in Vicenza, registered with the Business and Trade registry of Vicenza, whose object is the acquisition of holdings to a stable investment. The only investment is that in Safilo Group S.p.A.

These consolidated financial statements are reported in thousands of Euro, the official currency in the economies where the Group does most of its business. The consolidated financial information relates to the period from January 1st 2009 to December 31St 2009 and also presents comparative data related to the financial period from January 1st 2008 to December 31St 2008.

These financial statements were approved by the Board of Directors on 29th March 2010.

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 Accounting policies

The accounting policies 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.

Directors have found that the significant uncertainties related to the Group as a going concern which arose in 2009 pursuant to the sharp decline in the economic results and the increase in debt due to the difficult global financial and economic landscape, as was mentioned in the half-yearly and in the third quarterly reports, have lessened thanks to the Group financial recapitalization and restructuring plan as defined in the binding investment agreement signed on October 19th 2009 by HAL Holding N.V., partner of the deal, and Only 3T. S.p.A. and Safilo Group S.p.A. and approved by the extraordinary meeting of Safilo Group S.p.A. shareholders on December 15th 2009.

This plan was implemented in the last quarter of 2009 and in the early months of 2010 when the capital increase of Safilo Group S.p.A. was executed and the financing banks signed the senior loan restructuring plan, as described in the paragraph of the report on operations relating to the significant facts after year end.

Consolidated financial information relating to the financial years ended December 31st 2009 and December 31st 2008 was prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Commission as at December 31st 2009 and the directives issued in implementation of article 9 of Legislative Decree 38/2005.

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”.

### Accounting principles, amendments and interpretations adopted from January 1st 2009

The following accounting principles, amendments and interpretations, reviewed pursuant to the annual improvement process conducted by IASB in 2008, were applied for the first time by the Group as of January 1st 2009.

#### IAS 1 Revised - “Presentation of Financial Statements”

IAS 1 was submitted to a non-substantial review which led to a change in the denomination of a number of the schedules making up the financial statements.

The Group has adopted the revised standard retrospectively from January 1st 2009, electing to present both the Income statement and the Statement of comprehensive income and has consequently amended the presentation of the Statement of changes in equity. In addition, as part of its 2008 annual improvements project, the IASB published an amendment to IAS 1 (Revised) which requires an entity to classify hedging derivative financial instruments which are not held for trading, between current and non-current assets and liabilities in the Statement of financial position, with the distinction of current and non-current assets and liabilities. Adopting this amendment did not lead to any effect on the presentation of derivative financial instruments in the Statement of financial position as the Company already used the mixed current/non-current distinction format for presentation that is permitted by IAS 1.

#### IFRS 8 – Operating segments

IFRS 8 introduces the approach under which the segments must be identified using the same methods with which internal reporting is done for top management in order to allocate resources and evaluate the performance of the individual operating segments. This principle replaced the previous IAS 14 “Segment reporting” which required the identification of two types of segments by business and geographical area. Following adoption of IFRS 8, the Group maintained identification of its operating segments based on the *“Wholesale and Retail*” channels and has drafted the reporting by geographical area in relation to revenue and non-current assets other than financial instruments, deferred tax assets and assets relating to benefits subsequent to the employment relationship and arising from insurance contracts.

#### IAS 23 Revised – “Borrowing Costs”

The revised version of the standard removes the option previously available of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale (qualifying assets) in order to revise the definition of the borrowing costs to be capitalised. Application of the new principle had no effect on the financial statements since, at the present, there are no situations for which interest would be capitalised.

### Amendment to IFRS 2 – "Share-based Payment: Vesting Conditions and Cancellations"

The amendment to IFRS 2 clarifies that for the purpose of measuring share-based payments, only service conditions and performance conditions may be considered vesting conditions. Any other clauses shall be considered non-vesting conditions and included in the determination of fair value at the grant date. The amendment also specifies that plan cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Adoption of the amendment had no effect on the Group financial statements.

### Improvement to IAS 19- " Employee benefits"

The *improvement* to IAS 19 – Employee Benefits clarifies the definition of positive/negative past service costs and states that in the case of a curtailment, only the effect of the reduction for future service shall be recognised immediately in the income statement, while the effect arising from past service periods shall be considered a negative past service cost. This amendment must be adopted prospectively to changes to plans occurring on or after January 1st 2009. There was no significant accounting effect at 31st December 2009 for the Group following the adoption.

The improvement also revises the definition of the return on plan assets, stating that this amount should be stated net of any costs for administering the plan (other than those included in the measurement of the defined benefit obligation) and clarifies the definition of short-term employee benefits and other long-term employee benefits. Adoption of the amendment had no effect on the Group financial statements.

### *Improvement* to IAS 28 – Investments in Associates

The improvement to IAS 28 – Investments in Associates requires that a recognised impairment loss should not be allocated for investments accounted for using the equity method to any asset (and in particular goodwill) that forms part of the carrying amount of the investment in the associate, but to the carrying amount of the investment overall. Accordingly, any reversal of that impairment loss is recognised in full.

This amendment also leads to changes in certain disclosures relating to investments in associates and joint ventures measured at fair value in accordance with IAS 39, at the same time amending also IAS 31 *Interests in Joint Ventures* and amendment IFRS 7 - Financial Instruments - Disclosures and IAS 32 - Financial Instruments: Presentation.

These changes regard circumstances that were not present in the Group at the date of these financial statements at 31 st December 2009, therefore had no effect on the accounts.

### Improvement to IAS 38 – Intangible Assets

The improvement to IAS 38 – "Intangible Assets" states that expenditure on advertising and promotional activities is recognised as an expense. Further, if expenditure is incurred to provide future economic benefits to an entity but no intangible asset is recognised, an entity shall recognise the expenditure as an expense when it has the right to access the goods or when it receives the services. The standard has also been amended in order to allow entities to use the unit of production method for determining the amortisation charge for an intangible asset with a finite useful life. Adoption of this amendment had no effect on the Group's financial statements as the Group already recognised such expenditure as an expense.

*Amendment* to IFRS 7 – Financial Instruments: Improving Disclosures

The amendment, effective from January 1st 2009, was issued to improve the disclosure requirements for fair value measurements and reinforce existing principles for disclosures concerning the liquidity risk associated with financial instruments. In particular, the amendment requires disclosures to be made based on a hierarchy of the inputs used in valuation techniques to measure fair value. Adoption of the amendment only affected the disclosures in the notes and had no effect on the measurement of items in the financial statements.

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

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. Goodwill is measured upon acquiring control, valued as the difference at the acquisition date between the value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Furthermore, if the company does not buy 100% of the total equity, the minority interest in shareholders' equity 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 all costs connected to the business combination in the income statement and recognising, at the date of the acquisition, the liabilities for payments subject to a condition. In the amendment to IAS 27, however, the IASB has established that the changes 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 will apply prospectively from January 1st 2010. As part of its 2008 annual improvements project, the IASB issued an amendment to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations*.* This amendment requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The change must be applied prospectively as from January 1st 2010.

On July 31st 2008 the IASB issued an amendment to IAS 39 – Financial Instruments: Recognition and Measurement, to be applied from January 1st 2010 retrospectively. The amendment clarifies the application of the standard for defining the underlying object of the hedging in particular situations. When applied, this amendment is not expected to have significant effects on the Group's financial statements.

On November 27th 2008 the IFRIC issued interpretation IFRIC 17 – Distributions of Non-cash Assets to Owners that will standardise practice in the accounting treatment of the distribution of non-cash assets to owners. In particular, the interpretation clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity must recognise the difference between the dividend paid and the carrying amount of the net assets used for payment in the income statement. The interpretation is effective prospectively from January 1st 2010.

On January 29th 2009 the IFRIC issued the interpretation IFRIC 18 – Transfers of Assets from Customers that clarifies the accounting treatment to use for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer which will then be used to acquire or build the item of property, plant and equipment to be used.

On April 16th 2009 the IASB issued a series of amendments to IFRS (Improvements to IFRSs). Details are provided in the following paragraphs of those identified by the IASB as resulting in accounting changes for presentation, recognition and measurement purposes, leaving out any amendments regarding changes in terminology or editorial changes which are likely to have minimal effects on accounting and amended standards or interpretations not applicable to the Group. 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.

- IFRS 2 – Share-based payments: this amendment, applicable from January 1st 2010, clarifies that following the change made by IFRS 3 to the definition of a business combination, the contribution of a business on the formation of a joint venture and the combination of entities or businesses under common control do not fall within the scope of IFRS 2.

- IFRS 5 – Non-current Assets available for sale and Discontinued Operations: this amendment, which shall be applied prospectively from January 1st 2010, clarifies that IFRS 5 and other IFRS that specifically refer to non-current assets (or disposal groups) classified as available for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

- IFRS 8 – Operating segments: this amendment, effective from January 1st 2010, requires an entity to report a measure of total assets for each reportable segment if such amount is regularly provided to the chief operating decision maker. Before the amendment, disclosure of total assets for each segment was required even if that condition was not met.

- IAS 1 – Presentation of Financial Statements: this improvement, effective from January 1st 2010, amends the definition of a current liability contained in IAS 1. The previous definition required liabilities which could be extinguished at any time by issuing equity instruments to be classified as current. This led to liabilities relating to convertible bonds which could be converted at any time into shares of the issuer to be classified as current. Following this amendment the existence of a currently exercisable option for conversion into equity instruments becomes irrelevant for the purposes of the current/non-current classification of a liability.

- IAS 7 – Borrowing costs: this amendment, applicable from January 1st 2010, clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities in the statement of cash flows; cash flows originating from expenditures that do not result in a recognised asset (as could be the case for advertising and promotional activities and staff training) must be classified as cash flows from operating activities.

- IAS 17 – Leasing: Pursuant to the changes made, the general conditions required by IAS 17 for classifying a lease as a finance lease or an operating lease will also be applicable to the leasing of land, independent of whether the lease transfers ownership by the end of the lease term. Before these changes, the standard required the lease to be classified as an operating lease if ownership of the leased land was not transferred at the end of the lease term because land has an indefinite useful life. The amendment is effective from January 1st 2010. At the date of adoption the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognised retrospectively as if it had a financial nature.

- IAS 36 – Impairment of Assets: this amendment, effective prospectively from January 1st 2010, states that each unit or group of units to which goodwill is allocated for the purpose of impairment testing shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before any aggregation on the basis of similar economic characteristics and other similarities as permitted by paragraph 12 of IFRS 8.

- IAS 38 – Intangible Assets: IFRS 3 (as revised in 2008) states that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure its fair value reliably. Amendments were made to IAS 38 to reflect that revision of IFRS 3. Furthermore, these amendments clarify the valuation techniques commonly used to measure intangible assets at fair value when assets are not traded in an active market; in particular, such techniques include discounting the estimated future net cash flows from an asset, and estimating the costs the entity avoids by owning an intangible asset and not having to license it from another party in an arm's length transaction or the costs to recreate or replace it (as in the cost approach). The interpretation is effective prospectively from January 1st 2010.

- IAS 39 – Financial Instruments: Recognition and Measurement: this amendment restricts the non-applicability of IAS 39 under paragraph 2(g) of the standard to forward contracts between an acquirer and a selling shareholder to buy or sell a company as part of a business combination at a future acquisition date when the completion of the business combination is not dependant on further actions of either party and only the passage of a normal period of time is required. Option contracts, whether or not currently exercisable, which allow one party to control the occurrence or non-occurrence of future events and on exercise will result in control of an entity are therefore included in the scope of IAS 39. The amendment also clarifies that embedded prepayment options whose exercise price compensates the lender for the loss of interest income resulting from the prepayment of the loan shall be considered closely related to the host debt contract and therefore not accounted for separately. Finally, the amendment clarifies that the gains or losses on a hedged instrument must be reclassified from shareholders' equity to profit or loss during the period that the expected hedged cash flows affect profit or loss. The interpretation is effective prospectively from January 1st 2010.

- IFRIC 9 – Reassessment of Embedded Derivatives: this amendment excludes from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture.

In June 2009, the IASB issued an amendment to IFRS 2 – Share based payments: Group Cash-settled Share-based Payment transactions. The amendment clarifies the scope of IFRS 2 and the interactions of IFRS 2 and other standards. In particular, it clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash; moreover, it clarifies that a 'group' has the same meaning as in IAS 27 - Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. In addition, the amendment clarifies that an entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognised by the consolidated group. The amendments also incorporate guidance previously included in IFRIC 8 - Scope of IFRS 2 and IFRIC 11 - IFRS 2 - Group and Treasury Share Transaction. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.The amendment is effective from January 1st 2010; the European Union had not yet endorsed the amendment at the date of these financial statements.

On October 8th 2009, the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation: Classification of Rights Issues in order to address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable retrospectively from January 1st 2011.

On November 4th 2009, the IASB issued a revised version of IAS 24 - Related Party Disclosures that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This amendment must be applied as of January 1st 2011. At the date of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

On November 12nd 2009, the IASB issued a new standard IFRS 9 – Financial Instruments on the classification and measurement of financial assets, having an effective date for mandatory adoption of January 1st 2013. The new standard represents the completion of the first part of a project to replace IAS 39. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. 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 November 26th 2009, the IASB issued a minor amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement. The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. This amendment must be applied as of January 1st 2011. At the date of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

On November 26th 2009, the IFRIC issued the interpretation IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. This amendment must be applied as of January 1st 2011. At the date of this report, the competent bodies of the European Union had not yet concluded the approval process necessary for the application of this amendment.

### 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 | % interest 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 liquidazione) – Padova | 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. - Lussemburgo (L) | EUR | 31,000 | 100.0 |
| Luxury Trade S.A - Lussemburgo (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 |
| Safilo France S.a.r.l. - Parigi (F) | EUR | 960,000 | 100.0 |
| Safilo Gmbh - Colonia (D) | EUR | 511,300 | 100.0 |
| Safilo Nordic AB - Taby (S) | SEK | 500,000 | 100.0 |
| Safilo CIS - LLC - Mosca (Russia) | 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 | 6,700,000 | 51.0 |
| Safilo Eyewear (Suzhou) Industries Limited - (RC) | USD | 18,300,000 | 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. – Atene (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 | 3,583 | 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 – Lisbona (P) | EUR | 500,000 | 100.0 |
| Safilo Switzerland AG – Liestal (CH) | CHF | 1,000,000 | 100.0 |
| Safilo India Pvt. Ltd - Bombay (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 Hong Kong Ltd - Hong Kong (RC) | HKD | 300,000 | 100.0 |
| Safint Optical UK Ltd. - Londra (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 MexicoS.A. de C.V. - Cancun (MEX) | MXP | 10,035,575 | 100.0 |
| Tide Ti S.A. de C.V. - Cancun (MEX) | MXP | 95,051,000 | 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.

Investments in other companies

Investments in other companies representing "available for sale financial assets" are valued at the fair value and gains and losses arising from changes in the fair value are assigned directly to shareholders' equity until sale. Total gains and losses are charged to the statement of operations of the year in which the sale took place, unless an AFS financial asset has accumulated a significant or prolonged dimension of the *fair value.* In this case, the accumulated losses in the fair value reserve of shareholders' equity is recognised in the statement of operations.

### 2.4 Segment information

Information according to business sector (retail/wholesale) and geographic area is given, pursuant to IAS 8 – Segment Information.

Management prepares the schedule according to the business segment in which the Group works: "*wholesale and retail*". 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.

### 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 December 31$^{st}$ 2009 and December 31$^{st}$ 2008 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 | December 31, 2009 | December 31, 2008 | (Appreciation) / Depreciation % | Avg. for the financial year 2009 | Avg. for the financial year 2008 | (Appreciation) / Depreciation % |
|---|---|---|---|---|---|---|---|
| US Dollar | USD | 1.4406 | 1.3917 | 3.5% | 1.3947 | 1.4708 | -5.2% |
| Hong-Kong Dollar | HKD | 11.1709 | 10.7858 | 3.6% | 10.8114 | 11.4541 | -5.6% |
| Swiss Franc | CHF | 1.4836 | 1.4850 | -0.1% | 1.5100 | 1.5874 | -4.9% |
| Canadian Dollar | CAD | 1.5128 | 1.6998 | -11.0% | 1.5846 | 1.5594 | 1.6% |
| Japanese Yen | YEN | 133.1600 | 126.1400 | 5.6% | 130.3249 | 152.4541 | -14.5% |
| British Pound | GBP | 0.8881 | 0.9525 | -6.8% | 0.8909 | 0.7946 | 12.1% |
| Swedish Krown | SEK | 10.2520 | 10.8700 | -5.7% | 10.6230 | 9.6152 | 10.5% |
| Australian Dollar | AUD | 1.6008 | 2.0274 | -21.0% | 1.7729 | 1.7360 | 2.1% |
| South-African Rand | ZAR | 10.6660 | 13.0667 | -18.4% | 11.6741 | 12.0746 | -3.3% |
| Russian Ruble | RUB | 43.1540 | 41.2830 | 4.5% | 44.1350 | 36.4207 | 21.2% |
| Brasilian Real | BRL | 2.5113 | 3.2436 | -22.6% | 2.7674 | 2.6698 | 3.7% |
| Indian Rupee | INR | 67.0400 | 67.6360 | -0.9% | 67.3571 | 63.7343 | 5.7% |
| Singapore Dollar | SGD | 2.0194 | 2.0040 | 0.8% | 2.0241 | 2.0762 | -2.5% |
| Malaysian Ringgit | MYR | 4.9326 | 4.8048 | 2.7% | 4.9079 | 4.8893 | 0.4% |
| Chinese Reminbi | CNY | 9.8350 | 9.4956 | 3.6% | 9.5277 | 10.2244 | -6.8% |
| Korean Won | KRW | 1,666.9700 | 1,839.1300 | -9.4% | 1,772.9039 | 1,606.0872 | 10.4% |
| Mexican Peso | MXN | 18.9223 | 19.2333 | -1.6% | 18.7989 | 16.2909 | 15.4% |

### 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.

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, upgrades 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 |
| Forniture, 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 tested each year or more frequently if specific impairment indicators show the possibility that there has been a potential loss of value. After initial recognition, goodwill is valued at cost, net of any accumulated impairment.

When a company or a business unit previously purchased is sold and that acquisition led to goodwill, in measuring the gain or loss on the sale, consideration is made of the corresponding residual value of goodwill.

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.

Brands

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 allocated 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

Pension plans

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, through the Consolidated Statement of comprehensive income, 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 December 27th 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 January 1st 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 December 31st 2006, must be classified as a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

For an analysis of the accounting effects deriving from this decision, see paragraph 4.18 "Employee benefits".

Remuneration plans under the form of share capital participation

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. Taxes not related to income (e.g. property taxes) are stated with operating costs.

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 verifies goodwill at least once a year 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 risks

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. 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 December 31$^{st}$ 2009 and December 31$^{st}$ 2008, which have been subjected to total or partial write-down due to situation of bad debts:

| (Euro/000) | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| *Ageing of trade receivables - impaired* <br> *Overdue:* | *Nominal value trade receivables* | *Allowance for bad and doubtful debts* | *Nominal value trade receivables* | *Allowance for bad and doubtful debts* |
| up to 6 months | 5,479 | (2,461) | 4,197 | (1,576) |
| 6 to 12 months | 2,779 | (1,907) | 2,171 | (1,323) |
| 12 to 24 months | 7,340 | (5,037) | 2,848 | (1,816) |
| over 24 months | 11,957 | (9,865) | 11,119 | (8,791) |
| **Grand total** | **27,555** | **(19,270)** | **20,335** | **(13,506)** |

At December 31st 2009, the trade receivable for which the Group has not considered necessary to make any write down since it consider these amounts would be collected in the future are equal to 47,155 thousand, of which overdue more than one year are 3,701 thousand Euro, in slight increase despite the previous year (3,274 thousand as at December 31st, 2008) with a percentage on the total of trade receivable equal to 1,2%.

Market risks

Market risks can be divided into the following categories:

*Risks related to trends in the exchange rate.*

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 2009 operating profit of the Group of around 1.3 million Euro, substantially in line with 2008 (1.1 million).

The tables below summarise the financial assets and liabilities of the Group per currency at December 31st 2009 and December 31st 2008:

| (Euro/000) | December 31, 2009 | | | |
|---|---|---|---|---|
| | Euro | US Dollar | Other currencies | Total |
| Cash in hand and at bank | 6,664 | 17,259 | 13,462 | 37,386 |
| Trade receivables, net | 152,370 | 59,595 | 56,786 | 268,750 |
| Derivative financial instruments | - | - | - | - |
| Other current assets | 50,062 | 7,692 | 6,556 | 64,311 |
| **Total** | **209,096** | **84,546** | **76,805** | **370,447** |
| Derivative financial instruments | 228 | - | - | 228 |
| Other non-current assets | 10,265 | 721 | 1,736 | 12,722 |
| **Total** | **10,493** | **721** | **1,736** | **12,950** |
| Trade payables | 85,776 | 50,852 | 13,440 | 150,068 |
| Short-term borrowings | 115,309 | 41,906 | 20,909 | 178,124 |
| Derivative financial instruments | 5,549 | - | - | 5,549 |
| Tax and other current payables | 57,560 | 7,776 | 16,752 | 82,088 |
| **Total** | **264,194** | **100,534** | **51,100** | **415,828** |
| Long-term borrowings | 416,862 | 26,191 | 4,229 | 447,282 |
| Derivative financial instruments | - | - | - | - |
| Other non-current liabilities | 6,672 | 3,971 | 475 | 11,117 |
| **Total** | **423,534** | **30,162** | **4,704** | **458,399** |

| (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** |

*Changes in fair value 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.

Part of the Safilo Group financial debt for an amount of 434,141 thousand Euro (equal to 69.4% of total debt) is currently floating rate (Euribor/Libor floating rate).

The Group regularly assesses its exposure to the risk of variation of interest rates and manages this risk through use of 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.

The aforementioned financial instruments have become effective in the year 2009. However, following the debt restructuring operation described in the Director's report in the paragraph on the liquidity risk, the prospective assessment of these instruments was not effective to designate as an hedge accounting, and therefore at December 31st 2009, their fair value has affected entirely in the income statement.

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 1,391 thousand Euro (1,419 thousand Euro at December 31st 2008).

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 921 thousand Euro, gross of taxes (1,810 thousand Euro at December 31st 2008). On the other hand, an increase of 50 b.p. would represent a positive variation in the fair value of the IRS of 910 thousand Euro, gross of the fiscal effect (1,781 thousand Euro at December 31st 2008).

The following table summarises the main characteristics of the most significant variable and fixed rate medium and long term borrowings, at 31st December 2009 and 31st December, 2008:

| **December 31, 2009** *(Euro/000)* | **Currency** | **Nominal interest rate** | **Internal interest rate** | **Book Value** | **Expiry** |
|---|---|---|---|---|---|
| Facility A1 | *EURO* | Euribor + 1.80% | 2.5662% | 56,000 | 31/12/2011 |
| Facility A2 | *USD* | Libor + 1.80% | 2.0954% | 31,779 | 31/12/2011 |
| Facility A3 | *USD* | Libor + 1.80% | 2.0954% | 36,318 | 31/12/2011 |
| Revolving facility | *EURO* | Euribor + 1.80% | 2.7087% | 195,000 | 31/12/2012 |
| High Yield | *EURO* | 9.625% | 10.6887% | 190,704 | 15/05/2013 |

| **December 31, 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.

In the course of the last financial year, and particularly in 2009, the Safilo Group recorded a significant decline in revenues and a progressive deterioration in its financial results. The ongoing difficulties in the global economy, which led to a marked contraction in consumption of discretionary durable goods and the possibility that the Group will have to continue operating in this environment for some time to come, has led to considerable uncertainty about the Group's ability to meet its financial commitments in the ordinary course of business. In addition, although a number of measures were implemented in order to achieve more effective management of working capital, it was not possible to substantially reduce the amount of financial resources used for this purpose, leading to an increase in bank debt, through extensive use of revocable credit lines.

The following table details the lines of credits granted to the Group, the uses and the lines of credit available at December 31st 2009 and December 31st 2008, net of factoring and leasing operations:

| **December 31, 2009** *(Euro/000)* | **Credit lines granted** | **Uses** | **Credit lines available** |
|---|---|---|---|
| Credit lines on bank accounts and short-term bank loans | 111,495 | 58,218 | 53,277 |
| Credit lines on long-term bank loans | 331,438 | 326,438 | 5,000 |
| **Total** | **442,933** | **384,656** | **58,277** |

| **December 31, 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** |

To face this context of financial and liquidity crisis, the Group implemented a plan of financial restructuring and recapitalisation as defined in the binding investment agreement signed on 19th October 2009 by HAL Holding N.V., the partner in the transaction, Only 3T S.p.A. and Safilo Group S.p.A, as approved by the shareholders of Safilo Group S.p.A. in their extraordinary meeting of 15th December 2009. On 24th December 2009, within the scope of this transaction, the lending banks formally approved the content of a debt restructuring agreement for the Group, which calls for the following changes to the contract of the senior loan:

- the redefinition of the Facility A1 tranches of the senior loan into Tranche 1 Facility A1 (in the amount of roughly Euro 3 million) and Tranche 2 Facility A1 (in the amount of Euro 25 million);
- the redefinition of the purpose of the revolving line of the senior loan (Facility B) in order to also allow for the redemption of the High Yield bonds upon maturity in 2013;
- the revising, to the benefit of the Group, of the interest spreads applied to the various lines of credit, with the provision, for the revolving line (Facility B), of a system of reducing the spread in accordance with the change in the leverage ratio (i.e. consolidated net debt to consolidated EBITDA);
- a change in the methods of repayment and the final expiration for repayment of the lines of credit as follows: Tranche 1 of Facility A1, Facility A2 and Facility A3 is to be changed from a semi-annual payment plan with a final payment of 31st December 2011 to payment in lump sum on 30th June 2012; Tranche 2 of Facility A1 is to be changed from a semi-annual repayment plan with a final payment on 31st December 2011 to a lump-sum payment on 30th June 2014; and final payment of the revolving line (Facility B) is to be deferred from 31st December 2012 to 30th June 2015;
- a covenant holiday until 30th June 2012, with the exception of those covenants related to the observance, beginning on the effective date of the restructuring agreement, of a general threshold of net debt. Beginning on 30th June 2012, with verifications on 30th June and 31st December of each year, the covenants regarding the leverage ratio and the interest cover ratio (EBITDA to net interest for the period) are to be kept within the following levels: a leverage ratio of no more than 3.00:1 on 30th June 2012 and 31st December 2012 and no

more than 2.50:1 on 30th June 2013 and for each half-year period thereafter; an interest cover ratio of no less that 3.00:1 on 30th June 2012 and 31st December 2012 and no less than 3.50:1 on 30th June 2013 and for each half-year period thereafter.

The main conditions for the validity of this restructuring agreement, the content of which was approved on 24th December 2009, concern:

- the completion of the increase in share capital by the parent company, Safilo Group S.p.A., both for the portion reserved to HAL Holding N.V. (including, at the partner's discretion, through its subsidiaries) and for the optional portion called for by the binding investment agreement of 19th October 2009;
- evidence that a portion of the funds from the optional capital increase, in the amount of at least €185 million, are to be used to repay the senior loan.

Indeed, the restructuring agreement requires that a portion of the funds raised by the capital increase be used to reduce the Group's debt related to the senior loan. This partial repayment must primarily concern the revolving line, i.e. Facility B, in the amount of roughly €160 million, as well as Facility A1 in the amount of roughly €28 million.

Following this repayment, the amount of the senior loan used for cash will go from its current Euro 319 million to roughly Euro 140 million, with an available revolving line of credit of roughly Euro 150 million.

On 24th December 2009, in anticipation of meeting the conditions for the agreement, and the signing and payment of the capital increase in particular, which was completed in the first quarter of 2010 as described in greater detail in the section regarding significant events subsequent to year-end, the Group obtained a waiver from the lending banks for verification of the covenants on 31st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

With regard to the High Yield bond, and within the scope of the HY Tender Offer launched by HAL and completed with the acquisition of 50.59% of the bonds in circulation (the "HAL Bonds"), as an integral part of the restructuring agreement, Safilo, Safilo Capital International S.A., the financing banks and HAL are to sign the agreements by which HAL will undertake the following commitments:

- to grant, either directly or indirectly, financing to Safilo Capital International S.A. aimed at redeeming the HY bonds in the event that, at the moment of maturity of the HY bonds (i.e. 2013), the Safilo Group should have insufficient funds (taking into account available funds under the revolving line of credit of the Senior loan) to redeem the HY Bonds with a maximum amount equal to the difference between the principal amount of the HAL bonds repaid on the final maturity date of the HY bonds and the aggregate purchase price paid by HAL for the HAL bonds. The loan will have the same financial conditions and guarantees of the Senior Loan made on a pari passu basis;
- to hold more than 50% of the HY Bonds until their final maturity.

This agreement, too, is subject to a number of conditions tied mainly to HAL maintaining an equity investment in the group of at least 20%, or of at least 30% in the event another party can appoint the majority of the Board of Directors.

Group management believes that the restructuring agreement defined in the fourth quarter of 2009, which was finalised in the first quarter of 2010 following completion of the capital increase, places the Group in a position of renewed financial equilibrium, thereby minimising the risks related to insufficient liquidity and the raising of financial resources.

The table below summarises the financial assets and liabilities of the Group at December 31st 2009 and December 31st 2008 according to due date:

| *(Euro/000)* | **December 31, 2009** | | | |
|---|---|---|---|---|
| | Within 1 year | Between 2 and 5 years | Beyond 5 years | Total |
| Cash in hand and at bank | 37,386 | - | - | 37,386 |
| Trade receivables, net | 268,750 | - | - | 268,750 |
| Derivative financial instruments | - | - | - | - |
| Other current assets | 64,311 | - | - | 64,311 |
| **Total** | **370,447** | **-** | **-** | **370,447** |
| Derivative financial instruments | - | 228 | - | 228 |
| Other non-current assets | - | 12,277 | 445 | 12,722 |
| **Total** | **-** | **12,505** | **445** | **12,950** |
| Trade payables | 150,068 | | | 150,068 |
| Tax payables | 18,651 | - | - | 18,651 |
| Short-term borrowings | 178,124 | - | - | 178,124 |
| Derivative financial instruments | 5,549 | - | - | 5,549 |
| Other current liabilities | 63,437 | - | - | 63,437 |
| **Total** | **415,828** | **-** | **-** | **415,828** |
| Long-term borrowings | - | 445,411 | 1,871 | 447,282 |
| Derivative financial instruments | - | - | - | - |
| Other non-current liabilities | - | 9,215 | 1,903 | 11,117 |
| **Total** | **-** | **454,626** | **3,774** | **458,399** |

| *(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** |

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, 2009 | *Fair value* at 31.12.2009 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash in hand and at bank | - | - | 37,386 | - | 37,386 | 37,386 |
| Trade receivables, net | - | - | 268,750 | - | 268,750 | 268,750 |
| Foreign currency contracts | - | - | - | - | - | - |
| Options | 228 | - | - | - | 228 | 228 |
| Financial assets available for sales | | 761 | - | 45 | 806 | 806 |
| Other current assets | - | - | 64,311 | - | 64,311 | 64,311 |
| Other non-current assets | - | - | 11,916 | - | 11,916 | 11,916 |
| **Total assets** | **228** | **761** | **382,363** | **45** | **383,397** | **383,397** |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Short-term and long-term borrowings | - | - | 434,702 | - | 434,702 | 434,702 |
| *High Yield* | - | - | 190,704 | - | 190,704 | 181,438 |
| Derivative financial instruments | 5,549 | - | - | - | 5,549 | 5,549 |
| Other current liabilities | - | - | 63,437 | - | 63,437 | 63,437 |
| Other non-current liabilities | - | - | 11,117 | - | 11,117 | 11,117 |
| **Total liabilities** | **5,549** | **-** | **699,960** | **-** | **705,509** | **696,243** |

| 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 31.12.2008* |
|---|---|---|---|---|---|---|
| **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 sales | - | 688 | - | 173 | 861 | 861 |
| Other current assets | - | - | 50,703 | - | 50,703 | 50,703 |
| Other non-current assets | - | - | 12,838 | - | 12,838 | 12,838 |
| **Total assets** | **1,227** | **688** | **418,756** | **173** | **420,844** | **420,844** |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Short-term and long-term borrowings | - | - | 434,041 | - | 434,041 | 434,041 |
| *High Yield* | - | - | 189,688 | - | 189,688 | 54,941 |
| Derivative financial instruments | - | 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 |
| **Total liabilities** | **-** | **5,740** | **717,828** | **-** | **723,568** | **588,821** |

Foreign currency contracts that were closed during 2009 have resulted in negative income components on the income statement for a total of 177 thousand Euro, gross of taxes, compared to a positive component reported a year earlier equal to 754 thousand Euro, gross of taxes.

Furthermore, during 2009, the Group reported financial income equal to 4,450 thousand Euro before taxes, against financial proceeds reported in the previous year of 873 thousand Euro, in relation to the total amount of spreads between fixed rate and variable rate relating to the interest rate swaps "IRS" contracts.

Hierarchial levels of the fair value assessment

As regards financial instruments reported in the balance sheet valued at the fair value, the IFRS 7 amendment requires that these values are classified based on a three-level hierarchy that reflects the significance of the input used in determining the fair value. In particular, the amendment defines three levels of fair value:

- Level 1 – if the instrument is quoted in an active market;
- Level 2 - if the fair value is measured based on valuation techniques for which all significant inputs are based on observable market data, other than quotations of the financial instrument;
- Level 3 – if the fair value is calculated based on valuation techniques for which any significant input is not based on observable market data.

The following tables show the liabilities and assets valued at the fair value at December 31st 2009, split by hierarchical level of the fair value.

| *(Euro/000)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments at *fair value* - available for sale | 761 | - | - | 761 |
| Options | - | - | 228 | 228 |
| **Total assets** | **761** | **-** | **228** | **989** |
| Financial derivate instruments | - | (5,549) | - | (5,549) |
| **Total liabilities** | **-** | **(5,549)** | **-** | **(5,549)** |

In the FY 2009, there have been no transfers from the level 1 to the level 2 and vice versa.

The following table shows the changes taking place in level 3 in 2009

| *(Euro/000)* | Option |
|---|---|
| Balances at December 31, 2008 | 455 |
| Gain and (losses) recognised in profit or loss | (227) |
| **Balances at December 31, 2009** | **228** |

In the FY 2009, there have been no transfers from the level 3 to other levels and vice versa.

## 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. The book value of the liquidity available is aligned with fair value as at balance-sheet date and the related credit risk is very limited as the counterparties are premier banks.

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

| *(Euro/000)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Cash in hand and at bank | 37,386 | 53,653 |
| Bank overdrafts | (6,093) | (4,238) |
| Bank borrowings current | (52,212) | (69,857) |
| **Total** | **(20,919)** | **(20,442)** |

### 4.2. Trade receivables, net

This item is composed as follows:

| *(Euro/000)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Gross value | 297,327 | 324,809 |
| Allowance for doubtful accounts | (28,577) | (23,247) |
| **Net value** | **268,750** | **301,562** |

Based on straight-line exchange rates, trade receivables – net of changes in the allowance for doubtful accounts – decreased by Euro 35,235 thousand mainly because of lower sales. It should be highlighted that the Group has no particular concentration of credit risk, as its credit exposure is spread over a large number of clients. Furthermore the book value of trade receivables is considered to be approximately equal to their fair value.

As at December 31$^{st}$, 2009 trade receivables included receivables assigned to premier factoring companies that did qualify under IAS 39 for their derecognition from balance-sheet assets for a total amount of Euro 61,816 thousand (vs. Euro 70,511 thousand as at December 31$^{st}$, 2008).

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 in the income statement under the item "general and administrative expenses" (note 5.4).

The following table shows changes in allowance occurring during FYs 2008 and 2009:

| (Euro/000) | Balance at January 1, 2008 | Posted to income statement | Use (-) | Changes in the scope of consolidation | 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 |

| (Euro/000) | Balance at January 1, 2009 | Posted to income statement | Use (-) | Changes in the scope of consolidation | Transl. Diff. | Balance at December 31, 2009 |
|---|---|---|---|---|---|---|
| Allowance for bad debts | 13,506 | 8,934 | (3,062) | (287) | 178 | 19,269 |
| Allowance for sales returns | 9,741 | 2,175 | (2,383) | - | (225) | 9,308 |
| Total | 23,247 | 11,109 | (5,445) | (287) | (47) | 28,577 |

### 4.3 Inventories

This item is composed as follows:

| (Euro/000) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials | 49,809 | 50,754 |
| Work-in-progress | 5,377 | 6,315 |
| Finished products | 202,836 | 251,621 |
| Gross | 258,022 | 308,690 |
| Obsolescence provision (-) | (49,649) | (36,588) |
| Total | 208,373 | 272,102 |

Raw materials stocks remained substantially stable vs. December 31st, 2008. Finished product inventory instead decreased tangibly both because of lower sales and because of the policy of curbing inventory in order to reduce obsolescence.

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, 2008 | Posted to income statement | Changes in the scope of consolidation | Transl. Diff. | Balance at December 31, 2008 |
|---|---|---|---|---|---|
| Obsolescence provision | 25,943 | 10,126 | - | 519 | 36,588 |
| **Total** | **25,943** | **10,126** | **-** | **519** | **36,588** |

| *(Euro/000)* | Balance at January 1, 2009 | Posted to income statement | Changes in the scope of consolidation | Transl. Diff. | Balance at December 31, 2009 |
|---|---|---|---|---|---|
| Obsolescence provision | 36,588 | 14,131 | (1,250) | 180 | 49,649 |
| **Total** | **36,588** | **14,131** | **(1,250)** | **180** | **49,649** |

## 4.4 Derivative financial instruments

The following table summarises the amount of financial instruments present in the balance sheet as at December 31st, 2009:

| *(Euro/000)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Current assets:** | | |
| - Foreign currency contracts - at fair value through P&L | - | 772 |
| **Total** | **-** | **772** |
| **Non-current assets:** | | |
| - Options | 228 | 455 |
| **Total** | **228** | **455** |
| **Current liabilities:** | | |
| - Foreign currency contracts - at fair value through P&L | 338 | - |
| - Interest rate swaps - at fair value through P&L | 5,211 | - |
| **Total** | **5,549** | **-** |
| **Non-current liabilities:** | | |
| - Interest rate swaps - cash flow hedge | - | 5,740 |
| **Total** | **-** | **5,740** |

Forward foreign currency hedging contracts present in the balance sheet as at 31.12.2008 were closed out during 2009, causing a charge of Euro 177 thousand to the income statement. As at December 31st, 2009 the Group had foreign exchange hedging contracts in place relating to AUD 3 million for a market value of Euro 338 thousand.

The market value of interest rate swap (IRS) contracts present in the balance sheet as at December 31, 2009 totalled Euro 5,211 thousand. It was estimated by specialised financial institutions based on normal market conditions. The Group's policies for managing interest rate risk normally envisage hedging of future cash flows that will emerge in accounts in subsequent years. Given this, the related hedging effect must be suspended in the cash flow reserve and recognised in profit or loss in subsequent years when the expected flows actually emerge.

The above-mentioned financial instruments has been qualified as effective for hedge accounting during 2009. However, following debt restructuring, the prospective valuation of such instruments was found to be ineffective for designation as hedges. Given this, as at December 31st, 2009 their fair value was totally transferred to the income statement.

The following table summarises the characteristics and fair value of Interest rate swap contracts in place as at December 31st, 2009 and 2008:

| ***Interest rate swaps*** *(Euro/000)* | **December 31, 2009** Contractual value | | ***Fair value*** | **December 31, 2008** Contractual value | | ***Fair value*** |
|---|---|---|---|---|---|---|
| | *(USD/000)* | *(Euro/000)* | *(Euro/000)* | *(USD/000)* | *(Euro/000)* | *(Euro/000)* |
| Expiry year 2010 | - | 55,000 | (1,386) | - | 55,000 | (1,612) |
| Expiry year 2011 | - | 65,000 | (2,847) | - | 81,000 | (2,544) |
| Expiry year 2011 | 48,488 | - | (978) | 70,038 | - | (1,584) |
| **Total** | **48,488** | **120,000** | **(5,211)** | **70,038** | **136,000** | **(5,740)** |

## 4.5 Other current assets

The breakdown of this item is as follows:

| *(Euro/000)* | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| VAT receivable | 7,197 | 8,715 |
| Tax credits and payments on account | 15,378 | 8,523 |
| Prepayments and accrued income | 22,212 | 10,857 |
| Receivables from agents | 1,083 | 633 |
| Other current receivables | 18,441 | 21,975 |
| **Total** | **64,311** | **50,703** |

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.

As at December 31st, 2009 prepayments and accrued income amounted to Euro 22,212 thousand and mainly consisted of:

- prepaid royalty costs of Euro 18,001 thousand;
- prepaid advertising costs of Euro 867 thousand;
- prepaid rent and operating lease costs of Euro 1,768 thousand.

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

Other current receivables amount to Euro 18,441 thousand and mainly refer to:

- payments of minimum annual guarantees relating to 2010 royalties totalling Euro 11,731 thousand;

- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for Euro 2,040 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 totalling Euro 397 thousand;
- amounts receivable for insurance refunds totalling Euro 1,417 thousand.

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

### 4.6 Tangible fixed assets

The following table shows changes in tangible fixed assets in the years ended on December 31st 2009 and 2008:

| *(Euro/000)* | Balance at January 1, 2008 | Increase | Decrease | Reclass. | Changes in the scope of consolidation | 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** |

| *(Euro/000)* | Balance at January 1, 2009 | Increase | Decrease | Reclass. | Changes in the scope of consolidation | Transl. diff. | Balance at December 31, 2009 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Land and buildings | 129,048 | 7,478 | (1,207) | 7,219 | (9,310) | (147) | 133,081 |
| Plant and machinery | 177,913 | 8,595 | (4,927) | - | - | (437) | 181,144 |
| Equipment and other assets | 192,555 | 15,447 | (4,309) | (3,053) | (8,224) | (830) | 191,586 |
| Assets under constructions | 6,439 | 5,295 | (151) | (7,405) | - | (30) | 4,148 |
| **Total** | **505,955** | **36,815** | **(10,594)** | **(3,239)** | **(17,534)** | **(1,444)** | **509,959** |
| **Accumulated depreciation** | | | | | | | |
| Land and buildings | 33,708 | 10,354 | (2,680) | 2,113 | (8,233) | 348 | 35,610 |
| Plant and machinery | 116,305 | 11,583 | (3,392) | - | - | (124) | 124,372 |
| Equipment and other assets | 127,184 | 24,672 | (3,692) | (698) | (5,570) | (498) | 141,398 |
| **Total** | **277,197** | **46,609** | **(9,764)** | **1,415** | **(13,803)** | **(274)** | **301,380** |
| **Net book value** | **228,758** | **(9,794)** | **(830)** | **(4,654)** | **(3,731)** | **(1,170)** | **208,579** |

Investments made in intangible fixed assets (i.e. property, plant and equipment) in the year amounted to a total of Euro 33,568 thousand (Euro 56,161 thousand at December 31st, 2008) and mainly consisted of:

- Euro 10,222 thousand for the Italian factories, mainly for replacement of plan and for the purchase and production of equipment for new models
- Euro 9,322 thousand for completion of the new Chinese production unit
- Euro 4,120 thousand for the production facility of the Slovenian subsidiary Carrera Optyl d.o.o.;

- Euro 5,961 thousand for the American companies, mainly for development of the US retail store chain retail in America;
- the remaining part for other Group companies.

Several companies of the Group have purchased tangible fixed assets under finance 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, 2009** | **December 31, 2008** |
|---|---|---|
| Land and buildings | 15,437 | 15,422 |
| Accumulated depreciation (-) | (2,032) | (1,452) |
| **Net book value** | **13,405** | **13,970** |
| Plant and machinery | 3,249 | 3,249 |
| Accumulated depreciation (-) | (2,860) | (2,620) |
| **Net book value** | **389** | **629** |
| Equipment and other assets | 1,534 | 3,063 |
| Accumulated depreciation (-) | (666) | (1,087) |
| **Net book value** | **868** | **1,976** |
| **Total** | **14,662** | **16,575** |

## 4.7 Intangible fixed assets

The following table shows changes in intangible fixed assets for the years ending on December 31st, 2009 and 2008:

| (Euro/000) | Balance at January 1, 2008 | Increase | Decrease | Reclass. | Changes in the scope of consolidation | 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** |

| (Euro/000) | Balance at January 1, 2009 | Increase | Decrease | Reclass. | Changes in the scope of consolidation | Transl. diff. | Balance at December 31, 2009 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Software | 17,754 | 3,063 | (100) | - | (804) | (157) | 19,756 |
| Trademarks and licenses | 42,930 | 198 | (3) | - | (27) | 13 | 43,111 |
| Other intangible assets | 9,573 | 479 | (215) | (173) | (644) | 36 | 9,056 |
| Intangible assets in progress | 431 | - | (10) | (421) | - | - | - |
| **Total** | **70,688** | **3,740** | **(328)** | **(594)** | **(1,475)** | **(108)** | **71,923** |
| **Accumulated depreciation** | | | | | | | |
| Software | 12,140 | 2,508 | (67) | - | (387) | (55) | 14,139 |
| Trademarks and licenses | 29,869 | 3,406 | - | - | (13) | 8 | 33,270 |
| Other intangible assets | 5,954 | 927 | (186) | (173) | (87) | (28) | 6,407 |
| **Total** | **47,963** | **6,842** | **(253)** | **(173)** | **(487)** | **(75)** | **53,817** |
| **Net book value** | **22,725** | **(3,102)** | **(75)** | **(421)** | **(988)** | **(33)** | **18,106** |

Depreciation and amortization expenses related to tangible and intangible fixed assets for the 2009 and 2008 fiscal years are divided as follow in the income statement:

| (Euro/000) | note | 2009 | 2008 |
|---|---|---|---|
| Cost of sales | 5.2 | 22,220 | 20,134 |
| Selling and marketing expenses | 5.3 | 13,766 | 6,735 |
| General and administrative costs | 5.4 | 13,544 | 13,114 |
| **Total** | | **49,530** | **39,983** |

## 4.8 Goodwill

| (Euro/000) | Balance at January 1, 2008 | Increase | Decrease | Changes in the scope of consolidation | Transl. diff. | Balance at December 31, 2008 |
|---|---|---|---|---|---|---|
| Goodwill | 754,920 | 39,151 | - | - | 13,138 | 807,209 |
| **Net book value** | **754,920** | **39,151** | **-** | **-** | **13,138** | **807,209** |

| (Euro/000) | Balance at January 1, 2009 | Increase | Decrease | Changes in the scope of consolidation | Transl. diff. | Balance at December 31, 2009 |
|---|---|---|---|---|---|---|
| Goodwill | 807,209 | - | (264,879) | (22,907) | (1,004) | 518,419 |
| **Net book value** | **807,209** | **-** | **(264,879)** | **(22,907)** | **(1,004)** | **518,419** |

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

| Goodwill | Italy and Europe | Americas | Asia Pacific | Total |
|---|---|---|---|---|
| December 31, 2009 | 157,611 | 173,630 | 187,178 | 518,419 |
| December 31, 2008 | 285,362 | 234,472 | 287,375 | 807,209 |

### *Impairment test*

Below we describe the approach followed and the assumptions made to perform the impairment test:

For impairment test purposes, the Group has identified its cash-generating units (CGUs), which substantially correspond to the entities operating in each country.

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, developed starting from the assumptions of the Budget 2010 approved by the Board of Directors on December 15$^{th}$, 2009.

Overall, the major differences compared with the impairment test performed when FY2008 financial statements were prepared stem from the following factors:

- Management has more up-to-date information to hand on future projections, based on the Budget 2010 prepared in the light of a market situation that remains challenging;

- The equity risk premium used to calculate WACC (weighted average cost of capital) has increased

- Growth rates for the years following the plan (the perpetual growth rate, known as the "g" rate) are the same for the European area, US area, and Australia, while is equal to the inflation rate foreseen by the analyst for the year 2010 for the other countries .

The cash flows considered for the purposes of the impairment test were constructed starting from the Budget 2010 approved by the Board of Directors and developed for the following years based on the best knowledge available in the company.

To calculate the terminal value, the future cash flows thus obtained were discounted to present value at a discount rate (WACC) as at the test's date of reference that took into account the specifics and typical risks of each area where the Group operates.

Cash flows beyond the five-year period were extrapolated using the estimated perpetual growth rate ("g" rate"), which did not exceed the long-term average growth rate forecast for the business in which the Group operates.

When preparing annual financial statements, we updated parameters for the calculation of Enterprise Value, using the same method as for previous tests. Comparison of the WACC and "g" growth rates as at December 31st, 2009 with those applied in the previous impairment test as at December 31st, 2008 showed:

1. An increase in WACC due to:

- An increase of risk-free and swap rates

- Increase of equity risk premium from 4.5% to 5%. In the light of the persistence of the economic crisis, the Company deemed it appropriate to increase this rate, thus reflecting the greater uncertainty of returns on investments.

2. Reduction of growth rates for the years beyond the plan ("g" rate) in some countries, in particular in South Africa.

The following table summarises the WACC and "g" rates used by the Group for the analyses performed when preparing financial statements for the year ended on December 31st, 2009:

| Key assumptions | "WACC" discount rate | | Growth rate "g" | |
|---|---|---|---|---|
| | 31-Dec-09 | 31-Dec-08 | 31-Dec-09 | 31-Dec-08 |
| Euro area | 6.9% | 6.3% | 1.0% | 1.0% |
| USA area | 7.2% | 5.4% | 1.0% | 1.0% |
| Far East area | 8.6% | 7.5% | 2.3% | 2.4% |
| Australia | 9.0% | 7.2% | 1.0% | 1.0% |
| Japan | 4.8% | 4.4% | 1.0% | 1.0% |
| South Africa | 12.2% | 10.3% | 5.5% | 6.0% |
| India | 11.4% | 11.1% | 5.7% | 4.8% |
| Brasil | 10.0% | 9.7% | 4.2% | 3.7% |

The impairment test conducted using the parameters outlined above led to a writedown of goodwill amounted to Euro 257,716 thousand. The CGUs that have contributed most to the writedown of goodwill are: Safilo Japan Co. Ltd. for Euro 49.2 million, Safilo Espana SL Euro 40.2 million, Safilo Far East Ltd. for Euro 28.2 million, Safilo France Sarl Euro 26.6 million and the retail company Solstice Marketing Corp. for Euro 27.9 million. In particular, goodwill impairment have affected the wholesale and retail sectors respectively for Euro 204.9 million and Euro 52.8 million.

The circumstances and events that may in future cause further loss of value will be constantly subject of attention from the Group's management. In the monitoring of goodwill, management has developed sensitivities assuming various future scenarios. For impairment tests have been used forecast trends in terms of sales and profitability, in the range most conservative among the different sensitivities. The sensitivity analysis on the result of impairment tests in relation to changes of basic assumptions that affect the value have shown the following results:

- an increase of the WACC by 50 bps would imply a position of impairment in some CGUs for a total amount of about Euro 24.5 million;

- a reduction of the growth rate ‘g’ by 10% would imply a position of impairment in some CGUs for a total amount of about Euro 7 million;

- a reduction by 10% of the operating results of the CGUs with allocated goodwill further to a decrease in sales volumes would imply a position of impairment in some CGUs for a total amount of about Euro 32 million. This value doesn’t include any potential impact on the valuation of other assets in addition to goodwill.

### 4.9 Investments in associates

This account balance is composed of the following companies:

| Company | Registered 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 | Turchia | 50.0% | Non-consolidated sub. | Commercial |

Movements in investments in associates during the financial period are the following:

| | January 1, 2009 | | | Movements for the period | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | Gross value | Revaluation/(write-down) | Value at January 1, 2009 | Share of results and write-down of divid. of assoc. comp. | Transl. diff. | Value at December 31, 2009 |
| TBR Inc. | 427 | (244) | 183 | 149 | (10) | 322 |
| Elegance I. Holdings Ltd | 5,307 | 6,567 | 11,874 | 4 | (409) | 11,469 |
| Optifashion As | 353 | (112) | 241 | - | - | 241 |
| **Total** | **6,087** | **6,211** | **12,298** | **153** | **(419)** | **12,032** |

The changes compared to December 31st, 2008 was mainly due to the profits 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, 2009<br>*(Euro/000)* | Assets | Liabilities | Equity | Sales | Net profit | % Group | Group shareholders' equity |
|---|---|---|---|---|---|---|---|
| Elegance Ltd | 55,782 | 7,922 | 47,860 | 19,309 | 1 | 23.05% | 11,032 |
| Optifashion As | 565 | 142 | 423 | 1,533 | 34 | 50.00% | 212 |
| TBR Inc. | 7,774 | 6,385 | 1,390 | 1,674 | 625 | 33.33% | 463 |
| **Total** | **64,121** | **14,449** | **49,672** | **22,516** | **659** | | **11,706** |

The associated company Elegance Ltd closes its financial period on March 31th every year. For the purposes of valuation of the investment using the equity method, the last available set of approved accounts was used, i.e. the interim report as at September 30th, 2009 prepared for disclosure to the Hong Kong Stock Exchange. The fair value reflecting the stock market price as at December 31st, 2009 amounted to approximately Euro 5 million vs. Euro 3.8 million as at December 31st, 2008. It is believed that this value, which during 2009 increased by about Euro 1.2 million, does not yet represent the recoverable value of the above investment.

The company TBR Inc. is a US real estate company of which 33.33% was acquired in 2002. The subsidiary Safilo USA rents its head office and US distribution centre (in New Jersey) by virtue of a rental contract with the aforementioned associate company.

The company Optifashion A.s. with registered offices in Istanbul (Turkey), a 50% owned 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 approach indicated in paragraph 2.9.

| *(Euro/000)* | Relationship | Value at December 31, 2009 | Value at December 31, 2008 |
|---|---|---|---|
| Gruppo Banco Popolare | Other equity investment | 680 | 638 |
| Unicredit S.p.A. | Other equity investment | 80 | 50 |
| Altre | Other equity investment | 45 | 173 |
| **Total** | | **806** | **861** |

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

| | December 31, 2008 | | | Movements for the year | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | Gross value | Revaluation/(write-down) | Net value | Increase/ (Decrease) | Revaluation/(write-down) | Value at December 31, 2009 |
| Gruppo Banco Popolare | 4,096 | (3,457) | 639 | - | 42 | 680 |
| Unicredit S.p.A. | 48 | 2 | 50 | - | 30 | 80 |
| Others | 172 | - | 172 | (127) | - | 46 |
| **Total** | **4,316** | **(3,455)** | **861** | **(127)** | **72** | **806** |

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. As at 31st December 2009, in view of the significant and protracted decrease of the fair value of the investment in Gruppo Banco Popolare, management decided it was appropriate to transfer the capital loss of Euro 2,063 thousand accumulated in the fair value reserve in equity to the income statement.

## 4.11 Deferred tax assets and deferred tax liabilities

Deferred tax assets, net of deferred tax liabilities, relating to some Group companies have been written down via provisioning of a provision, in order to take into account market trends and the changed prospects for future profitability. This provisioning, considered prudential, amounts to Euro 70,892 thousand, of which Euro 30,888 thousand taken into the income statement in 2009. This write-down, as prescribed by International accounting standard n. 12, may be reversed in future years when taxable income occurs able to absorb tax losses and temporary differences between the carrying value of assets and liabilities and their tax base.

The following table shows the amounts of deferred tax assets and liabilities, net of provision accounted for:

| *(Euro/000)* | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| Deferred tax assets | 112,610 | 93,438 |
| Depreciation Fund (-) | (70,892) | (40,004) |
| Total net receivables for deferred tax | 41,718 | 53,434 |
| Deferred tax liabilities | (3,531) | (5,184) |
| **Total** | **38,187** | **48,250** |

The following tables detail the balance-sheet items experiencing temporary differences on which deferred tax assets and liabilities have been calculated.

### Deferred tax assets

| *(Euro/000)* | | **Impact at** | | | | | |
|---|---|---|---|---|---|---|---|
| | **Balance at January 1, 2009** | **income statement** | **equity** | **Reclass./ other changes** | **Transl. diff.** | **Changes in the scope of consolidation** | **Balance at December 31, 2009** |
| - Tax losses | 4,838 | 8,128 | - | (8,894) | 103 | (3,582) | 593 |
| - ICO profits on inventories and obsolescence | 15,560 | (2,301) | - | - | (392) | - | 12,867 |
| - Adjustments on receivables | 4,950 | (393) | - | - | (100) | - | 4,457 |
| - Contingent liabilities | 220 | 3 | - | - | 14 | - | 237 |
| - Employee benefit liability | 1,057 | (505) | - | - | (13) | - | 539 |
| - Intangible assets | 3,709 | (604) | - | 37 | (1) | (37) | 3,104 |
| - Tangible assets | 16,944 | (942) | - | 436 | (36) | (436) | 15,966 |
| - Fair value of derivative instruments | - | 396 | (247) | - | - | - | 149 |
| - Investments | 340 | 11 | - | - | (12) | - | 339 |
| - Goodwill amortisation | 1,001 | (199) | - | - | (14) | - | 788 |
| - Other payables | 1,751 | (1,435) | - | - | (179) | - | 137 |
| - Other temporary differences | 3,064 | (564) | - | (244) | 286 | - | 2,542 |
| **Total** | **53,434** | **1,595** | **(247)** | **(8,665)** | **(344)** | **(4,055)** | **41,718** |

## Deferred tax liabilities

| (Euro/000) | Balance at January 1, 2009 | Impact at income statement | Impact at equity | Reclass. /other changes | Transl. diff. | Changes in the scope of consolidation | Balance at December 31, 2009 |
|---|---|---|---|---|---|---|---|
| - Differences on tangible and intangible assets depreciation | 1,371 | (360) | - | - | (35) | - | 976 |
| - Goodwill | 515 | 53 | - | - | (5) | - | 563 |
| - Investments | 1,501 | 82 | - | - | (54) | - | 1,529 |
| - Fair value of derivative instruments | - | - | - | - | - | - | - |
| - Dividends | 407 | (391) | - | - | (6) | - | 10 |
| - ICO profits on inventories | 57 | 42 | - | - | (1) | - | 98 |
| - Adjustments on receivables and payables | 75 | (29) | - | - | 1 | - | 47 |
| - Employee benefit liability | - | - | - | - | - | - | - |
| - Other temporary differences | 1,258 | (377) | - | (393) | 23 | (203) | 308 |
| **Total** | **5,184** | **(980)** | **-** | **(393)** | **(77)** | **(203)** | **3,531** |

The following table shows the tax losses accumulated by some Group companies for which deferred tax assets have been recognised. It must be highlighted that, as stated in the previous paragraph, deferred tax assets calculated on the losses of some Group companies have been written down by a total amount of Euro 34,929 thousand because, at present, recovery through future taxable income is considered unlikely.

| Financial year (Euro/000) | Expiry date | Tax losses | Deferred tax assets |
|---|---|---|---|
| 2005 | 2010 | 74,785 | 20,566 |
| 2006 | 2011 | 3,690 | 1,000 |
| 2007 | 2012 | 6,814 | 1,228 |
| 2008 | 2013 | 8,816 | 1,784 |
| 2009 | 2014 | 16,687 | 3,240 |
| 2009 | 2024 | 24,972 | 7,492 |
| 2009 | unlimited | 1,060 | 213 |
| **Total** | | **136,824** | **35,522** |
| Provision | | | (34,929) |
| **Total deferred tax assets on losses carried forward at Dec. 31, 2009** | | | **593** |

The following table instead shows deferred tax assets and liabilities split between the portion recoverable within one year and the portion recoverable after more than one year.

| *(Euro/000)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Deferred tax assets | | |
| - recoverable within one year | 11,616 | 13,841 |
| - recoverable beyond one year | 30,102 | 39,593 |
| Total | 41,718 | 53,434 |
| Deferred tax liabilities | | |
| - recoverable within one year | 132 | 594 |
| - recoverable beyond one year | 3,400 | 4,590 |
| Total | 3,531 | 5,184 |
| **Total net** | **38,187** | **48,250** |

## 4.12 Other non-current assets

The item is composed as follow:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Receivables from Social Security Institution | 9,017 | 5,665 |
| Long-term guarantee deposit | 2,575 | 3,358 |
| Other long-term receivables | 323 | 3,815 |
| **Total** | **11,916** | **12,838** |

The receivables from social security institution refer to the balance of the subsidiary Safilo S.p.A. relating 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;

Receivables for long-term guarantee deposits mainly relate to the retail companies' store rental contracts.

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

### 4.13 Bank and other borrowings

This item is composed as follows:

| (Euro/000) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Short-term borrowings | | |
| Bank overdrafts | 6,094 | 4,238 |
| Short-term bank loans | 52,212 | 69,857 |
| Short-term portion of long-term bank loans | 77,289 | 37,646 |
| Short-term portion of financial leasing | 1,609 | 1,522 |
| Debt to the factoring company | 40,814 | 49,279 |
| Other short-term loans | 106 | 103 |
| Total | 178,124 | 162,645 |
| Long-term borrowings | | |
| Medium long-term loans | 248,588 | 260,971 |
| Ordinary bonds | 190,704 | 189,689 |
| Payables for financial leasing | 7,536 | 9,863 |
| Other medium long-term loans | 454 | 561 |
| Total | 447,282 | 461,084 |
| Total borrowings | 625,406 | 623,729 |

On June 26th, 2006 Safilo S.p.A. and the indirectly owned subsidiary Safilo USA Inc. concluded, with a pool of banks co-ordinated by UniCredit Banca Mobiliare S.p.A. (now UniCredit Bank Milano), the Senior Loan Agreement concerning provision of a medium-/-long-term loan totalling Euro 400 million and replacing the previous senior loan granted to Safilo S.p.A. and some of its subsidiaries in 2002.

This loan is structured as follows:

1. A line of credit called “Facility A”, for a maximum amount of Euro 200 million, with six-monthly repayment starting in December 2006 and lasting until December 2011. Facility A is in turn structured in three tranches, of which one in EUR (Tranche A1, for an original nominal amount of Euro 80 million) at Euribor plus a spread, and two in USD (Tranche A2 and Tranche A3 for original nominal amounts respectively of USD 70.4 million and USD 80.5 million) at Libor plus a spread. The spread currently applied is 1.80%

2. A revolving line of credit called “Facility B”, for the amount of Euro 200 million and expiring on December 31st, 2012, consisting of two tranches that can also be issued in USD (Tranche B1 for the nominal amount of Euro 170 million and Tranche B2 for the nominal amount of Euro 30 million). As up to December 31st, 2009 Euro 195 million of this facility had been used.

The Senior Loan Agreement includes a series of obligations concerning operational and financial aspects incumbent on the subsidiaries Safilo S.p.A. and Safilo USA, which result mainly in the prohibition on providing collateral for third parties (so-called "negative pledge"), the prohibition against incurring debt in addition to that resulting the

Senior Financing and the HY Bonds, in the prohibition of special corporate transactions and the obligation to comply with periodic reporting requirements on financial data.

As instead regards financial commitments, 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 present in the Senior Loan Agreement are calculated as the ratio between the net financial position and EBITDA and between EBITDA and relevant interest for the period.

It is pointed out that, during FYs 2006 and 2007 and on the audit date of June 30th, 2008 Safilo properly complied with financial parameters. As at December 31st, 2008 Safilo had obtained redefinition from the lender banks of covenant levels for that date, to enable it to meet them. As at June 30th and December 31st, 2009 Safilo requested and obtained a waiver from the lending banks for verification of the covenants on 31st December 2009, as well as the deferment to 30th June 2010 of payment of the principal originally due on 31st December 2009.

The waiver has been granted awaiting the execution of the agreement for Group's debt restructuring as defined in binding of the Investment Agreement signed on 19th October 2009 by HAL Holding NV, a partner operation, Only 3T. S.p.A. and Safilo Group S.p.A. and approved by the extraordinary shareholders of Safilo Group SpA on 15th December 2009 and formally approved by the lenders in its contents on December 24th, 2009, as describe in the paragraph 3 of the Notes on the liquidity risk.

The medium / long-term loan granted under the Senior Loan Agreement is assisted by (i) a pledge on Safilo shares accounting for the company's entire share capital and (ii) personal guarantees granted by Safilo S.p.A. to guarantee the bonds of Safilo USA Inc. and, reciprocally, by Safilo USA Inc. to guarantee the obligations of Safilo arising from the Senior Loan.

As at December 31st, 2009 senior debt principal amounts to Euro 319,097 thousand, of which Euro 73,906 thousand included in the item "Short-term portion of long-term bank loans" and Euro 245,191 thousand included in the item "Medium-long-term loans".

The item "ordinary bond" refers to the High Yield bond loan, issued on May 15, 2003 by the Luxembourgian subsidiary Safilo Capital International S.A. at the fixed rate of 9.625%, for an original nominal amount of Euro 300 million, due to mature on May 15, 2013. On January 13th, 2006 the Luxembourgian subsidiary repaid in advance 35% of the nominal amount equal to Euro 105 million.

Is worth mentioning that according to the Investment Agreement signed binding on Oct. 19, 2009, during the month of November 2009 the High Yield bond was subject to a "Tender Offer" launched by the partner HAL Holding NV and ended with the purchase of 50.59% of bonds in circulation.

The above loans are measured using the amortised cost method.

The payables for financial leasing refer to tangible fixed assets owned under lease contracts by some Group companies. The residual life of lease contracts varies from 2 to 5.5 years. All the lease contracts in force involve repayments at constant instalments and no restructuring of the original plans is foreseen.

The following table shows the short-term and medium-/long-term portions of finance lease contracts in place as at December 31st, 2009.

| *(Euro/000)* | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| Short-term portion of financial leasing | 1,609 | 1,522 |
| Long-term portion of financial leasing | 7,536 | 9,863 |
| **Totale debt** | **9,145** | **11,385** |

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).

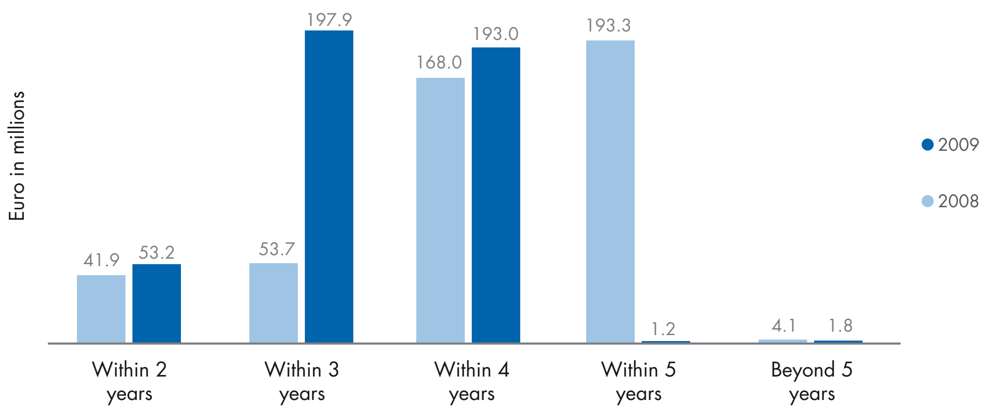
The "other medium and long-term loans" mainly refer to a loan granted to the subsidiary Safilo S.p.A. valid under law 46/82 at a rate of 0.705%.

The short-term payables towards factoring companies are for contracts stipulated with leading factoring companies by the subsidiary Safilo S.p.A. for 39,559 thousand Euro and by the subsidiary Safilo do Brasil for 1,255 thousand Euro.

The expiry dates of medium and long term loans are:

| *(Euro/000)* | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| Within 2 years | 53,156 | 41,950 |
| From 2 to 3 years | 197,949 | 53,695 |
| From 3 to 4 years | 193,079 | 168,047 |
| From 4 to 5 years | 1,227 | 193,323 |
| Beyond 5 years | 1,871 | 4,069 |
| **Total** | **447,282** | **461,084** |

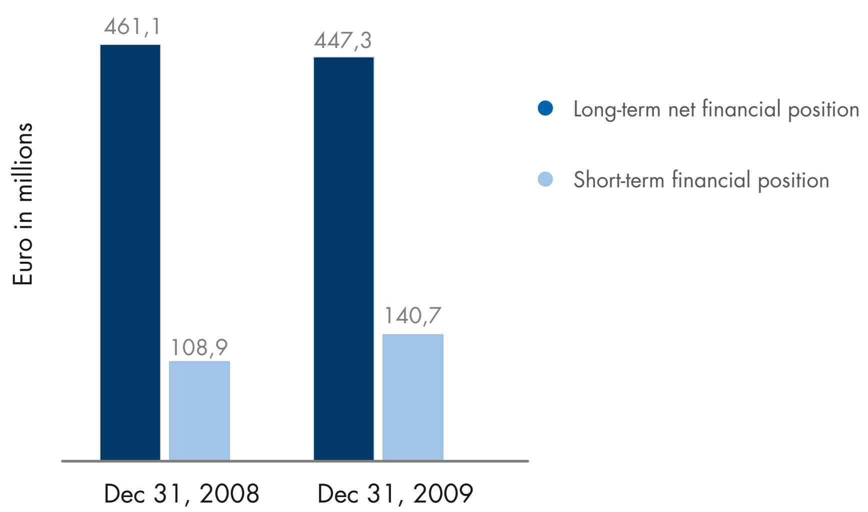
**Borrowings Expiring Date**



The following table shows the breakdown of net financial debt. This has been calculated consistently with Paragraph 127 of the CESR/05-054b recommendation implementing the European regulation CE 809/2004 and in line with the CONSOB (Italian securities & exchange commission) requirements of July 26th, 2007.

| | **Net financial position** *(Euro/000)* | **December 31, 2009** | **2008** | **change** |
|---|---|---|---|---|
| A | Cash and cash equivalents | 37,386 | 53,653 | (16,267) |
| B | Cash and cash equivalents included as Assets held for sale | - | - | - |
| C | Current securities (securities held for trading) | - | - | - |
| D | **Liquidity (A+B+C)** | **37,386** | **53,653** | **(16,267)** |
| E | **Receivables from financing activities** | **-** | **-** | **-** |
| F | Bank overdrafts and short-t. bank borrowings | (58,305) | (74,095) | 15,790 |
| G | Current portion of long-term borrowings | (77,289) | (37,646) | (39,643) |
| H | Other short-term borrowings | (42,530) | (50,904) | 8,374 |
| I | **Debts and other current financial liabilities (F+G+H)** | **(178,124)** | **(162,645)** | **(15,479)** |
| J | **Current financial position, net (D)+(E)+(I)** | **(140,738)** | **(108,992)** | **(31,746)** |
| K | Long-term bank borrowings | (248,588) | (260,971) | 12,383 |
| L | Ordinary bonds | (190,704) | (189,689) | (1,015) |
| M | Other long-term borrowings | (7,990) | (10,424) | 2,434 |
| N | **Debts and other non current financial liabilities (K+L+M)** | **(447,282)** | **(461,084)** | **13,802** |
| I | **Net financial position (J)+(N)** | **(588,020)** | **(570,076)** | **(17,944)** |

## Net Financial Position



The following shows the breakdown of bank and other borrowings by currency:

| *(Euro/000)* | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| **Short-term** | | |
| Euro | 115,310 | 128,240 |
| US Dollar | 41,906 | 21,478 |
| Brasilian Real | 1,282 | 2,597 |
| Japanese Yen | 2,253 | 793 |
| Chinese Reminbi | 16,878 | 9,057 |
| Sek Swedish | 81 | - |
| South-African Dollar | - | 8 |
| Mexican Peso | 414 | 472 |
| **Total** | **178,124** | **162,645** |
| **Medium long-term** | | |
| Euro | 416,862 | 407,691 |
| US Dollar | 26,191 | 48,589 |
| Japanese Yen | - | 2,378 |
| Mexican Peso | 1,057 | 1,670 |
| Australian Dollar | 6 | 756 |
| Indian Reminbi | 3,050 | - |
| Sek Swedish | 116 | - |
| **Total** | **447,282** | **461,084** |
| **Total borrowings** | **625,406** | **623,729** |

## 4.14 Trade payables

This item is composed as follows:

| *(Euro/000)* | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| **Trade payables for:** | | |
| - purchase of raw materials | 24,683 | 42,371 |
| - purchase of finished goods | 46,675 | 76,108 |
| - suppliers from subcontractors | 2,413 | 4,842 |
| - tangible and intangible assets | 5,600 | 5,129 |
| - commissions | 4,778 | 5,677 |
| - royalties | 13,443 | 14,703 |
| - advertising and marketing costs | 22,387 | 25,820 |
| - services | 30,089 | 30,713 |
| **Total** | **150,068** | **205,363** |

The decrease of trade payables was primarily due to the decrease of purchases of materials and finished products.

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

### 4.15 Tax payables

As at December 31st, 2009 tax payables amounted to Euro 18,651 thousand (vs. Euro 22,587 thousand in the previous FY). Euro 10,279 thousand of the total related to income tax for the period, Euro 2,504 thousand to VAT payable, and the remainder to liabilities of withholding taxes and local taxes and levies. Provision for the year's current income tax is shown in Note 5.10 concerning income tax.

### 4.16 Other current liabilities

This item is composed as follows:

| *(Euro/000)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Payables to personnel and social security institutions | 29,410 | 30,497 |
| Premiums to clients | 20,048 | 25,476 |
| Agent fee payables | 1,631 | 2,082 |
| Payables to pension funds | 1,144 | 1,106 |
| Accrued advertising and sponsorship costs | 332 | 775 |
| Accrued interests on long-term loans | 3,905 | 7,811 |
| Other accruals and deferred income | 1,839 | 2,830 |
| Payables for dividends | 2,995 | 2,630 |
| Other current liabilities | 2,133 | 3,230 |
| **Total** | **63,437** | **76,437** |

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

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

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

Overdue payables:

| (Euro/000) | Balance as at December 31, 2009 | of which overdue as at December 31, 2009 | % |
|---|---|---|---|
| **Current payables:** | | | |
| Financial debts | 178,124 | - | 0% |
| Trade payables | 150,068 | 2,015 | 1% |
| Tax payables | 18,651 | - | 0% |
| Other current liabilities | 63,437 | 360 | 1% |
| **Total** | **410,280** | **2,374** | **1%** |

At 31st december 2009, the current payables of the Group amounted to Euro 410,280 thousand. The share overdue at that time and not yet paid amounts to Euro 2,374 thousands, and relates to payments made mostly in January 2010 or debit positions presently subject to dispute.

In view of these payables overdue there is no significant action for the recovery forced by the creditors.

### 4.17 Provision for risks and charges

This item is composed as follows:

| (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** |

| (Euro/000) | Balance at January 1, 2009 | Increase | Decrease | Transl. diff. | Balance at December 31, 2009 |
|---|---|---|---|---|---|
| Product warranty provision | 4,602 | 681 | (1,221) | (4) | 4,058 |
| Agents' severance indemnity | 4,888 | 563 | (502) | - | 4,949 |
| Provision for corporate restructuring | - | 7,000 | (586) | - | 6,414 |
| Other provisions for risks and charges | 3,773 | 2,741 | (967) | - | 5,547 |
| **Provisions for risks - long term** | **13,263** | **10,985** | **(3,276)** | **(4)** | **20,968** |
| **Provisions for risks - short term** | **1,053** | **3,748** | **(714)** | **-** | **4,087** |
| **Total** | **14,316** | **14,733** | **(3,990)** | **(4)** | **25,055** |

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.

Restructuring provision consists of the provision made in the first half of 2009 for restructuring costs relating to scaling down of the Italian factory organisation. The decrease of this accrual relates to costs already incurred for personnel who had resigned as at December 31st, 2009.

Other provisions for risks and charges relate to provisioning for legal disputes underway as at balance sheet date and for risks stemming from disposal of the retail companies.

It is believed 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, 2008 | Posted to income statement | Actuarial gains/(losses) | Uses/ Payments | Transl. diff. | Changes in the scope of consolidation | 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** |

| *(Euro/000)* | Balance at January 1, 2009 | Posted to income statement | Actuarial gains/(losses) | Uses/ Payments | Transl. diff. | Changes in the scope of consolidation | Balance at December 31, 2009 |
|---|---|---|---|---|---|---|---|
| Defined contribution plan | 6,099 | 3,420 | - | (344) | 20 | (209) | 8,986 |
| Defined benefit plan | 35,976 | 1,378 | (2,486) | (1,987) | (49) | - | 32,832 |
| **Total** | **42,075** | **4,798** | **(2,486)** | **(2,331)** | **(29)** | **(209)** | **41,818** |

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 conducts 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 December 27th, 2006 (“2007 Financial law”) and subsequent Decrees and Regulations issued in the early months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

the portion of the employee benefit liability accruing as from January 1st, 2007, whether it be 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 accrued as up to December 31st, 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 accrued up to December 31st, 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 coming from different public entities (ISTAT, INAIL, INPS, State 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. For discounting to present value, the system of zero-coupon rates deducted from swap rates relating to the date of December 31st, 2009 was applied.

The breakdown of the amounts recognised in financial statements for financial years 2009 and 2008 is as shown below:

| *(Euro/000)* | **2009** | **2008** |
|---|---|---|
| Service cost | 3,621 | 1,380 |
| Interest cost | 1,177 | 1,355 |
| Actuarial gain/(loss) | (2,486) | 3,380 |
| **Total** | **2,312** | **6,115** |

### 4.19 Other non-current liabilities

As at December 31st, 2009 other non-current liabilities totalled Euro 11,117 thousand (Euro 17,662 thousand as at December 31st, 2008) and referred to:

Euro 6,325 thousand for quantification of the liability stemming from the put options held by minority shareholders in some subsidiaries

Euro 3,318 thousand for long-term liability concerning some store rental contracts of US subsidiaries

Euro 605 thousand for the liability arising from the settlement agreement reached by a US subsidiary to settle a controversy that had arisen concerning use of a patent

The remainder, for other long-term liabilities present in Group companies' financial statements.

## SHAREHOLDERS' EQUITY

Shareholders' equity consists 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 earned from its operations (retained earnings and other reserves). As at December 31st, 2009, shareholders' equity totalled Euro 445,992 thousand (of which Euro 7,559 thousand belonging to minority interests) vs. Euro 804,227 thousand as at December 2008 (of which Euro 8,412 thousand belonging to 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

As at December 31st, 2009 the share capital of the parent company Safilo Group S.p.A. amounted to Euro 71,348,532, divided into 285,394,128 ordinary shares with a par value of Euro 0.25 each.

Ordinary shares are registered and attribute the right to vote at ordinary and extraordinary shareholder meetings as well as the right to participate in earnings.

As regards the capital increase completed in the early months of 2010, reference should be made to the section "Events after the reporting period" in the Directors' report on operations.

### 4.21 Share premium reserve

The share premium reserve amounts to Euro 745,105 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 2009 this reserve decreased by Euro 2,366 thousand due to the costs already borne during 2009 for the capital increase completed in February and March 2010, as fully detailed in the section "Events after the end of the reporting period" in the Directors' report on operations.

## 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.

| | | | Consoldated statement of comprehensive income | | | | |
|---|---|---|---|---|---|---|---|
| *(Euro/000)* | Balance at January 1, 2008 | Previous year's profit allocation | Profit (loss) of the period | Profit (loss) reclass to Inc. Stat. | 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** |

| | | | Consoldated statement of comprehensive income | | | | |
|---|---|---|---|---|---|---|---|
| *(Euro/000)* | Balance at January 1, 2009 | Previous year's profit allocation | Profit (loss) of the period | Profit (loss) reclass to Inc. Stat. | Divid. distribution | Impact on equity | Balance at December 31, 2009 |
| Translation differences - Group | (55,889) | - | (6,640) | | - | - | (62,529) |
| Translation differences - Minority | 529 | - | (281) | | - | - | 248 |
| **Total** | **(55,360)** | **-** | **(6,921)** | | **-** | **-** | **(62,281)** |
| Other reserves - Group | 63,869 | (23,315) | 2,265 | | - | (6,896) | 35,923 |
| Other reserves - Minority | 5,108 | 2,775 | 16 | | (1,247) | - | 6,652 |
| **Total** | **68,977** | **(20,540)** | **2,281** | | **(1,247)** | **(6,896)** | **42,575** |
| Total Group | 7,980 | (23,315) | (4,375) | | - | (6,896) | (26,606) |
| Total Minority | 5,637 | 2,775 | (265) | | (1,247) | - | 6,900 |
| **Total** | **13,617** | **(20,540)** | **(4,640)** | **-** | **(1,247)** | **(6,896)** | **(19,706)** |

### 4.23 Fair value and cash flow reserves

This item is composed as follows:

| (Euro/000) | Balance at January 1, 2008 | Consoldated statement of comprehensive income: Profit (loss) of the period | Profit (loss) reclass to Inc. Stat. | Total Profit (loss) of the period | Balance at December 31, 2008 |
|---|---|---|---|---|---|
| Cash flow reserve | 393 | (5,911) | - | (5,911) | (5,518) |
| Fair value reserve | (673) | (1,429) | - | (1,429) | (2,102) |
| Total | (280) | (7,340) | - | (7,340) | (7,620) |

| (Euro/000) | Balance at January 1, 2009 | Consoldated statement of comprehensive income: Profit (loss) of the period | Profit (loss) reclass to Inc. Stat. | Total Profit (loss) of the period | Balance at December 31, 2009 |
|---|---|---|---|---|---|
| Cash flow reserve | (5,518) | 432 | 5,086 | 5,518 | - |
| Fair value reserve | (2,102) | 71 | 2,063 | 2,134 | 32 |
| Total | (7,620) | 503 | 7,149 | 7,652 | 32 |

The cash flow reserve refers to the current value of interest rate swap contracts in place and, as at December 31st, 2008, featured a negative balance of Euro 5,518 thousand. The above financial instruments qualified as effective during 2009. After debt restructuring, however, the prospective valuation of such instruments was found to be ineffective, not qualifying for designation as hedging instruments. Given this, as at December 31st, 2009 their fair value, for a total amount of Euro 5,086, was entirely transferred to the income statement.

The fair value reserve refers to the current value of investments classified among financial assets available for sale (see note 4.10). As at 31st December 2009, in view of the significant and protracted decrease of the fair value of the investment in Gruppo Banco Popolare, management decided it was appropriate to transfer the capital loss of Euro 2,063 thousand accumulated in the fair value reserve in equity to the income statement.

### 4.24 Stock option plans

By virtue of the power delegated to it by shareholders at the extraordinary meeting held on October 24th, 2004, on May 31, 2008 the Board of Directors of the parent company Safilo Group S.p.A. resolved to increase the company's share capital for consideration, with exclusion of option rights pursuant to Article 2441, paragraph 5, of the Italian Civil Code by up to a maximum nominal amount of Euro 2,125,296.25, via the issue of up to a maximum number of 8,501,185 redeemable ordinary shares of the company, with a par value of Euro 0.25 each and share premium of Euro 4.16. These shares are to be offered for subscription to the beneficiaries contemplated in the regulation of the "Safilo Group S.p.A. 2006-2010 Stock Option Plan" ("2006 Stock Option Plan") approved at the same Board Meeting, as subsequently amended. The regulation also establishes that the shares can be subscribed, in the terms envisaged by the regulation, at a price equal to par value plus a per-share premium of Euro 4.16 or, in the case of subsequent allocations of options, with share premium to be calculated pursuant to the rules established in the 2006 Stock Option Plan regulation, and in any case not lower than Euro 4.16. It also establishes that the capital increase in question can also be executed in several stages and is divisible and that, given this, the Issuer's share capital will be taken to be increased by an amount equal to the par value of the shares effectively subscribed in each case.

The 2006 Stock Option Plan, which lasts for 4 financial years (FYs 2006-2010), is designed for some directors, managers, and advisors of Safilo Group companies. It envisages accrual of the option rights assigned at the rate of one quarter of the same for each FY covered by the 2006 Stock Option Plan. Option accrual criteria are based on achievement, as reported in the Issuer's financial statements, of given conventional levels of consolidated EBITDA set by a Board resolution. For options relating to the 2006 Stock Option Plan, it is established that each option gives the right to subscribe one share at average exercise price.

It is pointed out that, following the amendment made to the 2006 Stock Option Plan, disclosed to the market on February 8, 2008, all options accrued will be exercisable in just one exercise period starting after at least 3 years have elapsed since the granting of such options, i.e. in the period from the date of shareholder approval of consolidated accounts for the year ended on December 31st, 2009 to December 15th, 2010.

Residual rights as at 31st December 2009 have been considered to have lapsed following non-achievement of EBITDA targets calculated on 2009 year-end accounts. Considering that during the validity of the 2006 Plan the conditions for the vesting of the granted options were never met, the options are not exercisable and therefore the 2006 Plan may be considered extinguished ahead of time.

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

| | | 2009 | | | 2008 | |
|---|---|---|---|---|---|---|
| **SOP 2006-2010** | **Strike medio** | **no. shares** | **no. rights** | **Strike medio** | **no. shares** | **no. rights** |
| At January 1, | 4.4100 | 859,673 | 859,673 | 4.4100 | 2,552,109 | 2,552,109 |
| | | | | - | - | - |
| Issued | - | - | - | - | - | - |
| Granted | - | - | - | - | - | - |
| Cancelled | - | - | - | - | - | - |
| Forfeited | 4.4100 | (859,673) | (859,673) | 4.4100 | (1,692,436) | (1,692,436) |
| Exercised | | - | - | - | - | - |
| | | | | - | - | - |
| **At December 31,** | **-** | - | - | 4.4100 | 859,673 | 859,673 |
| ***- Tot. Exercisable*** | - | - | - | - | - | - |
| *- Max res. life (years)* | | | - | - | - | 2 |

## 5. Notes to the consolidated income statement

### 5.1 Net sales

Group sales during 2009 totalled Euro 1,011.2 thousand, representing a decrease of 11.9% compared to the previous year (Euro 1,147.8 thousand), of 13.1% at constant exchange rates.

Further information on the sales trend is given in the Directors' report on operations.

### 5.2 Cost of sales

This item is composed as follows:

| *(Euro/000)* | **2009** | **2008** |
|---|---|---|
| Purchase of raw materials and finished goods | 263,429 | 337,030 |
| Capitalisation of costs for increase in tangible assets (-) | (8,738) | (10,001) |
| Change in inventories | 56,557 | 8,505 |
| Payroll and social security contributions | 85,984 | 103,548 |
| Subcontracting costs | 7,889 | 14,241 |
| Depreciation | 22,219 | 20,134 |
| Rental and operating leases | 1,125 | 1,465 |
| Other industrial costs | 10,287 | 9,938 |
| **Total** | **438,752** | **484,860** |

The decrease in the purchase cost of materials and finished products was mainly due to lower levels of production and to the policy of curbing inventories.

The change in inventories can be broken down as follows:

| *(Euro/000)* | **2009** | **2008** |
|---|---|---|
| Finished products | 53,945 | 8,603 |
| Work-in-progress | 736 | 1,637 |
| Raw materials | 1,876 | (1,735) |
| **Total** | **56,557** | **8,505** |

The decrease in payroll costs and social security contributions was due to lower production demand in the Italian factories. The Group reacted to this by reducing the headcount of the European production units and using so-called social shock absorbers.

The average number of employees by contractual category is shown below:

| | 2009 | 2008 |
|---|---|---|
| Executives | 126 | 119 |
| Clerks and middle management | 3,551 | 3,682 |
| Factory workers | 4,703 | 4,909 |
| **Total** | **8,380** | **8,710** |

Subcontracting costs have undergone a significant decrease compared to 2008 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:

| *(Euro/000)* | 2009 | 2008 |
|---|---|---|
| Payroll and social security contributions | 109,056 | 110,156 |
| Commissions to sales agents | 63,528 | 72,333 |
| Royalty expenses | 81,280 | 88,520 |
| Advertising and promotional costs | 93,929 | 100,269 |
| Amortization and depreciation | 13,766 | 6,735 |
| Logistic costs | 16,333 | 18,455 |
| Consultants fees | 3,973 | 4,539 |
| Rental and operating leases | 23,207 | 19,072 |
| Utilities | 2,432 | 1,850 |
| Provision for risks | 294 | 1,815 |
| Other sales and marketing expenses | 19,473 | 22,331 |
| **Total** | **427,272** | **446,075** |

### 5.4 General and administrative expenses

This item is composed as follows:

| *(Euro/000)* | **2009** | **2008** |
|---|---:|---:|
| Payroll and social security contributions | 59,139 | 56,869 |
| Allowance for doubtful accounts | 8,934 | 3,923 |
| Amortization and depreciation | 13,544 | 13,114 |
| Consultants fees | 10,104 | 12,916 |
| Rental and operating leases | 8,613 | 8,188 |
| EDP costs | 4,242 | 3,927 |
| Insurance costs | 2,755 | 2,886 |
| Utilities, security and cleaning | 7,329 | 7,905 |
| Taxes (other than on income) | 3,338 | 5,902 |
| Other general and administrative expenses | 13,404 | 16,219 |
| **Total** | **131,402** | **131,849** |

#### 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)

For the year ended on December 31st, 2009, the remuneration payable to directors, members of the Board of Statutory Auditors, and to strategically accountable managers of the parent company in office on the date of shareholder approval of annual financial statements, for performance of their tasks, also for subsidiaries, was as follows:

| Name and surname | Office | Period covered | Expiring | Compensation related to the company drawing up the financial statements (Euro/000) | Non-cash benefit (Euro/000) | Other (Euro/000) |
|---|---|---|---|---:|---:|---:|
| **Directors** | | | | | | |
| Vittorio Tabacchi | Chairman | 2009 | Approval of 2010 fin. statements | 10.0 | | 2,290.0 |
| Massimiliano Tabacchi | Executive Vice Chairman | 2009 | Approval of 2010 fin. statements | 10.0 | 8.1 | 690.0 |
| Roberto Vedovotto | Chief Executive Officer | 2009 | Approval of 2010 fin. statements | 10.0 | 8.2 | 1,590.0 |
| Ennio Doris | Director | 2009 | Approval of 2010 fin. statements | 10.0 | | - |
| Antonio Favrin | Director | 2009 | Approval of 2010 fin. statements | 90.0 | | - |
| Carlo Gilardi | Director | 2009 | Approval of 2010 fin. statements | 100.0 | | 10.0 |
| Giannino Lorenzon | Director | 2009 | Approval of 2010 fin. statements | 70.0 | | 340.0 |
| **Board of Statutory Auditors** | | | | | | |
| Franco Corgnati | Chairman | from April 27, 2009 | Approval of 2010 fin. statements | 42 | | 53 |
| Lorenzo Lago | Regular auditor | from April 27, 2009 | Approval of 2010 fin. statements | 21 | | 35 |
| Giampietro Sala | Regular auditor | from April 27, 2009 | Approval of 2010 fin. statements | 36 | | 35 |
| Nicola Gianese | Regular auditor | until April 27, 2009 | Approval of 2010 fin. statements | 23 | | - |
| **Managers with strat. resp.** | | | | | 17.5 | 1,106.7 |

### 5.4.2 Stock options attributed to Directors, Statutory Auditors and managers with strategic responsibilities (CONSOB resolution no. 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 | 76,531 | 4.4180 | 2.00 | - | - | - | - |
| Roberto Vedovotto | Chief Executive Officer | - | - | - | - | - | - | - |
| Ennio Doris | Director | - | - | - | - | - | - | - |
| Antonio Favrin | Director | - | - | - | - | - | - | - |
| Carlo Gilardi | Director | - | - | - | - | - | - | - |
| Giannino Lorenzon | Director | - | - | - | - | - | - | - |
| | Director | - | - | - | - | - | - | - |
| **Board of Statutory Auditors** | | | | | | | | |
| Franco Corgnati | Chairman | - | - | - | - | - | - | - |
| Lorenzo Lago | Regular auditor | - | - | - | - | - | - | - |
| Giampietro Sala | Regular auditor | - | - | - | - | - | - | - |
| Nicola Gianese | Regular auditor | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - |
| **Management with strat. resp.** | | | | | | | | |
| Aggregate | | 95,037 | 4.4100 | 2.00 | (34,015) | - | - | - |

| Name and surname | Office | Options granted 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 | - | - | - | (76,531) | - | - | - |
| Roberto Vedovotto | Chief Executive Officer | - | - | - | - | - | - | - |
| Ennio Doris | Director | - | - | - | - | - | - | - |
| Antonio Favrin | Director | - | - | - | - | - | - | - |
| Carlo Gilardi | Director | - | - | - | - | - | - | - |
| Giannino Lorenzon | Director | - | - | - | - | - | - | - |
| | Director | - | - | - | - | - | - | - |
| **Board of Statutory Auditors** | | | | | | | | |
| Franco Corgnati | Chairman | - | - | - | - | - | - | - |
| Lorenzo Lago | Regular auditor | - | - | - | - | - | - | - |
| Giampietro Sala | Regular auditor | - | - | - | - | - | - | - |
| Nicola Gianese | Regular auditor | - | - | - | - | - | - | - |
| **Management with strat. resp.** | | | | | | | | |
| Aggregate | | - | - | - | (51,022) | - | - | - |

### 5.5 Other income and expenses, net

This item is composed as follows:

| (Euro/000) | 2009 | 2008 |
|---|---|---|
| Losses on disposal of assets | (426) | (287) |
| Other operating expenses | (1,588) | (826) |
| Gains on disposal of assets | 66 | 26 |
| Other operating incomes | 4,278 | 2,388 |
| **Total** | **2,330** | **1,301** |

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 Non-recurring restructuring costs

Restructuring of the production sites in Italy and Slovenia has involved about a thousand people. More specifically, the agreement reached with the Italian factories' trade union counterparties provides for payment of incentives for workers of the factories based in the Friuli region that voluntarily leave their jobs. The amount of Euro 7,422 thousand is the maximum cost that the Group will incur in the next three years to honour these commitments.

### 5.7 Goodwill impairment and loss due to investment disposals

As report in note 4.8 "Goodwill", in view of the changed market conditions, the Group deemed it appropriate to subject its goodwill to impairment testing both on June 30$^{th}$ and on December 31$^{st}$, 2009. The impairment tests performed showed total impairment of Euro 257,716 thousand.

In addition, on October 19$^{th}$, 2009, the Board of Directors of Safilo Group S.p.A. approved the plan to dispose of some retail store chains considered non-strategic. This disposal plan involves the retail chains "Loop Vision" in Spain, "Sunglass Island" and "Island Optical" in Mexico, and "Just Spectacles" in Australia, as well as five Chinese stores.

In December 2009, the Group has sold the non-strategic retail chains comprising the Just Spectacles stores in Australia, the Loop Vision stores in Spain, for a total cost of Euro 13.7 million, amount that has been confirmed by a fairness opinion of a primary consultant company.

- on 22$^{nd}$ December 2009, Safint B.V. transferred 100% of the share capital of Optifashion Australia PTY LTD to HAL Optical Investments B.V. (a company in the HAL Holding N.V. group);
- on 28$^{nd}$ December 2009, Safilo España S.L. transferred 100% of the share capital of Navoptik S.L. to GrandVision S.A. (a company in the HAL Holding N.V. group);

The balance sheet date, the Safilo Group therefore maintains retail chains Solstice, the United States and, for the moment, Island Optical and Sunglass Island in Mexico

With reference to the Mexican chains Sunglass Island and Island Optical, whose sale is also envisaged under the Investment Agreement as a suspensive condition of the Transaction, it should be noted that: (i) negotiations are still under way with the Mexican minority shareholders for the sale to the Partner (or companies in the Partner's group) of the company Tide Ti S.A. de C.V., which manages these chains; and (ii) in the meantime, Safint B.V. (a company in the Safilo Group that owns 60% of Tide Ti S.A. de C.V.), Safilo Group and HAL Optical Investments B.V. (a company in the Partner's group) signed an agreement on 28th December 2009 under which Safint B.V. granted HAL Optical Investments B.V. an option to purchase 100% of the share capital of Tide Ti S.A. de C.V. This option constitutes an alternative solution in the event that the negotiations with the minority shareholders are unsuccessful, and is, in any event, a suspensive condition in respect of the acquisition by Safint B.V. of the residual 40% stake in the share capital of Tide Ti S.A. de C.V.

The following table details the value of the companies sold:

| *(Euro/000)* | **Book value at the disposal date** |
|---|---|
| **Current assets** | |
| Cash in hand and at bank | 1,525 |
| Trade receivables, net | 1,158 |
| Inventory, net | 7,888 |
| Other current assets | 9,442 |
| **Total current assets** | **20,013** |
| **Non-current assets** | |
| Tangible assets | 7,652 |
| Intangible assets | 988 |
| Goodwill | 22,929 |
| Deferred tax assets | 4,055 |
| Other non-current assets | 1,351 |
| **Total non-current assets** | **36,975** |
| **Total assets of disposals subsidiaries** | **56,988** |
| **Current liabilities** | |
| Trade payables | 19,732 |
| Other current liabilities | 1,995 |
| Provisions for risks and charges | - |
| **Total current liabilities** | **21,727** |
| **Non-current liabilities** | |
| Long-term borrowings | 491 |
| Employee benefit liability | 209 |
| Deferred tax liabilities | 203 |
| Other non-current liabilities | - |
| **Total non-current liabilities** | **903** |
| **Total liabilities of disposals subsidiaries** | **22,630** |
| **Total book value of disposals subsidiaries** | **34,358** |

The table below shows the breakdown of the loss arising from these investment disposals:

| (Euro/000) | Amounts |
|---|---|
| Consideration received | 13,700 |
| Net assets disposed of | (34,358) |
| Cumulative exchange differences reclassified from equity on loss of control of subsidiaries | 4,490 |
| Allowance for risk on retail subsidiaries disposal | (5,516) |
| **Loss on subsidiaries disposal** | **(21,684)** |

### 5.8 Share of income (losses) of associate companies

This item totalled Euro 360 thousand (vs. Euro 866 thousand in FY2008) and consists of the profits and losses stemming from valuation using the equity method of investments in associate companies (note 4.9).

### 5.9 Financial charges, net

This item is composed as follows:

| (Euro/000) | 2009 | 2008 |
|---|---|---|
| Interest expense on loans | 23,137 | 23,340 |
| Interest expense and charges on High Yield | 19,784 | 19,726 |
| Bank commissions | 4,762 | 5,000 |
| Negative exchange rate differences | 10,435 | 23,162 |
| Fair value financial derivative instruments | 5,235 | - |
| Financial discounts | 2,118 | 2,721 |
| Write downs of financial assets available for sale | 2,063 | - |
| Other financial charges | 2,602 | 768 |
| **Total financial charges** | **70,136** | **74,717** |
| Interest income | 347 | 1,116 |
| Positive exchange rate differences | 15,391 | 14,900 |
| Gains on financial assets disposal | - | 2 |
| Dividends | - | 85 |
| Other financial income | 141 | 861 |
| **Total financial income** | **15,879** | **16,964** |
| **Total financial charges, net** | **54,257** | **57,753** |

As reported in note 4.4 "Financial Instruments", following debt restructuring, the prospective valuation of IRS contracts was found to be ineffective, not qualifying for designation as hedging instruments. Given this, when preparing financial statements for year ended on December 31st, 2009, their fair value, for a total amount of Euro 5,235, was entirely transferred to the income statement.

The item "Write-down of financial assets available for sale" refers to the current value of the investment in Gruppo Banco Popolare (see note 4.10). As at 31st December 2009, in view of the significant and protracted decrease of the fair value of this financial assets, management decided it was appropriate to record the capital loss of Euro 2,063 directly in the income statement. As at December 31st, 2008 the accumulated loss has been recorded in the fair value reserve in equity.

### 5.10 Income taxes and write-down of deferred tax assets

| *(Euro/000)* | **2009** | **2008** |
|---|---|---|
| Current taxes | (28,786) | (35,776) |
| Deferred taxes | 33,463 | 23,733 |
| **Total income taxes** | **4,677** | **(12,043)** |
| Write downs of deferred tax assets | (30,888) | (37,945) |
| **Total** | **(26,211)** | **(49,988)** |

The taxes for the year can be reconciled with the theoretical tax burden as follows:

| *(Euro/000)* | **%** | **2009** | **%** | **2008** |
|---|---|---|---|---|
| **Profit before taxation** | **100%** | **(324,578)** | **100.0%** | **29,448** |
| Theoretical taxes | 27.5% | (89,259) | 27.5% | 8,098 |
| IRAP (current and deferred) and other taxes | -0.7% | 2,345 | 10.7% | 3,157 |
| Effect of foreign tax rates | -0.5% | 1,499 | 11.1% | 3,256 |
| Non taxable incomes | 0.0% | (117) | -10.9% | (3,217) |
| Non deductible costs | -0.2% | 689 | 5.2% | 1,523 |
| Taxable intercompany dividends | -3.0% | 9,724 | 0.0% | - |
| Impairment of goodwill not deductible | -21.8% | 70,872 | 0.0% | - |
| Effect of deferred tax assets not recognised | -9.5% | 30,888 | 136.7% | 40,257 |
| Use of tax losses for which no deferred tax assets were recognised | 0.1% | (217) | -10.5% | (3,086) |
| Other permanent differences | 0.1% | (214) | 0.0% | - |
| **Total** | **-8.1%** | **26,211** | **169.8%** | **49,988** |

Theoretical income taxes are calculated at a rate of 27.5% on estimated taxable income. This percentage is the statutory rate for corporate tax (IRES) to which the Italian holding company's income is subject for the 2009 financial year.

As reported in note 4.11 "Deferred tax assets and deferred tax liabilities", deferred tax assets , net of deferred tax liabilities, relating to the losses in the year made by some Group companies and to the temporary differences emerging between the taxable base and carrying value of an asset or liability have been written down by a total of

Euro 30,888 thousand. This has been done because, at present, the availability of future taxable income against which to recover deferred tax assets is unlikely.

This write-down can be reversed in future financial years, as established by IAS 12, when taxable income is sufficient to absorb tax losses and temporary differences between the carrying value of assets and liabilities and their tax base.

### 5.11 Earnings per share

The calculation of base and diluted earnings per share (EPS) is shown in the tables below:

Base

| *(Euro)* | 2009 | 2008 |
|---|---|---|
| Profit/(loss) for ordinary shares (in Euro/000) | (351,448) | (23,315) |
| Average number of ordinary shares (in thousands) | 285,394 | 285,394 |
| **Earnings per share - base** | **(1.23)** | **(0.08)** |

Diluito

| *(Euro)* | 2009 | 2008 |
|---|---|---|
| Profit/(loss) for ordinary shares (in Euro/000) | (351,448) | (23,315) |
| Profit for preferred shares | - | - |
| **Profit/(loss) in income statement** | **(351,448)** | **(23,315)** |
| Average number of ordinary shares (in thousands) | 285,394 | 285,394 |
| Dilution effects: | | |
| - stock option (in thousands) | - | - |
| **Total** | **285,394** | **285,394** |
| **Earnings per share - diluted** | **(1.23)** | **(0.08)** |

As widely reported in "Significant events after the balance sheet and outlook", in the first quarter of 2010 took place the share capital resolved by the Extraordinary Meeting of shareholders of the parent company Safilo Group S.p.A. on December 15th, 2009. Following this increase, the share capital of the parent company is composed of 1,136,439,310 shares.

### 5.12 Dividends

The parent company Safilo Group S.p.A. did not distribute dividends to shareholders during 2009. The Shareholders' Meeting that approved financial statements for the year ended on December 31st, 2008 resolved to carry forward the earnings generated in 2008.

### 5.13 Segment information

Management has identified the "Wholesale" and "Retail" operating segments consistently with the operating and control model applied by the Group. More specifically, the criteria used to identify these segments were based on the approaches via which management manages the Group and attributes operating responsibility.

Below we provide disclosure by segment for the FYs ended on December 31st, 2009 and 2008.

*Breakdown of FY2009 consolidated income statement by operating segment*

| **Full year 2009** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Elimin.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| -to other segments | 12,005 | 191 | (12,196) | - |
| -to third parties | 904,385 | 106,851 | - | 1,011,236 |
| **Total net sales** | **916,390** | **107,042** | **(12,196)** | **1,011,236** |
| **Gross profit** | **506,030** | **66,404** | **50** | **572,484** |
| **Operating profit** | **(176,302)** | **(94,377)** | **(2)** | **(270,681)** |
| Share of income of associates | 360 | - | | 360 |
| Financial charges, net | | | | (54,257) |
| Income taxes | | | | (26,211) |
| **Net (loss)** | | | | **(350,789)** |
| Gross profit margin | 55.2% | 62.0% | | 56.6% |
| Operating profit margin | -19.2% | -88.2% | | -26.8% |
| Segment assets | 1,255,507 | 57,217 | | 1,312,724 |
| Investment in associates | 12,032 | - | | 12,032 |
| Unallocated corporate assets | | | | 65,868 |
| **Consolidated total assets** | | | | **1,390,624** |
| Segment liabilities | 272,361 | 5,479 | | 277,840 |
| Unallocated corporate liabilities | - | - | | 666,792 |
| **Consolidated total assets** | | | | **944,632** |
| **Other information** | | | | |
| Capital expenditure | 31,548 | 5,339 | | 36,887 |
| Depreciation & amortization | 36,264 | 13,266 | | 49,529 |
| Goodwill impairment | 204,939 | 52,776 | | 257,715 |
| Non cash items other than depreciation and amortization | 22,878 | (223) | | 22,655 |

*Breakdown of FY2008 consolidated income statement by operating segment*

| **Full year 2008** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Elimin.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| -to other segments | 10,951 | 55.31 | (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 profit** | | | | **(20,540)** |
| Gross profit margin | 56.4% | 64.7% | | 57.8% |
| Operating profit margin | 8.9% | -7.0% | | 7.5% |
| **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 items other than depreciation and amortization | 16,046 | 720 | | 16,766 |

*Breakdown of revenues and non-current assets by geographic area*

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| *(Euro/000)* | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 |
| Italy (1) | 208,960 | 259,590 | 33,407 | 50,911 |
| Europe (2) | 268,284 | 324,342 | 181,577 | 308,709 |
| America (3) | 396,938 | 419,006 | 228,145 | 287,665 |
| Asia (4) | 137,054 | 144,880 | 215,205 | 326,296 |
| Corporate (5) | - | - | 101,700 | 104,583 |
| **Totale** | **1,011,236** | **1,147,818** | **760,034** | **1,078,164** |

(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.

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.

Non-current assets excluding financial instruments, deferred tax assets and receivables towards the central INPS (state pension & welfare agency) fund for portions of post-employment benefit provision transferred to INPS.

## 6. Transactions with related parties

In compliance with applicable legislative and regulatory requirements, on March 23, 2007 the parent company's Board of Directors passed a resolution indicating and adopting a number of guidelines to govern transactions of major strategic, economic, capital or financial significance for the Company – including those undertaken with related parties. The aim of the guidelines is to establish competences and responsibilities concerning significant transactions and to assure their transparency and material and procedural correctness. Our notion of related party is based on the definition given in IAS 24.

The following table details the balance sheet and income statement amounts of transactions executed with related parts in the years ended on December 31st, 2009 and 2008.

| **Related parties transactions** *(Euro/000)* | **Relationship** | **December 31, 2009** | **December 31, 2008** |
|---|---|---|---|
| *Receivables* | | | |
| Optifashion As | (a) | 15 | 146 |
| Elegance International Holdings Ltd | (b) | 419 | 443 |
| **Total** | | **433** | **589** |
| *Payables* | | | |
| Elegance International Holdings Ltd | (b) | 5,956 | 7,292 |
| **Total** | | **5,956** | **7,292** |

| **Related parties transactions** *(Euro/000)* | **Relationship** | **2009** | **2008** |
|---|---|---|---|
| *Revenues* | | | |
| Elegance International Holdings Ltd | (b) | 2 | 8 |
| Optifashion As | (a) | 68 | 143 |
| **Total** | | **70** | **151** |
| *Costs* | | | |
| Elegance International Holdings Ltd | (b) | 13,949 | 17,748 |
| Optifashion As | (a) | 3 | - |
| TBR Inc. | (b) | 1,200 | 1,084 |
| **Total** | | **15,152** | **18,832** |

(a) Non-consolidated subsidiary;
(b) Associated company;

Related-party transactions, including infragroup transactions, concern the trading of products and supply of services, based on prices determined according to normal market conditions as happens in transactions with independent third parties.

As regards the table shown above, we point out that:

- Optifashion As is a production and commercial company based in Istanbul, Turkey, of which the Safilo Group owns 50%.

- Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange, is 23.05% owned by Safilo Far East Ltd. (an indirectly owned subsidiary) and produces optical articles in Asia on the Group's behalf. The price and other conditions of the contract production agreement between Safilo Far East Ltd. and Elegance are in line with those applied by Elegance to its other customers.

- TBR Inc. is a company of which a third of share capital is owned by Vittorio Tabucchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., a third by a subsidiary of Safilo Group S.p.A., and the remainder by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for Euro 629 thousand. In 2009 the Group paid TBR Inc. Euro 1,200 thousand as rental. The terms and conditions of the rental contract, including the rental fee, are in line with market conditions for similar contracts.

## 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. At the same time however, as at balance sheet date various types of court proceedings were pending that involve the parent company and some Group companies. Although the Group believes that most of the demands relating to such proceedings are groundless, any negative outcome of the same, going beyond expectations, could have negative effects on the Group's economic results.

Among the most significant litigation in terms of the entity of claims made, we highlight the following cases:

- Tax litigation, initiated by Safilo in 1997, against two tax demands issued by the Pieve di Cadore Tax Office - relating to a dividend-stripping transaction executed in the 1991 tax period, which concerned a shareholding of Falk S.p.A. – for taxes and fines totalling approximately Euro 1,800 thousand. This legal dispute, which is currently in the court of third instance, was won by Safilo in the courts of both first and second instance. With its ruling no. 10188 of November 16$^{th}$, 2009 the Italian Supreme Court decided to postpone discussion of the petition to a new case list pending the ruling of the European Court of Justice. Based, however, on the recent orientation of the Italian Supreme Court concerning abuse of law, it cannot be excluded that the Company may emerge as the loser as regards this litigation.

- Two lawsuits, initiated in 2003, at the Padua courts, by two ex-agents of Safilo, asking for a ruling ordering pay the respective sums of Euro 965 thousand and Euro 1,100 thousand for commission differences and for cessation of the agency relationship. Both cases are currently pending in the court of first instance.

- A lawsuit, initiated in 2005 against Safilo, asking for a ruling ordering payment of some Euro 7 million as fees for assistance and corporate and tax advisory services provided, by a professional firm, to various Group companies during the 3-year period 1999-2001 in relation to the public tender offer.

- Two lawsuits, initiated in 2005 against Safilo by an ex-supplier, in the Padua courts, for payment of a total amount of approximately Euro 600 thousand for products suppliers. It is pointed out that the

Company made a counterclaim, for a total amount of some Euro 1,400 thousand, of which Euro 1,200 thousand for unfair competition in the US market and Euro 200 thousand as compensation of damages for the faultiness of products supplied.

- A lawsuit, initiated in 2006 against Safilo, in the Lebanese courts, by an ex-distributor asking for a ruling ordering payment of an amount of about Euro 600 thousand as indemnification for alleged illegitimate termination of the exclusive-distributor relationship. The court of first instance, having considered the termination legitimate, accorded the distributor a lower amount, i.e. about Euro 70 thousand, for the increase in clientele contributed. This amount was then further reduced to about Euro 60 thousand in the subsequent appeal court case. At present Safilo is waiting to continue proceedings in the court of last instance.

We report that, following an inspection carried out by the Italian Finance Police (Guardia di Finanza) in March 2009, some products coming from China were seized at the Precenicco factory due to alleged breach of regulations concerning the “Made in Italy” qualification. As regards this, criminal proceedings were initiated against the Chairman of the Board of Directors, as the Issuer’s legal representative. At present the judiciary authorities have not decided whether the case should go to trial or be dismissed.

We also report that, in June 2009, the French antitrust authority launched an extensive inquiry – involving the main players in the sunglass and prescription eyewear industry – to ascertain the existence of anti-competition price-fixing practices. As part of this inquiry, the Group’s French branch, Safilo France S.a.r.l. underwent inspection. If responsibility is definitively ascertained, this could cause adverse effects on the Group’s economic results. As at balance sheet no accusation had been notified by the French antitrust authority nor had any information been received concerning future assessments. It is therefore impossible to estimate whether the antitrust authority has found any irregularities in the French subsidiary’s conduct and what sanctions, if any, it might apply.

## 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, 2009

In the period after December 31st, 2009 no events occurred, besides those reported in the section “Events after the reporting period” in the Directors’ report on operations, capable of having a significant effect on the data contained in this report.

## 10. Significant non-recurring events and transactions

We stress that during 2009, except to what reported in the paragraph 5.6 and 5.7 on the notes, the Group did not undertake any significant non-recurring transactions as defined by the CONSOB (Italian securities & exchange commission) memorandum of July 28th, 2006.

## 11. Transactions resulting from unusual and/or atypical transactions

During 2009 the Group did not undertake any unusual and/or atypical transactions as defined by the CONSOB (Italian securities & exchange commission) memorandum of July 28th, 2006.

## 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 the CONSOB, reports the amount of fees charged in 2009 relating to the audit and other audit related services rendered by the same Audit company.

| Kind of services *(Euro/000)* | Audit company | Safilo Group's company that has received PWC services | Fees |
|---|---|---|---|
| Audit | PricewaterhouseCoopers S.p.A. | Holding company - Safilo Group S.p.A. | 38 |
| | PricewaterhouseCoopers S.p.A. | Subsidiaries | 131 |
| | Rete PricewaterhouseCoopers | Subsidiaries | 1,029 |
| Attestation | PricewaterhouseCoopers S.p.A. | Holding company - Safilo Group S.p.A. | - |
| | PricewaterhouseCoopers S.p.A. | Subsidiaries | 50 |
| | Rete PricewaterhouseCoopers | Subsidiaries | - |
| Other services | PricewaterhouseCoopers S.p.A. | Holding company - Safilo Group S.p.A. | 48 |
| | PricewaterhouseCoopers S.p.A. | Subsidiaries | - |
| | Rete PricewaterhouseCoopers | Subsidiaries | 322 |
| **Total** | | | **1,618** |

## Certification of the consolidated financial statements pursuant to art. 154-bis of Italian 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 2009 fiscal year.

The undersigned also certify that:

a) consolidated financial statements for the year ended on December 31st 2009:
- 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.

March 29, 2010

The Chief Executive Officer

*Roberto Vedovotto*

The manager responsible for preparing the company's financial statements

*Francesco Tagliapietra*

REPORT OF
INDEPENDEN AUDITORS

## AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998 (NOW ARTICLE 14 OF LEGISLATIVE DECREE N° 39 DATED 27 JANUARY 2010)

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 2009, which comprise the balance sheet statement, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity, and related illustrative 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 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 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.

The audit of the consolidated financial statements as of 31 December 2009 has been conducted in accordance with the Law in force during that period.

Regarding the amounts of the financial statements of the prior period presented for comparative purposes, reclassified to take into account the amendments introduced by IAS 1 to the financial statement presentation, reference should be made to our report dated 7 April 2009.

3 In our opinion, the consolidated financial statements of Safilo Group SpA as of 31 December 2009 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna Zola Predosa** 40069 Via Tevere 18 Tel. 0516186211 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38122 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

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 and cash flows of Safilo Group for the period then ended.

4 The directors of Safilo Group SpA are responsible for the preparation of the Report on Operations, and of the report on the corporate governance and ownership structure, published in the section "IR/Corporate Governance" of the Safilo Group internet website (www.safilo.com), in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations and of the information provided for in accordance with article 123-bis, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of the legislative decree n° 58/98, included in the report on the corporate governance and ownership structure, with the financial statements, as required by the Law. 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 and the information, provided for in accordance with article 123-bis, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of the legislative decree n° 58/98 included in the report on the corporate governance and ownership structure are consistent with the consolidated financial statements of Safilo Group SpA as of 31 December 2009.

Padova, 13 April 2010

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.*

***STATUTORY FINANCIAL STATEMENTS***

**Safilo Group S.p.A.**
**as at 31st DECEMBER 2009**

# DIRECTORS' REPORT ON OPERATIONS

## Introduction

Safilo Group S.p.A. was incorporated on 14 th October 2002. It is the holding company of the Safilo Group and performs planning and coordination activities, as defined in ss. 2497 et seq. of the Italian Civil Code, for the member companies of the Group.

As required by s. 40.2/bis of Legislative Decree no. 127 of 9 th April 1991, the annual financial statements and Directors' Report are submitted together with the consolidated financial statements and the Directors' Report on the consolidated financial statements; the information required by s. 2428 of the Civil Code is therefore contained in the Directors' Report on the consolidated financial statements.

In the 2009 financial year the company continued its planning and coordination activities on behalf of the companies belonging to the Group.

## Subsidiaries

Safilo Group S.p.A. owns 90.926% of the share capital of subsidiary Safilo S.p.A. (the remainder being own shares held by Safilo S.p.A.).

Subsidiary Safilo S.p.A. is a manufacturer and wholesaler of spectacle frames, sunglasses and sports articles sold under its own brands and licensed brands of international prestige. Production is carried on in 3 factories, all in Italy, while distribution takes place through agents or subsidiaries located in Europe, America, Asia and Australia.

Dealings with the said subsidiaries and the main data relating to the draft financial statements as at 31 st December 2009 approved by the Company's Board of Directors are illustrated in the next section, containing information about the management and coordination activities referred to in s. 2497/bis of the Civil Code.

## Information about dealings associated with the management and coordination activities referred to in ss. 2497 et seq. of the Civil Code.

Safilo Group S.p.A. is the holding company of the Safilo Group, and performs management and coordination activities towards the following companies:

- Safilo S.p.A., directly controlled;
- Lenti S.r.l., 75.6% of the share capital indirectly controlled through Safilo S.p.A.;
- Oxsol S.p.A., 100% of the share capital indirectly controlled through Safilo S.p.A.;
- Smith Sport Optics S.r.l. in liquidation, 100% of the share capital indirectly controlled through Safilo S.p.A..

Ss. 2497 et seq. of the Civil Code provide (*inter alia*) that: (i) the company which performs management and coordination activities is directly liable to shareholders and creditors of the company subject to management and coordination (if the company that performs the said activity, acting in its own or others' business interests in breach of the principles of correct business management of the company, jeopardises the profitability and value of the holding or prejudices the company's creditors by adversely affecting the integrity of the company's assets); (ii) directors of the company subject to management and coordination who fail to perform the publication and transparency formalities specified in s. 2497-bis of the Civil Code are liable for prejudice caused to shareholders and third parties by lack of knowledge of those facts; and (iii) shareholders of companies subject to management and coordination may withdraw in certain cases (see s. 2497-*quater* of the Civil Code). In particular, a shareholder in a company subject to management and coordination activities can withdraw if the company that performs the management and coordination activities resolves on a transformation that involves a change in the company's purpose or objects which allows the conduct of business that significantly and directly alters the economic and financial status of the company subject to management and coordination.

## Main data (values in thousands of euros) relating to the draft statutory financial statements of subsidiary Safilo S.p.A as at 31st December 2009 and the financial statements approved on 31st December 2008

| Statement of financial position (figures in Euro/000) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | 353,461 | 479,384 |
| Non-current assets | 810,653 | 870,343 |
| **Total assets** | **1,164,114** | **1,349,727** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | 347,001 | 367,297 |
| Non-current liabilities | 490,292 | 573,635 |
| Shareholders' equity | 326,820 | 408,795 |
| **Total liabilities and shareholders' equity** | **1,164,114** | **1,349,727** |

| Income statement (figures in Euro/000) | 2009 | 2008 |
|---|---|---|
| Net sales | 434,408 | 541,825 |
| Cost of sales | (321,508) | (361,402) |
| **Gross profit** | **112,900** | **180,424** |
| Other operating expenses | (174,981) | (181,613) |
| Other (expenses)/income non-recurring | (8,464) | 43,486 |
| **Operating profit** | **(70,544)** | **42,297** |
| Interes expenses and other financial charges, net | (23,316) | (6,946) |
| **Profit/(loss) before taxation** | **(93,860)** | **35,351** |
| Income taxes | 7,148 | (29,068) |
| **Net profit/(loss) for the year** | **(86,713)** | **6,283** |

**Main data (values in thousands of euros) relating to the draft statutory financial statements of subsidiary Oxsol S.p.A. as at 31st December 2009 and the financial statements approved on 31st December 2008**

| Statement of financial position (figures in Euro/000) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | 20,720 | 32,562 |
| Non-current assets | 648,894 | 651,802 |
| **Total assets** | **669,614** | **684,364** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | 31,515 | 41,711 |
| Non-current liabilities | 32,440 | 91,279 |
| Shareholders' equity | 605,659 | 551,374 |
| **Total liabilities and shareholders' equity** | **669,614** | **684,364** |

| Income statement (figures in Euro/000) | 2009 | 2008 |
|---|---|---|
| Rental income | 6,990 | 384 |
| Cost of sales | (3,629) | (197) |
| **Gross profit** | **3,361** | **187** |
| Other operating expenses | (341) | (97) |
| **Operating profit** | **3,020** | **90** |
| Interes expenses and other financial charges, net | 59,383 | 22,205 |
| **Profit/(loss) before taxation** | **62,403** | **22,295** |
| Income taxes | (8,118) | (378) |
| **Net profit/(loss) for the year** | **54,285** | **21,917** |

**Main data (values in thousands of euros) relating to the draft statutory financial statements of subsidiary Lenti S.p.A. as at 31st December 2009 and the financial statements approved on 31st December 2008**

| Statement of financial position (figures in Euro/000) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | 3,973 | 3,501 |
| Non-current assets | 1,765 | 1,900 |
| **Total assets** | **5,738** | **5,401** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | 2,957 | 2,004 |
| Non-current liabilities | 948 | 1,048 |
| Shareholders' equity | 1,833 | 2,349 |
| **Total liabilities and shareholders' equity** | **5,738** | **5,401** |

| Income statement (figures in Euro/000) | 2009 | 2008 |
|---|---|---|
| Net sales | 6,091 | 6,394 |
| Cost of sales | (6,104) | (5,555) |
| **Gross profit** | **(13)** | **839** |
| Other operating expenses | (575) | (881) |
| **Operating profit** | **(588)** | **(42)** |
| Interes expenses and other financial charges, net | - | (32) |
| **Profit/(loss) before taxation** | **(588)** | **(74)** |
| Income taxes | 146 | (24) |
| **Net profit/(loss) for the year** | **(442)** | **(98)** |

**Main data (values in thousands of euros) relating to the draft statutory financial statements of subsidiary Smith Sport Optics S.r.l. in liquidation as at 31 st December 2009 and the financial statements approved on 31 st December 2008**

| Statement of financial position (figures in Euro/000) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | 129 | 138 |
| Non-current assets | - | - |
| **Total assets** | **129** | **138** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | 1 | - |
| Non-current liabilities | | - |
| Shareholders' equity | 128 | 138 |
| **Total liabilities and shareholders' equity** | **129** | **138** |

| Income statement (figures in Euro/000) | 2009 | 2008 |
|---|---|---|
| Net sales | - | - |
| Cost of sales | - | - |
| **Gross profit** | **-** | **-** |
| Other operating expenses | (1) | (1) |
| **Operating profit** | **(1)** | **(1)** |
| Interes expenses and other financial charges, net | (8) | - |
| **Profit/(loss) before taxation** | **(9)** | **(1)** |
| Income taxes | - | - |
| **Net profit/(loss) for the year** | **(9)** | **(1)** |

## Transactions with subsidiaries

On 31st December 2009, all the shares of Safilo S.p.A. were charged to a pool of banks, coordinated by Bayerische Hypo und Vereinsbank AG, which granted a senior loan to subsidiaries Safilo S.p.A. and Safilo USA Inc., indirectly controlled by Safilo S.p.A.. The same shares are also subject to a second charge in favour of the bondholders who subscribed a "High Yield" bond issued by Safilo Capital International S.A. (Luxembourg), a subsidiary of Safilo s.p.a..

The regulations of the High Yield bond subscribed on 15th May 2003 by subsidiary Safilo Capital International S.A. impose (*inter alia*) limits on the distribution of dividends by Safilo S.p.A.. The distribution is linked to certain parameters; however, Safilo S.p.A. can still distribute dividends in each year of amounts not exceeding 6% of the proceeds received by Safilo group S.p.A. as a result of the listing.

On 1st January 2006 the company has joined the tax consolidation scheme in the capacity of parent company, while Safilo S.p.A., Oxsol S.p.A., Lenti S.r.l. and Smith Sport Optics in liquidation joined in the capacity of subsidiaries. Moreover, as from the 2007 financial year, Safilo Group S.p.A., acting in the capacity of parent company, and Safilo S.p.A. and Smith Sport Optics S.r.l. in liquidation, acting in the capacity of subsidiaries, subscribed to the VAT offsetting procedure laid down by the Ministerial Decree of 13th December 1979 (known as "Group VAT"). As from the 2008 financial year, Smith Sport Optics S.r.l. in liquidation withdrew from the VAT offsetting procedure.

Dealings with the other companies in the Group are carried on at arm's length, and no atypical and/or unusual operations with them took place during the year.

*2009 financial year*

| 2009<br>*Euro/000* | Receivable | Payable | Income | Cost | Financial income | Write down fin. Assets |
|---|---|---|---|---|---|---|
| Safilo S.p.A. | 40,687 | (10,619) | 980 | (25) | 17 | (359,472) |
| Oxsol S.p.A.<br>(held by Safilo S.p.A.) | 8,845 | - | 50 | - | - | - |
| Lenti S.r.l.<br>(held by Safilo S.p.A.) | - | (19) | - | - | - | - |
| Smith S.r.l. in liquidation<br>(held by Safilo S.p.A.) | - | (34) | - | - | - | - |

The debts receivable from subsidiary Safilo S.p.A. are as follows:

- 38,740,000 Euro for dividends resolved on by Safilo S.p.A. but not yet received on the date of the financial statements;
- 1,360 thousand Euro for sums charged by Safilo Group S.p.A. to the subsidiary for administrative, accounting, legal and tax services performed on its behalf, net of trade debts payable by Safilo Group SpA to subsidiary Safilo S.p.A.;
- 587 thousand Euro receivable relating to the VAT debit balance transferred by virtue of the above-mentioned Group VAT mechanism.

The debts payable to the subsidiary Safilo S.p.A. are as follows:

- 9,454 thousand Euro deriving from the transfer by Safilo S.p.A. of the benefits deriving from the assignment of the proportion of the 2009 tax loss which can be offset against the fiscal income assigned by Oxsol S.p.A. to the tax consolidation scheme, and tax credits and withholding tax resulting from the income tax returns of Safilo S.p.A. after joining the national tax consolidation, as described in greater detail in the Supplementary Notes;

- 1,000 thousand Euro for the corporation tax credit assigned by Safilo S.p.A. to the parent company at the time of the 2007 and 2008 income tax returns;

- 165 thousand Euro payable to Safilo S.p.A. for advances received.

The debts receivable from subsidiary Oxsol S.p.A. amounting to 8,665 thousand Euro relate to the assignment by the said subsidiary of its debt payable to the Inland Revenue for corporation tax after joining the national tax consolidation scheme, as explained in greater detail in the Supplementary Notes.

The debt payable to subsidiary Lenti S.r.l. relates to the assignment of the 2009 tax loss to the tax consolidation scheme. That debt was offset against the credit deriving from the assignment to the tax consolidation scheme of the corporation tax debt payable to the Inland Revenue on the taxable income resulting from the said subsidiary's tax returns for the preceding years.

The debt payable to subsidiary Smith Sport Optics in liquidation mainly derives from the VAT credit transferred by the latter to the parent company in the 2007 financial year pursuant to the Group VAT mechanism.

The income from subsidiaries Safilo S.p.A. and Oxsol S.p.A. relates to charges made for administrative, legal, accounting and tax services performed on their behalf.

The costs payable to subsidiary Safilo S.p.A. relate to the charge made by Safilo S.p.A. for services performed on behalf of the parent company.

The financial income relates to interest on the 2,000 thousand Euro loan granted to subsidiary Safilo S.p.A. on 30th January 2009, which was repaid during the 2009 financial year.

At the time of the financial statements, partly due to changing market conditions and the heavy loss made during the year by subsidiary Safilo S.p.A., the directors subjected the holding in the said subsidiary to the impairment test. The benchmark used for the test was the equity value of Safilo S.p.A. calculated on the basis of the prospective operating cash flows generated by Safilo S.p.A. and its subsidiaries, less the net financial position. The said test led to a total devaluation of 359,472 thousand Euro.

*2008 financial year*

| 2008<br>*Euro/000* | Receivable | Payable | Income | Cost | Financial expenses | Divid. |
|---|---|---|---|---|---|---|
| Safilo S.p.A. | 40,534 | (2,320) | 980 | (25) | (115) | 38,740 |
| Oxsol S.p.A.<br>(held by Safilo S.p.A.) | 553 | - | 50 | - | - | - |
| Lenti S.r.l.<br>(held by Safilo S.p.A.) | 130 | - | - | - | - | - |
| Smith S.r.l. in liquidation<br>(held by Safilo S.p.A.) | - | (34) | - | - | - | - |

The debt receivable from controlled company Safilo S.p.A. relates to:

- 38,740 thousand Euro for dividends resolved on by Safilo S.p.A. but not yet received on the date of the financial statements;
- 1,176 thousand Euro charged by Safilo Group S.p.A. to the subsidiary for administrative, accounting, legal and tax services performed on its behalf;
- a 618 thousand Euro credit relating to the VAT debit balance transferred pursuant to the Group VAT mechanism, as illustrated in the Supplementary Notes.

The debts receivable from the companies Lenti S.r.l. and Oxsol S.p.A. relate to the assignment by the said controlled companies of their corporation tax debt payable to the Inland Revenue after joining the national tax consolidation system, as explained in greater detail in the Supplementary Notes.

The debts payable to subsidiary Safilo S.p.A. are as follows:

- 993 thousand Euro deriving from the transfer by Safilo S.p.A. of tax credits and withholding tax resulting from its income tax return after joining the national tax consolidation scheme. The debt payable to subsidiary Safilo S.p.A., shown in the financial statements as at 31st December 2008, relating to the transfer to the parent company of the benefits deriving from assignment of the tax losses for the preceding years after joining the national tax consolidation scheme, has been written off due to the recent market trend, as it appears unlikely at present that the said subsidiary's future financial statements will show sufficient taxable income to cover the tax losses transferred at the time of the income tax return.
- 55 thousand Euro payable for services contractually agreed and performed by the subsidiary for the parent company Safilo Group S.p.A.;
- 1,000 thousand Euro for a corporation tax credit assigned by Safilo S.p.A. to the parent company at the time of the 2006 and 2007 income tax returns;
- 272 thousand Euro payable to Safilo S.p.A. for advances received from Safilo S.p.A.

The debt payable to subsidiary Oxsol S.p.A. derives from the transfer by the said subsidiary of the tax credits and withholding tax resulting from its income tax returns after joining the national tax consolidation scheme.

The debt payable to subsidiary Smith Sport Optics in liquidation derives from the VAT credit transferred by the latter to the parent company during the 2007 financial year as a result of the above-mentioned Group VAT mechanism, and the credit deriving from the assignment to the tax consolidation scheme of the withholding tax deducted from the said subsidiary.

The income from Safilo S.p.A. and Oxsol S.p.A. relates to sums charged for administrative, legal, accounting and tax services performed on its behalf.

The financial charges relate to interest payable on the 14,000 thousand Euro loan repaid in 2008 to subsidiary Safilo S.p.A.

Dividends amounting to 38,740 thousand Euro relate to income deriving from dividends resolved on by the General Meeting of subsidiary Safilo S.p.A on 29$^{th}$ April 2008.

### Data protection obligations

Pursuant to para. 26 of Schedule B) to the Privacy Code (Legislative Decree no. 196/03), the Company has agreed with Safilo S.p.A., a company belonging to the Group and joint controller of the personal data processed by Safilo Group S.p.A. regarding which a mandatory Security Planning Document (SPD) must be prepared, the contents and clarifications to be inserted in said document.

Safilo S.p.A has prepared and updated the Security Planning Document by the statutory deadlines, including with reference to the said joint data and processing.

## Significant events after the year end

The Safilo Group's recapitalisation and financial restructuring plan, established by the binding investment agreement entered into on 19 th October 2009 by HAL Holding N.V., a partner in the operation, Only 3T. S.p.A. and Safilo Group S.p.A., and approved by the Extraordinary General Meeting of Safilo Group S.p.A. on 15th December 2009, was fully implemented in the first quarter of 2010. The rights issue resolved on by the Extraordinary General Meeting of Safilo Group S.p.A. was performed in accordance with the following procedure and timing:

- on 5 th February 2010, Multibrands Italy B.V. (a company controlled by HAL Holding N.V.), subscribed and paid up the reserved rights issue for the total amount of 12,842,735.40 Euro (including the premium), within the limit of 10% of the existing share capital, and excluding the option right pursuant to the second sentence of s. 2441.4 of the Civil Code. The said reserved rights issue was subscribed by issue of 28,539,412 Safilo Group S.p.A. ordinary shares, at a subscription price of Euro 0.45 per share, comprising a par value of Euro 0.25 and a surcharge of Euro 0.20;

- the period during which the option to buy a maximum of 822,505,770 Safilo Group S.p.A. ordinary shares pursuant to s. 2441.1 of the Civil Code was offered to shareholders began on 8 th February 2010. The rights issue was offered on an option basis to all shareholders in the ratio of 131 new ordinary shares for every 50 ordinary shares already owned. The said issue, subject to payment, was resolved on for a total maximum amount of 250,041,754 Euro (including the surcharge), by issuing 822,505,770 ordinary shares at a subscription price of Euro 0.304 per share, comprising a par value of Euro 0.25 and a surcharge of Euro 0.054. The option offer concluded on 26 th February 2010 with very good results; 257,021,000 stock options were exercised and 673,395,020 new ordinary shares were subscribed, namely 81.87% of all the stock options offered, amounting to a total value of 204,712,086.08 Euro.

  Multibrands Italy B.V., in accordance with the investment agreement entered into on 19 th October 2009, exercised 142,392,550 stock options for the subscription of 373,068,481 new ordinary shares, to a total value of Euro 113,412,818.22.

  Moreover, HAL International Investments N.V. (a subsidiary of HAL Holding N.V.) exercised 5,941,150 stock options for the subscription of 15,565,813 new ordinary shares, to a total value of Euro 4,732,007.15.

  The other shareholders exercised 108,687,300 stock options by subscribing 284,760,726 shares to a total value of Euro 86,567,260.70 (including surcharge)

  At the end of the offer period, 56,912,500 stock options had not been exercised, namely 18.13% of all the options, valid to subscribe a total of 149,110,750 new ordinary shares with a total value of Euro 45,329,668.00.

  As required by s. 2441.3 of the Civil Code, the options not taken up were offered on the Stock Exchange for five days beginning on 8 th March 2010. The company earned Euro 7,079,915 from the sale of these options.

  Following the exercise of the stock options placed, 149,109,964 new ordinary shares were subscribed, namely 99.99% of all the shares offered, to a total value of Euro 45,329,429.06.

The involvement of partner Hal Holding N.V., which undertook to subscribe any percentage of the rights issue not taken up at the end of the stock market auction, up to a maximum of 64.88% of all the stock options, was limited to subscription of the 786 remaining shares not subscribed. No subscription was therefore required by Banca IMI S.p.A. or Bayerische Hypo-und Vereinsbank AG, which had undertaken jointly and severally to subscribe any further unopted amount up to a maximum of 288,880,358 shares in the capacity of guarantor banks.

The rights issue therefore concluded with the subscription of all 822,505,770 new ordinary shares issued by Safilo Group S.p.A., to a value of Euro 250,041,754.08 (including the surcharge).

Following the said increases, the company's share capital on the present date consists of 1,136,439,310 ordinary shares with a total value of Euro 284,109,827.50.

for the Board of Directors

The Chairman

Vittorio Tabacchi

## Resolutions regarding the result for the year

We submit for your approval the financial statements for the financial year ending on 31 st December 2009, drafted according to the IFRS International Accounting Standards, and recommend that you cover the loss for the year, amounting to 359,969,503.16 Euro, as follows:

- by using the retained earnings for the preceding years amounting to 28,541,173.76 Euro.
- by using the share premium reserve amounting to 331,428,329.40 Euro.

for the Board of Directors
The Chairman
Vittorio Tabacchi

**STATUTORY FINANCIAL STATEMENTS**

**FINANCIAL STATEMENTS AND NOTES**
**at 31st DECEMBER 2009**

## Financial statements for the years ended 31st December 2009 and 31st December 2008

### Balance Sheet

| *(Euro)* | *Note* | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash in hand and at bank | *4.1* | 490,087 | 2,685,664 |
| Trade receivables, net | *4.2* | 1,540,113 | 1,286,000 |
| Other current assets | *4.3* | 53,219,523 | 44,529,724 |
| **Total current assets** | | **55,249,723** | **48,501,388** |
| **Non-current assets** | | | |
| Intangible assets | *4.4* | 68,000 | 102,000 |
| Investments in associates | *4.5* | 447,000,218 | 806,472,218 |
| **Total non-current assets** | | **447,068,218** | **806,574,218** |
| **Total assets** | | **502,317,941** | **855,075,606** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Trade payables | *4.7* | 1,247,820 | 628,960 |
| Tax payables | *4.8* | 44,643 | 42,634 |
| Other current liabilities | *4.9* | 2,010,725 | 1,526,840 |
| **Total current liabilities** | | **3,303,188** | **2,198,434** |
| **Non-current liabilities** | | | |
| Employee benefit liability | *4.10* | 81,646 | 84,116 |
| Other non-current liabilities | *4.11* | 9,453,659 | 993,198 |
| **Total non-current liabilities** | | **9,535,305** | **1,077,314** |
| **Total liabilities** | | **12,838,493** | **3,275,748** |
| **Shareholders' equity** | | | |
| Share capital | *4.12* | 71,348,532 | 71,348,532 |
| Share premium reserve | *4.13* | 745,104,718 | 747,470,698 |
| Retained earnings (losses) and other reserves | *4.14* | 32,995,701 | 3,401,655 |
| Income attributable to the Group | | (359,969,503) | 29,578,973 |
| **Total shareholders' equity** | | **489,479,448** | **851,799,858** |
| **Total liabilities and shareholders' equity** | | **502,317,941** | **855,075,606** |

## Income Statement

| *(Euro/000)* | ***Note*** | **2009** | **2008** |
|---|---|---|---|
| Net sales | *5.1* | 1,030,000 | 1,030,000 |
| Cost of sales | | - | - |
| **Gross profit** | | **1,030,000** | **1,030,000** |
| Selling and marketing expenses | | - | - |
| General and administrative expenses | *5.2* | (1,576,960) | (1,819,898) |
| Other operating income/(expenses), net | *5.3* | 28,591 | 34,901 |
| **Operating profit** | | **(518,369)** | **(754,997)** |
| Financial charges, net | *5.4* | 20,866 | 38,734,039 |
| Write-down of investmentes in subsidiaries | *5.5* | (359,472,000) | - |
| **Profit/(loss) before taxation** | | **(359,969,503)** | **37,979,042** |
| Income taxes | *5.5* | 136,814 | (371,318) |
| Write downs of deferred tax assets | *5.5* | (136,814) | (8,028,751) |
| **Net profit/(loss) for the year** | | **(359,969,503)** | **29,578,973** |

Net profit for FY 2008 included Euro 33 million in dividends received from the subsidiary Safilo S.p.A. The company did not receive dividends in FY 2009.

## Statement of comprehensive income at 31 st December 2009 and 31st December 2008

| *(Figures in Euro)* | 2009 | 2008 |
|---|---|---|
| Actuarial gain(loss) | 15,073 | - |
| **Total comprehensive income** | **15,073** | **-** |
| Net profit/(loss) for the year | (359,969,503) | 29,578,973 |
| **Total comprehensive income** | **(359,954,430)** | **29,578,973** |

## *Statement of Cash Flows for the years ended 31st December 2009 and 31st December 2008*

| *(Figures in Euro)* | 2009 | 2008 |
|---|---|---|
| **A - Opening net cash and cash equivalents (net financial indebtedness - short term)** | **2,685,664** | **8,168,963** |
| **B - Cash flow from (for) operating activities** | | |
| Net profit (loss) for the period | (359,969,503) | 29,578,973 |
| Write down on equity investments | 359,472,000 | - |
| Depreciation and amortization | 34,000 | 34,000 |
| Net movements in the employee benefit liability | (2,470) | 11,777 |
| Interest expenses, net | 50 | 115,372 |
| Income tax expenses | - | 8,400,069 |
| **Income from operating activities prior to movements in working capital** | **(465,923)** | **38,140,191** |
| (Increase) Decrease in trade receivables | (8,943,907) | (5,434,191) |
| Increase (Decrease) in payables | 7,214,303 | 224,574 |
| Interest expenses paid | (50) | (115,372) |
| Income tax paid | - | - |
| **Total (B)** | **(2,195,577)** | **32,815,202** |
| **C - Cash flow from (for) investing activities** | | |
| Purchase of property, plant and equipment (net of disposals) | - | (40,000) |
| **Total (C)** | **-** | **(40,000)** |
| **D - Cash flow from (for) financing activities** | | |
| Repayment of borrowings | - | (14,000,000) |
| Dividends paid | - | (24,258,501) |
| **Total (D)** | **-** | **(38,258,501)** |
| **E - Cash flow for the period (B+C+D)** | **(2,195,577)** | **(5,483,299)** |
| **F - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)** | **490,087** | **2,685,664** |

Net profit for FY 2008 included Euro 33 million in dividends received from the subsidiary Safilo S.p.A. The company did not receive dividends in FY 2009.

## *Statement of Changes in Equity*

| *(Figures in Euro)* | Share capital | Share premium reserve | Retained earnings | Net profit/ (loss) | Total equity |
|---|---|---|---|---|---|
| **Balances at January 1, 2008** | **71,348,532** | **747,470,698** | **13,278,758** | **14,751,352** | **846,849,340** |
| Allocation of prior year profits | - | - | 14,751,352 | (14,751,352) | - |
| Distribution of dividends | - | - | (24,258,501) | - | (24,258,501) |
| Changes in other reserves | - | - | (369,954) | - | (369,954) |
| Total comprehensive income for the period | - | - | - | 29,578,973 | 29,578,973 |
| **Balances at 31 December, 2008** | **71,348,532** | **747,470,698** | **3,401,655** | **29,578,973** | **851,799,858** |
| Allocation of prior year profits | - | - | 29,578,973 | (29,578,973) | - |
| Changes in other reserves | - | (2,365,980) | - | - | (2,365,980) |
| Total comprehensive income for the period | - | - | 15,073 | (359,969,503) | (359,954,430) |
| **Balances at 31 December, 2009** | **71,348,532** | **745,104,718** | **32,995,701** | **(359,969,503)** | **489,479,448** |

## 1. General information

### 1.1 General information

Safilo Group S.p.A. is a joint-stock company ("società per azioni") incorporated in Italy on 14th October 2002 and registered at the Chamber of Commerce and in the Administrative Business Register (REA) of Belluno. The company has its registered office at Pieve di Cadore (Belluno) and a branch in Padua, at the offices of its subsidiary Safilo S.p.A.

Safilo Group S.p.A. is an Italian company that operates pursuant to Italian law. Its corporate purpose is the manufacture and sale of spectacle frames, and the acquisition, trade and management of equity investments in public companies operating in the eyewear business.

Safilo Group S.p.A. has been listed on the electronic stock market (MTA) of Milan since 9 December 2005. It manages and co-ordinates Safilo S.p.A., in which has a 90.926% equity interest (the remaining share is owned by Safilo S.p.A. in the form of treasury stock).

The company also manages and co-ordinates the following companies, pursuant to Sections 2497 et seq. Italian Civil Code:

- Oxsol S.p.A., a subsidiary of Safilo S.p.A;
- Lenti S.r.l., a subsidiary of Safilo S.p.A.;
- Smith Sport Optics S.r.l., a subsidiary of Safilo S.p.A.

This annual report is presented in thousands of Euro and covers the financial period from 1st January 2009 to 31st December 2009. It also includes information relating to the financial period from 1st January 2008 to 31st December 2008 for comparison purposes.

This annual report was approved by the Board of Directors on 29th March 2010.

### 1.2 Activity of Safilo Group

Safilo Group S.p.A. is the holding company of the Safilo Group. Over the course of the year, it continued to manage its equity holdings and co-ordinate its subsidiaries.

## 2. Summary of accounting principles adopted

### 2.1 General information

This annual report on the financial years at 31st December 2009 and at 31st December 2008 was prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European

Commission, and the measures issued in implementation of Article 9 of Legislative Decree 38/2005.

Preparation of the annual report 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 3.1 "Use of estimates."

The accounting principles used to prepare this annual report are summarised hereunder, and have been applied consistently with those used for the previous financial year.

### Accounting principles, amendments and interpretations applied since 1st January 2009

The following accounting principles, amendments and interpretations, which were revised following the annual 2008 *Improvement of IFRSs* carried out by the IASB, were applied by the Group for the first time beginning 1st January 2009:

#### Revision of IAS 1 "Presentation of Financial Statements"

IAS 1 underwent a minor revision that changed the name of certain financial statements used in the annual report.

The company retrospectively applied the revised version of IAS 1 beginning 1st January 2009, by adding the statement of comprehensive income to the complete set of financial statements and renaming the "income statement" as the "separate income statement." An amendment to the revised IAS 1 was also published during the annual 2008 improvement process. This amendment stated that the assets and liabilities resulting from derivative financial instruments that are not held for trading must be classified on the statement of financial position, with a distinction being made between current assets and liabilities and non-current assets and liabilities. The adoption of this amendment did not cause any change in the presentation of the Company accounts for assets and liabilities stemming from derivative financial instruments, insofar as this account classification system had already been adopted by the Company.

#### IFRS 8 – Operating Segments

IFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. This rule has replaced the previously standard, IAS 14 "Segment Reporting," which required identification of two sets of segments – one based on related products and services and the other on geographical areas. This standard did not have any impact on the annual report at 31st December 2009 since the company operates only in Italy and its activity exclusively regards management of its equity investments and co-ordination of the subsidiaries.

### Changes to IAS 23 "Borrowing Costs"

These changes eliminate the option that allowed immediate recognition in profit or loss of the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, and consequently requires that they be capitalised as part of the cost of that asset. Application of these changes has not had any impact on the financial statements, since there were no situations that would have required the capitalisation of interest.

### Amendment to IFRS 2 – "Share-based Payments: Vesting Conditions and Cancellations"

The amendment to IFRS 2 requires that only employment and performance conditions may be considered as vesting conditions for the purpose of measuring share-based payment instruments. Any other clauses must be considered non-vesting conditions and are used to determine the fair value at the plan grant date. The amendment also clarifies that, if the plans are cancelled, the same accounting treatment must be applied whether it derives from the company or from the counterparty. The adoption of this amendment did not have any accounting effect on the company.

### *Improvement to* IAS 19 – "Employee Benefits"

The improvement to IAS 19 – Employee Benefits clarifies the definition of past service cost/gain and states that if a benefits plan is curtailed, the effect which must be immediately recognised in profit or loss shall only include the curtailment in benefits accrued for future periods, while the effect resulting from any curtailment tied to periods of past service must be considered a negative cost associated with the past work services. This change must be applied prospectively to plan changes occurring on or after 1st January 2009. No material impact on the accounts due to this amendment was recognised at 31st December 2009.

The improvement also changed the definition of return on an asset servicing the plan, stating that this item must be shown net of any administrative costs not already included in the value of the obligation, and it also clarified the definition of short-term benefits and long-term benefits. The adoption of this amendment did not have any accounting effect on the company.

### Improvement to IAS 28 – Investments in Associates

The improvement to IAS 28 – Investments in Associates prescribes that in the case of investments accounted for according to the equity method, any impairment must not be allocated to the single assets (in particular to 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.

The improvement also modified certain requests of information for investments in associates and joint ventures carried at fair value pursuant to IAS 39, while simultaneously amending IAS 31 – "Interests in Joint Ventures" and amending IFRS 7 – "Financial Instruments: Disclosures" and lo IAS 32 – "Financial Instruments: Presentation."

These changes regard a situation that was not applicable to the company financial statements 31st December 2009, and its adoption consequently had no affect on its accounts.

### Improvement to IAS 38 – Intangible Assets

The improvement to IAS 38 – "Intangible Assets" establishes that promotional and advertising costs must be recognised in profit or loss. It specifically provides that if the entity incurs expenses having future economic benefits, without recognition of intangible assets, these must be recognised in income when the entity is entitled to access to the asset, in the case of acquisition of assets, or when the service is rendered, if it involves the acquisition of services. The standard has also been modified to allow companies to determine amortization of the intangible assets with a defined useful life by means of the unit of production method. The adoption of this amendment did not entail recognition of any accounting effect, insofar as these types of expenses were recognised in income according to the same procedures.

### Amendment to IFRS 7 – Financial Instruments: Disclosures

The amendment, which must be applied from 1st January 2009, was issued to enhance the level of disclosure required in the case of fair value measurements and reinforce existing principles applicable to disclosure of liquidity risk for financial instruments. The amendment specifically requires disclosure of how the fair value of financial instruments is determined according to class of measurement. The implementation of this standard did not have any impact on the measurement and recognition of Company accounts or on the type of disclosure presented in the notes, insofar as the Company does not own financial instruments.

### Accounting principles, amendments and interpretations not yet applicable and not early adopted by the Company

On 10th January 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 individual assets and liabilities at fair value at each step in the case of a step acquisition of subsidiaries. Goodwill will be measured only upon acquisition, and will be equal to the difference between the value of the subsidiaries and associates immediately before the acquisition, the consideration paid for the transactions and the value of the net assets acquired. Furthermore, if the company does not buy 100% of the equity investment, 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 recognition in income of all costs connected to the business combination and the recognition, at the date of the acquisition, of the liabilities for conditional payments. 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 shareholders' equity.* It has also been ruled that when a parent company transfers its majority stake to one of its own subsidiaries but continues, in any case, to hold an interest in the entity, the parent company should account for the retained investment at fair value and recognise any profit or loss deriving from the loss of control in income. 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 on a prospective basis from 1st January 2010 as part of the 2008 improvement process carried out by IASB. The change made to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations prescribes that if an entity is carrying out a disposal plan entailing loss of control in a subsidiary, all of the subsidiary's assets and liabilities must be reclassified as assets held for sale, even if the entity retains a minority interest in the subsidiary after the sale. This change must be applied prospectively beginning 1st January 2010.

On 31st July 2008 the IASB issued an amendment to IAS 39 – Financial Instruments: Recognition and Measurement, which must be applied retrospectively beginning 1st January 2010. The amendment clarifies application of the principle for definition of the hedged underlying in specific situations. Application of this amendment will not have any impact on the Company accounts insofar as it does not own any financial instruments.

On 27th November, IFRIC issued IFRIC Interpretation 17 – Distributions of Non-cash Assets to Owners in order to standardise the accounting treatment of non-cash assets to shareholders. In particular, the interpretation clarifies that a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and that this liability must be measured at the fair value of the assets to be distributed. Finally, the entity shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payment in profit or loss. This interpretation must be applied prospectively beginning 1st January 2010.

On 29th January 2009 IFRIC issued IFRIC Interpretation 18 – Transfers of Assets from Customers, which clarifies the accounting treatment to be used if it makes an agreement whereby it receives from its customers property, plant and equipment that must be used to connect to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. Alternatively, an entity may receive cash from customers for the acquisition or construction of such items of property, plant and equipment.

On 16th April 2009 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, and those which have an impact on standards or interpretations not applicable to the company. 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 these improvements.

- IFRS 2 – Share-based Payment: the amendment, which must be applied beginning 1st January 2010, clarified that following modification by IFRS 3 of the definition of business combination, the grant of a branch of business to create a joint venture or a combination of entities or branches of business in an entity under joint control are not subject to IFRS 2.

- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations: the amendment, which must be applied prospectively beginning 1st January 2010, has clarified that IFRS 5 and the other IFRSs which refer specifically to non-current assets (or groups of assets) classified as available for sale or as sold operating assets prescribe all the disclosures necessary for this type of activity or transactions.

- IFRS 8 – Operating Segments: this amendment, which must be applied beginning 1st January 2010, requires that businesses provide the value for all of the assets in each segment subject to disclosure if this value is periodically provided to the highest decision-making level. This information was previously required even if that condition were not satisfied.

- IAS 1 – Presentation of Financial Statements: this amendment, which must be applied beginning 1st January 2010, modifies the definition of current liabilities set out in IAS 1. The previous definition required that liabilities which may be extinguished at any time through the issuance of equity instruments must be classified as current liabilities. This meant that the liabilities for convertible bonds that might be converted into shares of the issuer at any time had to be recognised as current liabilities. Following this change, the existence of a currently exercisable option for conversion into equity instruments has become immaterial to the classification of a liability as current or non-current.

- IAS 7 – Statement of Cash Flows: the amendment, which must be applied beginning 1st January 2010, requires that only the cash flows arising from expenditures that result in a recognised asset in the statement of financial position may be classified on the statement of cash flows as investing activities. Cash flows arising from expenditures that do not result in a recognised asset (e.g. promotional and advertising expenses or staff training) must be classified as deriving from operating activities instead.

- IAS 17 – Leases: following the changes, leased land shall also be subject to the general conditions envisaged in IAS 17 for classification of the agreement as a finance lease or operating lease, regardless of whether title is obtained upon end of the lease term. Before the changes, the accounting standard provided that if title to the leased land were not transferred at the end of the lease term, it would be classified as an operating lease insofar as it had an indefinite useful life. The amendment must be applied from 1st January 2010. At the date of adoption, all the land held under existing leases that had not yet expired will have to be measured separately, with the possibility of retrospective recognition of a new lease recognised as if it were a finance lease.

- IAS 36 – Impairment of Assets: this amendment, which must be applied prospectively beginning 1st January 2010, requires that every operating unit or group of operating units to which goodwill is allocated for the impairment test not be larger than an operating segment as defined in paragraph 5 of IFRS 8, before the business combination allowed in paragraph 12 of IFRS on the basis of similar economic characteristics or other similarities.

- IAS 38 – Intangible Assets: the 2008 revision of IFRS 3 prescribed that there is sufficient information to measure the fair value of an intangible asset acquired through a business combination if it is separable or originated from contractual or legal rights. IAS 38 was consequently amended to reflect this change to IFRS 3. The amendment in question has also clarified the measurement techniques to be commonly used for measuring the fair value of intangible assets that do not have an active reference market. In particular, these techniques alternatively include the estimate of net actualised cash flows originated by the activities, the estimate of costs avoided by the entity through possession of the asset and not having to use it under a licensing agreement with a third party, or the costs necessary for recreating or replacing it (as in the cost method). This amendment must be applied prospectively beginning 1st January 2010.

- IAS 39 – Financial Instruments: Recognition and Measurement: the amendment restricts the exception of non-application set out in paragraph 2(g) of IAS 39 to forward contracts between an acquirer and a selling shareholder to sell an acquiree that will result in a business combination at a future acquisition date, if completion of the business combination depends not on further action by one of the two parties but only on the passage of a reasonable period of time. The amendment clarifies that IAS 39 applies to options (whether or not they are presently exercisable) that allow one of the two parties to have control over whether or not future events occur and whose exercise would result in obtaining control of an entity. The amendment further clarifies that the implicit penalties for early extinguishment of loans, the price for which compensates the lender for the loss of future interest, must be considered strictly related to the associated loan agreement, and must therefore not be accounted for separately. Finally, the amendment clarifies that the gains or losses on a hedged financial instrument must be reclassified from equity to profit or loss in the period when the hedged expected cash flow generates income or expense. This amendment must be applied prospectively beginning 1st January 2010.

- IFRIC 9 – Reassessment of Embedded Derivatives: the amendment, which must be applied prospectively beginning 1st January 2010, excludes the application of IFRIC 9 to embedded derivatives in contracts acquired through business combinations when joint ventures are created.

In June 2009 IASB issued an amendment to IFRS 2 – Share-based Payment: Group Cash-settled Share-based Payment Transactions. The amendment clarifies the scope of application of IFRS 2 and the relations between this and other accounting standards. In particular, it clarifies that the entity that receives goods or services under share-based payment plans must recognise these goods and services regardless of which group entity settles the transaction, and regardless of the fact that settlement is made in cash or in shares. Moreover, it prescribes that the term "group" must have the same meaning given to it in IAS 27 – Consolidated and Separate Financial Statements, i.e. it includes both the parent company and its subsidiaries. The amendment then specifies that an entity must measure the goods or services received in a cash-based or share-based payment transaction from its own point of view, which may not coincide with that of the group and the amount recognised on the consolidated financial statements. The amendment incorporates the guidelines previously included in IFRIC 8 – Scope of IFRS 2 and IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions. The IASB consequently withdrew IFRIC 8 and IFRIC 11. The amendment in question is applicable from 1st January 2010. At the date of this report, the delegated bodies of the European Union had not yet concluded the process of approval necessary for its application.

On 8th October 2009 the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation: Classification of Rights Issues in order to regulate the accounting of rights issues (rights, options or warrants) denominated in a currency other than the issuer's functional currency. These rights had been previously accounted for as liabilities resulting from derivative financial instruments. Instead, the amendment requires that these rights be classified in equity at specific conditions regardless of the currency in which the exercise price is denominated. This amendment is retrospectively applicable from 1st January 2011.

On 4th November 2009 the IASB issued a revised version of IAS 24 – Related Party Disclosures that simplifies the type of information required in the case of transactions with related parties controlled by the State and clarifies the definition of related parties. This amendment must be applied as of 1st January 2011. 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 revision.

On 12th November 2009 the IASB published IFRS 9 – Financial Instruments on the classification and measurement of financial assets, applicable beginning 1st January 2013. This publication represents the first step in a process that will ultimately replace IAS 39 in its entirety. The new standard uses a single approached based on the procedures for management of financial instruments and the characteristics of contractual cash flows of financial assets to determine the measurement method, by replacing the different rules envisaged in IAS 39. Furthermore, the new standard prescribes a single method for measuring the impairment of financial assets. 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 this new standard.

On 26th November 2009 the IASB issued a minor amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement, allowing the companies that prepay a minimum funding requirement to recognise it as an asset. This amendment must be applied as of 1st January 2011. When this document was drafted, the competent bodies of the European Union had not yet concluded the approval process necessary for its application.

On 26th November 2009 IFRIC issued IFRIC Interpretation 19 – Extinguishing Financial Liabilities with Equity Instruments, which provides guidelines as to how to recognise extinguishment of a financial liability through the issuance of equity instruments. The interpretation prescribes that if an entity renegotiates the terms of a financial liability and its creditor agrees to extinguish it through the issuance of shares in the entity, then the shares issued by the company become part of the price paid for extinguishment of the financial liability and must be measured at the fair value of the equity instruments. The difference between the carrying value of the extinguished financial liability and the initial value of the issued equity instruments must be recognised in profit and loss for the period. This amendment must be applied as of 1st January 2011. When this document was drafted, the competent bodies of the European Union had not yet concluded the approval process necessary for its application.

### 2.2 Format of financial statements

Safilo Group S.p.A. 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.

In regard to the statement of financial position, the distinction of assets and liabilities as current and non-current has been adopted in accordance with paragraphs 51 ff. of IAS 1. The indirect method has been used for the statement of cash flow and the presentation of cash flows.

### 2.3 Cash in hand and at bank

Cash and cash equivalents include cash, bank demand deposits and other highly liquid short-term investments that can be unwound within three months after purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recognised in income. Bank overdrafts are posted under current liabilities.

### 2.4 Trade receivables and other receivables

Trade receivables are initially recognised on the statement of financial position at their current value and subsequently recalculated according to the amortised cost method, net of any impairments.

A provision for doubtful accounts is accrued when there is evidence that the Group will not succeed in collecting the original amount due. The provisions accrued for doubtful accounts are recognised in profit or loss.

### 2.5 Intangible assets

Intangible assets consist of clearly identifiable non-monetary assets, without any physical substance and capable of generating future economic benefits. These assets are recognised at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortisation and any impairment. Amortisation begins when the asset is available for use and is allocated in equal instalments over the course of its useful life.

When circumstances indicate that there may be an impairment loss, an estimate is made of the recoverable amount of the asset, and any impairment is recognised in profit or loss. When the reasons for the previously recognised impairment no longer exist, the book value of the asset is restated through profit or loss, up to the value at which the asset would have been recognised in the absence of impairment and net of amortisation.

### 2.6 Investments in associates (financial assets)

The equity investment in the subsidiary Safilo S.p.A. has been recognised at the grant value resulting from the specific appraisal prepared by an external consultant. The positive difference resulting from the grant value and the portion of shareholders' equity at current values of the subsidiary is included in the carrying value of the equity investment.

The equity investment in the subsidiary Safilo S.p.A. tested for impairment every year. As illustrated in more detail in section 4.5 – Investments in subsidiaries, the directors decided to write down the equity investment in the subsidiary Safilo S.p.A. by a total of Euro 359,472 thousand, in consequence of changed market conditions and the heavy loss sustained during the financial year.

### 2.7 Borrowings

Loans are initially recognised at fair value less any transaction costs. After initial recognition, they are recognised at amortised cost; all differences between the amount financed (net of initial transaction costs) and the face value are recognised in profit or loss 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 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 discounted value of the new expected cash flow and the internal rate of return.

Loans are recognised as current liabilities unless the company has an unconditional right to postpone repayment of them for at least 12 months after the reporting date.

The loans are eliminated from the statement of financial position when they are extinguished and after the company has transferred all the risks and liabilities associated with the instrument itself.

### **2.9 Employee benefits**

Pension plans

In accordance with a generally accepted interpretation, the termination benefits (TFR) granted by the company to its employees are considered a defined benefits plan for which actuarial calculations must be made. The nature of TFR as reported in the annual accounts of Safilo Group S.p.A. has not changed in spite of the changes made to the rules governing the reserves for termination benefits enacted by Law 296 of 27th December 2006 ("2007 Italian Budget Act") and subsequent decrees and regulations issued in the first several months of 2007, insofar as this company has less than 50 employees.

Remuneration plans under the form of share capital participation

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 profit or loss under personnel costs in constant amounts over the period between the vesting date of the stock options and the maturity date, with a balancing entry recognised directly in equity reserves.

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 material to measurement of the number of options which are expected to be exercised.

At the reporting date the company revises its estimates of the number of options which are expected to be exercised. The impact of the revision of the original estimates is recognised in profit or loss over the maturity period, with a balance entry in equity reserves.

When the stock option is exercised, 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 par value of the issued shares and to the share premium reserve for the remaining part.

## 2.10 Revenue recognition

Revenues include the fair value of the sale of services, net of VAT and any discounts. The company recognises revenues for billed services in the financial year in which the service is provided.

### 2.11 Dividends

Dividends are recognised when the right of the Shareholders to receive the payment arises, which normally occurs when the Shareholders' Meeting resolves to distribute 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.

### 2.12 Income taxes

Income taxes are recognised on the income statement, with the exception of those relating to accounts that are directly credited or debited to equity, in which case the tax effect is recognised directly in equity.

Deferred taxes are calculated on tax losses and all the temporary differences between the tax basis of an asset or liability and their book value. Deferred tax assets are recognised only for those amounts where it is likely there will be future taxable income allowing for recovery of the amounts.

Current and deferred tax assets and liabilities are offset when the income tax is applied by the same tax authority and when there is a legal right to offsetting.

### 2.13 Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit or loss of the company by the weighted average number of ordinary shares outstanding during the financial year, excluding any treasury shares.

Diluted

Diluted earnings per share are calculated by dividing the profit or loss of the company by the weighted average number of ordinary shares outstanding during the year. In order to calculate the diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the conversion of all potential shares that would have a diluting effect, while the net profit or loss of the company is adjusted to take into account the effects, net of income taxes, of the conversion.

### 2.14 Translation of balances in foreign currency

Foreign currency transactions are translated into Euro using the exchange rates in effect at the date of the transaction. Foreign exchange gains and losses resulting from the close of such transactions and from translation of the monetary assets and liabilities in foreign currencies at the exchange rates at end of the year are recognised in profit or loss.

## 3. Estimates

### 3.1 Use of estimates

Preparation of the annual report requires that the Directors apply accounting standards and methods that, in some circumstances, are based on difficult and subjective measurements and estimates based on past experience and assumptions which are from time to time considered reasonable and realistic according to the circumstances. The application of these estimates and assumptions affects the amounts posted in the financial statements, such as the statement of financial position, 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 financial statement items that are more exposed to subjective estimates and measurements by the directors and for which a change in the underlying conditions or the assumptions may have a material impact on the company’s annual accounts are described briefly below.

*Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future taxable income. The measurement of expected income for recognition of deferred taxes depends on factors that may change over time and may have a material impact influence on the estimate of the deferred tax assets.

*Impairment of non-current assets*: in accordance with the accounting standards applied by the company, non-current assets are tested to determine whether they are impaired. Their impairment is recognised when there are indications that there will be difficulty in recovering their net book value through use. Verification of these indicators requires that the Directors make subjective judgements based on information available within the company and the market, as well as historical experience. In addition, when it is deemed that there may be contingent impairment, the company determines this using the most appropriate technical measurement methods available. Proper identification of the indicators of contingent impairment as well as the estimates used to determine them depend on factors which may vary over time, influencing the Directors' measurements and estimates.

*Fair value*: the fair value of financial instruments that are not traded on an active market is determined by means of valuation methods. Various valuation methods are used, and the associated assumptions are based on market conditions at the reporting date. In particular:

- the fair value of trade receivables and payables and for other current assets and other current liabilities is deemed to coincide with their par value minus any impairment in receivables;
- the fair value of floating rate loans not listed on an active market is deemed to approximate their face value.

## 4. Notes on the statement of financial position

### 4.1 Cash in hand and at bank

This account totals Euro 490,087 (compared with Euro 2,685,664 in the previous financial year) and represents the momentary availability of cash invested at market rates. The book value of the available liquidity is aligned with its fair value at the reporting date and the related credit risk is very limited as the counterparts are primary banks.

### 4.2 Trade receivables, net

| *(Euro)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Trade receivables from Safilo S.p.A. | 1,360,113 | 1,176,000 |
| Trade receivables from Oxsol S.p.A. | 180,000 | 110,000 |
| **Total** | **1,540,113** | **1,286,000** |

The trade receivables from Safilo S.p.A. and Oxsol S.p.A. refer to the amounts charged by the company to its subsidiaries for administrative, accounting, legal and tax services.

It is believed that the book value of trade receivables approximates their fair value, and there were no transactions executed in currencies other than the Euro.

### 4.3 Other current assets

This account is broken down as follows:

| *(Euro)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| VAT receivables | 2,643,189 | 3,001,540 |
| IRES tax receivables | 1,964,926 | 1,549,045 |
| Withholding tax | 2,275 | 48,544 |
| Other receivables from Safilo S.p.A. | 39,944,214 | 39,357,476 |
| Other receivables from Oxsol S.p.A. | 8,664,919 | 443,114 |
| Other receivables from Lenti S.r.l. | - | 130,005 |
| **Total** | **53,219,523** | **44,529,724** |

The receivable from Safilo S.p.A. is broken down as follows:

- Euro 38,739,697 for dividends resolved by the shareholders' meeting of the subsidiary and not yet collected at the reporting date;
- Euro 1,204,517 for the receivable resulting from the VAT payable balance transferred by the subsidiary as part of the Group VAT pooling program. Safilo Group S.p.A., in its capacity as parent company, and Safilo S.p.A., in its capacity as subsidiary, have

implemented the VAT offsetting procedure envisaged in the Ministerial Decree of 13th December 1979 ("Group VAT").

The receivable from the subsidiary Oxsol S.p.A. refers instead to transfer of the IRES corporate income tax payable resulting from participation in the national tax consolidation program illustrated in section 4.6 "Receivables for deferred tax assets."

It is believed that the book value of other current assets approximates their fair value, and there were no transactions executed in currencies other than the Euro.

## 4.4 Intangible assets

This account refers to the costs having a multi-year useful life and from which economic benefits are expected to be realised in future financial years. These costs are amortised over five years.

The following table illustrates the increases and decreases that took place during year 2009 and the previous financial year.

| *(Euro)* | Balance at January 1, 2008 | Increase | Decrease and write-off | Balance at December 31, 2008 |
|---|---|---|---|---|
| **Gross Value** | | | | |
| Other intangible assets | 120,000 | 40,000 | - | 160,000 |
| **Total** | **120,000** | **40,000** | **-** | **160,000** |
| | | | | |
| **Accumulated depreciation** | | | | |
| Other intangible assets | 24,000 | 34,000 | - | 58,000 |
| **Total** | **24,000** | **34,000** | **-** | **58,000** |
| | | | | |
| **Net book value** | **96,000** | **6,000** | **-** | **102,000** |

| *(Euro)* | Balance at January 1, 2009 | Increase | Decrease and write-off | Balance at December 31, 2009 |
|---|---|---|---|---|
| **Gross Value** | | | | |
| Other intangible assets | 160,000 | - | - | 160,000 |
| **Total** | **160,000** | **-** | **-** | **160,000** |
| | | | | |
| **Accumulated depreciation** | | | | |
| Other intangible assets | 58,000 | 34,000 | - | 92,000 |
| **Total** | **58,000** | **34,000** | **-** | **92,000** |
| | | | | |
| **Net book value** | **102,000** | **(34,000)** | **-** | **68,000** |

### 4.5 Investments in subsidiaries

This account, totalling Euro 447,000,218 (compared with Euro 806,472,218 at 31st December 2008), refers to the equity investment in the subsidiary Safilo S.p.A., equal to 90.926% of its share capital (the remaining portion equal to 3,176,000 shares and corresponding to 9.074% of the share capital, is owned by Safilo S.p.A. as treasury stock).

In response to changed market conditions and the heavy loss reported during the year by the subsidiary Safilo S.p.A., the directors tested the investment in the aforementioned subsidiary for impairment when preparing the annual report. This test used the equity value of Safilo S.p.A. calculated by determining the prospective operating cash flows generated by Safilo S.p.A. and its subsidiaries, after deducting its net indebtedness. This test resulted in impairment for a total amount of Euro 359,472 thousand.

The entire equity stake of Safilo S.p.A. is pledged to a pool of banks co-ordinated by *Bayerische Hypo und Vereinsbank AG – Milan branch, which granted loans to the subsidiaries Sa*filo S.p.A. and Safilo USA Inc., which is an indirect subsidiary of Safilo S.p.A. These same shares are also encumbered by a subordinated pledge in favour of the holders of the “High Yield” bonds issued by Safilo Capital International S.A. (Luxembourg), a subsidiary of Safilo S.p.A.

The following tables illustrate the changes that took place during FY 2009 and the previous financial year:

| Company | % of share capital | Value at January 1, 2008 | Increase/ (Decrease) | Revaluation/ (write-down) | Value at December 31, 2008 |
|---|---|---|---|---|---|
| Safilo S.p.A. | 90.926 | 806,842,172 | (369,954) | 0 | 806,472,218 |
| **Total** | | **806,842,172** | **(369,954)** | **0** | **806,472,218** |

| Company | % of share capital | Value at January 1, 2009 | Increase/ (Decrease) | Revaluation/ (write-down) | Value at December 31, 2009 |
|---|---|---|---|---|---|
| Safilo S.p.A. | 90.926 | 806,472,218 | - | (447,000,218) | 359,472,000 |
| **Total** | | **806,472,218** | **-** | **(447,000,218)** | **359,472,000** |

The key information for the subsidiary Safilo S.p.A. is summarised as follows:

| | |
|---|---|
| Name | Safilo S.p.A. – Società Azionaria Fabbrica Italiana Lavorazione Occhiali |
| Registered office | Piazza Tiziano 8, Pieve di Cadore (BL) |
| Share capital at 31st December 2009 | Euro 35,000,000 fully paid-in |
| Shareholders’ equity at 31st December 2009 | Euro 326,820,141 |
| Net loss for the year at 31st December 2009 | Euro (86,712,678) |

### 4.6 Deferred tax assets

Deferred tax assets

Deferred tax assets refer to the taxes calculated on tax losses that may be recovered in future financial years and temporary differences between the carrying value of assets and liabilities and their tax value. Deferred tax assets on tax losses are registered only if there is a reasonable likelihood that they may be recovered through future taxable income.

Beginning in FY 2005, Safilo Group S.p.A. notified the Italian Revenue Agency that it was exercising the option to participate as consolidator in the national tax consolidation program. The subsidiaries participating in the program are Safilo S.p.A., Oxsol S.p.A. (wholly owned by Safilo S.p.A.), Lenti S.r.l. (75.6% owned by Safilo S.p.A.) and Smith Sport Optics S.r.l. in liquidazione (100% owned by Safilo S.p.A.). The effect of this option allows calculation of a single Group taxable income, corresponding to the algebraic sum of the taxable income of the participating entities.

The deferred tax assets resulting from the net loss for the year and temporary differences between the carrying value and tax value of assets and liabilities during 2009 were impaired by means of an adjustment reserve totalling Euro 644,024 thousand insofar as the premises for forecasting sufficient future taxable income against which to use the deferred tax assets do not exist.

Because Safilo Group S.p.A. participates in the national tax consolidation program, as previously mentioned, it also reversed the liability on the statement of financial position resulting from transfer to the tax consolidated tax program of the losses reported in FY 2009 by the subsidiaries Safilo S.p.A., Lenti S.r.l. and Smith Sport Optics S.r.l. in liquidazione for the portion that could not be offset with the taxable income transferred by the subsidiary Oxsol S.p.A. with a balancing entry for the corresponding deferred tax asset.

Pursuant to IAS 12, the adjustment reserve mentioned hereinabove might be recovered in future financial years if there is taxable income that can absorb the losses and temporary difference on which the deferred tax assets and liabilities were calculated.

The following table illustrates the breakdown of accounts on which the tax prepayments and adjustment reserve with reversal of the associated deferred tax assets at 31st December 2009:

| | | Impact on | | | |
|---|---|---|---|---|---|
| ***(Euro)*** | **Balance at January 1, 2009** | **Income statement** | **Equity** | **Receivables / Payables due to tax consolidation** | **Balance at December 31, 2009** |
| Tax losses Safilo Group S.p.A. | 8,514,262 | 1,370,530 | - | - | 9,884,792 |
| Tax losses from Safilo S.p.A. | 16,255,372 | - | - | 8,891,749 | 25,147,121 |
| Tax profit from Oxsol S.p.A. | (399,887) | - | - | (8,222,171) | (8,622,058) |
| Tax profit from Lenti Srl | (914,362) | - | - | 144,448 | (769,914) |
| Tax losses from Smith Sport Optics | 832 | - | - | - | 832 |
| Directors fees | 101,050 | 6,807 | - | - | 107,857 |
| Temporary differences for IPO costs | 1,260,321 | (1,260,321) | 520,515 | - | 520,515 |
| Dividends | (532,671) | - | - | - | (532,671) |
| Other temporary differences | (793) | 19,798 | (13,305) | - | 5,700 |
| **Total deferred tax assets** | **24,284,124** | **136,814** | **507,210** | **814,026** | **25,742,174** |
| Write downs of deferred tax assets, net | (24,284,124) | (136,814) | (507,210) | (814,026) | (25,742,174) |
| **Total deferred tax assets, net** | **-** | **-** | **-** | **-** | **-** |

The following table summarises the losses resulting from the tax consolidation program broken down by year of expiration:

| **Financial year** ***(Euro)*** | **Expiry date** | **Tax losses** | **Deferred tax assets** |
|---|---|---|---|
| 2005 | 2010 | 74,785,384 | 20,565,981 |
| 2006 | 2011 | 3,416,480 | 939,532 |
| 2007 | 2012 | 2,652,731 | 729,501 |
| 2008 | 2013 | 4,120,286 | 1,133,079 |
| 2009 | 2014 | 7,953,025 | 2,272,681 |
| **Totale** | | **92,927,906** | **25,640,773** |

## 4.7 Trade payables

The following table illustrates the breakdown of trade payables:

| ***(Euro)*** | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| Trade payables for services | 1,247,820 | 573,960 |
| Intercompany trade payables for services rendered by Safilo Spa | - | 55,000 |
| **Total** | **1,247,820** | **628,960** |

### 4.8 Tax payables

This account totalled Euro 44,643 at 31st December 2009, compared with Euro 42,634 in the previous year, and refers to the IRPEF (personal income tax) on wages, salaries and independent contractor compensation in the month of December that was paid in January 2010.

### 4.9 Other current liabilities

This account is broken down as follows:

| *(Euro)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Other intercompany payables to Safilo S.p.A. | 1,782,469 | 1,272,273 |
| Other intercompany payables to Lenti S.r.l. | 18,936 | - |
| Other intercompany payables to Smith Sport Optics S.r.l. | 34,381 | 34,331 |
| Payables to personnel and social security institutions | 173,525 | 218,476 |
| Payables to pension funds | 1,322 | 1,265 |
| Other current liabilities | 92 | 495 |
| **Total** | **2,010,725** | **1,526,840** |

The payables to the subsidiary Safilo S.p.A. include Euro 1,500,000 for the IRES corporate income tax receivable transferred by Safilo S.p.A. to its parent company on the previous fiscal year income tax returns and the difference to payables for advances paid by Safilo Spa on behalf of the parent company.

The payable to the subsidiary Lenti S.r.l. refers to transfer of the 2009 tax loss to the tax consolidation program. This payable is net of the receivable that accumulated over the previous years through transfer to the tax consolidation program of the payable to tax authorities for IRES on the basis of tax returns filed by this subsidiary in preceding years.

The payables to the subsidiary Smith Sport Optics S.r.l. in liquidazione refer to the VAT receivable transferred by it during FY 2007 to the parent company as part of the Group VAT program and the payable resulting from transfer to the tax consolidation program of the tax withholding liabilities of this subsidiary.

Payables to personnel and social security institutions principally refer to salaries and wages for December and for accrued but unused holiday leave.

## 4.10 Employee benefit liability

This account changed as follows over the course of the financial year:

| (Euro) | Balance at January 1, 2008 | Changes during the year<br>Posted to income statement | Actuarial gains/(losses) | Uses/Payments | Balance at December 31, 2008 |
|---|---|---|---|---|---|
| Defined benefit plan | 72,339 | 11,777 | - | - | 84,116 |
| **Total** | **72,339** | **11,777** | **-** | **-** | **84,116** |

| (Euro) | Balance at January 1, 2009 | Changes during the year<br>Posted to income statement | Actuarial gains/(losses) | Uses/Payments | Balance at December 31, 2009 |
|---|---|---|---|---|---|
| Defined benefit plan | 84,116 | 18,185 | (15,072) | (5,583) | 81,646 |
| **Total** | **84,116** | **18,185** | **(15,072)** | **(5,583)** | **81,646** |

The changes made to termination benefit (TFR) rules by Law 296 of 27th December 2006 ("2007 Italian Budget Act") and subsequent decrees and regulations issued over the first several months of 2007 did not impact the accounting classification of TFR for Safilo Group S.p.A., insofar as it is a legal entity with less than 50 employees. Consequently, on the basis of a generally accepted interpretation, the reserve for termination benefits of Safilo Group S.p.A. continues to be considered a defined benefits pension plan, which must thus be discounted.

The actuarial estimates used to measure the TFR reserve are based on a system of plausible hypotheses based on:

- a) demographic parameters;
- b) economic parameters;
- c) financial parameters.

The demographic parameters are normally summarised in tables based on samples deriving from different institutes (ISTAT, INAIL, INPS, Italian General Accounts Office, etc.).

The economic parameters principally refer to long-term inflation rates and the financial yield rate, crucial for the revaluation of amounts accrued in the reserve for termination benefits. They also include the dynamics in collective compensation under examination. The average increases in compensation were considered, both according to accumulated seniority in service and for macro-categories of contractual classification (white-collar employees, middle-level managers and executives). The principal financial parameter is given by the discount rate.

### 4.11 Other non current liabilities

The liability of Euro 9,453,659 to the subsidiary Safilo S.p.a. refers:

- to transfer of Euro 1,375,936 in tax credits and tax withholding resulting from the income tax returns for previous years;
- to the payable resulting from transfer to the tax consolidation program of the benefits stemming from the 2009 tax loss for the part that may be offset with 2009 taxable income transferred to the tax consolidation program by the subsidiary Oxsol S.p.A. in the amount of Euro 8,077,723.

## SHAREHOLDERS' EQUITY

### 4.12 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 par value of Euro 0.25 per share.

Reference is made to the section "Subsequent events" for information about the recapitalisation executed in early 2010. Following these increases, the company's share capital is now comprised by 1,136,439,310 ordinary shares for a total value of Euro 284,109,827.50.

### 4.13 Share premium reserve

The share premium reserve amounts to Euro 745,104,718 thousand and consists of:

- the higher value attributed on the conferment of shares by the subsidiary Safilo S.p.A. compared to the par value of the corresponding increase in share capital;
- the higher price paid compared to the par value of the shares, at the time the shares were placed on the Electronic Stock Market (MTA), net of listing costs;
- the premium resulting from conversion of the convertible bonds;
- the premium received from the exercise of stock options by their holders.

In 2009 this reserve decreased by Euro 2,365,980 due to the costs previously incurred in 2009 for the capital increase carried out in February and March 2010, as illustrated in detail in the section "Subsequent events" of the report on operations.

### 4.14 Retained earnings and other reserves

This account totalled Euro 32,995,701, compared with Euro 3,401,655 at 31st December 2008, and is broken down as follows:

| *(Euro)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Legal reserve | 3,007,772 | 1,528,823 |
| IFRS reserve for stock option | 1,446,755 | 1,446,755 |
| Retained earnings | 28,541,174 | 426,077 |
| Total | 32,995,701 | 3,401,655 |

The increase in the legal reserve and retained earnings at 31st December 2009 results from allocation of the net profit for 2008 following the resolution approving the 2008 annual report.

### Equity accounts at 31st December 2009 - possible use and distribution

The following table summarises the possibility of using and distributing equity accounts:

| | | | | Previous years | |
|---|---|---|---|---|---|
| *(Euro)* | At December 31, 2009 | Possible use | Available amount | coverage losses | distribution of reserves |
| Share capital | 71,348,532 | | | | |
| Paid in capital | 745,104,718 | A - B | 745,104,718 | 9,543,673 | |
| Legal reserve | 3,007,772 | B | | | |
| Stock option reserve | 1,446,755 | | | | |
| Reteined earnings | 28,541,174 | A - B - C | 28,541,174 | | |
| Profit/(loss) for the period | (359,969,503) | | | | |
| Total | 489,479,448 | | | | |

## 5. Notes on the income statement

### 5.1 Service revenues

In its capacity as holding company of the Group, the company does not have revenues from the sale of merchandise, but only revenues of Euro 1,030,000 for the provision of services billed to its subsidiaries Safilo S.p.A. and Oxsol S.p.A. for administrative, legal, accounting and tax services performed on their behalf during the year.

### 5.2 General and administrative expenses

| *(Euro)* | **2009** | **2008** |
|---|---|---|
| Payroll and social security contributions | 825,351 | 938,539 |
| Corporate fulfilments costs | 157,287 | 312,165 |
| Fees to directors and statutory auditors | 452,777 | 415,269 |
| Consultancies | 45,665 | 15,076 |
| Cost of services rendered by Safilo S.p.A. | 25,000 | 25,000 |
| Amortization of intangible assets | 34,000 | 34,000 |
| Other general and administrative expenses | 36,880 | 79,849 |
| **Total** | **1,576,960** | **1,819,898** |

The following table illustrates the change in average number of employees broken down by category:

| *Avarege* | **Balance at January 1, 2009** | **Increase** | **Decrease** | **Balance at December 31, 2009** |
|---|---|---|---|---|
| Executives | 2 | - | - | 2 |
| Clerks and middle management | 4 | 2 | (2) | 4 |
| **Total** | **6** | **2** | **(2)** | **6** |

### 5.2.1 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 following table illustrates the remuneration of directors, statutory auditors and managers with strategic responsibilities in office at the reporting date for any reason and in any form for the financial year at 31st December 2009:

| Name and surname | Office | Period covered | Expiring | Compensation related to the company drawing up the financial statements (in Euro/000) | Non-cash benefit (Euro/000) | Other (Euro/000) |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Vittorio Tabacchi | Chairman | 2009 | Approval of 2010 fin. statements | 10.0 | | 2,290.0 |
| Massimiliano Tabacchi | Executive Vice Chairman | 2009 | Approval of 2010 fin. statements | 10.0 | 8.1 | 690.0 |
| Roberto Vedovotto | Chief Executive Officer | 2009 | Approval of 2010 fin. statements | 10.0 | 8.2 | 1,590.0 |
| Ennio Doris | Director | 2009 | Approval of 2010 fin. statements | 10.0 | | - |
| Antonio Favrin | Director | 2009 | Approval of 2010 fin. statements | 90.0 | | - |
| Carlo Gilardi | Director | 2009 | Approval of 2010 fin. statements | 100.0 | | 10.0 |
| Giannino Lorenzon | Director | 2009 | Approval of 2010 fin. statements | 70.0 | | 340.0 |
| **Board of Statutory Auditors** | | | | | | |
| Franco Corgnati | Chairman | from April 27, 2009 | Approval of 2010 fin. statements | 42 | | 53 |
| Lorenzo Lago | Regular auditor | from April 27, 2009 | Approval of 2010 fin. statements | 21 | | 35 |
| Giampietro Sala | Regular auditor | from April 27, 2009 | Approval of 2010 fin. statements | 36 | | 35 |
| Nicola Gianese | Regular auditor | until April 27, 2009 | Approval of 2010 fin. statements | 23 | | - |
| **Managers with strat. resp.** | | | | | 17.5 | 1,106.7 |

## 5.4.2 Stock options granted attributed to Directors, Statutory Auditors and managers with strategic responsibilities (Consob resolution no. 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 | 76,531 | 4.4100 | 2.00 | - | - | - | - |
| Roberto Vedovotto | Chief Executive Officer | - | - | - | - | - | - | - |
| Ennio Doris | Director | - | - | - | - | - | - | - |
| Antonio Favrin | Director | - | - | - | - | - | - | - |
| Carlo Gilardi | Director | - | - | - | - | - | - | - |
| Giannino Lorenzon | Director | - | - | - | - | - | - | - |
| | Director | - | - | - | - | - | - | - |
| Board of Statutory Auditors | | | | | | | | |
| Franco Corgnati | Chairman | - | - | - | - | - | - | - |
| Lorenzo Lago | Regular auditor | - | - | - | - | - | - | - |
| Giampietro Sala | Regular auditor | - | - | - | - | - | - | - |
| Nicola Gianese | Regular auditor | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - |
| Management with strat. resp. | | | | | | | | |
| Aggregate | | 85,037 | 4.4100 | 2.00 | (34,015) | - | - | - |

| Name and surname | Office | Options granted 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 | - | - | - | (76,531) | - | - | - |
| Roberto Vedovotto | Chief Executive Officer | - | - | - | - | - | - | - |
| Ennio Doris | Director | - | - | - | - | - | - | - |
| Antonio Favrin | Director | - | - | - | - | - | - | - |
| Carlo Gilardi | Director | - | - | - | - | - | - | - |
| Giannino Lorenzon | Director | - | - | - | - | - | - | - |
| | Director | - | - | - | - | - | - | - |
| Board of Statutory Auditors | | | | | | | | |
| Franco Corgnati | Chairman | - | - | - | - | - | - | - |
| Lorenzo Lago | Regular auditor | - | - | - | - | - | - | - |
| Giampietro Sala | Regular auditor | - | - | - | - | - | - | - |
| Nicola Gianese | Regular auditor | - | - | - | - | - | - | - |
| Management with strat. resp. | | | | | | | | |
| Aggregate | | - | - | - | (51,022) | - | - | - |

### 5.3 Other income and (operating expenses), net

This account, totalling Euro 28,591 (compared with Euro 34,901 for the previous financial year) is for contingent income resulting from estimates of costs accrued in the previous financial year.

### 5.4 Financial charges, net

This account is broken down as follows:

| *(Euro)* | 2009 | 2008 |
|---|---:|---:|
| Interest expenses on loans from Safilo S.p.A. | - | 115,372 |
| Bank commissions | 5,130 | 69,922 |
| Negative exchange differences | - | 186 |
| **Total financial charges** | **5,130** | **185,480** |
| Interest income | 25,996 | 179,822 |
| Dividends from Safilo S.p.A. | - | 38,739,697 |
| **Total financial income** | **25,996** | **38,919,519** |
| **Total financial charges, net** | **20,866** | **38,734,039** |

### 5.5 Income tax and impairment of deferred tax assets

As reported in paragraoh 4.5 Investments in subsidiaries, in response to changed market conditions and the heavy loss reported during the year by the subsidiary Safilo S.p.A., the directors tested the investment in the aforementioned subsidiary for impairment when preparing the annual report. This test resulted in impairment for a total amount of Euro 359,472,000.

## 5.6 Income tax and impairment of deferred tax assets

This account refers to deferred tax assets calculated on the tax loss for the financial year and the temporary differences between the carrying value of assets and liabilities on the statement of financial position and their tax value. The following table illustrates the reconciliation between theoretical taxes and the actual tax burden charged to income:

| | Tax 2009 | | Tax 2008 | |
|---|---|---|---|---|
| | Amount | % IRES | Amount | % IRES |
| Profit before taxation | (359,969,503) | | 37,979,042 | |
| Theoretical taxes income/(cost) | 98,991,613 | 27.5% | (10,444,237) | 27.5% |
| Effective tax burden (cost) | - | 0.0% | (371,318) | 1.0% |
| **Lower (higer) tax burden related to:** | **(98,991,613)** | **27.5%** | **10,072,919** | **26.5%** |
| Permanent differences | (98,854,799) | 27.5% | 18,692 | 0.0% |
| Non taxable dividends | - | 0.0% | 10,199,667 | 26.9% |
| Write downs of deferred tax assets | (136,814) | 0.0% | - | 0.0% |
| Effect of IRAP on deferred taxes | - | 0.0% | (145,440) | -0.4% |
| **Total** | **(98,991,613)** | **27.5%** | **10,072,919** | **26.5%** |

As illustrated in account 4.6 “Deferred tax assets,” the receivables for taxes calculated on the tax loss for the financial year and on the temporary difference between the carrying value of assets and liabilities and the corresponding tax value were impaired by accruing them in an adjustment reserve. The cost charged to income was Euro 136,814.

Pursuant to IAS 12, the adjustment reserve mentioned hereinabove might be recovered in future financial years if there is taxable income that can absorb the losses and temporary differences on which the deferred tax assets and liabilities were calculated.

## 5.7 Earnings per share

| *(Euro)* | 2009 | 2008 |
|---|---|---|
| Earnings per share - base | (1.261) | 0.104 |
| Earnings per share - diluted | (1.261) | 0.104 |

| *(Euro)* | 2009 | 2008 |
|---|---|---|
| Profit/(loss) for ordinary shares | (359,969,503) | 29,578,973 |
| Average number of ordinary shares | 285,394,128 | 285,394,128 |
| **Earnings per share - base** | **(1.261)** | **0.104** |

### 5.8 Dividends

The company did not distribute dividends to shareholders in FY 2009. The shareholders' meeting that approved the annual report at 31st December 2008 resolved to carry forward the net profit generated in FY 2008.

### 5.9 Segment information

The company operates only in Italy and its only activity is management of its shareholdings.

## 6. Transactions with related parties

Transactions with related parties regard commercial relationships defined on an arm's length basis, similarly to what is done in transactions with third parties. The nature of transactions between the subsidiaries and related parties is illustrated in the following table:

| **Related parties transactions** *(Euro/000)* | **Relationship** | **December 31, 2009** | **December 31, 2008** |
|---|---|---|---|
| *Receivables* | | | |
| Optifashion As | (a) | 15 | 146 |
| Elegance International Holdings Ltd | (b) | 419 | 443 |
| **Total** | | **434** | **589** |
| *Payables* | | | |
| Elegance International Holdings Ltd | (b) | 5,956 | 7,292 |
| **Total** | | **5,956** | **7,292** |

| **Related parties transactions (Euro/000)** | **Relationship** | **December 31, 2009** | **December 31, 2008** |
|---|---|---|---|
| *Revenues* | | | |
| Elegance International Holdings Ltd | (b) | 2 | 8 |
| Optifashion As | (a) | 68 | 143 |
| **Total** | | **70** | **151** |
| *Costs* | | | |
| Elegance International Holdings Ltd | (b) | 13,949 | 17,748 |
| Optifashion As | (a) | 3 | - |
| TBR Inc. | (b) | 1,200 | 1,084 |
| **Total** | | **15,152** | **18,832** |

(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 intercompany transactions, involve the purchase and sale of products and provision of services on an arm's length basis, similarly to what is done in transactions with third parties.

In regard to the table illustrated above, note that:

- Optifashion As is a production and commercial company based in Istanbul, Turkey, of which the Safilo Group owns 50%.

- Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong stock exchange, is 23.05% owned by Safilo Far East Limited (and indirectly controlled entity) and produces optical products for the Group in Asia. The price and other conditions of the production agreement between Safilo Far East Limited and Elegance are in line with those applied by Elegance to its other customers.

- TBR Inc. is a company that is 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 Safilo Group S.p.A. and the remainder by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for Euro 629 thousand. In 2009 the Group paid TBR Inc. Euro 1,200 thousand in rent. The terms and conditions of the lease, including the rental fee, are in line with market conditions for similar contracts.

## 7. Contingencies

The company does not have liabilities that have not been discussed in the preceding sections.

## 8. Commitments

The company had no purchase commitments at the reporting date.

## 9. Subsequent events

No events occurred during the period after the reporting date that might have a material impact on the data set out in this report other than those illustrated in the section "Subsequent events" of the Report on Operations.

## 10. Significant non-recurring events and transactions

During 2009 the company did not engage in significant non-recurring transactions pursuant to the Consob Communication of 28th July 2006.

## 11. Transactions resulting from unusual and/or atypical operations

Pursuant to Consob Communication of 28th July 2006, in 2009 the Group did not put in place any unusual and/or atypical operations, as defined in the said Communication.

## APPENDIX

### Information pursuant to Article 149-duodecies of the Consob Issuers Regulation

The following table, prepared in accordance with Art. 149-duodecies of the Issuers Regulation (*Regolamento Emittenti*) issued by Consob, reports the amount of fees charged in 2009 and 2008 for audit and non-audit services provided by the independent auditor.

| *(Euro/000)* | 2009 fees | 2008 fees |
|---|---|---|
| Audit | 38 | 43 |
| Attestation | - | - |
| Other services | 48 | - |
| **Total** | **86** | **43** |

## Certification of the Annual Report pursuant to Article 81-ter of Consob Regulation no. 11971 of 14th May 1999, as amended

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 Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of 24th February 1998:

- the adequacy with respect to the company structure and
- the effective application

of the administrative and accounting procedures for preparation of the annual report during the 2009 financial year.

It is also certified that the annual report at 31st December 2009:

- a) corresponds to the results documented in the books, accounting and other records;
- b) have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of Article 9 of Legislative Decree 38/2005 and, based on their knowledge, fairly and correctly present the financial position, results of operations and cash flows of the issuer;

29th March 2010

| | |
|---|---|
| The Chief Executive Officer | The manager responsible for preparing the company's financial statements |
| *Dr Roberto Vedovotto* | *Dr 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 (NOW ARTICLE 14 OF LEGISLATIVE DECREE N° 39 DATED 27 JANUARY 2010)

To the shareholders of
Safilo Group SpA

1 We have audited the financial statements of Safilo Group SpA as of 31 December 2009, which comprise the balance sheet statement, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity and related illustrative 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 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 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 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.

The audit of the financial statements as of 31 December 2009 has been conducted in accordance with the Law in force during that period.

Regarding the amounts of the financial statements of the prior period presented for comparative purposes, reclassified to take into account the amendments introduced by IAS 1 to the financial statement presentation, reference should be made to our report dated 7 April 2009.

3 In our opinion, the 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;

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna Zola Predosa** 40069 Via Tevere 18 Tel. 0516186211 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38122 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations and cash flows of Safilo Group SpA for the period then ended.

4 The directors of Safilo Group SpA are responsible for the preparation of the Report on Operations, and of the report on the corporate governance and ownership structure, published in the section "IR/Corporate Governance" of the Safilo Group internet website (www.safilo.com), in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations and of the information provided for in accordance with article 123-bis, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of the legislative decree n° 58/98, included in the report on the corporate governance and ownership structure, with the financial statements, as required by the Law. 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 and the information, provided for in accordance with article 123-bis, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of the legislative decree n° 58/98 included in the report on the corporate governance and ownership structure are consistent with the financial statements of Safilo Group SpA as of 31 December 2009.

Padova, 13 April 2010

PricewaterhouseCoopers SpA

Signed by
Massimo Dal Lago
(Partner)

*This report has been translated into the English language from the original which was issued in Italian, solely for the convenience of international readers.*
*We have not examined the translation of the financial statements referred to in this report.*

**Additional information as requested by Consob in accordance with art. 114, paragraph 5, of the Legislative Decree n. 58/98**

**a) Sale of retail activities:**

Economic impact deriving from the sale and amount of cancelled credits:

In the context of the investment agreement stipulated with the Partner HAL Holding N.V., in December 2009, the Group sold the retail chains Just Spectacles (in Australia) and Loop Vision (in Spain), for a total consideration of 13.7 million Euro, a value which was supported by an expert assessment drawn up by a leading consultation firm.
In particular:

- on 22nd December 2009 Safint B.V. sold to HAL Optical Investments B.V. the shares of Optifashion Australia PTY Ltd., representative of 100% of the relative share capital;
- on 28th December 2009, Safilo Espana S.L. sold to GrandVision S.A. the shares of Navoptik S.L., representative of 100% of the relative share capital.

Below there is a summary of the principal economic indicators which are representative of the contribution that the sold retail chains have made to the consolidated income statement in 2009:

- Net sales of 36.3 million Euro, equal to 3.6% of consolidated net sales;
- Negative operating result of 7.6 million Euro;
- Negative EBITDA of 4.9 million Euro;
- Net loss of 9.9 million Euro.

The sale of the chains furthermore has generated for the Group a capital loss of 19.4 million Euro, which includes the waiver of financial and commercial receivables towards the sold retail companies for an overall amount of 11.7 million Euro. Therefore the sold chains have impacted the income statement of the Group for a total value of 29.3 million Euro in losses.

Progress in negotiations for sale of the Mexican chain:

With reference to the company Tide Ti S.A. de C.V., owner of the Mexican chains Sunglass Island and Island Optical, whose sale was also provided for by the Investment Agreement, it is hereby specified that:

(i) Negotiations are still pending between the company HAL Optical Investment B.V. and the Mexican minority shareholders for the realization of the aforementioned Agreement between Safilo Group and HAL. To date, no contract has been signed for the sale of these chains;

(ii) On 28th December 2009, the Group signed an agreement by which the subsidiary Safint B.V. granted to HAL Optical Investments B.V. an option for the purchase of 100% of the share capital of Tide Ti S.A. de C.V.. The option for the purchase of 100% of the capital provides for the payment of 6.1 million Euro, increased by the price that the Group will pay for the purchase of 40% of the share capital currently held by the minority shareholders, in accordance with the conditions and terms stated in the shareholders' agreements signed by the Group with the minority shareholders. This amount will be further adjusted based on (i) the amount accumulated annually equal to the highest value between the interest on the agreed price (calculated at a predetermined rate) and company profit due to the Group, (ii) any capital increases or cash contribution, deducted (iii) any dividends paid to shareholders. This option constitutes an alternative solution should negotiations with minority shareholders not be successful, and, in any case, it depends on the condition precedent of the purchase by Safint B.V. of the residual stake equal to 40% of the share capital of Tide Ti S.A. de C.V., which, based on existing shareholders' agreements, could take place from 2014. The option may be exercised by HAL Optical Investments B.V. at any time in the 12 months following the third working day after Safint B.V. has carried out the purchase of the shares owned by the minority shareholders.

**b) Role carried out by Partner HAL in Group strategies**

Regarding the role of HAL as industrial partner, to date no modifications are foreseen to the commercial and industrial strategies of the two Groups and no plan has been drawn up for a possible integration between the wholesale channel managed by Safilo Group and the retail channel managed by HAL. The intention of both, in fact, is to maintain total commercial and organizational independence and separation between the two groups.

**c) Licensing agreements due to expire by 2011:**

Within the Group's portfolio of licensed brands, the revenues related to the brands set to expire by 2011, represent approximately 23% of consolidated turnover. With relation to these agreements the Group has commenced negotiations for the renewal for future years. To date, with the exception of the recent extension of the license for the Marc Jacobs and Marc by Marc Jacobs brand, no definitive agreements have been signed. The Group, which believes that in the renewal decision it gives priority to the potential profitability of each brand being negotiated, considers it probable however that, by the end of the year, it will be able to achieve renewal of the main brands which represent the majority of the turnover set to expire. With reference to the top four licensed brands in terms of revenues (Giorgio Armani, Emporio Armani, Gucci and Dior), the relative percentage incidence on the consolidated turnover of the Group at 31$^{st}$ December 2009 is approximately 45%.

**d) Bonuses and other incentives paid to directors, statutory auditors and directors with strategic responsibilities:**

During 2009 directors and auditors did not benefit from bonuses and other incentives. Directors with strategic responsibilities received a total amount of 60.000 Euro, as bonus.

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