# Nine-month Financial Report

for the period ended 30th September 2012

Date of issue: November 6th, 2012

This interim report is available on the website:

www.safilo.com

**SAFILO GROUP S.p.A.**

Settima Strada, 15

35129 Padua - Italy

## Contents

## Corporate Officers as of September 30th, 2012

| **Board of Directors (*)** | |
|---|---|
| *Chairman* | Robert Polet |
| *Chief Executive Officer* | Roberto Vedovotto |
| *Director* | Giovanni Ciserani |
| *Director* | Jeffrey A. Cole |
| *Director* | Luisa Deplazes de Andrade Delgado |
| *Director* | Melchert Frans Groot |
| *Director* | Marco Jesi |
| *Director* | Eugenio Razelli |
| *Director* | Massimiliano Tabacchi |

| **Board of Statutory Auditors** | |
|---|---|
| *Chairman* | Paolo Nicolai |
| *Regular Auditor* | Franco Corgnati |
| *Regular Auditor* | Bettina Solimando |
| *Alternate Auditor* | Marzia Reginato |
| *Alternate Auditor* | Gianfranco Gaudioso |

| **Internal Control Committee** | |
|---|---|
| *Chairman* | Eugenio Razelli |
| | Marco Jesi |
| | Massimiliano Tabacchi |

| **Remuneration Committee** | |
|---|---|
| *Chairman* | Jeffrey A. Cole |
| | Melchert Frans Groot |
| | Marco Jesi |

**Independent Auditors**

PricewaterhouseCoopers S.p.A.

(*) The Board of Directors which currently holds office has been appointed by the Shareholders' Meeting held on August 7th 2012 that approved the increase of the number of Board members from eight to nine.

# DIRECTORS OPERATIONS REPORT

## General information and activities of the Group

Safilo Group S.p.A., the holding company, is a limited liability company registered in Italy. The registered office is located in Pieve di Cadore (BL) – Piazza Tiziano n. 8, whilst the administrative headquarters are located in Padua – Settima Strada no. 15.

Companies included in the consolidation area are reported in paragraph 1.3 "Consolidation method and consolidation area".

Safilo Group has been in the eyewear market for over 75 years and is one of the major operators, in terms of revenues, design, manufacture and distribution of glasses and other eyewear products. Safilo is the global leader in the high-end eyewear segment of the market and also one of the top sports eyewear producers and distributors worldwide.

Safilo designs, produces and distributes high quality optical eyewear, sunglasses, sports goggles and accessories. Distribution is through specialised outlets and retail distribution chains.

The entire production-distribution chain is directly supervised and is divided into the following phases: research and technological innovation, design and product development, planning, programming and purchasing, production, quality control, marketing and communication, sales, distribution and logistics. Safilo is strongly oriented towards the development and design of the product, carried out by a team of designers who ensure continued technical and stylistic innovation, which has always been one of the company's key strengths.

The Group manages a brand portfolio of both licensed and house brands, selected according to competitive positioning and international prestige criteria and in order to implement a clear segmentation strategy of customers. Safilo has extensively integrated its house brand portfolio with numerous brands from the luxury and fashion industry, building long-term relationships with the licensors through license agreements, most of which are repeatedly renewed.

The Group's brands include Sàfilo, Carrera, Polaroid, Smith, Oxydo and Blue Bay while the licensed brands include Alexander McQueen, A/X Armani Exchange, Balenciaga, Banana Republic, BOSS - Hugo Boss, BOSS Orange, Bottega Veneta, Céline, Dior, Emporio Armani, Fossil, Giorgio Armani, Gucci, HUGO - Hugo Boss, Jimmy Choo, JLo by Jennifer Lopez, Juicy Couture, Kate Spade, Liz Claiborne, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max & Co., Pierre Cardin, Saks Fifth Avenue, Tommy Hilfiger and Yves Saint Laurent.

## Key consolidated performance indicators

| Economic data (Euro in millions) | First nine months 2012 | % | First nine months 2011 | % |
|---|---|---|---|---|
| Net sales | 862.4 | 100.0 | 833.5 | 100.0 |
| Cost of sales | (353.3) | (41.0) | (335.9) | (40.3) |
| Gross profit | 509.1 | 59.0 | 497.6 | 59.7 |
| Ebitda | 85.9 | 10.0 | 97.6 | 11.7 |
| Operating profit | 56.9 | 6.6 | 70.0 | 8.4 |
| Group profit before taxes | 35.4 | 4.1 | 46.9 | 5.6 |
| Profit attributable to the Group | 20.9 | 2.4 | 26.6 | 3.2 |

| Economic data (Euro in millions) | Third quarter 2012 | % | Third quarter 2011 | % |
|---|---|---|---|---|
| Net sales | 249.1 | 100.0 | 230.2 | 100.0 |
| Cost of sales | (105.3) | (42.3) | (97.0) | (42.1) |
| Gross profit | 143.8 | 57.7 | 133.3 | 57.9 |
| Ebitda | 15.2 | 6.1 | 17.4 | 7.6 |
| Operating profit | 5.7 | 2.3 | 8.2 | 3.5 |
| Group profit (loss) before taxes | (0.7) | (0.3) | (3.4) | (1.5) |
| Profit (Loss) attributable to the Group | (0.6) | (0.3) | (4.7) | (2.0) |

| Balance sheet data (Euro in millions) | September 30, 2012 | % | December 31, 2011 | % |
|---|---|---|---|---|
| Total assets | 1,475.8 | 100.0 | 1,501.0 | 100.0 |
| Total non-current assets | 904.6 | 61.3 | 860.0 | 57.3 |
| Capital expenditure | 19.6 | 1.3 | 25.7 | 1.7 |
| Net invested capital | 1,098.8 | 74.5 | 1,054.0 | 70.2 |
| Net working capital | 284.7 | 19.3 | 291.9 | 19.4 |
| Net financial position | (223.8) | 15.2 | (238.3) | 15.9 |
| Group Shareholders' equity | 869.9 | 58.9 | 804.2 | 53.6 |

| Financial data (Euro in millions) | First nine months 2012 | First nine months 2011 |
|---|---|---|
| Cash flow operating activity | 58.5 | 43.4 |
| Cash flow investing activity | (89.6) | (23.1) |
| Cash flow financing activity | 16.2 | (10.5) |
| Closing net financial indebtedness (short-term) | 61.1 | 84.2 |

| Earnings per share (in Euro) | First nine months 2012 | First nine months 2011 |
|---|---|---|
| Earnings per share - basic | 0.348 | 0.468 |
| Earnings per share - diluted | 0.348 | 0.467 |
| No. shares in share capital | 61,739,965 | 56,821,965 |

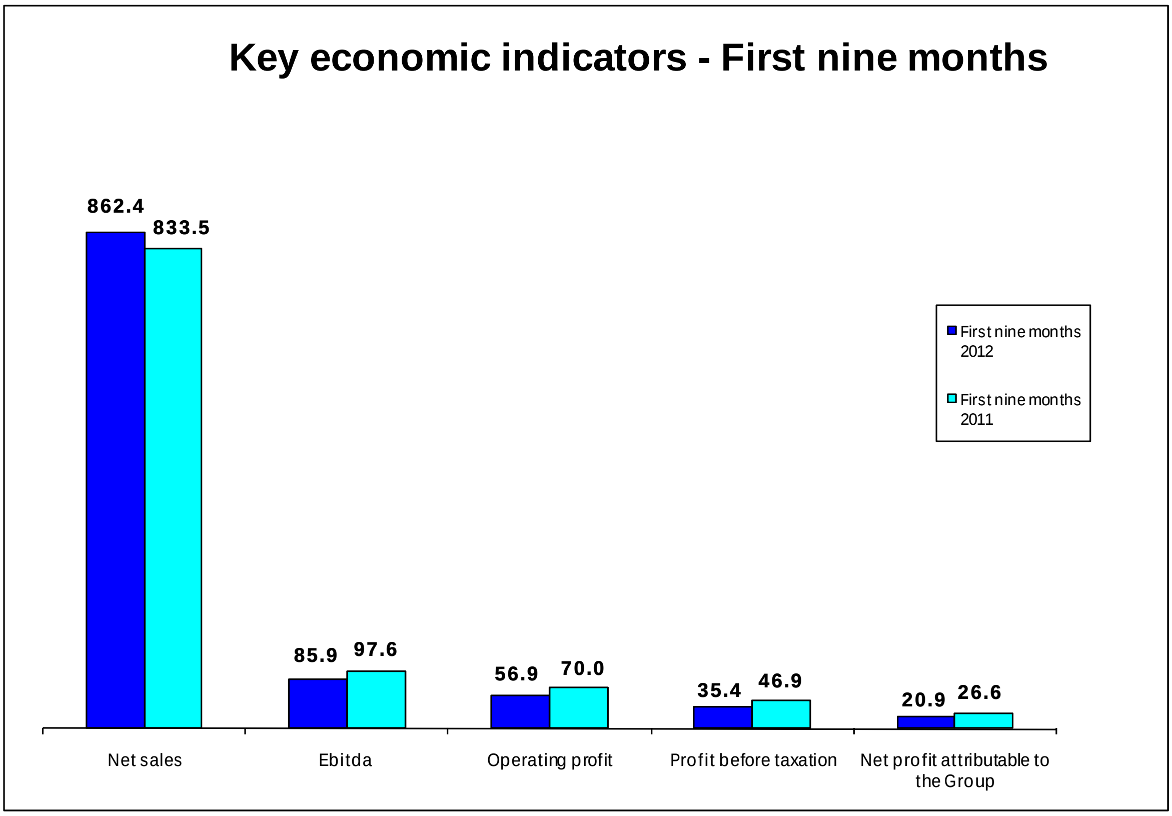
| Group personnel | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Punctual | 7,762 | 8,131 |

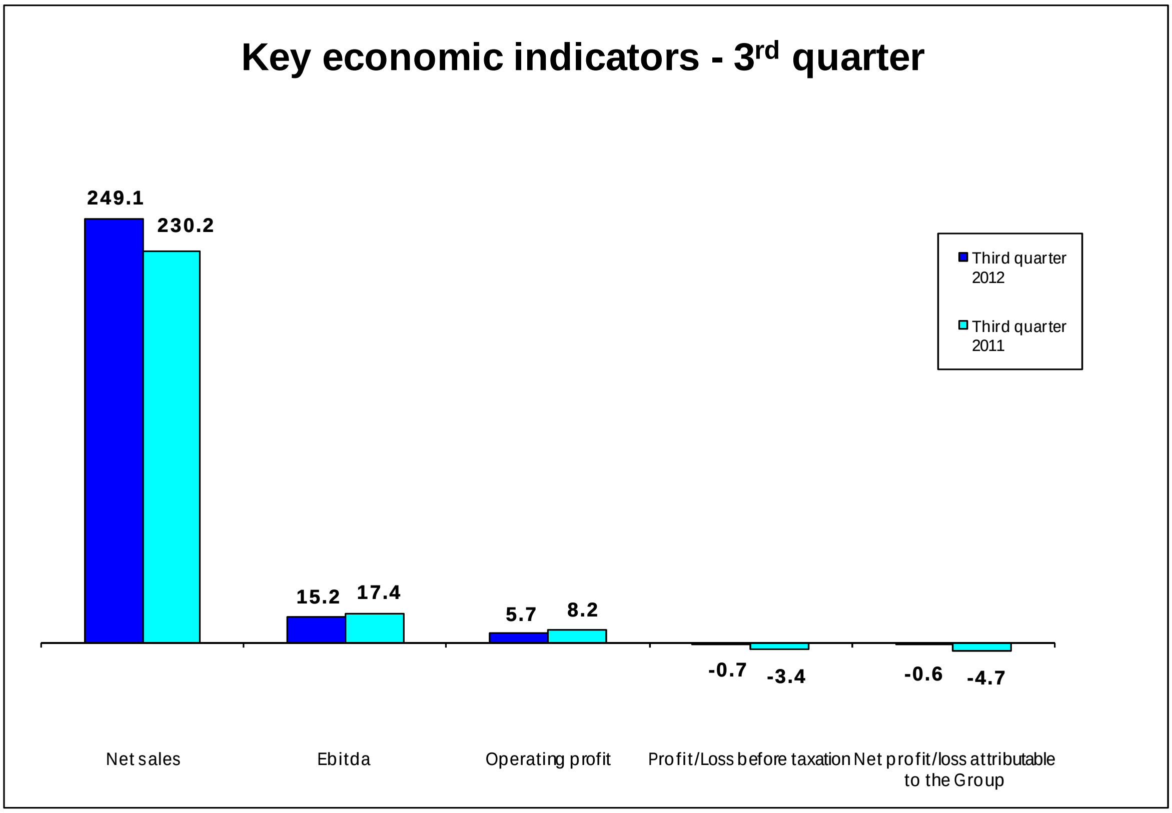
It should be noted that:

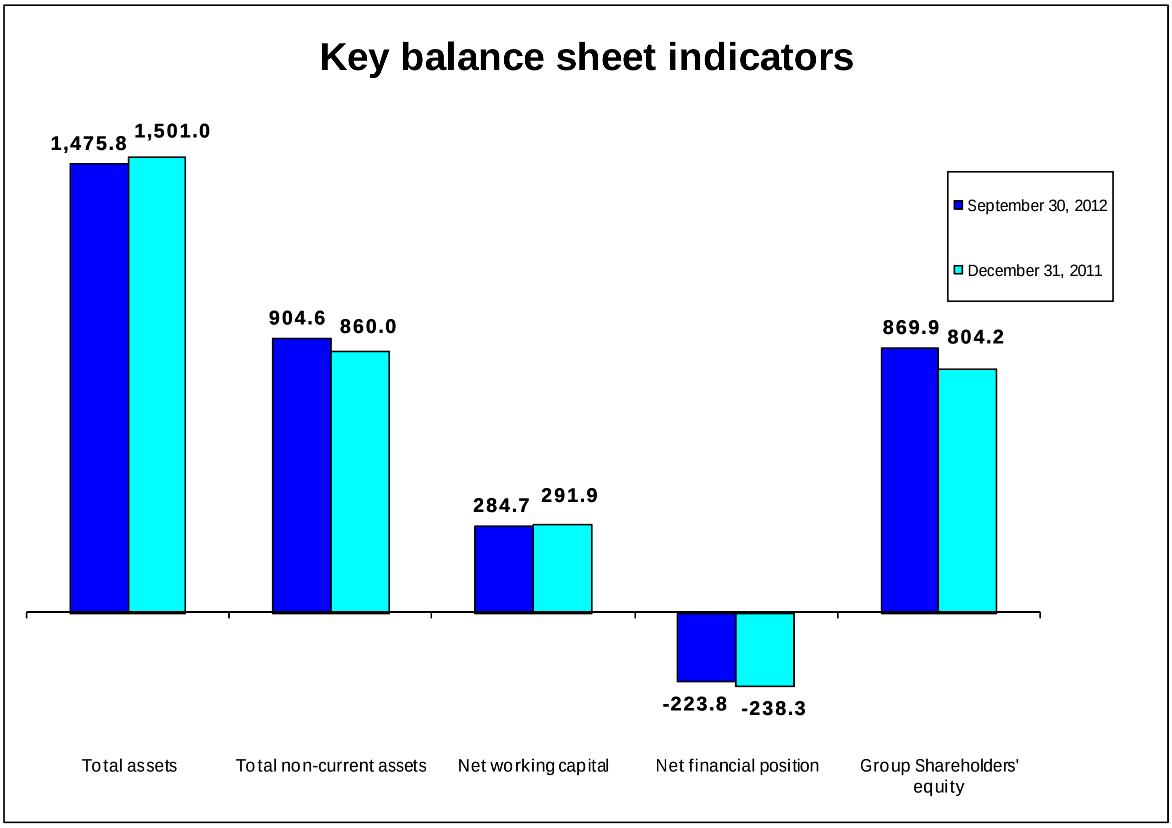
- *certain figures in the Directors Operations Report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be algebraic sums of the figures which precede them.*
- *"EBITDA" stands for Earnings Before Interest, Taxes, Depreciation and Amortisation; "EBITDA LTM" stands for EBITDA calculated for the prior 12 consecutive months ending on the date of measurement;*
- *"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.*

Disclaimer

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


Key economic indicators - First nine months
862.4
833.5
85.9
97.6
56.9
70.0
35.4
46.9
20.9
26.6
Net sales
Ebitda
Operating profit
Profit before taxation
Net profit attributable to the Group
First nine months 2012
First nine months 2011


Key economic indicators - 3rd quarter
249.1
230.2
15.2
17.4
5.7
8.2
-0.7
-3.4
-0.6
-4.7
Net sales
Ebitda
Operating profit
Profit/Loss before taxation
Net profit/loss attributable to the Group
Third quarter 2012
Third quarter 2011


Key balance sheet indicators
1,475.8
1,501.0
904.6
860.0
284.7
291.9
-223.8
-238.3
869.9
804.2
September 30, 2012
December 31, 2011
Total assets
Total non-current assets
Net working capital
Net financial position
Group Shareholders' equity

## Information on Group economic results

In the third quarter, generally the weakest period of the year and which in 2012 was marked by uncertainty surrounding the global macroeconomic environment and the ongoing Euro area crisis, Safilo Group delivered on its international expansion and distribution strategies, achieving sustained growth in consolidated net sales. The results benefitted from favourable exchange rate movements, organic growth of the business and the acquisition of Polaroid Eyewear completed in April. These factors more than offset the negative impact of the phase-out of licences expired at the end of 2011 and of the Armani Group licences due to expire at the end of 2012.
The operating performance again held up well, with EBITDA slightly down on the same period of the previous year, positive free cash flow of Euro 17.4 million and continuing improvement in net debt, maintaining a financial leverage in line with previous quarters.

Net sales for the third quarter of 2012 total Euro 249.1 million, up 8.2% on the previous year (+0.8% at constant exchange rates).

The Group's net sales for the first nine months of the year total Euro 862.4 million, up 3.5% on the same period of 2011 (-1.6% at constant exchange rates).

In terms of geographical area, European sales registered a turnaround in the third quarter compared to the downward trend seen in recent quarters. Growth was achieved thanks above all to the performances of the key account and travel retail channels and to the progressive pick-up in sales through independent opticians. Sales in the American continent and Asia continued to benefit from organic growth in emerging markets, where all the Group's main sunglass and prescription eyewear collections, led by the Carrera brand, registered very significant growth. The US market also continued to see positive organic growth trend, with like-for-like sales through Solstice sunglass stores returning to growth.

Thanks to the third-quarter operating performance (EBITDA of Euro 15.2 million, representing a margin of 6.1% based on net sales), EBITDA for the first nine months of 2012 amounts to Euro 85.9 million (a margin of 10%), down 12% on the first nine months of 2011 (EBITDA of Euro 97.6 million and a margin of 11.7%). The performance is proof of the Group's ability to contain and progressively offset the impact of the phase-out of licences on the income statement.

Net financial expenses are down in the third quarter, whilst the impact of foreign exchange movements was neutral.

These factors enabled Safilo to achieve an improvement in net profit for the third quarter attributable to the Group, almost reaching breakeven (a loss of Euro 0.6 million) compared to the loss of Euro 4.7 million of the same period of 2011.
Net profit attributable to the Group for the first nine months of 2012 amounts to Euro 20.9 million (Euro 26.6 million for the first nine months of 2011), representing a less marked decline with respect to the first six months

of the year.

In this environment careful cash flow management has enabled the Group to generate Euro 17.4 million during the third quarter, compared to Euro 4.2 million in the third quarter of 2011, resulting in operating cash flow for the first nine months of Euro 58.5 million.

The ratio of net debt, down to Euro 223.8 million, to EBITDA LTM remains stable at 2.

## Group economic results

| Consolidated statement of operations (Euro in millions) | First nine months 2012 | % | First nine months 2011 | % | Change % |
|---|---|---|---|---|---|
| Net sales | 862.4 | 100.0 | 833.5 | 100.0 | 3.5% |
| Cost of sales | (353.3) | (41.0) | (335.9) | (40.3) | 5.2% |
| **Gross profit** | **509.1** | **59.0** | **497.6** | **59.7** | **2.3%** |
| Selling and marketing expenses | (343.2) | (39.8) | (328.0) | (39.4) | 4.6% |
| General and administrative expenses | (109.5) | (12.7) | (99.5) | (11.9) | 10.1% |
| Other operating income/(expenses), net | 0.4 | 0.0 | - | - | n.s. |
| **Operating profit** | **56.9** | **6.6** | **70.0** | **8.4** | **-18.8%** |
| Interest expenses and other financial charges, net | (21.5) | (2.5) | (23.2) | (2.8) | -7.4% |
| **Profit before taxation** | **35.4** | **4.1** | **46.9** | **5.6** | **-24.5%** |
| Income taxes | (13.9) | (1.6) | (18.3) | (2.2) | -24.0% |
| **Net profit** | **21.5** | **2.5** | **28.6** | **3.4** | **-24.8%** |
| Net profit (loss) attributable to minority interest | 0.6 | 0.1 | 2.0 | 0.2 | -68.4% |
| **Net profit attributable to the group** | **20.9** | **2.4** | **26.6** | **3.2** | **-21.5%** |
| **EBITDA** | **85.9** | **10.0** | **97.6** | **11.7** | **-12.0%** |

| Consolidated statement of operations (Euro in millions) | Third quarter 2012 | % | Third quarter 2011 | % | Change % |
|---|---|---|---|---|---|
| Net sales | 249.1 | 100.0 | 230.2 | 100.0 | 8.2% |
| Cost of sales | (105.3) | (42.3) | (97.0) | (42.1) | 8.6% |
| **Gross profit** | **143.8** | **57.7** | **133.3** | **57.9** | **7.9%** |
| Selling and marketing expenses | (100.9) | (40.5) | (92.4) | (40.1) | 9.3% |
| General and administrative expenses | (36.0) | (14.5) | (32.9) | (14.3) | 9.6% |
| Other operating income/(expenses), net | (1.2) | (0.5) | 0.1 | (0.0) | n.s. |
| **Operating profit** | **5.7** | **2.3** | **8.2** | **3.5** | **-30.6%** |
| Interest expenses and other financial charges, net | (6.3) | (2.5) | (11.6) | (5.0) | -45.5% |
| **Profit (Loss) before taxation** | **(0.7)** | **(0.3)** | **(3.4)** | **(1.5)** | **-80.7%** |
| Income taxes | (0.2) | (0.1) | (1.4) | (0.6) | -85.2% |
| **Net profit (loss)** | **(0.9)** | **(0.3)** | **(4.8)** | **(2.1)** | **-82.0%** |
| Net profit (loss) attributable to minority interest | (0.3) | (0.1) | (0.1) | (0.1) | 57.7% |
| **Net profit (loss) attributable to the group** | **(0.6)** | **(0.3)** | **(4.7)** | **(2.0)** | **-86.2%** |
| **EBITDA** | **15.2** | **6.1** | **17.4** | **7.6** | **-12.5%** |

*Percentage impacts and changes have been calculated on figures in thousands.*

Net sales for the third quarter of the year amount to Euro 249.1 million (Euro 230.2 million in the same period of 2011), with growth accelerating with respect to previous quarters.
The quarterly performance benefitted from favourable exchange rate movements, organic growth of the business and the recent first-time consolidation of Polaroid, while the decline in sales of the licences being phased-out continued.

Consolidated sales for the first nine months thus total Euro 862.4 million, compared to Euro 833.5 million for the first nine months of 2011 (+3.5% at current exchange rates, -1.6% at constant exchange rates).

| **Net sales by geographical area** | **First nine months** | | | | | |
|---|---|---|---|---|---|---|
| (Euro in millions) | **2012** | **%** | **2011** | **%** | **Change %** | **Change % (*)** |
| Europe | 342.0 | 39.7 | 343.2 | 41.2 | -0.3 | -0.9 |
| Americas | 363.7 | 42.2 | 343.6 | 41.2 | +5.8 | -2.4 |
| Asia | 144.7 | 16.8 | 135.1 | 16.2 | +7.1 | -1.2 |
| Rest of the world | 12.0 | 1.4 | 11.6 | 1.4 | +3.4 | -0.7 |
| **Total** | **862.4** | **100.0** | **833.5** | **100.0** | **+3.5** | **-1.6** |

| **Net sales by geographical area** | **Third quarter** | | | | | |
|---|---|---|---|---|---|---|
| (Euro in millions) | **2012** | **%** | **2011** | **%** | **Change %** | **Change % (*)** |
| Europe | 91.1 | 36.6 | 81.4 | 35.4 | +11.9 | +10.7 |
| Americas | 115.7 | 46.4 | 110.6 | 48.0 | +4.6 | -6.1 |
| Asia | 38.6 | 15.5 | 35.2 | 15.3 | +9.7 | -1.4 |
| Rest of the world | 3.7 | 1.5 | 3.0 | 1.3 | +23.3 | +12.8 |
| **Total** | **249.1** | **100.0** | **230.2** | **100.0** | **+8.2** | **+0.8** |

(*) at constant exchange rates

Sales picked up in Europe during the second part of the year, above all thanks to the performances of the key account and travel retail channels, where the Group continues to boost sales and marketing initiatives with the aim of growing the sell-out of its products.
Mediterranean countries also registered an improvement, having previously been the hardest hit by the downturn in consumer spending.

The positive performance of organic sales in the American continent reflects growth in Latin American markets and like-for-like sales growth at Solstice stores in the USA, where leading department stores and independent opticians channel also registered growth.

In Asia, sales growth in the Chinese market was offset by a reduction of sales in Japan, whilst the area's organic performance registered an improvement compared to the previous quarters of 2012.

| Net sales by product (Euro in millions) | First nine months 2012 | % | 2011 | % | Change % | Change % (*) |
|---|---|---|---|---|---|---|
| Prescription frames | 321.3 | 37.3 | 315.4 | 37.8 | +1.9 | -2.6 |
| Sunglasses | 487.9 | 56.6 | 463.0 | 55.5 | +5.4 | 0.2 |
| Sport products | 46.3 | 5.4 | 48.1 | 5.8 | -3.7 | -11.3 |
| Other | 6.9 | 0.8 | 7.0 | 0.8 | -1.4 | -2.3 |
| **Total** | **862.4** | **100.0** | **833.5** | **100.0** | **+3.5** | **-1.6** |

| Net sales by product (Euro in millions) | Third quarter 2012 | % | 2011 | % | Change % | Change % (*) |
|---|---|---|---|---|---|---|
| Prescription frames | 99.2 | 39.8 | 92.8 | 40.3 | +6.9 | +0.5 |
| Sunglasses | 125.9 | 50.5 | 111.0 | 48.2 | +13.4 | +5.3 |
| Sport products | 21.7 | 8.7 | 24.4 | 10.6 | -11.1 | -18.8 |
| Other | 2.3 | 0.9 | 2.0 | 0.9 | +15.0 | +9.9 |
| **Total** | **249.1** | **100.0** | **230.2** | **100.0** | **+8.2** | **+0.8** |

(*) at constant exchange rates

In the quarter the positive trend of the organic[1] sales, related to the ongoing brand portfolio, has continued, reaching a growth of around 6%, at constant exchange rates, in the core product segments of sunglasses and prescription frames.
Once again, growth rates were strong for licensed brands Boss, Marc Jacobs and Tommy Hilfiger, as well as for the house brand, Carrera, which continued a growth in sales.
The performance of the period, was instead negatively affected by the downturn registered by ski masks and goggles, sales of which were significantly down, above all in North America.

In terms of earnings, **gross profit** for the first nine months totals Euro 509.1 million, up on the same period of 2011, with the gross profit margin of 59.0% slightly down on the previous year.
Gross profit for the third quarter is up in absolute terms, whilst the margin is more or less in line with the figure for the same period of 2011 (57.7% compared to 57.9% for the third quarter of 2011), despite the impact of the decline in the volume of brands being phased out.

The **EBITDA margin** for the third quarter is 6.1%, compared to 7.6% for the same period of 2011, whilst the figure for the first nine months of 2012 is 10.0%, compared to 11.7% for the first nine months of 2011.

The reduction in interest expense and foreign exchange losses has resulted in a substantial improvement in net **financial expenses** for the quarter and a consequent improvement in net profit.

[1] Excluding the sales of the new brand Polaroid, the brands not renewed at the end of 2011 and being phased-out in 2012.

The third quarter of 2012 saw the Group close to breakeven, reporting a loss of Euro 0.6 million versus a loss of Euro 4.7 million for the same quarter of 2011.

**Net profit attributable to the Group** for the first nine months of the year thus stands at Euro 20.9 million (Euro 26.6 million in 2011), representing a profit margin of 2.4% for the period.

## Analysis by distribution channel

The table below shows the key data by operating segment:

| (Euro in millions) | WHOLESALE First nine months 2012 | WHOLESALE First nine months 2011 | WHOLESALE Change | WHOLESALE Change % | RETAIL First nine months 2012 | RETAIL First nine months 2011 | RETAIL Change | RETAIL Change % |
|---|---|---|---|---|---|---|---|---|
| Net sales to 3rd parties | 800.9 | 778.4 | 22.5 | 2.9% | 61.5 | 55.1 | 6.4 | 11.6% |
| EBITDA (*) | 76.9 | 90.3 | (13.4) | -14.9% | 9.0 | 7.4 | 1.6 | 21.1% |
| *%* | *9.6%* | *11.6%* | | | *14.6%* | *13.5%* | | |

| (Euro in millions) | WHOLESALE Third quarter 2012 | WHOLESALE Third quarter 2011 | WHOLESALE Change | WHOLESALE Change % | RETAIL Third quarter 2012 | RETAIL Third quarter 2011 | RETAIL Change | RETAIL Change % |
|---|---|---|---|---|---|---|---|---|
| Net sales to 3rd parties | 228.2 | 211.6 | 16.6 | 7.8% | 20.9 | 18.6 | 2.3 | 12.4% |
| EBITDA | 12.5 | 14.7 | (2.2) | -15.2% | 2.7 | 2.7 | - | - |
| *%* | *5.5%* | *7.0%* | | | *13.3%* | *14.7%* | | |

(*) pre non-recurring items occurred in the first quarter 2011 referring to a gain on the revaluation of a real estate investment for 2.9 million Euro (wholesale) and to restructuring costs for 3.0 million Euro (retail).

As a result of the above performance, turnover for the wholesale segment is up 7.8% in the third quarter of 2012 (+0.9% at constant exchange rates) and 2.9% in the first nine months of the year (-1.8% at constant exchange rates).
The EBITDA margin for the third quarter stands at 5.5%, compared to 7.0% for the same period of 2011, whilst the EBITDA margin for the first nine months of 2012 stands at 9.6% (11.6% for the first nine months of 2011).

The recent reorganisation of the retail segment, which involved the closure of numerous stores of the American retail chain Solstice, has continued to produce results in line with expectations and an improvement in the channel's performance. In the first nine months sales at the chain, which had 134 stores at the end of September, are up 11.6% (+1.8% at constant exchange rates), whilst the like-for-like performance, based on stores open for at least one year, marks an improvement of 5.5% (+6.2% in the third quarter of 2012).
EBITDA improved during the period, rising over 20% to Euro 9.0 million (an EBITDA margin of 14.6%, compared to 13.5% for the same period of 2011).

## Reclassified balance sheet

| **Balance sheet** (Euro in millions) | **September 30, 2012** | **December 31, 2011** | **Change** |
|---|---|---|---|
| Trade receivables | 233.9 | 272.2 | (38.3) |
| Inventory, net | 220.2 | 219.7 | 0.5 |
| Trade payables | (169.4) | (200.0) | 30.6 |
| **Net working capital** | **284.7** | **291.9** | **(7.2)** |
| Tangible assets | 208.8 | 208.3 | 0.5 |
| Intangible assets and goodwill | 612.6 | 576.3 | 36.3 |
| Financial assets | 11.7 | 11.9 | (0.2) |
| **Net fixed assets** | **833.1** | **796.4** | **36.7** |
| Employee benefit liability | (35.3) | (32.6) | (2.7) |
| Other assets / (liabilities), net | 16.3 | (1.7) | 18.0 |
| **Net invested capital** | **1,098.8** | **1,054.0** | **44.8** |
| Cash in hand and at bank | 72.3 | 90.4 | (18.1) |
| Short-term borrowings | (182.1) | (132.9) | (49.2) |
| Long-term borrowings | (114.0) | (195.7) | 81.7 |
| **Net financial position** | **(223.8)** | **(238.3)** | **14.5** |
| Group Shareholders' equity | (869.9) | (804.2) | (65.7) |
| Non-controlling interest | (5.1) | (11.5) | 6.4 |
| **Total Shareholders' equity** | **(875.0)** | **(815.7)** | **(59.3)** |

## Cash flow

The following table shows the main items of the cash flow statement as at 30th September 2012 compared to the figures for the same period in the previous financial year:

| **Free cash flow** (Euro in millions) | **First nine months 2012** | **First nine months 2011** | **Change** |
|---|---|---|---|
| Cash flow operating activities | 58.5 | 43.4 | 15.1 |
| Cash flow investing activities | (89.6) | (23.1) | (66.5) |
| **Free cash flow** | **(31.1)** | **20.3** | **(51.4)** |

In the first nine months of the year, the Group progressively improved its ability to generate operating cash flow. Thanks to net profit for the period and the performance of working capital, the Group generated a cash inflow of Euro 58.5 million, which was invested in the business.

Investing activity includes acquisition of the Polaroid Eyewear business, which involved a net cash outflow, after cash acquired, of Euro 58.4 million, largely financed through a reserved capital increase by Multibrands Italy B.V. (a subsidiary of HAL Holding N.V.). In the first nine months of 2012 the Group also increased its investments in its subsidiaries in China, Hong Kong and Australia.

## Net working capital

| **Net working capital** (Euro in millions) | **September 30, 2012** | **September 30, 2011** | **Change** | **December 31, 2011** |
|---|---|---|---|---|
| Trade receivables, net | 233.9 | 241.6 | (7.7) | 272.2 |
| Inventories | 220.2 | 211.8 | 8.4 | 219.7 |
| Trade payables | (169.4) | (165.0) | (4.4) | (200.0) |
| **Net working capital** | **284.7** | **288.4** | **(3.7)** | **291.9** |
| *% net sales rolling LTM* | *25.2%* | *26.3%* | | *26.5%* |

Net working capital is substantially in line with the levels of the same period of 2011, despite increases deriving from a strengthening of the US dollar and consolidation of the assets resulting from the Polaroid acquisition, which mainly impacted on inventories.

The ratio of working capital to sales thus shows further improvement with respect to the end of the same period of 2011.

## Investments in tangible and intangible fixed assets

Investments in tangible and intangible assets made by the Group total Euro 19.6 million, compared to investments of Euro 18.5 million made in the same period of the previous financial year, and featured the following:

| (Euro in millions) | First nine months 2012 | First nine months 2011 | Change |
|---|---|---|---|
| Padua headquarters | 1.9 | 2.5 | (0.6) |
| Production factories | 11.4 | 12.4 | (1) |
| Europe | 0.7 | 0.2 | 0.5 |
| America | 5.1 | 3.0 | 2.1 |
| Far-East | 0.5 | 0.4 | 0.1 |
| **Total** | **19.6** | **18.5** | **1.1** |

There were no substantial changes in investment policy, which remains in line with previous years.

## Net financial position

| **Net financial position** (Euro in millions) | September 30, 2012 | June 30, 2012 | Change Sep/Jun | December 31, 2011 | Change Sept/Dec |
|---|---|---|---|---|---|
| Current portion of long-term borrowings | (1.4) | (1.4) | - | (79.1) | 77.7 |
| Bank overdrafts and short-term bank borrowings | (11.2) | (10.7) | (0.5) | (13.8) | 2.6 |
| Other short-term borrowings | (42.2) | (43.2) | 1.0 | (39.9) | (2.3) |
| Ordinary bonds | (127.3) | (127.1) | (0.2) | - | (127.3) |
| Cash and cash equivalent | 72.3 | 56.3 | 16.0 | 90.4 | (18.1) |
| **Short-term net financial position** | **(109.8)** | **(126.1)** | **16.3** | **(42.5)** | **(67.3)** |
| Long-term borrowings | (114.0) | (104.9) | (9.1) | (195.7) | 81.7 |
| **Long-term net financial position** | **(114.0)** | **(104.9)** | **(9.1)** | **(195.7)** | **81.7** |
| **Net financial position** | **(223.8)** | **(231.0)** | **7.2** | **(238.3)** | **14.5** |

The Group's net debt continues to improve, enabling to continue to boost liquidity. Net debt is down to Euro 223.8 million, whilst the ratio of net debt to EBITDA LTM continues to stand at 2 despite the unfavourable seasonality of the third quarter.

## Personnel

The Group's total workforce as at 30th September 2012, 31st December 2011 and 30th September 2011 is summarized in the following table:

| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
|---|---|---|---|
| Padua headquarters | 954 | 944 | 951 |
| Production factories | 4,622 | 5,099 | 5,138 |
| Commercial companies | 1,422 | 1,244 | 1,238 |
| Retail | 764 | 821 | 804 |
| **Total** | **7,762** | **8,108** | **8,131** |

The decline in the workforce reflects a reduction in personnel employed at the Group's production factories as a result of non-renewal of the licensing agreement with Armani.
The increase in the workforce employed by commercial companies is mainly due to inclusion of Polaroid's workforce.

## Subsequent events and outlook

There are no significant events to mention after 30th September 2012 that can be considered to have significantly affected the data contained in this report.

# Financial statements

# and Notes

# at September 30th, 2012

## Consolidated balance sheet

| *(Euro/000)* | *Notes* | September 30, 2012 | of which related parties | December 31, 2011 | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash in hand and at bank | *2.1* | 72,297 | | 90,368 | |
| Trade receivables, net | *2.2* | 233,912 | 15,988 | 272,153 | 7,139 |
| Inventory, net | *2.3* | 220,150 | | 219,735 | |
| Derivative financial instruments | *2.4* | 391 | | 2 | |
| Other current assets | *2.5* | 44,397 | | 58,736 | |
| **Total current assets** | | **571,147** | | **640,994** | |
| **Non-current assets** | | | | | |
| Tangible assets | *2.6* | 208,793 | | 208,274 | |
| Intangible assets | *2.7* | 46,715 | | 11,713 | |
| Goodwill | *2.8* | 565,850 | | 564,560 | |
| Investments in associates | *2.9* | 11,722 | | 11,871 | |
| Available-for-sale financial assets | *2.10* | 232 | | 194 | |
| Deferred tax assets | *2.11* | 68,441 | | 61,143 | |
| Derivative financial instruments | *2.4* | - | | - | |
| Other non-current assets | *2.12* | 2,881 | | 2,272 | |
| **Total non-current assets** | | **904,634** | | **860,027** | |
| **Total assets** | | **1,475,781** | | **1,501,021** | |

| *(Euro/000)* | *Notes* | September 30, 2012 | of which related parties | December 31, 2011 | of which related parties |
|---|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Short-term borrowings | *2.13* | 182,096 | 68,301 | 132,895 | |
| Trade payables | *2.14* | 169,415 | 8,453 | 200,024 | 3,375 |
| Tax payables | *2.15* | 14,863 | | 17,043 | |
| Derivative financial instruments | *2.4* | 397 | | 127 | |
| Other current liabilities | *2.16* | 50,949 | 2,484 | 70,993 | 814 |
| Provisions for risks and charges | *2.17* | 3,845 | | 6,599 | |
| **Total current liabilities** | | **421,565** | | **427,681** | |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | *2.13* | 114,029 | | 195,741 | 68,301 |
| Employees benefits liability | *2.18* | 35,298 | | 32,584 | |
| Provisions for risks and charges | *2.17* | 17,289 | | 18,693 | |
| Deferred tax liabilities | *2.11* | 5,730 | | 4,551 | |
| Derivative financial instruments | *2.4* | 1,711 | | 1,245 | |
| Other non-current liabilities | *2.19* | 5,162 | | 4,784 | |
| **Total non-current liabilities** | | **179,219** | | **257,598** | |
| **Total liabilities** | | **600,784** | | **685,279** | |
| **Shareholders' equity** | | | | | |
| Share capital | *2.20* | 308,700 | | 284,110 | |
| Share premium reserve | *2.21* | 481,163 | | 461,491 | |
| Retained earnings and other reserves | *2.22* | 61,009 | | 32,080 | |
| Fair value and cash flow reserves | *2.23* | (1,838) | | (1,341) | |
| Income attributable to the Group | | 20,878 | | 27,862 | |
| **Total shareholders' equity attributable to the Group** | | **869,912** | | **804,202** | |
| **Non-controlling interests** | | **5,085** | | **11,540** | |
| **Total shareholders' equity** | | **874,997** | | **815,742** | |
| **Total liabilities and shareholders' equity** | | **1,475,781** | | **1,501,021** | |

## Consolidated income statement

| *(Euro/000)* | Notes | First nine months 2012 | of which related parties | First nine months 2011 | of which related parties | Third quarter 2012 | of which related parties | Third quarter 2011 | of which related parties |
|---|---|---|---|---|---|---|---|---|---|
| Net sales | *3.1* | 862,360 | 45,415 | 833,490 | 30,270 | 249,074 | 12,054 | 230,234 | 7,988 |
| Cost of sales | *3.2* | (353,250) | (7,682) | (335,921) | (8,010) | (105,299) | (2,852) | (96,960) | (2,551) |
| **Gross profit** | | **509,110** | | **497,569** | | **143,775** | | **133,274** | |
| Selling and marketing expenses | *3.3* | (343,169) | (5,388) | (328,007) | (154) | (100,927) | (3,622) | (92,357) | (66) |
| General and administrative expenses | *3.4* | (109,494) | | (99,487) | (208) | (35,999) | | (32,850) | |
| Other oper. income/(expenses), net | *3.5* | 408 | | (39) | 101 | (1,180) | | 106 | |
| **Operating profit** | | **56,855** | | **70,036** | | **5,669** | | **8,173** | |
| Share of income/(loss) of associates | *3.6* | 96 | | (443) | | 1 | | (24) | |
| Interest exp. and other financial charges, net | *3.7* | (21,562) | (4,937) | (22,738) | (6,270) | (6,337) | (1,645) | (11,598) | (1,643) |
| **Profit/(loss) before taxation** | | **35,389** | | **46,855** | | **(667)** | | **(3,449)** | |
| Income taxes | *3.8* | (13,880) | | (18,263) | | (203) | | (1,374) | |
| **Profit/(loss) of the period** | | **21,509** | | **28,592** | | **(870)** | | **(4,823)** | |
| **Profit/(loss) attributable to:** | | | | | | | | | |
| Owners of the parent | | 20,878 | | 26,598 | | (646) | | (4,681) | |
| Non-controlling interests | | 631 | | 1,994 | | (224) | | (142) | |
| Earnings per share - basic (Euro) | *3.9* | 0.348 | | 0.468 | | (0.016) | | (0.082) | |
| Earnings per share - diluted (Euro) | *3.9* | 0.348 | | 0.467 | | (0.016) | | (0.081) | |

## Consolidated statement of comprehensive income

| *(Euro/000)* | ***Notes*** | **First nine months 2012** | **First nine months 2011** | **Third quarter 2012** | **Third quarter 2011** |
|---|---|---|---|---|---|
| **Net profit/(loss) for the period** | | **21,509** | **28,592** | **(870)** | **(4,823)** |
| Gains/(Losses) on cash flow hedges | *2.23* | (497) | (1,125) | 37 | (1,299) |
| Gains/(Losses) on fair value of available-for-sale financial assets | *2.23* | - | (26) | - | (14) |
| Gains/(Losses) on exchange differences on translating foreign operations | *2.22* | 1,523 | (8,971) | (15,426) | 36,377 |
| Other Gains/(Losses) | *2.22* | 17 | - | (2) | - |
| **Other comprehensive income/(loss), net of tax** | | **1,043** | **(10,122)** | **(15,391)** | **35,064** |
| **Total comprehensive income/(loss)** | | **22,552** | **18,470** | **(16,261)** | **30,241** |
| **Attributable to:** | | | | | |
| Group | | 21,911 | 16,227 | (15,917) | 29,481 |
| Non-controlling interests | | 641 | 2,243 | (344) | 760 |
| **Total comprehensive income/(loss)** | | **22,552** | **18,470** | **(16,261)** | **30,241** |

## Consolidated statement of cash flow

| *(Euro/000)* | Notes | First nine months 2012 | First nine months 2011 |
|---|---|---|---|
| **A - Opening net cash and cash equivalents (net financial indebtedness - short term)** | | **76,528** | **72,495** |
| **B - Cash flow from (for) operating activities** | | | |
| Net profit (loss) for the period (including minority interests) | | 21,509 | 28,592 |
| Depreciation and amortization | *2.6 - 2.7* | 29,059 | 27,599 |
| Other non-monetary P&L items | *2.9-2.17-2.18* | (2,130) | (994) |
| Interest expenses, net | *3.7* | 14,464 | 17,589 |
| Income tax expenses | *3.8* | 13,880 | 18,263 |
| **Income from operating activities prior to movements in working capital** | | **76,782** | **91,049** |
| (Increase) Decrease in trade receivables | | 56,571 | 25,917 |
| (Increase) Decrease in inventory, net | | 7,534 | 8,150 |
| Increase (Decrease) in trade payables | | (38,486) | (39,131) |
| (Increase) Decrease in other current receivables | | 7,425 | (3,797) |
| Increase (Decrease) in other current payables | | (20,724) | (1,348) |
| Interest expenses paid | | (10,857) | (14,467) |
| Income taxes paid | | (19,765) | (22,926) |
| **Total (B)** | | **58,480** | **43,447** |
| **C - Cash flow from (for) investing activities** | | | |
| Purchase of property, plant and equipment (net of disposals) | | (17,648) | (14,285) |
| Acquisition of subsidiary (net of cash acquired) | | (58,359) | - |
| Acquisition of minority | | (12,186) | (6,749) |
| (Acquisition) Disposal of investments and bonds | | (13) | 213 |
| Purchase of intangible assets | | (1,378) | (2,282) |
| **Total (C)** | | **(89,584)** | **(23,103)** |
| **D - Cash flow from (for) financing activities** | | | |
| Proceeds from borrowings | | 52,062 | 51,426 |
| Repayment of borrowings | | (80,115) | (61,543) |
| Share capital increase | | 44,262 | - |
| Dividends paid | | - | (397) |
| **Total (D)** | | **16,209** | **(10,514)** |
| **E - Cash flow for the period (B+C+D)** | | **(14,895)** | **9,830** |
| Translation exchange differences | | (582) | 1,848 |
| **Total (F)** | | **(582)** | **1,848** |
| **G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)** | *2.1* | **61,051** | **84,173** |

## Statement of changes in shareholders' equity

| (Euro/000) | Share capital | Share premium reserve | Translation diff. reserve | Fair value and cash flow reserves | Retained earnings and other reserves | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|
| **Group shareholders' equity at January 1, 2011** | **284,110** | **461,491** | **(7,878)** | **(21)** | **17,567** | **731** | **756,000** |
| Previous year's profit allocation | - | - | - | - | 731 | (731) | - |
| Changes in other reserves | - | - | - | - | 994 | - | 994 |
| Dividends distribution | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | (9,220) | (1,151) | - | 26,598 | 16,227 |
| **Group shareholders' equity at September 30, 2011** | **284,110** | **461,491** | **(17,098)** | **(1,172)** | **19,292** | **26,598** | **773,221** |
| **Non controlling interests at January 1, 2011** | **-** | **-** | **905** | **-** | **6,297** | **3,833** | **11,035** |
| Previous year's profit allocation | - | - | - | - | 3,833 | (3,833) | - |
| Changes in other reserves | - | - | - | - | (3) | - | (3) |
| Dividends distribution | - | - | - | - | (397) | - | (397) |
| Total comprehensive income for the period | - | - | 249 | - | - | 1,994 | 2,243 |
| **Non-controlling interests at September 30, 2011** | **-** | **-** | **1,154** | **-** | **9,730** | **1,994** | **12,878** |
| **Consolidated net equity at September 30, 2011** | **84,110** | **461,491** | **(15,944)** | **(1,172)** | **29,022** | **28,592** | **786,099** |

| (Euro/000) | Share capital | Share premium reserve | Translation diff. reserve | Fair value and cash flow reserves | Retained earnings and other reserves | Net profit (loss) | Total equity |
|---|---|---|---|---|---|---|---|
| **Group shareholders' equity at January 1, 2012** | **284,110** | **461,491** | **14,004** | **(1,341)** | **18,076** | **27,862** | **804,202** |
| Previous year's profit allocation | - | - | - | - | 27,862 | (27,862) | - |
| Share capital increase | 24,590 | 19,672 | - | - | - | - | 44,262 |
| Changes in other reserves | - | - | - | - | (463) | - | (463) |
| Dividends distribution | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | 1,513 | (497) | 17 | 20,878 | 21,911 |
| **Group shareholders' equity at September 30, 2012** | **308,700** | **481,163** | **15,517** | **(1,838)** | **45,493** | **20,878** | **869,912** |
| **Non controlling interests at January 1, 2012** | **-** | **-** | **1,601** | **-** | **6,735** | **3,204** | **11,540** |
| Previous year's profit allocation | - | - | - | - | 3,204 | (3,204) | - |
| Changes in other reserves | - | - | - | - | (7,096) | - | (7,096) |
| Dividends distribution | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | 10 | - | - | 631 | 641 |
| **Non-controlling interests at September 30, 2012** | **-** | **-** | **1,611** | **-** | **2,843** | **631** | **5,085** |
| **Consolidated net equity at September 30, 2012** | **308,700** | **481,163** | **17,128** | **(1,838)** | **48,336** | **21,509** | **874,997** |

# NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of preparation

### 1.1 General information

This interim consolidated financial statements, expressed in thousands of Euro, refer to the financial period from January 1st 2012 to September 30th 2012. Economic and financial information is provided with reference to the first nine months of 2012 and 2011 whilst balance sheet information is provided with reference to September 30th 2012 and December 31st 2011.

Consolidated quarterly financial report of Safilo Group at September 30th 2012, including condensed consolidated financial statements and interim management report is prepared in accordance with provisions of art. 154 ter of Legislative Decree No. c.5 58/98 - T.U.F. - and subsequent amendments and additions. This interim financial report is prepared in accordance with IAS 34 "Interim Financial Reporting", issued by the International Accounting Standards Board (IASB). The notes, in accordance with IAS 34, are presented in summary form and do not include all information requested in the annual budget, they refer only to those components that, in amount, composition or variations, are essential for understanding the economic situation and financial position of the Group. Therefore, this interim financial report must be read in conjunction with the consolidated financial statements for the financial year ended 31st December 2011.
All values are shown in thousands of Euro unless otherwise indicated.
These financial statements were approved by the Board of Directors on 6th November 2012.

### 1.2 Accounting standards, amendments and interpretations applied from 1st January 2012

As previously indicated, in preparing the consolidated quarterly financial reports the same accounting principles and criteria of the consolidated balance sheet as at 31st December 2011 have been applied.

As of this quarterly report premiums payable to clients are accounted for as a direct reduction of in “trade receivables”, given that they are settled primarily by offsetting them against amounts receivable from clients. The amount reclassified as a reduction in trade receivables totals Euro 17,870 thousand.

### Accounting standards, amendments and interpretations applied from 1st January 2012 but not applicable to the Group

There are no amendments, improvements or interpretations effective from 1st January 2012 applicable to the Group at the date of these interim consolidated financial statements or which may affect the accounting for future transactions or arrangements.

## 1.3 Consolidation method and consolidation area

The following changes in the basis of consolidation took place during the first nine months:

- on 8th March and 30th April 2012 the subsidiary, Safilo Far East Ltd., acquired additional 10% and 14.5% interests in Safint Optical Investment Ltd., a holding company registered in Hong Kong, and already 65.5% owned. As a result of the acquisitions, the Group now owns 90% of the holding company and of the Chinese trading companies wholly owned by it;

- on 3rd April 2012 the acquisition of the Polaroid Eyewear Group, a world leader in optics and polarised lense technology, was completed via the acquisition of 100% of the Dutch holding company, Style Mark Eyewear Holding B.V.. Further information is provided in paragraph 1.3.1 "Business combinations";

- on 13th July 2012 the Australian holding company, Safint Australia Pty Ltd., acquired a minority interest of 49% in trading company of which it already owned 51%. After achieving full control of the trading company, the subsidiary was wound up and its assets and liabilities transferred to the holding company, which is now a trading company and has, therefore, changed its name to Safilo Australia Pty Ltd.;

- on 31st July 2012 the subsidiary, Safilo Far East Ltd., acquired a further 19% interest in the trading company, Safilo Hong Kong Ltd., a holding company registered in Hong Kong, and already 51% owned. As a result of the acquisition, the Group has increased its interest to 70%.

The direct and indirect holdings, included in the consolidation scope under the line-by-line method, and other than the holding company Safilo Group S.p.A., are the following (see next page):

| | Currency | Share capital | % interest held |
|---|---|---|---|
| **ITALIAN COMPANIES** | | | |
| Safilo S.p.A. – Pieve di Cadore (BL) | EUR | 66,176,000 | 100.0 |
| Lenti S.r.l. – Bergamo | EUR | 500,000 | 75.6 |
| Smith Sport Optics S.r.l. (in liquidation) – Padova | EUR | 102,775 | 100.0 |
| Polaroid Eyewear S.r.l. - Varese | EUR | 104,000 | 100.0 |
| **FOREIGN COMPANIES** | | | |
| Safilo International B.V. - Rotterdam (NL) | EUR | 24,165,700 | 100.0 |
| Safint B.V. - Rotterdam (NL) | EUR | 18,200 | 100.0 |
| Safilo Capital Int. S.A. - Luxembourg (L) | EUR | 31,000 | 100.0 |
| Luxury Trade S.A - Luxembourg (L) | EUR | 1,650,000 | 100.0 |
| Safilo Benelux S.A. - Zaventem (B) | EUR | 560,000 | 100.0 |
| Safilo Espana S.L. - Madrid (E) | EUR | 1,000,000 | 100.0 |
| Safilo France S.a.r.l. - Paris (F) | EUR | 960,000 | 100.0 |
| Safilo Gmbh - Cologne (D) | EUR | 511,300 | 100.0 |
| Safilo Nordic AB - Taby (S) | SEK | 500,000 | 100.0 |
| Safilo CIS - LLC - Moscow (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 | 90.0 |
| Safilo Hong-Kong Ltd – Hong Kong (RC) | HKD | 100,000 | 70.0 |
| 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 | 90.0 |
| Safilo Eyewear (Shenzen) Company Limited - (RC) | USD | 6,700,000 | 90.0 |
| Safilo Eyewear (Suzhou) Industries Limited - (RC) | USD | 18,300,000 | 100.0 |
| Safilo Korea Ltd – Seoul (K) | KRW | 300,000,000 | 100.0 |
| Safilo Hellas Ottica S.a. – Athens (GR) | EUR | 489,990 | 100.0 |
| 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 – Saint Paul (BR) | BRL | 8,077,500 | 100.0 |
| Safilo Portugal Lda – Lisbon (P) | EUR | 500,000 | 100.0 |
| Safilo Switzerland AG – Liestal (CH) | CHF | 1,000,000 | 100.0 |
| Safilo India Pvt. Ltd - Bombay (IND) | INR | 42,000,000 | 88.5 |
| Safilo Australia Pty Ltd.- Sydney (AUS) | AUD | 3,000,000 | 100.0 |
| Optifashion Hong Kong Ltd (in liquidation) - Hong Kong (RC) | HKD | 300,000 | 100.0 |
| Safint Optical UK Ltd. - London (GB) | GBP | 21,139,001 | 100.0 |
| Safilo UK Ltd. - North Yorkshire (GB) | GBP | 250 | 100.0 |
| Safilo America Inc. - Delaware (USA) | USD | 8,430 | 100.0 |
| Safilo USA Inc. - New Jersey (USA) | USD | 23,289 | 100.0 |
| Safilo Realty Corp. - Delaware (USA) | USD | 10,000 | 100.0 |
| Safilo Services LLC - New Jersey (USA) | USD | - | 100.0 |
| Smith Sport Optics Inc. - Idaho (USA) | USD | 12,087 | 100.0 |
| Solstice Marketing Corp. – Delaware (USA) | USD | 1,000 | 100.0 |
| Solstice Marketing Concepts LLC – Delaware (USA) | USD | - | 100.0 |
| Safilo de Mexico S.A. de C.V. - Distrito Federal (MEX) | MXP | 10,035,575 | 100.0 |
| 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 |
| Polaroid Eyewear Holding BV- Amsterdam (NL) (former StyleMark Eyewear Holding BV) | EUR | 18,000 | 100.0 |
| Polaroid Eyewear BV - Amsterdam (NL) | EUR | 5,961,418 | 100.0 |
| Polaroid Eyewear Ltd - Dumbarton (UK) | GBP | 4,338,126 | 100.0 |
| Polaroid Eyewear AB - Stockholm-Globen (S) | SEK | 100,000 | 100.0 |
| Polaroid Eyewear GMBH - Zurig (CH) | CHF | 20,000 | 100.0 |
| Polaroid Eyewear US LLC - Florida (USA) | USD | - | 100.0 |

### 1.3.1 Business combinations

#### Acquisition of Polaroid Eyewear

The acquisition of the Polaroid Eyewear Group, a world leader in optics and polarised lense technology, and a global eyewear manufacturer and distributor with a strong and well-established market presence, was completed on 3rd April 2012.
The transaction was carried out via the acquisition of 100% of the holding company, StyleMark Eyewear Holding B.V..
The total consideration was US dollars 79.4 million (Euro 59.6 million), with the transaction primarily financed via a capital increase reserved to the Group's main shareholder, Multibrands Italy B.V., a subsidiary of HAL Holding N.V., which on 4th April 2012 subscribed and paid for new shares with a value of Euro 44,262,000.
The consideration paid was allocated to the acquired assets and no goodwill was recognised.
The fair value of the assets acquired and the liabilities assumed, calculated using the purchase price allocation method, have been provisionally determined at the date on which this financial report was approved for publication.

### 1.4 Translation of financial statement in currencies other than Euro

The exchange rates applied in the conversion of subsidiaries' financial statements prepared in a currency other than the Euro were as follows:

| | | As of | As of | (Appreciation) / Depreciation | Avg. for the nine months | | (Appreciation) / Depreciation |
|---|---|---|---|---|---|---|---|
| Currency | Code | September 30, 2012 | December 31, 2011 | % | 2012 | 2011 | % |
| US Dollar | USD | 1.2930 | 1.2939 | -0.1% | 1.2808 | 1.4063 | -8.9% |
| HK Dollar | HKD | 10.0258 | 10.0510 | -0.3% | 9.9381 | 10.9502 | -9.2% |
| Swiss Franc | CHF | 1.2099 | 1.2156 | -0.5% | 1.2044 | 1.2342 | -2.4% |
| Canadian Dollar | CAD | 1.2684 | 1.3215 | -4.0% | 1.2839 | 1.3750 | -6.6% |
| Japanese Yen | YEN | 100.3700 | 100.2000 | 0.2% | 101.6148 | 113.2057 | -10.2% |
| British Pound | GBP | 0.7981 | 0.8353 | -4.5% | 0.8120 | 0.8714 | -6.8% |
| Swedish Krown | SEK | 8.4498 | 8.9120 | -5.2% | 8.7311 | 9.0089 | -3.1% |
| Australian Dollar | AUD | 1.2396 | 1.2723 | -2.6% | 1.2381 | 1.3539 | -8.6% |
| South-African Rand | ZAR | 10.7125 | 10.4830 | 2.2% | 10.3092 | 9.8210 | 5.0% |
| Russian Ruble | RUB | 40.1400 | 41.7650 | -3.9% | 39.7994 | 40.4828 | -1.7% |
| Brazilian Real | BRL | 2.6232 | 2.4159 | 8.6% | 2.4555 | 2.2942 | 7.0% |
| Indian Rupee | INR | 68.3480 | 68.7130 | -0.5% | 68.0616 | 63.6646 | 6.9% |
| Singapore Dollar | SGD | 1.5848 | 1.6819 | -5.8% | 1.6121 | 1.7536 | -8.1% |
| Malaysian Ringgit | MYR | 3.9596 | 4.1055 | -3.6% | 3.9686 | 4.2590 | -6.8% |
| Chinese Reminbi | CNY | 8.1261 | 8.1588 | -0.4% | 8.1058 | 9.1374 | -11.3% |
| Korean Won | KRW | 1,439.3300 | 1,498.6900 | -4.0% | 1,458.7802 | 1,540.6096 | -5.3% |
| Mexican Peso | MXN | 16.6086 | 18.0512 | -8.0% | 16.9437 | 16.9236 | 0.1% |

Foreign currency transactions are converted into the currency using the exchange rate at the transaction date. The foreign exchange gains and losses resulting from the settlement of transactions and from the translation at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 1.5 Use of estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions which are from time to time considered reasonable and realistic according to the prevailing circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the various accounts in the financial statements, which uses the above-mentioned estimates and assumptions, may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

Some valuation processes, in particular the most complex such as the calculation of permanent impairments in values for fixed assets, are only made in full for the preparation of the Annual financial statements when all the necessary information is available, unless "impairment" indicators exist that require an immediate valuation of a potential loss in value.

## 2. Notes on the consolidated balance sheet

### 2.1 Cash in hand and at bank

This account totals Euro 72,297 thousand, compared to Euro 90,368 thousand at 31st December 2011 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. The related credit risk is very limited as the counterparties are leading banks.

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

| *(Euro/000)* | | September 30, 2012 | September 30, 2011 |
|---|---|---|---|
| Cash in hand and at bank | | 72,297 | 104,534 |
| Bank overdrafts | 2.13 | (965) | (10,617) |
| Current bank borrowings | 2.13 | (10,281) | (9,744) |
| **Net cash and cash equivalents** | | **61,051** | **84,173** |

### 2.2 Trade receivables, net

This item breaks down as follows:

| *(Euro/000)* | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Gross value | 267,115 | 299,769 |
| Allowance for doubtful accounts and sales returns | (33,203) | (27,616) |
| **Net value** | **233,912** | **272,153** |

The Group is not exposed to a significant concentration of credit risk, given that its exposure is spread among a large number of customers.
As of this quarterly report, bonuses payable to clients are accounted for as a direct reduction of in "trade receivables", given that they are settled primarily by offsetting them against amounts receivable from clients. The amount reclassified as a reduction in trade receivables totals Euro 17,870 thousand.

The movements of the credit risk provision over the nine months are shown below:

| *(Euro/000)* | Balance at January 1, 2012 | Increase | Use (-) | Changes in the scope of consolid. | Transl. Diff. | Balance at September 30, 2012 |
|---|---|---|---|---|---|---|
| Allowance for bad debts | 20,217 | 2,913 | (1,141) | 3,217 | 46 | 25,252 |
| Allowance for sales returns | 7,399 | - | (129) | 751 | (70) | 7,951 |
| **Total** | **27,616** | **2,913** | **(1,270)** | **3,968** | **(24)** | **33,203** |

The allowance for bad and doubtful debts includes the provision for insolvency posted on the income statement under the item "General and administrative expenses" (note 3.4).
The allowance for bad and doubtful debts includes the provision for products 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 direct reduction of sales.

## 2.3 Inventory, net

This item breaks down as follows:

| *(Euro/000)* | **September 30, 2012** | **December 31, 2011** |
|---|---|---|
| Raw materials | 68,298 | 61,712 |
| Work-in-progress | 6,782 | 5,894 |
| Finished products | 233,946 | 211,108 |
| **Gross** | **309,026** | **278,714** |
| Obsolescence provision (-) | (88,876) | (58,979) |
| **Total** | **220,150** | **219,735** |

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. The change to the income statement is posted under the item "Cost of sales" (note 3.2).

The movements in the aforementioned provision are shown below:

| *(Euro/000)* | **Balance at January 1, 2012** | **Posted to income statement** | **Changes in the scope of consolid.** | **Transl. Diff.** | **Balance at September 30, 2012** |
|---|---|---|---|---|---|
| Obsolescence provision | 58,979 | 22,947 | 6,590 | 360 | 88,876 |
| **Total** | **58,979** | **22,947** | **6,590** | **360** | **88,876** |

## 2.4 Derivative financial instruments

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

| *(Euro/000)* | September 30, 2012 | December 31, 2011 |
|---|---|---|
| **Current assets:** | | |
| - Interest rate swaps - cash flow hedge | - | 2 |
| - Foreign currency contracts - Fair value through P&L | 388 | - |
| - Foreign currency contracts - cash flow hedge | 3 | - |
| **Total** | **391** | **2** |

| *(Euro/000)* | September 30, 2012 | December 31, 2011 |
|---|---|---|
| **Current liabilities:** | | |
| - Foreign currency contracts - Fair value through P&L | 187 | - |
| - Foreign currency contracts - cash flow hedge | 210 | - |
| - Interest rate swaps - cash flow hedge | - | 127 |
| **Total** | **397** | **127** |
| **Non-current liabilities:** | | |
| - Interest rate swaps - cash flow hedge | 1,711 | 1,245 |
| **Total** | **1,711** | **1,245** |

The net market value of the forward hedge contracts appearing in the financial statements at 30th September 2012 was negative for 6 thousand of Euro, calculated using the present value of the differences between the contractual forward exchange rate and the market forward exchange rate at balance sheet date.
The market value of the interest rate swap contracts appearing in the financial statements at 30th September 2012 was negative for 1,711 thousand of Euro and was estimated by specialist financial institutions based on normal market conditions.
Group interest rate risk policy usually provides for the hedging of future financial flows that will appear in the accounts in subsequent years, and the related hedging effect must be suspended in the cash flow reserve and posted to the income statement in subsequent years as the expected flows appear.

The following table shows the characteristics and the fair value of the interest rate swap (IRS) contracts in force at 30th September 2012 and at 31st December 2011:

| ***Interest rate swaps*** | September 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | Contractual value | | ***Fair value*** | Contractual value | | ***Fair value*** |
| | *(USD/000)* | *(Euro/000)* | *(Euro/000)* | *(USD/000)* | *(Euro/000)* | *(Euro/000)* |
| Expiry year 2012 | - | - | - | - | 2,170 | 2 |
| Expiry year 2012 | - | - | - | 98,100 | - | (127) |
| Expiry year 2014 | - | 55,000 | (1,686) | - | 55,000 | (1,245) |
| Expiry year 2015 | - | 20,000 | (25) | - | - | - |
| **Total** | **-** | **75,000** | **(1,711)** | **98,100** | **57,170** | **(1,370)** |

## 2.5 Other current assets

This item breaks down as follows:

| *(Euro/000)* | September 30, 2012 | December 31, 2011 |
|---|---|---|
| VAT receivable | 5,141 | 8,861 |
| Tax credits and payments on account | 12,607 | 12,536 |
| Prepayments and accrued income | 19,434 | 19,838 |
| Receivables from agents | 241 | 440 |
| Other current receivables | 6,974 | 17,061 |
| **Total** | **44,397** | **58,736** |

Tax credits and payments on account mainly refer to tax prepayments and credits for higher taxes paid which will be offset against the relative tax payable.

Accrued income and deferred charges at 30th September 2012 include:

- prepaid royalty costs of Euro 12,675 thousand;
- prepaid rent and operating leases of Euro 2,154 thousand;
- prepaid advertising costs of Euro 1,843 thousand;
- prepaid insurance costs of Euro 407 thousand;
- other prepaid costs, mainly of commercial nature, for the remainder.

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

Other short-term receivables amount to Euro 6,974 thousand against Euro 17,061 thousand at 31st December 2011 and mainly refer to:

- payments of minimum annual guarantees relating to royalties for a total amount of Euro 1,681 thousand;
- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for Euro 2,059 thousand, referring to VAT receivables on 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;
- receivables for insurance repayments of Euro 241 thousand;
- deposit payments due within 12 months for Euro 475 thousand.

## 2.6 Property, plant and equipment, net

Changes in tangible assets in the first nine months 2012 are shown below:

| *(Euro/000)* | Balance at January 1, 2012 | Increase | Decrease | Reclass. | Changes in the scope of consolid. | Transl. diff. | Balance at September 30, 2012 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Land and buildings | 144,564 | 409 | - | - | 3,059 | 140 | 148,172 |
| Plant and machinery | 188,270 | 4,847 | (2,960) | - | 6,272 | (64) | 196,365 |
| Equipment and other assets | 215,708 | 12,844 | (7,003) | - | 372 | 271 | 222,192 |
| Assets under constructions | 45 | 39 | (78) | - | | - | 6 |
| **Total** | **548,587** | **18,139** | **(10,041)** | **-** | **9,703** | **347** | **566,735** |
| **Accumulated depreciation** | | | | | | | |
| Land and buildings | 39,861 | 2,887 | - | - | 451 | (16) | 43,183 |
| Plant and machinery | 130,956 | 6,925 | (2,739) | - | 2,573 | (170) | 137,545 |
| Equipment and other assets | 169,496 | 14,153 | (6,812) | - | 266 | 111 | 177,214 |
| **Total** | **340,313** | **23,965** | **(9,551)** | **-** | **3,290** | **(75)** | **357,942** |
| **Net value** | **208,274** | **(5,826)** | **(490)** | **-** | **6,413** | **422** | **208,793** |

Investments in tangible assets in the first nine months of 2012 totalled Euro 18,139 thousand, and mainly comprised:

- Euro 11,400 thousand in production facilities, mainly to renovate plants and to acquire and produce equipment for new models;
- Euro 4,505 thousand in the US companies;
- for the remaining amount in other Group's companies.

## 2.7 Intangible assets

Changes in intangible assets in the first nine months of 2012 are shown below:

| *(Euro/000)* | Balance at January 1, 2012 | Increase | Decrease | Changes in the scope of consolid. | Transl. diff. | Balance at September 30, 2012 |
|---|---|---|---|---|---|---|
| **Gross value** | | | | | | |
| Software | 26,090 | 1,325 | (293) | - | 7 | 27,129 |
| Trademarks and licenses | 43,776 | 78 | - | 38,707 | 13 | 82,574 |
| Other intangible assets | 8,319 | 71 | (6) | - | 20 | 8,404 |
| Intangible assets in progress | - | - | - | - | - | - |
| **Total** | **78,185** | **1,474** | **(299)** | **38,707** | **40** | **118,107** |
| **Accumulated depreciation** | | | | | | |
| Software | 19,629 | 1,370 | (197) | - | 8 | 20,810 |
| Trademarks and licenses | 40,081 | 3,392 | - | - | 11 | 43,484 |
| Other intangible assets | 6,762 | 332 | (6) | - | 10 | 7,098 |
| **Total** | **66,472** | **5,094** | **(203)** | **-** | **29** | **71,392** |
| **Net value** | **11,713** | **(3,620)** | **(96)** | **38,707** | **11** | **46,715** |

The amount recorded under “Changes in the basis of consolidation”, totalling Euro 38,707 thousand, regards the Polaroid brand preliminarily recognised under the purchase price allocation method applied to the Polaroid Eyewear business.

The table below shows depreciation and amortisation expenses related to tangible and intangible assets, recorded under the following items on the income statement:

| *(Euro/000)* | *Notes* | First nine months 2012 | First nine months 2011 |
|---|---|---|---|
| Cost of sales | *3.2* | 14,834 | 13,745 |
| Selling and marketing expenses | *3.3* | 3,846 | 4,284 |
| General and administrative costs | *3.4* | 10,379 | 9,570 |
| **Net value** | | **29,059** | **27,599** |

## 2.8 Goodwill

The change in goodwill in the first nine months of 2012 is shown in the table below:

| *(Euro/000)* | Balance at January 1, 2012 | Increase | Decrease | Transl. diff. | Balance at September 30, 2012 |
|---|---|---|---|---|---|
| Goodwill | 564,560 | - | - | 1,290 | 565,850 |
| **Net value** | **564,560** | **-** | **-** | **1,290** | **565,850** |

The value of goodwill broken down by the geographical regions of the CGUs to which it is allocated is as follows:

| Goodwill<br>*(Euro/000)* | Italy and Europe | Americas | Asia | Total |
|---|---|---|---|---|
| September 30, 2012 | 159,768 | 207,845 | 198,237 | 565,850 |
| December 31, 2011 | 158,902 | 208,406 | 197,252 | 564,560 |

## 2.9 Investments in associates

Investments in associates refer to the following companies:

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

The movements of shareholdings in associated companies in the first nine months of 2012 are shown below:

| | | | | Movements of the period | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | Gross value | Revaluation / (write-down) | Value at January 1, 2012 | Share of results and write-down of dividends | Transl. diff. | Value at September 30, 2012 |
| Elegance I. Holdings Ltd | 5,695 | 5,935 | 11,630 | (187) | 38 | 11,481 |
| Optifashion As | 353 | (112) | 241 | - | - | 241 |
| **Total** | **6,048** | **5,823** | **11,871** | **(187)** | **38** | **11,722** |

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

## 2.10 Available-for-sale financial assets

This item includes financial assets that may be sold. 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.

Changes in the item in the first nine months of 2012 are shown in the table below:

| | | | | Movements for the year | | |
|---|---|---|---|---|---|---|
| *(Euro/000)* | Gross value | Revaluation/ (write-down) | Value at January 1, 2012 | Increase/ (Decrease) | Revaluation/ (write-down) | Value at September 30, 2012 |
| Gruppo Banco Popolare | 228 | (102) | 126 | - | 26 | 152 |
| Unicredit S.p.A. | 48 | (26) | 22 | 13 | (1) | 34 |
| Other | 46 | - | 46 | - | - | 46 |
| **Total** | **322** | **(128)** | **194** | **13** | **25** | **232** |

## 2.11 Deferred tax assets and deferred tax liabilities

*Deferred tax assets*

These 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 taxes on tax losses accumulated by the Group are only booked on the companies' balance sheets if there is a reasonable likelihood that they may be recovered through future taxable income.

*Deferred tax liabilities*

This provision refers to taxes calculated on temporary differences between the carrying value of assets and liabilities and their tax value. The most significant items for which deferred tax liabilities have been calculated concern tangible assets and goodwill amortisation, calculated for tax purposes only.

*Allowance for deferred tax assets*

Deferred tax assets net (where applicable) of deferred tax liabilities in the financial statements of some companies of the Group, have been written down through a provision, in order to take into account the changed expectations of future recoverability. This prudential provision totals Euro 76,066 thousand.

The table below show the values of deferred tax assets and of deferred tax liabilities, net of the allowance made:

| *(Euro/000)* | **September 30, 2012** | **December 31, 2011** |
|---|---|---|
| Deferred tax assets | 144,507 | 134,756 |
| Depreciation Fund (-) | (76,066) | (73,613) |
| Total net deferred tax assets | 68,441 | 61,143 |
| Deferred tax liabilities | (5,730) | (4,551) |
| **Total** | **62,711** | **56,592** |

## 2.12 Other non-current assets

This item totals Euro 2,881 thousand, compared to Euro 2,272 thousand as at 31st December 2011; of this sum, Euro 2,650 thousand refers to security deposits for leasing contracts related to buildings used by some of the Group's companies.

It is considered that the book value of the "other non-current assets" approximates their fair value.

## 2.13 Bank loans and borrowings

Borrowings break down as follows:

| *(Euro/000)* | **September 30, 2012** | **December 31, 2011** |
|---|---|---|
| **Short-term borrowings** | | |
| Bank overdrafts | 965 | 3,544 |
| Short-term bank loans | 10,281 | 10,296 |
| Ordinary bonds | 127,342 | - |
| Short-term portion of long-term bank loans | 1,358 | 79,131 |
| Short-term portion of financial leasing | 1,167 | 1,330 |
| Debt to the factoring company | 40,868 | 34,745 |
| Other short-term loans | 115 | 112 |
| Other debts for purchase of minority interests | - | 3,737 |
| **Total** | **182,096** | **132,895** |
| **Long-term borrowings** | | |
| Medium long-term loans | 110,389 | 64,594 |
| Ordinary bonds | - | 126,644 |
| Payables for financial leasing | 3,521 | 4,269 |
| Other medium long-term loans | 119 | 234 |
| **Total** | **114,029** | **195,741** |
| **Total borrowings** | **296,125** | **328,636** |

At 30th September 2012, the Senior Loan was booked under “Medium/long-term bank loans”, and breaks down as follows:

- “Facility A1 –Tranche 2”, totalling Euro 24.9 million, expiring 30th June 2014;
- a revolving line called “Facility B”, totalling a maximum of Euro 200 million, expiring 30th June 2015, comprising two tranches, also payable in USD of which Euro 60 million and USD 33 million (equal to Euro 25,5 million) were used on 30th September 2012.

The following lines of credit forming part of the above facilities were repaid during 2012:

- “Facility A1 –Tranche 1”, totalling Euro 2.2 million;
- “Facility A2”, in USD, totalling Euro 36.4 million;
- “Facility A3”, in USD, totalling Euro 40.4 million.

At 30th September 2012 the above mentioned Senior Loan amounts to Euro 109.2 million and is included in “Medium/long-term bank borrowings”.

The Senior Loan contract includes a series of obligations and restrictions that concern operational and financial aspects relating to the subsidiaries Safilo S.p.A. and Safilo USA, to protect the integrity of the guarantees provided to the financing banks, and which mainly translate into prohibiting, beyond certain limits set out in the contract, the provision of real guarantees in favour of third parties (“negative pledge”), the incurring of financial debt beyond that resulting from the Senior Loan and HY bonds, the carrying out extraordinary company transactions, and the obligation to fulfil periodic disclosure requirements relating to financial data.

As regards financial commitments, from 30th June 2012, the company must comply with defined levels of the covenants calculated on the basis of financial statement data at the end of each half-year. If these parameters are not respected, the conditions to continue the loan agreement would need to be renegotiated with financiers, in relation to the appropriate waivers or changes to the aforementioned parameters. If this were not the case an event of default could arise, which would involve the compulsory advance payment of the loan.

The main covenants in the current contractual agreement are calculated as a ratio between net financial position and EBITDA and EBITDA and interest expenses.

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

The “Bonds issued” item relates to the High Yield bond issued on 15th May 2003 by Luxembourg subsidiary Safilo Capital International S.A. at a fixed rate of 9.625%, for an original nominal value of Euro 300 million, expiring 15th May 2013.

As at 30th September 2012 the amount of bonds outstanding, calculated using the amortised cost method, totalled Euro 127,342 thousand.

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

The following table illustrates the short term and medium/long term portions relating to lease contracts at 30th September 2012:

| *(Euro/000)* | **September 30, 2012** | **December 31, 2011** |
|---|---|---|
| Short-term portion of financial leasing | 1,167 | 1,330 |
| Long-term portion of financial leasing | 3,521 | 4,269 |
| **Total debt** | **4,688** | **5,599** |

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

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.

The short-term payables towards factoring companies are for contracts stipulated with leading factoring companies by the subsidiary Safilo S.p.A. for Euro 39,706 thousand and by the subsidiary Safilo do Brasil for Euro 1,161 thousand.

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

| *(Euro/000)* | **September 30, 2012** | **December 31, 2011** |
|---|---|---|
| From 1 to 2 years | 27,580 | 129,371 |
| From 2 to 3 years | 86,449 | 26,059 |
| From 3 to 4 years | - | 40,311 |
| Beyond 5 years | - | - |
| **Total** | **114,029** | **195,741** |

The following table shows borrowings divided by currency:

| *(Euro/000)* | September 30, 2012 | December 31, 2011 |
|---|---|---|
| **Short-term** | | |
| Euro | 169,319 | 41,402 |
| US Dollar | - | 75,609 |
| Chinese Reminbi | 10,952 | 11,521 |
| Brasilian Real | 1,720 | 486 |
| Japanese Yen | 47 | 48 |
| Swedish Kronor | 58 | 91 |
| HK Dollar | - | 3,737 |
| **Total** | **182,096** | **132,895** |
| **Medium long-term** | | |
| Euro | 87,012 | 194,303 |
| US Dollar | 25,522 | - |
| Chinese Reminbi | 1,231 | 1,226 |
| Brasilian Real | - | 13 |
| Japanese Yen | - | 9 |
| Swedish Kronor | 264 | 191 |
| **Total** | **114,029** | **195,741** |
| **Total borrowings** | **296,125** | **328,636** |

The following table details the credit lines granted to the Group, the uses and the lines available at 30th September 2012:

| *(Euro/000)* | Credit lines granted | Uses | Credit lines available |
|---|---|---|---|
| Credit lines on bank accounts and short-term bank loans | 76,284 | 11,245 | 65,039 |
| Credit lines on long-term bank loans | 227,823 | 113,345 | 114,478 |
| **Total** | **304,107** | **124,590** | **179,517** |

The net financial position of the Group at September 30th, 2012 compared to the same as of December 31st, 2011 is as follows:

| | **Net financial position** *(Euro/000)* | **September 30, 2012** | **December 31, 2011** | **Change** |
|---|---|---|---|---|
| A | Cash and cash equivalents | 72,297 | 90,368 | (18,071) |
| B | Cash and cash equivalents included as Assets held for sale | - | - | - |
| C | Current securities (securities held for trading) | - | - | - |
| **D** | **Liquidity (A+B+C)** | **72,297** | **90,368** | **(18,071)** |
| **E** | **Receivables from financing activities** | **-** | **-** | **-** |
| F | Bank overdrafts and short-t. bank borrowings | (11,246) | (13,840) | 2,594 |
| | Ordinary bonds | (127,342) | - | (127,342) |
| G | Current portion of long-term borrowings | (1,358) | (79,131) | 77,773 |
| H | Other short-term borrowings | (42,150) | (39,924) | (2,226) |
| **I** | **Debts and other current financial liabilities (F+G+H)** | **(182,096)** | **(132,895)** | **(49,201)** |
| **J** | **Current financial position, net (D)+(E)+(I)** | **(109,799)** | **(42,527)** | **(67,272)** |
| K | Long-term bank borrowings | (110,389) | (64,594) | (45,795) |
| L | Ordinary bonds | - | (126,644) | 126,644 |
| M | Other long-term borrowings | (3,640) | (4,503) | 863 |
| **N** | **Debts and other non current financial liabilities (K+L+M)** | **(114,029)** | **(195,741)** | **81,712** |
| **I** | **Net financial position (J)+(N)** | **(223,828)** | **(238,268)** | **14,440** |

## 2.14 Trade payables

This item breaks down as follows:

| *(Euro/000)* | **September 30, 2012** | **December 31, 2011** |
|---|---|---|
| **Trade payables for:** | | |
| Purchase of raw materials | 29,699 | 40,514 |
| Purchase of finished goods | 59,063 | 60,550 |
| Suppliers from subcontractors | 2,839 | 2,919 |
| Tangible and intangible assets | 2,190 | 4,766 |
| Commissions | 2,974 | 5,053 |
| Royalties | 16,337 | 20,437 |
| Advertising and marketing costs | 29,937 | 31,247 |
| Services | 26,376 | 34,538 |
| **Total** | **169,415** | **200,024** |

## 2.15 Tax payables

At 30th September 2012, tax payables totalled Euro 14,863 thousand, versus Euro 17,043 thousand at 31st December 2011. Euro 8,232 thousand related to income tax payables, Euro 2,943 thousand to VAT payables and the remainder to withholding and local taxes different from those on income.

## 2.16 Other current liabilities

This item breaks down as follows:

| *(Euro/000)* | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Payables to personnel and social security institutions | 36,511 | 32,723 |
| Premiums to clients | - | 25,167 |
| Agent fee payables | 2,326 | 2,278 |
| Payables to pension funds | 545 | 1,393 |
| Accrued advertising and sponsorship costs | 2,085 | 887 |
| Accrued interests on long-term loans | 5,015 | 2,264 |
| Other accruals and deferred income | 4,173 | 2,462 |
| Payables for dividends | 0 | 2,592 |
| Other current liabilities | 294 | 1,227 |
| **Total** | **50,949** | **70,993** |

Payables to personnel and social security institutions principally refer to salaries and wages for September, which are paid during October, accrued thirteenth month's pay and holidays accrued but not taken.
As of this quarterly report, premiums payable to clients are accounted for as a direct reduction of in "trade receivables", given that they are settled primarily by offsetting them against amounts receivable from clients.

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

## 2.17 Provision for risks and charges

This item breaks down as follows:

| *(Euro/000)* | Balance at January 1, 2012 | Increase | Decrease | Changes in the scope of consolid. | Transl. diff. | Balance at September 30, 2012 |
|---|---|---|---|---|---|---|
| Product warranty provision | 5,827 | 265 | (384) | - | - | 5,708 |
| Agents' severance indemnity | 5,324 | 787 | (1,137) | 164 | 1 | 5,139 |
| Provision for corporate restructuring | 3,697 | - | (922) | - | - | 2,775 |
| Other provisions for risks and charges | 3,845 | 338 | (516) | - | - | 3,667 |
| **Provisions for risks - long term** | **18,693** | **1,390** | **(2,959)** | **164** | **1** | **17,289** |
| **Provisions for risks - short term** | **6,599** | **902** | **(3,924)** | **261** | **7** | **3,845** |
| **Total** | **25,292** | **2,292** | **(6,883)** | **425** | **8** | **21,134** |

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

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

The restructuring fund includes provisions made in the first half of 2009 for restructuring costs relating to the downsizing of Italian production sites. The decrease relates to the costs sustained for staff that left the company in the first nine months of 2012.

The long- and short-term provision for other risks and charges includes an allowance for pending disputes at the balance sheet date and the restructuring costs of the stores of the American chain Solstice, to improve the profitability in the short term.

It is considered that these allowances are sufficient to cover the risks existing at the balance sheet date.

## 2.18 Employees benefits liability

The table below shows the movement in this item during the period:

| *(Euro/000)* | Balance at January 1, 2012 | Posted to income statement | Changes in the scope of consolid. | Uses / Payments | Transl. diff. | Balance at September 30, 2012 |
|---|---|---|---|---|---|---|
| Defined contribution plan | 51 | 7,033 | 422 | (3,284) | (4) | 4,218 |
| Defined benefit plan | 32,533 | 365 | 936 | (2,761) | 7 | 31,080 |
| **Total** | **32,584** | **7,398** | **1,358** | **(6,045)** | **3** | **35,298** |

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

## 2.19 Other non-current liabilities

At 30th September 2012 other non-current liabilities totalled Euro 5,162 thousand, compared to Euro 4,784 thousand at 31st December 2011, and comprised:

- Euro 4,694 thousand for long-term debt under leases of stores of the U.S. subsidiary Solstice;
- the remaining portion, relating to non-current liabilities recorded by some Group's companies.

## SHAREHOLDERS' EQUITY

Shareholders' equity is the value contributed by the shareholders of Safilo Group S.p.A. (the share capital and the share premium reserve), plus the value generated by the Group in terms of profit gained from its operations (profit carried forward and other reserves). At 30th September 2012, shareholders' equity amounted to Euro 874,997 thousand (of which Euro 5,085 thousand represent minority interests), against Euro 815,742 thousand at 31st December 2011 (of which Euro 11,540 thousand represent minority interests).
In managing its capital, the Group's aim is to create value for its shareholders, developing its business and thus guarantee the company's continuity.
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 outstanding.

### 2.20 Share capital

Following the Extraordinary General Meeting of the shareholders of the Parent Company, Safilo Group S.p.A., held on 21st December 2011 as well as the completion of the acquisition of Polaroid Eyewear, the capital increase reserved to the Parent Company's main shareholder, Multibrands Italy B.V., a subsidiary of HAL Holding N.V., was subscribed and fully paid up on 4th April 2012.
The total value of the capital increase is Euro 44,262,000 (including the share premium) and thus within the limit of 10% of the pre-existing capital.
The above transaction involved the issue of no. 4,918,000 ordinary shares at a subscription price of Euro 9.00 per share, of which Euro 5.00 represents the par value and Euro 4.00 the share premium.
Following the capital increase, at 30th September 2012 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 308,699,825.00, consisting of no. 61,739,965 ordinary shares with a par value of Euro 5.00 each.

### 2.21 Share premium reserves

The share premium reserve represents:

- 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 convertible bonds;
- the premium received from the exercise of stock options by their holders;
- the premium booked following the capital increase of 2010;
- the share premium collected following the capital increase of 4th April 2012, as described in the previous note on the share capital.

Following the capital increase, the Parent Company's share premium reserve thus amounts to Euro 481,163,313.69 at 30th September 2012.

### 2.22 Retained earnings (losses) and other reserves

This item includes both the reserves of the subsidiaries 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.

### 2.23 Fair value and cash flow reserves

This item breaks down as follows:

| | | Consolidated statement of comprehensive income | | | |
|---|---|---|---|---|---|
| *(Euro/000)* | **Balance at January 1, 2012** | **Profit (loss) of the period** | **Profit (loss) reclass to Inc. Stat.** | **Total Profit (loss) of the period** | **Balance at September 30, 2012** |
| Cash flow reserve | (1,341) | 46 | (543) | (497) | (1,838) |
| Fair value reserve | - | - | - | - | - |
| **Total** | **(1,341)** | **46** | **(543)** | **(497)** | **(1,838)** |

The cash flow hedge reserve refers to the fair value of interest rate swaps and the value of forward currency hedges reported in the financial statements of certain Group companies.

### 2.24 Stock option plans

During the first quarter the Board of Directors, on 8th March 2012 at its meeting to approve the results for the financial year ended 31.12.2011, assigned the third tranche of the 2010-2013 Stock Option Plan approved by the Extraordinary General Meeting of 5th November 2010.

For more detailed information about the Plan, reference should be made to the disclosure prepared pursuant to article 84-bis of the Regulation on Issuers, as subsequently supplemented, as well as to all the documents related to the above Plan, prepared in accordance with the applicable laws, which are available on the Company's web site in the Investors Relations – Corporate Governance section.

The table below shows the changes in the stock option plans occurred during the first nine months:

| | Options attributable to Executive members of the Board of Directors | | Options attributable to managers | | Grand total | |
|---|---|---|---|---|---|---|
| | No. of options | Average exercise price in Euro | No. of options | Average exercise price in Euro | No. of options | Average exercise price in Euro |
| **Outstanding at the beginning of the year** | **285,000** | **9.548** | **785,000** | **9.624** | **1,070,000** | **9.604** |
| Granted | 95,000 | 5.54 | 290,000 | 5.54 | 385,000 | 5.54 |
| Forfeited | - | - | - | - | - | - |
| Excercised | - | - | - | - | - | - |
| Expired | - | - | (75,000) | 9.548 | (75,000) | 9.548 |
| **Outstanding at year-end** | **380,000** | **8.546** | **1,000,000** | **8.445** | **1,380,000** | **8.473** |

## 3. Notes on the consolidated income statement

### 3.1 Net sales

For details concerning the sales performance in the first nine months of 2012 versus the same period the previous year, please refer to the "Report on Operations".

### 3.2 Cost of sales

This item breaks down as follows:

| (Euro/000) | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Purchase of raw materials and finished goods | 242,908 | 226,427 | 81,001 | 78,026 |
| Capitalisation of costs for increase in tangible assets (-) | (5,533) | (6,784) | (1,952) | (2,249) |
| Change in inventories | 7,559 | 7,106 | (6,208) | (13,004) |
| Wages and social security contributions | 69,960 | 72,829 | 20,586 | 22,618 |
| Subcontracting costs | 12,935 | 13,386 | 3,533 | 3,809 |
| Depreciation | 14,834 | 13,745 | 4,761 | 4,478 |
| Rental and operating leases | 571 | 573 | 175 | 192 |
| Other industrial costs | 10,016 | 8,639 | 3,403 | 3,090 |
| **Total** | **353,250** | **335,921** | **105,299** | **96,960** |

The change in inventories can be broken down as follows:

| (Euro/000) | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Finished products | 8,789 | 1,136 | (3,358) | (7,226) |
| Work-in-progress | (890) | (82) | (17) | (133) |
| Raw materials | (340) | 6,052 | (2,833) | (5,645) |
| **Total** | **7,559** | **7,106** | **(6,208)** | **(13,004)** |

The average number of Group employees in the first nine months of 2012 and 2011 can be summarised as follows:

| | First nine months 2012 | First nine months 2011 |
|---|---|---|
| Padua Headquarters | 932 | 930 |
| Production facilities | 4,786 | 4,882 |
| Commercial companies | 1,515 | 1,311 |
| Retail companies | 773 | 825 |
| **Total** | **8,006** | **7,948** |

## 3.3 Selling and marketing expenses

This item breaks down as follows:

| *(Euro/000)* | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Payroll and social security contributions | 85,831 | 76,130 | 27,549 | 23,227 |
| Sales commissions | 53,347 | 52,824 | 17,656 | 15,709 |
| Royalty expenses | 71,632 | 71,051 | 19,099 | 19,300 |
| Advertising and promotional costs | 84,761 | 82,783 | 21,777 | 20,468 |
| Amortization and depreciation | 3,846 | 4,284 | 1,208 | 1,290 |
| Logistic costs | 13,307 | 12,159 | 3,603 | 2,868 |
| Consultants fees | 2,714 | 3,269 | 745 | 868 |
| Rental and operating leases | 10,832 | 10,134 | 3,671 | 3,370 |
| Utilities | 658 | 671 | 243 | 99 |
| Provision for risks | 142 | 258 | (62) | (154) |
| Other sales and marketing expenses | 16,099 | 14,444 | 5,438 | 5,312 |
| **Total** | **343,169** | **328,007** | **100,927** | **92,357** |

## 3.4 General and administrative expenses

This item breaks down as follows:

| *(Euro/000)* | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Payroll and social security contributions | 55,191 | 48,236 | 18,194 | 16,474 |
| Allowance and write off of doubtful accounts | 2,434 | 3,640 | 217 | 358 |
| Amortization and depreciation | 10,379 | 9,570 | 3,616 | 3,499 |
| Consultants fees | 10,240 | 9,354 | 3,633 | 3,322 |
| Rental and operating leases | 6,271 | 5,972 | 2,166 | 1,939 |
| EDP costs | 3,725 | 3,230 | 1,306 | 1,080 |
| Insurance costs | 2,123 | 1,888 | 761 | 599 |
| Utilities, security and cleaning | 5,846 | 5,455 | 2,160 | 1,939 |
| Taxes (other than on income) | 3,252 | 3,277 | 1,006 | 1,014 |
| Other general and administrative expenses | 10,033 | 8,865 | 2,940 | 2,626 |
| **Total** | **109,494** | **99,487** | **35,999** | **32,850** |

## 3.5 Other operating income/(expenses), net

This item breaks down as follows:

| *(Euro/000)* | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Losses on disposal of assets | (295) | (131) | (174) | (19) |
| Other operating expenses | (2,915) | (3,527) | (1,041) | (83) |
| Gains on disposal of assets | 48 | 31 | 20 | 3 |
| Other operating incomes | 3,570 | 3,588 | 15 | 205 |
| **Total** | **408** | **(39)** | **(1,180)** | **106** |

Other operating expenses include costs of Euro 1.5 million linked to dismissal of the sales force responsible for Armani branded products.
Other operating income includes an insurance payout of Euro 2.5 million for damage resulting from the fire that affected an Italian production plant in 2011.

## 3.6 Share of income/(loss) of associates

This item showed a profit of Euro 96 thousand, compared to a loss of Euro 443 thousand in the same period of 2011, and includes the profit and losses deriving from the valuation at equity of shareholdings in associates

## 3.7 Interest expenses and other financial charges, net

This item breaks down as follows:

| *(Euro/000)* | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Interest expenses on loans | 5,071 | 4,712 | 1,474 | 2,020 |
| Interest expenses and charges on High Yield | 9,931 | 13,260 | 3,334 | 3,276 |
| Bank commissions | 4,707 | 4,203 | 1,366 | 1,274 |
| Negative exchange rate differences | 9,490 | 7,142 | 1,685 | 3,439 |
| Financial discounts | 831 | 828 | 217 | 244 |
| Other financial charges | 898 | 1,229 | 185 | 334 |
| **Total financial charges** | **30,928** | **31,374** | **8,261** | **10,587** |
| Interest income | 538 | 383 | 169 | 161 |
| Positive exchange rate differences | 8,521 | 8,182 | 1,667 | (1,164) |
| Dividends | - | 5 | - | - |
| Other financial income | 307 | 66 | 88 | (8) |
| **Total financial income** | **9,366** | **8,636** | **1,924** | **(1,011)** |
| **Total financial charges, net** | **21,562** | **22,738** | **6,337** | **11,598** |

## 3.8 Income taxes

| *(Euro/000)* | First nine months 2012 | First nine months 2011 | Third quarter 2012 | Third quarter 2011 |
|---|---|---|---|---|
| Current taxes | (20,432) | (24,610) | (3,701) | (5,192) |
| Deferred taxes | 6,552 | 6,347 | 3,498 | 3,818 |
| **Total** | **(13,880)** | **(18,263)** | **(203)** | **(1,374)** |

### 3.9 Earnings per Share

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

Basic

| | First nine months 2012 | First nine months 2011 |
|---|---|---|
| Profit for ordinary shares (in Euro/000) | 20,878 | 26,598 |
| Average number of ordinary shares (in thousands) | 60,053 | 56,822 |
| **Earnings per share - basic (in Euro)** | **0.348** | **0.468** |

Diluted

| | First nine months 2012 | First nine months 2011 |
|---|---|---|
| Profit for ordinary shares (in Euro/000) | 20,878 | 26,598 |
| Profit for preferred shares | - | - |
| **Profit in income statement** | **20,878** | **26,598** |
| Average number of ordinary shares (in thousands) | 60,053 | 56,822 |
| Dilution effects: | | |
| - stock option (in thousands) | - | 161 |
| **Total** | **60,053** | **56,983** |
| **Earnings per share - diluted (in Euro)** | **0.348** | **0.467** |

### 3.10 Seasonality

Group revenues are partially affected by seasonal factors, as demand is higher in the first half of the year as a result of sunglasses sales ahead of the summer. Revenues are normally at their lowest in the third quarter of the year, since the sales campaign for the second half is launched in autumn.

### 3.11 Significant non-recurring transactions and atypical and/or unusual operations

In the first nine months of 2012, the Group did not engage in significant non-recurring transactions or atypical and/or unusual operations pursuant to the CONSOB communication of 28th July 2006.

### 3.12 Dividends

In the first nine months of 2012, the parent company Safilo Group S.p.A. did not pay any dividends to its shareholders. The parent company closed the financial year 2011 with a loss.

### 3.13 Segment reporting

The operating segments (Wholesale and Retail) were identified by the management in line with the management and control model used for the Group. In particular, the criteria applied for the identification of these segments was based on the ways in which the management manages the Group and attributes operational responsibilities.

Information by segment relating to the periods ending 30th September 2012 and 30th September 2011 as well as to the third quarters 2012 and 2011 is shown in the tables below:

| **September 30, 2012** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 9,584 | - | (9,584) | - |
| - to third parties | 800,856 | 61,504 | - | 862,360 |
| **Total net sales** | **810,440** | **61,504** | **(9,584)** | **862,360** |
| **Gross profit** | **468,807** | **40,303** | **-** | **509,110** |
| **Operating profit** | **51,378** | **5,477** | **-** | **56,855** |
| Share of income of associates | 96 | - | | 96 |
| Financial charges, net | | | | (21,562) |
| Income taxes | | | | (13,880) |
| **Net profit** | | | | **21,509** |
| **Other information** | | | | |
| Capital expenditure | 18,599 | 1,014 | | 19,613 |
| Depreciation & amortization | 25,556 | 3,503 | | 29,059 |

| **September 30, 2011** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 8,384 | - | (8,384) | - |
| - to third parties | 778,443 | 55,047 | - | 833,490 |
| **Total net sales** | **786,827** | **55,047** | **(8,384)** | **833,490** |
| **Gross profit** | **460,784** | **36,785** | **-** | **497,569** |
| **Operating profit** | **69,583** | **453** | **-** | **70,036** |
| Share of income (loss) of associates | (443) | - | | (443) |
| Financial charges, net | | | | (22,738) |
| Income taxes | | | | (18,263) |
| **Net profit** | | | | **28,592** |
| **Other information** | | | | |
| Capital expenditure | 17,569 | 971 | | 18,541 |
| Depreciation & amortization | 23,638 | 3,961 | | 27,599 |

| **Third quarter 2012** *(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 2,414 | - | (2,414) | - |
| - to third parties | 228,192 | 20,882 | - | 249,074 |
| **Total net sales** | **230,606** | **20,882** | **(2,414)** | **249,074** |
| **Gross profit** | **130,546** | **13,229** | **-** | **143,775** |
| **Operating profit** | **3,957** | **1,712** | **-** | **5,669** |
| Share of income of associates | 1 | - | | 1 |
| Financial charges, net | | | | (6,337) |
| Income taxes | | | | (203) |
| **Net profit (loss)** | | | | **(870)** |
| **Other information** | | | | |
| Capital expenditure | 5,558 | 726 | | 6,284 |
| Depreciation & amortization | 8,524 | 1,062 | | 9,586 |

| **Third quarter 2011**<br>*(Euro/000)* | **WHOLESALE** | **RETAIL** | **Eliminat.** | **Total** |
|---|---|---|---|---|
| **Net sales** | | | | |
| - to other segment | 3,044 | - | (3,044) | - |
| - to third parties | 211,696 | 18,538 | - | 230,234 |
| **Total net sales** | **214,740** | **18,538** | **(3,044)** | **230,234** |
| **Gross profit** | **121,199** | **12,075** | **-** | **133,274** |
| **Operating profit** | **6,639** | **1,534** | **-** | **8,173** |
| Share of income (loss) of associates | (24) | - | | (24) |
| Financial charges, net | | | | (11,598) |
| Income taxes | | | | (1,374) |
| **Net profit (loss)** | | | | **(4,823)** |
| **Other information** | | | | |
| Capital expenditure | 6,259 | 490 | | 6,749 |
| Depreciation & amortization | 8,078 | 1,189 | | 9,267 |

## RELATED PARTIES TRANSACTIONS

The nature of transactions with related parties is set out in the following table:

| **Related parties transactions** *(Euro/000)* | **Relationship** | **September 30 2012** | **December 31 2011** |
|---|---|---|---|
| *Receivables* | | | |
| Companies controlled by HAL Holding N.V. | (c) | 15,988 | 7,139 |
| **Total** | | **15,988** | **7,139** |
| *Trade Payables* | | | |
| Elegance International Holdings Ltd | (b) | 3,615 | 3,358 |
| Companies controlled by HAL Holding N.V. | (c) | 4,838 | 18 |
| *Long term borrowings (High Yield) and accrued interests* | | | |
| HAL International Investments N.V. | (c) | 70,785 | 69,115 |
| **Total** | | **79,237** | **72,490** |

| **Related parties transactions** *(Euro/000)* | **Relationship** | **September 30 2012** | **September 30 2011** |
|---|---|---|---|
| *Revenues* | | | |
| Optifashion As | (a) | - | 112 |
| Elegance International Holdings Ltd | (b) | - | 40 |
| Companies controlled by HAL Holding N.V. | (c) | 45,415 | 30,218 |
| **Total** | | **45,415** | **30,370** |
| *Operating expenses* | | | |
| Elegance International Holdings Ltd | (b) | 7,682 | 8,010 |
| Tbr Inc. | (b) | - | 208 |
| Companies controlled by HAL Holding N.V. | (c) | 5,388 | 154 |
| *Financial expenses* | | | |
| HAL International Investments N.V. | (c) | 4,937 | 6,270 |
| **Total** | | **18,008** | **14,642** |

*(a) Unconsolidated subsidiary*
*(b) Associated company*
*(c) Companies controlled by Group's reference Shareholder*

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 (an indirect subsidiary) 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;
- The companies of HAL Holding N.V., primary shareholder of Safilo Group, mainly refer to the retail companies belonging to the GrandVision Group, with which Safilo carries out commercial transactions in line with market conditions;
- HAL International Investments N.V., during the restructuring process of the Group, acquired from third parties 50,99% of Safilo Capital International Senior Notes (High Yield).

In addition, during the nine months the shareholders of Only 3T S.r.l. company which holds a stake of 9.22% in Safilo Group S.p.A. have accrued by various way remunerations for a total amount of 3,434 thousand Euro.

## CONTINGENT LIABILITIES

The Group does not have any significant contingent liabilities not covered by appropriate provisions. Nevertheless, as of the balance sheet date, various legal actions involving the parent company and certain Group companies were pending. These proceedings remained broadly unchanged as of 31st December 2011, and, although these actions are considered to be groundless, a negative outcome beyond estimates could have adverse effects on the financial results of the Group.

## COMMITMENTS

At the balance sheet date, the Group had no significant purchase commitments.

For the Board of Directors
The Chief Executive Officer
Roberto Vedovotto

## Statement by the manager responsible for the preparation of the company's financial documents

The manager responsible for the preparation of the company's financial documents, Mr. Vincenzo Giannelli, hereby declares, in accordance with paragraph 2, article 154 bis of the Consolidated Finance Act (TUF), that the accounting information contained in these quarterly financial statements at 30th September 2012 corresponds to the accounting results, registers and records.

Padua, 6th November 2012

Vincenzo Giannelli
Manager responsible for the preparation of
the company's financial documents