OFFERING CIRCULAR

Safilo Capital International S.A.

€300,000,000

$9\,^5/_8$% Senior Notes Due 2013
Guaranteed on a senior subordinated basis by its parent
Safilo S.p.A.
and certain of its subsidiaries

We are offering €300 million aggregate principal amount of our $9\,^5/_8$% senior notes due 2013. We will pay interest on the notes each May 15 and November 15, beginning on November 15, 2003. We may redeem all or part of the notes at any time on or after May 15, 2008, at the redemption prices set forth in this offering circular. In addition, we may redeem up to 35% of the aggregate principal amount of the notes prior to May 15, 2006, with the net proceeds of certain equity offerings. We may redeem the notes, in whole or in part, at any time prior to May 15, 2008, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest and the applicable "make-whole" premium described in this offering circular. We may redeem all, but not less than all, the notes in the event of certain developments affecting taxation. If we undergo a change of control, each holder may require us to repurchase all or a portion of its notes. The notes will mature on May 15, 2013.

A wholly-owned finance subsidiary of Safilo S.p.A., Safilo Capital International S.A., will issue the notes. The notes will be senior obligations of Safilo Capital International S.A. Following the offering, Safilo Capital International S.A.'s only significant asset will be its € 300 million senior subordinated intercompany loan to Safilo International B.V., a wholly-owned subsidiary of Safilo S.p.A.

The notes will be secured by a second priority security interest in the shares of Safilo S.p.A. and by the second ranking security assignment of the €300 million senior subordinated intercompany loan to Safilo International B.V. The notes will be guaranteed on a senior subordinated basis by Safilo S.p.A. and its subsidiaries Safilo International B.V., Safint Optical UK Limited and Safilo America, Inc. The guarantees will be satisfied and released when the shares of Safilo S.p.A. pledged as security for the obligations under our senior facilities and the notes are sold and certain other conditions are met and under certain other circumstances.

Application has been made to list the notes on the Luxembourg Stock Exchange.

Investing in the notes involves risks. See "Risk Factors" beginning on page 20.

Price: 100%

plus accrued interest, if any, from May 15, 2003.

Delivery of the notes in book-entry form has been made on or about May 15, 2003.

The notes have not been registered under the U.S. Securities Act of 1933. The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act of 1933 provided by Rule 144A.

Credit Suisse First Boston Sole Book-Running and Lead Manager	Caboto Co-Manager

The date of this offering circular is July 23, 2003.

The offering referred to in this document has been completed and this document does not constitute an offer or solicitation. We have prepared this document solely in connection with the listing of the notes on the Luxembourg Stock Exchange and this document may only be used in relation to that purpose.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell the notes. The information in this document may only be accurate on the date of this document.

IN CONNECTION WITH THIS ISSUE, CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION FOR CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

We are incorporating by reference herein financial information of Safilo S.p.A., Safilo International B.V., Safilo America, Inc. and Safint Optical UK Limited, which means that we are disclosing important information to you by referring you to those documents. The information we incorporate by reference is an important part of these listing particulars. We incorporate by

reference the following documents:
- Safilo S.p.A.'s audited, unconsolidated financial statements for the year ended 2001 and 2002;
- Safilo International B.V.'s unaudited, unconsolidated financial statements for the year ended 2001 and 2002;
- Safilo America, Inc.'s unaudited, unconsolidated financial statements for the year ended 2002;
- Safint Optical UK Limited's audited, unconsolidated financial statements for the year ended 2001 and 2002;

Copies of the documents incorporated by reference herein also are available free of charge from The Bank of New York (Luxembourg) S.A., the Luxembourg listing agent, paying agent and transfer agent for the notes. They are also attached as Exhibit A to the offering circular.

NOTICE TO INVESTORS

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state of the United States, and may not be offered or sold within the United Stated or to, or for the account or benefit of, U.S. persons (as such terms are used in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The notes are being offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act. Prospective purchasers are hereby notified that the sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions on offers, sales and transfers of the notes and the distribution of this offering circular, see "Transfer Restrictions."

Neither we nor Credit Suisse First Boston (Europe) Limited and Caboto SIM S.p.A., the initial purchasers of the notes, are making an offer to sell these notes in any jurisdiction where the offer or sale is not permitted. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements set forth under "Transfer Restrictions." The notes are subject to restrictions on transferability and resale and may not be transferred or resold in the United States or to U.S. persons except as permitted under applicable U.S. federal and state securities laws pursuant to a registration statement or an exemption from registration. You should understand that you may have to bear the financial risks of your investment for an indefinite period of time. See "Transfer Restrictions."

This offering circular is being furnished by us in connection with an offering that is exempt from registration under, or not subject to, the Securities Act and applicable U.S. state securities laws, solely for the purpose of enabling a prospective investor to consider the purchase of the notes.. Notwithstanding the foregoing, you (and your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction described herein and all materials of any kind (including opinions or other tax analyses) that are provided to the recipient relating to such tax treatment and tax structure, except that tax treatment and tax structure shall not include the identity of any existing or future party (or any affiliate of any party) to the transactions described herein.

This offering circular is based on information provided by us and other sources that we believe are reliable. We have summarized certain documents and other information in a manner that we believe to be accurate in all material respects, but we refer you to the actual documents for a more complete understanding of what we discuss in this offering circular, and these summaries are qualified in their entirety by such reference. We will provide you with copies of those agreements upon request. See "Luxembourg Listing and General Information."

Neither we nor the initial purchasers nor any of our or their respective representatives are making any representation to you regarding the legality of an investment in the notes or the guarantees of the notes. In making an investment decision, you must rely on your own examination of our business and the terms of this offering and of the notes and such guarantees, including the merits and risks involved. You should contact us or the initial purchasers with any questions about this offering or if you require additional information to verify the information contained in this offering circular. You should not consider any information in this offering circular to be investment, legal, business or tax advice. You should consult your own counsel, business adviser, accountant, tax adviser and other advisers for legal, financial, business, tax and related advice regarding an investment in the notes and such guarantees. The initial purchasers are not responsible for, and are not making any representation or warranty to you concerning, the accuracy or completeness of this offering circular.

The information set out in the sections of this offering circular describing clearing arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of Euroclear Bank, as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), in each case as currently in effect. The information in such sections concerning these clearing systems has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of such information. If you wish to use the facilities of any of the clearing systems you should confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. We will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such book-entry interests (except for the extraction of such information).

We reserve the right to withdraw this offering at any time. We are making this offering subject to the terms described in this offering circular and the purchase agreement between us and the initial purchasers relating to the notes. We and the initial purchasers each reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of the notes sought by such investor. The initial purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the notes.

Laws in certain jurisdictions may restrict the distribution of this offering circular and the offer and sale of the notes. Persons into whose possession this offering circular or any of the notes may be delivered must inform themselves about and observe those restrictions. You should read "Plan of Distribution", "Notice to Certain Investors" and "Transfer Restrictions" for further information on some of those restrictions. Each prospective offeree or purchaser of the notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the notes or possesses or distributes this offering circular, and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the initial purchasers shall have any responsibility therefor.

The notes have not been recommended, approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any U.S. state securities commission in the United States or any other U.S. state or federal regulatory authority. These authorities have not confirmed the accuracy or determined the adequacy of this offering circular. Any representation to the contrary is a criminal offense in the United States.

This offering circular does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

This offering circular has not been submitted to the clearance procedure of *Commissione Nazionale per le Società e la Borsa* ("CONSOB") and may not be used in connection with any offering of the notes in Italy other than to "Professional Investors", as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of 1st July 1998 or in such other circumstances where an exemption from compliance with the solicitation restrictions under Legislative Decree No. 58 of 24th February 1998 or CONSOB Regulation No. 11971 of 14th May 1999 applies. In any case, the notes cannot be offered or sold to any individuals in Italy either in the primary market or the secondary market; this does not affect any transaction on the Luxembourg Stock Exchange

The notes shall not be offered or sold to the public in Luxembourg.

This communication and any other document issued in connection with the offering of the notes is directed only at those persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "FPO") and/or high net worth entities falling within Article 49(2)(a) to (d) of the FPO (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this communication relates is only available to, and will only be engaged in with, relevant persons. This communication (or any other document issued in connection with the offering) must not be acted on or relied on by persons who are not relevant persons. All applicable provisions of the Financial Services and Markets Act 2000 must be complied with in respect of anything done in relation to the notes in, from or otherwise involving the United Kingdom. The notes are not being offered to the public in the United Kingdom (within the meaning of the U.K. Public Offers of Securities Regulation 1995).

We confirm to the best of our knowledge, information and belief, having made all reasonable inquiries, that the information contained in this offering memorandum regarding us and the notes is true and accurate in all material respects. We additionally confirm, except as provided below, that the opinions and intentions expressed herein are honestly held and that there are no other material facts, the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading. We accept responsibility accordingly. However, the information set out in relation to sections of this offering memorandum describing clearing arrangements, including the section entitled "Book-Entry; Delivery and Form," is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear and Clearstream, we accept no further responsibility in respect of such information.

FORWARD-LOOKING STATEMENTS

This offering circular includes forward-looking statements. All statements other than statements of historical fact included in this offering circular regarding our business, financial condition, results of operations and certain of our plans, objectives, assumptions, projections, expectations or beliefs with respect to these items and statements regarding other future events or prospects, are forward-looking statements. These statements include, without limitation, those concerning: our strategy and our ability to achieve it; expectations regarding sales, profitability and growth; plans for the launch of new products; our possible or assumed future results of operations; research and development, capital expenditure and investment plans; adequacy of capital; and financing plans. The words "aim", "may", "will", "expect", "anticipate", "believe", "future", "continue", "help", "estimate", "plan", "intend", "should", "shall" or the negative or other variations thereof as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. In addition, this offering circular includes forward-looking statements relating to our potential exposure to various types of market risks, such as foreign exchange rate risk, interest rate risks and other risks related to financial assets and liabilities. We have based these forward-looking statements on our management's current view with respect to future events and financial performance. These views reflect the best judgment of our management but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in our forward-looking statements and from past results, performance or achievements. Although we believe that the estimates reflected in the forward-looking statements are reasonable, such estimates may prove to be incorrect. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from these expressed or implied by these forward-looking statements. These factors include, among other things:

- risks associated with our significant debt and our ability to meet our obligations;
- factors affecting our ability to successfully implement the Armani license;
- factors affecting our ability to design, develop and introduce successful new products;
- factors affecting our ability to compete effectively in the eyewear market, including new products and distribution strategies of our competitors;
- uncertainties associated with changing consumer preferences;
- factors affecting our ability to negotiate, maintain and renew license arrangements on satisfactory terms with leading designers;
- uncertainties associated with general economic conditions;
- governmental factors, including the costs of compliance with regulations and the impact of regulatory changes;
- factors affecting our ability to obtain or maintain intellectual property protection for our products;
- human resource factors, including our ability to retain our senior management and other key personnel and employee costs;
- risks related to our manufacturing and distribution operations and our arrangements with third-party manufacturers;
- the impact of currency exchange rate and interest rate fluctuations; and
- other risks, uncertainties and factors inherent in our business.

These risks are not exhaustive. For further discussion of these factors and other risks, see "Risk Factors", "Business" and "Operating and Financial Review and Prospects".

We do not intend to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this offering circular. As a result of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements as a prediction of actual results or otherwise.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING.

NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEMENT OF CERTAIN CIVIL LIABILITIES

The issuer, Safilo Capital International S.A., is a *société anonyme* (public limited liability company) organized under the laws of Luxembourg. All of its directors are non-residents of the United States and a substantial portion of its assets and those of such persons are located outside the United States. As a result, you may not be able to effect service of process on such persons or the issuer within the United States or to enforce in Luxembourg judgments obtained in U.S. courts against them or the issuer based on civil liability provisions of the U.S. federal and state securities laws or other laws. The issuer has been advised by its Luxembourg counsel, Allen & Overy Luxembourg, that there is doubt as to the direct enforceability in Luxembourg of civil liabilities predicated upon the federal securities laws of the United States.

Safilo S.p.A., a guarantor of the notes, and Safilo Holding S.p.A., are each a joint stock company (*Società per Azioni* or S.p.A.) organized under the laws of Italy. Most of their directors and executive officers are non-residents of the United States and a substantial portion of their assets and those of such persons are located outside the United States. As a result, you may not be able to effect service of process on such persons, Safilo or Safilo Holding within the United States or to enforce in Italy judgements obtained in U.S. courts against them or Safilo or Safilo Holding based on civil liability provisions of the U.S. federal and state securities laws or other laws. Safilo and Safilo Holding have been advised by their Italian counsel, Allen & Overy, that there is doubt as to the direct enforceability in Italy of civil liabilities predicated upon the federal securities laws of the United States.

Safint Optical UK Limited, a guarantor of the notes, is a limited liability company organized under the laws of England and Wales; and Safilo International B.V., a guarantor of the notes, is a private limited liability company (*besloten vennootschap met beperkle aansprakelijkheid*) incorporated under the laws of The Netherlands. All of their respective managing directors are non-residents of the United States and a substantial portion of their respective assets and those of such persons are located outside the United States. As a result, you may not be able to effect service of process on such persons or such guarantors within the United States or to enforce in England or The Netherlands, respectively, judgements obtained in U.S. courts against them or such guarantor based on civil liability provisions of the U.S. federal and state securities laws or other laws. These guarantors have been advised by their English and Dutch counsel, Allen & Overy, that there is doubt as to the direct enforceability in England and Wales, and in The Netherlands, of civil liabilities predicated upon the federal securities laws of the United States.

INDUSTRY AND MARKET DATA

Information regarding markets, market size, market share, market position, growth rates and other industry data pertaining to our business contained in this offering circular consists of estimates based on data reports compiled by professional organizations and analysts, on data from other external sources, and on our knowledge of our sales and markets. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring us to rely on internally developed estimates. While we have compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither we nor the initial purchasers have independently verified that data. We cannot assure you of the accuracy and completeness of, and take no responsibility for, such data. Similarly, while we believe our internal estimates to be reasonable, they have not been verified by any independent sources and we cannot assure you as to their accuracy.

PRESENTATION OF FINANCIAL AND OTHER DATA

Unless otherwise indicated, references in this offering circular to "euro" or "€" are to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended from time to time; and references to "dollars" or "$" are to the lawful currency of the United States of America.

We prepare our consolidated financial statements in euro. Unless otherwise indicated, all 2000 amounts have been translated into euro from Italian Lire at an exchange rate of €1.00 = ITL1,936.27.

The consolidated financial statements of Safilo S.p.A. contained in this offering circular are derived from the financial statements that were prepared for Italian legal and statutory purposes in accordance with the law governing the preparation of financial statements in Italy, as interpreted by, and integrated with, the accounting principles established by the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri*, the Italian accounting profession. The balance sheet and the statement of operations have been reclassified in accordance with the Statement of the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri* ("Italian Accounting Principles"). There are significant differences between Italian Accounting Principles and International Financial Reporting Standards ("IFRS", or formerly "IAS") and between Italian Accounting Principles and accounting principles generally accepted in the United States ("U.S. GAAP"). For more information, see "Annex A—Summary of Significant Differences Between Italian Accounting Principles and IFRS and U.S. GAAP".

The financial information included in this offering circular is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the presentation of U.S. GAAP financial information and the modification or exclusion of certain financial measures and the presentation of certain other information not included herein or the exclusion of certain information presented herein.

The issuer was incorporated in Luxembourg on December 11, 2002. The issuer is a subsidiary of Safilo S.p.A. used for group financing purposes and up to the date of this offering circular, has not engaged in any activities other than those related to its formation, the issuance of the bridge notes in December 2002, the making of a loan to Safilo International B.V. and compliance with its obligations in respect of the bridge notes.

EXCHANGE RATES

The following chart shows for the period from January 1, 1999, through July 23, 2003, the average, high and low noon buying rates in the City of New York for cable transfers of euro as certified for customs purposes by the Federal Bank of New York expressed as dollars per €1.00 (the "noon buying rate"). The noon buying rate on July 23, 2003, was US$1.15 per euro. The euro did not exist as a currency prior to January 1, 1999.

	Low	High	Average[(1)]	Period End
			(dollars per euro)	
Year				
1999	1.01	1.18	1.06	1.01
2000	0.83	1.03	0.92	0.94
2001	0.84	0.95	0.90	0.89
2002	0.86	1.05	0.95	1.05
2003 (through July 23)	1.04	1.19	1.11	1.15
Month				
January 2003	1.04	1.09	1.06	1.07
February 2003	1.07	1.09	1.08	1.08
March 2003	1.05	1.11	1.08	1.09
April 2003	1.06	1.12	1.09	1.12
May 2003	1.12	1.19	1.16	1.18
June 2003	1.14	1.19	1.17	1.15

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(1) The average of the noon buying rates in the City of New York for cable transfers of euro as certified for customs purposes by the Federal Reserve Bank of New York on the last day of each month.

OFFERING CIRCULAR SUMMARY

The following summary may not contain all the information that you should consider before investing in our notes. You should read this entire offering circular, including "Risk Factors" and the audited consolidated financial statements and related notes, before making an investment decision. In this offering circular, unless the context otherwise requires, references to the "issuer" or "Safilo Capital International" refer solely to Safilo Capital International on an unconsolidated basis and references to the "Company", "Safilo", the "Group", "we", "us" and "our" are to Safilo S.p.A., and where appropriate, its subsidiaries.

Our Company

Overview

We believe that we are the world's second largest wholesale eyewear producer and that we are the worldwide leader in the premium eyewear market segments in terms of net sales and units sold. The premium eyewear market segments, which comprise eyewear with retail price points above €100 in Europe and the United States, are the fastest growing segments of the eyewear market and have achieved annual growth rates of approximately 9% since 1995. Sales of our prescription frames and sunglasses positioned in the premium market segments represented an estimated 46% of our total net sales of €894.1 million in 2002. Once we fully implement our new exclusive worldwide license to produce *Giorgio Armani* and *Emporio Armani* eyewear, we believe that we may become the world's largest eyewear producer in terms of net sales and will improve our leadership position in the premium eyewear market segments. We are also one of the world's top three producers and distributors of sports goggles.

We design, manufacture and distribute high-quality eyewear products, including prescription frames, sunglasses frames and lenses, sport goggles and other accessories. In 2002, we distributed 23.2 million units of prescription frames, sunglasses and sport goggles. Our net sales are balanced by product category, geographic region, demographic group and our broad and diverse portfolio of owned and licensed brands. Our primary focus is on prescription frames and sunglasses with retail prices above €40 in the mid-range, high-end and premium eyewear market segments. Our *Smith* and *Carrera* sport goggles have retail prices ranging from €30 to €150. We distribute our eyewear products to eyewear retailers, and our principal customers include optometrists, ophthalmologists, opticians, retail distribution chains, department store chains and specialty stores. Sales of prescription frames accounted for 48% of our total net sales in 2002, sales of sunglasses accounted for 49%, and sales of sport goggles and other products accounted for 3%.

We believe that our prescription frames, sunglasses and brands are recognized worldwide for their high quality design and distinctiveness. We produce and distribute eyewear products under our owned brands as well as under license agreements for leading luxury and designer brands. Our license agreements typically are exclusive and have terms of five to eight years, and our relationships with some of our key licensors date back to the late 1980s. Our owned brands include *Safilo, Oxydo, Carrera, Smith* and *Blue Bay*. Our licensed brands include *Bottega Veneta, Burberry, Diesel, Dior, Emporio Armani, Fossil, Giorgio Armani, Gucci, Kate Spade, Liz Claiborne, Max Mara, Nine West, Oliver, Pierre Cardin, Polo Ralph Lauren, Saks Fifth Avenue, Stella McCartney, Valentino,* and *Yves Saint Laurent*. We have demonstrated an excellent track record in renewing existing licenses and in winning new high profile licenses, as shown by the February 2003 award of an exclusive eight-year worldwide license by the Armani Group for *Giorgio Armani* and *Emporio Armani* brands. Licensed brands constituted 74% of our total net sales in 2002 as compared to 71% and 67% in 2001 and 2000, respectively. We continually update our eyewear collections in response to changing consumer preferences, technological advances and market trends. Currently, we offer more than 1,700 models of prescription frames and more than 800 models of sunglasses, and we introduce more than 1,900 new models of prescription frames and sunglasses each year.

Our products are sold in 120 countries and are supplied to approximately 130,000 points of sale worldwide. We distribute our products directly in 26 of our largest geographic markets (93% of net sales in 2002) through company controlled distribution subsidiaries and a sales force of approximately 1,100 sales representatives, who, depending on the country, may be employees of the subsidiary (approximately 30%) or independent sales agents (approximately 70%). We expect to grow our sales force by an additional 220 sales representatives dedicated to the distribution of *Giorgio Armani* and *Emporio Armani* products. Regardless of whether our sales force members are employees or independent agents, they exclusively distribute Safilo owned or licensed eyewear. In other markets, we distribute our products through an established network of third-party distributors and, in all but a few of our smallest markets, pursuant to exclusive distribution arrangements. Our largest geographic markets in terms of net sales are the United States, Italy, France, Spain, Germany, the United Kingdom and Japan, which together accounted for 75% of our net sales in 2002.

We have been highly successful in positioning our brands in the eyewear market. We seek to position each individual brand and the Safilo portfolio of licensed and owned brands, as a whole, in a commercially optimal manner by targeting specific groups of end customers based on the unique characteristics of each brand. Our distribution network gives us global reach and direct control of eyewear distribution in the retail outlets that meet the optimal brand placement requirements. Our strategic choice to selectively control where our products are sold and their placement in retail outlets is highly appealing to licensors of leading brands and distinguishes us from our major competitors, some of whom either lack such ability or are vertically integrated into retail channels. We believe that our requirement to approve where our products may be sold and thus protect the brand image has been an important factor in a number of our recent successes in obtaining new licenses, including the February 2003 award of a worldwide exclusive license by the Armani Group for *Giorgio Armani* and *Emporio Armani* brands.

We operate seven principal manufacturing plants, with five located in northeast Italy, one in Austria and one in Slovenia. Our plants manufactured approximately 13.9 million eyewear units in 2002 compared to approximately 15.7 million units in 2001 and 14.1 million units in 2000 (including *Smith* sport goggles). In Sun Valley, Idaho, we design and oversee the production of our *Smith* sport goggles through third-party facilities in Utah. In order to maintain production flexibility, realize cost efficiencies and address the special design specifications of our Asian optical customers, we outsource the production of some of our prescription frames and sunglasses to selected manufacturers in China, Japan and Italy. We distributed approximately 11.2 million units of outsourced products in 2002 out of the 23.2 million total units distributed by us in 2002.

For the year ended December 31, 2002, we generated net sales of €894.1 million as compared to net sales of €845.0 million and €685.6 million in 2001 and 2000, respectively. For the year ended December 31, 2002, we generated EBITDA of €175.8 million as compared to €154.0 million and €114.1 million in 2001 and 2000, respectively.

Company History

Safilo was founded in 1934 when Guglielmo Tabacchi (father of our current Chairman, Vittorio Tabacchi) assumed control of a lens and frame factory established in 1878 in northeast Italy, a region where many leading companies in the eyewear industry are located. In 1977, we opened our offices in Padua in northeast Italy, the current location of our headquarters and primary distribution facility. Incorporated under the Italian Civil Code Sáfilo is registered in the Registro delle Imprese di Belluno, Italy with registration number 03625410281. Section 4 of the Articles of Association of Safilo S.p.A. states that the core business of the company is (i) the production and sale, in Italy and abroad, directly or through other entities, of optical frames, glasses (including sunglasses) and optical instruments; (ii) the acquisition and managing of interests in companies carrying out those activities of Safilo S.p.A.; and (iii) the participation in and organization of financial transactions between the companies of the group.

For over twenty years our organic growth has been complemented by a limited number of highly selective product line acquisitions and the expansion of our distribution network into attractive markets. In 1984, with the acquisition of Optifashion, which had license agreements with Ferrari and Ferré, we entered the nascent fashion eyewear market. In 1986, we purchased the remaining 50% of American Starline Optical Corp., a large U.S. eyewear trading company. In 1988 we acquired American Optique du Monde Corp., a company that had a license agreement for the *Polo Ralph Lauren* brand. In 1996, we acquired the U.S. company Smith Sport Optics Inc. and added sport goggles targeted at the U.S. market to our product lines. In the same year, we acquired certain assets of Carrera GmbH, a producer of specialized sport eyewear, including the *Optyl* know how for plastic frames and two manufacturing facilities in Austria and Slovenia. In recent years we have focused on establishing distribution subsidiaries in order to control the distribution of our products in our largest national markets and now distribute our products in 26 of our largest markets through subsidiaries.

Since the late 1980s, we have targeted the premium eyewear market segments by entering into brand licensing agreements with well known fashion houses, including for the following brands: *Polo Ralph Lauren* (through the 1988 acquisition of American Optique du Monde Corp.), *Gucci* (1988), *Pierre Cardin* (1991), *Burberry* (1994), *Diesel* (1994), *Dior* (related to the 1996 acquisition of certain assets of Carrera), *Max Mara* (1997), *Valentino* and *Oliver by Valentino* (1998), *Nine West* (1998), *Fossil* (1999), *Kate Spade* (2000), *Yves Saint Laurent* (2001), *Bottega Veneta* (2002), *Stella McCartney* (2002), *Liz Claiborne* (2002), *Giorgio Armani* (2003) and *Emporio Armani* (2003).

New License Arrangements

Giorgio Armani and Emporio Armani

In February 2003, we entered into a license arrangement with the Armani Group whereby we have the exclusive worldwide right to design, manufacture, market, distribute and sell prescription frames and sunglasses bearing the *Giorgio Armani* and *Emporio Armani* brands. This license arrangement expires in December 2010. Previously, *Giorgio Armani* and *Emporio Armani* prescription eyewear and sunglasses were designed, produced, distributed and sold by one of our principal competitors.

Giorgio Armani and *Emporio Armani* have historically been one of the top selling eyewear brands in the world, and we believe that the Armani license represents a highly complementary fit with our existing brand portfolio, enhancing our position as one of the leading producers of eyewear globally.

We have commenced the implementation of the Armani license, focusing on design, production, distribution and sales, advertising and promotion. We have started production and will begin to distribute *Giorgio Armani* and *Emporio Armani* eyewear in European markets in May and in the United States and Far East in August.

We believe that the Armani license validates our competitive strengths and business model of focusing on superior product quality and innovation, client service and continued investment in product design and research and development.

Bottega Veneta and Stella McCartney

As part of our ongoing close collaboration with the Gucci Group, in November 2002 we entered into new license arrangements for the *Bottega Veneta* and *Stella McCartney* branded eyewear collections. In keeping with the attributes of unsurpassed quality, outstanding craftsmanship, fashion and exclusive materials associated with the *Bottega Veneta* brand, we intend to position *Bottega Veneta* eyewear at the top end of the luxury eyewear market segment. *Stella McCartney* sunglasses, designed in close collaboration with Stella McCartney, the successful designer and daughter of Paul McCartney, will be positioned in the luxury market segment, and their design and marketing will emphasize the cutting-edge image that characterizes the *Stella McCartney* brand.

Liz Claiborne and Outlook Distribution Facility

In December 2002, we entered into a license agreement for *Liz Claiborne* branded prescription frames and sunglasses, and we sublicensed the sunglasses license to Outlook Eyewear, a company in Colorado that previously held the license. With the *Liz Claiborne* brand in our portfolio, we expect to penetrate the lower part of the large mid-range market segment in the United States. Currently, we are in advanced negotiations to acquire substantially all of the assets and liabilities of Outlook Eyewear for a purchase price of US$10 million (subject to certain adjustments) to be paid in three installments over two years. Outlook Eyewear was formerly owned by one of our principal competitors and was subsequently purchased by members of its management.

As part of the Outlook Eyewear acquisition, assuming its completion, we would acquire a 60,000 square foot leased distribution facility in Denver, Colorado. This distribution facility would provide us with additional capacity to meet increased unit volume demands and would provide customer service benefits from having distribution capability in the Western United States, as well as New Jersey, and from having an additional customer call center.

Our Competitive Strengths

We believe that the following factors give us competitive advantages in the global eyewear industry:

Superior Product Quality and Innovation

Our products are renowned for their superior quality and innovative features by both optical retailers and end customers. We believe that high product quality is a key competitive factor that enables us to successfully position our products in the mid-range to premium eyewear market segments. In addition, we believe that our emphasis on quality has been an important factor in establishing and retaining our leading portfolio of brands. The value we have traditionally placed on product craftsmanship distinguishes us from our mass-production oriented competitors with our licensors and customers. All of our products are developed and designed internally by our design group, which comprises approximately 150 highly qualified employees, which we believe to be the largest design team in the eyewear industry. We have a strategic focus on quality and on providing innovative technical solutions for our end customer's optical needs, such as non-allergenic frames, lens coatings and special lenses. One of our key objectives is to resolve optical defects and to meet the fitting, comfort and aesthetic requirements of end customers.

Global Market Leadership

We believe that we are the world's second largest eyewear producer and the worldwide market leader in the premium eyewear market segments and that we hold either the first or second position in over 20 of our largest geographic markets. We also believe that when we fully implement our recently won Armani license to produce *Giorgio Armani* and *Emporio Armani* eyewear that we may become the world's largest wholesale eyewear producer in terms of net sales.

Our leadership in the premium eyewear market segments can be attributed to our strategy to focus on these segments since the late 1980s. We leveraged our reputation for high quality products to become the producer of choice for luxury and designer brands in the premium eyewear market segments. We achieved and maintain our position through our ability to win new licenses and to retain existing licensing relationships with key international luxury and designer brands.

Our global market leadership makes us a preferred supplier for a key group of our clients, the optical retailers, for which our brands constitute a "must have" given the importance of providing a full range of top brands to meet consumer demands. In addition, our market leadership together with our superior product quality and innovation capabilities make us a preferred partner for luxury and designer houses.

Balanced Sales Mix

Our net sales are balanced by product category, geographic region, demographic group and our diversified portfolio of 28 owned and licensed brands. We generate a stable revenue stream from sales of prescription frames, which have represented about half of our total net sales and sales volume in recent years. Our prescription frame customer base primarily consists of an established network of independent optical industry professionals and a stable core of net sales of prescription frames that exhibit some medical product type characteristics. On a geographic basis, our net sales in the North America region (40% of total net sales in 2002) are approximately equivalent to our revenues in Italy and Europe (46% in 2002). Within the United States, our largest single market, our sales are divided between prescription frames (57% of net sales in 2002) and sunglasses (37% in 2002), by geographic region and by distribution channels. Within Europe, besides our home market of Italy, we have significant sales in the key markets of France, Spain, Germany and the United Kingdom. This geographic balance partly insulates us from a downturn in any particular region. Similarly, our diversified portfolio of 28 brands mitigates against fashion risk. In addition, we believe that the long-term nature of our license agreements provides additional stability to our sales. Finally, our brands are positioned at distinct price points in the mid-range, high-end and premium eyewear segments, and targeted at discrete groups of consumers.

Superior Client Service

We believe that we are a recognized leader in providing superior service to our clients. We support our customers through our large and experienced sales force, modern call centers for telephone orders, strong advertising and promotional support at the point of sale and an extensive distribution network capable of rapid delivery. We have established a dedicated pan-European organization, GCE (*Grandi Clienti Europa*), based in Padua, to improve the quality and promptness of our services to our largest European retail chain customers. We support our brands and our customers through extensive advertising and promotional activities, including point of sale displays and media campaigns. Our sales force of approximately 1,100 exclusive sales representatives is largely commissioned-based and dedicated to meeting the needs of our customers. This sales force is complemented by call centers located in Europe and the United States. Unlike our principal competitors, our sales representatives call on their clients, regardless of their size, on multiple occasions every year.

Experienced Management Team

We believe that our management team has an excellent track record in the eyewear industry and is highly regarded in terms of industry knowledge and strategic outlook. Our management team is led by Vittorio Tabacchi, our Chairman, and by Giannino Lorenzon and Roberto Vedovotto, our Co-Chief Executive Officers. Mr. Tabacchi, Mr. Lorenzon, our Director of Design, Enzo Sopracolle, and our three regional Managing Directors, Claudio Gottardi, Gianni Materassi and Mario Pietribiasi, have more than 140 years of experience in the eyewear industry. Mr. Vedovotto became our Co-Chief Executive Officer in 2002 after joining us from Morgan Stanley International Limited where he was a Managing Director and where he worked for 11 years. A significant component of the compensation of our management team is based on the operating performance of the business. Certain of our directors, senior management and other key employees have been granted options under Safilo Holding's share option plan.

Partnership with CSFB Private Equity

CSFB Private Equity acquired an indirect minority interest in Safilo in December 2002 through the purchase of shares of our parent company, Safilo Holding, from companies controlled by Vittorio Tabacchi and is represented on Safilo's board of directors. CSFB Private Equity is one the world's largest private equity firms with over €26 billion of assets under management. CSFB Private Equity invests across a broad range of industries and has significant experience in Europe. Some of CSFB Private Equity's significant European investments include Nycomed, Wellington Reinsurance, Consort Resources and Gala Group.

Our Strategy

We seek to strengthen our current position in the global eyewear market and enhance our financial profitability. As part of our strategy, we intend to: Continue to strengthen our portfolio of brands.We intend to continue to strengthen our portfolio of both owned and licensed brands. We believe that we are well-positioned to take advantage of the historically consistent revenues generated from sales of prescription frames to an established customer base while continuing to exploit the attractive sales growth opportunities available in the premium sunglasses market segments. *Owned brands.* Our strategy with respect to our owned brands is to position each brand to meet a specific customer need, such as increasing the focus on the sport segment for our *Carrera* and *Smith* brands through the establishment of dedicated sales teams or such as promoting through optical retail channels our established *Safilo* brands as specializing in addressing particular eyewear problems of our end customers. *Licensed Brands.* Our strategy is to position and differentiate our licensed brands by targeting various end customers, including differentiating between income levels, ages, gender and activities pursued by our end customers, whether professional or leisure in nature. We may selectively strengthen our portfolio by winning new licenses for brands with international recognition, excellent reputations for quality and proven historic growth. The award of the exclusive eight-year license to Safilo by the Armani Group for the *Giorgio Armani* and *Emporio Armani* brands demonstrates our ability to achieve this objective. We also intend to strengthen our portfolio by continuing to identify local brands that enable us to increase our penetration in regional and national markets. In addition, we strengthen our portfolio of licensed brands by adding brands that will complement and enhance our existing portfolio. Strengthen our distribution network. In order to improve our customer service, protect the brand image and value of our licensed brands and increase profitability, we intend to strengthen our distribution network. This will be achieved through establishing company controlled distribution subsidiaries in markets where it is cost-effective to do so and increasing our control over third-party distributors and agents in other markets. Currently, we distribute our products through company controlled distribution subsidiaries in 26 of our largest markets worldwide, and we are in the process of expanding this network in potential high-growth markets. We recently established new distribution subsidiaries in India, Singapore and Malaysia. As part of this strategy, we may also acquire the interests of local joint venture partners or minority investors in order to achieve total control of the distribution business.

In geographic markets where it is not yet attractive to establish our own distribution network, we intend to strengthen our control over our third-party distributors and agents. Besides achieving greater efficiency, we believe that increased control over third-party distributors and agents will contribute to the protection of the brand image and value of our licensed brands. We intend to utilize only one exclusive third-party distributor or agent in these markets. Additionally, unlike our major competitors, we intend to maintain our core identity as an eyewear producer that distributes its products through wholesale channels. We believe that large-scale vertical integration into retail distribution could jeopardize current relationships with some of our key customers. Continue to focus on product design. We believe that we are the industry leader in product design and technological innovation. Our emphasis on and approach to product design distinguishes us from our competitors and makes us an attractive licensing partner for leading luxury and design houses. Over a decade ago, we identified product design as a strategic objective of the Safilo Group and since then our design group has grown from two senior designers and six model designers to a total group of more than 150, including 12 senior designers and 30 model designers. Our competitors generally use external designers for their eyewear. We believe that we have an unrivalled capability to influence, if not lead, fashion trends in the eyewear industry. Product design influences nearly every aspect of our business, including production, marketing and sales. Improve cash flow generation. We are planning to improve cash flow generation by optimizing our working capital. We are working to change the terms of payment extended to our customers in order to reduce the amount of time to collect our receivables, which will result in increased cash generation. The plan was implemented in the second half of 2002 and is initially being presented to customers in Europe, and in particular Italy, where the average market payment period is in the range of 150 to 180 days. The initiative also seeks to reduce the number and amount of overdue payments. To support the initiative, bonus levels for commercial managers are now linked to their results in this area.

We have lengthened the time of payment to our third-party finished product suppliers in the Far East from 60 to 90 days, in order to achieve terms that are more in accordance with our receivables schedule. We are also trying to optimize the level of stock of our products. We are further investing in our new distribution center in Padua to improve the level of service extended to our customers while at the same time efficiently monitoring all distribution and inventory costs.

We have improved our operating margin from 12.6% in 2000 to 16.0% in 2002. We believe that this expansion of our margin and the optimization of working capital will enable us to attain our objective of reducing our debt levels. Focus on flexible production. We are committed to improving our operating efficiency through flexible production. For example, we aim to optimize the allocation of production requirements between our own production facilities and third-party manufacturers in order to attain maximum flexibility and cost-effectiveness without threatening intellectual property protection or product quality. Increasingly we are outsourcing more production of finished products, and we also increasingly use subcontractors to supply parts, finish assembly or produce our products. We link management and employee remuneration to improvements in production efficiency and closely monitor our product efficiency targets.

Corporate Reorganization and Financing Transactions

Corporate Reorganization and December 2002 Refinancing

In 1986, the shares of Safilo's predecessor were listed on the Italian Stock Exchange. As a result of a mandatory tender offer pursuant to Italian law, in December 2001 a company indirectly owned by Vittorio Tabacchi and members of his immediate family acquired all of our predecessor's publicly held shares and delisted its shares. On December 16, 2002, we completed the refinancing of the debt incurred in connection with this public-to-private transaction. In connection with this refinancing, CSFB Private Equity acquired an indirect minority interest in Safilo by purchasing shares of our parent company, Safilo Holding, from companies controlled by Vittorio Tabacchi. Currently, companies controlled by Vittorio Tabacchi and funds advised by CSFB Private Equity collectively own approximately 92% of the capital shares of Safilo Holding, and Vittorio Tabacchi's brother, Dino Tabacchi, owns approximately 8%. For a description of the corporate reorganization and the December 2002 refinancing, see "Operating and Financial Review and Prospects—Corporate Reorganization and December 2002 Refinancing".

The following table sets forth the sources and uses of funds for the December 2002 refinancing:

Sources	*(in millions)*	**Uses**	
Senior credit facilities[(1)]	€540	Refinancing of debt	€862
Subordinated bridge notes[(2)]	300	Transaction expenses	42
Securitization bridge facility[(3)]	50	Existing indebtedness[(4)]	25
Existing indebtedness[(4)]	25		
Excess cash used in refinancing	14		
Total	€929	**Total**	€929

(1) Represents borrowings by Safilo under term loans of €320 million and US$222 million. The senior credit facilities include a €50 million revolving credit facility, which facility was not drawn as of the date of the completion of the December 2002 refinancing. As of March 31, 2003, €37 million was drawn under the revolving credit facility. See "Description of Other Indebtedness—Senior Secured Credit Facilities".

(2) Represents €201 million and US$100 million of bridge notes for which Credit Suisse First Boston (Europe) Limited acted as the initial purchaser. The bridge notes will be redeemed with the proceeds from this offering. See "Use of Proceeds".

(3) Represents proceeds from the sale by Safilo of €76.4 million of Italian trade receivables under the securitization bridge facility provided by Credit Suisse First Boston International and Unicredito Italiano Bank (Ireland) PLC. See "Description of Other Indebtedness—Securitization Bridge Facility."

(4) Includes approximately €14 million of short term debt and €11 million of long term debt (including finance leases amounting to €7.5 million).

Additional Financing

In order to continue growing our business and to meet anticipated working capital and capital expenditure requirements, including implementing and meeting the requirements of the new Armani license, concurrently with this offering we are obtaining additional financing. Under this additional financing:

- Our existing senior credit facilities have been amended to include a €60 million senior secured capex facility, which will be undrawn at the time of the closing of this offering;

- Our parent company, Safilo Holding, will contribute €30 million in equity to Safilo; and
- Our parent company also has committed to contribute up to an additional €25 million of equity to Safilo under certain circumstances.

The initial availability of the capex facility, the completion of the €30 million equity contribution by Safilo Holding to Safilo and the commitment by Safilo Holding to contribute up to an additional € 25 million in equity to Safilo are conditions to the completion of the offering of the notes.

See "Capitalization" and "Operating and Financial Review and Prospects—Liquidity and Capital Resources—External Sources of Liquidity—Additional Funding and Financing" and "Description of Other Indebtedness".

Summary Corporate and Financing Structure

The following diagram summarizes our pro forma corporate structure and indebtedness after giving effect to the offering of the notes and repayment of the bridge notes and related transactions. Please refer to "Principal Shareholders", "Description of Other Indebtedness" and "Description of the Notes" for more detailed descriptions.

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1. The shares of Safilo S.p.A. and the issuer loan agreement will be pledged, on a first priority basis, to secure the group's obligations with respect to the senior credit facilities. Holders of the notes will benefit from a second priority security interest in those shares and the issuer loan agreement. See "Description of Other Indebtedness—Intercreditor Agreement" and "Description of the Notes—Security" and "—Ranking".

2. Borrower and a guarantor under the senior credit facilities and a guarantor of the notes. See also note 9 below.

3. Borrower under the issuer loan agreement.

4. Guarantor of the senior credit facilities and the notes. See also note 9 below.

5. 50.3% of the issued and outstanding shares of Safilo America, Inc. is owned by Safilo S.p.A. directly, and 49.7% is owned by Safint Optical UK Limited.

6. Represents €650 million in senior credit facilities made available to Safilo S.p.A. and certain of its subsidiaries comprising term advances (€540 million), a revolving credit facility (€50 million) and a new capex facility (€60 million, undrawn—made available to Safilo S.p.A. concurrently with the completion of the offering of the notes). As of March 31, 2003, €37 million was drawn under the revolving credit facility.

7. The issuer loan agreement from Safilo Capital International S.A. to Safilo International B.V. is pledged to secure the senior credit facilities and the notes and is subordinated in right of payment to all obligations of Safilo International with respect to the senior credit facilities and the notes. See also footnote 1 above.

8. Concurrently with the completion of the offering of the notes, Safilo Holding will make a €30 million equity contribution to Safilo and will commit to contribute up to an additional €25 million of equity to Safilo under certain circumstances.

9. The guarantees of the notes are subordinated to all senior indebtedness of each guarantor, including with respect to such guarantor's guarantee of, or borrowings under, the senior credit facilities and such guarantees of the notes are not due unless certain conditions have been satisfied. See "Description of the Notes—Security" and "—Ranking". In addition to the guarantors of the notes referred to above, certain of Safilo S.p.A.'s other operating subsidiaries are guarantors of the senior credit facilities. See "Description of Other Indebtedness—Senior Secured Credit Facilities".

10. Directly and indirectly owned by Safilo S.p.A. A number of operating subsidiaries are guarantors of, and have granted security

interests over their assets in favor of, the senior credit facilities and the Group's principal U.S. operating subsidiary, Safilo U.S.A., Inc., is a borrower under and a guarantor of, and has granted security interests over its assets in favor of, the senior credit facilities.

Current Trading

For information regarding our current trading through first quarter 2003, see "Operating and Financial Review and Prospects—First Quarter 2003 Update".

The Issuer

The issuer is a *société anonyme* incorporated with limited liability under the laws of the Grand Duchy of Luxembourg. The issuer was incorporated in Luxembourg on December 11, 2002. The issuer issued bridge notes in December 2002 which will be redeemed from the proceeds of this offering. The issuer is a wholly owned subsidiary of Safilo S.p.A. The registered office of the issuer is 9, rue Schiller, L-2519 Luxembourg, and it is registered under B90.240 at the Trade and Companies Registry in Luxembourg. The Issuer has a fully paid-up share capital of €31,000 divided into 3100 registered shares with a par value of €10 each. The capitalization table as at June 30, 2003 for the Issuer, which reflects this offering, is below and Exhibit A should be referred to for more detailed explanation of its year end accounts. There have been no material changes to this capitalization tables.

Safilo Capital International S.A.
Capitalization Table as at June 30, 2003

	2003 €
SHAREHOLDER'S EQUITY AND LIABILITIES	
Shareholders' equity	
Subscribed capital	31,000
Amounts owed to credit institution	
Repayable more than one year	300,000,000
Repayable less than one year	3,689,583
Amounts owed to undertakings with which the company is limited by virture of participating interests	
Repayable more than one year	12,000,000
Repyable less than one year	214,467
Other creditors	
Repayable less than one year	240,000
Repyable more than one year	37,441
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	315,972,731

The Guarantors

The purposes of the guarantors are primarily the sale of prescription frames, sunglasses, other accessories, and other lawful activities to carry out these functions, such as being holding companies. Safilo S.p.A, incorporated under the Italian Civil Code originally on March 17, 1934 has a fully paid-up share capital of €34,350,000 divided into 34,350,000 shares with a par value of €1.00 each. On February 25, 2003 the authorized share capital was enlarged to €672,510,000. Safilo International B.V., incorporated under the Dutch Commercial Code on December 19, 1984 has fully paid-up share capital of €24,165,700 divided into 241,657 shares with a par value of €100 each of €100,000,000 authorized share capital divided into 1,000,000 authorized shares. Safint Optical UK Limited, incorporated under the Companies Act (1985) on February 27, 1995 has fully paid-up share capital of £21,139,001 divided into 21,139,001 shares with a par value of £1.00 each of £50,000,000 authorized share capital divided into 50,000,000 authorized shares. Safilo America, Inc., incorporated under the Delaware General Corporation Law on September 26, 1973 has fully paid-up share capital of Calls A Common $1,330 divided into 133 shares with a par value of $10.00 each of $3,000 authorized share capital divided into 300 authorized shares and Calls P Preferred $7,100 divided into 71 shares with a par value of $100 each of $225,000 authorized share capital divided into 225 authorized shares. The guarantors are not required to produce quarterly financial statements. The balance sheets for each of the Guarantors is below and the accounts in Exhibit A should be reviewed for more detailed explanation. There have been no material changes to these capitalization tables.

Safilo S.p.A.
Capitalization Table as at March 31, 2003

	2003 €
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Bank overdrafts and short-term loans	43,023
Current portion of medium/long-term loans	6,362
Trade payables	118,385
Due to subsidiaries	323,536
Other payables	29,442
Accrued expenses and deferred income	2,244
Other risk reserves	265
Total current liabilities	523,257
MEDIUM/LONG-TERM LIABILITIES	
Medium/long-term loans, net of current portion	455,072
Reserve for termination indemnities	13,871
Risk Reserve Fund	26,238
Total medium/long-term liabilities	495,181
STOCKHOLDERS' EQUITY	
Capital stock	33,350
Additional paid-in Capital	4,810
Other reserves and retained earnings	94,052
Net income for the year	-5,247
Total stockholders' equity	126,965
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,175,403

Safilo International B.V.
Rotterdam
Capitalization Table as at December 31, 2002

	2002 €
SHAREHOLDER'S EQUITY AND LIABILITIES	

	2002 €
Shareholder's Equity	
Issued and fully paid share capital	24,165,700
Share premium	17,801,406
Retained earnings	18,484,047
Net result for the year	71,796,060
Dividend	-74,776,438
	57,470,775
Medium Term Liability	
Loans from Group Company	297,446,740
Current Liabilities	
Interest payable to Group Company	1,259,853
Wage tax payable	158,757
Corporate income tax 2001 payable	120,203
Corporate income tax 2002 payable	151,521
Accrued expenses and other liabilities	67,032
	1,757,366
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	356,674,881

Safilo Optical (UK) Limited
Capitalization Table as at December 31, 2002

	2002 £
Capital and Reserves	
Called up share capital	21,139,001
Profit and loss account	1,483,030
EQUITY SHAREHOLDERS' FUNDS	22,622,031

Safilo America, Inc. and Subsidiaries
Capitalization Table as at December 31, 2002

	2002 $
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities	
Current Mat. of LTD	2,391,924
Accounts Payable	23,289,836
Accrued Expenses	20,408,859
Other	890,672
Payable to related Party	592,147
Total current liabilities	47,573,438

	2002 $
L/T Debt	68,389,950
Commitments and contingencies	162,470
Total liabilities	116,125,858
Stockholders' equity	
Common Stock	1,330
Preferred Stock	7,100
APIC - Common	1,812,045
Retained Earnings	59,585,055
Cummul. Trans. Adj.	-1,036,063
TOTAL STOCKHOLDERS' EQUITY	60,369,467

The summary below describes the principal terms of the indenture governing the notes. Certain terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this offering circular contains a more detailed description of the terms and conditions of the notes including the definitions of certain terms used in this summary.

The Offering

Issuer	Safilo Capital International S.A., a *société anonyme* incorporated under the laws of The Grand Duchy of Luxembourg, and a direct wholly owned finance subsidiary of Safilo S.p.A.
Notes Offered	€300 million aggregate principal amount of 9.625% senior notes.
Maturity Date	May 15, 2013.
Interest Payment Dates................	Interest will be payable semi-annually in cash on May 15 and November 15 of each year, beginning on November 15, 2003.
Ranking of Notes..........................	The notes are the issuer's senior obligations and will rank equally in right of payment with the issuer's existing and future unsubordinated obligations and senior in right of payment to any other subordinated indebtedness. As of December 31, 2002, after giving pro forma effect to the repayment of the bridge notes with the proceeds of this offering, the issuer had no indebtedness other than the notes and a €7 million subordinated loan from Safilo International B.V. The issuer has no revenue-generating operations of its own and depends on payments from Safilo International B.V. under the issuer loan agreement to make payments on the notes. See "Risk Factors—Risks Relating to Our Structure, the Notes and the Guarantees and Our Other Indebtedness—Risks Relating to the Issuer and the Issuer Loan Agreement".
Security...	The obligations of the issuer under the notes and the indenture, and of the guarantors under the Guarantees described below, will be secured by a second priority security interest in the shares of Safilo pursuant to the issuer share charge and a second priority security interest in the issuer loan agreement pursuant to a security assignment of the issuer loan agreement. Such security interests will be held by the intercreditor security agent under the intercreditor agreement. The security for the notes is pledged to the lenders under the senior credit facilities on a first priority basis. The second priority security interests under the issuer share charge and the issuer loan agreement security assignment may be subject to release under certain circumstances. See "Description of the Notes—Security", "—Subordination", "Description of Other Indebtedness—Intercreditor Agreement", and "—Put Option Agreement".
Safilo Guarantee...........................	The notes will be guaranteed (the "Safilo Guarantee") on a senior subordinated basis by the issuer's parent, Safilo S.p.A., a company organized under the laws of Italy.
Subsidiary Guarantees..................	The notes will be guaranteed (collectively, the "Subsidiary Guarantees" and together with the Safilo Guarantee, the "Guarantees") on a senior subordinated basis by the following wholly owned subsidiaries of Safilo: Safilo International B.V., a company incorporated under the laws of The Netherlands, Safint Optical UK Limited, a limited liability company organized under the laws of England and Wales, and Safilo America, Inc., a corporation incorporated under the laws of the State of Delaware (each a "Subsidiary Guarantor", collectively, the "Subsidiary Guarantors" and, together with Safilo, the "Guarantors").
Ranking of Guarantees.................	The Guarantees will be senior subordinated obligations of each Guarantor. Accordingly, they will: • rank junior in right of payment to (i) all of each Guarantor's existing and future senior obligations spect of the senior credit facilities) and all of each Guarantor's existing and future secured obligations collateral securing those obligations and (ii) all of the existing and future indebtedness and other les) of non-Guarantor subsidiaries; • rank *pari passu* in right of payment with any future senior subordinated obligations; and • rank senior in right of payment to all of each Guarantor's subordinated obligations. The terms of the intercreditor agreement provide that the Guarantors are not permitted to make payments in respect of the Guarantees if a payment default has occurred and is continuing under the senior credit facilities or during the continuation of a payment blockage period. Enforcement actions in respect of the Guarantees are also subject to a standstill period imposed by the terms of the intercreditor agreement.

As of December 31, 2002, after giving *pro forma* effect to the issuance of the notes and the repayment of all indebtedness in respect of the bridge notes, Safilo and the Subsidiary Guarantors would have had an aggregate principal amount of €552.1 million of outstanding indebtedness that was senior to the Guarantees (comprised of €531.7 million of debt under the senior facilities (which excludes €37.0 million drawn under the revolving credit facility after December 31, 2002) and €20.4 million of other long-term and short-term indebtedness).

The indenture governing the notes restricts but does not prohibit the incurrence by Safilo and its subsidiaries of additional indebtedness.

The terms of the intercreditor agreement will permit the satisfaction and release of the Guarantees in the event that all of the shares of Safilo subject to the company share charge are sold to a third party by the security agent and certain other conditions are met, including the release by the lenders under the senior credit facilities of their security interests in Safilo's and its subsidiaries' assets and the application of any residual proceeds from the sale of such shares following repayment of the amounts owing under the senior credit facilities to satisfy the claims of The Bank of New York Depository (Nominees) Limited, as the registered holder of the notes, and the holders of the notes. See "Risk Factors—Risks Relating to Our Structure, the Notes and the Guarantees and Our Other Indebtedness—Risks Relating to the Guarantees and the Company Share Charge", "Description of the Notes—Ranking", "—Guarantees" and "—Security".

Use of Proceeds............................ The gross proceeds from the sale of the notes will be applied by the issuer to repay all amounts outstanding under the bridge notes, including any accrued interest, and to pay fees and expenses related to the offering. See "Use of Proceeds".

Withholding Tax.......................... All payments on the notes will be made without withholding or deduction for, or on account of, any present or future taxes or duties except as required by applicable law. If any such withholding or deduction is required to be made, additional amounts will be required to be paid on the notes as will result in noteholders receiving such amounts as they would have received had no such withholding or deduction been required.

Optional Redemption................... We may redeem the notes:

- in whole or in part at any time on or after May 15, 2008, at the redemption prices described in
ed and unpaid interest, if any, to the date of redemption;
- at any time and from time to time prior to May 15, 2006, in an aggregate principal amount not to
incipal amount of the notes with the proceeds of one or more qualifying equity offerings, at a
25% of the principal amount redeemed, plus accrued and unpaid interest, if any, to the date of
st 65% of the original aggregate principal amount of the notes remains outstanding immediately after

- in whole, but not in part, at a price equal to 100% of the principal amount thereof plus accrued
e date of redemption, in the event of specified developments affecting taxation. See "Description of
on for Changes in Withholding Taxes"; and
- in whole or in part at any time prior to May 15, 2008, at a redemption price equal to 100% of the
ike-whole" premium described in this offering circular, plus accrued and unpaid interest, if any, to

Change of Control........................ If Safilo or the issuer experiences specific kinds of changes of control, you will have the right to require us to repurchase all or part of your notes at 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any. See "Description of the Notes—Change of Control".

Restrictive Covenants................... The indenture governing the notes and the Guarantees will, among other things, restrict the ability of Safilo and its subsidiaries to:

- borrow additional money;
- pay dividends on Safilo's or its subsidiaries' stock or repurchase Safilo's or its subsidiaries' stock;
- make payments on or redeem or repurchase indebtedness junior to the notes;
- make investments;
- create liens;
- create restrictions on the payment of dividends or other amounts to Safilo from its subsidiaries;
- enter into transactions with affiliates;
- sell assets or consolidate or merge with or into other companies;
- guarantee other indebtedness of Safilo and its subsidiaries;
- incur any indebtedness subordinate or junior in right of payment to senior indebtedness and

	• issue or sell capital stock of Safilo or its subsidiaries; and • expand into unrelated businesses. The indenture also restricts Safilo Holding's ability to engage in any activities other than owning the shares of Safilo (and other finance subsidiaries used to fund Safilo) and performing its obligations under the indenture for the notes and the senior credit facilities. Each of the covenants is subject to significant exceptions and qualifications. See "Description of the Notes—Certain Covenants".
Transfer Restrictions	The notes have not been, and will not be, registered under U.S. federal or state or any foreign securities laws and are subject to restrictions on transferability and resale. See "Transfer Restrictions".
Listing...	Application has been made to list the notes on the Luxembourg Stock Exchange.
Governing Law of the Notes and Guarantees.................................	New York law.
Governing Law of the Intercreditor Agreement and the Security Documents.................................	The company share charge is governed by Italian law. The intercreditor agreement, the issuer loan agreement and the security assignment of the issuer loan agreement are governed by English law.
Security Agent..............................	Unicredit Banca Mobiliare S.p.A., as the intercreditor security agent under the intercreditor agreement.
Trustee, Registrar and Principal Paying Agent.............................	The Bank of New York.
Listing Agent and Luxembourg Paying Agent.............................	The Bank of New York (Luxembourg) S.A.

Summary Historical and Pro Forma Financial Data

The following table includes our summary historical consolidated financial data for the periods indicated. The summary historical consolidated financial data included below has been derived from our audited consolidated financial statements included elsewhere in this offering circular.

Our consolidated financial statements are presented in euros and are prepared in accordance with Italian Accounting Principles, which differ in certain significant respects from U.S. GAAP and IFRS. The material differences between Italian Accounting Principles and IFRS and U.S. GAAP as they relate to us are discussed in "Annex A—Summary of Significant Differences Between Italian Accounting Principles and IFRS and U.S. GAAP".

The summary pro forma financial data included below has been derived from the pro forma financial information set forth under "Unaudited Pro Forma Consolidated Financial Information" included elsewhere in this offering circular. The summary pro forma financial data included below gives effect to the December 2002 refinancing and the offering of the notes as if they had occurred at the beginning of the period presented. The summary pro forma financial data does not give effect to any other transactions except those discussed in the accompanying notes.

The summary pro forma financial data is presented for informational purposes only. It does not purport to represent what the results of our operations or our financial conditions actually would have been had the transactions in fact occurred as of the assumed dates, nor are they intended to be indicative, or projections, of our results of operations for any future period or financial position at any future date. The pro forma adjustments, as described in the accompanying notes, are based upon certain assumptions that we believe are reasonable.

You should read this summary historical and pro forma financial data in conjunction with "Operating and Financial Review and Prospects", "Unaudited Pro Forma Consolidated Financial Information", "Selected Historical Consolidated Financial Data", "Capitalization", "Annex A—Summary of Significant Differences Between Italian Accounting Principles and IFRS and U.S. GAAP" and our audited consolidated financial statements and the related notes included elsewhere in this offering circular.

	Year ended December 31,
	Historical

	2000	2001	2002	Pro forma 2002
		(€ in millions)		
Statement of Operations Data:				
Net sales	€685.6	€845.0	€894.1	€894.1
Cost of sales	(297.6)	(352.2)	(347.9)	(347.9)
Gross profit	388.0	492.8	546.2	546.2
Gross margin(1)	56.6%	58.3%	61.1%	61.1%
Selling and marketing expenses	(220.4)	(272.5)	(283.9)	(283.9)
General and administrative expenses	(80.6)	(96.7)	(119.1)	(119.1)
Other income/(expense), net	(0.4)	(0.2)	—	—
Operating income/(loss)	86.6	123.4	143.2	143.2
Operating margin(2)	12.6%	14.6%	16.0%	16.0%
Interest income/(expense) and other financial charges	(11.5)	(34.3)	(70.9)	(66.8)
Extraordinary income/(expense), (net)	0.2	1.4	0.9	0.9
Amortisation of goodwill(3)	(3.7)	(43.0)	(23.9)	(23.9)
Income/(loss) before taxation	71.6	47.5	49.3	53.4
Tax expense	(21.9)	(36.4)	(35.6)	(37.1)
Net income/(loss) before minority shareholders	49.7	11.1	13.7	16.3
Income attributable to minority shareholders	(22.1)	(3.8)	(3.4)	(3.4)
Net income	€27.6	€7.3	€10.3	€12.9

	Historical Year ended December 31, 2000	2001	2002
		(€ in millions)	
Statement of Cash Flows Data:			
Net cash provided by (used in) operating activities	€52.4	€49.3	€112.6
Net cash provided from (used in) investment activities	(48.0)	(575.1)	(216.7)
Net cash provided from (used in) financing activities	(28.0)	523.8	197.0

	Historical As of December 31, 2000	2001	2002
		(€ in millions)	
Balance Sheet Data:			
Cash and cash equivalents	€14.8	€30.9	€51.4
Property, plant and equipment, net	134.0	151.5	176.9
Net working capital(4)	208.1	261.1	189.2
Total assets	577.5	1,053.9	1,224.5
Total debt(5)	158.8	704.2	851.3
Net debt(6)	144.0	673.4	799.8
Total shareholders' equity	221.9	129.2	90.7

Historical Year ended December 31, 2000	2001	2002	Pro forma 2002
	(€ in millions)		

Other Data:				
Capital expenditure, net[7]	€45.9	€45.0	€58.4	—
Depreciation and amortisation of other intangibles[8]	27.5	30.7	32.7	—
EBITDA[9]	114.1	154.0	175.8	—
EBITDA margin[10]	16.6%	18.2%	19.7%	—
Pro forma cash interest expense[11]	—	—	—	59.7
Pro forma net debt[12]	—	—	—	794.8
Pro forma total shareholders' equity	—	—	—	120.7

	Pro forma year ended December 31, 2002
Key Ratios:	
EBITDA[9]/pro forma cash interest expense[11]	2.9x
EBITDA[9] less capital expenditure, net[7]/pro forma cash interest expense[11]	2.0x
Net debt[6]/EBITDA[9]	4.5x
Earnings/fixed charges[13]	1.8x

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(1) We define gross margin as gross profit as a percentage of net sales.

(2) We define operating margin as operating income/(loss) as a percentage of net sales.

(3) During the year ended December 31, 2002, the Company changed from 10 years to 20 years the estimated useful life of goodwill resulting from the purchase of Safilo shares in connection with the reorganization of the ownership structure of the Safilo Group during 2001 and 2002. This decreased goodwill amortisation by €19.1 million in 2002, compared to 2001.

(4) We define net working capital as total current assets (excluding cash) less total current liabilities (excluding bank loans, short term debt, current portion of long-term borrowings and other borrowings).

(5) We define total debt as short-term borrowings plus long-term borrowings.

(6) We define net debt as total debt, net of cash and cash equivalents.

(7) Capital expenditure, net includes investments in tangible fixed assets, net of disposals.

(8) Depreciation and amortization of other intangibles excludes goodwill amortization and is included with cost of sales and general and administrative expenses in our consolidated financial statements.

(9) We define EBITDA as operating income/(loss) plus depreciation and amortization of other intangibles. EBITDA is not a measurement of performance under Italian Accounting Principles, and you should not consider EBITDA as an alternative to (a) operating income or net income (as determined in accordance with generally accepted accounting principles), or as a measure of our operating performance, (b) cash flows from operating, investing or financing activities (as determined in accordance with generally accepted accounting principles), or as a measure of our ability to meet cash needs, or (c) any other measures of performance under generally accepted accounting principles. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our future results. We believe that EBITDA is a measure commonly reported and widely used by investors in comparing performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or non-operating factors.

Accordingly, EBITDA has been disclosed in this offering circular to permit a more complete and comprehensive analysis of our operating performance relative to other companies and of our ability to service our debt. Because companies do not calculate EBITDA identically, our presentation of EBITDA may not be comparable to similarly titled measured used by other companies. The following table presents the calculation of EBITDA:

	Year ended December 31,		
	2000	2001	2002
	(€ in millions)		
Operating income/(loss)	€86.6	€123.4	€143.2
Plus depreciation and amortization of other intangibles:			
Industrial depreciation	21.9	25.2	24.6
Depreciation and amortization[14]	5.5	5.5	8.1
EBITDA	€114.1	€154.0	€175.8

(10) We define EBITDA margin as EBITDA as a percentage of net sales.

(11) We define pro forma cash interest expense as pro forma interest income/(expense), excluding interest income and amortization of debt issuance costs, on a pro forma basis adjusted to give effect to the December 2002 refinancing and the offering of the notes as if they had occurred at the beginning of the period presented:

	Pro forma year ended December 31, 2002 *(€ in millions)*
Pro forma interest income/(expense)	€ 63.4
Plus:	
Interest income	0.8
Less non-cash components:	
Debt issuance costs	(4.5)
Pro forma cash interest expense	€ 59.7

(12) We define pro forma net debt as pro forma total long-term debt (including current portion), net of pro forma cash and cash equivalents.

(13) For the purposes of computing the ratio of earnings to fixed charges, earnings consist of income/(loss) before taxation plus income/(loss) from equity investments, fixed charges and amortization of capitalized interest, less capitalized interest. Fixed charges consist of interest income/(expense) and other financial charges (including amortization of deferred financing costs) and one third of rental expense on operating leases, which is estimated to be the portion attributable to interest.

(14) Excludes amortization of goodwill.

Risk Factors

Investing in the notes involves substantial risks. You should carefully consider the information under the caption "Risk Factors" and all other information in this offering circular before investing in the notes.

Our principal executive offices are at Zona Industriale VII Strada, 15, 35129 Padua, Italy. Our telephone number is: +39 049 698 5111

The auditors of Safilo S.p.A. and its subsidiaries are PricewaterhouseCoopers S.p.A.

RISK FACTORS

An investment in the notes involves risks. In addition to the other information contained in this offering circular, you should carefully consider the following risk factors before purchasing the notes. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, liquidity or results of operations. If any of the possible events described below occurs, our business, financial condition, liquidity or results of operations could be materially and adversely affected. If that happens, we may not be able to pay interest or principal on the notes when due and you could lose all or part of your investment.

Risks Relating to Our Business

Our fashion eyewear business is sensitive to economic conditions and changing consumer preferences.

The fashion eyewear industry is cyclical. Downturns in general economic conditions or uncertainties regarding future economic prospects, which affect consumer disposable income, have historically adversely affected consumer spending habits in our principal markets. Therefore, economic downturns or uncertainties could have an adverse effect on our business, results of operations and financial condition. In particular, if the current economic downturn is more severe or longer in duration than expected, our business, results of operations and financial condition could be impaired.

The fashion eyewear industry is also subject to rapidly changing consumer preferences. While eyewear has achieved a significant degree of acceptance as a fashion accessory, and the fashion eyewear industry has grown significantly in recent years, this growth may not continue and consumer preferences could change in a manner which will adversely affect the fashion eyewear industry as a whole and our business in particular. Changes in fashion preferences could also affect the popularity and, therefore, the value of the fashion brand licenses granted to us by designers. The prescription frames and sunglasses markets in which we compete could be affected by these changes in fashion trends and consumer preferences. Our historical success is attributable, in part, to our ability to introduce eyewear products which are perceived to represent an improvement over products otherwise available in the market. Our future success will also depend on our continued ability to develop and introduce such products in accordance with consumers' shifting preferences. Any event or circumstance resulting in reduced market acceptance of one or more of these designers could reduce our sales and the value of our inventory of models based on that design. Unanticipated shifts in consumer preferences may result in excess or obsolete inventory and underutilized manufacturing capacity. For example, during the second half of 2001, we experienced a decrease in demand, which resulted in an increase in inventory levels and inventory obsolescence rates and longer payment terms by some of our customers. This adversely affected our results of operations in 2001. In addition, our success depends, in part, on our ability to anticipate and react to changing fashion trends in a timely manner. Any sustained failure to identify and respond to such trends would adversely affect our business, results of operations and financial condition.

Our business is increasingly dependent on our ability to negotiate, maintain and renew license agreements on satisfactory terms with leading fashion brand owners.

We have entered into license agreements that enable us to manufacture and distribute prescription frames and sunglasses under brands owned by third parties. During 2002, 74% of our total net sales were attributable to sales of licensed brands, and sales generated under agreements with our top four licensors accounted for approximately 55% of our total net sales. We believe that our ability to negotiate, maintain and renew license agreements on satisfactory terms with leading designers in the fashion and luxury goods industries is essential to maintaining a successful brand portfolio and, therefore, material to the success of our business. Accordingly, if we are unable to maintain and renew license arrangements with our current licensors or comparable replacements or if we are unable to negotiate new license agreements with other leading designers, our growth prospects and financial results could be materially and adversely affected. At present, we are in the advanced stages of negotiating the renewal of the *Diesel* license, the U.S. license for *Dior* and the *Oliver* and *Valentino* licenses.

In addition, our licensors typically have final approval over all eyewear bearing their proprietary marks, and the eyewear must meet their design specifications and quality standards. Consequently, licensors may, in the exercise of their approval rights, delay the distribution of eyewear bearing their proprietary marks. Accordingly, there may be delays resulting from disagreements with, or an inability to obtain approvals from, our licensors. These delays could materially and adversely affect our business and results.

Many of our licenses, including some of our key licenses, contain provisions that permit a licensor to terminate the license in the event that there is a change of control of the Company, if we outsource production without the consent of the licensor, if we sell models that are not approved by the licensor, if we do not reach minimum revenue targets, or if we sell products through distribution outlets that have not been approved by the licensor.

Our results of operations could be adversely affected by a disruption of operations at our manufacturing facilities or our distribution centers or by problems with our third-party manufacturers.

We own and operate manufacturing facilities in Italy, Slovenia and Austria, and oversee production through facilities in the United States in which we produce *Smith* sport goggles. Our primary distribution facility, located in Padua, Italy, is highly automated and we rely on this facility to provide rapid delivery of products to our European and global customers. We also maintain a smaller distribution facility in the United States (New Jersey). All of these facilities are subject to operational risks, including:

- equipment failure;
- failure to comply with applicable regulations and standards and to maintain necessary permits and approvals;
- material supply disruptions;
- labor force shortages or work stoppages;
- events impeding or increasing the cost of transporting our products;
- natural disasters; and
- terrorist attacks.

Any significant disruption in operations at our manufacturing facilities or our distribution facilities resulting from these or other events may, to the extent not covered by our business interruption insurance, adversely affect our results of operations.

In addition to our owned manufacturing facilities, we increasingly are using third-party manufacturers and suppliers, mainly located in Asia but also in Italy and the United States, to produce certain of our products. During 2002, about half of our net sales were of finished products that we purchased from third parties. The use of third-party manufacturers entails a number of additional risks, including the risk of termination and less control over the quality of manufactured products. Any delays or disruptions in the products furnished by third-party manufacturers, or disruption or termination of our present arrangements with third-party manufacturers without suitable alternative arrangements in place, could have an adverse effect on our business, results of operations and financial condition.

Because our assets, liabilities, sales and costs are denominated in multiple currencies, we are vulnerable to exchange rate fluctuations.

Our reporting currency is the euro and we conduct and will continue to conduct transaction in currencies other than the euro. As a result, we are vulnerable to foreign exchange rate fluctuations because:

- we incur some of our manufacturing costs in euro and generate a substantial portion of our revenues in other currencies, particularly the U.S. dollar; therefore, a strengthening of the euro relative to such other currencies in which we receive revenues could negatively impact our operating margins, which could adversely affect our business and results of operations; and

- a portion of our assets, liabilities, revenues and costs are denominated in various currencies other than euro; as a result, our operating results, which are reported in euro, are affected by currency exchange rate fluctuations.

Future movements of the exchange rate of the euro against the U.S. dollar and other currencies may negatively impact our reported results. For example, the depreciation of the U.S. dollar against the euro adversely affected our results of operations in 2002, particularly in the North America and Far East regions. Fluctuations could also significantly affect the comparability of performance between financial periods.

The markets in which we compete are highly competitive, and a failure to maintain an extensive distribution network could harm our business.

The prescription frames and sunglasses markets in which we operate are highly competitive. We believe that, in addition to successfully introducing new products, responding to changes in the market environment and maintaining superior production capabilities, our ability to remain competitive is dependent on our maintaining an extensive distribution network. One of the key objectives of our business strategy is to strengthen our existing distribution network by establishing sales and marketing subsidiaries in additional attractive geographic markets. This effort will require additional expenditures and may not be successful. If we are unable to strengthen and to maintain our distribution network, our business, results of operations and financial condition could be adversely affected.

Our business is subject to risks relating to international sales and exposure to changing local conditions.

We currently have direct operations in over 20 countries and our products are sold in over 120 countries. We are therefore subject to various risks inherent in conducting business internationally, including exposure to local economic, political and civil conditions; export and import restrictions; currency exchange rate fluctuations and currency controls; changes in government regulations, including those relating to payments for prescription eyewear; withholding and other taxes on remittances and other payments by subsidiaries; investment restrictions or requirements; and local content laws requiring that certain products contain a specified minimum percentage of domestically-produced components. Our exposure to these and other risks and their potential impact on us vary from country to country and are unpredictable, but may have a significant effect on our business, results of operations, financial condition and prospects.

We may be unable to protect our proprietary rights, which would adversely affect our business and financial results.

We rely on trade secret, unfair competition, trade name, service mark, trademark, copyright and patent laws to protect our rights to certain aspects of our products, including product designs, proprietary manufacturing processes and technologies, product research and concepts and recognized trademarks, all of which we believe are important to the success of our products and our competitive position. However, pending patent and trademark applications may not generate registered patents and trademarks, and any patent or trademark registration that is granted may be ineffective in preventing competition and could be held invalid if subsequently challenged. In addition, the actions we take to protect our proprietary rights may be inadequate to prevent imitation of our products. Our proprietary information could become known to competitors, and we may not be able to meaningfully protect our rights to proprietary information. Furthermore, other companies may independently develop substantially equivalent or better products that do not infringe on our intellectual property rights or could assert rights in, and ownership of, our proprietary rights. Moreover, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the European Union and the United States.

If the level of potentially infringing activities by others were to increase substantially, we might have to significantly increase the resources we devote to protecting our rights. Additionally, an adverse determination in any dispute involving our proprietary rights could require us to grant licenses to, or obtain licenses from, third parties, or prevent us from manufacturing or selling our products or could subject us to substantial liability. Any of these possibilities could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our business could be adversely affected by legal proceedings to which we are, or may become a party.

In the ordinary course of our business, we may become involved in various other claims, lawsuits, and governmental and administrative proceedings, some of which may be significant. Adverse judgments or determinations in one or more of these potential proceedings could have a material adverse effect on our business, results of operations and financial condition.

Maintaining and achieving compliance with governmental regulations requires us to incur costs and may limit our operations or otherwise negatively impact our business.

Our operations are subject to various laws and regulations by governmental authorities in the United States and other jurisdictions in which we conduct business. Governmental regulations, whether in the European Union, the United States or other jurisdictions, have historically been subject to change. Violations of these laws and regulations, including those relating to the environment and other matters, could result in significant fines, or civil or criminal sanctions. We also could incur cleanup costs in the event that significant contamination is discovered at any of our facilities, or at any off-site location for which we may be responsible. In addition, new laws and regulations, or changes in how existing requirements are enforced, could require us to incur additional costs, subject us to unexpected liabilities, limit our operations or negatively impact our business.

We depend on the services of our senior management and other key personnel, and if we are not able to retain our senior personnel or retain suitable replacements, our business could be negatively impacted.

We are currently managed by a relatively small number of senior executive officers and employees, many of whom have many years of experience with us and in the eyewear industry and would be difficult to replace. Our senior managers, including our chairman, chief executive officers and regional managing directors, and our senior product design, sales, marketing and production staff have extensive knowledge of our business, industry, licensors and customers. Any loss or interruption of the services of our key senior personnel, or our inability to recruit sufficient qualified personnel, could adversely affect our ability to maintain the loyalty of key customers and licensors, to continue to develop important product improvements, to design, manufacture, distribute and market our products and to implement our strategy. This could adversely affect our business, results of operations and financial condition.

We believe that our continued growth and success largely depends on our ability to retain skilled, qualified and experienced managerial, design, research and development, sales, marketing and production personnel and to train our staff to produce and to sell successfully the broad range of products that we offer. If we are unable to attract, retain and motivate highly skilled, qualified and experienced personnel we could lose licensors, customers and suffer reduced profitability. Even if we are successful in attracting and retaining such personnel, competition for such employees may significantly increase our compensation costs and adversely affect our operating results.

We are controlled by our principal shareholders, and their interests may conflict with your interests.

Companies controlled by Vittorio Tabacchi and funds advised by CSFB Private Equity collectively own approximately 92% of the capital shares of our parent company, Safilo Holding. In addition, all but one of the directors of Safilo and Safilo Holding are designees of Vittorio Tabacchi and CSFB Private Equity. As a consequence, they have and will continue to have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as the ability to elect and change our management and to approve any other changes to our operations or strategic direction. The interests of these shareholders, in certain circumstances, may conflict with your interests as holders of the notes. For example, our principal shareholders could vote to declare dividends or to cause us to incur indebtedness, in each case as permitted under the indenture, causing capital outflows or increasing our debt service obligations, all of which could hinder our ability to meet our obligations under the notes.

Risks Relating to Our Structure, the Notes and the Guarantees and Our Other Indebtedness

Risks Relating to Our Indebtedness

Our high leverage and debt service obligations could adversely affect our business.

We are highly leveraged and have significant debt service obligations. As of December 31, 2002, after giving effect to this offering and the repayment of the bridge notes, we had on a pro forma basis approximately €852.1 million of consolidated debt, of which €531.7 million is indebtedness under the senior credit facilities. We also have availability under our revolving credit facility and our newly established capex facility. We anticipate that our high leverage will continue for the foreseeable future. Our high leverage could have important consequences to you, including, but not limited to:

- making it more difficult for us to satisfy our debt obligations, including the notes;

- increasing our vulnerability to a downturn in our business or economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, business opportunities and other corporate requirements;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which means that this cash flow will not be available to fund our operations, product research and development efforts, capital expenditures or other corporate purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry.

We may incur substantial additional debt in the future which could be senior to the notes or could mature prior to the notes. The terms of the indenture governing the notes and the senior credit facilities restrict us from incurring additional debt, but do not prohibit us from doing so. The incurrence of additional debt would increase the leverage-related risks described in this offering circular.

We are subject to significant restrictive debt covenants, which limit our operating flexibility.

Our senior credit facilities and the indenture governing the notes contain covenants which impose significant restrictions on the way we and our subsidiaries can operate, including restrictions on the ability of the Company and its subsidiaries to:

- incur additional indebtedness or guarantee indebtedness of others;
- make certain loans or investments or enter into joint ventures;
- dispose of assets or create liens on our properties;
- make acquisitions;
- engage in certain transactions with affiliates;
- issue or sell share capital;
- reorganize or enter into mergers; or
- substantially change the nature of our business.

These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

Our senior credit facilities also require us to maintain specified ratios and satisfy specified financial tests. Our ability to meet these financial ratios and tests may be affected by events beyond our control and, as a result, we cannot assure you that we will be able to meet these ratios and tests. In the event of a default under our senior credit facilities, the lenders could terminate their commitments and declare all amounts owed to them, to be due and payable. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may as a result also be accelerated and become due and payable. We may be unable to pay these debts in such circumstances.

Risks Relating to the Issuer and the Issuer Loan Agreement

The issuer is a finance subsidiary that has no revenue-generating operations of its own and depends on cash received under the issuer loan agreement in order to be able to make payments on the notes.

The issuer is a finance subsidiary that was formed by the Company in connection with the issuance of the bridge notes in the December 2002 refinancing. The issuer conducts no business operations of its own, and has not engaged in, and will not be permitted to engage in, any activities other than the issuance of the bridge notes, the on-lending of the proceeds from such issuance to Safilo

International B.V., which is the borrower under the issuer loan agreement, and the issuance of the notes, the proceeds of which will be used to repay the bridge notes, and the servicing of its obligations under the notes. The issuer has no subsidiaries and its only material asset and only source of revenue is its right to receive payments from Safilo International. The issuer's ability to make payments on the notes is therefore entirely dependent on the cash flows received under the issuer loan agreement. If the payments under the issuer loan agreement are not made by Safilo International, for whatever reason, the issuer does not expect to have any other sources of funds available to it that would permit it to make payments on the notes. In such circumstances, holders of the notes would have to rely upon claims for payment under the Guarantees, and payment under the Guarantees is subject to the risks and limitations described under "Risks Relating to the Guarantees and the Company Share Charge".

The issuer may not be able to recover any amounts under the issuer loan agreement because the issuer's right to receive payments under the issuer loan agreement is contractually subordinated to other liabilities of Safilo International.

The obligations of Safilo International under the issuer loan agreement are senior subordinated obligations, and are contractually subordinated to all senior debt of Safilo International, including the obligations of Safilo International as a guarantor under the senior credit facilities. The ability of the issuer to take enforcement action against Safilo International under the issuer loan agreement is subject to significant restrictions imposed by the intercreditor agreement. In addition, in order to facilitate the consummation of an enforcement sale with respect to the Company's shares by the security agent, all of the issuer's right, title and interest in the issuer loan agreement have been assigned to the security agent on a first priority basis as security for the repayment in full of all amounts owing to the lenders under the senior credit facilities. The issuer put option agreement has also been assigned to the security agent. As a consequence, the security agent will have the right to cause the Company to exercise its rights under the issuer put option agreement. As a result:

- in the event of a liquidation, dissolution, bankruptcy, insolvency or similar proceeding involving Safilo Holding, the Company or any of its subsidiaries, (i) the lenders under the senior credit facilities will be entitled to payment in full of all amounts outstanding under the senior credit facilities before the issuer would be entitled to payments under the issuer loan agreement and, as a result, before you would ultimately receive any payments on the notes, (ii) the issuer will be required to turn over any amounts it receives under the issuer loan agreement to the senior security agent until all amounts outstanding under the senior credit facilities are paid in full, and (iii) the liquidator, administrator or receiver or similar person distributing assets of Safilo Holding, the Company or any of its subsidiaries will be required to pay any amounts payable to the issuer under the issuer loan agreement to the senior security agent until all amounts outstanding under the senior credit facilities are paid in full;

- Safilo Holding, the Company and its subsidiaries may not make payments to the issuer (including in respect of the issuer loan agreement), and Safilo International may not make payments under the issuer loan agreement, in the event that any payment has not been made when due in respect of the senior credit facilities (a "Senior Payment Default"), and this prohibition will continue until there is no outstanding Senior Payment Default;

- The lenders under the senior credit facilities may prevent Safilo Holding, the Company and its subsidiaries from making payments to the issuer (including in respect of the issuer loan agreement), and Safilo International from making payments under the issuer loan agreement for a period of up to 179 days in any consecutive 360-day period in the event that there exists any other event of default under the senior credit facilities;

- The issuer has agreed to a 179-day standstill period on enforcement actions it could otherwise take under the issuer loan agreement for an event of default under the notes; and

- In the event that the lenders under the senior credit facilities enforce their first-priority security interest with respect to the issuer loan agreement, which can only be done concurrently with an enforcement sale with respect to the Company's shares, the issuer's rights under the issuer loan agreement may be assigned from the issuer to a third party, and the issuer would have no right, title or interest under the issuer loan agreement or claims against Safilo International under the issuer loan agreement. Moreover, in the event of an enforcement sale with respect to the Company's shares, the lenders under the senior credit facilities could cause the Company to exercise its rights under the issuer put option agreement, as a result of which the ownership of the shares of the issuer would be transferred from the Company to Safilo Holding. As a result, the issuer would be a wholly owned subsidiary of Safilo Holding after the sale of the Company and its subsidiaries to a third party by way of an enforcement sale with respect to the Company's shares.

Safilo International is a holding company and is dependent on payments from its subsidiaries and from the Company in order to be able to make payments under the issuer loan agreement.

Safilo International is a holding company and has no revenue-generating operations of its own. As a consequence, Safilo International's cash flow and ability to service its obligations under the issuer loan agreement are solely dependent upon the cash flow from its operating subsidiaries and the receipt of funds from them and from the Company in the form of dividends, intercompany loans or otherwise. Safilo International's operating subsidiaries and the Company and its other subsidiaries may not generate cash flow sufficient to enable Safilo International to meet its payment obligations.

In addition, Safilo International's subsidiaries and the Company and its other subsidiaries may be restricted from providing funds to Safilo International and the issuer under some circumstances. These circumstances include:

- restrictions under Italian and other applicable laws that prohibit the payment of dividends unless the payments are made out of profits available for distribution, and similar laws that prevent the dilution of share capital;

- restrictions under Italian and other applicable laws that make it unlawful for a company to provide financial assistance in connection with the acquisition of its shares;

- restrictions under the senior credit facilities and the intercreditor agreement that restrict the Company and its subsidiaries from making distributions, loans or other payments to the issuer and Safilo International and in respect of the issuer loan agreement and the notes, except to enable the making of certain limited payments on the notes; and

- other existing and future contractual restrictions that affect the ability of Safilo International's subsidiaries and the Company and its other subsidiaries to pay dividends or make other payments to Safilo International or the issuer in the future.

Although the indenture governing the notes limits the ability of the Company's restricted subsidiaries to enter into consensual restrictions on their ability to pay dividends and make payments, there are significant qualifications and exceptions to these limitations.

Risks Relating to the Guarantees and the Company Share Charge

You may not be able to enforce, or recover any amounts under, the Guarantees due to the subordination provisions and restrictions on enforcement contained in the Guarantees and in the intercreditor agreement.

Each of the Guarantees is a senior subordinated guarantee, which means that each Guarantee ranks behind, and is expressly subordinated to, all of the existing and future senior obligations of the Company and each Subsidiary Guarantor, including any obligations owed by the Company or such Subsidiary Guarantor under the senior credit facilities. The ability to take enforcement action against the Company or the Subsidiary Guarantors under the Guarantees is subject to significant restrictions imposed by the intercreditor agreement. As a result:

- in the event of a liquidation, dissolution, bankruptcy, insolvency or similar proceeding involving the Company or any of its subsidiaries (i) the lenders under the senior credit facilities will be entitled to payment in full of all amounts outstanding under the senior credit facilities before the trustee and the holders of the notes would be entitled to payments under the Guarantees, (ii) the trustee will be required to turn over any amounts it receives under the Guarantees to the senior security agent until all amounts outstanding under the senior credit facilities are paid in full, and (iii) the liquidator, administrator or receiver or similar person distributing assets of the Company or any of its subsidiaries will be required to pay any amounts payable to the trustee and the holders of the notes under the Guarantees to the senior security agent until all amounts outstanding under the senior credit facilities are paid in full;

- the Company and the Subsidiary Guarantors may not make payments under the Guarantees in the event of a Senior Payment Default under the senior credit facilities, and this prohibition will continue until there is no outstanding Senior Payment Default;

- the lenders under the senior credit facilities may prevent the Company and the Subsidiary Guarantors from making payments to the trustee and the holders of the notes under the Guarantees for a period of up to 179 days in any consecutive 360-day period in the event that there exists any other event of default under the senior credit facilities; and

- the trustee has agreed to a 179-day standstill period on enforcement actions it could otherwise take against the

Guarantors in respect of the notes, the Guarantees or the indenture for an event of default under the notes.

The Guarantees are also subject to release under certain circumstances, including, but not limited to:

- the sale of the shares of the Company pursuant to an enforcement sale with respect to the Company's shares;
- in the case of a Subsidiary Guarantee only, the sale or other disposal of all of the issued share capital of a Subsidiary Guarantor (or any direct or indirect holding company of a Subsidiary Guarantor); or
- in the case of a Subsidiary Guarantee only, upon a sale or other disposal of all or substantially all of the assets of such Subsidiary Guarantor (or any direct or indirect holding company of such Subsidiary Guarantor).

As a result of these and other provisions in the Guarantees, you may not be able to recover any amounts from the Company and the Subsidiary Guarantors under the Guarantees in the event of a default on the notes and the Guarantees may be released without any recovery being available.

Your ability to recover under the company share charge is limited.

Safilo Holding and the Company have entered into the company share charge, pursuant to which all of the issued share capital of the Company is pledged to the security agent, the lenders and The Bank of New York Depository (Nominees) Limited, as the registered holder of the notes, to secure the obligations under the senior credit facilities and the notes. Under the intercreditor agreement, the obligations under the senior credit facilities are secured by a first priority security interest in the share capital of the Company and the obligations under the notes are secured by a second priority security interest in the share capital of the Company.

You may not be able to recover on the company share charge because the lenders under the senior credit facilities will have a prior claim on all proceeds realized from any enforcement of the company share charge and an enforcement sale with respect to the Company's shares. If the proceeds realized from such sale exceeds the amount owed under the senior credit facilities, any excess amount of such proceeds shall be paid to The Bank of New York Depository (Nominees) Limited, as the registered holder of the notes, on behalf of the holders of the notes. If there are no excess proceeds from such sale, or if the amount of such excess proceeds is less than the aggregate amount of the obligations under the notes, you will not recover some or all of the amounts owed to you under the notes. The Guarantees of the notes by the Company and the Subsidiary Guarantors will be automatically released at the time of an enforcement sale with respect to the Company's shares, so the trustee and the holders of the notes will have no claims under the Guarantees following such sale. The ability of The Bank of New York Depository (Nominees) Limited, as the registered holder of the notes, and the holders of the notes to require the security agent to take enforcement action under the company share charge is subject to significant restrictions imposed by the intercreditor agreement. The trustee, on behalf of the holders of the notes, has agreed to a 179-day standstill period on enforcement actions it could otherwise take under the company share charge for an event of default under the notes.

There are also risks related to the validity and perfection of the company share charge, which is governed by Italian law. Under Italian law, the beneficiaries of the company share charge are the security agent, the lenders under the senior credit facilities specifically identified as such in the company share charge and The Bank of New York Depository (Nominees) Limited, as the registered holder of the notes. Our Italian counsel has advised us that there is some uncertainty under Italian law (i) if beneficial owners of the notes that are not identified as registered holders in the company share charge will be deemed to have a valid and perfected security interest under the company share charge and (ii) with respect to the validity of any security interest created in favor of The Bank of New York Depository (Nominees) Limited, as the registered holder of the notes. Moreover, under Italian law, in the event that the Company or Safilo Holding entered into insolvency proceedings, the security interest created under the company share charge could also be subject to potential challenges by a court-appointed officer or other creditors of Safilo Holding and the Company on the grounds that no new value was given for the grant of the security interest by Safilo Holding and the Company. If any challenge to the validity or the perfection of the security interest created by the company share charge were successful, you may not be able to recover any amounts under the company share charge.

The indenture provides that the lien over the company share charge pursuant to the notes and the indenture will be released in the event that, and for so long as, the holders of Senior Indebtedness (including the lenders under the senior credit facilities) have released their lien on the share capital of the Company.

Fraudulent conveyance laws and other limitations on the guarantees may adversely affect the validity and enforceability of the guarantees of the notes.

The Company and the Subsidiary Guarantors will guarantee the payment of the notes on a senior subordinated basis. The Company is incorporated under the laws of Italy and the Subsidiary Guarantors are incorporated or organized under Dutch, English and Delaware law.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, a court could subordinate or void any Guarantee and, if payment had already been made under the relevant Guarantee, require that the recipient return the payment to the relevant Guarantor, if the court found that:

- the guarantee was incurred with actual intent to hinder, delay or defraud creditors or shareholders of the company;
- the guarantor did not receive fair consideration or reasonably equivalent value for the guarantee and the guarantor:
- was insolvent or was rendered insolvent because of the guarantee;
- was undercapitalized or became undercapitalized because of the guarantee; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity;
- the guarantee was held not to be in the best interests or for the corporate benefit of the guarantor; or
- the amount paid or payable under the guarantee was in excess of maximum amount permitted under applicable law.

The measure of insolvency for purposes of fraudulent transfer laws varies depending on the law applied (*e.g.* under U.S. bankruptcy law, "insolvent" refers to balance-sheet insolvency, i.e., fewer assets than debts) Generally, however, a guarantor would be considered insolvent if it could not pay its debts as they become due or if its liabilities exceed its assets. If a court decided any Guarantee was a fraudulent conveyance and voided such Guarantee, or held it unenforceable for any other reason, you would cease to have any claim in respect of the Guarantor and would be a creditor solely of the issuer and the remaining Guarantors.

The Guarantees are structurally subordinate to the liabilities of the Company's and the Subsidiary Guarantors' subsidiaries—a significant portion of the Company's and the Subsidiary Guarantors' revenues and income are generated by their respective operating subsidiaries, and you will not have direct claims against any of those operating subsidiaries.

The Company is the parent company of the Safilo Group and while it has significant business operations of its own, a substantial proportion of the Safilo Group's net sales and operating income is generated by its operating subsidiaries. In addition, the Subsidiary Guarantors are holding companies with no business operations of their own and substantially all of their revenue and operating income is generated by their respective operating subsidiaries. As a consequence, the Company's and Subsidiary Guarantors' ability to make payments under the Guarantees will be substantially dependent on the earnings of those operating subsidiaries and the distribution of those earnings to the Company or Subsidiary Guarantor, as applicable. These operating company subsidiaries may not generate sufficient cash flow to enable them to meet their payment obligations. Holders of indebtedness of, and trade creditors of, the Company's and Subsidiary Guarantors' subsidiaries, including the lenders under the senior credit facilities, are generally entitled to payment of their claims from the assets of the Company's and Subsidiary Guarantors' subsidiaries before these assets are made available for distribution to the Company or the Subsidiary Guarantors.

Accordingly, in the event any of the Company's or the Subsidiary Guarantors' respective subsidiaries (that are not Subsidiary Guarantors) becomes insolvent, liquidates or otherwise reorganizes:

- the Company's or the Subsidiary Guarantors' creditors (including holders of notes) will have no right to proceed against such subsidiary's assets; and
- creditors of such subsidiary, including, in some cases, the lenders under the senior credit facilities, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Company or the applicable Subsidiary Guarantor, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

As of December 31, 2002, after giving effect to this offering and the repayment of the bridge notes, the aggregate amount of indebtedness and other liabilities of the Company's subsidiaries (including the Subsidiary Guarantors and including trade payables, but excluding intercompany indebtedness and the notes) would have been €190.2 million.

In addition, the senior credit facilities and the indenture for the notes will permit the Company and the Subsidiary Guarantors and their respective subsidiaries to incur substantial additional debt.

Risks Relating to the Notes

The issuer may not be able to obtain the funds required to repurchase the notes upon a change of control.

The indenture for the notes contains provisions relating to certain events constituting a "change of control" of the Company or the issuer. Upon the occurrence of a change of control, the issuer will be required to offer to repurchase all outstanding notes at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to the date of repurchase. If a change of control were to occur, the issuer may not have sufficient funds available, or may not be able to obtain the funds needed, to pay the purchase price for all of the notes tendered by holders deciding to accept the repurchase offer. The restrictions in the senior credit facilities and the intercreditor agreement and instruments governing the Company's and its subsidiaries other existing and future debt may also prohibit the issuer from being provided the funds necessary to purchase any notes prior to their stated maturity, including upon a change of control. Before the issuer can be provided any funds to purchase any notes, the Company will be required to:

- repay debt under the senior credit facilities, or, possibly, other existing and other future debt that ranks senior to the notes and the Guarantees; or

- obtain a consent from lenders of senior debt, including the lenders under the senior credit facilities, to make funds available to permit the repurchase of the notes.

A change of control of the Company may result in an event of default under the senior credit facilities and may cause the acceleration of other indebtedness which may be senior to the Guarantees. In any case, third-party financing would be required in order to provide the funds necessary for the issuer to make the change of control offer. This additional financing may not be able to be obtained. See "Description of the Notes—Change of Control".

We have not prepared, and we do not intend to prepare, U.S. GAAP information or separate Subsidiary Guarantor financial data.

We prepare our financial statements in accordance with Italian Accounting Principles, which differs in certain significant respects from U.S. GAAP and IFRS. We have not presented a reconciliation of our financial statements to U.S. GAAP in this offering circular. Moreover, we do not intend to, and the indenture will not require us to, reconcile future financial statements to U.S. GAAP. The indenture allows us in the future to prepare our financial statements in accordance with IFRS. Because there are significant differences between Italian Accounting Principles and IFRS, there may be substantial differences in our results of operations, cash flows and financial position, including debt levels, if we prepare our financial statements in IFRS instead of U.S. GAAP. See "Annex A—Summary of Significant Differences between Italian Accounting Principles and IFRS and U.S. GAAP".

We also have not presented separate financial statements or summary financial data for the Subsidiary Guarantors of the notes, and are not required to do so in the future under the indenture.

Italian and other local insolvency laws may not be as favorable to you as U.S. bankruptcy laws.

The Company and Safilo Holding are incorporated in Italy, the issuer is incorporated in Luxembourg and the Subsidiary Guarantors are incorporated in the Netherlands, England and Delaware, respectively. Most of the Company's other subsidiaries are incorporated in jurisdictions other than the United States. In addition, the parties to certain of the key agreements affecting your rights as holders of the notes and your ability to recover under the notes, including the company share charge and the issuer loan agreement, are incorporated in jurisdictions other than the United States. The insolvency laws of Italy and some of these other jurisdictions may not be as favorable to your interests as creditors as the laws of the United States or other jurisdictions with which you may be familiar.

The following is a brief description of certain aspects of insolvency law in Italy, Luxembourg, the Netherlands and the United Kingdom. In the event that any one or more of the Company, the issuer, the Subsidiary Guarantors or any other of the Company's subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

Italy

The Company, its Italian subsidiaries and Safilo Holding will be subject to Italian laws governing creditors rights and bankruptcy and restructuring proceedings. In general, Italian creditors rights and insolvency laws are generally considered to be more favorable to debtors than the regimes of certain other jurisdictions, such as the United States, England and the Netherlands. In Italy, the courts play a central role in the insolvency process and out-of-court restructurings are infrequent. Moreover, the enforcement of security interests by creditors in Italy can be time consuming. The two primary aims of the Italian regime are first, to maintain employment, and second, to liquidate the debtor's assets for the satisfaction of creditors. These competing aims often have been balanced by the sale of businesses as going concerns and ensuring that employees are transferred along with the businesses being sold.

Under Italian law, the state of insolvency (*insolvenza*) of a company must be determined and declared by a court. Insolvency occurs at a time when a debtor is no longer able to regularly meet its obligations as they fall due. This must be a permanent, and not a temporary, status. The following restructuring and bankruptcy alternatives are available under Italian law for companies facing financial difficulties: Restructuring Outside of Judicial Process.Unlike jurisdictions like the United Kingdom, options in Italy to restructure outside the judicial process are not frequently used. Restructuring generally takes place through the formal judicial process because of the more favorable conditions for the debtor and the fact that informal arrangements put in place as a result of a non-judicial restructuring are vulnerable to being reviewed by a court in the event of a subsequent insolvency and possibly challenged as voidable transactions. In cases where a company is solvent, but facing financial difficulties, it may be possible for the company to enter into an out of Court arrangement with its creditors under a *concordato stragiudiziale*, which may safeguard the existence of the company. Court-supervised pre-bankruptcy composition with creditors (concordato preventivo).Prior to, or upon the declaration of insolvency, a company has the option to seek an arrangement with its creditors (*concordato preventivo*) under court supervision, in order to avoid a declaration of bankruptcy and the initiation of liquidation proceedings. Only the debtor can request a *concordato preventivo*, which requires the approval of the company's shareholders, and the court must approve the arrangement. During the *concordato preventivo*, all actions by creditors are stayed. The composition arrangement must provide for sufficient guarantees (which may be the transfer of assets of the company or guarantees given by a third party or the availability of banks to offer additional credit to the company) for the full payment of secured creditors and at least 40% of the claims of unsecured creditors. The *concordato preventivo* must be approved by a majority (both in number and amount of claims) of the debtor's unsecured creditors. During the implementation of the arrangement, the company is managed by the debtor but under the surveillance of an official appointed by the court, and under the supervision of the court. If the *concordato preventivo* fails, the company will be declared bankrupt by the court. Court-supervised temporary controlled administration (amministrazione controllata).In the event that a company has sufficient assets to meet its obligations, but is deemed to be experiencing significant but temporary financial or liquidity problems, the company can request a court to enter it into a controlled administration (*amministrazione controllata*). The purpose of the *amministrazione controllata* is to give companies a period of up to two years to overcome the temporary difficulties. The administration can only be initiated at the request of the debtor to the court, and must be approved by its shareholders. The *amministrazione controllata* plan proposed by the company must be approved by a majority of the company's unsecured creditors; secured creditors are excluded from the vote. This approval must be granted within 30 days of the initial court order. During the administration, actions by creditors are stayed (subject to certain exceptions). The company generally can continue to be operated by its management during the administration under the direction of the court and frequently, the surveillance of a court-appointed official. The court will also appoint a committee of three to five key creditors of the company to provide its opinion on the conduct of the administration, but the court officials are generally not required to follow the opinions of the committee. The *amministrazione controllata* can be terminated at the request of the court official and the company declared bankrupt if it appears that the administration is ineffective or likely to be unproductive. A company can also apply to the court to exit the administration if it overcomes its financial problems. Extraordinary administration for large companies (amministrazione straordinaria delle grandi imprese in crisi).There is a special administration proceeding available under Italian law for large industrial and commercial enterprises. The purpose of the administration is to save and rehabilitate a company in financial distress due to its significant technical, commercial, productive and employment value. Extraordinary administration is available for a debtor with at least 200 employees and debt equal to at least two-thirds of its total assets and two-thirds of its total sales for the last fiscal year. Bankruptcy proceeding (fallimento).A request to declare a debtor bankrupt and to commence a bankruptcy proceeding (*fallimento*) for the liquidation of a debtor can be made by the debtor, a creditor, courts or a public administrator. The request must be approved by an insolvency court. Upon the commencement of a bankruptcy proceeding: subject to certain exceptions, all actions of creditors are stayed and creditors must file claims within a defined period; the administration of the debtor and the management of its assets pass from the debtor to the receiver; and any act made by the debtor after a declaration of bankruptcy with respect to a creditor is ineffective. The bankruptcy proceeding is carried out and supervised by a court-appointed receiver, a deputy judge and a creditors committee. The receiver is not a representative of the creditors, and the creditors committee generally does not have significant influence over the bankruptcy proceedings. The receiver is responsible for the liquidation of the assets of the debtor for the satisfaction of creditors. The proceeds from the liquidation are distributed in accordance with statutory priority. The liquidation of a debtor can take a considerable amount of time, particularly in cases where the debtor's assets include real property. Italian insolvency law provides for priority to the payment of certain preferential creditors, including employees and the Italian treasury. Post-bankruptcy composition with creditors (concordato fallimentare).A bankruptcy proceeding (fallimento) can be terminated prior to liquidation by a debtor filing a petition to the insolvency court for a post-bankruptcy composition with creditors (*concordato fallimentare*). In the petition, the debtor must indicate (i) the percentage of the unsecured claims that will be paid; (ii) the timing of the repayment; and (iii) the guarantees offered with respect to such repayment.

Statutory Priorities. The statutory priority assigned to creditors under Italian insolvency law is different than priorities in the United States, the United Kingdom and certain other European jurisdictions. In Italy, the highest priority claim (after the costs of the proceedings are paid) are the claims of preferential creditors (*crediti prededucibili*), which include the claims of the Italian tax authorities and social security administrators and claims for employee wages. The next priority is secured creditors with mortgages and pledges and then, unsecured creditors.

Avoidance Powers in Insolvency. Similar to other jurisdictions, there are so-called "claw-back" or avoidance provisions under Italian law that may give rise to payments or grants of security interests made by the debtor prior to the declaration of bankruptcy being set aside. The key avoidance provisions include transactions made at under-value, preferential transactions and transactions made with a view to defraud creditors. Claw-back rules under Italian law are normally considered to be particularly favorable to the trustee in bankruptcy in comparison to the rules applicable in the United Kingdom and the United States.

In a bankruptcy proceeding (*fallimento*), Italian law provides for a claw-back period of up to two years. A bankruptcy receiver can request that certain transactions of the debtor during a period of up to two years prior to the declaration of bankruptcy be voided. In certain cases, the claw-back period can be extended to up to five years.

Luxembourg

Under Luxembourg insolvency laws, your ability to receive payment on the notes may be more limited than would be the case under U.S. bankruptcy laws. Under Luxembourg law, the following types of proceedings (altogether referred to as insolvency proceedings) may be opened against an entity having its registered office or centre of main interest in Luxembourg:

- Bankruptcy proceedings (*faillite*), the opening of which may be requested by the company or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings if the company (i) is in a state of cessation of payments (*cessation des paiements*) and (ii) has lost its commercial creditworthiness. If a court finds that these conditions are satisfied, it may also open bankruptcy proceedings *ex officio, i.e.*, absent an request made by the company or a creditor. The main effect of such proceedings is the suspension of all measures of enforcement against the company, except, subject to certain limited exceptions, only for secured creditors and the payment of the creditors in accordance with their rank upon realisation of the assets.

- Controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by the company and not by its creditors.

- Composition proceedings (*concordat préventif de faillite*), which may be requested only by the company and not by its creditors. The court's decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by creditors.

- In addition to these proceedings, your ability to receive payment on the notes may be affected by a decision of a court to grant a stay on payments (*sursis de paiements*) or to put the issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that is in violation of the commercial code or of the laws governing commercial companies. The management of such liquidation proceedings will generally follow the rules of bankruptcy proceedings.

The issuer's liabilities in respect of the notes will, in the event of a liquidation of the issuer following, in particular, bankruptcy or judicial liquidation proceedings only rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those of the issuers' debts that are entitled to priority under Luxembourg law. Preferential debts under Luxembourg law include:

- money owed to the Luxembourg Revenue in respect of, for example, income tax deducted at source;

- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise;

- social security contributions; and

- remuneration owed to employees.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured creditors (except after enforcement and, to the extent a surplus is realised).

During such insolvency proceedings, all enforcement measures by unsecured creditors are suspended. The ability of secured creditors to enforce their security interest may also be limited, in particular in the event of controlled management proceedings providing expressly that the rights of secured creditors are frozen until a final decision has been taken by the court as to the petition for controlled management and may be affected thereafter by any reorganization order given by the court.

Furthermore, you should note that declarations of default and subsequent acceleration (such as acceleration upon the occurrence of an event of default) will not be enforceable during controlled management proceedings.

Luxembourg insolvency law may affect transactions entered into or payments made by the issuer during the period before liquidation or administration. If the liquidator or administrator can show the issuer has given "preference" to any person by defrauding the rights of creditors generally, regardless of when this fraud occurred, a Luxembourg court has the power, among other things, to void the preferential transaction. If the liquidator or administrator can show that a payment was made during the so-called suspect period (which is a maximum of six months and ten days preceding the judgment declaring bankruptcy) that is disadvantageous to the general body of creditors and the party receiving such payment is shown to have known that the bankrupt party had generally stopped making payments when such payment occurred, a Luxembourg court has the power, among other things, to void the preferential transaction.

Finally, it has to be noted that any international aspects of Luxembourg bankruptcy, controlled management and composition proceedings may be subject to the Council Regulation (EC) n°1346/2000 of 29 May 2000 on insolvency proceedings.

The Netherlands

Dutch insolvency laws differ significantly from the insolvency laws of the United States and may make it more difficult for holders of the notes to recover the amount in respect of the Guarantee from Safilo International than they would have recovered in a liquidation or bankruptcy proceeding in the United States. These laws may also affect any recovery made by the issuer from Safilo International under the issuer loan agreement. There are two corporate insolvency regimes under Dutch law: moratorium of payment (*surséance van betaling*), which is intended to facilitate the reorganization of a debtor's debts and enable the debtor to continue as a going concern, and bankruptcy (*faillissement*), which is primarily designed to liquidate and distribute the assets of a debtor to its creditors.

Upon commencement of moratorium of payment proceedings, a Dutch court will grant a provisional moratorium and appoint a trustee administrator (*bewindvoerder*) who, jointly with the company's management, will be in charge of the company and its business undertakings. Before the court will decide on whether to grant a definitive moratorium, a creditors' vote will take place before the court. A definitive moratorium will generally be granted unless there is an objection by creditors with claims in excess of one-fourth of the amount of unsecured claims admitted to the creditors vote or by one-third of the unsecured creditors admitted to the vote. In both cases i.e. during a definitive and during a provisional moratorium, certain creditors will be precluded from attempting to recover their claims from the assets of the debtor. A moratorium is however, subject to exceptions, the most important of which excludes secured and preferential creditors from the protection of the moratorium. Secured creditors include the holders of a right of pledge (*pandrecht*) and right of mortgage (*hypotheek*), preferred creditors include tax and social security authorities. Generally, debts arising after the date of the moratorium are excluded from the moratorium if these debts have been incurred with administrator consent. A provisional or definitive moratorium of payment will be withdrawn and in most cases converted into a bankruptcy if, among other things, the assets or financial condition of the debtor is such that continuation of the moratorium is no longer desirable or the prospect that the debtor may eventually satisfy its creditors does not exist. Unlike Chapter 11 proceedings under the U.S. bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims, during Dutch moratorium of payment proceedings, certain secured creditors (including the senior lenders as secured creditors under the senior credit facilities) and preferential creditors may seek to satisfy their claims by proceeding against the assets that secure their claims or to which they have preferential rights. Therefore, a recovery under Dutch law could involve a sale of the assets of Safilo International in a manner that does not reflect its going concern value. Consequently, Dutch insolvency laws could preclude or inhibit a restructuring and could reduce any recovery you might obtain in an insolvency proceeding.

In connection with Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors on the basis of the relative priority of the claims of those creditors and, to the extent claims of certain creditors have equal priority, in proportion to the amount of such claims. Certain parties, such as secured creditors (including the senior lenders as secured creditors under the senior credit facilities), will benefit from special rights. Secured creditors such as pledgees and mortgagees may enforce their rights separately from bankruptcy. As a result, if Safilo International becomes subject to these proceedings, you are likely to recover less under the Guarantee from Safilo International than the principal amount of your notes and may recover less than you would have recovered in an equivalent U.S. liquidation proceeding. In addition, any claims you may have may be limited depending on the date they become due and payable. All unsecured, pre-bankruptcy claims must be submitted to the receiver for verification. Verification means that the creditor sends a letter to the receiver setting out the relevant claim to enable the receiver to take a view as to the existence, ranking and value of the claim and whether and to what extent it should be admitted in the bankruptcy proceedings. Three methods of establishing the value of a claim for verification purposes may be applied:

- the value of a claim that becomes payable at an undetermined point in time will be calculated at its net present value on the date of the bankruptcy;
- the value of a claim that becomes payable within one year of the date of the bankruptcy will be calculated as if such claim were payable as of the date of the bankruptcy; and
- the value of a claim that becomes payable after one year from the date of the bankruptcy will be calculated at its net present value on the date which is one year after the date of the bankruptcy.

Creditors that wish to dispute the verification of their claims by the receiver will need to commence a court proceeding.

Although no interest is payable in respect of unsecured claims as of the date of a bankruptcy, if the net present value of a claim of a holder needs to be determined, such determination will be made by taking into account the agreed payment date and interest rate.

England

Safint Optical U.K. Limited, a Subsidiary Guarantor, is incorporated under the laws of England and Wales. Accordingly, insolvency proceedings with respect to Safint Optical and its U.K. subsidiaries would be likely to proceed under, and be governed by, English insolvency law. The procedural and substantive provisions of English insolvency laws generally are more favorable to secured creditors than comparable provisions of U.S. and other laws. These provisions afford debtors and unsecured creditors only limited protection from the claims of secured creditors (including the senior lenders as secured creditors under the senior credit facilities) and it may not be possible for Safint Optical and its U.K. subsidiaries or their unsecured creditors (including holders of the notes) to prevent secured creditors from enforcing their security to repay the debts due to them. The senior lenders have a first ranking security interest over substantially all of Safint Optical's tangible and intangible assets. After the occurrence of an event of default, the security agent under the senior credit facilities has the effective right to direct the disposition of any collateral in respect of Safint Optical. As a result, your ability to realize claims against Safint Optical if it becomes insolvent may be more limited than under U.S. and other laws. In addition, under English insolvency law Safint Optical's liabilities in respect of its guarantee (and therefore the notes) may also, in the event of liquidation or similar proceeding, rank junior to some of its debts which are entitled to priority under English law. These may include (a) expenses of the insolvency proceedings, (b) amounts owed to U.K. Inland Revenue, (c) amounts owed to U.K. Customs & Excise, (d) amounts owed in respect of U.K. social security contributions, (e) amounts owed in respect of occupational pension schemes and (f) some amounts owed to employees.

Under English insolvency law, a liquidator or administrator of a company has certain powers to challenge transactions entered into by a company if the company is insolvent (as defined in the U.K. Insolvency Act 1986) at the time of the transaction or becomes insolvent as a result of the transaction and the transaction takes place up to two years prior to the administration or liquidation. A transaction might be challenged in this way if it involved a gift by the company or the company received consideration of significantly less value than it gave in return. A court generally will not intervene, however, if the company entered into the transaction in good faith for the purposes of carrying on its business and if, at the time it did so, there were reasonable grounds for believing the transaction would benefit the company. We cannot be sure that the issuance of the guarantee by Safint Optical would not be challenged by a liquidator or administrator or that a court would uphold the transaction as valid.

Any interest accruing under or in respect of the notes in respect of any period after Safint Optical went into liquidation would only be recoverable by holders of the notes in such liquidation of Safint Optical from any surplus remaining after payment of all other debts proved in such liquidation and interest accrued but unpaid up to the date of the commencement of the liquidation.

You may be unable to enforce judgments obtained in U.S. courts against the issuer, Safilo Holding, the Company or the Subsidiary Guarantors.

Most of the directors and executive officers of the Company, Safilo Holding, the issuer and the Subsidiary Guarantors are non-residents of the United States and most of the assets of these companies and their directors and officers are located outside of the United

States. As a consequence, you may not be able to effect service of process on these non-U.S. resident directors and officers in the United States or to enforce judgments against them outside of the United States.

There is also uncertainty about the enforceability in the courts of certain jurisdictions of judgments against the issuer, Safilo Holding, the Company and the Subsidiary Guarantors obtained in the United States. We have been advised by our Luxembourg counsel that the United States and the Grand Duchy of Luxembourg are not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards, rendered in civil and commercial matters. There is, therefore, doubt as to the direct enforceability in the Grand Duchy of Luxembourg of civil liabilities predicated upon the U.S. federal securities laws of the United States. Any U.S. judgment needs to be recognized in "exequatur" proceedings by a Luxembourg court before being enforceable in Luxembourg. An exequatur would not be granted by a Luxembourg court if one of the following conditions was not satisfied:

- the decision needs to be final, conclusive and enforceable;
- the adjudicating court must have had (on the basis of Luxembourg rules on conflicts of jurisdiction) jurisdiction in the international sense over the dispute;
- the adjudicating court must have had jurisdiction over the dispute according to the relevant local laws;
- the court must have applied the proper governing law (as determined on the basis of Luxembourg conflict of law rules);
- the decision was rendered following a regular procedure respecting the rights of defence of the parties; and
- the decision must not be conflicting with rules of Luxembourg public policy or mandatory laws.

Our Dutch counsel has advised us that there is doubt as to the enforceability in The Netherlands against any persons in an original action or in an action for the enforcement of judgments of U.S. courts or civil liabilities predicated solely upon U.S. federal securities laws. Because there is no treaty between the United States and The Netherlands providing for the reciprocal recognition and enforcement of judgment, U.S. judgments may not be enforceable in The Netherlands.

We have likewise been advised by our Italian counsel that there is a doubt as to the enforceability in Italy of civil liabilities, including claims based on U.S. federal securities laws, either in an original action or in an action to enforce a judgment obtained in U.S. courts.

You may face foreign exchange risks by investing in the notes.

The notes are denominated and payable in euro. If you measure your investment returns by reference to a currency other than the euro, an investment in the notes entails foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which you measure your investment returns because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which you measure your investment returns could cause a decrease in the effective yield of the notes below their stated coupon rates and could result in a loss to you when the return on the notes is translated into the currency by reference to which you measure your investment returns. There may be tax consequences for you as a result of any foreign exchange gains or losses resulting from any investment in the notes. See "Taxation".

Transfer of the notes will be restricted, which may adversely affect the value of the notes.

The notes have not been and will not be registered under the United States Securities Act or any U.S. state securities laws and we have not undertaken to effect any exchange offer for the notes in the future. You may not offer the notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement. The notes and the indenture will contain provisions that will restrict the notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S under the Securities Act for so long as the notes remain outstanding. Furthermore, we have not registered the notes under any other country's securities laws. It is your obligation to ensure that your offers and sales of the notes within the United States and other countries comply with applicable securities laws. See "Transfer Restrictions".

An active trading market may not develop for the notes, in which case your ability to transfer the notes will be more limited.

The notes are new securities for which there currently is no market. Although an application has been made to list the notes on the

Luxembourg Stock Exchange, we cannot assure you that the notes will become or remain listed. We cannot assure you as to the liquidity of any market that may develop for the notes, the ability of holders of the notes to sell them or the price at which holders of the notes may be able to sell them. The liquidity of any market for the notes will depend on the number of holders of the notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as recommendations of securities analysts. The initial purchasers have informed us that they intend to make a market in the notes. However, they are not obligated to do so and may discontinue such market-making at any time without notice. As a result, we cannot assure you that an active trading market for the notes will develop or, if one does develop, that it will be maintained.

The liquidity of, and trading market for, the notes may also be hurt by declines in the market for high yield securities generally. Such a decline may affect any liquidity and trading of the notes independent of our financial performance and prospects.

USE OF PROCEEDS

The net proceeds which are equal to the aggregate gross proceeds from the sale of the notes will be €300 million which we will use to redeem the bridge notes in full. Commissions and other expenses in relation to the offering will be paid separately.

Concurrently with the offering of the notes, we will establish a new €60 million senior secured capex facility and our parent company, Safilo Holding, will contribute €30 million of equity to Safilo and will commit to contribute up to an additional €25 million of equity to Safilo under certain circumstances. The initial availability of the capex facility, the completion of the €30 million equity contribution and the commitment of Safilo Holding to contribute up to an additional € 25 million of equity to Safilo are conditions to the completion of the offering of the notes. See "Capitalization" and "Operating and Financial Review and Prospects—Liquidity and Capital Resources".

Credit Suisse First Boston (Europe) Limited, an initial purchaser of the notes, was also the initial purchaser of the bridge notes. Affiliates of Credit Suisse First Boston (Europe) Limited are lenders and agents under the senior credit agreement and the capex facility and a purchaser under the securitization bridge facility. An affiliate of Credit Suisse First Boston (Europe) Limited is also an equity investor in Safilo Holding S.p.A. Caboto SIM S.p.A., an initial purchaser of the notes, has provided financing to companies controlled by Vittorio Tabacchi. See "Certain Relationships and Related Party Transactions".

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and capitalization as of December 31, 2002, and as adjusted to reflect the issuance of the notes, the repayment of all amounts outstanding in respect of the bridge notes, the availability of the capex facility and the €30 million equity contribution by Safilo Holding to Safilo. There have been no material changes since December 31, 2002.

You should read this table in conjunction with "Operating and Financial Review and Prospects", "Unaudited Pro Forma Consolidated Financial Information" and our historical consolidated financial statements included elsewhere in this offering circular.

	As of December 31, 2002	
	Actual	As Adjusted
	(€ in thousands)	
Cash and cash equivalents[1][2]	€ 51,443	€ 57,214
Short-term debt	7,222	7,222
Long-term debt (including current portion):		
Senior Credit Facilities		
Revolving credit facility[3]	—	—
Term loan facility A1	194,344	194,344
Term loan facility A2	67,329	67,329
Term loan facility B	135,000	135,000
Term loan facility C	135,000	135,000
Capex facility[4]	—	—
Bridge notes	299,229	—
Senior notes	—	300,000
Other[5]	13,156	13,156
Total long-term debt (including current portion)[6]	844,058	844,829
Total debt	851,280	852,051
Total shareholders' equity[7]	90,654	120,654
Total capitalization	€ 941,934	€ 972,705

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(1) Actual cash and cash equivalents at December 31, 2002, includes €25 million of restricted cash related to transaction fees arising from the December 2002 refinancing, which were not paid until after December 31, 2002.

(2) The adjustments represents the net increase in actual cash and cash equivalents resulting from the proceeds of the offering of the notes and the direct or indirect equity contribution of €30 million of cash by Safilo Holding, offset by the repayment of the principal and accrued interest related to the bridge notes and the use of the €25 million of restricted cash to pay transaction fees and expenses.

(3) As of December 31, 2002, no drawings had been made under the €50 million revolving credit facility. As at March 31, 2003, we had drawn €37 million under the revolving credit facility, and an additional €13 million was available for drawing.

(4) The availability of the €60 million capex facility is a condition precedent to the completion of the offering of the notes.

(5) Includes €7,464 of capital leases and €2,703 of loans sponsored by the Italian government for exports and economic development.

(6) Excludes the obligations of Safilo and Sunlight S.r.l. under the €50 million securitization bridge facility. See "Description of

Other Indebtedness—Securitization Bridge Facility".

(7) Includes shareholders' equity attributable to minority shareholders. The adjustment reflects the cash contribution of €30 million to Safilo. See note (2) above. The contribution of €30 million by Safilo Holding to Safilo is a condition precedent to the completion of the offering of the notes.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial information has been prepared to show the effect on our audited consolidated statement of operations for the year ended December 31, 2002, as if the December 2002 refinancing and the offering of the notes and the effectiveness of the €60 million capex facility had occurred on January 1, 2002.

The unaudited pro forma consolidated financial information is presented for informational purposes only and is not intended to be indicative of either future results of operations or results that might have been achieved had the foregoing transactions actually occurred on the dates specified.

You should read this unaudited pro forma consolidated financial information in conjunction with "Operating and Financial Review and Prospects", "Capitalization", "Annex A—Summary of Significant Differences Between Italian Accounting Principles and IFRS and U.S. GAAP" and our audited consolidated financial statements and the related notes included elsewhere in this offering circular.

Safilo S.p.A.
Unaudited Pro Forma Consolidated Statements of Operations
For the Year Ended December 31, 2002

	Historical	Adjustments	Pro Forma
		(€ in millions)	
Statement of Operations Data:			
Net sales	€894.1	€—	€894.1
Cost of sales	(347.9)	—	(347.9)
Gross profit	546.2	—	546.2
Gross margin	61.1%	—	61.1%
Selling and marketing expenses	(283.9)	—	(283.9)
General and administrative expenses	(119.1)	—	(119.1)
Other income/(expense), net	—	—	—
Operating income/(loss)	143.2	—	143.2
Operating margin	16.0%	—	16.0%
Interest income/(expense)	(54.4)	(9.0)(1)	(63.4)
Other financial charges	(16.5)	13.1 (2)	(3.4)
Extraordinary income/(expense), (net)	0.9	—	0.9
Amortisation of goodwill	(23.9)	—	(23.9)
Income/(loss) before taxes	49.3	4.1	53.4
Tax expense	(35.6)	(1.5)(3)	(37.1)
Net income/(loss) before minority shareholders	13.7	2.6	16.3
Income attributable to minority shareholders	(3.4)	—	(3.4)
Net income	€10.3	€2.6	€12.9

(1) The senior credit facilities were entered into and the bridge notes were issued in connection with the December 2002 refinancing. We intend to use the proceeds of the notes offered hereby to repay the bridge notes. The following represents the impact on interest income/(expense) and other financial charges based on the December 2002 refinancing and the offering of the notes, including the repayment of the bridge notes and the effectiveness of the capex facility:

	Year Ended December 31, 2002 *(€ in thousands)*
Interest expense:	
Senior credit facilities:	
Term loan facility A1, tranche 1[(a)]	€2,590
Term loan facility A1, tranche 2[(b)]	5,269
Term loan facility A2[(c)]	2,458
Term loan facility B[(d)]	7,668
Term loan facility C[(e)]	8,343
Notes offered hereby[(f)]	28,875
Other debt[(g)]	300
Securitization[(h)]	1,150
Revolving credit facility[(i)]	375
Capex facility[(j)]	600
Subtotal	57,628
Interest income[(k)]	(847)
Bank charges[(k)]	2,085
Debt issuance costs[(l)]	4,490
Total pro forma interest income/(expense) and other financial charges	63,356
Historical interest income/(expense) and other financial charges	(54,370)
Pro forma adjustment	€8,986

The EURIBOR rate applied was the EURIBOR rate at December 31, 2002, of 2.93%. The LIBOR rate applied was the LIBOR rate at December 31, 2002, of 1.40%.

(a) Interest on term loan facility A1, tranche 1 of €50.0 million at a floating rate of EURIBOR plus 2.25%.

(b) Interest on term loan facility A1, tranche 2 with a nominal value of €144.3 million at a floating rate of LIBOR plus 2.25%.

(c) Interest on term loan facility A2 with a nominal value of € 67.3 million at a floating rate of LIBOR plus 2.25%.

(d) Interest on term loan facility B of €135.0 million at a floating rate of EURIBOR plus 2.75%.

(e) Interest on term loan facility C of €135.0 million at a floating rate of EURIBOR plus 3.25%.

(f) Reflects the interest rate of 9.625% on notes with a face value of €300 million.

(g) Reflects other debt outstanding during the year ended December 31, 2002, that was not refinanced as part of the December 2002 refinancing.

(h) Interest related to the €50 million securitization bridge facility at an interest rate of LIBOR plus 0.9%. In June 2003 the rate will become LIBOR plus 1.5%. Under Italian Accounting Principles, interest paid under the securitization bridge facility is charged to interest expense of the seller of the trade receivables.

(i) The revolving credit facility has an undrawn commitment fee of 0.75% of the total facility. During the three month period ended March 31, 2003, the Company drew €37 million against this facility at an interest rate of EURIBOR plus 2.25%.

(j) The capex facility of €60 million has an undrawn commitment fee of 1.0%.

(k) Historical amount for the year ended December 31, 2002.

(l) Debt issuance costs includes amortization as follows of capitalized amounts of €39.8 million, based on a weighted average life of the notes and the senior credit facilities of 3,234 days (€ in thousands):

Fees related to the notes offered hereby and the bridge notes	1,490
Expenses related to the notes offered hereby and the bridge notes	124
Fees related to the senior credit facilities	1,731
Expenses related to the senior credit facilities	653
Other capitalized fees and expenses related to the December 2002 refinancing (*e.g.* consultants fees)	492
Total	4,490

The effect on pro forma net income of a 0.125% change in both the EURIBOR and LIBOR rates would be approximately €727,000 (€465,000 after tax) for the year ended December 31, 2002. We are obligated to hedge our interest rate exposure under the senior credit facilities for between 60-65% of the principal amount outstanding for at least four years. This was not considered in the aforementioned calculation.

(2) Represents prepayment and other penalties incurred in December 2002 in relation to the refinancing of historical debt.

(3) Represents incremental tax to reflect pro forma reduction in tax expense from at an estimated tax rate of 36%.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table includes our selected historical consolidated financial data for the periods indicated. The selected historical consolidated financial data included below as at and for the years ended December 31, 2000, 2001 and 2002 have been derived from our audited consolidated financial statements included elsewhere in this offering circular. The selected historical consolidated financial data included below as at and for the years ended December 31, 1998, and 1999 have been derived from the audited consolidated financial statements of Fimit S.p.A., a predecessor of Safilo S.p.A., which are not included in this offering circular.

Our consolidated financial statements are presented in euros and are prepared in accordance with Italian Accounting Principles, which differ in certain significant respects from U.S. GAAP and IFRS. The material differences between Italian Accounting Principles and IFRS and U.S. GAAP as they relate to us are discussed in "Annex A—Summary of Significant Differences Between Italian Accounting Principles and IFRS and U.S. GAAP".

You should read this selected historical consolidated financial data in conjunction with "Operating and Financial Review and Prospects", "Unaudited Pro Forma Consolidated Financial Information", "Capitalization", "Annex A—Summary of Significant Differences Between Italian Accounting Principles and IFRS and U.S. GAAP" and our audited consolidated financial statements and the related notes included elsewhere in this offering circular.

	1998	1999	2000	2001	2002
	Year ended December 31, (€ in millions)				
Statement of Operations Data:					
Net sales	€435.6	€509.9	€685.6	€845.0	€894.1
Cost of sales	(192.2)	(223.4)	(297.6)	(352.2)	(347.9)
Gross profit	243.4	286.5	388.0	492.8	546.2
Gross margin[(1)]	55.9%	56.2%	56.6%	58.3%	61.1%
Selling and marketing expenses	(140.0)	(161.9)	(220.4)	(272.5)	(283.9)
General and administrative expenses	(50.5)	(60.1)	(80.6)	(96.7)	(119.1)
Other income/(expense), net	(1.2)	(0.4)	(0.4)	(0.2)	—
Operating income/(loss)	51.7	64.9	86.6	123.4	143.2
Operating margin[(2)]	11.9%	12.7%	12.6%	14.6%	16.0%
Interest income/(expense) and other financial charges	(11.0)	(9.5)	(11.5)	(34.3)	(70.9)
Extraordinary income/(expense), (net)	1.2	2.5	0.2	1.4	0.9
Amortisation of goodwill[(3)]	(2.8)	(3.1)	(3.7)	(43.0)	(23.9)
Income/(loss) before taxes	39.1	54.8	71.6	47.5	49.3
Tax expense	(15.7)	(17.7)	(21.9)	(36.4)	(35.6)
Net income/(loss) before minority shareholders	23.4	37.1	49.7	11.1	13.7
Income attributable to minority shareholders	(10.9)	(16.6)	(22.1)	(3.8)	(3.4)
Net income	€12.5	€20.5	€27.6	€7.3	€10.3
Statement of Cash Flows Data:					
Net cash provided by (used in) operating activities			€52.4	€49.3	€112.6
Net cash provided from (used in) investment activities			(48.0)	(575.1)	(216.7)
Net cash provided from (used in) financing activities			(28.0)	523.8	197.0

	1998	1999	2000	2001	2002
	As of December 31, (€ in millions)				
Balance Sheet Data:					
Cash and cash equivalents	€13.6	€20.9	€14.8	€30.9	€51.4
Property, plant and equipment, net	96.7	101.6	134.0	151.5	176.9
Net working capital[(4)]	148.7	173.0	208.1	261.1	189.2
Total assets.	394.7	452.2	577.5	1,053.9	1,224.5
Total debt[(5)]	167.5	160.9	158.8	704.2	851.3
Net debt[(6)]	153.8	140.0	144.0	673.4	799.8
Total shareholders' equity	122.1	164.2	221.9	129.2	90.7

	1998	1999	2000	2001	2002
	Year ended December 31, (€ in millions)				
Other Data:					
Capital expenditure, net[(7)]	€17.9	€23.1	€45.9	€45.0	€58.4
Depreciation and amortization of other intangibles[(8)]	22.4	21.6	27.5	30.7	32.7
EBITDA[(9)]	74.0	86.4	114.1	154.0	175.8

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(1) We define gross margin as gross profit as a percentage of net sales.

(2) We define operating margin as operating income/(loss) as a percentage of net sales.

(3) During the year ended December 31, 2002, the Company changed from 10 years to 20 years the estimated useful life of goodwill resulting from the purchase of Safilo shares in connection with the reorganization of the ownership structure of the Safilo Group during 2001 and 2002. This decreased goodwill amortization by €19.1 million in 2002, compared to 2001.

(4) We define net working capital as total current assets (excluding cash) less total current liabilities (excluding bank loans, short term debt, current portion of long-term borrowings and other borrowing). Net working capital was reduced in 2002 by the sale of €76.4 million of trade receivables by Safilo under the securitization bridge facility in December 2002.

(5) We define total debt as short-term borrowings plus long-term borrowings.

(6) We define net debt as total debt, net of cash and cash equivalents.

(7) Capital expenditure, net includes investments in tangible fixed assets, net of disposals.

(8) Depreciation and amortization of other intangibles excludes goodwill amortization and is included with cost of sales and general and administrative expenses in the consolidated financial statements of the Company.

(9) We define EBITDA as operating income/(loss) plus depreciation and amortization of other intangibles. EBITDA is not a measurement of performance under Italian Accounting Principles, and you should not consider EBITDA as an alternative to (a) operating income or net income (as determined in accordance with generally accepted accounting principles), or as a measure of our operating performance, (b) cash flows from operating, investing or financing activities (as determined in accordance with generally accepted accounting principles), or as a measure of our ability to meet cash needs, or (c) any other measures of performance under generally accepted accounting principles. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our future results. We believe that EBITDA is a measure commonly reported and widely used by investors in comparing performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or non-operating factors. Accordingly, EBITDA has been disclosed in this offering circular to permit a more complete and comprehensive analysis of our operating performance relative to other companies and of our ability to service our debt. Because companies do not calculate EBITDA identically, our presentation of EBITDA may not be comparable to similarly titled measured used by other companies. The following table presents the calculation of EBITDA:

	Year ended December 31,		
	2000	**2001**	**2002**
	(€ in millions)		
Operating income/(loss)	€86.6	€123.4	€143.1
Plus depreciation and amortization of other intangibles:			
Industrial depreciation	21.9	25.2	24.6
Depreciation and amortization	5.5	5.5	8.1
EBITDA	€114.1	€154.0	€175.8

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following is a discussion of our results of operations and financial condition for the years ended and as at December 31, 2002, 2001 and 2000. You should read this discussion in conjunction with the sections entitled "Selected Historical Consolidated Financial Data", "Unaudited Pro Forma Consolidated Financial Information" and our consolidated financial statements and accompanying notes included elsewhere in this offering circular.

This Operating and Financial Review and Prospects is based on our historical financial statements. We are the successor entity of the merger of the holding companies Fimit S.p.A., Programma 2001 S.p.A. and Programma 2002 S.p.A. Programma 2001 was the parent company of Safilo at December 31, 2001, and Fimit was the parent company of Safilo at December 31, 2000. The historical consolidated financial data presented and discussed in this Operating and Financial Review and Prospects are different from the historical statutory consolidated financial statements presented for the years ended and as at December 31, 2001, and 2000 by Safilo because they include assets and liabilities, costs and revenues of Safilo's parent companies in 2001 and 2000. See "Corporate Reorganization and December 2002 Refinancing".

Our historical financial statements do not reflect many significant changes that have occurred and will occur in the operations and the funding of the Company as a result of the corporate reorganization and the December 2002 refinancing. See "Unaudited Pro Forma Consolidated Financial Information". Our financial position, results of operations and cash flows could differ from those that would have resulted had the corporate reorganization and the December 2002 refinancing taken place at the beginning of the period under review, and may not be indicative of our future operating results or financial performance.

We have prepared our financial statements in accordance with Italian Accounting Principles. These accounting principles differ in certain significant respects from U.S. GAAP and IFRS. The material differences between Italian Accounting Principles, IFRS and U.S. GAAP as they relate to us are summarized elsewhere in "Annex A—Summary of Significant Differences between Italian Accounting Principles and IFRS and U.S. GAAP".

Overview

Safilo S.p.A. is the parent company of the Safilo Group, a leader in the production and sale of prescription frames, sunglasses, and fashion and sport eyewear. Our products are sold in approximately 120 countries and supplied to approximately 130,000 points of sale worldwide through our global distribution network. We compete in the prescription frames, sunglasses and sport goggles markets, which accounted for 48%, 49% and 3%, respectively, of our net sales in 2002. We also sell a limited line of complementary accessories, including ski helmets. We produce and distribute eyewear products under our owned brands, as well as under typically long-term license agreements for luxury, premium and high-end brands. Sales of our own brand products accounted for 26% of our net sales in 2002, and sales of licensed brand products accounted for 74%. Our principal geographic markets are North America, which accounted for 40% of our net sales in 2002; Italy, which accounted for 16% of our net sales in 2002; Europe (excluding Italy), which accounted for 30% of our net sales in 2002; and the Far East, which accounted for 6% of our net sales in 2002.

Because of the nature of the production process, the type and class of our final customers, the distribution method applied and the events that influence the customer's decision to buy our products, we believe that we operate in one industry segment, manufacturing and wholesale distribution, as defined under International Accounting Standard 14 "Segment Reporting". Our net sales consist of direct sales of finished products manufactured or purchased on a finished basis by us to opticians and other independent commercial retailers or retail distribution chains through our directly-owned and operated distribution subsidiaries or through third-party distributors in countries where we do not have our own distribution subsidiary or directly to the end customer, primarily through our Solstice speciality store business.

Corporate Reorganization and December 2002 Refinancing

Safilo is the successor business entity of its former parent companies, Fimit S.p.A., Programma 2001 S.p.A. and Programma 2002 S.p.A. as a result of a series of mergers and corporate reorganizations completed in 2001 and 2002. These transactions were undertaken in connection with, and following, the acquisition by Vittorio Tabacchi and members of his family of all of the publicly held shares of the predecessor of Safilo, which shares were subsequently delisted from the Italian Stock Exchange in December 2001. As a consequence of this corporate reorganization, we incurred substantial debt relating to the purchases of the shares of our predecessor business entity and experienced substantial increases in amortisation of goodwill related to such purchases and the subsequent mergers and corporate reorganisations. See note 1 to our consolidated financial statements.

In December 2002, we completed the refinancing of the debt incurred in connection with the public-to-private transactions described above. As part of the December 2002 refinancing we entered into a new € 590 million senior credit facility, including a

€50 million revolving credit facility, issued the euro equivalent of €300 million of bridge notes (to be repaid with the proceeds of this offering) and received €50 million from the securitization of certain of our Italian trade receivables.

Key Factors Affecting our Results of Operations

Strengthening of Distribution Network

One of our key strategic objectives is to strengthen our distribution network through selective expansion into attractive geographic markets and through increasing our control over product distribution. During the periods covered by this Operating and Financial Review and Prospects, we have established additional distribution subsidiaries in new geographic markets, principally in Asia (Hong Kong, India, Singapore and Malaysia) and Europe (Portugal and Switzerland). We have also increased our ownership interest of distribution subsidiaries to 100% in a number of countries, including Japan, the United Kingdom and our Smith Sports distribution subsidiary in Italy. During 2002, we launched our Solstice specialty store business in the United States by opening six stores; to date we have 20 stores and by the end of 2003 expect to have 35 stores. We expect to continue to establish distribution subsidiaries in geographic markets where we currently use third-party distributors at such time as we determine that the size of the market (based on number of units sold on a per annum basis) would allow us to increase our profitability through direct control.

The strengthening of our distribution network through geographic expansion and increased control has affected, and is expected to continue to affect in future periods, our results of operations. For example, net sales in a geographic market following the establishment of a distribution subsidiary usually increase due to the elimination of the discounts provided to third-party distributors and the increase in units sold resulting from our enhanced control and understanding of brand placement. Our selling and marketing and general and administrative expenses, however, also increase due to increased royalties payable on our licensed brands and other costs associated with managing our own direct sales force. On balance, net income from a given geographic market generally increases within twelve months following the establishment of a distribution subsidiary.

License Agreements

Sales of licensed brands have represented, and are expected to continue to represent, a fast-growing and increasingly important component of our business. One of our strategic objectives is to renew existing agreements with major fashion houses and to enter into new agreements on attractive terms for new internationally known brands or established brands in attractive regional and national markets. Despite the payment of royalties from sales of licensed brands, licensed brands have yielded greater profitability due to the premium prices associated with such licensed brands; however, we expect that the level of profitability will increase only slightly in the future as licensors exercise greater control over license terms. Sales of licensed brands have increased from €456.1 million in 2000 to €657.2 million in 2002, and in 2002 represented 74% of our total net sales, as compared to 67% in 2000.

Foreign Exchange Effects

Because we have a significant amount of capital employed in, and a significant portion of our net sales is derived from, operations outside of Europe, primarily in North America and the Far East, our results of operations, reported in euros, can be affected by movements in foreign exchange rates between the euro and various other currencies, primarily the U.S. dollar and to a lesser extent, the U.K. pound sterling and the Japanese yen. In 2002, 38% of our consolidated net sales were settled in U.S. dollars or related currencies, including most of our net sales in our markets in North America and the Far East. Moreover, the cost of a significant portion of the finished goods we obtain from third-party producers are settled in U.S. dollars, and nearly all of the costs associated with our operations in the North America region are U.S. dollar costs. As described under "Results of Operations—Year Ended December 31, 2002, Compared to Year Ended December 31, 2001", the depreciation of the U.S. dollar against the euro adversely impacted our results of operations in 2002.

In order to prepare our consolidated financial statements, we must convert assets, liabilities, income and expenses that are accounted for in other currencies into euro. Consequently, even if the value of these items remain unchanged in the original currency, changes in foreign currency exchange rates will cause changes in the value of such items in our consolidated financial statements.

The table below sets forth the average value of the euro against the U.S. dollar during 2000, 2001 and 2002.

Average Noon Buying Rates

		(dollars per euro)		
		% Change		% Change
2000	2001	from 2000	2002	from 2001
0.92 .	0.90	(2.2)%	0.95	5.6%

We periodically enter into foreign currency contracts to hedge commitments, transactions or foreign income. See "—Foreign Exchange Risk Management" below and notes 3 and 29 to our consolidated financial statements.

Working Capital Requirements

Due to customer requirements for prompt delivery of our products and the prevailing payment terms in the eyewear business, our working capital requirements, including inventory and trade receivables, are significant. Our net working capital has fluctuated from €208.1 million as of December 31, 2000, to €261.1 million as of December 31, 2001, to €189.2 million as of December 31, 2002. Our inventory levels increased from €139.5 million at December 31, 2000 to €162.5 million at the end of 2001 and grew to €191.1 million at the end of 2002, a 37% overall increase over two years. Because sales in the eyewear industry depend on the availability of products at the retailer, the increase in our inventory levels is due largely to the increase in our net sales of licensed brands, to the increase in the number of our licensed brands and to a lower provision for obsolescence and slow moving inventory as a result of our estimation of higher net realizable value of obsolete inventory due to increased disposals of slow moving products to outlets and stock houses, as opposed to scrapping such products. Inventory levels have also been affected by the global economic slowdown, particularly in the second half of 2001.

Trade receivables increased 22.1% from €205.6 million at December 31, 2000, to €251.1 million at December 31, 2001, dropping to €197.0 million at the end of 2002, primarily due to the sales of €76.4 million of trade receivables under our newly established receivables securitization program in December 2002. Our trade payables increased by 42.5% in 2002 as compared to 2001 because of an increase in our purchases of finished products from third-party manufacturers and capital investments, as well as efforts to lengthen our terms of payment with our suppliers.

Corporate Reorganization and December 2002 Refinancing

We incurred a significant amount of indebtedness in connection with the reorganization of the ownership structure of the Safilo Group during the second half of 2001 and during 2002. As of December 31, 2002, we had € 799.8 million of net debt and for the year ended December 31, 2002, interest expense of €70.9 million. We refinanced the short-term debt incurred in the corporate reorganization with long-term debt and a securitization bridge facility during December 2002. We will have significant debt and interest expense for the foreseeable future. Our operating results will also be affected by the substantial goodwill created in connection with the corporate reorganization; amortization of goodwill amounted to €23.9 million in 2002 and €43.0 million in 2001. With effect from January 1, 2002, we have amortized the goodwill created in connection with the corporate reorganization based on a 20-year useful life (a 10-year useful life was used in 2001).

Implementation of Armani License Agreement

In connection with achieving our strategic objective of entering into new license agreements for internationally known brands, we entered into agreements with the Armani Group in February 2003 for the worldwide production and distribution of *Giorgio Armani* and *Emporio Armani* branded eyewear. Implementation of these significant agreements will affect our results of operations. Although we believe that our results of operations will be positively impacted by expected increases in our net sales, implementation of the agreements will require additional working capital and significant expenditures to, among other things, produce in our own facilities and purchase from third-party manufacturers several million additional units per year, hire approximately 220 new sales agents dedicated to the Armani brands, and meet minimum royalty payment and advertising and promotion obligations during the eight year term of the license agreements.

Outsourcing of Production

Another one of our strategic objectives is to maintain production flexibility by efficiently allocating our own production resources, utilizing subcontractors for some semi-finished products and pieces and purchasing finished products for resale from third-party manufacturers. We have increasingly used subcontractors and we have increasingly purchased finished products from third-party manufacturers in order to maintain maximum flexibility and cost-effectiveness without threatening intellectual property protection or product quality. Our goal also is to reduce excess capacity and to realize economies of scale through the efficient allocation of processes and products at our own production facilities. We aim to outsource the production of models that have lower prices to manufacturers that can produce the units at a lower cost per unit than we would otherwise be able to achieve using our own facilities, and we retain production in our own facilities of models that require a more intensive or technical production process, whether from a design or engineering standpoint.

Seasonality and Cash Flows

Our revenues are somewhat seasonal as we experience our highest level of net sales during the second quarter (30.0% in 2001 and 28.2% in 2002), primarily due to increased sales of sunglasses leading up to the summer, and our lowest level of net sales in the third quarter of 19.2% in 2001 and 20.1% in 2002. Also, due to this seasonality in net sales and to timing differences in the collection of receivables and payments of royalties, our cash flow fluctuates on a quarterly basis, with almost 60% of our EBITDA on an annual basis being earned in the first two quarters and with the third quarter accounting for close to 20%. However, our cash levels during the first quarter are lower than in other quarters because of cash requirements arising from increasing inventory levels in preparation for traditionally higher second quarter sunglasses sales and royalty payments made in the first quarter to reflect prior full year actual sales in excess of the minimum royalty payments paid during the prior year.

Significant Accounting Policies

Management relies on the use of estimates and makes assumptions that impact our financial position and results of operations. These estimates are based on historical results and trends as well as our forecasts as to how these might change in the future, and actual results may differ significantly from such estimates. Some of the most significant accounting policies that might materially impact our results are discussed below.

Revenue Recognition

We recognize revenue from the sales of goods at the time product ownership passes to our customers, which is generally when goods are shipped to the customer. We record sales of products net of discounts, rebates, returns and VAT. If sales include the right of the dealer to return unsold products (generally these terms are available in the United States only), we recognize the sale upon shipment to the customer net of a provision that represents our best estimate of products that will be returned that we will not be able to resell. This provision, which totalled €4.1 million in 2002, is estimated based upon historical trends and specific knowledge concerning our customers, and we have not experienced any historical material product return percentage that has exceeded our expectations. We measure revenue at the fair value of the consideration received or receivable. When we cannot reliably measure the fair value of consideration received or receivable, we measure the fair value of the products sold. Other than in the Far East, we generally extend credit to our customers and generally do not require collateral or credit support. We perform ongoing credit evaluations of our customers, and we have not experienced any historic credit losses that have exceeded our expectations. Payment terms are generally determined based on the location of and our relationship with the customer.

Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness. We continuously monitor our customer collections and payments and maintain a provision for estimated credit losses based on historical experience and specific issues related to any customer. Provision for estimated returns of products that can not be resold is also included the allowance for doubtful accounts.

Inventories

Inventories are stated at the lower of purchase or production cost (on weighted average cost basis), including all product-related and transport costs or the current estimated market value of the inventory. We continually review our inventory quantities on hand and record provisions for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements.

Amortization of Goodwill

Goodwill derived from acquisitions is capitalized and amortized over a 5 to 20 year period, depending on our assessment of the useful life of the goodwill.

Financial Instruments and Hedging

We use derivative products to manage exposure to fluctuations in both foreign currency and interest rates. To hedge against exposure to changes in foreign currency exchange rates on assets and liabilities denominated in currencies other than euro, we mainly enter into foreign currency forward contracts, and we mainly enter into currency swaps to manage exposure to foreign currency exchange rates related to our interest obligations. Discounts or premiums on forward contracts (the difference between the current spot exchange rate and the forward exchange rate at the inception of the contract) are amortized over the contract lives using the straight line method.

For interest rate swaps, the differential to be paid or received is accrued as adjustments to interest income or expense over the life of the agreement. Upon early termination of an interest rate swap, gains or losses are deferred and amortized as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap.

We periodically enter into foreign currency contracts to hedge commitments, transactions or foreign income. For foreign currency contracts acquired for the purpose of hedging identified commitments, the gain or loss is generally deferred and included in the basis of the transaction underlying the commitment. If the underlying transaction is not completed, the contract is marked to market with any realized or unrealized gains or losses reflected in income. Gains or losses on transaction hedges are recognized in cost of sales and offset the gains or losses on the related transaction.

Principal Profit and Loss Account Items

Net Sales

We record sales of products net of discounts, rebates, returns and VAT. If sales include the right of the dealer to return unsold products (generally these terms are available in the United States only), we recognize the sale upon shipment to the customer net of a provision that represents our best estimate of products that will be returned that we will not be able to resell.

Operating Income

Operating income represents net sales less operating costs. Operating costs consist of cost of sales, selling and marketing expenses, general and administrative expenses, and other expenses calculated on a net basis with other income.

Cost of sales consist principally of the following:

- finished and semi-finished products for resale purchased from third-party manufacturers ready for direct resale or final stage production;
- raw materials such as precious metals, acetate and cases;
- changes in inventory, including expenses for obsolescence and slow moving inventory;
- production payroll and related contributions;
- subcontracting costs for outsourced part production activities in Italy (as opposed to full production, which we record as finished products for resale);
- depreciation for industrial assets, which consists primarily of production plant, machinery and equipment, and such depreciation is usually calculated based upon the expected useful life of each group of assets and charged to profit and loss on a straight-line basis;
- other industrial costs such as utility costs and industrial rents, including maintenance, energy and other consumables applied in the production process; and
- gains/losses on currency swaps.

Selling and marketing expenses consist principally of the following:

- salaries and related contributions, including wages, salaries, social security, pension and other costs associated with employees involved in our commercial departments;
- services from independent salespersons, which includes:
- wages, salaries, social security, pension and other costs associated with independent salespersons;

- commissions; and
- provisions with respect to costs we would incur if we terminated contracts with independent salespersons;
- royalties and fees paid for our utilization of trademarkes or brands, which amounts are usually based upon the value or net sales of product units sold;
- advertising and promotion expenses, which includes fees paid to media and advertising agencies and to licensors for brand advertisement; and
- other expenses related to product sales, including:
- transportation, logistics and other sales costs;
- provisions for bad debt; and
- provisions for warranties.

General and administrative expenses consist principally of:

- salaries and related contributions, including wages, salaries, social security, pension and other costs associated with employees involved in our administrative departments;
- non-industrial depreciation and amortization, including amortization of trademarks and licenses that we have purchased such for our *Carrera* brand; and
- other general and administrative expenses, including fees for professional services related to administrative, legal, tax and consulting services.

Other expense (income) consists principally of losses (gains) on asset disposals.

Net Income

Net income represents operating income/(loss) less interest income/(expense) and other financial charges, extraordinary income/(expense), (net), amortization of goodwill, tax expense and income attributable to minority shareholders.

Interest income/(expense) and other financial charges, includes interest costs incurred with the borrowing of funds net of interest expense and bank charges consisting of gains and losses on financial instruments other than currency swaps (which are included in cost of sales line item). Discounts granted to customers for early payments are recorded as other financial charges.

Extraordinary income/(expense), (net) consists principally of:

- dividend on investments;
- indemnities and reimbursements; and
- other extraordinary expenses.

Amortization of goodwill consists principally of:

- amortization of goodwill arising from acquisitions, which is amortized on a straight-line basis over an estimated useful life of 5 to 20 years; and
- amortization of goodwill created on acquisition of distribution agreements, which is amortized over the shorter of the duration of the agreement and five years.

Income tax expense is the aggregate amount included in the determinations of net profit in respect of current tax and deferred tax.

Income attributable to minority shareholders is the portion of our net income after deducting interest expense and other financial charges, extraordinary expense, amortization of goodwill and tax expense that is allocable to minority shareholders of the Group's unconsolidated subsidiaries.

First Quarter 2003 Update

Based on currently available figures, we expect our net sales for the first quarter of 2003 to be slightly higher (net of currency effects) on increased unit volumes, as compared to the first quarter of 2002, but lower on an absolute basis due primarily to negative currency effects resulting from the significant weakening of the U.S. dollar relative to the euro, as compared to the same period for 2002. We also expect EBITDA to be lower in the first quarter of 2003, as compared to the first quarter of 2002, partly due to the adverse currency effects described above.

Results of Operations

Year Ended December 31, 2002, Compared to Year Ended December 31, 2001

	Year ended December 31,			
	2001		2002	
	€	% of Net sales	€	% of Net sales
	(in millions, except percentages)			
Consolidated Statement of Operations Data:				
Net sales	845.0	100.0%	894.1	100.0%
Cost of sales	(352.2)	41.7%	(347.9)	38.9%
Gross profit	492.8	58.3%	546.2	61.1%
Selling and marketing expenses	(272.5)	32.2%	(283.9)	31.7%
General and administrative expenses	(96.7)	11.4%	(119.1)	13.3%
Other income/(expense), net	(0.2)	0.0%	—	—
Operating income/(loss)	123.4	14.6%	143.2	16.0%
Interest income/(expense) and other financial charges	(34.3)	4.1%	(70.9)	7.9%
Extraordinary income/(expense), (net)	1.4	0.2%	0.9	0.1%
Amortisation of goodwill	(43.0)	5.1%	(23.9)	2.7%
Income/(loss) before taxation	47.5	5.6%	49.3	5.5%
Tax expense	(36.4)	4.3%	(35.6)	4.0%
Net income/(loss) before minority shareholders	11.1	1.3%	13.7	1.5%
Income attributable to minority shareholders	(3.8)	0.4%	(3.4)	0.4%
Net income	7.3	0.9%	10.3	1.2%

	Year ended December 31,				
	2001		2002		
	€	% of Total	€	% of Total	% Change
	(in millions, except percentages)				
Net Sales:					
Prescription frames	396.7	46.9%	425.2	47.6%	7.2%
Sunglasses	410.5	48.6%	435.6	48.7%	6.1%

Sport goggles	34.6	4.1%	30.1	3.4%	(13.0)%
Other	3.2	0.4%	3.2	0.4%	0.0%
Total	**845.0**	**100.0 %**	**894.1**	**100.0 %**	**5.8%**

	Year ended December 31,				
	2001		2002		
	€	% of Total	€	% of Total	% Change
	(in millions, except percentages)				
Net Sales:					
Owned brands	242.2	28.7%	236.9	26.5%	(2.2)%
Licensed brands	602.8	71.3%	657.2	73.5%	9.0%
Total	**845.0**	**100.0 %**	**894.1**	**100.0 %**	**5.8%**

	Year ended December 31,				
	2001		2002		
	€	% of Total	€	% of Total	% Change
	(in millions, except percentages)				
Net Sales:					
North America	345.4	40.9%	353.5	39.5%	2.3%
Italy	159.4	18.9%	145.7	16.3%	(8.6)%
Europe (excluding Italy)	209.4	24.8%	267.1	29.9%	27.6%
Far East	56.7	6.7%	57.1	6.4%	0.7%
Other	74.1	8.8%	70.7	7.9%	(4.6)%
Total	**845.0**	**100.0 %**	**894.1**	**100.0 %**	**5.8%**

Net sales. Our consolidated net sales increased 5.8% (after negative currency effects) from €845.0 million in 2001 to € 894.1 million in 2002. This increase can be analyzed with respect to the following components:

- in terms of volume, we sold 23.2 million units in 2002 compared to 21.8 million in 2001, representing a 6.5% increase, primarily due to increased sales of *Dior*, *Polo Ralph Lauren*, and *Oxydo* branded products, among others;

- the average revenue per frame decreased 0.7% from €38.80 in 2001 to €38.50 in 2002, which resulted from a larger increase in sales volumes of brands having a lower price per frame relative to our higher priced brands;

- net sales of our owned brands decreased 2.2% (which were impacted by generally negative currency effects in 2002) from €242.2 million in 2001 on sales of 9.1 million units to €236.9 million in 2002 on sales of 9.3 million units, and as a percentage of our consolidated net sales, net sales of our owned brands decreased from 28.7% in 2001 to 26.5% in 2002 because of a shift in product mix to lower priced products, which offset a slight increase in volumes;

- net sales of licensed brands increased 9.0% (despite generally negative currency effects in 2002) from €602.8 million in 2001 on sales of 12.6 million units to €657.2 million in 2002 on sales of 13.9 million units, and as a percentage of our consolidated net sales, net sales of licensed brands increased from 71.3% in 2001 to 73.5% in 2002;

- net sales of prescription frames increased 7.2% (despite generally negative currency effects in 2002) from €396.7 million in 2001 on sales of 9.6 million units to €425.2 million in 2002 on sales of 10.6 million units, and as a percentage of our consolidated net sales, net sales of prescription frames increased slightly from 46.9% in 2001 to 47.6% in 2002;

- net sales of sunglasses increased 6.1% (despite generally negative currency effects in 2002) from €410.5 million in 2001 on sales of 9.8 million units to €435.6 million in 2002 on sales of 10.4 million units, and as a percentage of our consolidated net sales, net sales of sunglasses increased slightly from 48.6% in 2001 to 48.7% in 2002; and

- worldwide, we experienced particularly strong sales growth (in excess of our worldwide net sales growth rate of 5.8%) in *Dior*, *Polo Ralph Lauren, Valentino, Oxydo, Burberry* and *Diesel* branded products; however, most of our brands, while continuing to grow, exhibited a slower growth rate than has been experienced in prior years and some brand sales have been flat.

Europe (including Italy). In Europe (including Italy), our net sales increased 11.9% from €368.8 million in 2001 to €412.7 million in 2002. This increase can be analyzed with respect to the following components in the following countries:

In Italy:

- net sales decreased 8.6% from €159.4 million in 2001 to € 145.7 million in 2002, and as a percentage of our worldwide consolidated net sales, net sales in Italy decreased from 18.9% in 2001 to 16.3% in 2002. This decrease resulted primarily from poor economic conditions in Italy, which has had a particularly negative impact on sales of our higher priced sunglasses brands;

- in terms of volume, we sold 3.5 million units in 2002 compared to 4.0 million in 2001, representing a 14.3% decrease, which resulted primarily from a decrease in net sales of sunglasses;

- the average revenue per frame increased 5.6% from €39.40 in 2001 to €41.60 in 2002, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands and, in particular, an increase in the percentage of our net sales in Italy being comprised of licensed brands of prescription frames;

- net sales of our owned brands increased 10.6% from €23.6 million in 2001 to €26.1 million in 2002, and as a percentage of our net sales in Italy, net sales of our owned brands increased from 14.8% in 2001 to 17.9% in 2002;

- net sales of licensed brands decreased 11.9% from €135.8 million in 2001 to €119.6 million in 2002, and as a percentage of our net sales in Italy, net sales of licensed brands decreased from 82.1% in 2001 to 82.2% in 2002;

- net sales of prescription frames increased 3.1% from €50.9 million in 2001 to €52.5 million in 2002, and as a percentage of our net sales in Italy, net sales of prescription frames increased from 31.9% in 2001 to 36.1% in 2002;

- net sales of sunglasses decreased 14.3% from €107.9 million in 2001 to €92.4 million in 2002, and as a percentage of our net sales in Italy, net sales of sunglasses decreased from 67.7% in 2001 to 63.4% in 2002; and

- we experienced particularly strong sales growth in *Polo Ralph Lauren* and *Oxydo* branded products, which was offset by weaker and flat sales growth with respect to higher priced brands, particularly sunglasses.

In France:

- net sales increased 37.0% from €56.8 million in 2001 to € 77.8 million in 2002, and as a percentage of our worldwide consolidated net sales, net sales in France increased from 6.7% in 2001 to 8.7% in 2002, which was driven by strong growth in our licensed brands in both prescription frames and sunglasses;

- in terms of volume, we sold 1.6 million units in 2002 compared to 1.2 million in 2001, representing a 37.2% increase, primarily due to increased volumes in *Polo Ralph Lauren* and *Oxydo* branded products, among others;

- the average revenue per frame remained relatively constant at € 47.30 in 2001 and €47.20 in 2002, which reflects a small increase in the sale of brands having a lower price per frame relative to our highest priced brands, in particular with respect to sunglasses;

- net sales of our owned brands increased 22.0% from €12.3 million in 2001 to €15.0 million in 2002, but as a percentage of our net sales in France, net sales of our owned brands decreased from 21.6% in 2001 to 19.2% in 2002;

- net sales of licensed brands increased 41.3% from €44.5 million in 2001 to €62.9 million in 2002, and as a percentage of our net sales in France, net sales of licensed brands increased from 78.4% in 2001 to 80.8% in 2002;

- net sales of prescription frames increased 36.8% from €31.5 million in 2001 to €43.1 million in 2002, and as a percentage of our net sales in France, net sales of prescription frames remained constant at 55.5% in 2001 and 55.3% in 2002;

- net sales of sunglasses increased 37.9% from €24.5 million in 2001 to €33.8 million in 2002, and as a percentage of our net sales in France, net sales of sunglasses increased from 43.1% in 2001 to 43.5% in 2002; and

- net sales of all of our of leading owned and licensed brands increased with the exception of our *Safilo* brand, and we experienced particularly strong sales growth (in excess of our 37.0% net sales growth rate in France) in *Polo Ralph Lauren*, *Oxydo*, *Diesel* and *Max Mara* branded products.

In Spain:

- net sales increased 38.0% from €32.6 million in 2001 to € 45.0 million in 2002, and as a percentage of our worldwide consolidated net sales, net sales in Spain increased from 3.9% in 2001 to 5.0% in 2002, which was driven by strong sales of our owned brands of sunglasses, particularly *Oxydo* and *Blue Bay*;

- in terms of volume, we sold 1.3 million units in 2002 compared to 0.9 million in 2001, representing a 44.4% increase;

- the average revenue per frame increased 1.2% from €34.70 in 2001 to €35.10 in 2002, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, and, in particular, we experienced significant increases in sales of our own branded *Oxydo* and *Blue Bay* sunglasses;

- net sales of our owned brands increased 45.6% from €10.3 million in 2001 to €15.0 million in 2002, and as a percentage of our net sales in Spain, net sales of our owned brands increased from 31.5% in 2001 to 33.3% in 2002;

- net sales of licensed brands increased 33.9% from €22.4 million in 2001 to €30.0 million in 2002, but as a percentage of our net sales in Spain, net sales of licensed brands decreased from 68.5% in 2001 to 66.7% in 2002;

- net sales of prescription frames increased 33.6% from €14.9 million in 2001 to €19.9 million in 2002, but as a percentage of our net sales in Spain, net sales of prescription frames decreased from 45.6% in 2001 to 44.3% in 2002;

- net sales of sunglasses increased 41.7% from €17.5 million in 2001 to €24.8 million in 2002, and as a percentage of our net sales in Spain, net sales of sunglasses increased from 53.7% in 2001 to 55.1% in 2002; and

- net sales of all of our of leading owned and licensed brands increased, and we experienced particularly strong sales growth (in excess of our 38.0% net sales growth rate in Spain) in *Polo Ralph Lauren*, *Oxydo* and *Blue Bay* branded products.

In Germany:

- net sales increased 9.1% from €27.6 million in 2001 to € 30.1 million in 2002, and as a percentage of our worldwide consolidated net sales, net sales in Germany increased from 3.3% in 2001 to 3.4% in 2002, primarily because of increases in prices and unit volumes, offset by a shift in product mix to lower priced products, in particular our own brands of prescription frames;

- in terms of volume, we sold 771,000 units in 2002 compared to 700,000 units in 2001, representing a 10.1% increase;

- the average revenue per frame decreased 1.8% from €39.60 in 2001 to €38.90 in 2002, which resulted from a larger increase in sales of brands having a lower price per frame relative to our higher priced brands, and, in particular, as a result of net sales growth of our owned branded products and relatively lower priced prescription frames and a decrease in net sales of licensed sunglasses;

- net sales of our owned brands increased 25.8% from €6.2 million in 2001 to €7.8 million in 2002, and as a percentage of our net sales in Germany, net sales of our owned brands increased from 22.6% in 2001 to 25.9% in 2002;

- net sales of licensed brands increased 4.7% from €21.3 million in 2001 to €22.3 million in 2002, but as a percentage of our net sales in Germany, net sales of licensed brands decreased from 77.4% in 2001 to 74.1% in 2002;

- net sales of prescription frames increased 27.1% from €11.8 million in 2001 to €15.0 million in 2002, and as a percentage of our net sales in Germany, net sales of prescription frames increased from 42.8% in 2001 to 49.9% in 2002;

- net sales of sunglasses decreased 5.3% from €15.1 million in 2001 to €14.3 million in 2002 as we experienced a slow down in sales of higher priced sunglasses, and as a percentage of our net sales in Germany, net sales of sunglasses decreased from 54.6% in 2001 to 47.6% in 2002; and

- we experienced particularly strong sales growth (in excess of our 9.1% net sales growth rate in Germany) in *Polo Ralph Lauren, Oliver, Oxydo* and *Diesel* branded products, but we experienced weaker and flat sales growth in higher priced brands, particularly with respect to sunglasses.

In the United Kingdom:

- net sales increased 9.4% (after negative currency effects) from €23.3 million in 2001 to €25.5 million in 2002, and as a percentage of our worldwide consolidated net sales, net sales in the United Kingdom increased from 2.8% in 2001 to 2.9% in 2002 even though unit volume decreased because of a shift in product mix to higher priced products, in particular licensed brands of prescription frames;

- in terms of volume, we sold 483,000 frames in 2002 compared to 504,000 in 2001, representing a 4.2% decrease;

- the average revenue per frame increased 14.3% from €46.00 in 2001 to €52.60 in 2002, which resulted from strong increases in sales of higher priced brands of licensed prescription frames;

- net sales of our owned brands decreased 8.0% from €2.5 million in 2001 to €2.3 million in 2002, and as a percentage of our net sales in the United Kingdom, net sales of our owned brands decreased from 10.8% in 2001 to 9.1% in 2002;

- net sales of licensed brands increased 11.5% from €20.8 million in 2001 to €23.2 million in 2002, and as a percentage of our net sales in the United Kingdom, net sales of licensed brands increased from 89.2% in 2001 to 90.9% in 2002;

- net sales of prescription frames increased 18.9% from €9.5 million in 2001 to €11.3 million in 2002, and as a percentage of our net sales in the United Kingdom, net sales of prescription frames increased from 40.6% in 2001 to 44.4% in 2002;

- net sales of sunglasses increased 3.0% from €13.4 million in 2001 to €13.8 million in 2002, but as a percentage of our net sales in the United Kingdom, net sales of sunglasses decreased from 57.5% in 2001 to 53.9% in 2002; and

- net sales of all of our of leading owned and licensed brands increased with the exception of our *Safilo* brand, and we experienced particularly strong sales growth (in excess of our 9.4% net sales growth rate in the United Kingdom) in *Dior*, *Burberry* and *Blue Bay* branded products.

North America. In North America, our net sales increased 2.3% (after adverse currency effects) from €345.4 million in 2001 to €353.5 million in 2002. This increase can be analyzed with respect to the following components in the United States:

In the United States:

- net sales increased 0.8% (after significant adverse currency effects) from €315.6 million in 2001 to €318.0 million in 2002 on strong sales of sunglasses, but as a percentage of our worldwide consolidated net sales, net sales in the United

States decreased from 37.4% in 2001 to 35.6% in 2002;

- in terms of volume, we sold 8.8 million units in 2002 compared to 8.2 million in 2001, representing a 7.3% increase;

- the average revenue per frame decreased 6.9% (after significant adverse currency effects) from €38.80 in 2001 to €36.10 in 2002, which resulted from an increase in sales of brands having a lower price per frame relative to our higher priced brands, and, in particular, of increased sales of mid-range and high-end licensed sunglasses;

- net sales of our owned brands decreased 13.9% from €133.0 million in 2001 to €114.5 million in 2002, and as a percentage of our net sales in the United States, net sales of our owned brands decreased from 42.1% in 2001 to 36.0% in 2002, primarily as a result of a decrease in sales of *Smith* products;

- net sales of licensed brands increased 11.4% from €182.6 million in 2001 to €203.5 million in 2002, and as a percentage of our net sales in the United States, net sales of licensed brands increased from 57.9% in 2001 to 64.0% in 2002;

- net sales of prescription frames decreased 0.8% from €182.9 million in 2001 to €181.4 million in 2002, and as a percentage of our net sales in the Unites States, net sales of prescription frames decreased from 57.9% in 2001 to 57.0% in 2002, primarily as a result of a decrease in net sales of our *Safilo* brand due to marketing changes with respect to this brand;

- net sales of sunglasses increased 6.3% from €111.5 million in 2001 to €118.5 million in 2002, and as a percentage of our net sales in the United States, net sales of sunglasses increased from 35.3% in 2001 to 37.3% in 2002, which resulted in part from sales from our Solstice retail stores; and

- we experienced particularly strong sales growth in *Dior*, *Valentino*, *Burberry* and *Nine West* branded products and successfully launched new brands such as *Saks Fifth Avenue*, but we experienced weakness in sales of our *Smith* brand resulting from a change in ownership of a significant customer and weakness in sales of *Safilo*.

Far East. In the Far East, our net sales increased 0.7% (despite generally negative currency effects in 2002) from €56.7 million in 2001 to € 57.1 million in 2002, and in Japan our net sales decreased 7.0% (after adverse currency effects) from €27.5 million in 2001 to €25.7 million in 2002. These changes can be analyzed with respect to the following components:

- our volume remained steady as we sold 1.1 million units in 2002 in the Far East compared to 1.1 million in 2001, but in Japan our unit sales decreased from 510,000 units in 2001 to 454,600 in 2002, representing a 10.9% decrease, primarily as a result of our termination of the distribution relationship with our third-party *Carrera* sport distributor in Japan as we began selling *Carrera* sport products through our own distribution subsidiary and because we discontinued selling *Smith* products through optical retail channels, choosing to sell them only through sport retail channels;

- the average revenue per frame increased 7.4% in the Far East from €50.00 in 2001 to €53.70 in 2002, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, and, in particular, increased net sales of licensed brands; and, in Japan the average revenue per frame increased 4.3% from € 54.00 in 2001 to €56.30 in 2002, which also resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly with respect to sunglasses;

- net sales of our owned brands decreased 22.7% in the Far East from €6.6 million in 2001 to €5.1 million in 2002, and as a percentage of our net sales in the Far East, net sales of our owned brands decreased from 11.7% in 2001 to 8.9% in 2002; and in Japan, net sales of our owned brands decreased 33.3% from €3.9 million in 2001 to € 2.6 million in 2002, and as a percentage of our net sales in Japan, net sales of our owned brands decreased from 14.1% in 2001 to 10.2% in 2002;

- net sales of licensed brands increased 3.8% in the Far East from €50.1 million in 2001 to €52.0 million in 2002, and as a percentage of our net sales in the Far East, net sales of licensed brands increased from 88.3% in 2001 to 91.1% in 2002; and in Japan, net sales of licensed brands decreased 2.1% from €23.6 million in 2001 to € 23.1 million in 2002, but as a percentage of our net sales in Japan, net sales of licensed brands increased from 85.9% in 2001 to 89.8% in 2002;

- net sales of prescription frames decreased 10.5% in the Far East from €28.5 million in 2001 to €25.5 million in 2002, and as a percentage of our net sales in the Far East, net sales of prescription frames decreased from 50.2% in 2001 to

44.7% in 2002; and in Japan, net sales of prescription frames decreased 10.8% from €17.6 million in 2001 to €15.7 million in 2002, and as a percentage of our net sales in Japan, net sales of prescription frames decreased from 63.9% in 2001 to 61.3% in 2002;

- net sales of sunglasses increased 10.3% in the Far East from € 27.1 million in 2001 to €29.9 million in 2002, and as a percentage of our net sales in the Far East, net sales of sunglasses increased from 47.8% in 2001 to 52.4% in 2002; and in Japan, net sales of sunglasses increased 13.5% from €7.4 million in 2001 to €8.4 million in 2002, and as a percentage of our net sales in Japan, net sales of sunglasses increased from 27.0% in 2001 to 32.9% in 2002; and

- in Japan we experienced particularly strong sales growth in *Dior* branded products but weakness in sales in most of our other leading licensed brands.

Cost of sales.

	Year ended December 31, 2001	2002	% Change
	(in millions, except percentages)		
Materials, finished products and changes in inventories	€179.3	€172.6	(3.7%)
Salaries and related contributions	85.2	90.7	6.5%
Subcontracting costs	46.6	47.0	0.9%
Industrial depreciation	25.2	24.6	(2.4%)
Other costs	15.9	13.0	(18.2%)
Total	**€352.2**	**€347.9**	**(1.2%)**

Cost of sales decreased 1.2% from €352.2 million in 2001 to €347.9 million in 2002, and our gross margin increased to 61.1% in 2002 compared to 58.3% in 2001. Cost of sales for 2002 was positively impacted by a 3.7% reduction in the materials, finished products and changes in inventories component from €179.3 million in 2001 to € 172.6 million in 2002. This reduction resulted primarily from a reduced rate of inventory write-offs for obsolescence for goods that we forecast cannot be sold compared to 2001 due to the higher rate of obsolescence experienced in the second half of 2001 as a result of the global economic slowdown that was exacerbated by the events of September 11. In 2002, we also experienced a reduction in obsolescence that favorably impacted materials, finished products and changes in inventories as a result of disposing of slow moving products to outlets and stock houses instead of scrapping the products. The positive effect on cost of sales of our decreased rate of obsolescence in 2002 was partially offset by our increasing use of outsourcing the manufacture of finished products for some of our brands to third party manufacturers. The costs of purchasing finished goods pursuant to this outsourcing was favorably impacted by currency effects as we purchase many finished products in U.S. dollars. Also positively affecting our 2002 cost of sales was a 18.2% decrease in the other costs component from € 15.9 million in 2001 to €13.0 million in 2002; this reduction resulted from positive effects of currency swaps entered into in connection with intercompany sales, which are recorded as a reduction of the cost of sales. The other components of cost of sales—salaries and related contributions, subcontracting costs and industrial depreciation—remained relatively constant in 2002 with respect to our growth in net sales for 2002.

***Selling and marketing expenses*.**

	Year ended December 31, 2001	2002	% Change
	(in millions, except percentages)		
Salaries and related contributions	€30.1	€31.5	4.7%
Services from independent salespersons	79.7	77.0	(3.4%)
Royalties	69.2	70.9	2.5%
Advertising and promotion	67.4	73.3	8.8%
Other selling expenses	26.1	31.1	19.2%
Total	**€272.5**	**€283.9**	**4.2%**

Selling and marketing expenses increased 4.2% from €272.5 million in 2001 to €283.9 million in 2002, representing a decrease as a percentage of net sales from 32.2% in 2001 to 31.7% in 2002. Selling and marketing expenses was positively impacted in 2002 by a 3.4% decrease in the services from independent salespersons component as a result of a decrease in commissions paid on sales. This decrease in commissions resulted from a relative decrease in sales of higher priced brands as compared to lower priced brands, which resulted in a lower commission paid on sales, and a higher portion of sales made directly to a customer without the services of a salesperson, principally to distribution chains. The advertising and promotion component increased by 8.8% in 2002, as a result of our increased use of sponsorship of public events as a means of brand promotion and increased advertising and promotion costs associated with launching a new brand, *Yves Saint Laurent*, and paid under our license agreements generally due to prior year growth in sales of licensed brands. In addition, the other selling expenses component increased 19.2% in 2002 primarily as a result of a new policy of shipping products to our customers more frequently than under the old policy when we would only ship products when at least 80% of the order was complete. Consequently, we may now ship products to our customers more frequently and in smaller batches, which, although more expensive, has the benefit of better serving the needs and requirements of our customers. Royalties paid to licensors increased only 2.5% in 2002, which was lower than the 9.0% increase in net sales of licensed brands, as sales of our more expensive licensed products increased more slowly than sales of lower priced licensed products, which yield lower royalty costs. The other component of selling and marketing expenses, salaries and related contributions, increased in 2002 approximately in line with our growth in net sales for 2002.

General and administrative expenses. General and administrative expenses increased 23.2% from €96.7 million in 2001 to € 119.1 million in 2002, representing an increase in percentage of net sales from 11.4% in 2001 to 13.3% in 2002. General and administrative expenses was negatively impacted in 2002 by a 23.0% increase in the other general and administrative expenses component, resulting from consultancy and advisory expenses incurred in connection with restructuring of the Group and from new operations started in 2002, such as our purchase of the Solstice special retail program at the beginning of 2002, which resulted in store opening and staffing costs related to these stores. As of December 31, 2002, we had 15 Solstice stores in operation. In 2002, we also experienced a 21.4% increase in the salaries and related contribution component and a 65.8% increase in the other staff related costs, resulting primarily from the hiring of additional administrative and management personnel as a consequence of our growth in 2000 and 2001 and the staffing of new foreign distribution subsidiary offices. The other components of general and administrative expenses—depreciation and amortisation, annual fees for outsourcing information system and other provision—experienced, as a whole, changes approximately in line with our growth and activities in 2002.

Operating income/(loss). Operating income increased 16.0% from € 123.4 million in 2001 to €143.2 million in 2002, yielding an increase in operating margin from 14.6% in 2001 to 16.0% in 2002, outpacing the 5.8% growth in net sales.

Interest income/(expense) and other financial charges. Interest expense and other financial charges increased from €34.3 million in 2001 to €70.9 million in 2002. This increase resulted primarily from higher interest expense resulting from our increased debt level for all of 2002, which debt was incurred in mid-2001.

Extraordinary income/(expense), (net). Extraordinary income decreased from €1.4 million in 2001 to €0.9 million in 2002. This decrease was primarily due to €1.6 million in extraordinary expenses incurred in 2002 arising from tax accruals that are not tax deductible.

Amortization of goodwill. Goodwill amortization decreased 44.4% from €43.0 million in 2001 to €23.9 million in 2002. This decrease was primarily due to the application of increased useful life (increased from 10 years in 2001 to 20 years in 2002) for the amortization of €395.0 million of goodwill created in connection with the purchase of all remaining outstanding Safilo shares of capital stock in 2001 and remaining €29.0 million of goodwill from the purchase of Safilo shares of capital stock in 2002. Such increase in useful life is permitted under Italian Accounting Principles and was deemed to be appropriate by management.

Tax expense. Tax expense decreased 2.2% from € 36.4 million in 2001 to €35.6 million in 2002. The effective tax rate on income before taxation, depreciation and amortization increased from 28.1% in 2001 to 30.8% in 2002, primarily as a result of the expiration of losses carried forward within the Group. The Group has € 1.8 million of losses carried forward available for tax purposes. The effective tax rate also increased as a result of an increase in foreign taxes payable by our operating subsidiaries.

Net income. Net income increased 41.1% from €7.3 million in 2001 to €10.3 million in 2002 as a result of the reasons described above. Net income represented 1.2% of net sales in 2002 compared to 0.9% in 2001.

Year Ended December 31, 2001, Compared to Year Ended December 31, 2000

	Year ended December 31,			
	2000		2001	
	€	% of Net sales	€	% of Net sales

	(in millions, except percentages)			
Consolidated Statement of Operations Data:				
Net sales	685.6	100.0%	845.0	100.0%
Cost of sales	(297.6)	43.4%	(352.2)	41.7%
Gross profit	388.0	56.6%	492.8	58.3%
Selling and marketing expenses	(220.4)	32.1%	(272.5)	32.2%
General and administrative expenses	(80.6)	11.8%	(96.7)	11.4%
Other income/(expense), net	(0.4)	0.1%	(0.2)	0.0%
Operating income/(loss)	86.6	12.6%	123.4	14.6%
Interest income/(expense) and other financial charges	(11.5)	1.7%	(34.3)	4.1%
Extraordinary income/(expense), (net)	0.2	0.0%	1.4	0.2%
Amortisation of goodwill	(3.7)	0.5%	(43.0)	5.1%
Income/(loss) before taxation	71.6	10.4%	47.5	5.6%
Tax expense	(21.9)	3.2%	(36.4)	4.3%
Net income/(loss) before minority shareholders	49.7	7.2%	11.1	1.3%
Income attributable to minority shareholders	(22.1)	3.2%	(3.8)	0.4%
Net income	27.6	4.0%	7.3	0.9%

	Year ended December 31, 2000		2001		
	€	**% of Total**	**€**	**% of Total**	**% Change**
	(in millions, except percentages)				
Net Sales:					
Prescription frames	347.3	50.7%	396.7	46.9%	14.2%
Sunglasses	302.7	44.2%	410.5	48.6%	35.6%
Sport goggles	32.3	4.7%	34.6	4.1%	7.1%
Other	3.3	0.5%	3.2	0.4%	(3.0)%
Total	**685.6**	**100.0 %**	**845.0**	**100.0 %**	23.2%

	Year ended December 31, 2000		2001		
	€	**% of Total**	**€**	**% of Total**	**% Change**
	(in millions, except percentages)				
Net Sales:					
Owned brands	229.5	33.5%	242.2	28.7%	5.5%
Licensed brands	456.1	66.5%	602.8	71.3%	32.2%
Total	**685.6**	**100.0 %**	**845.0**	**100.0 %**	23.2%

	Year ended December 31, 2000		2001		
	€	**% of Total**	**€**	**% of Total**	**% Change**

	(in millions, except percentages)				
Net Sales:					
North America	303.6	44.3%	345.4	40.9%	13.8%
Italy	114.7	16.7%	159.4	18.9%	39.0%
Europe (excluding Italy)	161.6	23.6%	209.4	24.8%	29.6%
Far East	44.4	6.5%	56.7	6.7%	27.7%
Other	61.3	8.9%	74.1	8.8%	20.9%
Total	**685.6**	**100.0%**	**845.0**	**100.0%**	23.2%

Net Sales

Our consolidated net sales increased 23.2% (after minor positive currency effects) from €685.6 million in 2000 to €845.0 million in 2001, which was driven by strong sales of licensed brands of sunglasses. This increase can be analyzed with respect to the following components:

- in terms of volume, we sold 21.8 million units in 2001 compared to 19.1 million in 2000, representing a 14.1% increase;
- the average revenue per frame increased 8.7% from €35.70 in 2000 to €38.80 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands;
- net sales of our owned brands increased 5.5% from €229.5 million in 2000 on sales of 8.7 million units to €242.2 million in 2001 on sales of 9.1 million units, but as a percentage of our consolidated net sales, net sales of our owned brands decreased from 33.5% in 2000 to 28.7% in 2001;
- net sales of licensed brands increased 32.2% from €456.1 million in 2000 on sales of 10.4 million units to €602.8 million in 2001 on sales of 12.6 million units, and as a percentage of our consolidated net sales, net sales of licensed brands increased from 66.5% in 2000 to 71.3% in 2001;
- net sales of prescription frames increased 14.2% from €347.3 million in 2000 on sales of 8.7 million units to €396.7 million in 2001 on sales of 9.6 million units, but as a percentage of our consolidated net sales, net sales of prescription frames decreased from 50.7% in 2000 to 46.9% in 2001;
- net sales of sunglasses increased 35.6% from €302.7 million in 2000 on sales of 8.0 million units to €410.5 million in 2001 on sales of 9.8 million units, and as a percentage of our consolidated net sales, net sales of sunglasses increased from 44.2% in 2000 to 48.6% in 2001; and
- worldwide, net sales of all of our of leading owned and licensed brands increased with the exception of our *Safilo* brand, which decreased as we placed more emphasis on sales of *Oxydo*, and we experienced particularly strong sales growth (in excess of our 23.2% worldwide net sales growth rate) in *Gucci*, *Dior*, *Valentino*, *Diesel*, *Nine West*, *Max Mara* and *Burberry* branded products.

Europe (including Italy). In Europe (including Italy), our net sales increased 33.5% from €276.3 million in 2000 to €368.8 million in 2001. This increase can be analyzed with respect to the following components in the following countries:

In Italy:

- net sales increased 39.0% from €114.7 million in 2000 to €159.4 million in 2001, and as a percentage of our worldwide consolidated net sales, net sales in Italy increased from 16.7% in 2000 to 18.9% in 2001, which was driven by strong sales of sunglasses;
- in terms of volume, we sold 4.0 million units in 2001 compared to 3.2 million in 2000, representing a 25% increase;
- the average revenue per frame increased 9.7% from €35.90 in 2000 to €39.40 in 2001, which resulted from a larger

increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly sunglasses;

- net sales of our owned brands increased 17.4% from €20.1 million in 2000 to €23.6 million in 2001, but as a percentage of our net sales in Italy, net sales of our owned brands decreased from 17.5% in 2000 to 14.8% in 2001;

- net sales of licensed brands increased 43.6% from €94.6 million in 2000 to €135.8 million in 2001, and as a percentage of our net sales in Italy, net sales of licensed brands increased from 82.5% in 2000 to 85.2% in 2001;

- net sales of prescription frames increased 9.2% from €46.6 million in 2000 to €50.9 million in 2001, but as a percentage of our net sales in Italy, net sales of prescription frames decreased from 40.6% in 2000 to 31.9% in 2001;

- net sales of sunglasses increased 59.9% from €67.5 million in 2000 to €107.9 million in 2001, and as a percentage of our net sales in Italy, net sales of sunglasses increased from 58.9% in 2000 to 67.7% in 2001; and

- net sales of all of our of leading owned and licensed brands increased, and we experienced particularly strong sales growth (in excess of our 39.0% net sales growth rate in Italy) in *Gucci*, *Dior*, *Polo Ralph Lauren* and *Diesel* branded products.

In France:

- net sales increased 52.7% from €37.2 million in 2000 to € 56.8 million in 2001, and as a percentage of our worldwide consolidated net sales, net sales in France increased from 5.4% in 2000 to 6.7% in 2001, which was driven by strong sales of licensed prescription frames;

- in terms of volume, we sold 1.2 million units in 2001 compared to 857,000 in 2000, representing a 40.0% increase;

- the average revenue per frame increased 9.5% from €43.20 in 2000 to €47.30 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly licensed brands of prescription frames;

- net sales of our owned brands increased 30.9% from €9.4 million in 2000 to €12.3 million in 2001, but as a percentage of our net sales in France, net sales of our owned brands decreased from 25.3% in 2000 to 21.6% in 2001;

- net sales of licensed brands increased 60.1% from €27.8 million in 2000 to €44.5 million in 2001, and as a percentage of our net sales in France, net sales of licensed brands increased from 74.7% in 2000 to 78.4% in 2001;

- net sales of prescription frames increased 59.9% from €19.7 million in 2000 to €31.5 million in 2001, and as a percentage of our net sales in France, net sales of prescription frames increased from 53.1% in 2000 to 55.5% in 2001;

- net sales of sunglasses increased 47.6% from €16.6 million in 2000 to €24.5 million in 2001, but as a percentage of our net sales in France, net sales of sunglasses decreased from 44.6% in 2000 to 43.1% in 2001; and

- net sales of all of our of leading owned and licensed brands increased, and we experienced particularly strong sales growth (in excess of our 52.7% net sales growth rate in France) in *Dior*, *Polo Ralph Lauren*, *Carrera* and *Max Mara* branded products.

In Spain:

- net sales increased 22.1% from €26.7 million in 2000 to €32.6 million in 2001, which increase was driven by strong sales of licensed brands of sunglasses, and as a percentage of our worldwide consolidated net sales, net sales in Spain remained unchanged at 3.9% in 2000 and 2001;

- in terms of volume, we sold 939,000 units in 2001 compared to 809,000 units in 2000, representing a 16.1% increase;

- the average revenue per frame increased 5.5% from €32.90 in 2000 to €34.70 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly licensed brands of sunglasses;

- net sales of our owned brands increased 10.8% from €9.3 million in 2000 to €10.3 million in 2001, but as a percentage of our net sales in Spain, net sales of our owned brands decreased from 34.8% in 2000 to 31.5% in 2001;

- net sales of licensed brands increased 28.7% from €17.4 million in 2000 to €22.4 million in 2001, and as a percentage of our net sales in Spain, net sales of licensed brands increased from 65.2% in 2000 to 68.5% in 2001;

- net sales of prescription frames increased 7.2% from € 13.9 million in 2000 to €14.9 million in 2001, but as a percentage of our net sales in Spain, net sales of prescription frames decreased from 52.2% in 2000 to 45.6% in 2001;

- net sales of sunglasses increased 40.0% from €12.5 million in 2000 to €17.5 million in 2001, and as a percentage of our net sales in Spain, net sales of sunglasses increased from 46.9% in 2000 to 53.7% in 2001; and

- net sales of all of our of leading owned and licensed brands increased with the exception of our *Safilo* brand, and we experienced particularly strong sales growth (in excess of our 22.1% net sales growth rate in Spain) in *Gucci*, *Dior*, *Polo Ralph Lauren* and *Carrera* branded products.

In Germany:

- net sales increased 29.0% from €21.4 million in 2000 to €27.6 million in 2001, and as a percentage of our worldwide consolidated net sales, net sales in Germany increased from 3.1% in 2000 to 3.3% in 2001, which was driven by strong sales of licensed brands of prescription frames;

- in terms of volume, we sold 700,000 units in 2001 compared to 574,000 units in 2000, representing a 22.0% increase;

- the average revenue per frame increased 6.7% from €37.10 in 2000 to €39.60 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly licensed brands of prescription frames;

- net sales of our owned brands increased 17.0% from €5.3 million in 2000 to €6.2 million in 2001, but as a percentage of our net sales in Germany, net sales of our owned brands decreased from 24.6% in 2000 to 22.6% in 2001;

- net sales of licensed brands increased 32.3% from €16.1 million in 2000 to €21.3 million in 2001, and as a percentage of our net sales in Germany, net sales of licensed brands increased from 75.4% in 2000 to 77.4% in 2001;

- net sales of prescription frames increased 45.7% from € 8.1 million in 2000 to €11.8 million in 2001, and as a percentage of our net sales in Germany, net sales of prescription frames increased from 38.0% in 2000 to 42.8% in 2001;

- net sales of sunglasses increased 21.8% from €12.4 million in 2000 to €15.1 million in 2001, but as a percentage of our net sales in Germany, net sales of sunglasses decreased from 58.2% in 2000 to 54.6% in 2001; and

- net sales of all of our of leading owned and licensed brands increased with the exception of our *Safilo* brand, and we experienced particularly strong sales growth (in excess of our 29.0% net sales growth rate in Germany) in *Dior*, *Polo Ralph Lauren* and *Blue Bay* branded products.

In the United Kingdom:

- net sales increased 9.9% (after adverse currency effects) from €21.2 million in 2000 to €23.3 million in 2001, which increase was driven by strong sales of licensed brands of sunglasses, although as a percentage of our worldwide consolidated net sales, net sales in the United Kingdom decreased from 3.1% in 2000 to 2.8% in 2001;

- in terms of volume, we sold 504,000 units in 2001 compared to 471,000 in 2000, representing a 7.0% increase;

- the average revenue per frame increased 2.4% from €44.90 in 2000 to €46.00 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly licensed brands of sunglasses;

- net sales of our owned brands decreased 3.8% from €2.6 million in 2000 to €2.5 million in 2001, and as a percentage of our net sales in the United Kingdom, net sales of our owned brands decreased from 12.1% in 2000 to 10.8% in 2001;

- net sales of licensed brands increased 11.8% from €18.6 million in 2000 to €20.8 million in 2001, and as a percentage of our net sales in the United Kingdom, net sales of licensed brands increased from 87.9% in 2000 to 89.2% in 2001;

- net sales of prescription frames decreased 12.0% from € 10.8 million in 2000 to €9.5 million in 2001, and as a percentage of our net sales in the United Kingdom, net sales of prescription frames decreased from 50.8% in 2000 to 40.6% in 2001, which resulted from one of our most significant customers of prescription frames having excess inventory due to large orders placed with us in 2000, in addition to the acquisition of this customer by a major retail chain, with which we did not have as close a commercial relationship;

- net sales of sunglasses increased 34.0% from €10.0 million in 2000 to €13.4 million in 2001, and as a percentage of our net sales in the United Kingdom, net sales of sunglasses increased from 47.3% in 2000 to 57.5% in 2001; and

- net sales of all of our of leading owned and licensed brands increased with the exception of our *Safilo* brand and *Polo Ralph Lauren* branded products, and we experienced particularly strong sales growth (in excess of our 9.9% net sales growth rate in the United Kingdom) in *Dior* and *Burberry* branded products.

North America. In North America, our net sales increased 13.8% (after positive currency effects) from €303.6 million in 2000 to € 345.4 million in 2001. This increase can be analyzed with respect to the following components in the United States:

In the United States:

- net sales increased 13.0% (after positive currency effects) from €279.3 million in 2000 to €315.6 million in 2001, due to strong sales of our licensed brands, although as a percentage of our worldwide consolidated net sales, net sales in the United States decreased from 40.7% in 2000 to 37.4% in 2001;

- in terms of volume, we sold 8.2 million units in 2001 compared to 7.4 million in 2000, representing a 10.8% increase;

- the average revenue per frame increased 1.6% (after positive currency effects) from €38.20 in 2000 to €38.80 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly licensed brands of sunglasses;

- net sales of our owned brands increased 1.6% from €130.9 million in 2000 to €133.0 million in 2001, but as a percentage of our net sales in the United States, net sales of our owned brands decreased from 46.9% in 2000 to 42.1% in 2001;

- net sales of licensed brands increased 23.0% from €148.4 million in 2000 to €182.6 million in 2001, and as a percentage of our net sales in the United States, net sales of licensed brands increased from 53.1% in 2000 to 57.9% in 2001;

- net sales of prescription frames increased 11.1% from € 164.7 million in 2000 to €182.9 million in 2001, but as a percentage of our net sales in the Unites States, net sales of prescription frames decreased from 59.0% in 2000 to 57.5% in 2001;

- net sales of sunglasses increased 16.3% from €95.9 million in 2001 to €111.5 million in 2002, and as a percentage of our net sales in the United States, net sales of sunglasses increased from 34.4% in 2000 to 35.3% in 2001; and

- we experienced particularly strong sales growth (in excess of our 13.0% net sales growth rate in the United States) in *Dior*, *Polo Ralph Lauren*, *Nine West* and *Valentino* branded products.

Far East. In the Far East, our net sales increased 27.7% (despite negative currency effects in 2001) from €44.4 million in 2000 to €56.7 million in 2001, and in Japan our net sales increased 21.7% (after adverse currency effects) from €22.6 million in 2000 to € 27.5 million in 2001. This increase can be analyzed with respect to the following components:

- in terms of volume, we sold 1.1 million units in 2001 in the Far East compared to 1.0 million in 2000, representing a

10.0% increase, and in Japan our unit sales increased from 404,000 units in 2000 to 510,000 in 2001, representing a 26.2% increase;

- the average revenue per frame increased 12.7% in the Far East from €44.40 in 2000 to €50.00 in 2001, which resulted from a larger increase in sales of brands having a higher price per frame relative to our lower priced brands, particularly licensed brands of sunglasses, however, in Japan the average revenue per frame decreased 3.6% from €55.90 in 2000 to €53.90 in 2001, which resulted from a larger increase in sales of brands having a lower price per frame relative to our higher priced brands, particularly mid-range to premium priced licensed sunglasses;

- net sales of our owned brands increased 10.0% in the Far East from €6.0 million in 2000 to €6.6 million in 2001, but as a percentage of our net sales in the Far East, net sales of our owned brands decreased from 13.6% in 2000 to 11.7% in 2001; and in Japan, net sales of our owned brands increased 39.3% from €2.8 million in 2000 to € 3.9 million in 2001, and as a percentage of our net sales in Japan, net sales of our owned brands increased from 12.5% in 2000 to 14.1% in 2001;

- net sales of licensed brands increased 30.5% in the Far East from €38.4 million in 2000 to €50.1 million in 2001, although as a percentage of our net sales in the Far East, net sales of licensed brands increased from 86.4% in 2000 to 88.3% in 2001; and in Japan, net sales of licensed brands increased 19.8% from €19.7 million in 2000 to €23.6 million in 2001, but as a percentage of our net sales in Japan, net sales of licensed brands decreased from 87.5% in 2000 to 85.9% in 2001;

- net sales of prescription frames increased 18.8% in the Far East from €24.0 million in 2000 to €28.5 million in 2001, but as a percentage of our net sales in the Far East, net sales of prescription frames decreased from 54.1% in 2000 to 50.2% in 2001; and in Japan, net sales of prescription frames increased 18.9% from €14.8 million in 2000 to €17.6 million in 2001, but as a percentage of our net sales in Japan, net sales of prescription frames decreased from 65.5% in 2000 to 63.9% in 2001;

- net sales of sunglasses increased 38.3% in the Far East from € 19.6 million in 2000 to €27.1 million in 2001, but as a percentage of our net sales in the Far East, net sales of sunglasses decreased from 44.1% in 2000 to 47.8% in 2001; and in Japan, net sales of sunglasses increased 25.4% from €5.9 million in 2000 to €7.4 million in 2001, and as a percentage of our net sales in Japan, net sales of sunglasses increased from 26.2% in 2000 to 27.0% in 2001; and

- in Japan we experienced particularly strong sales growth (in excess of our 21.7% net sales growth rate in Japan) in *Gucci* and *Dior* branded products.

Cost of sales.

	Year ended December 31,		
	2000	**2001**	**% Change**
	(in millions, except percentages)		
Materials, finished products and changes in inventories	€143.8	€179.3	24.7%
Salaries and related contributions	77.4	85.2	10.1%
Subcontracting costs	34.2	46.6	36.3%
Industrial depreciation	21.9	25.2	15.1%
Other costs	20.2	15.9	(21.3)%
Total	**€297.6**	**€352.2**	**18.3%**

Cost of sales increased 18.3% from €297.6 million in 2000 to €352.2 million in 2001, and our gross margin increased to 58.3% in 2001 from 56.6% in 2000. Cost of sales for 2002 was impacted by a 24.7% increase in the materials, finished products and changes in inventories component from €143.8 million in 2000 to €179.3 million in 2001; this increase resulted primarily from a increased rate of obsolescence for goods that we forecast cannot be sold compared to 2000. We experienced a higher rate of obsolescence in the second half of 2001 as a result of the global economic slowdown that was exacerbated by the events of September 11. In addition, in 2001 we continued to increase our outsourcing of the manufacture of finished products for some of our brands to third party manufacturers, which also contributed to the increase in the materials, finished products and changes in inventories component. Along with outsourcing the manufacture of finished products, we also increased our use of subcontractors to finish and supply parts for our finished products because of production constraints in our own facilities as a result of increased levels of production; this increase resulted in a 36.3% increase in the subcontracting costs component from €34.2 million in 2000 to €46.6 million in 2001. Our increased use of third party producers and subcontractors positively impacted the salaries and related contributions component, resulting in a lower rate of growth of this component relative to our growth in net sales in 2001 due to savings in personal production costs. Positively affecting our 2001 cost of sales was a 21.3% decrease in the other costs component from €20.2 million in 2000 to €15.9 million in 2001; this reduction resulted from positive effects of currency swaps entered into in connection with intercompany sales, which are recorded as part of the cost of sales. The other component of cost of sales, industrial depreciation, increased in 2001, but at a slower rate than our growth in net sales for 2001.

Selling and marketing expenses.

	Year ended December 31,		
	2000	**2001**	**% Change**
	(in millions, except percentages)		
Salaries and related contributions	€24.5	€30.1	22.9%
Services from independent salespersons	66.6	79.7	19.7%
Royalties	52.5	69.2	31.8%
Advertising and promotion	56.5	67.4	19.3%
Other selling expenses	20.4	26.1	27.9%
Total	**€220.4**	**€272.5**	**23.6%**

Selling and marketing expenses increased 23.6% from €220.4 million in 2000 to €272.5 million in 2001 and as a percentage of net sales remained relatively constant at 32.1% in 2000 and 32.2% in 2001. Selling and marketing expenses was impacted in 2001 by a 31.8% increase in the royalties component as our sales of licensed products increased more significantly in 2001 as compared to our owned brand products. In connection with this sales growth of licensed products in 2001, royalties represented 8.2% of our consolidated net sales in 2001 as compared to 7.7% in 2000. Also, the advertising and promotion component increased by 19.3% in 2001, primarily due to higher advertising payments paid to licensors because of increased sales of licensed products. The other components of selling and marketing expenses—salaries and related contributions, services from independent salespersons and other selling expenses—increased in 2001 approximately in line with our growth in net sales for 2001.

General and administrative expenses. General and administrative expenses increased 20.0% from €80.6 million in 2000 to € 96.7 million in 2001, representing a decrease in percentage of net sales from 11.8% in 2000 to 11.4% in 2001. General and administrative expenses was impacted in 2001 by a 27.4% increase in the salaries and related contribution component and a 30.6% increase in the other staff related costs, resulting primarily from the hiring of additional administrative and management personnel in Italy as a consequence of our continued growth in 2001 and the staffing of new foreign distribution subsidiary offices. The other components of general and administrative expenses—depreciation and amortisation, other general and administrative expenses, annual fees for outsourcing information system and other provision—experienced, as a whole, changes approximately in line with our growth and activities in 2001.

Operating income/(loss). Operating income increased 42.5% from € 86.6 million in 2000 to €123.4 million in 2001, yielding an increase in operating margin from 12.6% in 2000 to 14.6% in 2001, outpacing the 23.2% growth in net sales.

Interest income/(expense) and other financial charges. Interest expense and other financial charges increased from €11.5 million in 2000 to €34.3 million in 2001. This increase resulted primarily from interest charges and debt issuance costs associated with the incurrence of debt to finance the public-to-private transaction in July 2001.

Extraordinary income/(expense), (net). Extraordinary income increased from €0.2 million in 2000 to €1.4 million in 2001. This increase was primarily due to the release of a €2.1 million provision set aside for possible liabilities that no longer existed.

Amortization of goodwill. Goodwill amortization increased from € 3.7 million in 2000 to €43.0 million in 2001. This increase was primarily due to the amortization of goodwill resulting from the delisting of Safilo in 2001.

Tax expense. Tax expense increased 66.2% from € 21.9 million in 2000 to €36.4 million in 2001. The effective tax rate on income before taxation, depreciation and amortization increased from 21.3% in 2000 to 28.1% in 2001, primarily as a result of higher taxable income and the expiration of carry-forward tax losses as compared to 2000. The effective tax rate also increased as a result of an increase in amortisation of goodwill, which is not deductible for tax purposes.

Net income. Net income decreased 73.6% from €27.6 million in 2000 to €7.3 million in 2001 as a result of the reasons described above. Net income represented 0.9% of net sales in 2001 compared to 4.0% in 2000.

Liquidity and Capital Resources

Historical Cash Flow

The following table summarizes our cash flow activity during the years ended December 31, 2000, 2001 and 2002.

	Year ended December 31,		
	2000	2001	2002
	(€ in millions)		
Net cash flows:			
Provided by operating activities	€52.4	€49.3	€112.6
Used in investment activities	(48.0)	(575.1)	(216.7)
(Used in)/provided by financing activities:	(28.0)	523.8	197.0

Cash Flow from Operating Activities. Cash flow from operating activities consists of net income adjusted for changes in working capital and non-cash items such as depreciation and amortization. Cash flow from operating activities increased to €112.6 million in 2002 from € 49.3 million in 2001. In the first half of 2002, we undertook a number of steps to improve our cash flow through a variation of the payment terms to suppliers and a reduction in collection times from customers. Consequently, cash flow from operating activities in 2002 was favorably affected by a € 70.4 million increase in trade payables and accrued expenses, net of exchange rate effects, which increase was directly related to our variation of payment terms to suppliers and our accrual of fees and expenses incurred in connection with the December 2002 corporate refinancing, compared to a €24.7 million increase in trade payables and accrued expenses in 2001. Additionally, cash flow from operating activities was also favorably affected in 2002 by a €1.9 million decrease in our balance of trade receivables and prepayments as a result of the reduction in collection times from customers as well as the securitization bridge facility entered into in December 2002, net of exchange rate effects, compared to a € 47.1 million increase in trade receivables and prepayments in 2001. These improvements in cash flow from operations in 2002 were offset by a €17.9 million reduction from the prior year in our amortization charges in 2002 as a result of our application of increased useful life to the amortisation of goodwill, and a €41.5 million increase in our inventories from 2001, due to a build-up in inventories that continued in the beginning of 2002 following the rapid slow-down in sales during the second half of 2001, net of exchange rate effects, compared to a €20.7 million increase in inventory in 2001.

Cash flow from operating activities decreased from €52.4 million in 2000 to €49.3 million in 2001, in part as a result of a € 20.3 million decrease in net income from €27.6 million in 2000 to €7.3 million in 2001 because of the increased interest expense resulting from the corporate reorganization in 2001. This effect was somewhat offset by the add back of the increased amortization charge in 2001 of the goodwill associated with the corporate reorganization. In addition, cash flow from operating activities was negatively impacted by an increase in trade payables and other current payables and accrued expenses of €24.7 million in 2001 as compared to an increase of €84.8 million in 2000, offset by a €47.1 million increase in trade receivables and prepayments in 2001, net of exchange rate effects, compared to a € 61.8 million increase in 2000 and by a €20.7 million increase in inventory in 2001, compared to a €35.5 million increase in 2000.

Cash Flow from Investment Activities. Net cash used in investment activities consists of additions to tangible fixed assets, net of disposals, acquisitions of equity investments and increases in intangible fixed assets. Cash outflows from investment activities decreased in 2002 from a cash outflow of €575.1 million in 2001 to a cash outflow of € 216.7 million in 2002. In 2002 and 2001, we continued to invest in our production facilities, generally, and the distribution facility in Padua in order to support continued revenue growth. Our cash outflows related to these improvements amounted to €45.0 million in 2001 and €58.4 million in 2002. In 2002, as a result of the corporate reorganization, we also obtained approximately 10% of our own shares that our predecessor had acquired in June of 2002 for €81.0 million. In addition, we had cash outflows in connection with the purchase of goodwill related to our corporate restructuring in the amount of €395.0 million in 2001 and €29.0 million in 2002.

In 2000, cash outflows for investment totalled €48.0 million and principally related to continued investment in our production and distribution facilities in an amount of €45.9 million.

For the three years ending 2005, we anticipate that we will spend approximately €183 million in order to improve the efficiency of our production capabilities and to meet production requirements under the Armani licenses. In addition, during the period ending 2005 we also anticipate that we will spend approximately €20 million to expand our Solstice retail operation in select locations in the United States. We expect to fund these anticipated expenditures through cash provided by operating activities and the capex credit facility.

In February 2001, we acquired 746,250 shares in Banca Popolare di Lodi for €10.2 million. These shares are quoted on the Italian Stock Exchange and have been booked to long-term financial assets. As of December 31, 2002, the market value of these shares was €7 million. The carrying value of these shares has not been written down to reflect the change in market value.

Cash Flow from Financing Activities. Net cash flows from financing activities are mainly driven by our borrowing activities but also include equity share capital movements and dividend payments to shareholders. We had cash inflows from financing activities of €523.8 million in 2001 and €197.0 million in 2002, which were principally related to new borrowing activities. In 2001, we had cash inflows from borrowing of € 548.2 million in connection with the public-to-private transaction. In 2002, we had cash inflows from borrowing of €848.3 million which was offset by the repayment of existing debt in the amount of € 617.2 million in connection with the December 2002 refinancing. We also had cash outflows in the form of dividend payments to Safilo's shareholders and minority shareholders of certain of our subsidiaries in the amounts of €4.7 million in 2001 and €23.7 million in 2002. In 2000, we had cash outflows from financing activities of € 28.0 million, which was principally related to the repayment of € 24.7 million of indebtedness.

Working Capital

Net working capital, which we define as total current assets less total current liabilities (excluding the current portion of medium- and long-term loans), fluctuated from €208.1 million as of December 31, 2000, to €261.1 million as of December 31, 2001, to € 189.2 million as of December 31, 2002.

The 27.5% decrease in net working capital from December 31, 2001, to December 31, 2002, is attributable to a 21.5% decrease in trade receivables and a 42.6% increase in trade payables, which more than offset a 17.6% increase in inventory. This increase in inventory is attributable in part to the inventory necessary to service two new product brands in 2002, *Yves Saint Laurent* and *Saks Fifth Avenue*, to a build-up in inventories carrying over into the beginning of 2002 that resulted from the rapid slow-down in sales during the second half of 2001 and to a lower provision for obsolescence and slow moving inventory as a result of our estimation of higher net realizable value of obsolete inventory, due to increased disposals of slow moving products to outlets and stock houses, as opposed to scrapping such products. The decrease in trade receivables is due to tighter controls instituted in 2002 and the effects of the securitization program. The increase in trade payables is largely attributable to an increase in purchases of finished products from third-party manufacturers and increased capital investment.

The 25.5% increase in net working capital from December 31, 2000, to December 31, 2001, is largely attributable to a 16.5% increase in inventory and a 22.1% growth in trade receivables, which increases were only partly offset by a nearly unchanged level of trade payables. Due to the effects of the global slowdown in the second half of 2001, our inventory levels increased significantly and terms of payment for our customers, particularly in Italy, were lengthened. Our inventory obsolescence costs similarly grew during the second half of 2001.

During 2002, we introduced a program to manage our working capital more effectively. The objectives of the program include: enhanced controls over inventory; a reduction in trade receivables through more rigorous terms of payment; and obtaining more favorable payment terms from our suppliers. A portion of the compensation of our managers is based on their success in attaining these objectives. In addition, during December 2002 we entered into a €50.0 million off-balance sheet trade receivables securitization program. Under this program, we sold €76.4 million of the trade receivables of our Italian business for an initial payment of €50.0 million and a deferred payment, net of program fees and costs, of the residual amount upon the termination of the program.

Capital Resources

Following the completion of this offering, we will continue to need significant cash resources to, among other things:

- meet our debt service requirements under the senior credit facilities and the notes;
- fund the requirements of implementing the Armani license, including production, marketing and sales and distribution costs, and working capital needs;
- make continued capital investments of approximately €183 million through 2005 to invest in our production and distribution facilities to meet expected increased production requirements and to fund Solstice store openings;
- fund capital requirements relating to the ongoing design and development of our owned brand products and licensed products and to obtain new licenses; and

- fund our working capital requirements generally as we continue to expand our business. Intra-Group Funding The liquidity needs of Safilo and each of its subsidiaries are principally met by managing intra-Group payment obligations arising from intra-Group trading. We do not have a Group cash pooling arrangement and instead rely on invoice payments between Group companies to fund the capital requirements of Safilo and its subsidiaries. As Safilo is the primary distributor of products to its distribution subsidiaries, it can vary the payment terms of outstanding invoices either by shortening or lengthening the normal 90 day payment period, depending on where the cash is needed. We have not in the past generally utilized intercompany loans or capital contributions to meet the funding requirements of members of the Group. Dividends from subsidiaries likewise have not generally been paid to provide funds to parent companies in the Group. Safilo or another member of the Group may pay dividends to its parent or provide a capital contribution to a subsidiary, in certain exceptional circumstances, such as when Safilo required capital to fund a restricted reserve mandated by Italian law as a result of the acquisition of treasury shares in 2002 or when a Group member is required to be recapitalized or a new distribution subsidiary is established and initially capitalized.

The Group's principal U.S. operating subsidiary, Safilo USA, Inc., is a borrower under the senior credit facilities. We expect that Safilo USA will meet its debt service obligations under the senior credit facilities through internally generated funds. We also expect that Safilo USA will continue to fund the capital requirements of the Solstice speciality store program.

We expect that the debt service requirements of the issuer under the notes will be satisfied through payments under the issuer loan agreement from Safilo International B.V., which we expect to fund with dividends from its operating subsidiaries. We may also, but are not required, to provide the issuer with funds to meet debt service requirements under the notes through capital contributions, intercompany loans or other methods. See "Risk Factors—Risks Relating to Our Structure, the Notes and the Guarantees and Our Other Indebtedness". External Sources of Liquidity Our external sources of liquidity consist principally of our senior credit facilities, equity contributions and subordinated loans (if made) from our parent company, Safilo Holding, and, to a limited extent, cash contributions from our partners in joint ventures. We also have local lines of credit and overdraft facilities in a number of countries and have entered into finance leases. The following is a description of our primary external sources of liquidity.

Senior Credit Facilities

Our senior credit facilities consist of the following facilities:

- a term loan facility A1 comprised of a €50.0 million tranche and an approximately US$151.4 million tranche;
- a US$70.6 million term loan facility A2;
- a €135.0 million term loan facility B;
- a €135.0 million term loan facility C; and
- a €50.0 million revolving credit facility, which may be used to finance working capital and for general corporate purposes or to finance capital expenditures.

As of March 31, 2003, €37 million was drawn under the revolving credit facility.

Securitization Bridge Facility

Safilo entered into an asset securitization bridge facility in December 2002 whereby certain of its Italian trade receivables are sold to an unaffiliated special purpose entity, Sunlight s.r.l., and subsequently Sunlight transfers and assigns ownership interests in the trade receivables to certain bank investors. Under the terms of the securitization bridge facility, new interests in trade receivables are sold without recourse to Safilo, with collections reducing previously sold trade receivables. Safilo sold €76.4 million of trade receivables under the securitization bridge facility and received €50.0 million in proceeds in December 2002. Safilo used the initial proceeds from the securitization bridge facility to repay bank debt as part of the December 2002 refinancing. Safilo has made subsequent sales of trade receivables under the securitization bridge facility, and the proceeds have been used to fund working capital. The securitization bridge facility is required to be replaced with a permanent receivables securitization program by June 2004.

Additional Funding and Financing

In order to continue growing our business and to fund anticipated capital expenditures, including implementing and meeting the requirements of the new Armani license, concurrently with this offering of the notes we are obtaining additional financing. This additional financing consists of:

- We have obtained a €60 million senior secured capex facility, which will be available but undrawn at the time of the closing of this offering;
- Our parent company, Safilo Holding, will contribute €30 million of equity to Safilo; and
- Our parent company also has committed to contribute up to an additional €25 million of equity to Safilo under certain circumstances.

The initial availability of the capex facility, the completion of the €30 million equity contribution by Safilo Holding to Safilo and the commitment by Safilo Holding to contribute up to an additional € 25 million in equity to Safilo are conditions to the completion of the offering of the notes.

Following completion of this offering of the notes, the availability of the capex facility, the €30 million equity contribution and the commitment of Safilo Holding to contribute up to an additional € 25 million of equity to Safilo, we believe that our operating cash flows, together with available borrowings under the senior credit facilities, equity contributions and existing cash resources, will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements, although we cannot assure you that this will be the case. See "Risk Factors—Risks Relating to Our Structure, the Notes and the Guarantees and Our Other Indebtedness—Risks Relating to Our Indebtedness".

In particular, our ability to make future drawings under the senior credit facilities will be conditioned on our meeting certain financial maintenance covenants and other conditions included in the senior credit facilities. Our ability to meet those covenants will depend on our results of operations and factors outside of our control. See "Description of Other Indebtedness—Senior Secured Credit Facilities".

Inflation

We do not believe that inflation has had a material impact on our operations in the past, although there can be no assurance that this will be the case in the future.

Contractual Obligations and Commercial Commitments

We have numerous contractual commitments providing for payments pursuant to, among other things, royalty agreements with designers, leases for plant, warehouse and office facilities, as well as certain equipment leases. We also have, and will have, payment obligations pursuant to our outstanding borrowings, including the financial obligations arising from the senior credit facilities and the notes.

The following table summarized the scheduled maturities of our long-term debt, minimum lease commitments and noncancellable royalty arrangements as of December 31, 2002:

	Payments Due by Period (€ in thousands)				
Contractual Obligations and Commercial Commitments	**2003**	**2004 to 2005**	**2005 to 2006**	**After 2006**	**Total**
Long Term Debt	€8,860	€25,280	€31,678	€778,240	€844,058
Operating Leases	2,646	2,456	2,209	2,806	10,117
Minimum Royalty Arrangements	29,655	400	400	—	30,455
Total	**€41,161**	**€28,136**	**€34,287**	**€781,046**	**€844,630**

Quantitative and Qualitative Exposure to Market Risk

In the ordinary course of our business, we are exposed to a variety of market risks arising from fluctuations in interest rates, commodity prices and exchange rates. We monitor and manage these risks as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce their potentially adverse effects on our results. As a result, we do not anticipate any material losses in these areas.

We operate a central treasury function that controls all decisions and commitments regarding cash management, arrangement of borrowing facilities, banking relationships and foreign currency commitments. Our treasury operations are conducted within the framework that has been authorized by the board of directors to regulate and approve levels and the scope of decision-making of the central treasury function. Weekly reports from subsidiaries have been established to ensure that treasury-related activities are appropriately managed.

To reduce our currency translation and interest rate risks, we selectively use a number of financial instruments. We do not use financial instruments for trading or speculative purposes.

Interest Rate Risk Management

We are exposed to interest rate risk mainly through our borrowing activities. We manage the risk associated with variable interest rates by limiting the duration of the debt facilities bearing variable interest rates and by entering into interest rate hedging contracts. On December 31, 2002, we had entered into interest rate swap and forward rate agreement contracts totalling €95.4 million, which expired on April 30, 2003, for US$100 million.

Foreign Exchange Risk Management

The international orientation of our business results in streams of cash inflows and cash outflows in various currencies. For instance, in 2002 approximately 50% of our net sales were invoiced in U.S. dollars and related currencies, 40% in euros and 10% in other currencies. The net exposure resulting after offsetting such streams of cash flows is regularly assessed on a group-wide basis and is hedged to safeguard our activities on a continuous basis by using appropriate hedging instruments for periods consistent with our foreign exchange exposure. Our hedging procedures have the objective only to minimize the effect of exchange rates fluctuation on the operational results of the group; we do not enter hedging arrangements for trading or speculative purposes. We also hedge against exposure to changes in foreign currency exchange rates on assets and liabilities denominated in currencies other than euro by entering into foreign currency forward contracts.

Commodity Price Risk Management

Due to the limited quantities purchased, we believe that we do not face significant risks in procuring raw materials or risks associated with price variations of such raw materials. The management of commodity risk is carried out by monitoring both market supply and prices and by our procurement policies. In case of increased price volatility, and consequently, an increase in our financial exposure to such procurement risks, we are confident that we will be able to implement appropriate policies, including the use of derivative instruments to manage such risks.

INDUSTRY OVERVIEW

Eyewear Market

The eyewear market divides into three primary product lines: prescription frames, sunglasses and contact lenses, with the two largest product lines being prescription frames and sunglasses.

The €8.0 billion worldwide wholesale market for prescription frames and sunglasses can be divided into the following segments:

- *Luxury Brands*: Prescription frames and sunglasses with retail price points of more than €150 in the European markets;
- *Premium Brands*: Prescription frames and sunglasses with retail price points of €100 to €150 in the European markets;
- *High-End Brands*: Prescription frames and sunglasses with retail price points of €50 to €100 in the European markets;
- *Mid-Range Brands*: Sunglasses with retail price points of €40 to €50 in the European markets; and
- *Mass Market Brands*: Sunglasses with retail price points of less than €40 in the European markets.

In North America, the retail price points for prescription frames and sunglasses are generally equivalent in U.S. dollar terms to the retail price points in Europe; however, the retail price points for mass market sunglasses is US$30 and below. For the Far East, the retail price points for luxury and premium brands are generally 20% to 40% higher than the retail price points in Europe.

The eyewear market remains fragmented at both the wholesale and the retail levels. Only the four major eyewear producers have market shares of 5% or more of the wholesale market, and the world's top five producers together accounted for approximately 34% of the wholesale market by value in 2000. Smaller regional and often local producers account for the majority of the global eyewear market by value.

The worldwide wholesale market for prescription frames and sunglasses generated €8.0 billion in sales in 2000, of which approximately 80% was attributable to prescription frames and 20% to sunglasses. The retail price for eyewear in the luxury, premium, high-end and mid-range segments is generally 2.0 to 2.5 times that of the wholesale price. The worldwide retail market for prescription frames and sunglasses generated €14.8 billion in sales in 2000, of which approximately 80% was attributable to prescription frames and 20% to sunglasses.

Trends and Growth Areas

The eyewear market is a relatively mature market, which has shown overall real annual growth of 1.5% in recent years. However, excluding the mass market segment, the overall annual growth rate for eyewear is estimated to have been approximately 2.9% overall since 2000, with the prescription frame market growing at an estimated 2.5% annual rate and the more dynamic sunglasses market growing at an estimated annual rate of 4.2%. The luxury segment of the eyewear market have grown at an estimated annual rate of 9.0% since 1995, with growth rates in some years during this period reaching double digits.

The licensing of the brands of many of the leading fashion houses since the 1980s has led to the transformation of the prescription frames and sunglasses markets. Licensing has led to significantly increased revenues in the eyewear industry and has triggered the highest growth rates in both the prescription frames and sunglasses segments over the past few years.

The outlook over the next few years is for the eyewear market (excluding the mass market segment) to grow at an estimated annual rate of 5%, with the growth rate in sunglasses being more dynamic than the growth rate for prescription frames. The luxury and premium eyewear segments are expected to grow at a slightly higher annual growth rate over the next few years.

Management believes that, while it is impossible to predict with certainty, sales of luxury and premium eyewear should not be disproportionately impacted by an economic downturn as eyewear generally represents the entry level product for luxury and premium brands. Management further believes that luxury and premium sunglasses are expected to continue to gain market share in the sunglasses segment.

Prescription Frames

Sales growth of prescription eyewear is driven by a number of factors, including the aging populations of North America and Europe, increased standards of living, higher levels of education and computer usage, heightened awareness of health-related issues, fashion trends and technological and design advances in the eyewear industry. As the post-World War II baby-boom generation ages, the number of prescription eyewear users has increased and will continue to increase. In the United States, the number of users of vision correction products is expected to increase 13% from 2002 to 2010, representing an increase from 153.3 million users to 173.0 million users. The shift to branded prescription eyewear in the luxury and premium segments and the desire of customers to replace prescription glasses with models with improved design features, such as lighter weight and improved fit, has contributed to a reduction in the average life of prescription eyewear to its current level of two years. In addition, the popularity of branded prescription eyewear as a fashion accessory also means that many consumers now own more than one set of prescription glasses.

The primary vision correction alternatives to prescription frames are contact lenses and laser vision correction. The penetration rate for contact lenses has stabilized at about 22% in the United States and currently ranges between 6% to 11% in the major markets in Europe. Due to a variety of factors, including perceived high cost, a fall in consumer confidence due to possible health risks and efficacy concerns and a lack of consumer awareness, the annual growth rate for laser vision correction procedures are declining in the United States and Europe.

Sunglasses

In recent years growth in the global eyewear market as a whole has increasingly been driven by sales of sunglasses. In the United States, Japan and the five largest European countries, sales of prescription frames are expected to increase approximately 1% annually through 2005 while sales of sunglasses are expected to increase approximately 3% annually during the same period. The highest rates of sales growth in the global eyewear market has been in the luxury and premium sunglasses segments. While geographic location, eye care considerations or sports activities influence the decision to buy a pair of sunglasses, the decision to replace them or to own multiple pairs of sunglasses is now largely driven by changing trends in fashion. New designs and technological improvements and materials, such as titanium frames and lens coatings, may likewise persuade customers to buy or replace a pair of sunglasses. Heightened awareness of the importance of protection from ultra violet sunlight has similarly boosted sales of sunglasses. The average life of sunglasses, one year, is shorter than that of prescription frames.

Regional Distinctions

The United States and Europe are the largest geographic eyewear markets, together representing almost 70% of the global wholesale market for prescription frames and sunglasses. In Europe, the largest eyewear markets are Italy, Germany, the United Kingdom, France and Spain. Asia is the next largest regional eyewear market, with sales concentrated in Japan, Australia, Korea and China.

United States

The U.S. optical wholesale market, which includes sales of prescription frames and sunglasses, contact lenses and treatments, accounted for US$2.5 billion in sales in 2001.

Retail distribution in the United States is dominated by independent dealers, followed by chain stores, mass merchants and HMOs. Prescription eyewear is distributed primarily through opticians, ophthalmologists and optometrists. Of the total sales through these optical channels, approximately 33% of prescription eyewear is sold through chains while sales through independent retailers account for 43%. Sunglasses (other than mass market brands) are primarily distributed through department stores, specialty sunglasses stores and sport specialty shops. Mass market brand sunglasses are sold through a variety of discount and retail channels. Specialty sunglasses stores account for almost 54% of retail sunglasses sales in the United States, with a price greater than US$30. Independent optical channels and large retail chains account for approximately 28% of the sunglasses retail market. The remaining sales of sunglasses occur in a variety of locations such as sport specialty stores and department stores.

Europe

The European optical retail market, which includes sales of prescription frames and sunglasses, contact lenses and treatments, accounted for € 17.4 billion in sales in 2000, of which €5.15 billion represented retail sales of prescription frames and sunglasses. The largest European markets for prescription frames and sunglasses, at the retail level, are Germany, France, the United Kingdom, Italy and Spain and together represent about 76% of the European market. Together, these five geographic markets accounted for an aggregate €12.3 billion in retail sales, of which 35% is attributable to sales of prescription frames and 7% is attributable to sales of sunglasses.

Germany, the United Kingdom, France, Italy and Spain accounted for 27.1%, 24.9%, 24.2%, 20.9% and 10.1%, respectively, of this aggregate retail sales figure. Europe has been and is expected to be the most important market in terms of growth rate and overall size in the luxury and premium segments of the eyewear market.

The retail distribution of eyewear varies across the major markets of Europe. While the trend in retail distribution in Europe is moving away from independent dealers towards buying groups and chain stores, European distribution channels have generally not changed significantly in recent years. In the largest European market, Germany, buying groups and chains are dominant. In France, buying groups and chains comprise about 63% of the market. Chains are the dominant distribution channel in the United Kingdom. The largest retail channel in Spain is buying groups. Independent dealers represent over half of the market in Italy.

Asia

The Asian eyewear market accounted for US$9.1 billion in retail sales in 2001, with sales concentrated in Japan (approximately 57% of total sales), Australia (approximately 6%), South Korea (approximately 6%) and China (approximately 13%). China and Taiwan are believed to represent significant growth opportunities in the future.

Sport Eyewear Market

Sport eyewear constitutes a niche but growing market. Sport eyewear includes sport goggles and sport sunglasses. The retail market for sport eyewear is estimated to account for approximately US$85 million in annual sales. The sport eyewear market can be divided into the following segments:

- *High-End Brands*: Retail price points of more than US$60 in the U.S. market;
- *Mid-Range Brands*: Retail price points of US$30 to US$60 in the U.S. market; and
- *Mass Market Brands*: Retail price points of less than US$30 in the U.S. market.

Sport goggles are used in activities such as snow and water recreation and motocross and mountain biking. Because sport goggles are an accessory to the equipment necessary for a particular sport or activity, consumers are inclined to purchase additional sport goggles even after their initial purchase of sporting equipment, in response to new technologies or consumer preferences relating to image, as well as due to wear and tear. Sales of sport goggles are concentrated in countries with commercially developed ski areas such as the United States, Austria, Germany, France, Italy and Japan. Sport sunglasses are targeted at participants in particular sports and activities such as skiing, surfing, skateboarding, rollerblading and other extreme sports. In the United States, with the exception of certain major metropolitan areas, men are more likely to own sport sunglasses rather than designer sunglasses.

BUSINESS

Overview

We believe that we are the world's second largest wholesale eyewear producer and that we are the worldwide leader in the premium eyewear market segments in terms of net sales and units sold. The premium eyewear market segments, which comprise eyewear with retail price points above €100 in Europe and the United States, are the fastest growing segments of the eyewear market and have achieved annual growth rates of approximately 9% since 1995. Sales of our prescription frames and sunglasses positioned in the premium market segments represented an estimated 46% of our total net sales of €894.1 million in 2002. Once we fully implement our new exclusive worldwide license to produce *Giorgio Armani* and *Emporio Armani* eyewear, we believe that we may become the world's largest eyewear producer in terms of net sales and will improve our leadership position in the premium eyewear market segments. We are also one of the world's top three producers and distributors of sports goggles.

We design, manufacture and distribute high-quality eyewear products, including prescription frames, sunglasses frames and lenses, sport goggles and other accessories. In 2002, we distributed 23.2 million units of prescription frames, sunglasses and sport goggles. Our net sales are balanced by product category, geographic region, demographic group and our broad and diverse portfolio of owned and licensed brands. Our primary focus is on prescription frames and sunglasses with retail prices above €40 in the mid-range, high-end and premium eyewear market segments. Our *Smith* and *Carrera* sport goggles have retail prices ranging from €30 to €150. We distribute our eyewear products to eyewear retailers, and our principal customers include optometrists, ophthalmologists, opticians, retail distribution chains, department store chains and specialty stores. Sales of prescription frames accounted for 48% of our total net sales in 2002, sales of sunglasses accounted for 49%, and sales of sport goggles and other products accounted for 3%.

We believe that our prescription frames, sunglasses and brands are recognized worldwide for their high quality design and distinctiveness. We produce and distribute eyewear products under our owned brands as well as under license agreements for leading luxury and designer brands. Our license agreements typically are exclusive and have terms of five to eight years, and our relationships with some of our key licensors date back to the late 1980s. Our owned brands include *Safilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay*. Our licensed brands include *Bottega Veneta*, *Burberry*, *Diesel*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Kate Spade*, *Liz Claiborne*, *Max Mara*, *Nine West*, *Oliver*, *Pierre Cardin*, *Polo Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino*, and *Yves Saint Laurent*. We have demonstrated an excellent track record in renewing existing licenses and in winning new high profile licenses, as shown by the February 2003 award of an exclusive eight-year worldwide license by the Armani Group for *Giorgio Armani* and *Emporio Armani* brands. Licensed brands constituted 74% of our total net sales in 2002 as compared to 71% and 67% in 2001 and 2000, respectively. We continually update our eyewear collections in response to changing consumer preferences, technological advances and market trends. Currently, we offer more than 1,700 models of prescription frames and more than 800 models of sunglasses, and we introduce more than 1,900 new models of prescription frames and sunglasses each year.

Our products are sold in 120 countries and are supplied to approximately 130,000 points of sale worldwide. We distribute our products directly in 26 of our largest geographic markets (93% of net sales in 2002) through company controlled distribution subsidiaries and a sales force of approximately 1,100 sales representatives, who, depending on the country, may be employees of the subsidiary (approximately 30%) or independent sales agents (approximately 70%). We expect to grow our sales force by an additional 220 sales representatives dedicated to the distribution of *Giorgio Armani* and *Emporio Armani* products. Regardless of whether our sales force members are employees or independent agents, they exclusively distribute Safilo owned or licensed eyewear. In other markets, we distribute our products through an established network of third-party distributors and, in all but a few of our smallest markets, pursuant to exclusive distribution arrangements. Our largest geographic markets in terms of net sales are the United States, Italy, France, Spain, Germany, the United Kingdom and Japan, which together accounted for 75% of our net sales in 2002.

We have been highly successful in positioning our brands in the eyewear market. We seek to position each individual brand and the Safilo portfolio of licensed and owned brands, as a whole, in a commercially optimal manner by targeting specific groups of end customers based on the unique characteristics of each brand. Our distribution network gives us global reach and direct control of eyewear distribution in the retail outlets that meet the optimal brand placement requirements. Our strategic choice to selectively control where our products are sold and their placement in retail outlets is highly appealing to licensors of leading brands and distinguishes us from our major competitors, some of whom either lack such ability or are vertically integrated into retail channels. We believe that our requirement to approve where our products may be sold and thus protect the brand image has been an important factor in a number of our recent successes in obtaining new licenses, including the February 2003 award of a worldwide exclusive license by the Armani Group for *Giorgio Armani* and *Emporio Armani* brands.

We operate seven principal manufacturing plants, with five located in northeast Italy, one in Austria and one in Slovenia. Our plants manufactured approximately 13.9 million eyewear units in 2002 compared to approximately 15.7 million units in 2001 and 14.1 million units in 2000 (including *Smith* sport goggles). In Sun Valley, Idaho, we design and oversee the production of our *Smith* sport goggles through third-party facilities in Utah. In order to maintain production flexibility, realize cost efficiencies and address the special design specifications of our Asian optical customers, we outsource the production of some of our prescription frames and sunglasses to selected manufacturers in China, Japan and Italy. We distributed approximately 11.2 million units of outsourced products in 2002 out of the 23.2 million total units distributed by us in 2002.

For the year ended December 31, 2002, we generated net sales of € 894.1 million as compared to net sales of €845.0 million and €685.6 million in 2001 and 2000, respectively. For the year ended December 31, 2002, we generated EBITDA of €175.8 million as compared to €154.0 million and €114.1 million in 2001 and 2000, respectively.

Company History

Safilo was founded in 1934 when Guglielmo Tabacchi (father of our current Chairman, Vittorio Tabacchi) assumed control of a lens and frame factory established in 1878 in northeast Italy, a region where many leading companies in the eyewear industry are located. In 1977, we opened our offices in Padua in northeast Italy, the current location of our headquarters and primary distribution facility.

For over twenty years our organic growth has been complemented by a limited number of highly selective product line acquisitions and the expansion of our distribution network into attractive markets. In 1984, with the acquisition of Optifashion, which had license agreements with Ferrari and Ferré, we entered the nascent fashion eyewear market. In 1986, we purchased the remaining 50% of

American Starline Optical Corp., a large U.S. eyewear trading company. In 1988 we acquired American Optique du Monde Corp., a company that had a license agreement for the *Polo Ralph Lauren* brand. In 1996, we acquired the U.S. company Smith Sport Optics Inc. and added sport goggles targeted at the U.S. market to our product lines. In the same year, we acquired certain assets of Carrera GmbH, a producer of specialized sport eyewear, including the *Optyl* know how for plastic frames and two manufacturing facilities in Austria and Slovenia. In recent years we have focused on establishing distribution subsidiaries in order to control the distribution of our products in our largest national markets and now distribute our products in 26 of our largest markets through subsidiaries.

Since the late 1980s, we have targeted the premium eyewear market segments by entering into brand licensing agreements with well known fashion houses, including for the following brands: *Polo Ralph Lauren* (through the 1988 acquisition of American Optique du Monde Corp.), *Gucci* (1988), *Pierre Cardin* (1991), *Burberry* (1994), *Diesel* (1994), *Dior* (related to the 1996 acquisition of certain assets of Carrera), *Max Mara* (1997), *Valentino* and *Oliver by Valentino* (1998), *Nine West* (1998), *Fossil* (1999), *Kate Spade* (2000), *Yves Saint Laurent* (2001), *Bottega Veneta* (2002), *Stella McCartney* (2002), *Liz Claiborne* (2002), *Giorgio Armani* (2003) and *Emporio Armani* (2003).

Our Competitive Strengths

We believe that the following factors give us competitive advantages in the global eyewear industry:

Superior Product Quality and Innovation

Our products are renowned for their superior quality and innovative features by both optical retailers and end customers. We believe that high product quality is a key competitive factor that enables us to successfully position our products in the mid-range to premium eyewear market segments. In addition, we believe that our emphasis on quality has been an important factor in establishing and retaining our leading portfolio of brands. The value we have traditionally placed on product craftsmanship distinguishes us from our mass-production oriented competitors with our licensors and customers. All of our products are developed and designed internally by our design group, which comprises approximately 150 highly qualified employees, which we believe to be the largest design team in the eyewear industry. We have a strategic focus on quality and on providing innovative technical solutions for our end customer's optical needs, such as non-allergenic frames, lens coatings and special lenses. One of our key objectives is to resolve optical defects and to meet the fitting, comfort and aesthetic requirements of end customers.

Global Market Leadership

We believe that we are the world's second largest eyewear producer and the worldwide market leader in the premium eyewear market segments and that we hold either the first or second position in over 20 of our largest geographic markets. We also believe that when we fully implement our recently won Armani license to produce *Giorgio Armani* and *Emporio Armani* eyewear that we may become the world's largest wholesale eyewear producer in terms of net sales.

Our leadership in the premium eyewear market segments can be attributed to our strategy to focus on these segments since the late 1980s. We leveraged our reputation for high quality products to become the producer of choice for luxury and designer brands in the premium eyewear market segments. We achieved and maintain our position through our ability to win new licenses and to retain existing licensing relationships with key international luxury and designer brands.

Our global market leadership makes us a preferred supplier for a key group of our clients, the optical retailers, for which our brands constitute a "must have" given the importance of providing a full range of top brands to meet consumer demands. In addition, our market leadership together with our superior product quality and innovation capabilities make us a preferred partner for luxury and designer houses.

Balanced Sales Mix

Our net sales are balanced by product category, geographic region, demographic group and our diversified portfolio of 28 owned and licensed brands. We generate a stable revenue stream from sales of prescription frames, which have represented about half of our total net sales and sales volume in recent years. Our prescription frame customer base primarily consists of an established network of independent optical industry professionals and a stable core of net sales of prescription frames that exhibit some medical product type characteristics. On a geographic basis, our net sales in the North America region (40% of total net sales in 2002) are approximately equivalent to our revenues in Italy and Europe (46% in 2002). Within the United States, our largest single market, our sales are divided between prescription frames (57% of net sales in 2002) and sunglasses (37% in 2002), by geographic region and by distribution channels. Within Europe, besides our home market of Italy, we have significant sales in the key markets of France, Spain, Germany and the United

Kingdom. This geographic balance partly insulates us from a downturn in any particular region. Similarly, our diversified portfolio of 28 brands mitigates against fashion risk. In addition, we believe that the long-term nature of our license agreements provides additional stability to our sales. Finally, our brands are positioned at distinct price points in the mid-range, high-end and premium eyewear segments, and targeted at discrete groups of consumers.

Superior Client Service

We believe that we are a recognized leader in providing superior service to our clients. We support our customers through our large and experienced sales force, modern call centers for telephone orders, strong advertising and promotional support at the point of sale and an extensive and distribution network capable of rapid delivery. We have established a dedicated pan-European organization, GCE (*Grandi Clienti Europa*), based in Padua, to improve the quality and promptness of our services to our largest European retail chain customers. We support our brands and our customers through extensive advertising and promotional activities, including point of sale displays and media campaigns. Our sales force of approximately 1,100 exclusive sales representatives is largely commissioned-based and dedicated to meeting the needs of our customers. This sales force is complemented by call centers located in Europe and the United States. Unlike our principal competitors, our sales representatives call on their clients, regardless of their size, on multiple occasions every year.

Experienced Management Team

We believe that our management team has an excellent track record in the eyewear industry and is highly regarded in terms of industry knowledge and strategic outlook. Our management team is led by Vittorio Tabacchi, our Chairman, and by Giannino Lorenzon and Roberto Vedovotto, our Co-Chief Executive Officers. Mr. Tabacchi, Mr. Lorenzon, our Director of Design, Enzo Sopracolle, and our three regional Managing Directors, Claudio Gottardi, Gianni Materassi and Mario Pietribiasi, have more than 140 years of experience in the eyewear industry. Mr. Vedovotto became our Co-Chief Executive Officer in 2002 after joining us from Morgan Stanley International Limited where he was a Managing Director and where he worked for 11 years. A significant component of the compensation of our management team is based on the operating performance of the business. Certain of our directors, senior management and other key employees have been granted options under Safilo Holding's share option plan.

Partnership with CSFB Private Equity

CSFB Private Equity acquired an indirect minority interest in Safilo in December 2002 through the purchase of shares of our parent company, Safilo Holding, from companies controlled by Vittorio Tabacchi and is represented on Safilo's board of directors. CSFB Private Equity is one the world's largest private equity firms with over €26 billion of assets under management. CSFB Private Equity invests across a broad range of industries and has significant experience in Europe. Some of CSFB Private Equity's significant European investments include Nycomed, Wellington Reinsurance, Consort Resources and Gala Group.

Our Strategy

We seek to strengthen our current position in the global eyewear market and enhance our financial profitability. As part of our strategy, we intend to: Continue to strengthen our portfolio of brands.We intend to continue to strengthen our portfolio of both owned and licensed brands. We believe that we are well-positioned to take advantage of the historically consistent revenues generated from sales of prescription frames to an established customer base while continuing to exploit the attractive sales growth opportunities available in the premium sunglasses market segments. *Owned brands.* Our strategy with respect to our owned brands is to position each brand to meet a specific customer need, such as increasing the focus on the sport segment for our *Carrera* and *Smith* brands through the establishment of dedicated sales teams or such as promoting through optical retail channels our established *Safilo* brands as specializing in addressing particular eyewear problems of our end customers. *Licensed Brands.* Our strategy is to position and differentiate our licensed brands by targeting various end customers, including differentiating between income levels, ages, gender and activities pursued by our end customers, whether professional or leisure in nature. We may selectively strengthen our portfolio by winning new licenses for brands with international recognition, excellent reputations for quality and proven historic growth. The award of the exclusive eight-year license to Safilo by the Armani Group for the *Giorgio Armani* and *Emporio Armani* brands demonstrates our ability to achieve this objective. We also intend to strengthen our portfolio by continuing to identify local brands that enable us to increase our penetration in regional and national markets. In addition, we strengthen our portfolio of licensed brands by adding brands that will complement and enhance our existing portfolio. Strengthen our distribution network. In order to improve our customer service, protect the brand image and value of our licensed brands and increase profitability, we intend to strengthen our distribution network. This will be achieved through establishing company controlled distribution subsidiaries in markets where it is cost-effective to do so and increasing our control over third-party distributors and agents in other markets. Currently, we distribute our products through company controlled distribution subsidiaries in 26 of our largest markets worldwide, and we are in the process of expanding this network in potential high-growth markets. We recently established new distribution subsidiaries in India, Singapore and Malaysia. As part of this strategy, we may also acquire the interests of local joint venture partners or minority investors in order to achieve total control of the distribution business.

In geographic markets where it is not yet attractive to establish our own distribution network, we intend to strengthen our control over our third-party distributors and agents. Besides achieving greater efficiency, we believe that increased control over third-party distributors and agents will contribute to the protection of the brand image and value of our licensed brands. We intend to utilize only one exclusive third-party distributor or agent in these markets. Additionally, unlike our major competitors, we intend to maintain our core identity as an eyewear producer that distributes its products through wholesale channels. We believe that large-scale vertical integration into retail distribution could jeopardize current relationships with some of our key customers. Continue to focus on product design. We believe that we are the industry leader in product design and technological innovation. Our emphasis on and approach to product design distinguishes us from our competitors and makes us an attractive licensing partner for leading luxury and design houses. Over a decade ago, we identified product design as a strategic objective of the Safilo Group and since then our design group has grown from two senior designers and six model designers to a total group of more than 150, including 12 senior designers and 30 model designers. Our competitors generally use external designers for their eyewear. We believe that we have an unrivalled capability to influence, if not lead, fashion trends in the eyewear industry. Product design influences nearly every aspect of our business, including production, marketing and sales. Improve cash flow generation. We are planning to improve cash flow generation by optimizing our working capital. We are working to change the terms of payment extended to our customers in order to reduce the amount of time to collect our receivables, which will result in increased cash generation. The plan was implemented in the second half of 2002 and is initially being presented to customers in Europe, and in particular Italy, where the average market payment period is in the range of 150 to 180 days. The initiative also seeks to reduce the number and amount of overdue payments. To support the initiative, bonus levels for commercial managers are now linked to their results in this area.

We have lengthened the time of payment to our third-party finished product suppliers in the Far East from 60 to 90 days, in order to achieve terms that are more in accordance with our receivables schedule. We are also trying to optimize the level of stock of our products. We are further investing in our new distribution center in Padua to improve the level of service extended to our customers while at the same time efficiently monitoring all distribution and inventory costs.

We have improved our operating margin from 12.6% in 2000 to 16.0% in 2002. We believe that this expansion of our margin and the optimization of working capital will enable us to attain our objective of reducing our debt levels. Focus on flexible production. We are committed to improving our operating efficiency through flexible production. For example, we aim to optimize the allocation of production requirements between our own production facilities and third-party manufacturers in order to attain maximum flexibility and cost-effectiveness without threatening intellectual property protection or product quality. Increasingly we are outsourcing more production of finished products, and we also increasingly use subcontractors to supply parts, finish assembly or produce our products. We link management and employee remuneration to improvements in production efficiency and closely monitor our product efficiency targets.

New License Arrangements

Giorgio Armani and Emporio Armani

On February 3, 2003, we signed a series of agreements with Giorgio Armani S.p.A. and Armani International Diffusion BV whereby Safilo has the exclusive right to design, manufacture, market, distribute, and sell prescription eyewear frames and sunglasses bearing the *Giorgio Armani* and *Emporio Armani* trademarks. Taken together, these agreements operate on a global basis and expire on December 31, 2010. As is customary after signing an exclusive world-wide license, we are currently finalizing license agreements for airport areas and duty free zones for *Giorgio Armani* and *Emporio Armani*, which will be on the same, or materially similar, terms as the world-wide license. Previously, *Giorgio Armani* and *Emporio Armani* prescription eyewear frames and sunglasses were designed, manufactured, and distributed by one of our principal competitors.

We believe that the Armani license represents a highly complementary fit with our existing brand portfolio and enhances our position as one of the leading producers of eyewear globally. In particular, we believe that the Armani license is significant to us because:

- *Giorgio Armani* and *Emporio Armani* are established eyewear brands with global reach;
- taken together, *Giorgio Armani* and *Emporio Armani* are one of the largest eyewear brands globally; and

- the Armani license validates our competitive strengths and business model of focusing on superior product quality and innovation, client service and continued investment in product design and research and development.

We have commenced the implementation of the Armani license, focusing on design, production, distribution and sales, and advertising and promotion:

- *Design*. Our design team is currently working closely with Armani on existing and new designs for the *Giorgio Armani* and *Emporio Armani* eyewear collections. *Production. Based on input from Armani, we have already commenced production of newly designed models of Giorgio Armani* and *Emporio Armani* prescription frames and sunglasses based on previous top-selling models. *Distribution and sales. We expect to complete the expansion and upgrade of our central distribution facility in Padova in late 2003, which we believe will enable us to meet our estimates of future growth in production associated with our existing business and the Armani license. In addition, we expect to hire approximately 220 sales people to sell on an exclusive basis Giorgio Armani* and *Emporio Armani* eyewear. We have largely completed the staffing requirements for our Armani sales force in Europe. *Advertising and promotion. We are working closely with Armani on the development of a coordinated advertising and promotion program in connection with the launch of Safilo-produced Giorgio Armani* and *Emporio Armani* eyewear.

Bottega Veneta and Stella McCartney

In November 2002, we entered into new license arrangements with the Gucci Group for the *Bottega Veneta* and the *Stella McCartney* branded eyewear collections. In keeping with the attributes of unsurpassed quality, outstanding craftsmanship, fashion and exclusive materials associated with the *Bottega Veneta* brand, we intend to position *Bottega Veneta* eyewear in the top end of the luxury eyewear market segment. *Stella McCartney* sunglasses, designed in close collaboration with Stella McCartney, the successful designer and daughter of Paul McCartney, will be positioned in the luxury market segment, and their design and marketing will emphasize the cutting-edge image that characterizes the *Stella McCartney* brand.

Liz Claiborne and Outlook Distribution Facility

In December 2002, we entered into a license agreement for *Liz Claiborne* branded prescription frames, and we also entered into a license agreement for *Liz Claiborne* sunglasses, which we sublicensed to Outlook Eyewear, a company in Colorado that previously held the license. With the *Liz Claiborne* brand in our portfolio of licenses, we expect to penetrate the lower part of the large mid-range market segment in the United States. Currently, we are in advanced negotiations to acquire substantially all of the assets and liabilities of Outlook Eyewear for a purchase price of US$10 million (subject to certain adjustments) to be paid in three installments over two years. Outlook Eyewear was formerly owned by one of our principal competitors that was subsequently purchased by members of its management.

As part of the Outlook Eyewear acquisition, assuming its completion, we would acquire a 60,000 square foot leased distribution facility in Denver, Colorado. This distribution facility would provide us with additional capacity to meet the increased unit volume demands of producing products for the large mid-range market segment in the United States, such as *Liz Claiborne* eyewear products, and would also allow us to better meet the needs arising from our recently won licenses for *Giorgio Armani* and *Emporio Armani* eyewear. In addition, the distribution facility would provide customer service benefits from having distribution capability in the Western United States, as well as New Jersey, and from having an additional customer call center.

Overview of Product Sales

Our net sales are balanced by product category, geographic region and our broad portfolio of owned and licensed brands. We generate a consistent revenue stream from sales of prescription frames, which have represented about half of our total net sales and sales volume in recent years. Our prescription frame customer base primarily consists of a long-established network of independent optical industry professionals.

On a geographic basis, our net sales in the North America region have historically roughly matched our revenues in Italy and Europe. Within the large United States market, our sales are balanced between prescription frames and sunglasses, by geographic region and by distribution channels. Within Europe, besides our home market of Italy, we have significant sales in the key markets of France, Spain, Germany and the United Kingdom.

While sales of licensed brands have grown more rapidly in recent years than sales of our own brands, we have a large and diverse portfolio of licensed brands positioned throughout the mid-range to luxury eyewear market segments. We have license relationships with a diverse group of fashion and design houses. Our license arrangements typically are exclusive and have terms of five to eight years, and our relationships with some of our key licensors date back to the late 1980s.

Geographic Distribution

Our products are sold in 120 countries and are supplied to approximately 130,000 points of sale worldwide. Our net sales and units sold by region in 2002 were as follows:

Net Sales and Units Sold by Region for 2002
(in millions and units in thousands)

	Total			Prescription Frames		Sunglasses		Goggles/Other Accessories	
Region	Net Sales	Units	% Net Sales	Net Sales	Units	Net Sales	Units	Net Sales	Units
North America....................................	€353.5	9,407	39.5%	€201.6	4,539	€129.0	3,462	€22.9	1,406
Europe (excluding Italy)	267.1	7,023	29.9%	124.8	3,258	134.8	3,246	7.5	519
Italy...	145.7	3,525	16.3%	52.5	1,582	92.4	1,899	0.8	44
Far East...	57.1	1,062	6.4%	25.5	421	29.9	536	1.7	105
Other[1]..	70.7	2,223	7.9%	20.8	853	49.5	1,287	0.4	83
Total...	**€894.1**	**23,240**	**100%**	**€425.2**	**10,653**	**€435.6**	**10,430**	**€33.3**	**2,157**

(1) Other includes net sales in Australia (€14.2 million) and global duty free sales (€18.9 million).

Sales by Product Category

We design, manufacture and distribute high-quality eyewear products, including prescription frames, sunglasses frames and lenses, sport goggles and other accessories.

In 2002, net sales of prescription frames totaled €425.2 million, representing 48% of our total net sales, net sales of sunglasses totaled €435.6 million, representing 49% of our total net sales, and net sales of sport goggles and other accessories totaled €33.3 million, representing 3% of our total net sales. Net sales of sunglasses as a share of our total net sales has steadily increased in recent years. Sunglasses represented 44% of our net sales in 2000 and 49% in 2001 and 2002. Net sales by product category from 2000 to 2002 are depicted below.

Net Sales by Product Category for 2000-2002

In 2002, we sold approximately 23.2 million units of prescription frames, sunglasses, goggles and other accessories compared to 21.8 million and 19.2 million in 2001 and 2000, respectively. Sales by volume of prescription frames, sunglasses, goggles and other accessories from 2000 to 2002 are depicted below:

Sales Volumes (Units) by Product Line for 2000-2002

Sales by Licensed Brands and Owned Brands

We sell eyewear products under both licensed brands and our owned brands. Our net sales in 2002 from licensed products were €657.2 million and from our owned brand products were €236.9 million. Net sales by licensed and owned brand products from 2000 to 2002 are depicted below:

Net Sales by Licensed / Owned Brands for 2000-2002

Sales volumes of our own brands increased from 8.7 million units in 2000 to 9.1 million units in 2001 to 9.3 million units in 2002, a 7% overall increase. Sales volumes of licensed brands have increased by 34%, from 10.4 million units in 2000 to 12.6 million units in 2001 to 13.9 million units in 2002. Sales by volume of licensed brands and our owned brands from 2000 to 2002 are depicted below.

Sales Volumes (Units) by Licensed and Owned Brand

Products

We design, manufacture and distribute high-quality eyewear in three product categories: prescription frames, sunglasses and sport goggles. Our product portfolio is comprised of:

- our owned brands of prescription eyewear, sunglasses and sports goggles; and
- our licensed brands of prescription eyewear and sunglasses.

Our prescription eyewear and sunglasses products are positioned throughout the mid-range, high-end, premium and luxury eyewear market segments. Our *Smith* and *Carrera* sports goggles are positioned in the mid-range of the sports goggles segment.

We manufacture and assemble approximately half of our prescription eyewear and sunglasses products at our seven facilities in Europe. We outsource the production of the other half to third party manufacturers in Asia, Japan and Italy. Most of our *Carrera* products are produced at our facilities in Europe and our *Smith* sports goggles are produced in the United States by a third party under our supervision. See "—Manufacturing" and "—Supplies and Materials".

Owned Brands

Our portfolio of Safilo-owned brands includes *Safilo*, *Oxydo*, *Blue Bay*, *Carrera*, and *Smith*. Each of these brands and their brand extensions is positioned to address a specific eyewear market segment. Our owned brands also benefit from our long-standing emphasis on product research and development by incorporating the latest in eyeframe technology and materials and lens coatings. In addition to our organic product development efforts over the years, we broadened our owned brand portfolio in the area of sports goggles and sports glasses in the United States and Europe through our acquisitions of the *Smith* and *Carrera* brands in 1996. We are one of the three top producers and distributors of sports goggles.

We currently produce over 750 distinct models of prescription frames, sunglasses and sport goggles of our owned brands. Each model is produced in two sizes for prescription frames and one size for sunglasses and at least six colors for prescription frames and eight colors for sunglasses. The availability of product styles, colors and sizes varies among geographic markets depending on local demand.

The following table sets forth retail price and sales data for 2002 for our owned brands.

Safilo Owned Brand Portfolio

		2002	
Brand	**Retail Price**	**Net Sales** *(millions)*	**Units** *(thousands)*
Safilo prescription frames	€50-150	€80.5	2,640
Oxydo prescription frames and sunglasses	€60-100	€27.0	1,042
Carrera prescription frames, sunglasses and sport goggles	€30-150	€39.5	1,662
Blue Bay prescription frames and sunglasses	€60-90	€17.9	736
Smith sports goggles and sunglasses	US$40-120	€34.3	1,864

Safilo is a mid-range to premium- priced prescription eyewear brand with retail prices ranging from €50 to €150. We produce more than 300 prescription frame models, and we update the *Safilo* collections four times per year. We consider *Safilo* to be a cornerstone brand because of the large number and wide range of end-customers to which the brand is targeted. *Safilo* prescription eyewear is sold worldwide and we produce and distribute specific products for different markets such as the United States, Germany and the Far East. In the United States, we believe the *Safilo* brand is the number one selling brand of prescription frames based on unit sales. The *Safilo* brand is also targeted to a wide range of end customers, as we produce models for children, adult men and women, and more mature customers across a wide price range. In 2002, we launched *Safilo Design* as a high-end brand extension as part of our strategy to have *Safilo* brand products that cover the range of price points between mid-range and premium-priced eyewear. We expect to continue to further develop the *Safilo* brand and increase the number of models aimed at younger customers.

Oxydo is a specialized mid-range to high-end prescription frames and sunglasses brand with retail prices ranging from €60 to €100. We produce 70 models of prescription frames and 60 models of sunglasses, and we update the *Oxydo* collections four times per year. The *Oxydo* brand is targeted at younger end customers more than our *Safilo* brand and relies more heavily on following the latest trends and fashions with respect to shapes and colors than does our *Safilo* brand. We will continue to further develop the brand by building on this brand differentiation as compared with our *Safilo* brand. In 2000, we consolidated *Safilo* brand sunglasses under the *Oxydo* brand, supporting it with a brand building campaign in 2002 that included sponsoring the *Oxydo* motorcycle world championship team. Sponsorships allow us to better target the younger end customer and to more distinctly position *Oxydo* as a sportier, cutting-edge brand. Although *Oxydo* products are principally sold in Europe, we began distributing *Oxydo* in the United States in 2003.

Carrera is a specialized sports eyewear and goggle brand. *Carrera* is one of the most well-known sports brands in the world and is a market leader in Europe. In Austria alone, *Carrera* represents approximately 40% of the sports eyewear market. Retail prices range from €50 to €150. We produce 80 models of prescription frames, 50 models of sport sunglasses and 15 models of sport goggles. We update the prescription frame collection four times per year, the sport sunglasses collection twice a year, and the sport goggles collection once a year. *Carrera* branded products are characterized by having highly technical features, including lenses, that enable *Carrera* products to be positioned as fashionable eyewear that meets the demands of active and sport-minded end customers who desire comfort and durability. Consequently, the *Carrera* brand is targeted to highly active individuals who pursue outdoor and highly physical recreational activities.

Smith is one of the most popular U.S. sport goggle brands, and it is also sold in over 50 other countries. We acquired the *Smith* brand in 1996. Retail prices range from US$30 to US$120. We produce 47 models of sport goggles and 36 models of sport sunglasses. We update the sport goggle collection once a year. In addition to the primary product, sport goggles, we have also introduced a line of *Smith* brand sport sunglasses. *Smith* sunglasses are targeted to American men who would not be inclined to purchase luxury or designer sunglasses, including extreme sport participants. Designed for active and competitive sports, *Smith* sport goggles and sport sunglasses come in a range of bright colors. *Smith* products are distinguished because of the distortion free tapered lens technology and the versatility of the Slider series with its patented interchangeable lens system.

Blue Bay is a mid-range priced prescription frames and sunglasses brand with retail prices ranging from €60 to €90. We produce 70 models of prescription frames and 40 models of sunglasses, and we update the collections four times a year. *Blue Bay* products are primarily sold in Europe, with Italy, Spain, France and Germany being the most important markets, and *Blue Bay* is mainly targeted to younger end customers, including children, and those who prefer un-branded eyewear products. *Blue Bay* products are characterized by up-to-date, classical styling that is not aggressive. We produce specific *Blue Bay* products for the German market, and we will continue to assess specific market demands and respond accordingly. As part of our efforts to continue to successfully grow the *Blue Bay* brand, we will undertake increased promotional and marketing activities for the brand in 2003 and 2004.

Licensed Brands

Our portfolio of licensed sunglasses and prescription frames, comprised of brands from many of the leading luxury and designer houses in the world, is one of the broadest and most diverse portfolios in the eyewear industry. Each of our licensed brands is designed, positioned and marketed so as to reflect the attributes of the brand and to address a specific eyewear market segment. Our portfolio consists of both global brands, such as *Giorgio Armani*, *Gucci*, *Dior*, *Polo Ralph Lauren* and *Yves Saint Laurent*, and brands positioned to address specific segments of the U.S. market, such as *Kate Spade*, *Fossil*, *Nine West*, *Saks Fifth Avenue* and *Liz Claiborne*.

Our licensed brand eyewear products are positioned from the mid-range through the luxury eyewear market segments. The premium and luxury eyewear market segments are the fastest growing segments of the eyewear market and have achieved growth rates of about 9% since 1995. Licensed brands have catalyzed sales growth by expanding the size of the end market. Customers are buying more expensive eyewear products, replacing them more frequently than before and often own more than one pair of eyewear. Sunglasses and to a lesser extent, prescription frames, are viewed by many customers as fashion accessories. Unlike unbranded prescription frames, owners of prescription frames that have a luxury or designer brand may elect to replace their frames on a seasonal or yearly basis. The purchase of branded sunglasses and prescription eyewear may also provide some customers with an affordable entry point into an exclusive luxury or designer brand. Besides increasing the size of the market, the rapid growth of licensed global luxury and designer brands has provided larger global eyewear producers with a competitive advantage over regional and local producers.

Net sales of our licensed brands have increased in absolute terms and as a proportion of our total net sales. Net sales of licensed brands increased by 32.2% from 2000 to 2001 and by 9.0% from 2001 to 2002. Net sales of our licensed brands increased as a proportion of total net sales from 67% in 2000 to 71% in 2001 to 74% in 2002. During 2002, net sales generated under agreements with our top four licensors accounted for 55% of our total net sales. We expect that with the implementation of the Armani license, sales of licensed brands will continue to increase as a percentage of our total net sales.

Our portfolio of licensed luxury and designer brands includes *Giorgio Armani, Bottega Veneta, Burberry, Diesel, Dior, Emporio Armani, Fossil, Gucci, Kate Spade, Liz Claiborne, Max Mara, Nine West, Oliver, Pierre Cardin, Polo Ralph Lauren, Saks Fifth Avenue, Stella McCartney, Valentino,* and *Yves Saint Laurent*. In 2001, we renewed two of our major licenses, *Dior* and *Gucci*. We won twelve new licenses between 1997 and 2002, including the *Yves Saint Laurent* and *Saks Fifth Avenue* licenses which began in 2002. At the end of 2002 we secured licenses for *Bottega Veneta*, *Liz Claiborne* and *Stella McCartney* eyewear. Most recently, we entered into an agreement for the *Giorgio Armani* and *Emporio Armani* eyewear collections in February 2003. Currently, our license agreements have terms expiring between 2004 and 2010, with the exception of four licenses. We are in the advanced stages of negotiating the renewal of the *Diesel* license, the U.S. license for *Dior* and the *Nine West*, *Oliver* and *Valentino* licenses.

Safilo Licensed Brand Portfolio

Brand	Start of Relationship	Expiry of Current License
Bottega Veneta	2002	2008
Burberry	1994	2005
Dior (United States which license extension currently is being negotiated)	1996	2001(1)
Dior (worldwide excluding the United States)	1996	2008
Diesel	1994	2003(2)
Emporio Armani	2003	2010
Fossil	1999	2004
Giorgio Armani	2003	2010
Gucci	1988	2008
Kate Spade	2000	2004
Liz Claiborne (North and South America)	2002	2007
Max Mara	1997	2006
Nine West	1998	2003(2)
Oliver (excluding Japan and the United States)	1998	2003(2)
Pierre Cardin	1991	2005
Polo Ralph Lauren	1988	2006
Saks Fifth Avenue	2001	2006
Stella McCartney	2002	2008
Valentino (excluding Japan)	1998	2003(2)
Yves Saint Laurent	2001	2007

(1) Typically, we finalize the renewal of a license after the expiration date. We are in advanced states of negotiations of renewing the license for the period from 2002-2008.

(2) We are in the final stages of negotiating the renewal of the license.

Bottega Veneta. Under the *Bottega Veneta* brand, we produce luxury sunglasses with retail prices ranging from €230 to €270. We introduced the first collection in February 2003 and launched the collection internationally in March 2003, consisting of 10 models of sunglasses that will be updated twice per year. The *Bottega Veneta* collection is unisex in style and is targeted to a well-defined niche clientele of men and women aged 30 to 50. Designed in conjunction with *Bottega Veneta*'s renowned creative director Tomas Maier, the eyewear collection is characterized by outstanding craftsmanship, fashion and exclusive materials such as titanium combined with acetate. All sunglasses are presented in a dark brown leather case having a distinctive braided pattern.

Burberry. Under the *Burberry* brand, we produce premium and luxury prescription frames and sunglasses with retail prices ranging from €130 to €250. The *Burberry* collections consist of 40 prescription frame models and 30 models of sunglasses, and the collections are updated four times per year. The collections are targeted to men and women aged 25 to 45 and are characterized by the incorporation of the distinctive and well-recognized *Burberry* check pattern that is designed to complement other *Burberry* products and accessories. At the beginning of 2002, we worked closely with the licensor to successfully re-launch the brand by targeting a younger end customer, and we will continue to closely collaborate with Burberry's creative team to update the brand image. We also intend to build on the strength of the *Burberry* brand by seeking to continue to increase its net sales outside of the United Kingdom, the brand's traditional stronghold.

Diesel. Under the *Diesel* brand, we produce high-end and premium prescription frames and sunglasses with retail prices ranging from €80 to €130. The *Diesel* collections are unisex in style and consist of 30 prescription frame models and 40 models of sunglasses, and the collections are updated four times per year. The collections are sold primarily in Europe and are targeted to younger men and women aged 13 to 35. Characterized by aggressive, countertrend styling, the image of the brand and the style of each collection is closely linked to other *Diesel* brand products and accessories. We will further develop the brand by launching *DSL 55*, a line of eyewear products targeted to a "street ware" market composed of young, urban consumers.

Dior. Under the *Dior* brand, we produce luxury prescription frames and sunglasses with retail prices ranging from €120 to over € 250. The *Dior* collections consist of 40 prescription frame models and 70 models of sunglasses, and the collections are updated four times per year. The collections are sold worldwide (with particular strength in Italy, France, the United States and Japan) and are targeted to men and women aged 20 to 50. Characterized by the most up-to-date design elements and cutting edge fashion, *Dior* products are unique, distinctive and exclusive in their shapes and colors, and it is the only brand in our portfolio in which we present a "limited edition" model each year. Although, the collections have primarily been targeted to cosmopolitan and affluent women, we recently launched *Dior Homme,* which is characterized by considerable technological innovations that are modern and elegant, including models in black acetate in a range of frames designed to complement a masculine wardrobe. We intend to continue to build on the growing strength of the *Dior* brand and to increase the selection of prescription frames targeted to younger, but fashion conscious, consumers.

Emporio Armani. Under the *Emporio Armani* brand, we produce high-end and premium prescription frames and sunglasses with retail prices ranging from €90 to €170. We expect to introduce the first collections of 40 prescription frame models and 60 models of sunglasses in May 2003, and we will update the collections four times per year. The *Emporio Armani* collections are intended to be more informal than the *Giorgio Armani* collections and will be targeted to younger men and women aged 18 to 25 who are students or young professionals. The collections are distinguished by a wide range of shapes and sizes that are provocative, oversized or extra small, and will utilize a variety of lens shapes and colors.

Fossil. Under the *Fossil* brand, we produce mid-range and high-end prescription frames sold only in the United States with retail prices ranging from US$90 to US$130. The *Fossil* collections are unisex in style and consist of 40 models of prescription frames, and the collection is updated three times per year. Characterized by extensive use of titanium, the collections are designed to complement the successful styling of *Fossil* brand watches.

Giorgio Armani. Under the *Giorgio Armani* brand, we produce premium and luxury prescription frames and sunglasses with retail prices ranging from €130 to €220. We expect to introduce the first collections of 40 prescription frame models and 50 models of sunglasses in May 2003, and we will update the collections four times per year. *Giorgio Armani* products will be sold worldwide and will be targeted to men aged 30 to 54 and women aged 30 to 44, in each case who are professionals and who seek a product unique in terms of design and content originality. Materials used for the *Giorgio Armani* collection will include titanium, genium, and very light steel and acetate.

Gucci. Under the *Gucci* brand, we produce luxury prescription frames and sunglasses with retail prices ranging from €120 to more than €200. The *Gucci* collections are unisex in style and consist of 50 prescription frame models and 80 models of sunglasses, and the collections are updated four times per year. The collections are sold worldwide and are targeted to men and women aged 20 to 50. Characterized by the widespread use of the distinctive and highly recognized "G" logo, the collections consist of models composed of distinctive and beautiful materials that strive to create and be at the forefront of fashion styling. We work closely with Gucci's creative director, Tom Ford, under whose direction the brand has experienced tremendous success over the past several years, particularly with respect to its sunglasses range. We will continue to work to strengthen the brand by designing and incorporating exclusive combinations of colors and materials for use in *Gucci* branded products.

Kate Spade. Under the *Kate Spade* brand, we produce high-end prescription frames and sunglasses sold only in the United States with retail prices ranging from US$130 to US$150. The brand was founded by Kate Spade, a highly successful designer of leather goods. The *Kate Spade* collections consist of 25 prescription frame models and 20 models of sunglasses targeted to women aged 20 to 40, and the collections are updated three times per year. The collections are characterized by vivid, colorful designs with elegant, fashionable and colorful details.

Liz Claiborne. Under the *Liz Claiborne* brand, we produce mid-range to high-end prescription frames sold only in the United States with retail prices ranging from US$90 to US$130. The *Liz Claiborne* collections consist of 20 prescription frame models targeted to women aged 20 to 40, and the collections are updated three times per year. The collections are characterized by high quality components and design at an attractive price.

Max Mara. Under the *Max Mara* brand, we produce premium prescription frames and sunglasses with retail prices ranging from €110 to €170. Launched in 1998, the current *Max Mara* collections consist of 35 prescription frame models and 30 models of sunglasses targeted to women aged 25 to 40, and the collections are updated four times per year. The *Max Mara* collections are characterized by a distinctive elegant and refined identity that reflects the integral characteristics of the image projected in other *Max Mara* products and accessories. We will continue to work closely with the licensor to harmonize the *Max Mara* eyewear collections with its other products and accessories, particularly the warm tones that characterize the *Max Mara* clothes line.

Nine West. Under the *Nine West* brand, we produce mid-range and high-end prescription frames sold only in the United States with retail prices ranging from US$90 to US$130. The *Nine West* collections consist of 80 prescription frame models targeted to women aged 13 to 40, and the collections are updated three times per year. The collections are characterized by the use of a wide assortment of metals and plastics in an array of fashion colors.

Oliver. Under the *Oliver* brand, we produce mid-range and high-end prescription frames and sunglasses with retail prices ranging from €80 to €120. Launched in 1998 along with *Valentino* after winning the license from a competitor, the *Oliver* collections are unisex in style and consist of 30 prescription frame models and 20 models of sunglasses, and the collections are updated four times per year. The collections are targeted to younger men and women aged 18 to 30, and sales are particularly strong in France, Germany and Italy. Designed closely with its related luxury brand, *Valentino*, the *Oliver* eyewear collections are more informal in design and offer an increased color selection as compared to *Valentino* to better appeal to its younger end customer. To further develop the brand, we will begin to introduce advertising and promotional materials focused on *Oliver* to individual retail outlets.

Pierre Cardin. Under the *Pierre Cardin* brand, we produce mid-range prescription frames and sunglasses with retail prices ranging from €60 to €90. Launched in 1991, the current *Pierre Cardin* collections consist of 60 prescription frame models and 15 models of sunglasses, and the collections are updated four times per year. The collections have a very broad range as there are models targeted to children aged 5 to 10, younger men and women, and men and women aged 30 to 60. *Pierre Cardin* products are characterized by simple shapes combined with innovative designs. To further develop the brand, we will expand the number of prescription frame models from 60 to 80 and offer a greater number of model sizes.

Polo Ralph Lauren. Under the *Polo Ralph Lauren* brand, we produce mid-range to luxury prescription frames and sunglasses with retail prices ranging from €70 to €180, depending on the product line. Launched in 1988, the current *Polo Ralph Lauren* collections consist of 70 prescription frame models and 60 models of sunglasses divided between several lines, each with a different price point (*Polo Ralph Lauren* and *Ralph Lauren* (each €120 to €180), *Polo Sport* (€90 to €120), *Ralph* (€80 to €120), and *Polo Jeans* (€70 to €110)). The collections are sold worldwide with the strongest sales coming from the United States; however, increased recent attention to the needs and tastes of European end customers have led to higher sales of *Polo Ralph Lauren* products in this region. With design characteristics ranging from cutting edge fashion, discreet informality, and sport mixed with fashion, the collections with their different lines have a very broad range of appeal and target men and women aged 20 to 50. To further develop the brand, we will build on our recent success developing and growing the younger and sport product lines by further expanding the luxury lines of the *Polo Ralph Lauren* brand.

Saks Fifth Avenue. Under the *Saks Fifth Avenue* brand, we produce mid-range to high-end prescription frames and sunglasses sold only in the United States with retail prices ranging from US$90 to US$130. Launched in 2002 in close collaboration with the well-known department store that bears the brand's name, the *Saks Fifth Avenue* collections currently consist of 30 prescription frame models and 10 models of sunglasses targeted to women over 35 years of age, and the collections are updated three times per year. The collections are characterized by simple elegance and understated designs with sophisticated details and blended color.

Stella McCartney. Under the *Stella McCartney* brand, we produce luxury sunglasses with retail prices ranging from €150 to € 180. Launched globally in 2003 in close collaboration with Stella McCartney, the successful designer and daughter of Paul McCartney, the collection consists of 15 models of sunglasses, and the collection will be updated twice per year. The collection is unisex in style and is targeted to men and women aged 25 to 45. Characterized by its use of a broad range of colors and shapes, the collection is designed to emphasize the cutting-edge image for which *Stella McCartney* branded products are known.

Valentino. Under the *Valentino* brand, we produce high-end to luxury prescription frames and sunglasses with retail prices ranging from €130 to €200. Launched in 1998 along with *Oliver* after winning the license from a competitor, the *Valentino* collections currently consist of 30 prescription frame models and 30 models of sunglasses, and the collections are updated four times per year. Sold worldwide, the brand is particularly strong in Italy and Spain. The collections are targeted to men and women aged 30 to 50, but women account for about 80% of the brand's sales. Characterized by chic, sophisticated styling, *Valentino* eyewear products are set apart with special details such as a silver "V" insert on the temple. We will further develop the brand in close collaboration with Valentino as the licensor is currently engaged in a re-launch of the brand's image coupled with a broad advertising campaign. We will also design new *Valentino* products to target a younger, high fashion conscious customer.

Yves Saint Laurent. Under the *Yves Saint Laurent* brand, we produce high-end and luxury prescription frames and sunglasses with retail prices ranging from €130 to €250. Launched worldwide in 2002 after winning the license from a competitor, the *Yves Saint Laurent* collections currently have 30 prescription frame models and 30 models of sunglasses, and the collections are updated four times per year. Sold worldwide, the brand is particularly strong in Italy and France. The collections are targeted to men and women aged 20 to 40 who are looking for extremely exclusive products. Characterized by sophisticated designs, *Yves Saint Laurent* eyewear products utilize high quality materials such as *Optyl* plastics and titanium in a variety of shapes and designs, including both updated classic designs from the 1960's and 1970's and modern, rectangular shapes. To further develop the brand, we will develop and offer and sophisticated colors and acetates that will be exclusive to the *Yves Saint Laurent* collection.

We focus on top brands with international recognition and proven expansion strategies capable of conducting autonomous brand building campaigns which indirectly benefit the eyewear product. Generally, we do not consider obtaining licenses for smaller brands with only regional recognition. However, in recognition of the size and particular importance of the U.S. market, we have accepted U.S.-only licenses. These include *Kate Spade, Fossil, Nine West, Saks Fifth Avenue* and *Liz Claiborne* which target an end customer demand for alternatives to mainstream brands such as *Giorgio Armani, Gucci, Dior, Polo Ralph Lauren* and *Yves Saint Laurent*. The composition of the brand portfolio also follows an end customer segmentation strategy in order to build the best possible proposition for optical retailers. For example, our products have a varying price range. *Gucci* and *Dior* are directed towards customers seeking higher end exclusive products, and brands like *Polo Ralph Lauren* and *Emporio Armani* are directed towards other affluent customers with different design preferences. Similarly, in order to draw upon differing age groups, *Diesel* and *Kate Spade* target younger customers while *Valentino* and *Dior* target more mature customers.

Licensed luxury brands have driven net sales growth in two ways. First, they have catalyzed growth by expanding the end-market, with end-customers buying more expensive products and replacing them more often than before, especially with respect to sunglasses, which are increasingly viewed by end-customers as fashion items. Second, they have strengthened our appeal to eyewear retailers over smaller, typically regional producers. Net sales of our licensed brands have been increasing as a proportion of total net sales with net sales of licensed brands accounting for 67% of net sales in 2000, 71% in 2001 and 74% in 2002.

Product Design

We believe that we are the industry leader in product design and technological innovation. Our emphasis on and approach to product design distinguishes us from our competitors and makes us an attractive licensing partner for leading luxury and design houses. Over a decade ago, we identified product design as a strategic objective of the Safilo Group, and since then our design group has grown from two senior designers and six model designers to a total group of more than 150, including 12 senior designers and 30 model designers. Our competitors generally use external designers for their eyewear. We believe that we have an unrivalled capability to influence, if not lead, fashion trends in the eyewear industry. Product design drives or informs nearly every aspect of our business, including production, marketing and sales.

Our worldwide design team, which has been led by our Director of Design, Enzo Sopracolle, for nearly a decade, consists of 12 senior designers, 30 model designers, 10 technical designers and more than 100 industrial designers. Model designers are highly-skilled artisans that design prototypes from sketches prepared by other designers. Technical designers are responsible for fabricating the eyewear figures. Industrial designers are located at our production facilities and prepare the eyewear product for production. Our design group uses computer-aided design/computer-aided manufacturing technology, known as CAD/CAM. CAD/CAM technology permits designers to easily manipulate and evaluate the designs. This process is integrated with our manufacturing facilities, which aids in the production of the models.

Our design group is centered in our Design Center in Padua, and we have technical designers located at our seven production facilities. We also have design teams in the United States and in the Far East in order to design products that better suit local market needs and fitting requirements. For the U.S. market, we employ one senior designer, three model designers and six technical designers in New Jersey. These designers primarily focus on eyewear produced exclusively for the U.S. market, such as *Liz Claiborne* and *Saks Fifth Avenue*, and on models of our owned and licensed global brands designed specifically for the United States. In the Far East, we employ one model designer and two technical designers in Hong Kong and one model designer and one technical designer in Japan who are focused on prescription eyewear. Our European team also focuses on national markets, such as Germany, where consumers have distinct preferences. The worldwide design team meets four times a year to discuss trends and new developments.

We have two separate design teams for our sport goggles and sport sunglasses. There is a design team dedicated to the *Carrera* line of sport goggles, sport sunglasses and sport helmets located in Padua, Italy and at our Austria and Slovenia manufacturing facilities, consisting of one senior designer, one technical designer, two model designers and six industrial designers. We have a two person design team for our *Smith* line of sport sunglasses and sport goggles located at our Sun Valley, Idaho distribution facility, whose efforts are supplemented by third party design consultants.

Our design team serves both our own and licensed brands. Each of our design group members is dedicated to a specific brand. We work closely with each of our licensors to develop the themes and fashion concepts that reflect the attributes of the licensor's brand and its appropriate market segment positioning. Licensors must approve of all designs and models sold under their brand. The design process for our licensed brands typically begins eight to nine months prior to the release of a new collection when our design teams meet with our licensors to discuss fashion trends and concepts. Our design teams then produce a series of sketches and designs, which are submitted to our senior designers for selection and to our licensors for final approval. After we have decided upon our models and have the necessary approval from our licensors, we produce prototypes for each model. For each prescription frame or sunglasses model approved by the licensor, we typically produce four or five prototypes. One of the final stages is the selection of colors. The selection of color schemes and palettes is an important element of our design process, since colors must be consistent with the luxury or designer brand image. We have designers who are dedicated solely to the research of color, which we view as an important competitive factor.

Within Safilo, our design group, marketing group and the technological solutions team collaborate to develop new styles based on consumer preferences, fashion trends and technological possibilities. Our design team also plays a central role in developing the appropriate marketing strategy for eyewear products, including product advertising and point of purchase materials and displays.

There is a constant requirement to introduce new models, update existing models and to revitalize successful brands. The life cycle of eyewear in the mid-range to luxury eyewear market segment is short. The life cycle of sunglasses is about one year and prescription frames two years, and models are updated every three months. Existing models are updated using new color schemes and palettes. Each year we introduce approximately 1,900 new models of prescription frames and sunglasses and one new model of sport goggles. There are approximately 2,500 models of our eyewear on the market at any given time. Our sport goggle models generally remain on the market for three to five years, and are updated annually. The ability to constantly renew our product offerings has enabled us to meet consumer demand in each market segment in which our brands are targeted.

Our design and innovation leadership is maintained and strengthened through our technological solutions team. Our technological solutions team, known as *Safilo Ricerca*, was established over thirty years ago. This 34 person team, consisting primarily of engineers, is based in St. Maria di Sala, Italy and seeks to develop new production techniques and other technological solutions for improved production and at a lower cost. The team also works closely with university staff in making our production more efficient. Their work has resulted in over 20 patents that we currently hold in the areas of lens attachments, hinges, frame components and materials. We typically are granted five to six patents annually.

Marketing

We develop and implement a strategy for the marketing of each of the brands in our portfolio. Our objective is to achieve the optimal positioning of the individual brand and the Safilo portfolio of licensed and owned brands as a whole. The strategy developed for a brand, which may be adapted to meet the specific characteristics of a regional or national market, will be determined by a variety of factors, including: *Positioning. The desired positioning of a product in a market segment (mid-range through luxury) will drive the product design and the marketing approach for the brand. For luxury and designer eyewear, the price positioning must be consistent with the image and attributes of the brand. Product Category. The marketing approach for a brand is different for sunglasses, prescription frames and sports products, including sport sunglasses, goggles and helmets. The marketing approach for sunglasses is largely driven by fashion trends, with an emphasis on achieving the right marketing mix for the sunglasses brand. For prescription eyewear, the marketing emphasis is on the primary customer—optical professionals. The marketing efforts will include special pricing plans and providing high-quality customer service in order to motivate the optical professional to recommend our brands to customers. Licensed or Owned Brand. For licensed brands, we work closely with the licensor and coordinate our marketing strategy with their overall marketing themes. We develop a specific strategy for each luxury or designer brand. We agree with the licensor the marketing plan and the methods of implementing the plan through various channels. In some cases, the licensor must approve all our marketing and advertising strategies. For our owned brands, we have more latitude to determine the brand positioning. The marketing emphasis is on the consumer preferences of the end customer. We particularly emphasize the technical features or specialized uses of the brand. We generally develop a marketing strategy for our owned brands one to three years in advance. The implementation of the strategy is reviewed four times per year. Our* *marketing efforts are coordinated with the introduction of new products and product updates in October, January, March and June of each year.*

Marketing Organization

We have separate product marketing teams for the North American, European and Far Eastern regions, the activities of which are coordinated by the European marketing team. Each product marketing team is responsible for marketing all of our products in its particular region. In addition, we have specialized marketing teams for our *Carrera* and *Smith* products. Our three primary marketing teams meet regularly in order to manage and coordinate the overall brand image and brand value for each of our licensed and owned brands.

Advertising and Promotion; Sponsorships

The advertising and promotion activities engaged in and the expenditures made to support a brand are determined by the desired brand positioning. An appropriate marketing mix of marketing activities, including media advertising, PR activities, product placements and point of sale promotional activities, must be determined for each brand. Marketing campaigns and the media plan for a brand are determined on a coordinated, company-wide basis. Our marketing teams work closely with licensors and our product design group in developing point of purchase displays and advertising materials and planning promotional activities to ensure that the integrity of the brand image is maintained.

About two-thirds of our advertising and promotion expenditures are for media activities, including sponsorships of public events, and the remainder is for point of sale activities. Our total advertising and promotion expenses were €73.3 million in 2002 and €67.4 million and €56.5 million in 2001 and 2000, respectively.

We employ a number of methods to highlight the visibility of our licensed brands and owned brands in line with the image of the brand. For all of our brands, we focus our marketing efforts on the point of sale. We provide our retail customers with posters, specialized window displays and other marketing materials to advertise our products. The use of window displays to promote eyewear products is of major importance in European markets.

We support our licensed brands with advertising in the media. We primarily use print media, such as magazine advertisements, and in certain markets, billboards. Under a number of our license agreements, we are required to make contributions to the licensor's advertising and promotion activities for its brand.

We support our owned brands with sponsorships. We have entered into arrangements with a number of individual sponsors for various sports ranging from soccer to skiing to motorcycle racing. Some of the key personality sponsorships we have are Bobo Vieri of the Italian national soccer team and Hermann Maier, the renowned Austrian skier, for our *Carrera* products. In addition we sponsor skiing teams (*e.g.*, the Italian, German and Austrian Ski Federation Ski Teams) and the *Oxydo Safilo* Team in the motorcycle Grand Prix as well as leading Grand Prix racers.

Sales and Distribution

Our products are sold in approximately 120 countries and are supplied to approximately 130,000 points of sale worldwide. We distribute our products directly in 26 of our largest geographic markets through company controlled distribution subsidiaries and a sales force of approximately 1,100 sales agents. Approximately 30% of our sales agents are employees, while the rest are independent sales agents. Our sales agents that are employees receive a base salary, but, for some, a significant portion of their compensation is commission based. Our independent sales agents receive compensation that is entirely commission based. All our sales agents are exclusive to Safilo and may not sell any other products. The agents sell one or more of our licensed or owned brands and do not sell our entire line of products. In order to maintain control of where our products are available, an agent may not sell our products to a customer without our final approval. In other markets, we distribute our products through an established network of third-party distributors and pursuant to exclusive distribution arrangements in all but a few of our smallest markets.

The following chart depicts our distribution network:

Safilo Distribution Network

We believe that distribution through our own subsidiaries in our most important markets enables us to better manage the image of our brands, our sales efforts in these markets and our customer service activities. We generally seek to establish distribution subsidiaries in our largest markets and in markets where we believe that direct control would be most effective in implementing our marketing strategy.

In the over 100 countries where we do not have distribution subsidiaries, we sell our eyewear products through third-party distributors in all but the smallest markets. These distributors have the exclusive right to sell certain of our product lines in designated territories with the exception of our smallest markets. A third-party distributor may sell one or more of our product lines within its territory, depending on the terms of the relevant distribution arrangement. We maintain close contact with our third-party distributors in order to monitor sales in the relevant markets. Almost all orders for eyewear are given to us by the distributor, and, depending on the market, we generally ship the ordered goods to the distributor, who then delivers them to the retailer.

Our distribution network gives us global reach and direct control of eyewear distribution in the retail outlets that meet the requirements of where the brands are best placed. For luxury and premium brands, it is important to have selective distribution in order not to dilute brand awareness. We have been highly successful in being able to correctly position our different brand names in the eyewear market, by targeting specific groups of customers based on the unique characteristics of each brand, and in particular, being able to preserve the highest brand awareness of the various luxury names. We are also very focused on maintaining the highest quality in our brand portfolio in order to avoid the presence of conflicting brand names. We maintain close contact with our third-party distributors in order to monitor sales and to control the quality of the points of sale that display products. We typically enter into distribution agreements with such third-party distributors that establish minimum annual purchases and impose territorial limitations. In addition, to the extent permitted by law, we allow for distribution only through specifically authorized retail channels and qualified sales agents. We ensure that each third-party distributor employs dedicated sales agents for our products. The activities of these agents are similar to those of agents employed by our own distribution subsidiaries. They only sell our licensed or owned brands, but in some cases a larger number of brands due to the smaller size of the market.

Product Distribution Flow

Our distribution network is anchored by a company operated distribution center in Padua, Italy. At the beginning of 2001, we completed the construction of our state-of-the-art distribution center in Padua, Italy that can now handle orders for 100,000 units per day, which can be further increased to meet our anticipated continued growth.

The following chart depicts the flow of our products in our distribution network.

Client service is a key competitive advantage and marketing tool in the industry. We have invested heavily in recent years in our state-of-the-art, highly efficient distribution network and believe we are perceived as the industry leader in client service. In particular, from our Padua distribution center "same day" product deliveries in small volumes are made to clients. Also, from our Padua and New Jersey distribution centers, we offer delivery within twenty-four hours for small volume orders placed by telephone. Most other orders are filled and shipped within five days of receiving the order.

Most orders for finished products are distributed from our Padua distribution center with limited orders for finished products coming directly from a third-party manufacturer to one of our distribution subsidiaries, some of which have small distribution facilities that service a particular country. From Padua, most finished product orders are routed through the applicable distribution subsidiary or third-party distributor. Some orders, however, for larger retailers in Europe are shipped directly from Padua to the retailer.

Orders and Account Management

Orders are placed directly by the client, or through sales agents, to the regional sales office or in some locations through toll-free numbers to regional call centers. We have a central order department and client administration office in Italy, other European countries where we have subsidiaries, the United States (serving U.S. and South American clients) and Hong Kong (serving Australia and Far East clients). Initial orders are usually placed through sales agents while call centers are used for subsequent orders. In most cases, after a credit reference is provided, the order is then forwarded to the regional order department.

After the order is placed, the client administration office requests a credit report from the local jurisdiction. After approval by the sales manager, the order department processes the order. For current clients, a credit reference check is made to verify the information contained in the credit report. Payments may be made by bank transfer or check. The individual circumstances of each client and specific country result in different methods of handling orders and credit checks. For example, in the United States customers more often place toll-free calls to the call center while in the Far East customers place their orders directly with the regional manager. In the United States and selected European countries, customers may view models and place orders over the internet for some of our brands.

Our billing and collection terms for our customers are determined on a market-by-market basis. This results in significant variation among the countries in which we operate regarding the timing of payments after shipping the products. For example, the market payment period in Italy is approximately 150 days, 55 days in the United States and approximately 90 days in the Far East and other countries have payment periods of less than 60 days. We are working towards reducing the payment period for customers with longer periods of time, such as Italy, and also the amount of overdue receivables.

Europe

Our European regional headquarters is located in Padua, Italy. Our European managing director and business unit head is also responsible for other parts of the world excluding North and South America and the Far East, which are covered by other managing directors. Our sales in Europe represented 46% of our total 2002 net sales. Our net sales in Europe (including Italy) were €412.8 million in 2002, selling 10.5 million units, compared to €368.8 million in 2001, selling 9.8 million units, representing a 12% increase in net sales. Net sales of prescription frames accounted for 43%, net sales of sunglasses accounted for 55% and net sales of goggles and other accessories accounted for less than 2% of our total net sales in Europe in 2002.

We distribute our products directly in 16 European countries. In a few smaller Eastern European countries, we utilize exclusive third-party distributors to sell our products. Almost 80% of our approximately 500 European sales agents are independent contractors and work on a commission basis and approximately 20% are employees who receive a base salary and a significant portion of their compensation is commission based. The European market with the highest proportion of employees is France where almost half of our sales agents are employees. Many agents are connected to our centralized distribution system via laptop computers in order to process orders quickly and so that we can monitor sales and marketing information on a daily basis. The company also has a special sales division for sports products (ski goggles, helmets and sunglasses). All of our products sold in Europe are processed through our Padua, Italy distribution facility. Our customer base in Europe is highly fragmented, and our customers are typically smaller independent retailers and department stores with the exception of some countries such as Germany and the United Kingdom, where large optical chains are present. We have many competitors in Europe, but we consider Luxottica to be our largest and most significant competitor.

In order to further improve our customer focus, we created a dedicated pan-European organization in Europe, GCE (*Grandi Clienti Europa*), to focus on our largest European retail chain customers. Dedicated professionals focus on the specific needs of these important customers and coordinate the service provided to these customers with the sales teams in each relevant country. Additionally, we are opening a number of showrooms in prime locations to showcase our products in locations convenient to our customers as well as to host special events relating to our collections. We opened showrooms in Paris and London in 2002.

Our leading markets in Europe are Italy, France, Spain, Germany and the United Kingdom.

Italy. Italy is our largest market in Europe and accounted for 35% of our 2002 net sales in Europe and 16% of our total net sales, as compared to 43% of net sales in Europe and 19% of total net sales in 2001. In 2002, we had €145.7 million in net sales of over 3.5 million units in Italy, as compared to net sales of €159.4 million from sales of 4.0 million units in 2001. Net sales of prescription frames accounted for 36%, net sales of sunglasses accounted for 63% and net sales of goggles and other accessories accounted for less than 1% of our total net sales in Italy in 2002. The Italian sales team is composed of seven dedicated professionals in charge of coordinating more than 130 commission-based sales agents. The market in Italy is highly fragmented, and our largest customer accounted for less than 2% of our Italian net sales in 2002 and 2001. *Gucci*, *Dior*, *Polo Ralph Lauren* and *Diesel* are our best selling brands in Italy.

France. France accounted for 19% of our 2002 net sales in Europe and 9% of our total net sales, as compared to 15% of net sales in Europe and 7% of our total net sales in 2001. In 2002, we had €77.8 million in net sales of over 1.6 million units in France, as compared to net sales of approximately €56.7 million from sales of 1.2 million units in 2001. Net sales of prescription frames accounted for 55%, net sales of sunglasses accounted for 43% and net sales of goggles and other accessories accounted for 1% of our total net sales in France in 2002. The French sales team is composed of 82 sales agents receiving both a salary and commission-based remuneration. The eyewear retail chain Grand Optical is our largest customer in France, accounting for approximately 15% of our French net sales in 2002. Our other French customers primarily consist of buying groups and small, independent retailers. *Gucci*, *Dior*, *Polo Ralph Lauren* and *Carrera* are our best selling brands in France.

Spain. Spain accounted for 11% of our 2002 net sales in Europe and 5% of our total net sales, as compared to 9% of net sales in Europe and 4% of our total net sales in 2001. In 2002, we had €45.0 million in net sales of over 1.3 million units in Spain, as compared to net sales of approximately €32.6 million from sales of 900,000 units in 2001. Net sales of prescription frames accounted for 44%, net sales of sunglasses accounted for 55% and net sales of goggles and other accessories accounted for less than 1% of our total net sales in Spain in 2002. The sales team in Spain is composed of 60 commission-based sales agents coordinated by one country head in charge of sales in Spain and Portugal. Our customer base in Spain is highly fragmented, dominated by buying groups followed by retail chains and small, independent retailers. *Gucci*, *Dior*, *Polo*, *Carrera* and *Oxydo* are our best selling brands in Spain.

Germany. Germany accounted for 7% of our 2002 net sales in Europe and 3% of our total net sales, as compared to 7% of net sales in Europe and 3% of our total net sales in 2001. In 2002, we had €30.1 million in net sales of over 771,000 units in Germany as compared to net sales of approximately €27.5 million in net sales from sales of 700,000 units in 2001. Net sales of prescription frames accounted for 50%, net sales of sunglasses accounted for 48% and net sales of goggles and other accessories accounted for less than 3% of our total net sales in Germany in 2002. Our sales team in Germany is composed of 57 sales agents most of whom receive commission-based remuneration. Our customers in Germany are primarily buying groups and retail chains. Our largest customer in Germany is the eyewear retail chain Fielmann, and our second largest customer is the eyewear retail chain Apollo Optic, which is owned by Pearle Europe. These two customers represented 30% of our German net sales in 2002. Because of differences in consumer preferences in Germany, such as color and spectacle shape, we have a separate collection of prescription frames designed specifically for the German end customer. *Gucci*, *Dior*, *Blue Bay* and *Diesel* are our best selling brands in Germany.

United Kingdom. The United Kingdom accounted for 6% of our 2002 net sales in Europe and 3% of our total net sales, as compared to 6% of net sales in Europe and 3% of our total net sales in 2001. In 2002, we had € 25.5 million in net sales of over 483,000 million units in the United Kingdom, as compared to net sales of €23.3 million in net sales from sales of 504,000 units in 2001. Net sales of prescription frames accounted for 44%, net sales of sunglasses accounted for 54% and net sales of goggles and other accessories accounted for 2% of our total net sales in the United Kingdom in 2002. The U.K. sales team is composed of one country head and 41 sales agents whom are almost entirely paid on commission. In the United Kingdom, customers are primarily retail chains and independent buying groups, with the top 5 chains generating 45% of eyewear market revenues. *Gucci*, *Dior*, *Polo Ralph Lauren*, *Diesel* and *Burberry* are our best selling brands in the United Kingdom.

North America

Our North American regional headquarters is located in New Jersey. The regional managing director for North America is responsible for the United States, Canada and South America and also oversees the Solstice specialty store program. Our sales from North America represented 40% of our total net sales in 2002. Our net sales for North America were €353.5 million in 2002 from sales of 9.4 million units compared to €345.4 million in 2001 from sales of 8.8 million units, which represents a 2.3% increase in net sales. Net sales of prescription frames accounted for 57%, net sales of sunglasses accounted for 36% and net sales of goggles and other accessories accounted for 7% of our total net sales in North America in 2002.

United States. The United States accounted for 90% of our 2002 net sales in North America and 36% of our total net sales, as compared to 91% of net sales in North America and 37% of our total net sales in 2001. The United States represents our single largest market. In 2002, we had €318.0 million in net sales of over 8.8 million units in the United States, as compared to net sales of approximately €315.6 million from sales of 8.2 million units in 2001. Net sales of prescription frames accounted for 57%, net sales of sunglasses accounted for 37% and net sales of goggles and other accessories accounted for 6% of our total net sales in the United States in 2002. The sunglasses market in the United States differs from the European market in several respects. The mid-range sunglasses eyewear market segment begins at about US$40, and the retail price points attainable in the upper ranges of the sunglasses market are not as high as in our European markets. We have identified the mid-range sunglasses market in the United States as a market that offers significant opportunities and have positioned several of our current brands to address this market. We believe that the recently won *Liz Claiborne* licenses and the proposed acquisition of Outlook Eyewear will enable us to further implement this strategy.

We organize marketing and distribution in the United States based on our three distribution channels: opticians, ophthalmologists and optometrists; the retail market consisting of department stores and specialty stores; and, sports stores. *Safilo*, *Polo Ralph Lauren*, *Gucci*, and *Nine West* are our best selling brands in the United States.

We sell to opticians, ophthalmologists and optometrists that are organized in large retail chains as well as individual stores and practices. In 2002, our net sales though this channel accounted for more than two-thirds of our net sales in the United States from sales of 4.9 million prescription frames and 620,000 sunglasses. Our largest customer in the United States, the national retail chain, Pearle Vision, accounted for approximately 4% of our net sales in the United States. Our remaining sales in the United States are divided relatively evenly between direct sales to the retail market, which is composed of department stores and specialty stores, and sales to specialty sports retail stores.

Our sales agents in the United States receive commission-based remuneration. We have over 330 independent sales agents that focus on opticians, ophthalmologists and optometrists, 50 agents that focus on retail outlets such as department stores and specialty stores and 70 sales agents that are exclusive for a product category, such as sport goggles, but sell other products as well. We have a 12,000 square foot showroom in New York City dedicated to showing our sunglasses collection to our customers.

Customers in the United States may place telephone orders for our products, which are then distributed through our New Jersey distribution facility. Products may also be distributed directly to customers from third-party manufacturers in the Far East. Approximately half of our units sold in the United States are manufactured in our facilities in Italy; the other half comes largely from the Far East and are purchased as finished goods for resale. In terms of net sales, two-thirds of the products sold in the United States are produced in our facilities in Italy. In the wholesale market we compete principally with Marchon, Oakley and Luxottica.

Solstice Specialty Store Program. We acquired our Solstice specialty program in early 2002 from Moët Hennessy Louis Vuitton and to date have 20 stores and expect to have 35 stores by the end of 2003. After 2003, we expect to continue to expand, on a highly selective basis in leading high-end retail locations in the United States, the Solstice program to up to a total of approximately 75 stores by 2005. We believe that the Solstice program will raise the visibility of our luxury and fashion brands with affluent, fashion conscious customers. The program is limited to a few stores in selected large metropolitan areas specializing in the retail niche of luxury eyewear rather than a significant retail network. The Solstice program is expected to require approximately €20 million of additional funding through 2005. We intend to monitor and regularly review the business plan for Solstice based on its effects on relationships with existing customers and licensors. We plan to continue our focus on eyewear manufacturing and distribution through the wholesale market. The Solstice program may not generate the revenues necessary to justify further expansion or the continued operation of the existing Solstice specialty stores.

Far East

Our Far East headquarters is located in Hong Kong where the managing director and business unit head oversees the Far East region. The Far East region managing director is also responsible for Australia and global duty free business. For financial reporting purposes, sales from Australia and the global duty free business are included in "Other". Our sales from the Far East represented 6% of our total net sales in 2002. Our net sales for the region were €57.1 million from sales of 1.1 million units compared to €56.7 million in 2001, from sales of 1.1 million units, representing a 1% increase in net sales. In the Far East, net sales of prescription frames accounted for 45%, net sales of sunglasses accounted for 52% and net sales of goggles and other accessories accounted for 3% in 2002.

We currently distribute our products in the Far East market through distribution subsidiaries in Australia, Hong Kong, Japan, Malaysia and Singapore and exclusive third-party distributors in other key markets. All of our agents in the Far East are employees of our distribution subsidiaries. In the markets where we work with exclusive third-party distributors, there are only one or two such distributors operating in those markets. With the exception of Australia and Japan, and to a lesser extent Hong Kong and Malaysia, our customer market is highly fragmented, and we sell mainly to independent stores that have at most three or four locations.

Most of our products enter the Far East market from our distribution facility in Padua, Italy, but many of our products that come from Italy may be delivered directly to some of our smaller warehouses in various countries in the region. In Australia, the products are directly delivered from the place of manufacture. Japan is another exception where all prescription frames sold in Japan are manufactured domestically. All of our sunglasses are manufactured in Europe and delivered from our distribution facility in Padua, Italy. Our sales agents sell our products based on our currently held stock, which results in a customer receiving delivery shortly after their order is made. Our products are delivered to our customers via regular mail, generally in two to three days.

Japan. Japan has the largest eyewear market in the Far East and accounted for 45% of our 2002 net sales in the Far East region and 3% of our total net sales, as compared to 48% of Far East region net sales and 3% of our total net sales in 2001. In 2002, we had €25.7 million in net sales from sales of over 454,000 units in Japan, as compared to net sales of approximately €27.5 million from sales of 510,000 units in 2001. Net sales of prescription frames accounted for 61%, net sales of sunglasses accounted for 33% and net sales of goggles and other accessories accounted for 6% of our net sales in Japan in 2002. We believe that consumers in Japan have a high level of brand consciousness and that this presents the potential for continued growth in our sales of branded sunglasses. In 2002, 33% of our net sales in Japan were from the sale of sunglasses (excluding sport sunglasses). Due to the importance of the Japanese market, we employ two designers who design prescription frames to meet the specific fitting requirements of Japanese consumers. These frames are produced by several third party manufacturers in Japan under the *Gucci, Dior, Yves Saint Laurent, Polo Ralph Lauren* and *Max Mara* brands. Unlike many Japanese prescription frame distributors, we have experienced significant growth in the sales our products. Our top ten customers accounted for 31% of our 2002 net sales in Japan. We have 76 employees in Japan of which 32 are exclusive agents who are in the process of being moved to commission based remuneration. *Gucci, Dior, Polo Ralph Lauren* and *Max Mara* are our best selling brands in Japan.

South Korea. South Korea accounted for 10% of our 2002 net sales in the Far East region and 1% of our total net sales, as compared to 14% of Far East region net sales and 1% of our total net sales in 2001. In 2002, we had €5.9 million in net sales from sales of over 136,000 units in South Korea, as compared to net sales of €7.8 million from sales of 196,000 units in 2001. Net sales of prescription frames accounted for 25%, net sales of sunglasses accounted for 74% and net sales of goggles and other accessories accounted for 1% of our net sales in South Korea in 2002. Brands are a key success factor in the South Korean market where local competitors offer low priced articles and average quality. Unlike Japan and Australia, where our sales are concentrated in prescription frames, more of our net sales in South Korea in 2002 were from sunglasses (74% of 2002 net sales in South Korea). We exercise significant influence over our two third-party distributors, designing selling strategies and marketing campaigns, and these distributors employ 15 dedicated sales agents for our products. Our customer base is highly fragmented due to the large number of small retailers that sell our products. *Gucci*, *Dior*, *Max Mara* and *Safilo* are our best selling brands in South Korea.

Other Far East Markets. We believe that a number of markets in the Far East present attractive opportunities for additional sales growth. We expect that growth will principally be driven by sales of branded sunglasses and prescription frames to affluent end customers in these markets. We entered the Hong Kong market in 2001 and established distribution subsidiaries in the Singaporean and Malaysian markets in 2002 as part of our strategy of exercising direct control over distribution in potential high growth markets. We expect Taiwan and China to be particularly attractive markets, offering opportunities for significant growth in the coming years. We presently access the Taiwanese market through two exclusive third-party distributors. In China, we have two exclusive independent distributors for our licensed brands and another entity with a Chinese partner to sell domestically manufactured owned brands. The number of employees dedicated to our sales efforts is 12 and 30 for Taiwan and China, respectively.

Other

Countries outside of Europe, America and the Far East are managed by our regional managing director of Europe. For financial reporting purposes, Australia and global duty free sales are included in *Other* but are managed by our managing director for the Far East.

Australia. In 2002, we had €14.2 million in net sales from sales of over 359,000 units in Australia, as compared to net sales of € 14.0 million from sales of 352,000 units in 2001. In Australia, net sales of prescription frames accounted for 44%, net sales of sunglasses accounted for 53% and net sales of goggles and other accessories accounted for 3% in 2002. Sunglasses have increased significantly as a share of net sales from less than 25% in 1998. We have 38 employees in Australia, of which twelve are exclusive sales agents. *Gucci*, *Dior*, *Polo Ralph Lauren* and *Safilo* are our best selling brands in Australia.

Global Duty Free. Our global duty free business had net sales of € 18.9 million in 2002, selling a total of 399,000 units. Net sales increased 10.3% from 2001 when we had net sales of €17.6 million, selling a total of 371,000 units. We only sell sunglasses in our duty free business. We sell both to large wholesale companies that provide products to duty free stores and airlines as well as individual retail duty free stores.

Manufacturing

Our products are produced both in our own facilities and by third-party manufacturers. We outsource the manufacture of some of our products primarily to facilities in China and also to smaller producers in Japan and Italy. Our more detailed and specialized products are generally produced at our European facilities. Based on the demand for these products, we may outsource the production of other products. This ability to outsource production to third-party manufacturers in the Far East allows us to significantly reduce our cost of production and have greater production flexibility. The following chart depicts our eyewear production by Safilo-owned facilities and third-party producers in 2002.

EYEWEAR PRODUCTION (2002)

Safilo Owned Facilities		**13.9 million units**
Italy (5 facilities)		• 10.7 million prescription frames and sunglasses
Slovenia (1)	i	• 773,000 prescription frames, sunglasses and sport goggles
Austria (1)		• 967,000 prescription frames and sunglasses
Other (1)		• 1.5 million units of *Smith* sport goggles
Third Party Producers		**12.8 million units**
Far East (6 producers)		• 9.5 million units from the Far East

Italy (approximately 40)	i	• 3.0 million units
Others		• 351,000 units

Safilo Owned Facilities

Our manufacturing operations are carried out primarily through Safilo S.p.A. and our Austrian and Slovenian subsidiaries, Carrera Optyl GmbH and Carrera Optyl d.o.o. We manufacture our products through seven owned facilities in Europe, five of which are located in Italy, one in Austria and one in Slovenia. In addition, our *Smith* design team in the United States purchases raw materials for the production of *Smith* sunglasses and sport goggles and supervises the production of the goggles at a third-party facility in Utah. Our Italian subsidiary Lenti S.r.l. produces some of our lens requirements.

Manufacturing Process

We produce both metal and plastic frames. In addition to our frame manufacturing capacity, we also produce crystal lenses exclusively for our sunglasses collections and ski goggles.

Our manufacturing process consists of three phases. First, the frame structure is fabricated using models or moldings based on the prototype developed by our design team. Second, the frames are painted or treated with different finishes or coatings. Third, the products are assembled and finished with the appropriate accessories. The assembly process is the most labor- and time- intensive phase of our production cycle. Lenses for sunglasses are cut during this assembly phase. Because eyewear manufacturing is a labor intensive process, particularly the assembly and finishing phase, it allows limited automation in key phases of the production cycle. This reduces significantly most of the potential manufacturing constraints to the growth of the business, although limiting the operating leverage of our operations.

Our seven owned production facilities are specialized for different types of processes and products. However, the final assembling and finishing phases of the production cycle can be reallocated among the facilities, providing flexibility to adjust to changes in consumer preferences. Set forth below is certain information regarding our production facilities as of December 31, 2002.

Plant Location	Production	Employees
Martignacco (Italy)	Components and Accessories	670
Longarone (Italy)	Steel/Metal Eyewear	1,150
Càlazo di Cadore (Italy)	Metal and Plastic Frames Finishing	320
Santa Maria di Sala (Italy)	Plastic Frames	740
Precenicco (Italy)	Metal and Plastic Frames Finishing Painting	180
Ormoz (Slovenia)	*Optyl* Injection Frames and Ski Goggles	1,210
Traun (Austria)	*Dior* Metal eyewear	570

Our plants are presently operating with some excess capacity. We expect that we will require additional production capacity in the next several years to implement the Armani license agreements. See "—Capital Expenditures".

Third-Party Manufacturing

The excess capacity at our own facilities, our use of our third-party manufacturers to produce completed products for resale and our use of third-party subcontractors to provide semi-finished products provide us with a significant degree of flexibility in production. We choose to outsource production of our products based on the demands at our owned facilities and to achieve cost savings when we produce products in the Far East. We have increasingly outsourced production to such third-party manufacturers over recent years, with 48% in terms of value of our total unit production produced by third-party manufacturers in 2002 compared to 23% in 1998. We have third party manufacturers with whom we regularly outsource production, 40 in Italy and 6 in the Far East, in particular. We outsource to the Italian manufacturers when the volume of products is smaller and the products are more intricate or require more creative production techniques, and we outsource to the Far East manufacturers when the volume of products is larger. We expect our use of outsourcing to increase in the future. This approach reduces the capital invested by us in manufacturing and provides flexibility to meet peaks in demand, while allowing us to focus our production expertise on premium and luxury eyewear. Our production flexibility is constrained by the requirements of certain of our licensors that their eyewear be produced in our European facilities.

Our design and management teams work closely with our third-party manufacturers. In the United States, our employees work closely with the manufacturer of *Smith* sport goggles. Our employees assist in the purchase of raw materials and provide other components to the manufacturer for the production and assembly of the goggles. In the Far East, we do not work as closely throughout the process with our third-party manufacturers. We provide the prototypes and specifications for the products to be produced, and the third-party manufacturers are responsible for all aspects of the production, including purchasing raw materials and components. Following final production of these products, we purchase the finished products for resale. We believe that we could replace any of our third-party manufacturers, including for the production of *Smith* goggles, without it having a material effect on our sales or operations.

We have a strategic relationship with Elegance International Holdings, of which we own 23% and which has companies that produced 37% of our outsourced production for the year ended March 31, 2002. Under a shareholders agreement with Best Quality Ltd., itself a 45% shareholder of Elegance, we agreed that our board representation would be limited to our level of ownership in Elegance, and we currently have two board members out of eight. Both shareholders must agree to take certain actions such as amending the bylaws, winding up the company and approving any resolution that would result in a fundamental change in Elegance's business. In addition, each party has certain pre-emptive rights to maintain its relative ownership levels in Elegance.

Quality Control

High quality products are a key element of our success and strategy. As a result of our emphasis on quality, only a small amount of our products are returned due to quality issues. We have a manager and a dedicated team of employees to focus on quality improvement at all our stages of production and distribution. In addition, we have employees responsible for quality monitoring and improvement in each of our production facilities and distribution centers. Throughout the stages of our manufacturing process and distribution, we sample our products for defects and irregularities. For products manufactured by third-parties in the Far East, we inspect them before they are shipped from the Far East, as well as upon receipt at the distribution centers.

In 1996, we achieved the ISO 9002 quality certification at our facilities in Longarone and Padua. All of our Asian suppliers have achieved ISO certification, as have about 25% of our European suppliers. The ISO 9000 standards series is an international quality management standard sanctioned by the International Organisation for Standardisation based in Geneva, Switzerland. This organization promotes global quality management standards throughout a wide variety of industries. The ISO 9002 standards each set out 20 provisions for developing, implementing and maintaining an effective quality management system. Companies that implement quality systems based on the ISO 9000 series can then become certified after having its management systems assessed by accredited third-parties to determine ongoing compliance with the ISO 9000 series standards and to ensure that continuous improvements are taking place.

Capital Expenditures

Our total capital expenditures were €58.4 million for 2002 and € 45.0 million and €45.9 million for 2001 and 2000, respectively. For 2003, we estimate our capital expenditures will be € 52.3 million.

Each year since 1998, we have spent approximately €20 million on updating equipment and other regular industrial purposes. We invested €17.6 million in 2000, €10.7 million in 2001 and €21.0 million in 2002 on our state-of-the-art distribution facility in Padua, Italy. We are completing a restructuring of our headquarters and expanding the Padua distribution center, which are financed through two leasing contracts executed in March 2002, amounting to €10 million. In 2001, we purchased another factory at Longarone, Italy for approximately €2.5 million. We estimate that additional investments to increase production capacity at our Slovenian and Austrian plants will amount to approximately €12 million in 2003-2005 to facilitate our expected continued growth. In 2002 we purchased land in Fagagna (Udine), Italy for €650,000, on which we are considering plans to build a new production facility, which would combine the production duties of, and therefore replace, three of our current facilities in Italy. With respect to our Solstice program, we expect to spend approximately €10.0 million each year expanding our Solstice program from 2003-2005.

Supplies and Materials

Our principal raw materials and parts purchased for our manufacturing process include metal and plastic frames, frame cases and precious metals such as gold and palladium. We buy our raw materials from over 1,000 suppliers. We consider only 20 to 30 of our suppliers to be "strategic suppliers", in particular those for acetate (three suppliers), lenses (four suppliers) and frame cases (two suppliers). The top four materials purchased in terms of cost are metal frames, frame cases, lenses and precious metals. Due to our growing need for a reliable source of high quality lenses for sunglasses, in recent years we have made investments in an Italian high quality sunglasses lens manufacturer, Lenti S.r.l. We own 54% of Lenti, investing a total of 225 million Italian lira during 1996. We purchased €3.2 million of lenses from Lenti in 2002, representing 30% of our total lens purchases and 63% of Lenti's total sales in 2002.

We generally do not have long-term contracts with our suppliers. Most of the prices for our raw materials have been relatively stable, but this cannot be guaranteed to continue. We are not dependent on any suppliers given that they could be replaced easily. This is because the materials used for our products are fungible in nature. In the event that one of our suppliers or raw materials or parts could not meet our production needs, we believe we could find alternate supplies for identical or similar goods.

Competition

The worldwide market for high quality prescription frames and sunglasses is highly competitive and fragmented. Our principal competitors on a worldwide basis are the Luxottica Group S.p.A. and De Rigo S.p.A. and to a lesser extent, Marchon Eyewear Inc. and Marcolin S.p.A. We also face competition from numerous national, regional and local companies in the markets where we distribute our products. In the sport goggles and sport sunglasses market our principal competitors are Luxottica, Oakley, Marchon and other smaller niche brands.

We believe that important competitive factors in the prescription frames and sunglasses markets include product quality and innovation, scope of product portfolio, brand name recognition, relationships with licensors, customer service and a strong distribution network. Some of our key global competitors, including Luxottica and De Rigo, have acquired or established their own significant retail distribution networks for their eyewear products. We do not intend to do so, and will continue to rely upon what we believe are our key competitive strengths. Our Solstice stores will be a small, limited initiative of small stores in certain metropolitan areas. They will only sell luxury products and are not intending to compete with our competitors' vast retail networks.

Licenses and Other Intellectual Property

Trademarks, Tradenames and Patents

As of March 31, 2002, our principal owned trademarks or trade names included *Safilo*, *Carrera*, *Smith*, *Optyl*, *Blue Bay*, *Oxydo*, *X* and *Elasta*. Our primary trademarks and trade names are registered in the countries in which we sell our products. We currently hold patents relating to many of our products, such as eyewear hinges and nose pieces, glasses cases, goggle protective surfaces and materials. We have approximately 20 patents registered in the United States and many European and Asian countries, and we apply for approximately six new patents each year, which generally are for hinges and other hardware items. In particular, our formerly patented (expired) and currently trademarked *Elasta* (self-adjusting hinges) is an important eyewear feature for many of our end customers. We possess the know-how for *Optyl* frames that are the result of a unique process which we developed. *Optyl* plastic frames are produced with a special combination of resins created in *Carrera* research laboratories. *Optyl* hard-plastic products are lightweight, non-allergenic, have attractive, sophisticated chromatic effects and are resilient despite extreme temperatures, thus retaining the shape of the frame under harsh conditions such as inside a hot vehicle. The molecular structure of this material also ensures strength and permanent elasticity, perfect fit and near indestructibility.

Licenses

We have license agreements with several companies pursuant to which we manufacture and distribute prescription frames and sunglasses. The table below sets forth the brands and geographic areas covered by our license agreements.

Licensor	**Licensed Marks**	**Territory**
Giorgio Armani S.p.A.	Giorgio Armani Emporio Armani	Exclusive license for Italy
GA International Diffusion B.V.	Giorgio Armani Emporio Armani	Worldwide exclusive license (excluding Italy)
Bottega Veneta S.r.l. & Bottega Veneta B.V.	Bottega Veneta	Worldwide exclusive license
Burberry's Limited	Burberry	Worldwide exclusive license (excluding Japan)
Christian Dior, Inc.	Dior	Exclusive license for the United States
Christian Dior Couture S.A.	Dior	Worldwide exclusive license (excluding North America)
Diesel S.p.A.	Diesel	Worldwide exclusive license
FinMax Brands & Trademarks B.V.	Max Mara	Worldwide exclusive license
Fossil, Inc.	Fossil Fossil Blue Fossil Steel Fossil Defender	Exclusive license for North America
Gucci America Inc.	Gucci	Exclusive license for the United States
Guccio Gucci S.p.A.	Gucci	Exclusive license for Japan
Guccio Gucci S.p.A.	Gucci	Worldwide exclusive license (excluding the United States)
Kate Spade LLC	Kate Spade Jack Spade	Exclusive license for North America
Liz Claiborne Inc.	Liz Claiborne Claiborne Villager Crazy Horse First Issue	Exclusive license for North and South America
Nine West Development Corporation and Nine West Group, Inc.	Nine West	Exclusive license for North America
Pierre Cardin Italie S.r.l.	Pierre Cardin	Exclusive license for specifically enumerated major markets (which does not include North America, China and additional smaller markets)
PRL USA, Inc. and The Polo/Lauren Company, L.P.	Polo Polo RL Polo by Ralph Lauren Polo Sport Polo Sport-RLX Ralph Ralph Lauren Chaps	Worldwide exclusive license
Saks & Co.	Saks Fifth Avenue S5A SFA	Exclusive license for North America
Stella McCartney Ltd.	Stella McCartney	Worldwide exclusive license
Valentino S.p.A.	Valentino V	Worldwide exclusive license (excluding Japan)
Valentino S.p.A.	Oliver	Worldwide exclusive license (excluding Japan and the United States)

Yves Saint Laurent Fashion AG and Yves Saint Laurent SAS..........	Yves Saint Laurent YSL	Exclusive license for the United States
Yves Saint Laurent SAS ...	Yves Saint Laurent YSL	Worldwide exclusive license (excluding Australia and New Zealand (each to become part of the agreement in 2003) and the United States)

We pay a royalty for use of the licensed brand name based on a percentage of net sales of that brand, which may be offset by guaranteed minimum royalty payments. Our licenses typically have a duration of five to eight years. In certain circumstances, such as if there is a change of control at Safilo, if we outsource production without consent of the licensor, if we sell models that are not approved by the licensor, if we fail to reach minimum sales targets or if we sell products through distribution outlets that have not been approved by the licensor, a license agreement may be terminated by the licensor. Many of these conditions apply to our key licenses.

We paid royalties of €70.9 million in 2002, €69.2 million in 2001 and €52.5 million in 2000. Royalties per licensed unit sold were €5.05 in 2000, €5.49 in 2001 and €5.10 in 2002. In many of our agreements there are annual guaranteed minimum royalty payments to the licensor. Often the guarantee is 80% of the prior year's royalty payment or a certain amount is specified. The license agreements also provide for a mandatory payment for the advertising and promotion of the brand linked to the prior year's sales. Finally, in some cases, the licensor requires payments to assist the licensor in its own advertising and promotional activities.

Organization

Safilo S.p.A. is an Italian operating company, and our operations are carried out primarily through wholly owned subsidiaries. We have three manufacturing subsidiaries, and our marketing and distribution subsidiaries distribute directly in 26 countries. In addition, we have invested in a small number of companies, such as Elegance International Holdings, which owns factories that produce some of our products in Hong Kong. Generally, for our majority-owned subsidiaries we have the right to appoint a majority of the board of directors and have the ability to purchase the minority shareholder's shares in their entirety.

Set forth below is certain information regarding our subsidiaries, joint ventures and equity investees.

Subsidiary	**Country**	**Function**	**Safilo Ownership**
Carrera Optyl d.o.o.	Slovenia	Manufacturing/ Distribution	100%
Safilo International B.V.	Netherlands	Holding Company	100%
Safint Optical UK	United Kingdom	Holding Company	100%
Safilo Portugal Lda.	Portugal	Distribution	100%
Safilo Switzerland AG	Switzerland	Distribution	77%(1)
Carrera Optyl GmbH	Austria	Manufacturing	95%(2)
Safilo Benelux S.A.	Belgium	Distribution	100%
Safilo Espana S.A.	Spain	Distribution	100%
Safilo GmbH	Germany	Distribution	100%
Safilo Nordic AB	Sweden	Distribution	100%
Safilo UK Ltd.	United Kingdom	Distribution	100%
Safilo Austria Vetriebs GmbH	Austria	Distribution	100%
Safilo France S.a.r.l.	France	Distribution	100%
Safilo Hellas Ottica S.A.	Greece	Distribution	51%(1)
Safilo Nederland B.V.	Netherlands	Distribution	100%
Safilo America Inc.	United States (Delaware)	Holding Company	100%
Safilo USA, Inc.	United States (New Jersey)	Distribution	100%
Safilo do Brasil Ltda.	Brazil	Distribution	100%
Safilo Canada Inc.	Canada	Distribution	100%

Canam Sport Eyewear Inc.	Canada	Sport Goggle and Sunglasses Distribution	100%
Smith Sport Optics Inc.	United States (Delaware)	U.S. Sport Goggle and Sunglasses Product Line	97.75%
Solstice Marketing Corp.	United States (Delaware)	Retail	100%
Safilo Japan Co. Ltd.	Japan	Distribution	100%
Safilo India Pvt. Ltd.	India	Distribution	75%(1)
Safilo Far East Ltd.	Hong Kong	Distribution	100%
Elegance International Holdings Ltd.	Hong Kong	Manufacturing	23.05%(3)
Lenti S.r.l.	Italy	Manufacturing	54%(4)
Safilo Hong Kong Ltd.	Hong Kong	Distribution	51%(1)
Safilo Singapore Pte. Ltd.	Singapore	Distribution	100%
Safilo Optical Sdn. Bhd	Malaysia	Distribution	100%
Safilo South Africa	South Africa	Distribution	100%
Safilo Australia Partnership	Australia	Distribution	51%(1)
Optifashion As Istanbul	Turkey	Manufacturing	50%(5)
Safilens S.r.l.	Italy	Manufacturing	17.5%(6)

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(1) Our distributor owns the remaining balance.

(2) Christian Dior S.A. owns 5% and has a seat on the board of directors.

(3) Best Quality Ltd. owns 45.26%, and 31.69% is publicly traded on the Hong Kong Stock Exchange.

(4) The remaining balance is owned by four individuals otherwise unaffiliated with the Company.

(5) The remaining balance is owned by an individual otherwise unaffiliated with the Company.

(6) The remaining balance is owned by the other shareholder of Safilo India Pvt. Ltd. and two other individuals otherwise unaffiliated with the Company.

Property

Our corporate headquarters is located at VII Strada, 15 Padua, Italy. Information regarding the general location and use of our principal facilities as of December 31, 2002, is set forth below.

Location	Use	Owned/Leased
Padua, Italy	Corporate Headquarters and Distribution Facility	Part Owned/Part Leased
Martignacco, Italy	Components and Accessories Manufacturing Facility	Part Owned/Part Leased
Longarone, Italy	Steel/Metal Eyewear Manufacturing Facility	Owned
Pieve di Cadore, Italy	Metal and Plastic Frames Finishing Facility	Owned
Santa Maria di Sala, Italy	Plastic Frames Manufacturing Facility	Owned
Precenicco, Italy	Metal and Plastic Frames Painting Facility	Part Owned/Part Leased
Ormoz, Slovenia	Plastic and Injection Frames and Ski Goggles Manufacturing Facility	Owned
Traun, Austria	Metal Eyewear Manufacturing Facility	Owned
Sun Valley, Idaho, United States	Administration and Distribution	Owned
New Jersey, United States	Administration and Distribution	Leased
Hong Kong, China	Administration and Distribution	Leased

We have numerous smaller leased offices in many jurisdictions as well as our leased Solstice locations in the United States.

Employees

As of December 31, 2002, we had 6,651 employees. Approximately 5,892 were employed in Europe and 586 in the United Sates and 173 in other countries. By function, as of December 31, 2002, we employed 5,060 factory employees, 1,517 clerical employees and 74 executive employees. Of our total employees, 450 are part-time employees. We occasionally hire seasonal employees. In 2002 we hired approximately 701 employees to work in our Slovenia facility for a period of six months because the demand for the sport goggles produced there is stronger in the winter. Approximately 1,201 employees have fixed term contracts.

We believe that the majority of our European employees are represented by trade unions. We consider our relationship with the unions to be good and are committed to maintaining those relationships. We have not experienced any material labor strikes or disruptions.

We have approximately 1,100 sales agent world-wide. Approximately, 30%, are employees, and 70% are independent agents. France has the greatest percentage of employee agents consisting of almost half of the total sales agents in France.

Legal Proceedings

We are currently a party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations.

In 1999, Oakley, Inc. commenced an action for patent infringement against Smith Sport Optics, Inc. in the United States District Court for the Central District of California. Oakley alleges that the sale of certain sunglasses and goggles produced by Smith infringes on six U.S. patents owned by Oakley. Oakley is seeking injunctive relief and damages for lost profits and royalties for previously produced products. The case is currently in the discovery stage and the trial date is scheduled for July 13, 2004, absent any extensions. We intend to defend this action vigorously and believe we have several defenses to Oakley's action. We do not expect this action will have a material effect on our operations as a whole. We cannot guarantee an adverse determination would not have a material affect on Smith's operations.

Environmental Regulation

Our facilities and operations are subject to environmental and occupational health and safety laws and regulations in each of the jurisdictions in which we operate. These laws govern, among other things, discharges of pollutants into the air, water and land, the use, storage and disposal of hazardous substances and wastes, and the cleanup of contaminated properties.

Violations of environmental laws and permits can result in significant fines or civil or criminal sanctions. In addition, the discovery of significant contamination at our facilities could require us to incur cleanup costs. Finally, environmental permits required for some of our operations may be reviewed, modified or revoked by the issuing authorities. We believe that we are in material compliance with environmental laws and permits applicable to our business. However, from time to time we incur costs to maintain or achieve compliance with such requirements. For example, we have set aside funds for, and plan to begin building a new wastewater treatment system at our Martignacco facility. In addition, we are upgrading the fire control systems and are decommissioning several underground storage tanks at two facilities. Costs for these matters and our past environmental and safety costs have not significantly affected our operations, and future environmental costs are not expected to be material.

Information Technology

Our information technology function includes areas dedicated to sales and marketing, logistic planning and production, finance and administration, budgeting and reporting and IT infrastructure and help desk support. Our information technology department has two main data centers, one in Padua and one in New Jersey, and is composed of 38 people. The information technology headquarters is in Padua and supports the information technology operations of the 13 European sites. Some of our services such as e-commerce sites and our website are outsourced to third-party information technology companies. In consultation with a third party company, we have developed a system for some clients in the United States and Europe to view models on the internet, and some customers may initiate orders as well electronically.

For local general business matters, such as accounting, each country purchases its own software in order to meet its needs. We have developed our own software for our central management information system in Padua. Rather than outsource for these services we have employees dedicated to developing these systems and know-how in order to improve our software. Each day information is reported to our centralized management information system in our Padua headquarters, and management can obtain statistical information each day regarding any change in sales of specific brands or customers. This information includes business volumes, operating cash flows, costs of goods sold, details of royalties and advertising promotions. Our centralized management information system in Italy monitors our invoices and receivables for Europe, but it is only a data system and is not a central billing system. However, we are planning to centralize our billing and ledger systems in the future. For the most part, each of our agents has software on their personal computers to transmit orders to the appropriate regional office. To ensure the integrity of our management information system, we store system back-up information off-site, and we have established a disaster recovery program with IBM.

MANAGEMENT

Board of Directors and Management

As of the date of this offering circular, the directors of the issuer are Roberto Vedovotto, and two employees of a Luxembourg corporate services company, Tim Van Dijk and Luc de Vet. There are no other directors or members of management of the issuer. Any member of our board of directors or management may be contacted thorugh our corporate executive offices at Zona Industriale VII Strada, 15, 35129 Padua, Italy and our phone number is +30 049 698 5111.

The following table sets forth the names and ages of the directors of Safilo, the issuer's parent entity, as of December 31, 2002. These individuals are also the directors of Safilo Holding, the parent entity of Safilo.

Name	Year of Birth
Vittorio Tabacchi*	1939
Ermenegildo Dino Tabacchi**	1945
Giannino Lorenzon*	1939
Roberto Vedovotto*	1965
Massimiliano Tabacchi*	1970
Samantha Tabacchi*	1974
Carlo Maria Calabria***	1960
Giaime Cardi***	1965
Agostino Ascani***	1967

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* Designee of Vittorio Tabacchi pursuant to the terms of the shareholders agreement.

** Designee of Dino Tabacchi pursuant to the terms of the shareholders agreement.

*** Designee of CSFB Private Equity pursuant to the terms of the shareholders agreement.

Vittorio Tabacchi is the second son of our founder, Guglielmo Tabacchi, and has been Chairman since 1993. Mr. Tabacchi joined us in 1970 as Manager of Production Activities. Currently he is also Chairman of ANFAO (National Association of Eyewear Manufacturers) in Italy.

Ermenegildo Dino Tabacchi, the third son of our founder, Guglielmo Tabacchi, joined Safilo in 1971 and in 1998 he was appointed vice president of Safilo S.p.A. In June 2002 he was appointed Chairman of Salmoiraghi & Viganò S.p.A., an Italian retail chain in the eyewear sector.

Giannino Lorenzon has been our Chief Executive Officer since 1986 and oversees control and administration, personnel, information technology, legal issues, organization and quality. Mr. Lorenzon joined us in 1973 as Manager for finance, administration and control.

Roberto Vedovotto has been our Co-Chief Executive Officer since 2002 and oversees corporate finance, capital markets, acquisitions and business development. Previously he worked for 11 years at Morgan Stanley International Limited and most recently served as Managing Director and Head of Investment Management for Southern Europe. Before joining Morgan Stanley, Mr. Vedovotto worked for Banca di Roma where he held various positions in New York and London. He graduated from Bocconi University in Milan and received a Masters in Finance from the London Business School.

Massimiliano Tabacchi has been our Chief Operating Officer since 2002. He was appointed head of production of our manufacturing facility in Santa Maria di Sala, Italy in 2001. As a mechanical engineer he oversees all our production plants and our research and development department. Mr. Tabacchi was previously new equipment Contract Project Manager at OTIS (United Technologies).

Samantha Tabacchi joined Safilo in 2000 as sponsoring manager with the introduction of the Motorcycle Gran Prix sponsorship. In 2001 she became Head of Licensing & Sponsoring. She was previously at Gucci International for three years working in public relations.

Carlo Maria Calabria is a Managing Director in the Investment Banking Division of Credit Suisse First Boston (Europe) Limited, Co-Head of European M&A, Head of Italian Investment Banking and a member of the European Investment Banking Management and Operating Committees. Prior to joining CSFB in 1990, Mr. Calabria began his career at Morgan Grenfell & Co. Limited where he held various positions in London and Milan. He received his M.A. in Business Studies and Economics from the Università di Roma, "La Sapienza" in 1983.

Giaime Cardi is a Director in the Investment Banking Division of Credit Suisse First Boston (Europe) Limited. Before joining the Investment Banking Division, Mr. Cardi was in charge of the Italian Corporate Derivatives Coverage Group. Prior to CSFB, Mr. Cardi worked in the investment banking divisions of Morgan Stanley and Lehman Brothers in London. Mr. Cardi holds a degree in economics and finance from Università Bocconi in Milan, Italy and an MBA from Columbia University in New York, NY, USA.

Agostino Ascani is a Director of CSFB in the European Private Equity Group, based in London. Mr Ascani joined CSFB as an Associate in the Mergers & Acquisitions department of Investment Banking in June 1996 and moved to Private Equity in November 1997. Prior to joining CSFB, Mr. Ascani spent six years with the Agarta Group, an equity investment group based in Singapore, where he held several positions and was involved in numerous acquisitions, disposals, financings and turnarounds. He graduated from LUISS in 1990 where he received his M.A. with honors in Business Studies and Economics. Mr Ascani has previously served on the boards of Ultrapolis 3000 Holding Ltd, Ultrapolis 3000 Theme Park Investments Ltd and Frida Alimentaria SA.

Pursuant to Italian law, we also maintain a Board of Statutory Auditors composed of three individuals who are required to have no other affiliation with Safilo and who must satisfy certain professional criteria and other standards. The Board of Statutory Auditors is required to verify that we: (i) comply with applicable law and bylaws; (ii) comply with accounting standards; (iii) ensure that our financial statements are consistent with our bookkeeping practices; and (iv) value our assets in accordance with the standards of Article 2416 of the Italian Civil Code. Although members of the Board of Statutory Auditors are required to attend the meetings of the board of directors and shareholders, they do not vote on matters submitted at such meetings. Currently the members of the Board of Statutory Auditors are Paolo Mazzi, Chairman Franco Corgnati and Lorenzo Lago. There are also two alternate members to the Board of Statutory Auditors. Future selections to the Board of Statutory Auditors will be made pursuant to the terms of the shareholders agreement. See "—Board and Committee Composition".

The following table sets forth the names, ages and position of the senior management of Safilo, the issuer's parent entity, as of December 31, 2002.

Name	Year of Birth	Position
Giannino Lorenzon	1939	Vice Chairman and Co-Chief Executive Officer
Roberto Vedovotto	1965	Co-Chief Executive Officer
Massimiliano Tabacchi	1970	Chief-Operating Officer
Samantha Tabacchi	1974	Head of Licensing & Sponsoring
Massimo Lisot	1969	Director of Business Development
Francesco Tagliapietra	1967	Director of Administration and Control
Christian De Felice	1970	Director of Finance
Enzo Sopracolle	1952	Director of Design
Claudio Gottardi	1956	Managing Director and Business Unit Head of the Americas
Gianni Materassi	1959	Managing Director and Business Unit Head of Europe
Mario Pietribiasi	1957	Managing Director and Business Unit Head of the Far East

Massimo Lisot has been our Director of Business Development since 2001. Mr. Lisot worked previously at Morgan Stanley International Limited overseeing corporate finance in the Private Wealth Management Group for three years.

Francesco Tagliapietra has been our Director of Administration and Control since 2000. He oversees the department responsible for budgeting, reporting and administration. He joined us in 1997 as Senior Controller. Previously he held the position of Financial Controller at Tetra Pack Group.

Christian De Felice has been our Director of Finance since 2002. Mr. De Felice was previously Head of Structured Finance and Treasury at eBiscom and Fastweb, and Treasurer of Omnitel, the Italian subsidiary of Vodaphone Group.

Enzo Sopracolle joined us in 1994 as Head of Design. Prior to joining Safilo he was a designer for De Rigo S.p.A.

Claudio Gottardi joined us in 1985 as Area Manager Central Europe and, after gaining experience at Safilo USA, became Director of Marketing. In 1996 he assumed the position of Managing Director and Head of the Americas, and he is also CEO of Safilo USA, Smith Sport Optics, Solstice and Safilo Canada. Prior to joining Safilo he was Head of Marketing for the Italian subsidiary of W.L. Gore.

Gianni Materassi has been Managing Director and Unit Head of Europe since 1998. He joined us in 1988 as Sales Director for Italy, and in 1992 he became Sales Director for Europe. Prior to joining Safilo he was Sales Area Manager in Stefanel and Superga.

Mario Pietribiasi joined us in 1987 as area Manager, in 1993 became Sales Director of Europe and in 1997 became Managing Director and Unit Head of the Far East. Prior to joining Safilo he was Sales Area Manager in Cartiera Rossi and Simod.

Board and Committee Composition

Subject to the terms of the shareholders agreement, the board of directors of both Safilo and Safilo Holding shall consist of nine or eleven members as shall be agreed between Vittorio Tabacchi and CSFB Private Equity. Subject to the terms of the shareholders agreement, if the relevant board of directors consists of nine members, Vittorio Tabacchi shall have the right to designate five directors, CSFB Private Equity shall have the right to designate three directors and Dino Tabacchi shall have the right to designate one director; and if the relevant board of directors consists of eleven members, Vittorio Tabacchi shall have the right to designate six directors, CSFB Private Equity shall have the right to designate four directors and Dino Tabacchi shall have the right to designate one director. Pursuant to the terms of the shareholders agreement, resolutions of the relevant board of directors must generally be adopted by an affirmative vote of at least a majority of the directors including at least two directors affiliated with Vittorio Tabacchi and two CSFB Private Equity affiliated directors. See also "Principal Shareholders—Shareholders Agreement".

Under the terms of the shareholders agreement, the board of directors of both Safilo and Safilo Holding may appoint an Executive Committee to which all or part of the functions and powers of the respective boards of directors may be delegated to the extent permitted by Italian law. Under the terms of the shareholders agreement, the Executive Committees would consist of six members, of which four members would be appointed by Vittorio Tabacchi and two members would be appointed by CSFB Private Equity.

Under the terms of the shareholders agreement, the three standing members and two alternate members of the Board of Statutory Auditors are selected as follows:

- the president is elected by Vittorio Tabacchi;
- one standing statutory auditor is elected by CSFB Private Equity;
- one standing statutory auditor is elected upon the mutual consent of Vittorio Tabacchi and CSFB Private Equity; and
- one alternate statutory auditor is elected by each of Vittorio Tabacchi and CSFB Private Equity.

Director Compensation

Under the terms of the shareholders agreement, the directors affiliated with CSFB Private Equity receive, pursuant to Article 2389 of the Italian Civil Code, a reasonable compensation plus reimbursement for out of pocket expenses that they incur in connection with their service as members of the relevant board of directors or a committee thereof.

Management Compensation

Members of our management team are compensated on the basis of a fixed salary plus a bonus based on economic and qualitative performance objectives. For the year ended December 31, 2002, the aggregate compensation paid to our senior executives, which included six individuals, was approximately €5.9 million.

Share Option Plans

Certain directors, senior management and other key employees have been granted options under Safilo Holding S.p.A.'s share option plans. The total number of shares that can be issued upon exercise of these options is 2% of the equity shares of Safilo Holding, and in certain circumstances, equity shares of Safilo. Options granted under the Safilo Holding plan vest over a three-year period of time, but are not exercisable until 2006. Vesting of options accelerates in the case of certain defined events such as an initial public offering of Safilo Holding or Safilo shares or certain change of control events.

Certain senior managers of Smith Sport Optics, Inc. have been granted options to acquire shares of Smith Sport Optics.

PRINCIPAL SHAREHOLDERS

The Issuer

As of the date of this offering circular, the issuer had issued and outstanding 3,100 ordinary shares of which 3,099 ordinary shares were held by Safilo and one ordinary share was held by Safilo International B.V., which itself is a subsidiary of Safilo.

The Parent

All of Safilo's outstanding capital stock (except for treasury shares held by Safilo itself) is owned by Safilo Holding.

Currently, companies controlled by Vittorio Tabacchi and funds advised by CSFB Private Equity collectively own approximately 92% of the capital shares of Safilo Holding, and Vittorio Tabacchi's brother, Dino Tabacchi, owns approximately 8%. As part of a share option plan, directors, senior management and other key employees may have the right by exercising granted options to acquire 2% of the equity shares Safilo Holding.

Shareholders Agreement

On December 16, 2002, in connection with the purchase of Safilo Holding shares from companies controlled by Vittorio Tabacchi, CSFB Private Equity and the shareholders of Safilo Holding entered into a shareholders agreement governing the management of both Safilo and Safilo Holding and the relationships among Safilo Holding's shareholders.

Shareholder Approval

Certain actions may not be taken by Safilo or Safilo Holding without the mutual agreement of both Vittorio Tabacchi and CSFB Private Equity. These actions include:

- any issuance of any shares of capital stock, bonds, notes (and other similar debt instruments) and/or any financial instrument that may give the right to acquire the same;
- any sale, or purchase, or cancellation of Safilo treasury shares;
- any merger, demerger, consolidation of Safilo or Safilo Holding;
- the declaration of any dividend on or the making of any distribution with respect to Safilo Holding;
- any appointment or removal of the external auditors of the Group; and
- any liquidation, dissolution, winding-up or similar proceedings with respect to Safilo or Safilo Holding.

Board Approval

Certain actions may not be taken by Safilo, Safilo Holding or any of their subsidiaries, to the extent applicable, without prior approval of the majority of the relevant board of directors, including not less than two directors designated by each of Vittorio Tabacchi and CSFB Private Equity. Such actions include, subject to certain exceptions:

- any sale of other disposition by Safilo Holding of all or part if its shareholding interest in Safilo;
- any sale or acquisition or other disposition of assets, businesses or operations (in a single transaction or series of related transactions) having a value per annum in excess of €10 million;
- any merger, consolidation or reconstitution with or into any person other than another Group company;
- a bankruptcy filing;

- any incurrence, refinancing or alteration of material terms of bank indebtedness having a principal amount in excess of €3 million;

- granting of security interests;

- any individual capital expenditure in excess of €5 million that is not contemplated by the annual budget or business plan;

- entering into or amending any material term of a material license agreement;

- entering into or amending any material term of agreements providing for payments to the Group in excess of €2.5 million per annum or €5 million in the aggregate;

- entering into transactions with affiliates;

- the appointment of any Managing Director or other senior executive;

- any change in accounting or tax principles or policies;

- any appointment of primary outside financial advisors, investment bankers or insurance providers;

- formation of any direct subsidiary that will not be wholly-owned, whether direct or indirect, by Safilo;

- approval or modification of any business plan or long-term strategic plan of the Group; and

- entering into any joint venture, partnership or similar arrangement involving a cumulative financial commitment in excess of €5 million per annum.

Transfers of Shares

Pursuant to the shareholders agreement, the shareholders of Safilo Holding have agreed to restrictions on the transfer of their shares prior to December 31, 2005, subject to certain exceptions, including pursuant to a put arrangement with respect to the shares owned by Dino Tabacchi by which Dino Tabacchi has the right to put his shares to companies controlled by Vittorio Tabacchi in January 2004 or January 2005.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Senior Credit Facilities, Bridge Notes, and the Offering of the Notes

Credit Suisse First Boston (Europe) Limited, an initial purchaser of the notes, Credit Suisse First Boston LLC, which will act as selling agent in connection with the offering of the notes in the U.S., Credit Suisse First Boston, a lender, and Credit Suisse First Boston, Milan Branch, an arranger, under the senior credit facilities, and Credit Suisse First Boston International, a purchaser under the securitization bridge facility, are affiliates of CSFB Private Equity. Together, CSFB Private Equity and companies controlled by Vittorio Tabacchi own approximately 92% of the outstanding capital stock of Safilo Holding. CSFB Private Equity has the right under the shareholders agreement to appoint at least three directors of Safilo and Safilo Holding. See "Management" and "Principal Shareholders".

Caboto SIM S.p.A., an initial purchaser of the notes, has provided financing to companies controlled by Vittorio Tabacchi.

Certain Other Relationships

Safilo USA leases its headquarters and distribution center in the United States (New Jersey) from a company, TBR Inc., which is partly owned by Vittorio Tabacchi, our Chairman and a significant shareholder, and partly owned (33.33%) by a subsidiary of the Company. We purchased the 33.33% interest in TBR Inc. in 2002 for €629,000. In 2002, we paid rent to TBR Inc. amounting to €1.3 million. We believe that the terms of this lease are consistent with what would be negotiated on an arm's length basis and the rent paid thereunder is consistent with market rates.

Safilo Far East Limited, one of our subsidiaries, owns 23.1% of Elegance International Holdings Limited, a company listed on the Hong Kong Stock Exchange. Elegance is a manufacturer of eyewear in the Far East to whom we outsource some of our production. We represented 36.5% of Elegance's sales for its financial year ended March 31, 2002 and we are its largest customer. In 2002, we purchased €17.1 million worth of products from Elegance, and we have an agreement that requires minimum purchases each year. The prices and other conditions of production are similar to those Elegance provides to its other customers. Vittorio Tabacchi, our Chairman, and Mario Pietribiasi, our Managing Director and Business Head for the Far East, are non-executive directors of Elegance, and Mario Pietribiasi is also a shareholder who owns less than 1% of the outstanding ordinary shares of Elegance.

Dino Tabacchi, a minority shareholder, is Chairman of Salmoiraghi & Vigano S.p.A., an Italian eyewear retail chain, which purchased products from the Company in 2002 in an amount of €3.0 million.

One of our licensors, Christian Dior S.A., holds a 5% ownership interest in, and has designated a member of the board of directors of, Carrera Optyl GmbH.

See note 4 to our consolidated financial statements for further information on related party relationships and transactions.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the documents below that relate to certain of our indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Senior Secured Credit Facilities

As part of the December 2002 refinancing, Safilo S.p.A. and certain of its direct and indirect subsidiaries entered into a senior credit agreement dated December 12, 2002 (as amended, restated and supplemented from time to time), with Credit Suisse First Boston, Milan Branch, Sanpaolo IMI S.p.A. and Unicredit Banca Mobiliare S.p.A. as arrangers, the banks and financial institutions named therein as lenders, and Unicredit Banca Mobiliare S.p.A. as facility agent, security agent and issuing bank.

Structure

The senior credit agreement provides for loans up to approximately €650 million through a €50 million revolving credit facility, a new € 60 million capex facility (as described under "—New Capex Facility") and four term loan facilities as follows:

- term loan facility A1, which consists of two tranches, one tranche in the amount of €50 million and another tranche in the amount of approximately $151.4 million;
- term loan facility A2 in the amount of $70.6 million;
- term loan facility B in the amount of €135 million; and
- term loan facility C in the amount of €135 million.

Term loan facilities A1, B and C were used to refinance part of our existing indebtedness and to pay costs and expenses incurred in connection with the refinancing. Term loan facility A2 was used in part to finance the payment of a dividend to Safilo S.p.A. from its U.S. subsidiary Safilo America, Inc. (the parent company of Safilo U.S.A. Inc.), and to repay intercompany receivables owed to Safilo S.p.A.

The revolving credit facility can be used to finance working capital requirements and for other general corporate purposes, but it may not be used to finance acquisitions. As of March 31, 2003, Safilo had loans outstanding in aggregate principal amount of €37 million under the revolving credit facility.

Interest Rate and Fees

Loans under the various facilities bear interest at rates per annum equal to EURIBOR (or, for loans not denominated in euro, LIBOR) plus, where appropriate, any applicable mandatory costs and plus the following applicable margins:

- 2.25% for term loan facility A1;
- 2.25% for term loan facility A2;
- 2.75% for term loan facility B;
- 3.25% for term loan facility C; and
- 2.25% for the revolving credit facility.

The margins for term loan facility A1, term loan facility A2 and the revolving credit facility may be adjusted below 2.25% at any time after the first anniversary of the signing of the senior credit agreement if no event of default thereunder has occurred and is continuing and depending on whether the ratio of total net debt at the end of the previous fiscal quarter to consolidated EBITDA for the four previous fiscal quarters falls within specified ranges provided by the senior credit agreement (in which case the applicable margin would be reduced to the amount specified in the senior credit agreement),

In addition to paying interest on loans outstanding under the revolving facility, we are also required to pay a commitment fee at a rate of 0.75% per annum on any undrawn and uncancelled amount of the revolving credit facility. This fee is payable at the end of each quarter.

Any bank guarantees, letters of credit or similar extensions of credit issued under the revolving credit facility bear a guarantee fee equal to the amount of the margin per annum for the revolving credit facility noted above on the maximum aggregate amount payable under the bank guarantee for the term of the bank guarantee. An additional fee of 0.125% per annum is payable quarterly in arrears to the issuing bank on such aggregate amount of all bank guarantees, subject to certain deductions.

Security and Guarantees

Certain companies in the Safilo Group, including Safilo S.p.A., a guarantor of the notes, have guaranteed the borrowers' obligations under the senior secured credit facilities and, where legally possible or commercially viable, have granted in favor of the lenders under the senior secured credit facilities, a security interest over their operating assets, including a charge over their properties, bank accounts, proceeds of insurance policies, commercial contracts and intellectual property. In addition, the shares of Safilo S.p.A. and the shares of certain of its direct and indirect subsidiaries have been pledged, or legal mortgages over them have been granted, in favor of the lenders under the senior secured credit facilities.

Covenants

The senior credit agreement contains customary operating and financial covenants, subject to certain agreed exceptions, including covenants restricting the ability of Safilo S.p.A. and all its subsidiaries to, among other things:

- create or permit to exist any liens or other encumbrances on their assets;
- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur additional indebtedness;
- dispose of their assets other than in the ordinary course of business;
- merge with other companies;
- pay dividends, redeem share capital or redeem or reduce subordinated debt;
- make a material change to the general nature of our business; and
- terminate or amend any material license.

The senior credit agreement also requires us to observe certain customary affirmative covenants, including, but not limited to, covenants relating to:

- relevant authorizations;
- maintenance of insurance;
- environmental compliance;
- notification of events of default or potential events of default;
- the validity of security documents;
- the maintenance of security interests;
- budget preparation; and

- the provision of financial, accounting and other information.

Our financial and operating performance will be monitored by a comprehensive financial covenant package typical for leveraged transactions of the kind governed by the senior credit agreement, including covenants specifying:

- a minimum ratio of cash flow to total funding costs;

- minimum ratios of consolidated EBITDA to senior net financing costs;

- minimum ratios of consolidated EBITDA to total net financing costs;

- maximum ratios of total net debt to consolidated EBITDA;

- maximum ratios of total senior net debt to consolidated EBITDA;

- minimum net worth; and

- maximum levels of capital expenditures per year.

Maturity and Amortization

Term loan facilities A1 and A2 are to be repaid in semiannual installments beginning September 30, 2003, and continuing through December 31, 2009. Term loan facility B is to be repaid in full on December 31, 2010. Term loan facility C is to be repaid in full on December 31, 2011. No amounts repaid by the borrowers on the term loan facilities may be re-borrowed.

Loans made under the revolving credit facility must be repaid in full on the last day of their respective term. No loan term may extend beyond December 31, 2009. Amounts repaid by the borrowers on loans made under the revolving credit facility may be re-borrowed. The senior credit facilities provide that for a period of at least five consecutive business days during 2003, and for two periods of at least five consecutive business days in each of the following fiscal years, the aggregate euro amount of loans outstanding under the revolving credit facility must not exceed €5 million. The revolving credit facility will cease to be available for drawing on November 30, 2009.

Prepayments

All obligations under the senior credit facilities must be prepaid in full if there is a change of control or if all or substantially all of our assets are sold.

Certain mandatory partial prepayments are required to be made out of:

- proceeds from asset sales, subject to certain specified exceptions, exceeding €2.5 million in aggregate in any fiscal year, other than in the ordinary course of business;

- proceeds of insurance claims, subject to the right to apply such proceeds in restoration of the assets subject to the insurance claim, exceeding €1 million in aggregate in any fiscal year;

- proceeds of additional accounts receivable securitization in excess of €50 million;

- 75% of excess cash flow, as defined in the senior credit agreement, in any fiscal year in which total net debt to consolidated EBITDA as determined at the end of each fiscal year exceeds a specified level; and

- proceeds from the listing or quoting on any recognized investment exchange of Safilo S.p.A., its parent holding companies or any of their subsidiaries.

Subject to payment for broken funding costs, a borrower may voluntarily prepay amounts outstanding under the senior credit facilities (or in the case of the revolving facility, cancel unused commitments), without penalty or premium, at any time in whole or in part in minimum amounts of €10 million (or €5 million, in the case of the revolving credit facility) and, if greater, in integral multiples of €1 million, on not less than five business days notice to the facility agent.

Events of Default

The senior credit agreement sets out certain customary events of default, the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments, including, among other events:

- failure to make payments under the senior credit facilities;
- breach of covenants, including financial covenants;
- breach of representations or warranties;
- cross default in respect of indebtedness in excess of €5 million in aggregate amount;
- insolvency, bankruptcy or similar events;
- change of ownership; and
- material adverse change.

Hedging Arrangements

The borrowers are required by the terms of senior credit facilities to enter into hedging arrangements to provide protection in respect of interest rate risk exposure arising because the financing under the senior credit facilities is at floating interest rates. The hedging arrangements must cover at least 60% of the aggregate principal amount outstanding under term loan facilities A1 and A2 and at least 65% of the aggregate principal amount outstanding under term loan facilities B and C for a period of at least four years. Hedging banks will be granted security, guarantee and subordination rights that rank at least equally with the rights of the lenders under the senior credit facilities. For a description of our current hedging arrangements, see "Operating and Financial Review and Prospects—Quantitative and Qualitative Exposures to Market Risk".

New Capex Facility

We have entered into a new €60 million senior secured capex facility, which will be available but undrawn at the time of the closing of the offering of the notes. The capex facility has been effected by an amendment of the senior credit agreement and, accordingly, is subject to the provisions in respect of security, guarantees, covenants, prepayments and events of default as described above in relation to the senior credit agreement.

The purpose of the capex facility is to finance certain approved capital expenditures, including the proposed Outlook acquisition, and Armani license-related costs and expenses up to a maximum aggregate amount of €50 million and working capital requirements and other expenditures up to a maximum aggregate amount of €10 million. Loans under the capex facility may be made through December 31, 2005. After December 31, 2005, any undrawn amount of the capex facility will be cancelled, and loans outstanding under the capex facility then must be repaid in eight equal semiannual installments commencing on June 30, 2006.

There are certain limitations on the availability of advances under the capex facility. Prior to receiving an advance, Safilo must certify that it shall meet certain projected financial covenant ratios, including cash flow coverage and leverage ratios, for the next four fiscal quarters. For the purpose of determining compliance with such ratios, Safilo can take into account any contingent equity contributions made by Safilo Holding (described below) in accordance with the terms of the capex facility. Safilo may not draw down more than €40 million under the capex facility in any one financial year and there can be no more than twelve advances outstanding under the capex facility at one time.

The capex facility requires that Safilo Holding shall make an initial equity contribution of €30 million to Safilo, which contribution shall be held in escrow pending its application towards capital expenditures and Armani-license related costs and expenses and working capital requirements and other expenditures. Safilo Holding will make this equity contribution to Safilo concurrently with the completion of the offering of the notes. In addition, the capex facility requires that up to € 25 million of contingent funding shall be available for equity contributions to Safilo in order for Safilo to maintain certain specified cash flow coverage ratios. To meet this requirement, Safilo Holding has committed to provide up to €25 million of additional equity contributions to Safilo, subject to the receipt of such funds from its shareholders. The availability of the capex facility, the completion of the €30 million equity contribution by Safilo

Holding to Safilo and the commitment by Safilo Holding to contribute up to an additional € 25 million of equity to Safilo are conditions to the completion of the offering of the notes.

Issuer Loan Agreement

As part of the December 2002 refinancing, Safilo Capital International S.A. entered into a bridge note indenture dated December 13, 2002, with Safilo S.p.A., Safilo Holding S.p.A, certain subsidiary guarantors and The Bank of New York, as trustee, pursuant to which Safilo Capital issued bridge notes in outstanding principal amount of approximately €300 million. The proceeds of the bridge notes were loaned to Safilo International B.V. pursuant to an issuer loan agreement between Safilo Capital International S.A. and Safilo International B.V. In connection with this offering of notes, the issuer loan agreement will be amended and restated effectively to provide for the redomination of a US$ tranche loaned thereunder in connection with the bridge notes financing to a euro denominated tranche.

All obligations in respect of the bridge notes will be paid in full with the proceeds of the offerings of the notes. After the issuance of the notes, interest will accrue on the issuer loan agreement at a rate equal to the interest rate payable on the notes, with such adjustments as may be necessary to match any additional amounts due thereunder, or any default or special interest payable with respect to the notes. Subject to the terms of the intercreditor agreement, the issuer loan agreement is repayable by Safilo International upon the repayment in full or in part of amounts due under the notes, whether at maturity, on early redemption or upon acceleration.

Issuer Loan Agreement Pledge

In order to facilitate any enforcement by the lenders under the senior credit agreement of their security over the shares of Safilo S.p.A., the issuer loan agreement will be pledged to Unicredit Banca Mobiliare S.p.A., as the security agent for the note trustee, the lenders under the senior credit agreement, any counterparties in respect of hedging arrangements entered into in connection with the senior secured credit facilities and the holders of the notes, pursuant to an issuer loan agreement pledge between the security agent and Safilo Capital International S.A. Pursuant to the issuer loan agreement pledge, if the lenders enforce their security over the shares of Safilo S.p.A. and sell those shares to a third party, the security agent may enforce against all or any part of the issuer loan agreement, collect or discharge any amounts due under the issuer loan agreement or transfer or sell the issuer loan agreement in accordance with the terms of the intercreditor agreement.

Put Option Agreement

Safilo Capital International S.A., the issuer of the notes, is owned by Safilo S.p.A. and Safilo International B.V., a subsidiary of Safilo S.p.A. Pursuant to the put option agreement, Safilo S.p.A. has the right to put the shares of Safilo Capital International S.A. to Safilo S.p.A.'s parent company, Safilo Holding S.p.A. The put right has been assigned to Unicredit Banca Mobiliare S.p.A., as the security agent for the lenders under the senior credit agreement. The effect of the put option agreement and the assignment is to allow the lenders, if they enforce their security pursuant to a company share charge enforcement sale, to exclude Safilo Capital International S.A. from a sale of the Safilo Group. As described under "Description of the Notes—Guarantees" and
"—Security", the Obligations under the notes and the indenture are secured by a second priority interest in the shares of Safilo S.p.A.

Intercreditor Agreement

General

To establish the relative rights of certain of their creditors under the new financing arrangements, Safilo Capital International S.A., Safilo S.p.A., its parent Safilo Holding S.p.A. and the subsidiary guarantors of the notes will enter into an amended intercreditor agreement with the lenders under the senior credit agreement and The Bank of New York as the trustee under the indenture for the notes. The intercreditor agreement restricts, among other things, the ability of the obligors under the notes:

- if there is a payment default under the senior credit agreement or if there is an outstanding payment blockage notice, to make payments on;
- to grant security for;
- to defease; or

- otherwise to provide financial support in relation to

the notes and the related guarantees for so long as any indebtedness under the senior secured credit facilities remains outstanding. The postponement, subordination, blockage or prevention of payment on the issuer loan agreement is not a waiver by the issuer of its claims and other rights under the issuer loan agreement. Payments on the issuer loan agreement shall remain due and payable, and interest shall continue to accrue.

Payment Blockage

A payment blockage notice may be served and become outstanding if there is a default, other than a payment default, under the senior credit agreement. The payment blockage notice will remain outstanding, unless cancelled, until:

- the default under the senior credit agreement is no longer outstanding;

- all amounts outstanding under the senior secured credit facilities are paid and the lenders no longer have any obligations under the senior credit agreement;

- 179 days after service of the payment blockage notice; or

- the expiration of any standstill period in existence on the date of the service of the payment blockage notice.

Only one payment blockage notice may be served in any consecutive 360-day period.

Standstill on Enforcement

Any of the trustee under the indenture pursuant to which the notes will be issued and the noteholders may bring an action to enforce the obligations of the issuer and the guarantors under the notes and guarantees, and enforcement in respect of the notes against the issuer in any other manner is also not restricted by the intercreditor agreement. However, other enforcement action may not be taken against the guarantors of the notes, and the issuer may not take any enforcement action in respect of the issuer loan agreement unless:

- a default has occurred under the indenture governing the notes;

- the trustee under that indenture has notified the facility agent under the senior credit agreement of the default; and a standstill period of 179 days has expired; an insolvency event has occurred; the lenders under the senior credit agreement attempt to enforce a security interest against the guarantors of the notes; or a previously outstanding standstill period has expired.

Subordination on Insolvency

In the event of insolvency, the intercreditor agreement provides that all obligations in respect of the notes, the guarantees and the issuer loan agreement are subordinated to the prior payment in full of all obligations under the senior credit agreement. Any payments of any kind, including by way of set-off or otherwise, on the notes, the guarantees and the issuer loan agreement must be paid over to the lenders under the senior secured credit agreement.

Enforcement of Security over the Share Capital of Safilo S.p.A.

Any release by the lenders under the senior credit agreement of their security over the shares of Safilo S.p.A. must be a release of the security over all of the shares and not part of them. In addition, Safilo S.p.A. agrees not to issue shares unless they are subject to the same security for the benefit of the lenders under the senior credit agreement and the holders of the notes.

Release of Guarantees

In the event the lenders under the senior credit agreement enforce their security over the shares of Safilo S.p.A. and the shares are sold, the guarantors of the notes shall be released from all their obligations relating to the notes if:

- the amount received for the sale first is applied to amounts owed in respect of the senior secured credit facilities and relating hedging arrangements and then is applied to amounts owed on the notes and related guarantees;

- an internationally recognized investment bank has delivered an opinion to the trustee for the notes that the amount received for the sale is fair from a financial point of view; and
- at the same time that the guarantors of the notes are released from all of their obligations relating to the notes, each of Safilo S.p.A. and its subsidiaries simultaneously and unconditionally is released from its obligations in respect of the senior secured credit facilities and relating hedging arrangements.

In the event there is a sale of all the shares or all or substantially all of the assets of a guarantor of the notes, that guarantor shall be released from all its obligations relating to the notes if:

- an internationally recognized investment bank has delivered an opinion to the trustee for the notes that the amount received for the sale is fair from a financial point of view; and
- at the same time that the guarantor of the notes is released from all of its obligations relating to the notes, the guarantor simultaneously and unconditionally is released from its obligations in respect of the senior secured credit facilities and relating hedging arrangements.

Securitization Bridge Facility

We have securitized some of our Italian trade receivables. In order to do this, Sunlight S.r.l., a special purpose entity owned by a Dutch charitable trust was formed. Pursuant to a note issuance facility agreement, Credit Suisse First Boston International and Unicredito Italiano Bank (Ireland) PLC agreed to purchase notes of Sunlight S.r.l. in aggregate principal amount of €50 million. The notes are secured by trade receivables purchased irrevocably and without recourse by Sunlight S.r.l. from Safilo S.p.A., pursuant to a trade receivables purchase agreement between the two companies. We have a servicing obligation to act as collection agent on behalf of Sunlight S.r.l. The difference between the amount of trade receivables sold and the proceeds received is recorded on our balance sheet as a long term financial asset, which we will receive, net of program fees and costs, upon termination of the securitization. The securitization bridge facility is required to be replaced with a permanent receivables securitization program by June 2004.

DESCRIPTION OF THE NOTES

Safilo Capital International S.A., a "société anonyme" incorporated under the laws of Luxembourg, will issue the Notes under an Indenture (the "*Indenture*") between itself, the Guarantors, Holdings and The Bank of New York, a New York banking corporation, as Trustee, dated May 15, 2003.

Certain terms used in this description are defined under the subheading "—Certain Definitions". In this description, the term (i) "Issuer" means Safilo Capital International S.A., (ii) "Company" refers only to Safilo S.p.A. and not to any of its Subsidiaries and (iii) "Holdings" refers only to Safilo Holding S.p.A. and not to any of its Subsidiaries.

The following description is only a summary of the material provisions of the Indenture. It does not restate that agreement in its entirety. Both the Issuer and the Company urge you to read the Indenture because it, not this description, defines your rights as holders of these Notes. You may request copies of the Indenture at the Issuer's or the Company's address set forth under the heading "Where You Can Find More Information".

Brief Description of the Notes

The Notes will be:

- general senior obligations of the Issuer;
- secured by a second priority security interest in the shares of the Company and by a second priority security interest in the pledge of the Issuer Loan Agreement as described under "Security"; and
- guaranteed on a senior subordinated basis by each of the Company and its subsidiaries Safilo International B.V., Safint Optical UK Limited and Safilo America, Inc (each a "*Guarantor*" and, together, the "*Guarantors*").

The obligations of the Guarantors under the Guarantees will:

- rank junior in right of payment to (i) all of each Guarantor's existing and future senior obligations (including any obligations of such Guarantor under the Senior Credit Agreement, which obligations are secured by a first priority pledge of the shares of the Company and by other assets of the Company and its subsidiaries) and all of each Guarantor's existing and future secured obligations to the extent of the value of the collateral securing those obligations and (ii) all of the existing and future indebtedness and other liabilities (including trade payables) of non-Guarantor subsidiaries;

- rank *pari passu* in right of payment with any future unsecured senior subordinated obligations of the relevant Guarantor;

- rank senior in right of payment to all of each Guarantor's subordinated obligations; and

- terminate upon the occurrence of a foreclosure or enforcement of the Company Share Charge and sale of the shares of the Company pledged as security for the Obligations under the Senior Credit Agreement and the Notes and certain other conditions are met, as described under "Guarantees" and "Description of Other Indebtedness—Intercreditor Agreement".

In addition, each Guarantee is subject to certain payment restrictions and restrictions on the Noteholders ability to take enforcement action under the applicable Guarantee, in each case, as described under "Ranking—Limitations on Paying the Notes" and "—Subordination of the Guarantees".

Principal, Maturity and Interest

The Issuer will issue the Notes (a) with a maximum aggregate principal amount of €300 million and (b) in denominations of €1,000 and any integral multiple of €1,000. The Notes will mature on May 15, 2013.

Interest on the Notes will accrue at the rate of 9.625% per annum and will be payable semiannually in arrears on November 15 and May 15, commencing on November 15, 2003. The Issuer will make each interest payment to the Holders of record on the immediately preceding May 1 and November 1. The Issuer will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

Interest on the Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Optional Redemption

Except as set forth below or under "Optional Redemption for Changes in Withholding Taxes", the Issuer will not be entitled to redeem the Notes at its option prior to May 15, 2008.

On and after May 15, 2008, the Issuer will be entitled at its option to redeem all or a portion of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on May 15 of the years set forth below:

Period	Redemption Price
2008	104.8125%
2009	103.2083%
2010	101.6042%
2011 and thereafter	100.0000%

Prior to May 15, 2006, the Issuer may at its option on one or more occasions redeem Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes originally issued at a redemption price (expressed as a percentage of principal amount) of 109.625%, plus accrued and unpaid interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), with the Net Cash Proceeds from one or more Equity Offerings; *provided* that

(1) at least 65% of such aggregate principal amount of the Notes remains outstanding immediately after the occurrence of each such redemption (other than Notes held, directly or indirectly, by the Issuer or the Company or its Affiliates (other than any Person who would be considered an Affiliate solely because of its relationship with the Sponsor)); and

(2) each such redemption occurs within 60 days after the date of the related Equity Offering.

In addition, prior to May 15, 2008, the Issuer may at its option redeem all (but not less than all) the Notes upon not less than 30 nor more than 60 days' notice, at a redemption price equal to the sum of:

(1) 100% of the principal amount thereof, plus

(2) accrued and unpaid interest, if any, to the redemption date, plus

(3) the Applicable Premium at the redemption date,

subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date.

Selection and Notice of Redemption

If the Issuer is redeeming less than all the Notes at any time, the Trustee will select Notes to be redeemed as follows:

(i) if the Notes to be redeemed are listed on any securities exchange, in compliance with the requirements of the principal securities exchange on which the Notes are listed; or

(ii) if the Notes to be redeemed are not listed on a securities exchange or are listed on a securities exchange which does not require or specify the manner in which Notes to be redeemed are to be selected, on a *pro rata* basis or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.

The Issuer will redeem Notes of €1,000 or less or €500,000 or less, as applicable, in whole and not in part. The Issuer will cause notices of redemption to be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address and the Issuer shall deliver a copy of such notice to the Trustee and any Paying Agent at least 15 days prior to the date such notice is to be given (unless a shorter period shall be acceptable to the Trustee). The Issuer will cause any notice of redemption to be published in English in a leading daily newspaper having a general circulation in Europe (which is expected to be the *Financial Times*) and, if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, in English in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*), at least 30 but not more than 60 days before the redemption date.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount thereof to be redeemed. The Issuer will issue a new Note in a principal amount equal to the unredeemed portion of the original Note in the name of the Holder upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption. If Notes are then listed on the Luxembourg Stock Exchange and the rules of such Stock Exchange so require, the Issuer shall notify the Luxembourg Stock Exchange of the principal amount outstanding following any partial redemption.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase Notes as described under the captions "—Change of Control" and "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock". The Issuer or the Company and its affiliates may at any time and from time to time purchase Notes in the open market or otherwise.

Additional Amounts

The Issuer is required to make all payments under or with respect to the Notes and each Guarantor is required to make all payments under or with respect to a Guarantee free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (hereinafter "*Taxes*") imposed or levied by or on behalf of the government of Luxembourg, The Netherlands, Italy, the United Kingdom or the United States or any political subdivision or any authority or agency therein or thereof having power to tax, or within any other jurisdiction in which the Issuer or a Guarantor, as the case may be, is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (each, a "*Relevant Taxing Jurisdiction*"), unless the Issuer or the Guarantor, as the case may be, is required to withhold or deduct Taxes by law or by the interpretation or administration thereof.

If the Issuer or a Guarantor is so required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes or a Guarantee, respectively, the Issuer or the Guarantor, as the case may be, will be required to pay such additional amounts ("*Additional Amounts*") as may be necessary so that the net amount received by any Holder (including Additional Amounts) after such withholding or deduction will not be less than the amount such Holder would have received if such Taxes had not been withheld or deducted; *provided*, *however*, that the foregoing obligation to pay Additional Amounts does not apply to (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder, if the relevant Holder is an estate, nominee, trust or corporation) and the Relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding of such Note); or (2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge; nor will the Issuer or a Guarantor, as the case may be, pay Additional Amounts (a) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented (where presentation is required) the Note for payment within 30 days after the date on which such payment or such Note became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30-day period), (b) with respect to any payment of principal of (or premium, if any, on) or interest on such Note to any Holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Note, (c) any tax, duty, assessment or other governmental charge imposed or withheld by reason of the failure to comply or the provision of inaccurate information by the Holder of a Note or, if different, the beneficiary of such amounts when a request by the Issuer or the Company is addressed or otherwise provided to such Holder or beneficiary to provide information, documents or other evidence concerning the nationality, residence, identity or connection with a Relevant Taxing Jurisdiction of such Holder or beneficiary which is required or imposed by a statute, treaty, regulation or administrative practice of such Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such tax, duty, assessment or other governmental charge, (d) in respect of any Note presented for payment in Luxembourg by or on behalf of a Holder who would have reasonably been able to avoid such withholding, deduction or reduction by presenting the relevant Note to another paying agent maintained by the Issuer in London, England, or in New York, New York, or in any other money-center city in the European Union or Switzerland, or (e) any combination of (a), (b), (c) or (d) above.

Upon request, the Issuer or the relevant Guarantor, as the case may be, will provide the Trustee with copies of such receipts evidencing payment of any Taxes or withheld in such form as provided in the normal course (or on request) by the taxing authority imposing such Taxes and as is reasonably available to the Issuer or the Company, within 30 days after the date of receipt of such evidence. Copies of such documentation will similarly be made available to the Holders upon request and will be made available at the offices of the Luxembourg Paying Agent if the Notes are then listed on the Luxembourg Stock Exchange.

Whenever in the Indenture there is mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes,

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer or the Guarantor, as the case may be, will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery, enforcement or registration of the Notes, the Guarantees, the Indenture or any other document or instrument in relation thereof, or the receipt of any payments with respect to the Notes, excluding such taxes, charges or similar levies imposed by any jurisdiction outside of Luxembourg, The Netherlands, Italy, the United Kingdom or the United States, the jurisdiction of incorporation of any successor of the Issuer or a Guarantor or any jurisdiction in which a paying agent is located, and the Issuer and each Guarantor will agree to indemnify the Holders for any such taxes paid by such Holders.

The obligations described under this heading will survive any termination, defeasance or discharge of the Indenture or any Guarantee and will apply *mutatis mutandis* to any jurisdiction in which any successor Person to the Issuer or a Guarantor is organized or any political subdivision or taxing authority or agency thereof or therein.

Optional Redemption for Changes in Withholding Taxes

The Issuer is entitled to redeem the Notes, at its option, at any time as a whole but not in part, upon not less than 30 nor more than 60 days' notice, at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), in the event the Issuer becomes or would become obligated to pay, on the next date on which any amount would be payable with respect to the Notes, or a Guarantor becomes or would become obligated to pay, on the next date on which any amount would be payable with respect to its Guarantee, any Additional Amounts as a result of:

(1) a change in or an amendment to the laws (including any regulations promulgated thereunder) of Luxembourg, The Netherlands, Italy, the United Kingdom or the United States (or any political subdivision or taxing authority thereof or therein); or

(2) any change in or amendment to any official position regarding the application or interpretation of such laws or regulations,

which change or amendment is announced or becomes effective on or after the date of this Offering Circular (the "*Relevant Date*") and the Issuer or a Guarantor, as the case may be, cannot avoid such obligation by taking reasonable measures available to it.

Before the Issuer publishes or mails notice of redemption of the Notes as described above, the Issuer will deliver to the Trustee an Officers' Certificate to the effect that the Issuer or a Guarantor, as the case may be, cannot avoid its obligation to pay Additional Amounts by taking reasonable measures available to it. The Issuer will also deliver an opinion of independent legal counsel of recognized standing stating that the Issuer or a Guarantor, as the case may be, would be obligated to pay Additional Amounts as a result of a change in tax laws or regulations or the application or interpretation of such laws or regulations. Notices of redemption will be given in accordance with the provisions set forth under "—Selection and Notice of Redemption".

Guarantees

The Guarantors will jointly and severally guarantee, on a senior subordinated basis, the obligations of the Issuer under the Notes and the Indenture. Payment under the Guarantees will only be due if the principal amount of the Notes has been accelerated or is otherwise then due and payable. The ability to accelerate the Guarantees is subject to significant restrictions. See "Ranking—Subordination of the Guarantees". In addition, the obligations of each Guarantor will be limited as necessary under its Guarantee to prevent that Guarantee from constituting a fraudulent conveyance under applicable law, or otherwise to reflect limitations under applicable laws. See "Risk Factors—Risks Relating to the Guarantees and the Company Share Charge—Fraudulent conveyance laws and other limitations on the guarantees may adversely affect the validity and enforceability of the guarantees of the Notes".

Each Subsidiary Guarantor that makes a payment under its Subsidiary Guarantee will be entitled, upon payment in full of all guaranteed obligations under the Indenture, to a contribution from each other Subsidiary Guarantor in an amount equal to such other Subsidiary Guarantor's pro rata portion of such payment based on the respective net assets of all the Subsidiary Guarantors at the time of such payment.

If a Guarantee were rendered voidable or held unenforceable for any reason, the applicable Guarantor would cease to have any obligation in respect of that Guarantee. See "Risk Factors—Risks Relating to the Guarantees and the Company Share Charge".

Pursuant to the Indenture, each Guarantor may consolidate with, merge with or into, or transfer all or substantially all its assets to any other Person to the extent described below under "—Certain Covenants—Merger and Consolidation"; *provided*, *however*, that if such other Person is not the relevant Guarantor, the Guarantor's obligations under its Guarantee must be expressly assumed by such other Person.

The Guarantees are subject to release under certain circumstances including, but not limited to:

(1) upon the sale of all of the shares of the Company pursuant to a Company Share Capital Enforcement Sale;

(2) in the case of a Subsidiary Guarantee only, upon the sale or other disposal of all of the issued share capital of such Subsidiary Guarantor (or any direct or indirect holding company of such Subsidiary Guarantor); or

(3) in the case of a Subsidiary Guarantee only, upon a sale or other disposal of all or substantially all of the assets of such Subsidiary Guarantor (or any direct or indirect holding company of such Subsidiary Guarantor); *provided* that (i) no Default or Event of Default shall have occurred and be continuing and (ii) all holders of Indebtedness for borrowed money that previously benefitted from a Guarantee of the same Subsidiary Guarantor shall have released such Guarantee, other than in connection with the exercise of any remedies available to such holders following a default under the terms of such Indebtedness for borrowed money,

in each case, in accordance with the terms and conditions in the Indenture or the Intercreditor Agreement, as the case may be. See "Description of Other Indebtedness—Intercreditor Agreement—Release of Guarantees".

In the event that a Subsidiary Guarantor enters into a Subsidiary Guarantee or a Subsidiary Guarantor is released from its obligations under a Subsidiary Guarantee at a time when the Notes are listed on the Luxembourg Stock Exchange, the Issuer will, to the extent required by the rules of the Luxembourg Stock Exchange, publish notice of the release of or granting of such Subsidiary Guarantee in the *Luxemburger Wort*, send a copy of such notice to the Luxembourg Stock Exchange, send a supplement to the Luxembourg Stock Exchangeand, in the case of the granting of a new Subsidiary Guarantee, deposit a copy of the new Subsidiary Guarantee with the Luxembourg Stock Exchange and the Luxembourg Paying Agent.

Security

The obligations of the Issuer under the Notes and the Indenture and the Guarantors under the Indenture will be secured by:

(1) a second priority security interest in all the issued share capital of the Company pursuant to the Company Share Charge; and

(2) a second priority security interest in the Issuer Loan Agreement pursuant to the Issuer Loan Agreement Pledge.

In addition, subject to certain conditions, including compliance with the covenant described under the heading "Impairment of Security Interest", Holdings is permitted to pledge the shares of capital in Safilo S.p.A. in connection with future issuances of Indebtedness of the Issuer permitted under the Indenture and on terms consistent with the relative priority of such Indebtedness.

Priority

The relative priority between (a) the lenders under the Senior Credit Agreement and (b) the Trustee and the Holders of the Notes under the Indenture with respect to the security interests created by the Company Share Charge and the Issuer Loan Agreement Pledge is established by the terms of the Intercreditor Agreement which provides that:

(a) the Obligations under the Senior Credit Agreement will be secured by a first priority interest in the Collateral; and

(b) the Obligations under the Notes and the Indenture will be secured by a second priority interest in the Collateral.

See "Description of Other Indebtedness—Intercreditor Agreement" and "—Enforcement of Security".

Company Share Charge

Holdings, the Company and Unicredit Banca Mobiliare S.p.A. as Security Agent will enter into the Company Share Charge. Under the Company Share Charge, Holdings and the Company will pledge all of the issued share capital of the Company to secure the payment and performance when due of the Obligations of (a) the Company and certain of its subsidiaries under the Senior Credit Agreement and (b) the Issuer and the Guarantors under the Notes and the Indenture. The Security Agent will act on behalf of the lenders under the Senior Credit Agreement, The Bank of New York Depository (Nominees) Limited, as the registered holder of the Notes, and the Holders of the Notes in accordance with the terms of the Company Share Charge and the Intercreditor Agreement.

The Indenture will provide that except in the event of a Company Share Capital Enforcement Sale or a Permitted Holdings Merger, the Notes and the Indenture will be secured by a second priority interest in the Company Share Charge until all Obligations under the Notes and the Indenture have been discharged. See however, "Risk Factors—Risks Relating to the Guarantees and the Company Share Charge—Your ability to recover under the Company Share Charge is limited".

The Company Share Charge is governed by Italian law and provides that the rights with respect to the Notes, the Guarantees and the Indenture must be exercised by the The Bank of New York Depository (Nominees) Limited on behalf of the Holders of the Notes and in respect of the entire outstanding amount of the Notes. As a consequence, Holders of the Notes may not, individually or collectively, take any direct action to enforce any rights in their favor under the Company Share Charge. The Holders of the Notes may only act through the The Bank of New York Depository (Nominees) Limited.

The named beneficiaries in the Company Share Charge are the Security Agent, the lenders under the Senior Credit Agreement specifically identified as such in the Company Share Charge and the registered holder of the Notes, which will be The Bank of New York Depository (Nominees) Limited. Our Italian counsel has advised us that there is some uncertainty under Italian law (i) if beneficial owners of the Notes that are not identified as registered holders in the Company Share Charge will be deemed to have a valid and perfected security interest under the Company Share Charge and (ii) with respect to the validity of any security interest created in favor of the Bank of New York Depositary (Nominees) Limited, as registered holder of the notes. Also, under Italian law, in the event that the Company or Holdings entered into insolvency proceedings, the security interest created under the Company Share Charge could be subject to potential challenges by a court-appointed officer or by other creditors of Holdings and the Company on the grounds that no new value was given for the regranting of the security interest by Holdings and the Company in connection with the repayment of the Bridge Notes and the issuance of the Notes. If any challenge to the validity or the perfection of the security interest created by the Company Share Charge was successful, holders of the Notes may not be able to recover any amounts under the Company Share Charge. See "Risk Factors—Risks Relating to the Guarantees and the Company Share Charge".

The Company Share Charge will be released in the event that, and for so long as, the holders of Senior Indebtedness (including the lenders under the Senior Credit Agreement) have released their lien on the share capital of the Company or following the consummation of a Company Share Charge Enforcement Sale.

Issuer Loan Agreement Pledge

The obligations under the Notes and the Indenture will also be secured by a second priority security interest in the assignment and pledge of the Issuer Loan Agreement pursuant to the Issuer Loan Agreement Pledge. This pledge has been granted in favor of Unicredit Banca Mobiliare S.p.A., acting as the Intercreditor Security Agent under the Intercreditor Agreement. Both the Issuer Loan Agreement and the Issuer Loan Agreement Pledge are governed by English law.

Under the Issuer Loan Agreement, the Issuer loaned the euro equivalent of €300 million of proceeds from the issuance of Bridge Notes to Safilo International B.V. The obligations of Safilo International under the Issuer Loan Agreement are senior subordinated obligations, and are contractually subordinated to all senior debt of Safilo International, including the obligations of Safilo International as a guarantor under the Senior Credit Agreement.

In the event that the lenders under the Senior Credit Agreement enforce their first-priority security interest with respect to the Issuer Loan Agreement, which can only be done concurrently with a Company Share Charge Enforcement Sale, the Issuer's rights under the Issuer Loan Agreement may be assigned to a third party. This would mean that the Issuer would have no right, title or interest under the Issuer Loan Agreement or claims against Safilo International B.V. under the Issuer Loan Agreement. Moreover, in the event of a Company Share Charge Enforcement Sale, the lenders under the Senior Credit Agreement could also cause the Company to exercise its rights under the Issuer Put Option Agreement, as a result of which the ownership of the shares of the Issuer would be transferred from the Company to Holdings. As a result, the Issuer would be a wholly owned subsidiary of Holdings and the Company and its subsidiaries would have been sold to a third party by way of a Company Share Charge Enforcement Sale.

Enforcement of Security

The Intercreditor Agreement restricts the ability of the Issuer, the Company and the Subsidiary Guarantors to make certain payments on, grant security for or provide other financial support in relation to the Notes and the Guarantees for so long as Indebtedness remains outstanding under the Senior Credit Agreement.

The affirmative vote of Holders of at least a majority in principal amount of the outstanding Notes will be required in order for the Noteholders (or the Trustee) to enforce the Company Share Charge or the Issuer Loan Pledge Agreement. The Trustee will not be entitled to require the Security Agent to take any enforcement action under the Company Share Charge and the Issuer Loan Agreement Pledge after the occurrence of an Event of Default or any other event which would cause the Notes to become due and payable unless:

(a) all the Indebtedness under the Senior Credit Agreement had been unconditionally repaid in full; or

(b) the Standstill Period (as described below in the third paragraph under the heading "—Limitations on Paying the Notes") has expired.

See "Description of Other Indebtedness—Intercreditor Agreement".

If the Trustee or any Noteholder receives proceeds of any enforcement of the Security Documents while the Obligations under the Senior Credit Agreement are outstanding, the Trustee or such Noteholder, as applicable, will turnover such amounts to the Intercreditor Security Agent applied in the order described under "Ranking—Turnover and Application of Proceeds".

The Indenture will also provide that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of each Intercreditor Agreement.

Ranking

Issuer Senior Indebtedness versus Notes

The indebtedness evidenced by the Notes will be general senior obligations of the Issuer, will rank *pari passu* in right of payment to other Senior Indebtedness of the Issuer, will be guaranteed by the Guarantors and will be secured by second ranking security interests in the Collateral, as described under "—Security".

As of December 31, 2002, after giving *pro forma* effect to the offering of the Notes and the repayment of all Indebtedness in respect of the Bridge Notes, the Issuer had:

(a) no Senior Indebtedness other than €300 million aggregate principal amount of the Notes; and

(b) no Senior Subordinated Indebtedness or subordinated obligations other than €7 million aggregate principal amount of Issuer Subordinated Loans.

The Issuer has no business or commercial operations. Therefore, the Issuer's ability to service its obligations in respect of the Notes is entirely dependent upon the earnings of the Company and its Subsidiaries and their ability to make loan and other payments to the Issuer as permitted under the Senior Credit Agreement, the Intercreditor Agreement and any other agreements that may limit such payment. See "Risk Factors—Risks Relating to the Issuer and the Issuer Loan Agreement".

Secured Indebtedness, other secured obligations and any Senior Indebtedness of the Guarantors (including obligations with respect to the Senior Credit Agreement) will effectively rank senior to the Notes and the Guarantees to the extent of the value of the assets securing such debt or other secured obligations.

Limitations on Paying the Notes

The Issuer is not permitted to pay principal of, premium, if any, or interest on the Notes and may not purchase, redeem or otherwise retire any Notes (collectively, "*pay the Notes*") if either of the following occurs (a "*Payment Default*"):

(1) a Senior Payment Default occurs; or

(2) if so specified in any Designated Indebtedness, any default on such Designated Senior Indebtedness occurs and the maturity of such Designated Senior Indebtedness is accelerated in accordance with its terms;

unless, in either case, the Payment Default has been cured or waived and any such acceleration has been rescinded or such Designated Senior Indebtedness has been paid in full in cash. Regardless of the foregoing, the Issuer is permitted to pay the Notes if the Issuer and the Trustee receive written notice approving such payment from the Representatives of all Designated Senior Indebtedness with respect to which the Payment Default has occurred and is continuing.

During the continuance of any Senior Default (other than a Senior Payment Default) (and, if so provided by the terms of any other Designated Senior Indebtedness, if there is an event of default thereunder pursuant to which the maturity thereof may be accelerated without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods), the Issuer is not permitted to pay the Notes for a period (a "*Payment Blockage Period*") commencing upon the receipt by the Trustee (with a copy to us) of written notice (a "*Blockage Notice*") of such default from the Representative of the lenders under the Senior Credit Agreement (and, if applicable, a written notice from the Representative of such other Designated Senior Indebtedness) specifying an election to effect a Payment Blockage Period and ending 179 days thereafter. The Payment Blockage Period will end earlier if such Payment Blockage Period is terminated:

(1) by written notice of the termination of such Blockage Notice to the Trustee and the Issuer from the Person or Persons who gave such Blockage Notice;

(2) because the default giving rise to such Blockage Notice is cured, waived or otherwise no longer continuing;

(3) because such Designated Senior Indebtedness has been discharged or repaid in full in cash; or

(4) the expiry of any Payment Default Standstill Period (described below) or Default Standstill Period (described below), as applicable, in existence on the date of service of the Blockage Notice.

Notwithstanding the provisions described above, unless the holders of such Designated Senior Indebtedness or the Representative of such Designated Senior Indebtedness have accelerated the maturity of such Designated Senior Indebtedness, the Issuer will be permitted to resume paying the Notes after the end of such Payment Blockage Period. The Notes shall not be subject to more than one Payment Blockage Period in any consecutive 360-day period irrespective of the number of defaults with respect to Designated Senior Indebtedness during such period.

The Trustee, on behalf of the Holders of the Notes, has agreed to a 179-day standstill period (the "*Standstill Period*") on enforcement actions it could otherwise take against the Guarantors in respect of the Notes, the Guarantees or the Indenture for an event of default under the Notes. The period described above begins on the date the Trustee gives a notice of a Default to the Representative under the Senior Credit Agreement.

Guarantor Senior Indebtedness versus Guarantees

The Notes will be guaranteed by each Guarantor on a senior subordinated basis and the Guarantees will be junior in right of payment to the Senior Indebtedness of the applicable Guarantor.

A substantial portion of the Company's operations are conducted through its Subsidiaries. Apart from the Subsidiary Guarantors, these Subsidiaries are not guaranteeing the Notes. Claims of creditors of the Company's non-guarantor Subsidiaries and each Subsidiary

Guarantor's non-guarantor Subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor Subsidiaries, and claims of preferred stockholders of such non-guarantor Subsidiaries, generally will have priority with respect to the assets and earnings of such non-guarantor Subsidiaries over the claims of the Company's and the Subsidiary Guarantors' creditors, including claims under the Guarantees by holders of the Notes, even if such claims do not constitute Senior Indebtedness. Accordingly, each Guarantor's Guarantee of the Notes will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of such non-guarantor Subsidiaries.

As of December 31, 2002:

(a) the Company's Subsidiaries (excluding the Issuer and the Subsidiary Guarantors) represented 20.6% of the Company's consolidated assets; and

(b) the Company's Subsidiaries (excluding the Issuer and the Subsidiary Guarantors) represented 47.2% of the Company's consolidated net sales (for the twelve-month period ended December 31, 2002).

The payment of dividends and the making of loans and advances to the Company or the Subsidiary Guarantors by their respective Subsidiaries are subject to various restrictions. Future debt of certain of these Subsidiaries may prohibit the payment of dividends or the making of loans or advances to the Company or a Subsidiary Guarantor, as applicable. In addition, the ability of the Company's Subsidiaries to make payments, loans or advances to the Company or a Subsidiary Guarantor, as applicable, is limited by the laws of the relevant jurisdictions in which such Subsidiaries are organized or located. This would mean that the Company or a Subsidiary Guarantor, as applicable, would be unable to use the earnings of these Subsidiaries to the extent they face restrictions on distributing funds to the Company or such Subsidiary Guarantor. Any of the situations described above could make it more difficult for the Company or a Subsidiary Guarantor, as applicable, to service its obligations under the Senior Credit Agreement and therefore adversely affect the Issuer's ability to service its obligations in respect of the Notes. See "Risk Factors—Risks Relating to the Guarantees and the Company Share Charge".

As of December 31, 2002, after giving *pro forma* effect to the offering of the Notes and the repayment of all Indebtedness in respect of the Bridge Notes, the total liabilities of the Company's Subsidiaries (excluding the Issuer and the Subsidiary Guarantors) were €190.2 million, including trade payables.

As of December 31, 2002, after giving *pro forma* effect to the issuance of the Notes and the repayment of all Indebtedness in respect of the Bridge Notes, the Company and the Subsidiary Guarantors would have had an aggregate principal amount of €552.1 million of outstanding Indebtedness that was senior to the Guarantees (comprised of €531.7 million of debt under the Senior Credit Agreement (which excludes € 37.0 million drawn under the Revolving Credit Facility after December 31, 2002) and €20.4 million of other long-term and short-term Indebtedness).

Secured Indebtedness and other secured obligations of the Guarantors (including Obligations with respect to the Senior Credit Agreement) will effectively rank senior to the Guarantees to the extent of the value of the assets securing such debt or other secured obligations.

Although the Indenture limits the incurrence of Indebtedness and preferred stock of the Company and certain of the Company's Subsidiaries, such limitation is subject to a number of significant qualifications. Moreover, the Indenture does not impose any limitation on the incurrence by such Subsidiaries of liabilities that are not considered Indebtedness under the Indenture. See "—Certain Covenants—Limitation on Indebtedness".

Furthermore, the payment by Safilo International B.V. of all obligations owing to the Issuer in respect of the Issuer Loan Agreement, upon which the Issuer expects to depend in order to make payments on the Notes, will be subordinated to all Senior Indebtedness of Safilo International B.V. Restrictions under the Senior Credit Agreement and the Intercreditor Agreement prohibit the Guarantors from making distributions, loans or other payments to the Issuer, except to enable the Issuer to make payments in certain circumstances on the Notes and certain other limited payments. In particular, the Intercreditor Agreement prohibits certain payments, including payments to enable us to pay interest on the Notes, if a Senior Payment Default occurs and is continuing. See "Subordination of the Guarantees—Limitations on Paying the Guarantees".

For further discussion of the Senior Credit Agreement, the Issuer Loan Agreement and the Intercreditor Agreement, including the terms of subordination that affect payment on these Notes, see "Description of Other Indebtedness" and "Risk Factors—Risks Relating to the Issuer and the Issuer Loan Agreement".

Subordination of the Guarantees

General

Each of the Guarantees is a senior subordinated guarantee, which means that each Guarantee (i) ranks behind, and is expressly subordinated to, all of the existing and future senior obligations of the Company and each Subsidiary Guarantor, including any obligations owed by the Company or such Subsidiary Guarantor under the Senior Credit Agreement, (ii) will rank *pari passu* in right of payment with all existing and future Senior Subordinated Indebtedness of each Guarantor and (iii) will be senior in right of payment to all existing and future Subordinated Obligations of each Guarantor. The ability to take enforcement action against the Company or the Subsidiary Guarantors under the Guarantees is subject to significant restrictions imposed by the Intercreditor Agreement.

The Company and each Subsidiary Guarantor has agreed in the Indenture that it will not Incur, directly or indirectly, any Indebtedness that is contractually subordinate or junior in right of payment to its existing Senior Indebtedness, unless such Indebtedness is Senior Subordinated Indebtedness or is a Subordinated Obligation of such Person. The Indenture does not treat unsecured Indebtedness as subordinated or junior to Secured Indebtedness merely because it is unsecured. See "—Certain Covenants—Anti-Layering".

Limitations on Paying the Guarantees

The Guarantors are under the same payment restrictions with respect to making payments under the applicable Guarantee as apply to the Issuer making payments on the Notes as described above. Consequently, no Guarantor is permitted to make a payment in respect of the applicable Guarantee if a Senior Payment Default has occurred and is continuing or during the continuation of a Payment Blockage Period.

Subordination of the Issuer Loan Agreement

The obligations of Safilo International under the Issuer Loan Agreement are Senior Subordinated Obligations of the Issuer, and are contractually subordinated to all Senior Indebtedness of Safilo International, including the obligations of Safilo International as a guarantor under the Senior Credit Agreement. The ability of the Issuer to receive payments from, or take enforcement action against, Safilo International under the Issuer Loan Agreement is subject to significant restrictions imposed by the Intercreditor Agreement. In addition, in order to facilitate the consummation of a Company Share Capital Enforcement Sale, all of the Issuer's right, title and interest in the Issuer Loan Agreement have been assigned to the Security Agent on a first priority basis as security for the repayment in full of all amounts owing to the lenders under the Senior Credit Agreement. The Security Agent also will have the right to cause the Company to exercise its rights under the Issuer Put Option Agreement. See "Risk Factors—Risks Relating to the Issuer and the Issuer Loan Agreement—The Issuer may not be able to recover any amounts under the Issuer Loan Agreement because the Issuer's right to receive payments under the Issuer Loan Agreement is contractually subordinated to other liabilities of Safilo International".

Subordination on Insolvency

In the event of a liquidation, dissolution, bankruptcy, insolvency or similar proceeding involving Holdings, the Company or any of its subsidiaries, the liquidator, administrator or receiver or similar person distributing assets of Holdings, the Company or any of its subsidiaries will be required, to the extent the assets being so distributed are subject to applicable Italian law, to pay (i) first, the cost of such liquidation, administration, bankruptcy or similar costs, (ii) second, all preferential creditors under Italian law (being, taxes, social security and wages), (iii) third, secured creditors and (iv) unsecured creditors. See "Risk Factors—Risks Relating to the Notes—Italian and other local insolvency laws may not be as favorable to you as U.S. bankruptcy laws". In general:

(1) the lenders under the Senior Credit Agreement will be entitled, as secured lenders and pursuant to the terms of the Intercreditor Agreement, to payment in full of all amounts outstanding under the Senior Credit Agreement before (i) the Trustee and the Holders of the Notes would be entitled to payments under the Guarantees and (ii) the Issuer would be entitled to payments under the Issuer Loan Agreement and, as a result, before Holders of the Notes would ultimately receive any payments on the Notes;

(2) the Trustee and the Holders of the Notes will be required, pursuant to the terms of the Intercreditor Agreement, to turn over any amounts they receive in respect of the Notes or the Guarantees to the Security Agent until all amounts outstanding under the Senior Credit Agreement are paid in full; and

(3) the Issuer will be required, pursuant to the terms of the Intercreditor Agreement, to turn over any amounts it receives under the Issuer Loan Agreement to the Security Agent until all amounts outstanding under the Senior Credit Agreement are paid in full.

The Security Agent will be directed to apply such amounts in the same manner as described under "—Turnover and Application of Proceeds".

Turnover and Application of Proceeds

If at any time when any Senior Indebtedness of a Guarantor is or may be outstanding:

(1) the Trustee or any Holder receives a payment or distribution in cash or in kind on account of Notes when such payment or distribution is not permitted as described in the clause entitled "—Limitations on Paying the Notes"; or

(2) any Guarantor makes any payment or distribution in cash or in kind on account of any Guarantee when such payment or distribution is not permitted as described in the clause entitled "—Limitations on Paying the Guarantees",

then the Trustee or the Holder receiving such payment, as applicable, will be required to turnover such amounts to the Security Agent and the Security Agent shall apply such amounts in accordance with the Intercreditor Agreement.

All amounts paid to the Security Agent under the Intercreditor Agreement pursuant to any enforcement of the Security Documents or the Put Option Agreement, including any proceeds from a Company Share Capital Enforcement Sale, shall be applied by the Security Agent, subject to the payment of enforcement costs:

(1) first, in or towards payment to the Senior Facility Agent for application towards the Obligations under the Senior Credit Agreement;

(2) second (after discharge in full of the Obligations under the Senior Credit Agreement), in or towards payment to the Trustee for application towards the Obligations under the Notes and the Indenture; and

(3) third (after discharge in full of the Obligations under the Senior Credit Agreement and the Obligations under the Notes and the Indenture) any surplus shall be paid to Holdings.

Sinking Fund

There will be no mandatory sinking fund payments for the Notes.

Redemption at Maturity

The Issuer will redeem the Notes that have not been previously redeemed or purchased and cancelled at 100% of their principal amount plus accrued and unpaid interest and any Additional Amounts at their Stated Maturity.

Currency Indemnity

Euro is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes or by the Guarantors under the Guarantees, in each case, including any damages. Any amount received or recovered in a currency other than euros (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or a Guarantor or otherwise) by any Holder in respect of any sum expressed to be due to it from the Issuer or any Guarantor shall constitute a discharge of the Issuer or a Guarantor, as the case may be, only to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Note or Guarantee, the Issuer and each Guarantor, jointly and severally, shall indemnify the recipient against any loss sustained by it as a result, including the cost of making any such purchase. For the purposes of this indemnity, it will be sufficient for the Holder to certify (indicating the sources of information used) that it would have suffered a loss had the actual purchase of euros been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euros on such date had not been practicable due to currency market conditions generally, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above).

These indemnities, to the extent permitted by law:

- constitute a separate and independent obligation from the other obligations of the Issuer and each Guarantor;
- shall give rise to a separate and independent cause of action;
- shall apply irrespective of any indulgence or waiver granted by any Holder; and
- shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Guarantee or any other judgment or order.

Change of Control

Upon the occurrence of any of the following events (each a "*Change of Control*"), each Holder shall have the right to require that the Issuer repurchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date):

(1) prior to the first Equity Offering, the Company becomes aware that the Permitted Holders cease to be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of a majority in the aggregate of the total voting power of the Voting Stock of the Company, whether as a result of issuance of securities of the Company or Holdings, any merger, consolidation, liquidation or dissolution of the Company or Holdings, or any direct or indirect transfer of securities by the Company or Holdings or otherwise (for purposes of this clause (1) and clause (2) below, the Permitted Holders shall be deemed to beneficially own any Voting Stock of a Person (the "*specified person*") held by any other Person (the "*parent entity*") so long as the Permitted Holders beneficially own (as so defined), directly or indirectly, in the aggregate a majority of the voting power of the Voting Stock of the parent entity);

(2) the Company becomes aware that any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, is or becomes the beneficial owner (as defined in clause (1) above, except that for purposes of this clause (2) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company; *provided*, *however*, that the Permitted Holders beneficially own (as defined in clause (1) above), directly or indirectly, in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Company than such other person and do not have the right or ability by voting power, contract or otherwise, directly or indirectly, to elect or designate for election a majority of the Board of Directors of the Company (for the purposes of this clause (2), such other person shall be deemed to beneficially own any Voting Stock of a specified person held by a parent entity, if such other person is the beneficial owner (as defined in this clause (2)), directly or indirectly, of more than 35% of the voting power of the Voting Stock of such parent entity and the Permitted Holders beneficially own (as defined in clause (1) above), directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent entity and do not have the right or ability by voting power, contract or otherwise, directly or indirectly, to elect or designate for election a majority of the board of directors of such parent entity);

(3) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another Person (other than, in all such cases, a Person that is controlled by the Permitted Holders), other than a transaction following which (A) in the case of a merger or consolidation transaction, holders of securities that represented 100% of the Voting Stock of the Company, as applicable, immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction immediately after such transaction and in substantially the same proportion as before the transaction and (B) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the Notes and a Subsidiary of the transferor of such assets; or

(4) the Company shall cease to directly own 100% of the Capital Stock of the Issuer (other than one share of Common

Stock of the Issuer held by a Wholly Owned Subsidiary).

Within 30 days following any Change of Control, the Issuer will mail a notice to each Holder with a copy to the Trustee (the "*Change of Control Offer*") and, if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Stock Exchange so require, the Issuer will publish a notice in English in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Issuer to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including information with respect to *pro forma* historical income, cash flow and capitalization, in each case after giving effect to such Change of Control);

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

(4) the instructions, as determined by the Issuer, consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased.

The Issuer will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer to be made by the Issuer and such third party purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. The Issuer also will not be required to make a Change of Control Offer following a Change of Control if it or a third party has made, and not terminated, a tender offer for all of the Notes in the manner and at the times applicable to a Change of Control Offer, at a tender offer purchase price in cash equal to at least 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, and the Issuer or such third party purchases all Notes validly tendered and not withdrawn under such tender offer. The Issuer also will not be required to make a Change of Control Offer following a Change of Control if it has theretofore issued a redemption notice in respect of all of the Notes in the manner and in accordance with the provisions described under "—Optional Redemption".

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the covenant described hereunder by virtue of its compliance with such securities laws or regulations.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management. Subject to the limitations discussed below, the Company could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect the Company's capital structure or credit ratings. Restrictions on the Issuer's and the Company's and its Restricted Subsidiaries' ability to Incur additional Indebtedness are contained in the covenants described under "—Certain Covenants—Limitation on Indebtedness" and "—Limitation on Liens". Such restrictions can only be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford Holders of the Notes protection in the event of a highly leveraged transaction.

The terms and conditions set forth in the Senior Credit Agreement will effectively prohibit the Issuer and the Guarantors from purchasing any Notes prior to December 16, 2011, and will also provide that the occurrence of certain change of control events with respect to the Company would constitute a default under the Senior Credit Agreement. In addition, restrictions in the instruments governing the Company's future debt also may prohibit the Issuer and the Guarantors from purchasing any Notes prior to their Stated Maturity, including upon a Change of Control. Before the Issuer or any Guarantors can purchase any Notes, the Company will be required to:

- repay debt under the Senior Credit Agreement, or, possibly, other future debt that ranks senior to the Guarantees; or

- obtain a consent from lenders of Senior Indebtedness, including the Senior Credit Agreement, in order to permit the repurchase of the Notes.

In the event a Change of Control occurs at a time when the Issuer and the Guarantors are effectively prohibited from purchasing Notes, the Company may seek the consent of the Company's lenders to the purchase of Notes or the Company may attempt to refinance the borrowings that contain such prohibition. If the Company does not obtain such a consent or the Company does not repay such borrowings, the Issuer and the Guarantors will remain prohibited from purchasing Notes. In such case, the Issuer's failure to offer to purchase Notes would constitute a Default under the Indenture, which would, in turn, constitute a default under the Senior Credit Agreement.

Future indebtedness that the Company may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer and the Company.

If a Change of Control were to occur, the Issuer may not have sufficient funds available, or may not be able to obtain the funds needed, to pay the purchase price for all of the Notes tendered by Holders deciding to accept the repurchase offer. In any case, third-party financing would be required in order to provide the funds necessary for the Issuer to make the Change of Control Offer. This additional financing may not be able to be obtained. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Company to any Person. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Company. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions under the Indenture relative to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of the Holders of a majority in principal amount of the Notes. See "—Amendments and Waivers".

Certain Covenants

The Indenture includes covenants relating to the Company and Holdings, over which the Issuer has no voting or management control. The Indenture contains covenants including, among others, the following:

Limitation on Indebtedness

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; *provided, however,* that the Company and its Restricted Subsidiaries will be entitled to Incur Indebtedness if, on the date of such Incurrence and after giving effect thereto on a *pro forma* basis, the Consolidated Coverage Ratio exceeds 2.00 to 1; *provided further*, that a Restricted Subsidiary (other than the Issuer or a Finance Subsidiary) shall not Incur Public Debt pursuant to this clause, unless it is Indebtedness permitted under clause (b)(6) below or, in the case of a Subsidiary Guarantor, a guarantee of Public Debt of the Company or the Issuer or a Finance Subsidiary.

(b) Notwithstanding the foregoing paragraph (a), the Company and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to any Revolving Credit Facility; *provided*, *however*, that, immediately after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (1) and then outstanding does not exceed the greater of (A) €50 million less the sum of all principal payments with respect to such Indebtedness pursuant to paragraph (b)(3)(A) of the covenant described under " —Limitation on Sales of Assets and Subsidiary Stock" and (B) the sum (determined as of the end of the most recently ended fiscal quarter for which consolidated financial statements of the Company are available) of 50% of the book value of the accounts receivable (net of bad debt reserves) of the Company and its Restricted Subsidiaries;

(2) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to any Term Loan Facility; *provided*, *however*, that, after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (2) and then outstanding does not exceed €540 million less the aggregate sum of all principal payments

actually made from time to time after the Issue Date with respect to such Indebtedness (other than to the extent of principal payments made from the proceeds of new Term Loan Facilities);

(3) Indebtedness Incurred by the Company pursuant to the Capex Facility; *provided*, *however*, that, after giving effect to any such Incurrence, the aggregate principal amount of (i) all Indebtedness Incurred under this clause (3) and then outstanding plus (ii) all undrawn commitments in respect of the Capex Facility (including the aggregate sum of any conditional commitments not then available for drawing), does not exceed €60 million less the aggregate sum of all principal payments actually made from time to time after the Issue Date with respect to such Indebtedness;

(4) (i) Indebtedness represented by the Notes and the Guarantees and (ii) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2), (3), (4)(i) or (5) of this paragraph (b));

(5) Indebtedness owed to and held by the Company or a Restricted Subsidiary; *provided*, *however*, that (A) any subsequent issuance or transfer of any Capital Stock which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Senior Credit Agreement and the relevant Guarantee;

(6) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company); *provided, however*, that on the date such Subsidiary became a Restricted Subsidiary and after giving *pro forma* effect thereto, the Company would have been able to Incur at least €1.00 of additional Indebtedness pursuant to paragraph (a) of this covenant;

(7) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or pursuant to clause (4)(ii) or (6) or this clause (7) of this paragraph (b);

(8) Hedging Obligations consisting of Interest Rate Agreements or Currency Agreements;

(9) obligations in respect of performance, bid and surety bonds and completion guarantees provided by the Company or any Restricted Subsidiary in the ordinary course of business;

(10) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within five Business Days of its Incurrence;

(11) (A) Indebtedness Incurred by the Company pursuant to the Receivables Bridge Facility in an aggregate principal amount outstanding at any time not exceeding €50 million and (B) Indebtedness Incurred by a Receivables Entity in a Qualified Receivables Transaction that is not recourse to the Company or any other Restricted Subsidiary of the Company (in each case, except for Standard Securitization Undertakings); *provided*, *however*, that in the event that such Receivables Entity ceases to qualify as a Receivables Entity or such Indebtedness ceases to meet the requirements set out in the definition of "Receivables Entity", such Indebtedness shall be deemed, in each case, to be Incurred at such time; and (iii) immediately after giving pro forma effect to the Incurrence of such Indebtedness, the Company could Incur an additional €1.00 of Indebtedness pursuant to paragraph (b)(1)(B) of the covenant described under "—Limitation on Indebtedness";

(12) Indebtedness constituting reimbursement obligations with respect to bank guarantees and VAT guarantees issued in the ordinary course of business; *provided*, *however*, that, upon demand being made under such reimbursement obligations, such demands are satisfied within 30 days of the date of such demand;

(13) Indebtedness Incurred by the Company and Indebtedness (other than Public Debt) Incurred by the Restricted Subsidiaries, in each case, for working capital or capital expenditures (including in respect of new and renewed licenses) in an aggregate amount not to exceed €45 million at any time outstanding; and

(14) Indebtedness of the Company and the Restricted Subsidiaries in an aggregate principal amount which, when taken

together with all other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (13) of this paragraph (b) and paragraph (a) of this covenant) does not exceed €50 million; *provided further*, that no Restricted Subsidiary (other than the Issuer or a Finance Subsidiary) shall Incur Public Debt pursuant to this clause unless it is Indebtedness permitted under clause (b)(6) above or, in the case of a Subsidiary Guarantor, a guarantee of Public Debt of the Company or the Issuer.

(c) Notwithstanding the foregoing, (i) the Company and its Restricted Subsidiaries will not incur any Indebtedness pursuant to the foregoing paragraph (b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations unless such Indebtedness shall be subordinated to the Notes and the Guarantees to at least the same extent as such Subordinated Obligations and (ii) no Restricted Subsidiary that is not a Subsidiary Guarantor will Incur any Indebtedness pursuant to the foregoing paragraph (b) if the proceeds thereof are used, directly or indirectly, to Refinance any Indebtedness of the Company or any Subordinated Obligations or Senior Subordinated Indebtedness of the Issuer or any Subsidiary Guarantor.

(d) For purposes of determining compliance with this covenant:

(1) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, the Company, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence, and may from time to time reclassify such item of Indebtedness in a manner that complies with this covenant, and will only be required to include the amount and type of such Indebtedness in one of the above clauses; and

(2) the Company will be entitled from time to time to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above; and

(3) the outstanding principal amount of any particular Indebtedness shall be counted only once and any obligation arising under any guarantee, Lien, letter of credit or similar instrument supporting such Indebtedness shall be disregarded to the extent of such outstanding principal amount already counted under this covenant.

(e) Notwithstanding paragraphs (a) and (b) above, no Restricted Subsidiary that is not a Guarantor will Incur, directly or indirectly, any Indebtedness if, immediately after giving effect to any such Incurrence, the aggregate amount of all outstanding Indebtedness Incurred pursuant to paragraphs (a) and (b)(6), (b)(7) (but only with respect to (b)(6)), (b)(13) and (b)(14) above of all Restricted Subsidiaries that are not Guarantors exceeds €35 million.

(f) For purposes of determining compliance with any euro denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the Euro Equivalent, determined on the date of the Incurrence of such Indebtedness; *provided*, *however*, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to euros covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in euros will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the Euro Equivalent of the Indebtedness Refinanced, except to the extent that (1) such Euro Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (2) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the Euro Equivalent of such excess will be determined on the date such Refinancing Indebtedness is Incurred. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies.

Anti-Layering

Notwithstanding paragraphs (a) and (b) under the heading " —Limitation on Indebtedness", none of the Issuer, the Company or any Subsidiary Guarantor will Incur (1) directly or indirectly, any Indebtedness if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness of such Person, unless such Indebtedness is either Senior Subordinated Indebtedness or is a Subordinated Obligation of such Person, or (2) any Secured Indebtedness that is not Senior Indebtedness of such Person unless contemporaneously therewith such Person makes effective provision to secure the Notes or the applicable Guarantee, as the case may be, equally and ratably with such Secured Indebtedness for so long as such Secured Indebtedness is secured by a Lien.

Limitation on Restricted Payments

(a) The Issuer will not make an Issuer Restricted Payment at any time.

(b) The Company will not, and will not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Company is not entitled to Incur an additional €1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "—Limitation on Indebtedness"; or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date (the amount of any Restricted Payment, if made other than in cash, to be based upon Fair Market Value) would exceed the sum of (without duplication):

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter immediately following the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which financial statements have been made available as provided for under the heading "Reports" (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); *plus*

(B) 100% of the aggregate Net Cash Proceeds received by the Company from the issuance or sale of its Capital Stock (other than Disqualified Stock) or Subordinated Shareholder Funding subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) and 100% of any cash capital contribution received by the Company from its shareholders subsequent to the Issue Date; *provided*, *however*, that the foregoing amount shall not include any Net Cash Proceeds from (x) an Equity Offering used to redeem all or a portion of the Notes or to prepay any amount under the Senior Credit Agreement and (y) the issuance or sale of Capital Stock of the Company to Holdings in connection with a Holdings Capex Equity Contribution; *plus*

(C) the amount by which Indebtedness of the Company is reduced on the Company's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Company convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange plus the amount of any cash received by the Company upon such conversion or exchange); *provided*, *however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any Restricted Subsidiary from the issuance or sale of such Indebtedness (excluding Net Cash Proceeds from the issuance or sale of such Indebtedness to a Subsidiary of the Company or to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees), plus (without duplication) the amount of any cash proceeds received by the Company upon such conversion or exchange; *plus*

(D) an amount equal to the sum of (x) the net reduction in Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale or liquidation of such Investment and proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Company or any Restricted Subsidiary, (y) to the extent such Person is an Unrestricted Subsidiary, the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary and (z) without duplication, to the extent a Person becomes a Restricted Subsidiary, the portion (proportionate to the Company's equity interest in such Restricted Subsidiary) of the amount of Investments made by the Company or any Restricted Subsidiary in such Person after the Issue Date but prior to the date such Person becomes a Restricted Subsidiary, as determined on the date each such Investment was made and without giving effect to any subsequent changes in value; *provided*, *however*, that the foregoing sum shall not exceed, in the case of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person or Unrestricted Subsidiary.

(c) The preceding provisions will not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Company from its shareholders; *provided, however,* that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under clause (3)(B) of paragraph (b) above;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations (A) made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations which is permitted to be Incurred pursuant to the covenant described under "—Limitation on Indebtedness" or (B) upon a Change of Control or Asset Disposition, to the extent required by the agreements governing such Subordinated Obligations, but only if (i) the Company shall have complied with the "Change of Control" or "Sales of Assets and Subsidiary Stock" covenant, as the case may be, and the Company repurchased or caused to be repurchased all Notes tendered pursuant to the offers required by such covenants prior to any purchase, repurchase, redemption, defeasance or other acquisition of such Subordinated Obligations and (ii) in the case of an Asset Disposition, to the extent of the Net Available Cash which was available to effect purchases of the Notes pursuant to an offer made to Holders pursuant to clause (b)(3)(D) of the covenant headed "—Limitation on Sales of Assets and Subsidiary Stock"; *provided, however,* that, in the case of clause (A) only, such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; *provided, however,* that such dividend shall be included in the calculation of the amount of Restricted Payments;

(4) dividends, distributions and other payments by the Company to fund payments by the Company or Holdings of transactions contemplated by the Stock Option Plan and, so long as no Event of Default has occurred and is continuing, the repurchase or other acquisition of shares of Capital Stock of the Company or any of its Subsidiaries from employees, former employees, directors or former directors of the Company, any parent company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors of the Company under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; *provided, however*, that the aggregate amount of such repurchases and other acquisitions shall not exceed at the time of determination €3 million multiplied by the number of years that have elapsed since the Issue Date (determined by adding $^{1}/_{12}$ of such amount on each monthly anniversary of the Issue Date); *provided further, however*, that such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments;

(5) dividends, distributions and other payments by the Company (a) to fund payments by Holdings or a parent of Holdings of Taxes payable by Holdings, *provided, however,* that (i) such payment of such Taxes is made only as and when due and (ii) such Taxes are directly attributable to the business, operations, assets or financings of the Company and its Restricted Subsidiaries but are, under the relevant system of taxation, assessed against Holdings or a parent of Holdings; or (b) to fund the payment of administration costs and similar expenses of Holdings; *provided, however,* that (i) such costs or expenses are reasonably required to maintain Holdings' corporate existence or are reasonably incurred costs or expenses relating to its ownership and management of the Company and its Restricted Subsidiaries or reasonably necessary to satisfy the reporting requirements contained in agreements under which financing shall have been provided to the Company and (ii) such payments are made only as and when needed by Holdings; *provided, however*, that, in the case of clause (a) and (b), any such payment shall be excluded in the calculation of the amount of Restricted Payments;

(6) following the first public offering of ordinary or common stock of a direct or indirect parent of the Company, or, following a Permitted Holdings Merger, of the Company, following which there is a Public Market, the payment of dividends on such shares of up to 6% per annum of the Net Cash Proceeds received by the Company in any such Equity

Offering (or contributed in cash to the Company's equity (other than through the issuance of Disqualified Stock) or loaned to the Company in the form of Subordinated Shareholder Funding with the Net Cash Proceeds of any such Equity Offering by its parent);

(7) repurchases of Capital Stock (other than Disqualified Stock) of the Company deemed to occur upon the exercise of stock options or warrants to the extent the payment of all or a portion of the exercise price of such stock option or warrants is made with Capital Stock (other than Disqualified Stock) of the Company; *provided, however*, that such payment shall be excluded in the calculation of the amount of Restricted Payments; and

(8) [Reserved]

(9) other Restricted Payments in an aggregate amount, when taken together with all Restricted Payments made pursuant to this clause (9), not to exceed €7 million, which in the case of any Investments made pursuant to this clause (9), shall only include the amount from time to time Invested in such Investment; *provided, however*, that any net reduction in such an Investment shall be disregarded for purposes of clause (b)(D)(x) of this covenant.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness owed to the Company, (b) make any loans or advances to the Company or (c) transfer any of its property or assets to the Company, except:

(1) with respect to clauses (a), (b) and (c),

(i) any encumbrance or restriction pursuant to an agreement in effect on the Issue Date including, without limitation, under the Senior Credit Agreement and the Notes and the Guarantees, and the Intercreditor Agreement;

(ii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(iii) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (i) or (ii) of clause (1) of this covenant or this clause (iii) or contained in any amendment to an agreement referred to in clause (i) or (ii) of clause (1) of this covenant or this clause (iii); *provided, however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such refinancing agreement or amendment are no less favorable to the Holders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in such predecessor agreements;

(iv) any encumbrance or restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(v) any encumbrance or restriction contained in the terms of any Indebtedness Incurred pursuant to the covenant described under " —Limitation on Indebtedness" or any agreement pursuant to which such Indebtedness was issued if (x) either (i) the encumbrance or restriction applies only in the event of and during the continuance of a payment default or a default with respect to a financial covenant contained in such Indebtedness or agreement or (ii) the Company determines at the time any such Indebtedness is Incurred (and at the time of any modification of the terms of any such encumbrance or restriction) that any such encumbrance or restriction will not materially affect the Issuer's ability to make timely payment of interest, premium (if any) or principal on the Notes when due (whether at maturity, by way of any redemption, defeasance or repurchase thereof, and including upon the acceleration upon an Event of Default or by way of redemption of the Notes, including pursuant to any Change of Control Offer), (y) the encumbrance or restriction is not materially more disadvantageous to the Holders of the Notes than is customary in comparable financings or agreements (as determined by the Company in good faith) and (z) other than in the case of Indebtedness incurred under clause (b)(6) under the heading "—Limitations on Indebtedness", the encumbrance or restriction is no less favorable to the Holders of the Notes than the encumbrances and restrictions included in the Senior Credit Agreement on the Issue Date;

(vi) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and

(vii) customary limitations on dividends or with respect to ownership interests of the Company or any Restricted Subsidiary in joint ventures entered into in the ordinary course of business; *provided, however,* that the Fair Market Value (at the time the encumbrance or restriction is created) of the Company's or such Restricted Subsidiary's proportionate interest in such joint venture (any such interest, a "*Permitted Restricted Joint Venture*"), together with the total Fair Market Value (measured in each case at the time the respective encumbrances or restrictions were created) of all other such interests in joint ventures relying at such time on this clause (vii) and all Investments made pursuant to clause (14) of the definition of "Permitted Investment", does not exceed 5% of Consolidated Tangible Assets.

(2) with respect to clause (c) only,

(A) any encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder;

(B) any encumbrance or restriction contained in security agreements or mortgages securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements or mortgages;

(C) any encumbrance or restriction existing under or by reason of Indebtedness or other contractual requirements of a Receivables Entity in connection with a Qualified Receivables Transaction; *provided, however,* that such restrictions apply only to such Receivables Entity; and

(D) any agreement relating to Purchase Money Debt for property acquired in the ordinary course of business that imposes restrictions only on the property so acquired.

Limitation on Sales of Assets and Subsidiary Stock

(a) The Issuer will not sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, directly or indirectly, any interest in any asset other than pursuant to the Security Documents and as expressly permitted under the Indenture.

(b) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless:

(1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the shares and assets subject to such Asset Disposition;

(2) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or cash equivalents; and

(3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be):

(A) *first*, to the extent that the assets or shares disposed of pursuant to such Asset Disposition were subject to a Lien, to prepay, repay, redeem or purchase such Secured Indebtedness;

(B) *second*, to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness (other than any Disqualified Stock) of the Company or a Subsidiary Guarantor or Indebtedness (other than any Disqualified Stock) of any other Restricted Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(C) *third*, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to the extent the Company elects, to acquire Additional Assets within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and

(D) *fourth*, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A), (B) and (C), to make an offer, within one year from the later of the date of such Asset Disposition or receipt of such Net Available Cash, to the Holders to purchase Notes pursuant to and subject to the conditions contained in the Indenture; *provided, however,* that if the Company is required by the terms of any other Indebtedness that is *pari passu* with the claims under the Guarantees or under the Notes to prepay such other Indebtedness, then the Issuer and Company, as applicable, may prepay the Notes and such other Indebtedness ratably;

provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (A), (B) or (D) above, the Company or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitments (if any) to be terminated in an amount equal to the principal amount so prepaid, repaid or purchased.

Notwithstanding the foregoing provisions of this covenant, the Company and the Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with this covenant except to the extent that the aggregate Net Available Cash from all Asset Dispositions which is not applied in accordance with this covenant exceeds €10 million. Pending application of Net Available Cash pursuant to this covenant, such Net Available Cash shall be invested in Temporary Cash Investments or applied to temporarily reduce revolving credit indebtedness.

For the purposes of this covenant, the following are deemed to be cash or cash equivalents:

(1) the assumption of Indebtedness of the Company or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition; and

(2) securities received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary into cash within 180 days of the receipt thereof, to the extent of the cash received in that conversion.

(c) In the event of an Asset Disposition that requires the Issuer to purchase Notes pursuant to clause (b)(3)(D) above, the Issuer will purchase (or cause an Affiliate to purchase) Notes tendered pursuant to an offer by the Issuer for the Notes at a purchase price of 100% of their principal amount (without premium), plus accrued but unpaid interest in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture; *provided*, *however*, that, in connection with any such purchase of Notes and ratable repayment of other Indebtedness as permitted under clause (b)(3)(D) above, in no event shall the Company or any Restricted Subsidiary offer to prepay or purchase other Indebtedness of the Company in an amount in excess of 100% of its principal amount (without premium), plus accrued and unpaid interest thereon. If the aggregate purchase price of the Notes tendered exceeds the Net Available Cash allotted to their purchase, the Issuer will select the Notes to be purchased on a *pro rata* basis but in round denominations, which in the case of the Notes will be denominations of €1,000 principal amount or multiples thereof or of €500,000 principal amount or multiples thereof, as the case may be. The Issuer shall not be required to make such an offer to purchase Notes (and, if required by the terms thereof, the Company shall not be required to make an offer to prepay other Indebtedness of the Company) pursuant to this covenant if the Net Available Cash available therefor is less than €10 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition). Upon completion of such an offer to purchase and, if applicable, prepayment, Net Available Cash will be deemed to be reduced to zero.

(d) The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue of its compliance with such securities laws or regulations.

Limitation on Affiliate Transactions

(a) The Company will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "*Affiliate Transaction*") unless:

(1) the terms of the Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a Person who is not an Affiliate of the Company;

(2) if such Affiliate Transaction involves an amount in excess of €5 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the directors of the Company disinterested with respect to such Affiliate Transaction have determined in good faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the Board of Directors of the Company; and

(3) if such Affiliate Transaction involves an amount in excess of €15 million, the Board of Directors of the Company shall also have received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Company and its Restricted Subsidiaries or is not less favorable to the Company and its Restricted Subsidiaries than could reasonably be expected to be obtained at the time in an arm's-length transaction with a Person who was not an Affiliate of the Company.

(b) The provisions of the preceding paragraph (a) will not prohibit:

(1) any Investment (other than a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to the covenant described under "—Limitation on Restricted Payments";

(2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved in good faith by the Board of Directors of the Company;

(3) loans or advances to employees in the ordinary course of business of the Company or its Restricted Subsidiaries, but in any event not to exceed €5 million in the aggregate outstanding at any one time;

(4) the payment of reasonable fees and compensation to and the provision of employee benefit arrangements and indemnity arrangements for directors, employees, officers and consultants of the Company and its Restricted Subsidiaries and the expenses and provisions of customary insurance to directors of the Company and its Restricted Subsidiaries, in each case, in the ordinary course of business;

(5) transactions exclusively between or among the Company and any Restricted Subsidiary or exclusively between or among Restricted Subsidiaries; and any transaction with a joint venture or similar entity in which the Company or a

Restricted Subsidiary owns an equity interest which would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary, joint venture or similar entity;

(6) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Company or any contribution to the existing equity capital of the Company or the incurrence of Subordinated Shareholder Funding;

(7) any agreement as in effect on the Issue Date or any amendments, renewals or extensions of any such agreement (so long as such amendments, renewals or extensions are not less favorable to the Holders) and the transactions evidenced thereby;

(8) any customary tax sharing agreement or arrangement and payments pursuant thereto between the Company and the Restricted Subsidiaries not otherwise prohibited by the Indenture;

(9) any transaction effected as part of a Qualified Receivables Transaction;

(10) any Subordinated Shareholder Funding; and

(11) any Specified Affiliate Transactions, or any agreement (other than Specified Affiliate Transactions) in effect on the date of the Indenture or any amendment thereto (so long as such amendment is not disadvantageous to the Holders in any material respect) or any transaction contemplated thereby.

Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries

The Company:

(1) will not, and will not permit any Restricted Subsidiary to, directly or indirectly, sell, lease, transfer or otherwise dispose of any Capital Stock of any Restricted Subsidiary to any Person (other than to the Company or a Wholly Owned Subsidiary), and

(2) will not permit any Restricted Subsidiary to issue any of its Capital Stock (other than, if necessary, shares of its Capital Stock constituting directors' or other legally required qualifying shares) to any Person (other than to the Company or a Wholly Owned Subsidiary),

unless, in the case of clauses (1) and (2),

(A) immediately after giving effect to such issuance, sale, or other disposition, such Restricted Subsidiary remains a Restricted Subsidiary; or

(B) immediately after giving effect to such issuance, sale, or other disposition, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such Person remaining after giving effect thereto is treated as a new Investment by the Company and such Investment would be permitted to be made under the covenant described under "—Limitation on Restricted Payments" if made on the date of such issuance, sale, lease, transfer or other disposition.

Limitation on Liens

(a) The Issuer will not, directly or indirectly, Incur or permit to exist any Lien of any nature whatsoever on any of its properties, whether owned at the Issue Date or thereafter acquired, other than Issuer Permitted Liens.

(b) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, Incur or permit to exist any Lien (the "*Initial Lien*") of any nature whatsoever on any of its properties (including Capital Stock of a Restricted Subsidiary), whether owned at the Issue Date or thereafter acquired, securing any Indebtedness, other than Permitted Liens. In addition, neither the Company nor any Subsidiary Guarantor will Incur or permit to exist any Initial Lien securing any Senior Subordinated Indebtedness or Subordinated Indebtedness of such Guarantor without effectively providing that its Guarantee shall be secured equally and ratably with (or, in the case of liens securing Subordinated Obligations, prior to) the obligations so secured for so long as such obligations are so secured.

Any Lien created for the benefit of the Holders of the Notes pursuant to the preceding sentence shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon:

(A) the release and discharge of the Initial Lien; or

(B) with respect to any Restricted Subsidiary the assets of which, or the Capital Stock of which, are encumbered by such Lien, upon, (i) any sale, exchange or other disposition to a Person that is not an Affiliate of the Company of all of the Capital Stock of such Restricted Subsidiary held directly or indirectly by the Company or all or substantially all of the assets of such Restricted Subsidiary or (ii) the designation of such Restricted Subsidiary as an Unrestricted Subsidiary in accordance with the terms of the Indenture.

Impairment of Security Interest

Holdings and the Company will not, and the Company will not permit any of its Restricted Subsidiaries to, take or knowingly or negligently omit to take, any action which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral for the benefit of The Bank of New York Depository (Nominees) Limited, as registered holder of the Notes, and the Holders of the Notes, and Holdings and the Company will not, and the Company will not permit any of its Restricted Subsidiaries to, grant to any Person other than the Security Agent, for the benefit of The Bank of New York Depository (Nominees) Limited, as registered holder of the Notes, and the Holders of the Notes and the other beneficiaries described in the Security Documents, any interest whatsoever in any of the Collateral, except that (i) Holdings and the Company may Incur Permitted Collateral Liens and (ii) the Company Share Charge may be discharged and released upon the occurrence of a Permitted Holdings Merger; *provided*, *however*, that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or replaced, unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification or renewal, the Company delivers to The Bank of New York Depository (Nominees) Limited, as registered holder of the Notes, either (x) a solvency opinion, in form and substance satisfactory to The Bank of New York Depository (Nominees) Limited, as registered holder of the Notes, from an Independent Qualified Party confirming the solvency of the Company and its Subsidiaries after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement or (y) an Opinion of Counsel, in form and substance satisfactory to The Bank of New York Depository (Nominees) Limited, as registered holder of the Notes, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the Lien or Liens created under the Security Document so amended, extended, renewed, restated, supplemented, modified or replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

Merger and Consolidation

Neither the Issuer nor any Guarantor will consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

(1) the resulting, surviving or transferee Person (the "*Successor Company*") shall be a Person organized and existing under the laws of (A) an EU Member State (on the Issue Date) or (B) the United States of America, any State thereof or the District of Columbia and the Successor Company (if not the Issuer or such Guarantor, as the case may be) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Issuer under the Notes or such Guarantor under its Guarantee, as applicable; *provided*, that the "Relevant Taxing Jurisdiction" referenced in "—Additional Amounts" shall include the jurisdiction in which the Successor Company is organized or resident for tax purposes or any political subdivision thereof or taxing authority therein and "Relevant Date" referenced in "—Optional Redemption for Changes in Withholding Taxes" shall be the date on which the Successor Company became such;

(2) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing and the Security Documents and the Liens created on the Collateral shall remain in full force and effect or, to the satisfaction of the Trustee, shall have been transferred to such Successor Company or Guarantor and have been perfected and be in full force and effect;

(3) immediately after giving pro forma effect to such transaction, either (A) the Company (or its Successor Company, if applicable) would be able to Incur an additional €1.00 of Indebtedness pursuant to paragraph (a) of the covenant

described under "—Limitation on Indebtedness", or (B) the Consolidated Coverage Ratio of the Company (or its Successor Company, if applicable) would equal or exceed the Consolidated Coverage Ratio of the Company immediately prior to giving effect to such transaction; and

(4) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

provided, *however*, that clause (3) will not be applicable to (A) a Restricted Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Issuer, the Company or a Subsidiary Guarantor or (B) any Subsidiary Guarantor merging with an Affiliate of the Company solely for the purpose and with the sole effect of reincorporating such Subsidiary Guarantor in another jurisdiction.

Notwithstanding the foregoing, the Company may merge with and into Holdings or Holdings may merge with and into the Company pursuant to a Permitted Holdings Merger.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The Successor Company will be the successor to the Issuer or the relevant Guarantor, as applicable, and shall succeed to, and be substituted for, and may exercise every right and power of, the relevant predecessor company under the Indenture, and the predecessor, except in the case of a lease, shall be released from the obligations under the Indenture.

Limitation on Activities

The Issuer will not engage in any business activity or undertake any other activity, except any activity:

(a) relating to the offering, sale, issuance and servicing of the Notes or other Indebtedness of the Issuer permitted under the Indenture or lending of the proceeds of the Notes or any such other Indebtedness to the Company or one or more of its Restricted Subsidiaries; or

(b) undertaken with the purpose of, and directly related to, fulfilling its obligations under the Notes and the Indenture or such other Indebtedness, including the making of Issuer Permitted Investments.

The Indenture also provides that the Issuer shall not:

(i) incur any Indebtedness other than the Notes and other Indebtedness permitted to be incurred under the covenant headed "Limitation on Indebtedness";

(ii) issue any Capital Stock other than to the Company; or

(iii) take any action which would cause it to no longer satisfy the requirements of an available exemption from the provisions of the Investment Company Act of 1940, as amended.

The Indenture further provides that Holdings and the Company will not, and will not permit the Issuer or any Guarantor to, amend the Deferred Interest Loan Agreement, the Issuer Loan Agreement, the Intercreditor Agreement, the Put Option Agreement or the Security Documents in a manner adverse to the interests of the Holders of the Notes.

The Indenture further provides that Holdings shall not engage in any business activity other than acting as a holding company of the Company or finance subsidiaries used to provide funding to the Company, and will not (i) Incur any material liabilities not directly related to such activity or (ii) Incur any Indebtedness other than Permitted Holdings Funding.

The Indenture also provides that the Company will not, and will not permit any Restricted Subsidiary, to engage in any business other than a Related Business.

Listing

If, and when, the Notes are listed on the Luxembourg Stock Exchange, the Issuer and the Company will use all reasonable commercial efforts to maintain the listing of the Notes on the Luxembourg Stock Exchange or another recognized stock exchange.

Reports

(a) Notwithstanding that the Company or Holdings may not be or may not be required to remain subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act or otherwise report on an annual and quarterly basis on forms provided for such annual and quarterly reporting pursuant to rules and regulations promulgated by the SEC, the Company shall post on the Company's website and provide to the Trustee for the benefit of the Holders of the Notes and potential purchasers of Notes upon written request to the Trustee by any Holder, potential purchaser of Notes or any Initial Purchaser:

(1) within 120 days after the end of each fiscal year, annual reports containing the information required to be contained in annual reports on Form 20-F (or required in any successor form), subject to the provisos set out below (it being understood that the Company will be deemed to have complied with this provision if it shall have provided a report containing substantially the same items of disclosure as are contained in this offering circular);

(2) within 60 days after the end of each of the first three fiscal quarters of each fiscal year (from and including the fiscal quarter ending on March 31, 2003), reports including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's unaudited quarterly financial statements, in each case in form and substance substantially similar to the corresponding information required to be contained in Form 10-Q (or required in any successor form) subject to the proviso set out below; and

(3) the following information that would be required to be filed with the SEC in current reports on Form 8-K (as in effect on 1 January 2002) if the Company were required to file such reports: all the information set forth in Items (1), (2), (3), (4) and (5) of Form 8-K; and with respect of Item (7), an unaudited pro forma balance sheet as of a recent date of the Company giving effect to the acquired business and an unaudited pro forma income statement (which income statement shall be deemed to suffice so long as it (together with any supplemental information provided therewith) permits the calculation of earnings before interest, taxes, depreciation and amortisation (EBITDA) derived from accounting data prepared under GAAP) for the fiscal year recently ended and for the most recent quarter of the Company giving effect to the acquired business, in each case, all such information above to be provided within the time periods applicable to each item in Form 8-K and the general instructions thereof;

provided, however, that the reports set forth in clauses (1), (2) and (3) above shall not be required to (A) contain any reconciliation to U.S. generally accepted accounting principles, (B) contain any segment data other than as contained in this offering circular, (C) contain the disclosures required by Item 11 of Form 20-F, (D) include any exhibits, (E) include separate financial statements for any of the Subsidiary Guarantors or any Affiliates of the Company or any acquired businesses, (F) any pro forma financial information other than a pro forma income statement that permits the calculation of earnings before interest, taxes, depreciation and amortization, (G) contain any certification required by any such form, and (H) in the case of paragraph (1), shall be presented in a form substantially the same as presented in this offering circular (and not, for the avoidance of doubt, presented in Italian statutory format).

(b) In addition, the Issuer or the Company will provide to the Holders of the Notes and to prospective investors, upon the requests of such Holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely transferable under the Securities Act. The Issuer will also make any of the foregoing information available during normal business hours at the offices of the listing agent in Luxembourg if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require.

(c) The Issuer and the Company will agree to use their respective best efforts to schedule, disseminate in a customary manner for public companies information concerning, and conduct a conference call for Holders of Notes to discuss with appropriate senior officers of the Company the operating results and financial condition of the Company to be held within 30 days of furnishing or filing any reports described in this covenant.

(d) Notwithstanding paragraph (a) of this covenant, if, in the opinion of independent counsel, the posting of information on the Company's website would, at a pertinent time, result in the premature disclosure of information that would materially prejudice the ability of the Company to complete a pending securities offering, the Company may delay such posting for not more than 30 days.

Defaults

Each of the following is an Event of Default:

(1) a default in the payment of interest on, or any Additional Amounts with respect to, the Notes when due, continued for 30 days, whether or not prohibited by the subordination provisions of the Indenture;

(2) a default in the payment of principal of any Note when due at its Stated Maturity, upon optional redemption, upon required purchase, upon declaration of acceleration or otherwise, whether or not prohibited by the subordination provisions of the Indenture;

(3) the failure to comply with the obligations under "—Certain Covenants—Merger and Consolidation" above;

(4) the failure to comply for 30 days after notice with any of the obligations in the covenants described above under "Additional Amounts", "Change of Control" (other than a failure to purchase Notes) or under "—Certain Covenants", "—Limitation on Indebtedness", "Anti-Layering", "—Limitation on Restricted Payments", " —Limitation on Restrictions on Distributions from Restricted Subsidiaries", "—Limitation on Sales of Assets and Subsidiary Stock" (other than a failure to purchase Notes), "—Limitation on Affiliate Transactions", "—Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries", "—Limitation on Liens", "—Impairment of Security Interest", "—Limitation on Activities", "—Reports" or "Additional Intercreditor Agreements; Amendments".

(5) the failure to comply for 60 days after notice with any other agreements contained in the Indenture (other than those referred to in clause (1), (2), (3) or (4) above) or in the Security Documents;

(6) Indebtedness of the Issuer, any Guarantor, or any Significant Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds € 10 million or its Euro Equivalent (the "*cross acceleration provision*");

(7) certain events of bankruptcy, insolvency or reorganization of the Issuer, any Guarantor, or any Significant Subsidiary (the "*bankruptcy provisions*");

(8) any judgment or decree (which is not covered by insurance as to which a claim has been submitted and the insurer has not disclaimed or indicated an intent to disclaim responsibility for the payment thereof) for the payment of money in excess of €10 million or its Euro Equivalent at the time is entered against the Issuer, any Guarantor, or any Significant Subsidiary, remains outstanding for a period of 60 days following the entry of such judgment or decree and is not discharged, waived or the execution thereof stayed within 30 days after the notice; (the "*judgment default provision*");

(9) any Guarantee ceases to be in full force and effect (other than in accordance with its terms) or a Guarantor denies or disaffirms its obligations under its Guarantee;

(10) (A) it is or becomes unlawful (x) for the Issuer to perform or comply with any one or more of its obligations under the Notes or the Indenture or (y) for any Guarantor to perform or comply with any one or more of its obligations under its Guarantee; (B) the validity of the Notes, the Indenture or any Guarantee, as applicable, is contested by the Issuer or a Guarantor or the Issuer or any Guarantor denies any of the Issuer's or such Guarantor's obligations with respect to the Notes, the Indenture or a Guarantee, as applicable; or (C) any one or more of the Issuer's obligations under the Notes or the Indenture or any Guarantor's obligations under a Guarantee is found to be unenforceable or invalid (together with clause (9), the "*guarantee default provisions*"); or

(11) any of the Security Documents cease to be in full force and effect (other than in accordance with their respective terms or the terms of the Indenture), or any of the Security Documents cease to give the Security Agent or the Trustee the Liens purported to be created thereby (including, without limitation, the ranking conferred thereby) (other than in accordance with their respective terms), or any Security Document is declared null and void or any security interest created thereunder shall be declared invalid or unenforceable or the Issuer, any Guarantor or Holdings shall assert, in any pleading in any court of competent jurisdiction, that any Security Document or any security interest created thereunder is invalid or unenforceable (the "*security default provision*").

However, a default under clause (4) or (5) will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the then outstanding Notes notify in writing the Issuer or the Company of the default and the Issuer or the Company does not cure or cause to be cured such default within the time specified after receipt of such notice.

If an Event of Default occurs and is continuing, the Trustee or the Holders of a majority in principal amount of the then outstanding Notes may declare the principal of and accrued but unpaid interest on all the Notes to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Issuer, the Company, a Guarantor, or a Significant Subsidiary occurs and is continuing, the principal of and interest on all the Notes will *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder of the Notes. Under certain circumstances, the Holders of a majority in principal amount of the outstanding Notes may rescind any such acceleration with respect to the Notes and its consequences.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders of the Notes unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holder or Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity;

(5) Holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period; and

(6) with respect to enforcement of any Guarantee which is subordinate to any senior obligations of the relevant Guarantor, such Holder agrees to execute a Guarantor Subordination Agreement.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines may be unduly prejudicial to the rights of any other Holder of a Note or that would involve the Trustee in personal liability; provided however that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction.

If a Default occurs, is continuing and is known to the Trustee, the Trustee must mail to each Holder of the Notes notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on any Note, the Trustee may withhold notice if and so long as a committee of its Trust Officers determines that withholding notice is not opposed to the interest of the Holders of the Notes. In addition, each of the Issuer and the Company are required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. Each of the Issuer and the Company are required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action the Issuer or the Company, as applicable, are taking or propose to take in respect thereof.

Amendments and Waivers

Subject to certain exceptions, the Indenture may be amended with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange for the Notes) and any past default or compliance with any provisions may also be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange for the Notes). However, without the consent of Holders of 90% in principal amount of the Notes then outstanding, an amendment or waiver may not (with respect to non-consenting Holders), among other things:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) reduce the amount payable upon the redemption of any Note or change the time at which any Note may be redeemed as described under "—Optional Redemption" or "—Optional Redemption for Changes in Withholding Taxes" above;

(5) make any Note payable in money other than that stated in the Note;

(6) impair the right of any Holder of the Notes to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes;

(7) make any change in the amendment provisions which require each Holder's consent or in the waiver provisions which requires each Holder to grant a waiver;

(8) make any change in the ranking or priority of any Note that would adversely affect the Holders of the Notes; or

(9) at any time after the Issuer is obligated to make an offer to purchase Notes pursuant to the terms of the Indenture, reduce the amount required to be paid or change the time at which such offer must be made or at which the Notes must be repurchased pursuant thereto;

(10) make any change in any Guarantee, the Deferred Interest Loan Agreement, the Issuer Loan Agreement, the Intercreditor Agreement, the Put Option Agreement or the Security Documents that would adversely affect the Holders of the Notes; or

(11) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any Holder or amend the terms of the Notes, the Guarantees or the Indenture in a way that would result in the loss of an exemption from any of the Taxes described thereunder.

Notwithstanding the preceding, without the consent of any Holder of the Notes, the Issuer, the Guarantors, Holdings and the Trustee may amend the Indenture:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to provide for the assumption by a successor corporation of the obligations of the Issuer under the Indenture or a Guarantor under its Guarantee;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(4) to limit or terminate the benefits available to any holder of Senior Indebtedness with respect to a Guarantor's Obligations;

(5) to add Guarantees with respect to the Notes or to secure the Notes;

(6) to add to the covenants of the Issuer or a Guarantor for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuer or a Guarantor;

(7) to comply with any requirements of the SEC in connection with qualifying, or maintaining the qualification of, the Indenture under the Trust Indenture Act;

(8) to make any change that does not adversely affect the rights of any Holder of the Notes;

(9) to evidence and provide for the acceptance and appointment of a successor Trustee or Security Agent;

(10) to mortgage, pledge, hypothecate or grant a security interest in favor of the Security Agent (1) for the benefit of the Holders of the Notes, as additional security for the payment and performance of the Company's or any Subsidiary Guarantor's obligations under the Notes and the Indenture, or (2) for the benefit of parties to the Senior Credit Agreement, in any property, or assets, including any additional Issuer Loan Agreement or under any Security Document or any of which are required to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Security Agent pursuant to the Indenture or otherwise; or

(11) to the extent necessary to provide for the granting of a security interest for the benefit of any Person, provided that the granting of such security interest is not prohibited by the covenant described under "—Certain Covenants—Impairment of Security Interest" or otherwise under the Indenture.

The consent of the Holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, the Issuer is required to mail to Holders of the Notes a notice briefly describing such amendment. However, the failure to give such notice to all Holders of the Notes, or any defect therein, will not impair or affect the validity of the amendment.

Transfer

The Notes will be issued in registered form and will be transferable only upon the surrender of the Notes being transferred for registration of transfer. The Issuer may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection with certain transfers and exchanges.

Payments of principal and interest on the definitive registered Notes may be made through the office of the Paying Agent in Luxembourg if and so long as such Notes are listed on the Luxembourg Stock Exchange. Distributions of principal and interest on the registered Notes will be made to Noteholders whose names the registered Notes were registered as of the record date. Distributions will be made by wire, transfer or by cheque mailed to the address of such Noteholder as it appears on the register maintained by the Registrar. The final payment on any registered Note, however, will be made only upon presentation, and surrender of such certificated Note at the office of the Paying Agent in Luxembourg on a Payment date that is a Business day in the place of presentation. For so long as the notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so requires, in the case of a transfer or exchange of definitive registered Notes, a holder thereof may effect such transfer or exchange by presenting and surrendering such Notes at, and obtaining a new definitive registered Notes from the office of the Luxembourg Transfer Agent, in the case of a transfer of only a part of a definitive registered Notes, a new definitive note in respect of the balance of the principal amount of the definitive registered not transferred will be delivered at the office of the Luxembourg Transfer Agent, and in the case of any lost, stolen, mutilated or destroyed definitive registered Note, a holder thereof may obtain a new definitive registered Notes from the Luxembourg Transfer Agent. The Company expects that new certificated notes issued in the circumstances set forth above will be available within seven business days at the office of the Trustee or at the office of any Paying Agent

Defeasance

At any time, the Issuer may terminate all its obligations (including those relating to the Guarantors) under the Notes and the Indenture and the Security Documents ("*legal defeasance*"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes.

In addition, at any time the Issuer may terminate its obligations (including those relating to the Guarantors) under "—Change of Control" and under the covenants described under "—Certain Covenants" (other than the covenant described under "—Merger and Consolidation"), the operation of the cross-acceleration provision, the bankruptcy provisions with respect to Significant Subsidiaries and Subsidiary Guarantors, the judgment default provision, the guarantee default provisions and the security default provision described under "—Defaults" above and the limitations contained in clauses (3) and (4) of the first paragraph under "—Certain Covenants—Merger and Consolidation" above ("*covenant defeasance*").

The Issuer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect thereto. If the Issuer exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in clause (4), (6) and (7) (with respect only to Significant Subsidiaries), (9), (10) or (11) under "—Defaults" above or because of the failure of the Company to comply with clause (3) or (4) of the first paragraph under "—Certain Covenants—Merger and Consolidation" above. If the Issuer exercises its legal defeasance option or its covenant defeasance option, each Guarantor, if any, shall be released from all its obligations with respect to its Guarantee and, subject to the Intercreditor Agreement, the Security Documents.

In order to exercise either of its defeasance options, the Issuer must irrevocably deposit in trust (the "*defeasance trust*") with the Trustee, money or Temporary Cash Investments or Euro-Denominated Government Obligations for the payment of principal and interest (in the manner contemplated in the Indenture) on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of Opinions of Counsel to the effect that Holders of the Notes will not recognize income, gain or loss for Italian, Luxembourg or U.S. Federal income tax purposes as a result of such deposit and defeasance and will be subject to Italian, Luxembourg and U.S. Federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law).

Additional Intercreditor Agreements; Amendments

The Indenture will provide that, subject to the terms of the covenant described under "—Limitation on Activities", at the time of, or prior to, the Incurrence by the Company or any Subsidiary Guarantor of any guarantees of Indebtedness for borrowed money permitted pursuant to paragraph (a) and clause (1), (2) and (3) of paragraph (b) of the covenant described under "—Limitation on Indebtedness", the Company, the Issuer, the relevant Subsidiary Guarantors and the Trustee shall enter into with the holders of such guarantees (or their duly authorized agents) an Intercreditor Agreement on substantially the same terms as the Initial Intercreditor Agreement, including containing substantially identical terms with respect to the subordination and release of Guarantees (or terms more favorable to the Noteholders), provided that such Indebtedness for borrowed money constitutes (i) Designated Senior Indebtedness, (ii) Senior Subordinated Indebtedness or (iii) Subordinated Indebtedness (which in the case of clauses (ii) and (iii) satisfies clauses (1), (2), (3) and (5) of the proviso to the definition of Senior Indebtedness). Pursuant to any such Intercreditor Agreement, such other Indebtedness may constitute Senior Indebtedness, Senior Subordinated Indebtedness that is *pari passu* with the Guarantees or Subordinated Indebtedness. Any such guarantee shall provide for its release and termination on the same terms as the Guarantees.

The Indenture will also provide that, at the direction of the Issuer and without the consent of Holders of the Notes, the Trustee shall from time to time enter into one or more amendments to an Intercreditor Agreement to: (i) cure any ambiguity, omission, defect or inconsistency in such Intercreditor Agreement, (ii) increase the amount of Indebtedness of the types covered by such Intercreditor Agreement that may be Incurred by the Issuer or a Guarantor that is subject to such Intercreditor Agreement (including the addition of provisions relating to new indebtedness ranking junior in right of payment to the Notes), (iii) add Guarantors to such Intercreditor Agreement or (iv) make any other such change to an Intercreditor Agreement that does not adversely affect the Noteholders in any material respect. The Issuer shall not otherwise direct the Trustee to enter into any amendment to an Intercreditor Agreement without the consent of Holders of a majority of the principal amount of the outstanding Notes.

The Indenture will also provide that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of each Intercreditor Agreement. A copy of any such Intercreditor Agreement shall be available on any Business Day upon prior written request at the offices of the Trustee and, for so long as any Notes are listed on the Luxembourg Stock Exchange, at the offices of the Paying Agent in Luxembourg.

Concerning the Trustee

The Bank of New York is to be the initial Trustee under the Indenture.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *provided, however,* if it acquires any conflicting interest it must either eliminate such conflict or resign.

The Holders of a majority in principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. If an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture.

Paying Agent, Transfer Agent and Registrar

The Issuer has initially appointed The Bank of New York, as registrar (the "*Registrar*") and as paying agent in respect of the Notes (the "*Principal Paying Agent*") and The Bank of New York (Luxembourg) S.A. as Luxembourg Paying Agent. The Principal Paying Agent and the Luxembourg Paying Agent are collectively referred to herein as the "Paying Agent". The Issuer will ensure that for as long as any Notes are outstanding there will always be a registrar and a paying agent to perform the functions assigned to them in the Indenture. The Bank of New York (Luxembourg) S.A. has been appointed as transfer agent in the event the Notes are issued in definitive registered form.

Application has been made to list the Notes on the Luxembourg Stock Exchange. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the such Exchange so require, the Issuer will maintain a paying agent and transfer agent in Luxembourg. If the Notes are listed on any other securities exchange, the Issuer will satisfy any requirement at such securities exchange as to paying agents. So long as the Notes are listed on the Luxembourg Stock Exchange, any change in the Paying Agent or transfer agent shall be notified to Holders in accordance with the procedures described in "—Notices".

Notices

If and for so long as the Notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, the Issuer will make publication of notices to the Holders of the Notes in English in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). For so long as the Notes are listed on the Luxembourg Stock Exchange, a copy of all notices will be provided by the Issuer to the Luxembourg Stock Exchange. Notices shall be deemed to be given on the date of publication or, if published on different dates, on the first date of such publication.

So long as the Notes are listed on the Luxembourg Stock Exchange, copies of the Indenture, incorporating the forms of the Notes, will be available, free of charge, during usual business hours at the specified office of the Luxembourg Paying Agent.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or shareholder of the Issuer or the Company or any other Guarantor will have any liability for any obligations of the Issuer or any Guarantor under the Notes, the Guarantees or the Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the U.S. Federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

Governing Law

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. The Company Share Charge will be governed by, and construed in accordance with, the laws of the Republic of Italy. The Issuer Loan Agreement Pledge will be governed by, and construed in accordance with, the laws of England without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Enforceability of Judgments

Since most of the operating assets of the Issuer, the Guarantors (other than Safilo America, Inc.) and Holdings are situated outside the United States, any judgment obtained in the United States against them, including judgments with respect to the payment of principal, interest, Additional Amounts, redemption price and any purchase price with respect to the Notes, may not be collectible within the United States.

Consent to Jurisdiction and Service

The Issuer, the Company, the Subsidiary Guarantors and Holdings will each appoint Safilo U.S.A., Inc. as its agent for actions relating to the Notes or the Indenture brought under Federal or state securities laws brought in any Federal or state court located in the Borough of Manhattan in The City of New York and each will submit to such jurisdiction.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP.

"*Additional Assets*" means:

(1) any property, plant or equipment used in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

"*Affiliate*" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of the covenants described under "—Certain Covenants—Limitation on Restricted Payments", "—Certain Covenants—Limitation on Affiliate Transactions" and "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock" only, "Affiliate" shall also mean any beneficial owner of Capital Stock representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"*Applicable Premium*" means, with respect to a Note at any redemption date, the greater of (1) 1.0% of the principal amount of such Note at such time and (2) the excess of (A) the present value at such time of (i) the redemption price of such Note on May 15, 2008 (such redemption price being described in the table appearing in the second paragraph of "—Optional Redemption" exclusive of any accrued interest to such redemption date), plus (ii) any required interest payments due on such Note through and including May 15, 2008, computed using a discount rate equal to the Bund Rate plus 50 basis points, over (B) the principal amount of such Note.

"*Asset Disposition*" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "*disposition*"), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary,

other than, in the case of clauses (1), (2) and (3) above,

(A) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary;

(B) for purposes of the covenant described under "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock" only, (x) a disposition that constitutes a Restricted Payment permitted by the covenant described under "—Certain Covenants—Limitation on Restricted Payments" or a Permitted Investment and (y) a disposition of all or substantially all the assets of the Company in accordance with the covenant described under "—Certain Covenants—Merger and Consolidation";

(C) a disposition of assets with a Fair Market Value of less than €1,000,000;

(D) a disposition of Receivables and Related Assets in a Qualified Receivables Transaction to a Receivables Entity or pursuant to the Receivables Purchase Agreement;

(E) a transfer of Receivables and Related Assets (or a fractional undivided interest therein);

(F) a disposition of an asset which is obsolete for the purposes for which such asset is normally utilized;

(G) a disposition of redundant plant, machinery or equipment not required for the efficient operation of the business of the Company and its Restricted Subsidiaries in the ordinary and customary course;

(H) a disposition of cash or Temporary Cash Investments on an arm's-length basis and, in each case, where such disposal is not otherwise prohibited by the Indenture;

(I) a disposition of a fixed asset if the fixed asset is exchanged for another fixed asset of a similar nature used in the business of the Company or relevant Restricted Subsidiaries or if the proceeds are used within six months of that disposal (or, if committed to be used no later than six months of that disposal, are used within twelve months of that disposal) for the purchase of a fixed asset to replace the asset which is the subject of such disposal;

(J) a disposition pursuant to the Stock Option Plan or the Smith Stock Option Arrangements; and

(K) a disposition of an asset on arm's length terms for cash by the Company or a Restricted Subsidiary which disposal is not within paragraphs (A) to (J) above and where the value of the net consideration received by the Company or a Restricted Subsidiary in respect of any such disposal when aggregated with all other such disposals by members of the Company and the Restricted Subsidiaries made in the same financial year of the Company does not exceed €10,000,000 or the Euro Equivalent.

"*Attributable Debt*" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the greater of (a) the Fair Market Value of the property subject to such Sale/Leaseback Transaction and (b) the present value (discounted at the interest rate borne by the Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended); *provided, however,* that if such Sale/Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capital Lease Obligation".

"*Average Life*" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing:

(1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by

(2) the sum of all such payments.

"*Bank Indebtedness*" means all Obligations under or in respect of the Senior Credit Agreement.

"*Board of Directors*" with respect to a Person means the Board of Directors of such Person or any committee thereof duly authorized to act on behalf of such Board.

"*Bridge Notes*" means the €201,463,270 aggregate principal amount of bridge notes together with the U.S.$100,000,000 aggregate principal amount of bridge notes, in each case, issued pursuant to an indenture dated December 13, 2002, among the Issuer, the Company, the Guarantors, Holdings and The Bank of New York, as trustee.

"*Bund Rate*" means, with respect to any relevant date, the rate per annum equal to the equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(1) "Comparable German Bund Issue" means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to , 2008, and that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal

amount of the Notes and of a maturity most nearly equal to May 15, 2008; *provided, however*, that, if the period from such redemption date to May 15, 2008, is less than one year, a fixed maturity of one year shall be used;

(2) "Comparable German Bund Price" means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Company obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) "Reference German Bund Dealer" means any dealer of German Bundesanleihe securities appointed by the Company in consultation with the Trustee; and

(4) "Reference German Bund Dealer Quotations" means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Company of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference German Bund Dealer at 3.30 p.m. Frankfurt, Germany, time on the third Business Day preceding the relevant date.

"*Business Day*" means each day which is not a Legal Holiday.

"*Capex Facility*" means the capex facility contained in the Senior Credit Agreement and any other facility or financing arrangement that Refinances in whole or in part any such capex facility.

"*Capital Lease Obligation*" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the amount of such obligation required to be capitalized to a balance sheet as determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"*Capital Stock*" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"*Code*" means the United States Internal Revenue Code of 1986, as amended.

"*Collateral*" means (a) the share capital of the Company and the Issuer Loan Agreement, each of which is pledged to secure the Notes under the Security Documents, and (b) any other collateral securing the Notes pursuant to the Security Documents.

"*Company*" means Safilo S.p.A, a company formed with limited liability (as a *società per azioni*) under the laws of the Republic of Italy.

"Company Share Charge" means the share charge or pledge executed by Holdings and the Company, in favor of the Security Agent and the Secured Creditors over all of the issued share capital of the Company pursuant to which the Lien thereunder secures first, the Obligations under the Senior Credit Agreement, and second, the Obligations under the Notes.

"*Company Share Capital Enforcement Sale*" has the same meaning as given to "Safilo Share Capital Enforcement Sale" as defined in the Intercreditor Agreement.

"*Consolidated Coverage Ratio*" as of any date of determination means the ratio of (x) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters for which financial statements have been made available as provided under the heading "Reports" to (y) Consolidated Interest Expense for such four fiscal quarters; *provided, however*, that:

(1) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a *pro forma* basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period;

(2) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, redeemed, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced and the related commitment has been terminated) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a *pro forma* basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted Subsidiary had not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, redeem, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, redeemed, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made under the Indenture, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(5) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged or consolidated with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (3) or (4) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting Officer of the Company. If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months). For purposes of this definition, whenever *pro forma* effect is to be given to any Indebtedness Incurred pursuant to a revolving credit facility, the amount outstanding on the date of such calculation will be computed based on (1) the average daily balance of such Indebtedness during such four fiscal quarters or such shorter period for which such facility was outstanding or (2) if such facility was created after the end of such four fiscal quarters, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation.

"*Consolidated Interest Expense*" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, plus, to the extent not included in such total interest expense, and to the extent Incurred by the Company or its Restricted Subsidiaries, without duplication:

(1) interest expense attributable to Capital Lease Obligations and the interest expense attributable to leases constituting part of a Sale/Leaseback Transaction;

(2) amortization of debt discount and debt issuance cost;

(3) capitalized interest;

(4) non-cash interest expense, but excluding interest on Subordinated Shareholder Funding;

(5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(6) net payments pursuant to Hedging Obligations but excluding realized and unrealized foreign exchange gains and losses;

(7) dividends accrued in respect of all Preferred Stock held by Persons other than the Company or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the Company); *provided*, *however*, that such dividends will be multiplied by a fraction the numerator of which is one and the denominator of which is one minus the effective combined tax rate of the issuer of such Preferred Stock (expressed as a decimal) for such period (as estimated in good faith by the chief financial officer of the Company);

(8) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is guaranteed by (or secured by the assets of) the Company or any Restricted Subsidiary; *provided, however*, that such interest shall only be included to the extent actually paid by the Company or a Restricted Subsidiary or a default shall have occurred and be continuing as of the end of the period in question that allows the holder of such Indebtedness to demand payment on such guarantee or enforce such security; and

(9) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust.

"*Consolidated Net Income*" means, for any period, the net income of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP; provided, however, that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent of the Investment in such Person (after giving effect to the Company's portion of any cumulative net losses in such Person);

(2) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net income of any Restricted Subsidiary if, at the date of determination, such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions of that income by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(A) subject to the exclusion contained in clause (4) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause; *provided, however*, that solely for the purposes of calculating the Consolidated Coverage Ratio and for making Investments, any determination as to the exclusion of net income of a Restricted Subsidiary pursuant to this clause shall not give effect to any Permitted Restriction; and

(B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(4) any gain or loss, together with any provision for taxes related to such gain (or loss), realized upon the sale or other disposition of any assets of the Company, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(5) extraordinary gains or losses (net of taxes);

(6) the cumulative effect of a change in accounting principles; and

(7) amortization of debt issuance costs related to the Refinancing.

Notwithstanding the foregoing, for the purposes of the covenant described under "—Certain Covenants—Limitation on Restricted Payments" only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of Investments or return of capital to the Company or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under such covenant pursuant to clause (b)(3)(D).

"*Consolidated Tangible Assets*" means, as of any date of determination, an amount equal to, based on the consolidated balance sheet of the Company and its Restricted Subsidiaries, as of the end of the most recent fiscal quarter for which financial statements have been made available as provided under the heading "Reports", the total assets (less accumulated depreciation and amortization, allowances for doubtful receivables, other applicable reserves and other properly deductible items) of the Company and its Restricted Subsidiaries, after giving effect to purchase accounting and after deducting therefrom, to the extent otherwise included, the amounts of (without duplication):

(1) the excess of cost over Fair Market Value of assets or businesses acquired;

(2) unamortized debt discount and expenses and other unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, licenses, organization or development expenses and other intangible items;

(3) minority interests in consolidated Subsidiaries held by Persons other than the Company or any Restricted Subsidiary;

(4) treasury stock; and

(5) Investments in, and assets of, Unrestricted Subsidiaries.

"*Currency Agreement*" means an agreement for a foreign exchange transaction for spot or forward delivery entered into in the ordinary course of trade (and not for investment or speculative purposes) to hedge currency exposures incurred by the Company and the Restricted Subsidiaries in the ordinary course of business.

"*Default*" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"*Deferred Interest Loan Agreement*" means the subordinated deferred interest loan agreement dated on or about May 15, 2003, between Safilo International B.V. and the Company pursuant to which Safilo International B.V. lent €300,000,000 to the Company.

"*Designated Senior Indebtedness*", with respect to a Person means:

(1) Indebtedness Incurred under the Senior Credit Agreement; and

(2) any other Senior Indebtedness of such Person which, at the date of determination, has an aggregate principal amount outstanding of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least €15 million and is specifically designated by such Person in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of the Indenture.

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof) or upon the happening of any event:

(1) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if:

(1) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the terms applicable to the Notes and described under " —Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock" and "—Certain Covenants—Change of Control"; and

(2) any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

Notwithstanding the preceding sentence, only the portion of such Capital Stock which so matures or is mandatorily redeemable or is so convertible or exchangeable prior to the first anniversary of the Stated Maturity of the Notes shall be deemed Disqualified Stock. The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

"*EBITDA*" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(1) all income tax expense of the Company and its consolidated Restricted Subsidiaries;

(2) Consolidated Interest Expense;

(3) depreciation and amortization expense of the Company and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid operating activity item that was paid in cash in a prior period); and

(4) all other non-cash charges of the Company and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period);

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders; *provided, however,* that such corresponding amount shall not be excluded solely due to any Permitted Restriction.

"*Equity Offering*" means any public or private sale of Capital Stock or Preferred Stock of the Company or a direct or indirect parent of the Company (other than Disqualified Stock) whereby the Company or a direct or indirect parent of the Company receives gross proceeds of not less than € 50 million, other than public offerings with respect to common stock of the Company or of any direct or indirect parent corporation of the Company registered on Form S-8 but, in the case of any such offering by a direct or indirect parent of the Company, only to the extent the Net Cash Proceeds thereof are contributed to the equity (other than through the issuance of Disqualified Stock) of the Company or loaned to the Company in the form of Subordinated Shareholder Funding.

"*Euro-Denominated Government Obligations*" means direct obligations (or certificates representing an ownership interest in such obligations) of any country that is a member of the European Union on the Issue Date (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such country is pledged and which are not callable at the issuer's option.

"*Euro Equivalent*" means with respect to any monetary amount in a currency other than euros, at any time of determination thereof, the amount of euros obtained by converting such foreign currency involved in such computation into euros at the spot rate for the purchase of euros with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

Except as described under "—Certain Covenants—Limitation on Indebtedness", whenever it is necessary to determine whether the Issuer or the Company has complied with any covenant in the Indenture or a Default has occurred and an amount is expressed in a currency other than euros, such amount will be treated as the Euro Equivalent determined as of the date such amount is initially determined in such currency.

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended.

"*Fair Market Value*" means, with respect to any asset or property, the price which could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. For purposes of "—Limitation on Sales of Assets and Subsidiary Stock", and "Certain Covenants—Limitation on Restricted Payments", the Fair Market Value of property or assets other than cash which involves an aggregate amount in excess of €3 million, shall be set forth in a resolution approved by at least a majority of the Board of Directors of the Company. For all other purposes of the Indenture, Fair Market Value will be determined in good faith by the Board of Directors of the Company, whose determination will be conclusive and evidenced by a resolution of the Board of Directors of the Company.

"*Finance Subsidiary*" means a Wholly Owned Subsidiary that is formed for the purpose of borrowing funds or issuing securities and lending the proceeds to the Company or a Subsidiary Guarantor and that conducts no business other than as may be reasonably incidental to the foregoing.

"*GAAP*" means Italian generally accepted accounting principles as in effect from time to time and which, initially, are consistent with the accounting principles and practices applied by the Company in preparing the financial statements included in this offering circular except that if the Company shall so notify the Trustee in writing, GAAP shall mean International Financial Reporting Standards (formerly International Accounting Standards) ("*IAS*") as in effect from time to time, *provided*, *however*, that the Company shall not be entitled to make the foregoing election on more than one occasion; *provided*, *further*, that in the event the Company makes such election, it shall restate its financial statements in accordance with IAS for the fiscal year ending immediately prior to the first fiscal year for which financial statements have been prepared in accordance with IAS.

"*guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, *however*, that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning. The term "guarantor" shall mean any Person guaranteeing any obligation.

"Guarantees" means the guarantees on the terms set forth in the Indenture by the Guarantors of the Issuer's Obligations under the Notes.

"*Guarantors*" means the Company and the Subsidiary Guarantors.

"*Guarantor Subordination Agreement*" means an agreement pursuant to which a Holder of a Note agrees in writing to be bound by the subordination terms of the Intercreditor Agreement.

"*Hedging Obligations*" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"*Holder*" or "*Noteholder*" means the Person in whose name a Note is registered on the Registrar's books.

"Holdings" means Safilo Holding S.p.A., a company incorporated in Italy.

"*Holdings Capex Equity Contribution*" means equity capital contributions to the Company, directly or indirectly, by Holdings or the purchase of ordinary shares of the Company, directly or indirectly, by Holdings, in an aggregate amount of up to €55 million, €30 million of which is to be paid to the Company on the Issue Date.

"*Incur*" means create, issue, assume, guarantee, incur (including, without limitation, by merger, conversion, exchange or otherwise), extend or otherwise become liable for; *provided, however,* that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with "—Certain Covenants—Limitation on Indebtedness":

(1) amortization of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;

(2) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument (including, for the avoidance of doubt, capitalization to principal of accrued and unpaid interest on Indebtedness permitted under the Indenture and capitalized in accordance with the terms of such Indebtedness) or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(3) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness.

"*Indebtedness*" means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/Leaseback Transactions entered into by such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction (the amount of each obligation being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit, bankers' acceptance or other instruments plus the aggregate amount of drawings thereunder that have not been reimbursed as at any date of determination);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Capital Stock of such Person or any Subsidiary of such Person or that are determined by the value of such Capital Stock, the principal amount of such Capital Stock to be determined in accordance with the Indenture;

(6) all obligations of the type referred to in clauses (1) through (5) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee;

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the Fair Market Value of such property or assets and the amount of the obligation so secured; and

(8) to the extent not otherwise included in this definition, Hedging Obligations of such Person (the amount of any such obligation to be equal at any time to the termination value of such agreement or arrangement giving rise to such Hedging Obligation that would be payable by such Person at such time),

in each case if and to the extent the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP.

The term "Indebtedness" shall not include Subordinated Shareholder Funding or Issuer Subordinated Loans.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date; *provided, however,* that in the case of Indebtedness sold at a discount, the amount of such Indebtedness at any time will be the accreted value thereof at such time.

"*Independent Qualified Party*" means an investment banking firm, accounting firm or appraisal firm of international standing.

"*Initial Intercreditor Agreement*" means the Agreement dated as of May 15, 2003, among the Company, Holdings, the Issuer, certain subsidiaries of the Company, certain agents and banks under the Senior Credit Agreement, the Trustee and the Security Agent.

"*Initial Purchasers*" means Credit Suisse First Boston (Europe) Limited and Caboto SIM S.p.A.

"Intercreditor Agreement" means the Initial Intercreditor Agreement and any intercreditor agreement entered into as described under "Additional Intercreditor Agreements; Amendments".

"*Interest Rate Agreement*" means in respect of a Person any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect such Person against fluctuations in interest rates; *provided* that any such agreements are entered into in the ordinary course of the financial management of the Company and not for speculative purposes and the obligations under any such agreements are directly related to payment obligations on Indebtedness permitted by the terms of the covenant described under "Certain Covenants—Limitation on Indebtedness". For the avoidance of doubt, the agreements entered into between the Company and one or more lenders, or affiliate of lenders, under the Senior Credit Agreement to protect the Company against fluctuations in interest rates under the Senior Credit Agreement are "Interest Rate Agreements".

"*Invested*" shall mean, with reference to the "Limitation on Restricted Payments" covenant and the definition of Permitted Investments, the total amount of the relevant Investment in any Person, less the net reduction in such Investment resulting from repurchases, repayments or redemptions of such Investment by such Person, proceeds realized on the sale or liquidation of such Investment and proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Company or a Restricted Subsidiary.

"*Investment*" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. Except as otherwise provided for in the Indenture, the amount of an Investment shall be its fair value at the time the Investment is made and without giving effect to subsequent changes in value.

For purposes of the definition of "Unrestricted Subsidiary", the definition of "Restricted Payment" and the covenant described under "Certain Covenants—Limitation on Restricted Payments":

(1) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the

Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary equal to an amount (if positive) equal to (A) the Company's "Investment" in such Subsidiary at the time of such redesignation less (B) the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

"*Issue Date*" means the date on which the Notes are originally issued, May 15, 2003.

"*Issuer Loan Agreement*" means (a) the senior subordinated loan agreement dated December 16, 2002 (as amended and restated on May 15, 2003), between the Issuer and Safilo International B.V. pursuant to which the Issuer on-lent the euro equivalent of €300 million aggregate principal amount of the proceeds from the issuance of Bridge Notes (the "*Initial Issuer Loan*") and (b) all loans directly or indirectly replacing or refinancing the Initial Issuer Loan or any portion of the Initial Issuer Loan.

"*Issuer Loan Agreement Pledge"* means the pledge and security assignment over the Issuer Loan Agreement executed by the Issuer in favor of the Security Agent pursuant to which the Lien thereunder secures first, the Obligations under the Senior Credit Agreement, and second, the Obligations under the Notes.

"*Issuer Permitted Investment*" means an Investment by the Issuer in:

(1) cash and Temporary Cash Investments;

(2) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer or in satisfaction of judgments;

(3) the Issuer Loan Agreement and other loan agreements substantially similar to the Issuer Loan Agreement relating to a loan by the Issuer to a Subsidiary Guarantor of the proceeds from issuances of Public Debt by the Issuer; and

(4) Capital Stock of Restricted Subsidiaries of the Company.

"*Issuer Permitted Liens*" means, with respect to the Issuer:

(1) Liens for taxes, assessments or government charges or claims not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(2) Liens to secure Indebtedness permitted under the provisions described in clause (b)(4)(i) and (ii) under "Certain Covenants—Limitation on Indebtedness", including the Liens under the Security Documents;

(3) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in the foregoing clause (2); *provided*, *however*, that:

  (A) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

  (B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clause (2) at the time the original Lien became a Permitted Lien and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement; and

(4) Liens granted to the Trustee for its compensation pursuant to the Indenture.

"*Issuer Restricted Payment*" with respect to the Issuer means:

(1) the declaration or payment of any dividends or any other distribution of any sort in respect of Capital Stock of the Issuer

or similar payment to the direct or indirect holders of Capital Stock of the Issuer (other than dividends or distributions to the Company payable solely in Capital Stock of the Issuer (other than Disqualified Stock));

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person, including in connection with the exercise of any option with respect to any Capital Stock of the Issuer;

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to the scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer (other than as required under the Indenture); or

(4) the making of any Investment (other than an Issuer Permitted Investment) in any Person.

"Issuer Subordinated Loan" means indebtedness owed by the Issuer to the Company or a Wholly Owned Restricted Subsidiary; *provided* that such Issuer Subordinated Loan (i) does not mature or require any amortization, redemption or other payment of principal or any sinking fund payment prior to the date falling 11 years after the Issue Date (other than through conversion or exchange of any such security, instrument or agreement into Capital Stock (other than Disqualified Stock) or any other security, instrument or agreement, meeting the requirements of this definition), (ii) does not require the payment of cash interest prior to the date falling 11 years after the Issue Date, (iii) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any payment prior to the date falling 11 years after the Issue Date, (iv) is unsecured, (v) does not contain any covenants (financial or otherwise) other than a covenant to pay the Issuer Subordinated Loan when due and (vi) is fully subordinated and junior in right of payment to all obligations in respect of the Notes and the Indenture pursuant to customary subordination terms for similar Indebtedness.

"*Legal Holiday*" means a Saturday, a Sunday or a day on which banking institutions are not required to be open in Milan, London or the State of New York.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Net Available Cash*" from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form), in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition, and all costs reasonably incurred in preparation of any asset or property for sale disposed of or for the delivery thereof;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"*Net Cash Proceeds*", with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"*Obligations*" means, with respect to any Indebtedness, all obligations for principal, premium, interest, penalties, fees, charges, expenses, indemnifications, reimbursements, and all other amounts payable pursuant to the documentation governing such Indebtedness.

"*OECD State*" means a country that is a member of the Organization for Economic Cooperation and Development.

"*Officer*" means the Chairman of the Board, a co-Chief Executive Officer the President, any Vice President, the Treasurer or the Secretary of the Company or the Issuer, as applicable or, with respect to the Issuer, a Director.

"*Officers' Certificate*" means a certificate signed by two Officers.

"*Opinion of Counsel*" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"*Permitted Collateral Liens*" means a Lien on the share capital of the Company to secure, directly or indirectly, Indebtedness for borrowed money of the Company or a Finance Subsidiary or the Issuer that is permitted to be Incurred under paragraph (a) and clauses (1), (2), (3) and (4)(i) and (ii) of paragraph (b) under "Certain Covenants—Limitation on Indebtedness" and any Refinancing Indebtedness thereof; *provided* that such Indebtedness for borrowed money constitutes (i) Designated Senior Indebtedness, (ii) Senior Subordinated Indebtedness, or (iii) Subordinated Indebtedness (which in the case of clauses (ii) and (iii) satisfies clauses (1), (2), (3) and (5) of the proviso to the definition of Senior Indebtedness), and *provided further* that such Lien either ranks (i) equal to all other Liens on such Collateral securing Senior Indebtedness of the Company, (ii) equal to all Senior Subordinated Indebtedness of the Company (including its Guarantee of the Notes) or (iii) junior to the Liens securing the Notes; *provided*, *however*, that the covenant headed "Impairment of Security Interest" is complied with.

"*Permitted Holders*" means, individually and collectively, (a) Vittorio Tabacchi and his estate and lineal descendants, the legal representatives of any of the foregoing and the trustees of bona fide trusts of which the foregoing are the sole beneficiaries, (b) the Sponsor, (c) any investment fund or vehicle managed, sponsored or advised by the Sponsor, (d) any limited or general partners of, or other investors in, the Sponsor or any such investment fund or vehicle and (e) any Person acting in the capacity of an underwriter or initial purchaser in connection with an Equity Offering of the Company's or Holdings' Capital Stock.

"*Permitted Holdings Funding*" means, collectively, funds provided to Holdings, directly or indirectly, in exchange for or pursuant to any security, instrument or agreement, whether in the form of equity capital, debt obligations or rights exchangeable or convertible for or into equity capital; *provided*, *however*, that (i) the obligations thereunder are expressly subordinated to all obligations of Holdings under the Notes, the Indenture and the Security Documents to at least the same extent as such obligations are subordinated to Senior Indebtedness under the Intercreditor Agreement, (ii) such obligations are subject to restrictions on enforcement of such obligations thereunder which are at least as restrictive as the restrictions on enforcement of such obligations in favor of the holders of Senior Indebtedness under the Intercreditor Agreement, (iii) such obligations do not mature or require the payment of cash interest or dividends and cannot be accelerated (other than following an acceleration of the Notes) prior to the first anniversary of the Stated Maturity of the Notes and (iv) if such obligations are subject to a pledge or other security interest in favor of any holder of Senior Indebtedness of the Company, effective provision is made for such obligations to be subject to a pledge or other security interest in favor of the Notes on substantially the same basis as the Share Pledge.

"*Permitted Holdings Merger*" shall mean a merger of the Company with and into Holdings or a merger of Holdings with and into the Company that meets all of the following requirements:

(1) such merger is permitted by the Senior Credit Agreement (or otherwise has been consented to by the Senior Lenders thereunder);

(2) the Company Share Charge shall have been discharged and released in full under the Senior Credit Agreement and, immediately following the completion of the merger, there shall be no Lien over the Capital Stock of Holdings or the Company or any other Successor Company, as the case may be;

(3) the Put Option Agreement and the Issuer Loan Agreement Pledge shall have been terminated and there shall be no Lien over or with respect to the Capital Stock of the Issuer or the Issuer Loan Agreement;

(4) the provisions of any Intercreditor Agreement providing for the release of the Guarantees in the event of a Company Share Capital Enforcement Sale (or similar enforcement action or sale) shall have been amended to remove any requirement or other provision for such release of the Guarantees; and

(5) the other requirements of the provisions described in clauses (1), (2) (other than the requirement that the Security Documents and the Liens created thereunder shall remain in full force and effect), (3) and (4) under "Certain Covenants—Merger and Consolidation" shall have been complied with.

"*Permitted Investment*" means an Investment by the Company or any Restricted Subsidiary in:

(1) the Company, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; *provided*, *however*, that the primary business of such Restricted Subsidiary is a Related Business;

(2) another Person if, as a result of such Investment, such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; *provided*, *however*, that such Person's primary business is a Related Business;

(3) cash and Temporary Cash Investments;

(4) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided*, *however*, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to, or guarantees of loans or advances to, employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary, but in any event not to exceed €5 million in the aggregate outstanding at any time;

(7) shares, stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(8) any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted pursuant to the covenant described under "Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock";

(9) any Person where such Investment was acquired by the Company or any of its Restricted Subsidiaries (a) in exchange for any other Investment or accounts receivable held by the Company or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable or (b) as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(10) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;

(11) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under "Certain Covenants—Limitation on Indebtedness";

(12) Persons to the extent such Investments are in existence on the Issue Date;

(13) a Receivables Entity or any Investment by a Receivables Entity in any other Person in connection with a Qualified Receivables Transaction, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Receivables Transaction or any related Indebtedness; *provided* that any Investment in a Receivables Entity is in the form of a Purchase Money Note, contribution of additional receivables or an equity interest; and

(14) other Persons to the extent the Fair Market Value of such Investments (measured at the time made), when taken together with the total Fair Market Value of all other Investments made pursuant to this clause (14) and the total Fair Market

Value of all Permitted Restricted Joint Ventures outstanding on the date such Investment is made (measured in each case at the time such Investment was made or such Permitted Restricted Joint Venture was created), do not exceed 5% of Consolidated Tangible Assets; *provided*, *however*, that the Fair Market Value of any Investment made pursuant to this clause (14) shall be determined on the basis of the amount Invested therein at the time of such calculation, and any net reduction in such Investment shall be disregarded for purposes of clause (b)(3)(D)(x) of the "Limitation on Restricted Payments" covenant.

"*Permitted Liens*" means, with respect to any Person:

(1) pledges or deposits by such Person under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or EU Member States (at the date hereof) or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(2) Liens imposed by law, such as carriers', landlords', warehousemen's and mechanics', materialmen's, suppliers' and vendors' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review (and in respect of which adequate reserves have been established in accordance with GAAP) and Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; *provided*, *however*, that such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Company in excess of those customarily applied to deposit accounts not intended by the Company or any Restricted Subsidiary to provide collateral to the relevant depository institution;

(3) Liens for taxes, assessments or government charges or claims not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(4) Liens in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business; *provided*, *however*, that such surety bonds or letters of credit do not constitute Indebtedness;

(5) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(6) Liens securing Indebtedness Incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, property, plant or equipment of such Person; *provided*, *however*, that the Lien may not extend to any other property owned by such Person or any of its Restricted Subsidiaries at the time the Lien is Incurred (other than assets and property affixed or appurtenant thereto), and the Indebtedness (other than any interest thereon) secured by the Lien may not be Incurred more than 180 days after the later of the acquisition, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien;

(7) Liens to secure Indebtedness permitted under the provisions described in clause (b)(1), (2), (3) and (4)(i) and (4)(ii) under "Certain Covenants—Limitation on Indebtedness";

(8) Liens existing on the Issue Date, including Liens under the Security Documents;

(9) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of such Person; *provided*, *however*, that the Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(10) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary of such Person; *provided*, *however*, that the

Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(11) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a wholly owned Subsidiary of such Person;

(12) Liens securing Hedging Obligations so long as such Hedging Obligations relate to Indebtedness that is, and is permitted to be under the Indenture, secured by a Lien on the same property securing such Hedging Obligations;

(13) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in the foregoing clause (6), (8), (9) or (10); *provided*, *however*, that:

(A) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clause (6), (8), (9) or (10) at the time the original Lien became a Permitted Lien and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement;

(14) Liens on Receivables and Related Assets Incurred in connection with a Qualified Receivables Transaction;

(15) Liens on property of any Restricted Subsidiary securing solely Indebtedness of such Restricted Subsidiary that is permitted under the provisions described in clause (b)(13) under "Certain Covenants—Limitation on Indebtedness";

(16) judgment Liens with respect to judgments not giving rise to an Event of Default that are being appealed in good faith so long as such Lien are adequately bonded and any appropriate legal proceedings that may have been initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(17) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of banker's acceptances issued or credited for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(18) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof; *provided* that such letters of credit do not relate to Indebtedness.

(19) Liens arising out of consignment or similar arrangements for the sale of goods in the ordinary course of business;

(20) any interest or title of a lessor in the property subject to any lease other than a Capital Lease;

(21) leases or subleases or licenses and sublicenses granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries;

(22) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(23) Liens incurred or pledges and deposits made in the ordinary course of business in connection with workers' compensation and unemployment insurance and other types of social security;

(24) Permitted Collateral Liens and Liens on any proceed loans on lending the proceeds received by the Issuer or a Finance Subsidiary from the Incurrence of Indebtedness permitted under the provisions described in clause (a) and clauses (b)(1), (2) and (13) and under "Certain Covenants—Limitation on Indebtedness"; and

(25) Liens granted to the Trustee for its compensation pursuant to the Indenture.

Notwithstanding the foregoing, "Permitted Liens" will not include any Lien described in clause (6), (9) or (10) above to the extent such Lien applies to any Additional Assets acquired directly or indirectly from Net Available Cash pursuant to the covenant described under "—Certain Covenants—Limitation on Sale of Assets and Subsidiary Stock". For purposes of this definition, the term "Indebtedness" shall be deemed to include interest on such Indebtedness.

"*Permitted Restrictions*" means any restriction or encumbrance on the ability of a Restricted Subsidiary to declare dividends or make distributions to the Company permitted pursuant to clause (i) or (iii) (to the extent relating to such clause (i)) of the covenant entitled "—Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries".

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"*Preferred Stock*", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"*principal*" of a Note means the principal of the Note plus the premium, if any, payable on the Note which is due or overdue or is to become due at the relevant time.

"Public Debt" means any bonds, debentures, notes or other similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

"*Public Market*" means any time after:

(a) an Equity Offering has been consummated, and

(b) the ordinary shares or common stock of the issuer has been listed on a significant European or U.S. stock exchange or quoted on the Nasdaq Stock Market.

"*Purchase Money Debt*" means Indebtedness:

(a) consisting of the deferred purchase price of property, plant, equipment or capital assets, conditional sale obligations, Capital Lease Obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the property, plant, equipment or capital assets being financed; and

(b) Incurred to finance the acquisition, construction, improvement or lease of such property, plant, equipment or capital assets, including additions and improvements thereto;

provided, however, that such Indebtedness is Incurred within 180 days after the acquisition, construction or lease of such property by the Company or such Restricted Subsidiary.

"*Purchase Money Note*" means a promissory note of a Receivables Entity evidencing a line of credit, which may be irrevocable, from the Company or any Subsidiary of the Company to a Receivables Entity in connection with a Qualified Receivables Transaction, which note:

(a) shall be repaid from cash available to the Receivables Entity, other than;

(1) amounts required to be established as reserves,

(2) amounts paid to investors in respect of interest,

(3) principal and other amounts owing to such investors and

(4) amounts paid in connection with the purchase of newly generated receivables; and

(b) may be subordinated to the payments described in clause (a).

"*Put Option Agreement*" means the Put Option Agreement dated as of May 15, 2003, among the Company, Safilo International B.V., Holdings and the Security Agent.

"*Qualified Receivables Transaction*" means the Receivables Purchase Agreement and any other transaction or series of transactions that may be entered into by the Company or any of its Subsidiaries pursuant to which the Company or any of its Subsidiaries may sell, convey or otherwise transfer to:

(a) a Receivables Entity (in the case of a transfer by the Company or any of its Subsidiaries); and

(b) any other Person (in the case of a transfer by a Receivables Entity),

or may grant a security interest in, Receivables and Related Assets; *provided*, *however*, that:

(1) the Board of Directors of the Company shall have determined in good faith that such Qualified Receivables Transaction is economically fair and reasonable to the Company and the Receivables Entity;

(2) all sales of accounts receivable and related assets to or by the Receivables Entity are made at fair market value (as determined in good faith by the Board of Directors); and

(3) the financing terms, covenants, termination events and other provisions thereof shall be market terms (as determined in good faith by the Board of Directors of the Company).

The grant of a security interest in any accounts receivable of the Company or any of its Restricted Subsidiaries to secure Bank Indebtedness shall not be deemed a Qualified Receivables Transaction.

"*Receivables and Related Assets*" means any accounts receivable (whether now existing or arising in the future) of the Company or any of its Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving accounts receivable.

"*Receivables Bridge Facility*" means the Note Issuance Facility Agreement dated as of December 11, 2002, by and among Sunlight S.r.l., a limited liability company (*a societá a responsabilitá limitata*) incorporated in Italy pursuant to Law No. 130 of April 30, 1999 (and wholly owned by Stichting Alitia and Stichting Moura), the Company, Credit Suisse First Boston International and Unicredito Italiano Bank (Ireland) PLC, together with all related documents thereto, in each case, as amended, extended, reviewed, restated, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions and other provisions) from time to time.

"*Receivables Entity*" means a Person formed for the purposes of engaging in a Qualified Receivables Transaction with the Company or any of its Subsidiaries, which engages in no activities other than in connection with the financing of accounts receivable of the Company and its Subsidiaries and to which the Company or any Subsidiary of the Company transfers accounts receivable and related assets, and:

(a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:

(1) is Guaranteed by the Company or any Subsidiary of the Company (excluding Guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings);

(2) is recourse to or obligates the Company or any Subsidiary of the Company in any way other than pursuant to Standard Securitization Undertakings; or

(3) subjects any property or asset of the Company or any Subsidiary of the Company, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(b) with which neither the Company nor any Subsidiary of the Company has any material contract, agreement, arrangement or understanding other than on terms which the Company reasonably believes to be no less favorable to the Company or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company; and

(c) to which neither the Company nor any Subsidiary of the Company has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any such designation of a Wholly Owned Subsidiary as a Receivables Entity by the Board of Directors of the Company shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors of the Company giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions.

"*Receivables Program*" means, with respect to any Person, any accounts receivable securitization program pursuant to which such Person pledges, sells or otherwise transfers or encumbers its accounts receivable, including to a trust, limited liability company, special purpose entity or other similar entity.

"*Receivables Purchase Agreement*" means the receivables purchase agreement dated December 5, 2002, and made between the Company as seller and Sunlight S.r.l. as purchaser (as amended, revised and supplemented and extended from time to time) under which the Company transferred to Sunlight S.r.l. certain receivables (the "*Initial Receivables*") and agreed to transfer to Sunlight S.r.l. certain receivables on a revolving basis and Sunlight S.r.l. agreed inter alia to pay to the Company an amount of approximately €50,000,000 as consideration for the Initial Receivables.

"*Refinance*" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, in whole or in part, such Indebtedness. "*Refinanced*" and "*Refinancing*" shall have correlative meanings.

"*Refinancing Indebtedness*" means Indebtedness that Refinances any Indebtedness of the Company or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with the Indenture, including Indebtedness that Refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced; and

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs, and accrued interest) under the Indebtedness being Refinanced plus the reasonable and customary fees and expenses incurred in connection with such Refinancing;

provided further, *however*, that Refinancing Indebtedness shall not include (A) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or (B) Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"*Related Business*" means any business in which the Company was engaged on the Issue Date and any business related, ancillary or complementary to any business of the Company in which the Company was engaged on the Issue Date.

"*Representative*" means, with respect to a Person, any trustee, agent or representative (if any) for an issue of Senior Indebtedness of such Person.

"*Restricted Payment*" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Capital Stock

(other than Disqualified Stock) and dividends or distributions payable solely to the Company or a Restricted Subsidiary, and other than *pro rata* dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Restricted Subsidiary), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock);

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to the scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations, Issuer Subordinated Loan or Subordinated Shareholder Funding of such Person (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

"*Restricted Subsidiary*" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"*Revolving Credit Facility*" means the revolving credit facility contained in the Senior Credit Agreement and any other facility or financing arrangement that Refinances, in whole or in part, any such revolving credit facility.

"*Sale/Leaseback Transaction*" means an arrangement relating to property owned by the Company or a Restricted Subsidiary on the Issue Date or thereafter acquired by the Company or a Restricted Subsidiary whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or a Restricted Subsidiary leases it from such Person.

"*SEC*" means the U.S. Securities and Exchange Commission.

"*Secured Creditors*" means Credit Suisse First Boston, Sanpaolo IMI S.p.A., Unicredito Italiano S.p.A., UniCredit Banca Mobiliare S.p.A., The Bank of New York Depository (Nominees) Limited, as the registered holder of the Notes, and the holders of the Notes.

"*Secured Indebtedness*" means any Indebtedness of the Company secured by a Lien.

"*Securities Act*" means the U.S. Securities Act of 1933, as amended.

"*Security Agent*" means Unicredit Banca Corporate S.p.A., as the Intercreditor Security Agent under the Intercreditor Agreement, or any duly appointed successor.

"*Security Documents*" means (a) the Company Share Charge and (b) the Issuer Loan Agreement Pledge.

"*Senior Credit Agreement*" means the Senior Credit Agreement dated as of December 12, 2002, (and as amended and restated as of December 13, 2002) by and among the Company and certain of its Subsidiaries, as borrowers and guarantors, and the agents and lenders party thereto, together with the related documents thereto (including the term loans, revolving loans and the Capex Facility thereunder, any guarantees and security documents), as amended, extended, renewed, restated, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to Refinance, in whole or in part, the borrowings and commitments then outstanding or permitted to be outstanding under such Senior Credit Agreement or a successor Senior Credit Agreement, whether by the same or any other lender or group of lenders.

"*Senior Default*" means an Event of Default (as defined in the Senior Credit Agreement).

"*Senior Indebtedness*" means with respect to any Person:

(1) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and

(2) all other Obligations of such Person (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to such Person whether or not post-filing interest is allowed in such proceeding) in respect of Indebtedness described in clause (1) above,

unless, in the case of clauses (1) and (2), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness or other obligations are subordinate in right of payment (x) to the Senior Credit Agreement or (y) in the case of the Issuer, the Notes; *provided, however*, that Senior Indebtedness shall not include:

(1) any obligation of such Person to any Subsidiary;

(2) any liability for federal, state, local or other taxes owed or owing by such Person;

(3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);

(4) any Indebtedness or other Obligation of such Person which is subordinate or junior in any respect to any other Indebtedness or other Obligation of such Person; or

(5) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of the Indenture.

"*Senior Payment Default*" means an Event of Default (as defined in the Senior Credit Agreement) occurring under Clause 23.1 (*Failure to Pay*) of the Senior Credit Agreement.

"*Senior Subordinated Indebtedness*" means, (a) with respect to the Issuer, any Indebtedness of the Issuer that specifically provides that such Indebtedness is to rank junior in right of payment with Indebtedness in respect of the Notes and (b) with respect to any Person (other than the Issuer), a Guarantee (in the case of a Guarantor) and any other Indebtedness of such Person that specifically provides that such Indebtedness is to rank *pari passu* with a Guarantee in right of payment and is not subordinated by its terms in right of payment to any Indebtedness or other obligation of such Person which is not Senior Indebtedness.

"*Significant Subsidiary*" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC as in effect on the Issue Date.

"Smith Stock Option Arrangements" mean, the stock option arrangements granted pursuant to written instruments dated April 30, 2002, from Smith Sport Optics, Inc., a Delaware corporation, to Ned Post, Vince Baertschi, Ron Hayes, Kerry Marumoto and Ken Fredericks, without giving effect of any new grants of options thereunder or any amendments thereto that are adverse to the Company.

"Specified Affiliate Transactions" means:

(1) the performance of monitoring services by Sponsor or any of its Affiliates for the Company or any of its Restricted Subsidiaries and the payment of customary annual fees and related expenses for such services, provided that such fees shall not, in the aggregate, exceed €2,000,000 million (plus out-of-pocket expenses) in any 12-month period commencing after the Issue Date; and

(2) the performance of transaction, management, consulting, financial or other advisory services or underwriting, placement or other investment banking activities, including in connection with any offering of securities, mergers, acquisitions, dispositions or joint ventures, by Sponsor or any of its Affiliates for the Company or any of its Restricted Subsidiaries and the payment of customary fees and related expenses in connection with the performance of such services and activities.

"Sponsor" means DLJ Merchant Banking III, Inc.

"*Standard Securitization Undertakings*" means representations, warranties, covenants and indemnities entered into by the Company or any Subsidiary of the Company which are customary in an accounts receivable transaction.

"*Stated Maturity*" means, with respect to any indebtedness or security, the date specified in such indebtedness or security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such indebtedness or security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"*Stock Option Plan*" means the stock option plan previously approved by the Board of Directors of Holdings under which certain managers of the Company and the Restricted Subsidiaries will be granted options to purchase shares of Holdings and the Company representing up to 2% of the share capital of Holdings or an equivalent proportion of the share capital of the Company (in each case subject to adjustments) where the exercise of the options will be accelerated upon occurrence of certain events including an Equity Offering and if no Equity Offering occurs within a certain time period, the options vested under the Stock Option Plan will be subject to a put and call arrangement.

"*Subordinated Indebtedness*" means Indebtedness of a Guarantor that specifically provides that such Indebtedness is to rank junior to the Guarantees.

"*Subordinated Obligation*" means, with respect to any Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Guarantee of such Person, as the case may be, pursuant to a written agreement to that effect.

"*Subordinated Shareholder Funding*" means, collectively, any funds provided to the Company or any Subsidiary Guarantor, directly or indirectly, by Holdings, any Permitted Holder and/or one or more shareholders in Holdings in exchange for or pursuant to any security, instrument or agreement, together with any such security, instrument or agreement and any other security, instruments or agreement other than Capital Stock (excluding Disqualified Stock) issued in payment of any obligation under any Subordinated Shareholder Funding; *provided*, *however*, that any such security, instrument or agreement (i) does not mature or require any amortization, redemption or other payment of principal or any sinking fund payment prior to the date falling 11 years and 6 months after the Issue Date (other than through conversion or exchange of any such security, instrument or agreement into Capital Stock (other than Disqualified Stock) or any other security, instrument or agreement, meeting the requirements of this definition), (ii) does not require the payment of cash interest prior to the date falling 11 years and 6 months after the Issue Date, (iii) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any payment prior to the date falling 11 years and 6 months after the Issue Date, (iv) is unsecured, (v) does not contain any covenants (financial or otherwise) other than a covenant to pay the Subordinated Shareholder Funding when due and (vi) is fully subordinated and junior in right of payment to all obligations in respect of the Notes and the Indenture pursuant to customary subordination terms for similar Indebtedness.

"*Subsidiary*" means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by:

(1) such Person;

(2) such Person and one or more Subsidiaries of such Person; or

(3) one or more Subsidiaries of such Person.

"Subsidiary Guarantors" means Safilo International B.V., Safint Optical UK Limited and Safilo America, Inc.

"*Subsidiary Guarantee*" means a Guarantee granted by a Subsidiary Guarantor.

"*Temporary Cash Investments*" means any of the following:

(1) any investment in direct obligations of any EU Member State (at the date hereof), any OECD State (at the date hereof and provided such obligations are rated at least "A" by S&P or "A-1" by Moody's), Switzerland or the United States of America or any agency thereof or obligations guaranteed by any EU Member State (at the date hereof), any OECD State (at the date hereof and provided such obligations are rated at least "A" by S&P or "A-1" by Moody's), Switzerland or the United States of America or any agency thereof;

(2) investments in demand and time deposit accounts, certificates of deposit and money market deposits maturing within 365 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of an EU Member State (at the date hereof), an OECD State (at the date hereof) or the United States of America, any State thereof or any foreign country recognized by the United States of America, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of €50.0 million (or the foreign currency equivalent thereof) and has

outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund or mutual fund (at least 95% of the assets of which are cash or Temporary Cash Investments referred to in clause (1) above) sponsored by a registered broker dealer or mutual fund distributor;

(3) commercial paper of a corporate issuer rated at least "A-1" by S&P or "P-1" by Moody's; or

(4) shares of money market, mutual or similar funds which invest exclusively in assets satisfying the requirements of clauses (1) through (3) of this definition.

"*Term Loan Facility*" means the term loan facility contained in the Senior Credit Agreement and any other facility or financing arrangement that Refinances in whole or in part any such term loan facility.

"Total Assets" means the total consolidated assets of the Company and its Restricted Subsidiaries, as set forth on the Company's most recent consolidated balance sheet.

"*Trustee*" means The Bank of New York until a successor replaces it and, thereafter, means the successor.

"*Trust Indenture Act*" means the United States Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb) as in effect on the Issue Date.

"*Trust Officer*" means any officer within the corporate trust department of the Trustee including any vice president, assistant vice president, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by such officers, or to whom any corporate trust matter is referred to because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of the Indenture.

"Unrestricted Subsidiary" means:

(1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of the Company in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Company may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; *provided*, *however*, that either (A) the Subsidiary to be so designated has total assets of €1,000 or less or (B) if such Subsidiary has assets greater than €1,000, such designation would be permitted under the covenant described under "—Certain Covenants—Limitation on Restricted Payments".

The Board of Directors of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided*, *however*, that immediately after giving effect to such designation (A) the Company could Incur €1.00 of additional Indebtedness under paragraph (a) of the covenant described under "—Certain Covenants—Limitation on Indebtedness" and (B) no Default shall have occurred and be continuing. Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors of the Company giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"*Voting Stock*" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"*Wholly Owned Subsidiary*" means a Restricted Subsidiary all the Capital Stock of which (other than any directors' qualifying shares) is owned by the Company or one or more Wholly Owned Subsidiaries.

BOOK-ENTRY; DELIVERY AND FORM

General

Notes sold within the U.S. to qualified institutional buyers in reliance on Rule 144A under the Securities Act will initially be represented by one global note in registered form without interest coupons attached (the "144A Global Note"). Notes sold outside the U.S. in reliance on Regulation S under the Securities Act will initially be represented by one global note in registered form without interest coupons attached (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes"). On the closing date, the Global Notes will be deposited with, and registered in the name of, a common depositary for Euroclear and Clearstream, or its nominee.

Ownership of interests in the 144A Global Note ("Restricted Book-Entry Interests") and ownership of interests in the Regulation S Global Note (the "Unrestricted Book-Entry Interests," and together with the Restricted Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear or Clearstream or persons that may hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

The Book-Entry Interests will not be held in definitive form. Instead, Euroclear or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the U.S., may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the notes are in global form, "holders" of Book-Entry Interests will not be considered the owners or "holders" of notes for any purpose.

So long as the notes are held in global form, the common depositary for Euroclear or Clearstream (or its nominee) will be considered the sole holder of Global Notes for all purposes under the indenture. As such, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of the participants through which they own Book-Entry Interests, to transfer their interests or in order to exercise any rights of holders under the indenture.

Neither we nor the trustee or any of our or their respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of Definitive Registered Notes

Under the terms of the indenture, to the extent permitted by Euroclear or Clearstream, owners of Book-Entry Interests will receive definitive notes in registered form ("Definitive Registered Notes"):

- if either Euroclear or Clearstream notifies us that is unwilling or unable to continue to act as depositary and we do not appoint a successor depositary within 120 days;

- if Euroclear or Clearstream so request following an event of default under the indenture; or

- at any time if we in our sole discretion determine that all the Global Notes should be exchanged for Definitive Registered Notes.

In such an event, the registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear or Clearstream, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of the Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "Transfer Restrictions," unless that legend is not required by the indenture or applicable law.

Redemption of Global Notes

In the event either Global Note, or any portion thereof, is redeemed, Euroclear or Clearstream, as applicable, will distribute the amount received by them in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that under existing practices of Euroclear and Clearstream, if fewer than all of the notes are to be redeemed at any time, Euroclear and

Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no book-entry interest of less than €1,000 principal amount may be redeemed in part.

Payments on Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made by us in euro to the principal paying agent. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with its procedures.

Under the terms of the indenture, we and the trustee will treat the registered holder of the Global Notes (*i.e.*, the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither we nor the trustee or any of our or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or

- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is the case with securities held for the accounts of customers registered in "street name."

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the notes, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to its participants.

Transfers

The Global Notes will bear a legend to the effect set forth under the caption "Transfer Restrictions." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed under the caption "Transfer Restrictions."

Book-Entry Interests in the 144A Global Note may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Note and only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is made in accordance with Regulation S under the Securities Act. Prior to 40 days after the date of initial issuance of the notes, ownership of Unrestricted Book-Entry Interests will be limited to persons that have accounts with Euroclear or Clearstream or persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A. Subject to the foregoing, Unrestricted Book-Entry Interests may be transferred to a person who takes delivery in the form of Restricted Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under the caption "Transfer Restrictions," and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Subject to the foregoing, and as set forth in "Transfer Restrictions," Book-Entry Interests may be transferred and exchanged as described under "Description of the Notes—Transfer." Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as that person retains such Book-Entry Interests.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "Description of the Notes—Transfer" and, if required, only after the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See "Transfer Restrictions."

Global Clearance and Settlement Under the Book-Entry System

Initial Settlement

Initial settlement for the notes will be made in euro. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Book-Entry Interests will be credited to the securities custody account of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

TAXATION

European Tax Considerations

Proposed European Union Directive on Witholding Tax

On January 21, 2003, the European Council of Economics and Finance Ministers (ECOFIN) provisionally agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). Additionally, it was agreed by ECOFIN that the adoption of the proposals by the European Union would require certain other non-Member State countries to adopt a similar withholding system in relation to such payments. ECOFIN announced that the proposals were to take effect from January 1, 2004 although it is understood that the proposals may not take effect from January 1, 2005, subject to certain conditions being satisfied before June 30, 2004. Prospective investors should consult their own tax advisors with respect to the ECOFIN proposals.

Luxembourg Tax Considerations

The following is a summary of certain Luxembourg tax considerations applicable to holders of the notes who are not Luxembourg residents. This information is of a general nature only and is based on the laws presently in force in Luxembourg. It does not purport to be a comprehensive description of all tax implications that might be relevant to an investment decision. Holders of notes who are in doubt as to their tax position should consult their professional advisers.

Withholding tax, income tax

Interest paid in respect of the notes will not be subject to withholding tax in Luxembourg.

Any holder of notes who is not a resident of Luxembourg for tax purposes and who does not have a permanent establishment or a fixed place of business in Luxembourg to which the notes are attributable will not be subject to Luxembourg income tax in respect of the interest paid or accrued on the notes.

Gains realized on the sale or redemption of notes by a holder of notes who is not a resident of Luxembourg and who does not have a permanent establishment or fixed place of business in Luxembourg to which the notes are attributable, will not be subject to Luxembourg income tax.

Registration taxes

The issue, transfer or sale of the notes will not be subject to Luxembourg registration or to stamp duty.

Other taxes

Any holder of notes who is not a resident of Luxembourg for tax purposes and who does not have a permanent establishment or a fixed place of business in Luxembourg to which the notes are attributable, will not be subject to Luxembourg wealth tax in respect of the notes.

In the event that a holder of notes is not a resident of Luxembourg for tax purposes at the time of their death, the notes will not be included in their taxable estate for inheritance tax purposes.

U.S. Federal Income Tax Considerations

The following discussion is a summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the notes by U.S. Holders (as defined below). The summary is not a complete analysis or description of all potential tax consequences to U.S. Holders and does not address all tax considerations that may be relevant to all categories of potential purchasers (such as dealers or traders in securities, commodities, or currencies, tax-exempt investors, investors whose "functional currency" is not the U.S. dollar, investors who own 10 percent or more of our voting stock, financial institutions, thrifts, regulated investment companies, insurance companies, grantor trusts, individual retirement accounts or other tax-deferred accounts, investors that hold the notes as part of a "hedging", "integrated", "conversion" or constructive sale transaction or a "straddle", persons who have ceased to be U.S. citizens or to be taxed as resident aliens, or investors liable for the alternative minimum tax). **Prospective purchasers of the notes are urged to consult their own tax advisors concerning the U.S. federal, state, and local tax consequences of the purchase, ownership and disposition of the notes.**

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, administrative pronouncements, and existing and proposed U.S. Treasury Regulations, changes to any of which after the date of this offering memorandum could apply on a retroactive basis and affect the tax consequences described herein.

The term "U.S. Holder" means a beneficial owner of a note that: (1) purchases the note in the offering at the issue price (as defined below); (2) holds the note as a capital asset; and (3) is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust:

  (a) the administration of which is subject to the primary supervision of a court within the United States and for which one or more U.S. persons have the authority to control all substantial decisions; or

  (b) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If a partnership holds notes, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners of partnerships holding the notes should consult their own tax advisors concerning the associated tax consequences.

The "issue price" of a note is equal to the initial offering price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold for money.

Payments of Interest

Payments of interest on a note will be includible in the gross income of a U.S. Holder as ordinary income from foreign sources at the time it is received or accrued, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, under the rules set forth below.

In the case of a U.S. Holder that is not required to accrue interest income prior to the receipt thereof (for example, an individual U.S. Holder who uses the cash method of accounting), the amount of interest income in respect of any interest payment will be determined by translating such payment into U.S. dollars at the spot exchange rate in effect on the date such interest payment is received. No exchange gain or loss will be realized with respect to the receipt of such interest payment, other than exchange gain or loss that is attributable to the actual disposition of the euros received.

In the case of a U.S. Holder that is required to accrue interest income prior to receipt thereof (for example, a U.S. Holder that uses the accrual method of accounting), the amount of any interest income accrued during any accrual period will generally be determined by translating the accruals into U.S. dollars at the average spot exchange rate applicable to the accrual period, or, with respect to an accrual period that spans two taxable years, the part of the period within the taxable year. A U.S. Holder will additionally realize exchange gain or loss with respect to any interest income accrued on the date such interest income is received (or on the date the note is disposed of) in an amount equal to the difference between (x) the amount determined by converting the amount of the payment received into U.S. dollars at the spot exchange rate in effect on the date such payment is received (or on the date the note is disposed of) and (y) the amount of interest income accrued in respect of such payment according to the rule set forth in the preceding sentence. Notwithstanding the preceding two sentences, a U.S. Holder that is required to accrue interest income prior to receipt thereof may alternatively make an election to apply a "spot accrual convention," as set forth in Section 1.988-2(b)(2)(iii)(B) of the U.S. Treasury Regulations. A U.S. Holder who makes this election translates accrued interest into U.S. dollars at a single spot exchange rate, which is generally the rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the accrual period within the taxable year. If the last day of the accrual period is within five business days of the date the interest payment is actually received, an electing accrual basis U.S. Holder may instead translate that interest payment at the exchange rate in effect on the day of actual receipt. This election must be applied consistently to all debt instruments from year to year and cannot be changed without consent from the Internal Revenue Service. Exchange gain or loss is treated as ordinary income or loss from sources within the United States for U.S. federal income purposes.

With certain exceptions, interest payments on a note will be treated as "passive" income or, in the case of certain U.S. Holders, "financial services" income for purposes of computing the U.S. Holder's foreign tax credit allowable under U.S. federal income tax law. The rules relating to foreign tax credits and the timing thereof are complex and U.S. Holders should consult their own tax advisors regarding the availability of a foreign tax credit and the application of foreign tax credit limitations to their particular situation.

Sale, Exchange, Retirement and Other Disposition of the Notes

Upon the sale, exchange, retirement or other disposition of a note, a U.S. Holder will generally recognize taxable gain or loss equal to the difference between the amount realized (not including any amounts received that are attributable to accrued and unpaid interest, which will be taxable as interest income, and exchange gain or loss on such accrued, unpaid interest, as set out above) and the U.S. Holder's tax basis in the note. A U.S. Holder's tax basis in a note generally will be its U.S. dollar cost calculated at the exchange rate in effect on the date of purchase.

Gain or loss on the sale, exchange or retirement of a note that is attributable to changes in currency exchange rates will be ordinary income or loss and will be characterised as principal exchange gain or loss. Principal exchange gain or loss will generally equal the difference between the U.S. dollar value of the issue price of the note in foreign currency determined using the spot exchange rate on the date of the sale, exchange or retirement, and the U.S. dollar value of the issue price of the note in foreign currency determined using the spot exchange rate on the date the U.S. Holder acquired the note. Such gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of the note, and will generally be treated as ordinary income or loss from sources within the United States for U.S. federal income tax purposes.

Gain or loss in excess of principal exchange gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the note was held for more than one year at the time of the disposition. Certain U.S. Holders (including individuals) are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. The deduction of long-term capital losses is subject to significant limitations. Gain or loss recognized by a U.S. Holder generally will be treated as U.S. source income or loss. Prospective investors should consult their own tax advisors with respect to the treatment of capital gains and losses.

Backup Withholding and Information Reporting

U.S. backup withholding and information reporting requirements generally will apply to certain payments to certain non-corporate U.S. Holders of notes. Information reporting requirements will apply to interest on, and to proceeds from the sale, exchange, retirement or other disposition of, notes paid by certain U.S.-related financial intermediaries or by a paying agent within the United States to a U.S. Holder (other than an "exempt recipient", including a corporation and certain other persons who, when required, demonstrate their exempt status). Paying agents that are subject to the backup withholding rules will be required to backup withhold 30 percent of interest on, and of the proceeds from the sale, exchange, retirement or other disposition of, notes paid within the United States to a U.S. Holder (other than an "exempt recipient") if the U.S. Holder fails to (i) furnish its correct taxpayer identification number; (ii) certify that such U.S. Holder is not subject to backup withholding; or (iii) otherwise comply with applicable backup withholding requirements.

Non-U.S. Holders generally will not be subject to U.S. backup withholding or information reporting. However, non-U.S. Holders may be required to provide certification of non-U.S. status in connection with payments received in the United States or through certain U.S.-related financial intermediaries. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the Internal Revenue Service and furnishing any required information.

Italian Tax Considerations

The statements herein regarding taxation are based on the laws in force in Italy as of the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. *The bill of law (disegno di legge delega) for the reform of the Italian tax system approved by the Italian Parliament on 26 March 2003, delegates the Government to introduce a general reform of the tax treatment of financial income, that may impact on the current tax regime of the Notes, as summarised here below. The planned reform might apply starting from 2004 and in any case is at present expected to enter into force within 2006.* Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Tax treatment of the Notes

To the extent that the Notes qualify as "*obbligazioni o titoli similari*" pursuant to Art. 41, paragraph 2 (c), of Presidential Decree No. 917 of 22 December 1986, pursuant to Legislative Decree No. 239 of 1 April 1996, as amended and restated ("Decree No. 239"), interest, premium and other proceeds, (including the difference between the redemption amount and the issue price) owed, *inter alia*, by a non-resident Issuer to beneficial owners of Notes resident in Italy for tax purposes, may be subject to final Italian substitute tax, depending on the legal status of the beneficial owners.

In particular, pursuant to Decree No. 239, as amended and restated, payments of interest, premium and other proceeds, in respect of the Notes to Italian resident beneficial owners:

a) will be subject to final *imposta sostitutiva* (substitute tax) at a rate of 12.5% in Italy if made to Italian resident beneficial owners who are: (i) private individuals holding Notes not in connection with entrepreneurial activity (unless they have entrusted the management of their financial assets, including the Notes, to an Italian authorised financial intermediary and have opted for the R*isparmio Gestito* regime provided for by Article 7 of Legislative Decree No. 461 of 21 November 1997—the "Asset Management Option"); (ii) partnerships (other than *società in nome collectivo*, *società in accomandita semplice* or similar partnerships), *de facto* partnerships not carrying out commercial activities and professional associations; (iii) public and private entities, other than companies, not carrying out commercial activities; (iv) real estate investment funds established before 26 September 2001, pursuant to Italian Law No. 86 of 25 January 1994, unless the managing company of the funds has opted for the application of the new regime provided for by Law Decree No. 351 of 25 September 2001, converted into law with amendments by Law No. 410 of 23 November 2001 ("Decree No. 351"); (v) entities exempt from corporate income tax.

   The 12.5% final *imposta sostitutiva* will be applied by the Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of Interest, premium and other proceeds on the Notes or in the transfer of the Notes.

   Where interest, premium and other proceeds, on the Notes are not collected through the intervention of an Italian resident qualified financial intermediary and as such no *imposta sostitutiva* is applied, the Italian resident beneficial owners listed above under (i) to (v) will be required to declare interest, premium and other proceeds, in their yearly income tax return and subject them to final substitute tax at a rate of 12.5%, unless option for a different regime is allowed and made. The Italian resident individual beneficial owners indicated above under (i) may elect instead to pay ordinary personal income taxes at the progressive rates applicable to them in respect of interest, premium and other proceeds on the Notes: if so, the beneficial owners should generally benefit from a tax credit for withholding taxes applied outside Italy, if any;

b) will not be subject to the *imposta sostitutiva* at the rate of 12.5% if made to beneficial owners who are: (i) Italian resident individuals holding Notes not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an Italian authorised financial intermediary and have opted for the Asset Management Option; (ii) Italian resident collective investment funds and SICAVs and pension funds referred to in Legislative Decree No. 124 of 21 April 1993; (iii) certain Italian resident real estate investment funds; or (iv) Italian resident corporations or permanent establishments in the Republic of Italy of non resident corporations to which the Notes are effectively connected.

   In case the Notes are part of an investment portfolio managed on a discretionary basis by an Italian authorized intermediary and the beneficial owner of the Notes has opted for the Asset Management Option, annual substitute tax at a rate of 12.5% (the "Asset Management Tax") applies on the increase in value of the managed assets accrued, even if not realised, at the end of each tax year (which increase includes Interest, premium and other proceeds accrued on Notes). The Asset Management Tax is applied on behalf of the taxpayer by the managing authorised intermediary.

   Italian resident collective investment funds and SICAVs are subject to a 12.5% annual substitute tax (the "Collective Investment Fund Tax") on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Notes).

   Italian resident pension funds subject to the regime provided by Artt. 14, 14-ter and 14-quater, paragraph 1, of Italian Legislative Decree No. 124 of 21 April 1993, are subject to a 11% annual substitute tax (the "Pension Fund Tax") on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Notes).

   Pursuant to Decree No. 351, certain Italian resident real estate investment funds whose units are listed at least in a regulated market, established after 26 September 2001 pursuant to Art. 37 of Legislative Decree No. 58 of 24 February 1998, and Art. 14-*bis* of Law No. 86 of 25 January 1994, or in any case subject to the tax treatment provided for by Decree No. 351 in consequence of option for application of such treatment by the managing company, where allowed, are subject to an annual 1% substitute tax on the accounting net value of the funds, whilst interest, premium and other proceeds on the Notes derived by such funds are not subject to the 12.5% *imposta sostitutiva* provided for by

Decree No. 239.

Interest, premium and other proceeds on Notes accrued to Italian resident corporations or to permanent establishments in Italy of foreign companies to which the Notes are effectively connected will be included in the taxable business income for corporate income tax purposes (and, in certain cases, depending on the *status* of the Notes holders, may also be included in their taxable net value of production for purposes of regional tax on productive activities—IRAP) of such beneficial owners, subject to tax in Italy in accordance with ordinary tax rules. A tax credit for withholding taxes applied outside Italy, if any, should be generally available.

To ensure payment of interest premium and other proceeds in respect of the Notes without application of the **imposta sostitutiva*****, where allowed, investors indicated here above under (i) to (iv) must be the beneficial owners of payments of interest, premium and other proceeds on the Notes and timely deposit the Notes together with the coupons relating to such Notes directly or indirectly with an Italian authorised financial intermediary.***

Non-Italian resident Noteholders

Interest, premium and other proceeds paid on Notes by the non-resident Issuer to a beneficial owner who is not resident in Italy for tax purposes, without a permanent establishment in Italy to which the Notes are effectively connected, should not be subject to any Italian taxation. If the Notes are deposited with an Italian bank or other resident intermediary or are sold through an Italian bank or other resident intermediary or in any case an Italian resident intermediary intervenes in the payment of interest, premium and other proceeds on the Notes, to ensure payment of interest, premium and other proceeds without application of Italian taxation a non-Italian resident Noteholder should produce to the Italian bank or other intermediary a self-declaration stating not to be resident in Italy for tax purposes.

Early redemption

Without prejudice to the above provisions, in the event that Notes are redeemed, in full or in part, prior to 18 months from the Issue Date, Italian resident beneficial owners will be required to pay, by way of a withholding to be applied by the Italian intermediary responsible for payment of interest, premium and other proceeds or the redemption of the Notes, an additional amount equal to 20 per cent. of the interest, premium and other proceeds accrued up to the time of the early redemption. This additional amount may be levied by the Italian withholding agents that will intervene in the collection of Interest, premium and other proceeds on the Notes or in the redemption of the Notes. In accordance with one interpretation of Italian fiscal law, also in the event of purchase of Notes by the Issuer with subsequent cancellation thereof prior to 18 months from the issue date, Italian resident beneficial owners may be required to pay the above 20% additional amount.

Payments made by an Italian resident guarantor

There is no authority directly on point regarding the Italian tax regime of payments on the Notes made to Italian resident Noteholders by an Italian resident guarantor. Accordingly, there can be no assurance that the Italian tax authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian court would not sustain such an alternative treatment

In accordance with one interpretation of Italian tax law, any payment of liabilities equal to interest, premium and other proceeds from the Notes may be subject, in certain circumstances, to an Italian withholding tax at a rate of 12.5 per cent., final or account (a *titolo d'imposta* or a *titolo d'acconto*), depending on the *status* of the beneficial owner, pursuant to art. 26, paragraph 5, of Presidential Decree No. 600 of 29th September, 1973, as subsequently amended. In case of beneficial owners that are non-resident of Italy for tax purposes,, the withholding tax should be final and should be applied at the rate 27 per cent. if payments are made by an Italian resident guarantor to non-Italian resident beneficial owners which are resident for tax purposes in certain tax haven countries identified by the Ministerial Decree of 23rd January, 2002, as amended from time to time. Double taxation treaties entered into by Italy may apply allowing for a lower (on, in certain case, nil) rate of withholding tax.

In accordance with another interpretation of Italian tax law, any such payment made by an Italian resident guarantor will be treated, in certain circumstances, as a payment by the Issuer and will thus be subject to the tax regime described in the previous paragraphs of this section.

Atypical securities

Where any set of Notes is issued whose terms provide for redemption on maturity of an amount below their par value based on equity indices or some other formula and thus the Notes qualify as so-called "*titoli atipici*" or "atypical securities", any proceeds (including the difference between the amount paid to Noteholders at maturity or value of assets due to them on maturity and the issue price) on Notes paid to Italian resident (i) private individuals holding the Notes not in connection with entrepreneurial activities, (ii) real estate investment funds, (iii) pension fund, (iv) collective investment funds and SICAVs and (v) persons and entities exempt from corporate income tax, shall be subject to final "entrance" withholding tax at rate of 27%, if the Notes are sold ("collocati") in Italy and entrusted Italian resident bank or financial intermediary intervenes in the collection of payments on the Notes, in the repurchase or in the transfer of the Notes. The 27% "entrance" withholding tax shall be levied by such Italian bank or financial intermediary.

If the Notes are not sold ("*collocati*") in Italy and payment of proceeds on the Notes are not received through an entrusted Italian resident bank or financial intermediary that intervenes in the collection of payments on the Notes, in the repurchase or in transfer of the Notes, and as such no "entrance" withholding tax is required to be levied, the subjects indicated above (i) to (v) will be required to report the payments in their yearly income tax return and subject them to a final substitute tax at rate of 27%. The individual beneficial owners may elect instead to pay ordinary personal income tax at the progressive rates applicable to them in respect of the payments: if so, the beneficial owners should generally benefit a tax credit for withholding taxes applied outside Italy, if any.

In case of Italian resident beneficial owners who are corporate entities, payments received on the Notes will not subject to any "entrance" withholding tax and will form part their aggregate taxable business income (and, in certain cases, depending on the *status* of the Noteholders, may also be included in the taxable net value of production subject to regional tax on productive activities—IRAP) subject to tax in Italy according to ordinary tax provisions. A tax credit for withholding taxes applied outside Italy, if any, should be generally available.

Under current Italian tax law and practice, payments on the Notes to beneficial owners who are resident in Italy for tax purposes, without a permanent establishment in Italy to which the Notes are effectively connected, should not be subject to any Italian withholding or substitute tax.

Capital gains tax, capital gains realised by Italian resident Noteholders

Any capital gain realised upon the sale for consideration or redemption of the Notes would be treated as part of the taxable business income (and, in certain cases, may also be included in the taxable net value of production for IRAP purposes), subject to tax in Italy according to the relevant tax provisions, if derived by Noteholders who are:

1. Italian resident corporations;

2. permanent establishments in Italy of foreign corporations to which the Notes are effectively connected; or

3. Italian resident individuals carrying out a commercial activity, as to any capital gains realised within the scope of the commercial activity carried out.

Pursuant to Legislative Decree No. 461 of 21 November 1997, any capital gain realised by Italian resident individuals holding Notes not in connection with entrepreneurial activity and certain other persons upon sale for consideration or redemption of the Notes would be subject to an *imposta sostitutiva* at the current rate of 12.5 per cent. Under the tax declaration regime, which is the standard regime for taxation of capital gains realised by Italian resident individuals not engaged in entrepreneurial activity, *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by Italian resident individual noteholders holding Notes not in connection with entrepreneurial activity pursuant to all disposals of Notes carried out during any given fiscal year. Italian resident individuals holding Notes not in connection with entrepreneurial activity must report overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax declaration to be filed with the Italian tax authorities for such year and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with entrepreneurial activity may elect to pay a 12.5 per cent. *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the "*Risparmio Amministrato*" regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, società di *intermediazione mo*biliare (SIM) or certain authorised financial intermediaries and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Noteholder. Under the "*Risparmio Amministrato*" regime, the financial intermediary is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised at revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian fiscal authorities on behalf of the taxpayer, deducting a corresponding amount from proceeds to be credited to the Noteholder. Under the *Risparmio Amministrato* regime, where a sale or redemption of the Notes results in capital loss, such loss may be deducted from capital gains subsequently realised within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. Under the *Risparmio Amministrato* regime, the Noteholder is not required to declare capital gains in its annual tax declaration and remains anonymous.

Any capital gains realised by Italian resident individuals holding Notes not in connection with entrepreneurial activity who have elected for the Asset Management Option will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to the Asset Management Tax to be applied on behalf of the taxpayer by the managing authorised intermediary. Under the Asset Management Option, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the Asset Management Option, the Noteholder is not required to report capital gains realised in its annual tax declaration and remains anonymous.

Any capital gains realised by Noteholders who are Italian resident collective investment funds will be included in the computation of the taxable basis of the Collective Investment Fund Tax.

Any capital gains realised by Noteholders who are Italian resident pension funds subject to the regime provided by articles 14, 14-*ter* and 14-*quater*, paragraph 1, of Legislative Decree No. 124 of 21 April 1993, will be included in the computation of the taxable basis of Pension Fund Tax

Capital gains realised by non-Italian resident Noteholders

Capital gains realised by beneficial owners who are not resident in Italy for tax purposes from the sale or redemption of the Notes are not subject to Italian taxation, provided that the Notes are held outside Italy.

In case the Notes are held in Italy:

In principle, capital gain realised by non-Italian resident private individuals and entities without a permanent establishment in the Republic of Italy to which the Notes are effectively connected may be taxable in Italy if the Notes are held in Italy.

In case capital gains realised on disposal of Notes by non-Italian resident investors are taxable in Italy, taxation of such capital gains is subject to the same rules as those set out above, which apply to Italian resident private individuals

However, Decree No. 461 and Legislative Decree No. 259 of 21 July 1999, provide for an exemption from Italian *imposta sostitutiva* on capital gains for Noteholders (either individuals or corporations) who are not resident in Italy for tax purposes and do not have a permanent establishment in Italy to which the Notes are effectively connected, in respect of capital gains realised on sale or redemption of Notes listed on a regulated market, in Italy or abroad, even though the Notes are held in Italy and regardless of the provisions of any applicable double tax treaty. In relation to non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected who hold Notes in Italy with an Italian authorised financial intermediary and elect for the Asset Management Option or are subject to the *Risparmio Amministrato* regime, this exemption from Italian on capital gains tax applies upon condition that they promptly file with the Italian authorised financial intermediary a self-declaration not to be resident in Italy for tax purposes.

Moreover, pursuant to Decree No. 461, any capital gain realised upon disposal of Notes not listed on a regulated market shall not be taxable in Italy (even though the Notes are held in Italy) if realized by Non-Italian resident (either individuals or corporations) without a permanent establishment in Italy to which the Notes are effectively connected who: (i) are resident, for tax purposes, in a country which recognises the Italian fiscal authorities' right to an adequate exchange of information and (ii) are not resident, for tax purposes, in tax haven countries included in the black list referred to in Article 76, paragraph 7-bis, of Presidential Decree 22 December 1986, No. 917, identified by Ministerial Decree 23 January 2002. In relation to Non-Italian resident without a permanent establishment in Italy to which the Notes are effectively connected, who hold Notes in Italy with an Italian authorised financial intermediary and elect for the Asset Management Option or are subject to the *Risparmio Amministrato* regime, this exemption from Italian capital gains tax applies upon condition that they promptly file with the Italian authorised financial intermediary a self-declaration stating that the conditions indicated hereabove under (i) and (ii) are met.

Exemption from Italian substitute tax on capital gains also applies to Non-Italian residents who are (a) international bodies and organisations established in accordance with international agreements ratified in Italy; (b) foreign institutional investors not subject to income tax or to other similar taxes, established in countries which meet the requirements indicated here above under (i) and (ii) and (c) Central Banks of countries not included in the black list identified by Ministerial Decree 23 January 2002.

In addition, the provisions of Decree No. 461 do not preclude the application of any more favourable provision of a Tax Treaty entered into by Italy. In accordance with the OECD model, the majority of double tax treaties entered into by Italy provide that capital gains realised upon the disposal of securities are subject to taxation on capital gains only in the country of residence of the seller.

Therefore, if a foreign selling Noteholder (i) is resident, for tax purposes, in a country with which Italy has a Tax Treaty and the provision relating to taxation of capital gains accords with the OECD model and (ii) is fully eligible for the benefits under such a treaty, then any capital gain realised upon disposal of Notes will not be subject to Italian substitute tax on capital gains pursuant to the provisions of the applicable Tax Treaty. Non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected who hold the Notes in Italy with an Italian authorised financial intermediary and elect for the Asset Management Option or are subject to the *Risparmio Amministrato* regime, may be required to promptly provide appropriate documentation (including a certificate of residence issued by the tax authorities of their country of residence) establishing that the above mentioned conditions of non-taxability of capital gains realised pursuant to the applicable Tax Treaty have been satisfied, in order to be exempted from Italian substitute tax on capital gains under the applicable Tax Treaty.

The *Risparmio Amministrato* is the ordinary regime automatically applicable to non-resident persons and entities relating to Notes deposited for safekeeping or administration at Italian banks, SIMs and other eligible persons or entities, but non-resident Notes holders retain the right to waive this regime. Such waiver may also be exercised by non-resident intermediaries in respect of safekeeping, administration and deposit accounts held in their names in which third parties' financial assets are held.

Italian gift tax

According to Law No. 383 of 18 October 2001 ("Law No. 383"), Italian inheritance and gift tax, previously payable on transfer of securities on death or by gift, has been abolished as of 25 October 2001.

However, according to the current literal interpretation of Law No. 383, for donees other than spouses, direct descendants or ancestors and other relatives within the fourth degree, if and to the extent that the value of the gift to any such donee exceeds € 180,759.91, the gift of Notes may be subject to the ordinary transfer taxes that would apply if the Notes had been transferred for consideration. Future official ministerial decrees or guidelines should clarify this point.

Moreover, an anti-avoidance rule is provided by Law No. 383 for any gift of assets (such as Notes) which, if sold for consideration, would give rise to capital gains subject to Italian *imposta sostitutiva* on capital gains. In particular, if the donee sells Notes for consideration within 5 years from the receipt thereof as gift, the donee will be required to pay the relevant Italian *imposta sostitutiva* on capital gains, where applicable, as if the gift has never taken place.

Transfer tax

Italian Legislative Decree No. 435 of 21st November 1997 ("Decree No. 435"), which partly amended the regime set forth by Royal Decree No. 3278 of 30th December 1923, governs the application of Italian transfer tax on transfer of securities, with Italian transfer tax being in general applicable as follows in relation to transfers of Notes to or by Italian residents:.

(i) € 0.0083 for every € 51.65 (or fraction thereof) of the price at which the Notesare transferred, when the transfer is effected between private subjects directly or through an intermediary other than a bank or other authorized intermediaries governed by Legislative Decree 451/96, as superseded by Legislative Decree 24 February 1998, No. 58 ("Decree No. 58"), or stock broker;

(ii) € 0.00465 for every € 51.65 (or fraction thereof) of the price at which the Notes are transferred, when the transfer is effected (i) between private subjects and banks or other authorized intermediaries governed by Legislative Decree 415/96, as superseded by Decree No. 58, or stock brokers, or (ii) between private subjects through such intermediaries;

(iii) € 0.00465 for every € 51.65 (or fraction thereof) of the price at which the Notes are transferred, when the transfer is effected between banks, stockbrokers or other authorized intermediaries governed by Legislative Decree 415/96, as superseded by Decree No. 58.

However, in the cases indicated above under (ii) and (iii), the amount of applicable transfer tax may not exceed € 929.62 for each transaction

However, the transfer tax does not apply, inter alia, to: (i) contracts entered into on regulated markets relating to the transfer of securities, including contracts between the intermediary and its principal or between qualified intermediaries; (ii) off-market transactions regarding securities listed on regulated markets, provided that the contracts are entered into (a) between banks, SIMs or other financial intermediaries regulated by Decree No. 415 of 23rd July, 1996 as superseded by Decree No. 58 of 24th February, 1998, or stockbrokers; (b) between the subjects mentioned in (a) above, on the one hand, and non-Italian residents, on the other hand; (c) between the subjects mentioned in (a) above, even if non-resident in Italy, on the one hand, and undertakings for collective investment in transferable securities, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public offering (offerta pubblica di vendita) aimed at the listing on regulated markets, or involving financial instruments already listed on regulated markets, (iv) contracts regarding securities not listed on a regulated market entered into between the authorised intermediaries referred to in (ii)(a) above, on the one hand, and non-Italian residents on the other hand.

Tax Monitoring Obligations

Italian resident individuals holding Notes not in connection with entrepreneurial activity will be required to report in their yearly income tax return, for tax monitoring purposes:

- the amount of Notes held at the end of each tax year, if exceeding in the aggregate € 10,329.14;

- the amount of any transfers from abroad, towards abroad and occurred abroad, related to the Notes, occurred during each tax year, if exceeding in the aggregate € 10,329.14. This also in the case that the end of the tax year the Notes are no longer held by Italian individuals.

Italian individuals will however not be required to comply with the above reporting requirements in respect of Notes deposited for management with qualified Italian financial intermediaries and in respect of contracts entered into through their intervention, upon condition that the items of income derived from the Notes are collected through the intervention of the same intermediaries.

PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement dated May 12, 2003, we have agreed to sell to the initial purchasers, Credit Suisse First Boston (Europe) Limited and Caboto SIM S.p.A., €300,000,000 principal amount of the notes.

The purchase agreement provides that the initial purchasers are obligated to purchase all of the notes if any are purchased. The purchase agreement also provides that if an initial purchaser defaults the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the notes initially at the offering price on the cover page of this offering circular and may include selling group members who would be granted a selling concession. After the initial offering, the offering price may be changed. The initial purchasers may make offers and sales in the United States through the selling agent, Credit Suisse First Boston LLC.

The notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act or to persons in offshore transactions in reliance on Regulation S under the Securities Act. The initial purchasers have agreed that, except as permitted by the purchase agreement, they will not offer, sell or deliver the notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each broker/dealer to which they sell the notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the notes are restricted as described under "Transfer Restrictions".

In addition, until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

The initial purchasers represent and agree that:

- they have not offered or sold and, prior to the expiration of a period of six months from the closing date, will not offer or sell any notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;

- they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the issuer or the guarantors; and

- they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes in, from or otherwise involving the United Kingdom.

Purchasers of notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering circular.

Subject to exceptions set forth in the purchase agreement, we have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any debt securities issued or guaranteed by us and having a maturity of more than one year from the date of issue, or publicly disclose our intention to make any offer, sale, pledge or disposition, without the prior written consent of Credit Suisse First Boston (Europe) Limited for a period of 180 days after the date of this offering circular.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments that they may be required to make in that respect.

The notes are a new issue of securities for which there currently is no market. We have applied to list the notes on the Luxembourg Stock Exchange. The initial purchasers have advised us that they intend to make a market in the notes as permitted by applicable law. The initial purchasers are not obligated, however, to make a market in the notes, and any market-making may be discontinued at any time at their sole discretion without notice. In addition, any such market-making activity will be subject to the limits imposed by the Securities Act and the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). Accordingly, we cannot assure you that any market for the notes will develop or that it will be liquid, if it does develop.

Credit Suisse First Boston (Europe) Limited may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.

- Penalty bids permit Credit Suisse First Boston (Europe) Limited to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

The issuer intends to use the gross proceeds of this offering to redeem the bridge notes. Credit Suisse First Boston (Europe) Limited, an initial purchaser of the notes, was the initial purchaser of the bridge notes. Affiliates of Credit Suisse First Boston (Europe) Limited are lenders and agents under the senior credit agreement and the capex facility and a purchaser under the securitization bridge facility. An affiliate of Credit Suisse First Boston (Europe) Limited is also an equity investor in Safilo Holding S.p.A. Caboto SIM S.p.A., an initial purchaser of the notes, has provided financing to companies controlled by Vittorio Tabacchi. See "Use of Proceeds" and "Certain Relationships and Related Party Transactions".

NOTICE TO CERTAIN INVESTORS

The United Kingdom

This communication and any other document issued in connection with the offering of the notes is directed only at those persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "FPO") and/or high net worth entities falling within Article 49(2)(a) to (d) of the FPO (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this communication relates is only available to, and will only be engaged in with, relevant persons. This communication (or any other document issued in connection with the offering) must not be acted on or relied on by persons who are not relevant persons. All applicable provisions of the Financial Services and Markets Act 2000 must be complied with in respect of anything done in relation to the notes in, from or otherwise involving the United Kingdom. The notes are not being offered to the public in the United Kingdom (within the meaning of the U.K. Public Offers of Securities Regulation 1995).

Italy

This offering circular does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. This offering circular has not been submitted to the clearance procedure of *Commissione Nazionale per le Società e la Borsa* ("CONSOB") and may not be used in connection with any offering of the notes in Italy other than to "Professional Investors", as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of 1st July, 1998 or in such other circumstances where an exemption from compliance with the solicitation restrictions under Legislative Decree No. 58 of 24th February, 1998 or CONSOB Regulation No. 11971 of 14th May, 1999 applies. In any case, the notes cannot be offered or sold to any individuals in Italy either in the primary market or the secondary market; this does not affect any transaction on the Luxembourg Stock Exchange

Germany

The notes may be offered and sold in the Federal Republic of Germany only in accordance with the provisions of the Securities Sales Prospectus Act of the Federal Republic of Germany (*Wertpapierverkaufsprospektgesetz*) and any other applicable German law. Consequently, in Germany, the notes will only be available to persons who by profession or by trade business buy or sell securities for their own or a third party's account.

France

In France, the notes may not be directly or indirectly offered or sold to the public, and offers and sales of the notes will only be made in France to qualified investors, in accordance with Article L.411-2242 of the Code Monétaire et Financier, and Decree No. 98-880, dated October 1, 1998. This offering circular has not been submitted to the Commission des Opérations de Bourse. Neither this offering circular nor any other offering material may be distributed to the public in France.

Spain

The notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1988 de 28 de julio, del Mercado de Valores*), as amended, and Royal Decree 291/1992, on Issues and Public Offerings of Securities (*Real Decreto 29/92, de 27 de marzo, sobre Emisiones y Ofertas Públicas de Valores*) as amended. This offering circular has not been verified nor registered in the administrative registries of the Spanish Securities and Exchange Commission, and therefore a public offer for subscription of the shares shall not be promoted in Spain.

TRANSFER RESTRICTIONS

United States

The notes have not been registered under the Securities Act and may not be offered, sold or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or (b) persons in offshore transactions in reliance on Regulation S.

Each purchaser of the notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the notes for its own account or for the account of a qualified institutional buyer or (B) is not a U.S. person and is purchasing the notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the notes, such notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, and (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the notes will bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT TO (A) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A OR (B) PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A OR (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

The notes may not be sold or transferred to, and each purchaser by its purchase of a note shall be deemed to have represented and covenanted that it is not acquiring the notes for or on behalf of, and will not transfer the notes to, any pension or welfare plan as defined in Section 3 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), except that such purchase for or on behalf of a pension or welfare plan shall be permitted:

(i) to the extent such purchase is made by or on behalf of a bank collective investment fund maintained by the purchaser in which no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total assets in such collective investment fund, and the other applicable conditions of Prohibited Transaction Class Exemption 91-38 issued by the U.S. Department of Labor are satisfied;

(ii) to the extent such purchase is made by or on behalf of an insurance company pooled separate account maintained by the purchaser in which, at any time while the notes are outstanding, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total of all assets in such pooled separate account, and the other applicable conditions of Prohibited Transaction Class Exemption 90-1 issued by the U.S. Department of Labor are satisfied;

(iii) to the extent such purchase is made on behalf of a plan by (A) an investment adviser registered under the U.S. Investment Advisers Act of 1940, as amended (the "1940 Act"), that had as of the last day of its most recent fiscal year total assets under its management and control in excess of $50.0 million and had stockholders' or partners' equity in excess of $750,000, as shown in its most recent balance sheet prepared in accordance with U.S. generally accepted accounting principles, or (B) a bank as defined in Section 202(a)(2) of the 1940 Act with equity capital in excess of $1.0 million as of the last day of its most recent fiscal year, or (C) an insurance company which is qualified under the laws of more than one state in the U.S. to manage, acquire or dispose of any assets of a pension or welfare plan, which insurance company has as of the last of its most recent fiscal year, net worth in excess of $1.0 million and which is subject to supervision and examination by a state authority having supervision over insurance companies and, in any case, such investment adviser, bank or insurance company is otherwise a qualified professional asset manager, as such term is used in Prohibited Transaction Class Exemption 84-14 issued by the U.S. Department of Labor, and the assets of such plan when combined with the assets of other plans established or maintained by the same employer (or affiliate thereof) or employee organization and managed by such investment adviser, bank or insurance company, do not represent more than 20% of the total client assets managed by such investment adviser, bank or insurance company at the time of the transaction, and the other applicable conditions of such exemption are otherwise satisfied;

(iv) to the extent such plan is a governmental plan (as defined in Section 3 of ERISA) which is not subject to the provisions of Title I of ERISA or Section 401 of the U.S. Internal Revenue Code of 1986, as amended (the "Code");

(v) to the extent such purchase is made by or on behalf of an insurance company using the assets of its general account, the reserves and liabilities for the general account contracts held by or on behalf of any plan, together with any other plans maintained by the same employer (or its affiliates) or employee organization, do not exceed 10% of the total reserves and liabilities of the insurance company general account (exclusive of separate account liabilities), plus surplus as set forth in the National Association of Insurance Commissioners Annual Statement filed with the state of domicile of the insurer, in accordance with Prohibited Transaction Class Exemption 95-60, and the other applicable conditions of such exemption and otherwise satisfied;

(vi) to the extent such purchase is made by an in-house asset manager within the meaning of Part IV(a) of Prohibited Transaction Class Exemption 96-23, such manager has made or properly authorized the decision for such plan to purchase the notes, under circumstances such that Prohibited Transaction Class Exemption 96-23 is applicable to the purchase and holding of such notes; or

(vii) to the extent such purchase will not otherwise give rise to a transaction described in Section 406 of ERISA or Section 4975(c)(1) of the Code for which a statutory or administrative exemption is unavailable.

The Grand Duchy of Luxembourg

Each initial purchaser has severally represented and agreed that the notes have not and will not be offered or sold except in circumstances where the requirements of Luxembourg law concerning public offerings of securities have been met. A listing on the Luxembourg Stock Exchange of the notes does not necessarily imply that a public offering in Luxembourg of the notes has been authorized.

Republic of Italy

Each initial purchaser has severally represented and agreed that no action has or will be taken by it which would allow an offering (or a "*sollecitazione all' investimento*") of the notes to the public in the Republic of Italy, and that sales of the notes to any persons in the

Republic of Italy shall be effected in accordance with Italian securities, tax and other applicable laws and regulations.

Each initial purchaser has severally represented that it has not offered, sold or delivered and will not offer, sell or deliver any notes or distribute or make available any notes or copies of the offering circular or any other offering material relating to the notes in the Republic of Italy except:

(i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended;

(ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the "Financial Services Act") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended; or

(iii) to an Italian resident who submits an unsolicited offer to purchase such notes.

Any offer, sale or delivery of notes or distribution of copies of this offering circular or any other document relating to any notes in Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the "Banking Act"), as amended;

(b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in Italy and their characteristics; and

(c) in compliance with any other applicable notification, requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

In any case, the notes cannot be offered or sold to any individuals in Italy either in the primary market or the secondary market; this does not affect any transaction on the Luxembourg Stock Exchange

United Kingdom

Each of the initial purchasers has severally represented and agreed that:

(a) it has not offered or sold and, prior to the expiry of the period of six months from the issue date, will not offer or sell any Notes to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;

(b) it has only communicated or caused to be communicated, and it will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

The notes (including rights representing an interest in a Global Note) may not be offered, transferred, sold or delivered, directly or indirectly, on their issue date or at any time thereafter, in The Netherlands unless:

(a) such notes shall have a denomination of at least €500,000 (or the equivalent in other currency); and

(b) on the issue date for the notes the Issuer is not reasonably able to identify the holders thereof in The Netherlands, and

(c) such notes shall be held at the time of issuance through a clearing system that is established in an EEA member state, the United States, Japan, Australia, Canada or Switzerland in which securities can only be held through a licensed bank or securities firm,

or all notes which have a denomination of less than €500,000 shall bear a legend to the following effect:

"THIS NOTE (OR ANY INTEREST THEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS ("DUTCH RESIDENTS").

EACH HOLDER OF THIS NOTE (OR ANY INTEREST THEREIN), BY PURCHASING SUCH NOTE (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH NOTE (OR ANY INTEREST THEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO DUTCH RESIDENTS AND (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE."

General

No action has been taken that would, or is intended to, permit a public offer of the notes, or possession or distribution of this offering circular or any other offering material in any country or jurisdiction where any such action for that purpose is required. Accordingly, each initial purchaser has undertaken that it will not, directly or indirectly, offer or sell any notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction, except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of notes by it will be made on the same terms.

LEGAL MATTERS

The validity of the notes and certain other legal matters are being passed upon for Safilo by Allen & Overy, United States, Italian, Luxembourg, Dutch and English counsel to Safilo. Certain legal matters with respect to the notes will be passed upon for the initial purchasers by Cravath Swaine & Moore LLP, United States counsel to the initial purchasers and by Clifford Chance, English, Italian and Luxembourg counsel for the initial purchasers.

INDEPENDENT AUDITORS

The consolidated financial statements of Safilo S.p.A. as of December 31, 2000, 2001 and 2002 included in this offering circular have been audited by PricewaterhouseCoopers S.p.A., independent auditors, as stated in their report appearing in this offering circular.

WHERE YOU CAN FIND MORE INFORMATION

While any notes remain outstanding, any requests for information and requests for agreements summarized in this offering circular should be directed to Francesco Tagliapietra at Zona Industriale VII Strada, 15, 35129 Padua, Italy. Our telephone number is +39 049 698 5111. In addition, documents mentioned herein as being available for inspection will be available without charge during normal business hours on any weekday at the offices of Luxembourg Paying Agent.

Each purchaser of the notes from the initial purchasers will be furnished a copy of this offering circular and any related amendments or supplements to this offering circular. Each person receiving this offering circular and any related amendments or supplements to this offering circular acknowledges that:

(1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the initial purchasers.

LUXEMBOURG LISTING AND GENERAL INFORMATION

1. Application has been made to list the notes on the Luxembourg Stock Exchange. In connection with that application, the Articles of Association of Safilo, the issuer and the subsidiary guarantors and a legal notice relating to the issue of the notes will be deposited before listing with the Registre de Commerce et des Sociétes, where copies may be obtained on request. Notice of any optional redemption, change of control or any change in the rate of interest payable on the notes will be published in a Luxembourg newspaper of general circulation. In addition, copies of this offering circular will be made available at the Luxembourg Stock Exchange where copies may be obtained on request.

2. So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, copies of: (1) the Articles of Association for each of Safilo, the issuer and the Subsidiary Guarantors; (2) our audited, consolidated and audited, unconsolidated annual financial statements; (3) our unaudited, consolidated quarterly financial statements (we do not produce quarterly unconsolidated financial statements); (4) the note purchase agreement dated May 12, 2003; (5) the indenture governing the notes dated May 15, 2003; (6) the intercreditor agreement dated May 15, 2003; (7) our annual quarterly and current reports for the fiscal year 2002 and all subsequent fiscal years; and (8) the issuer's audited, unconsolidated annual financial statements and the Subsidiary Guarantors' unaudited, unconsolidated financial statements, with the exception of Safint Optical (UK) Limited which produces annual audited, unconsolidated financial statements, (we do not produce other financial statements, including quarterly statements than these so stated) will be available without charge during normal business hours on any weekday at the offices of Luxembourg Paying Agent.

3. Except as disclosed in this offering circular, there has been no material adverse change in the consolidated financial position of Safilo S.p.A and its subsidiaries since December 31, 2002, the date of its last audited financial statements.

4. Except as disclosed in this offering circular, we are not involved in, and have no knowledge of a threat of, any litigation, administrative proceedings or arbitration involving us which is or may be material in the context of the issue of the notes.

5. Safilo Capital International S.A. has appointed The Bank of New York as its Principal Paying Agent. Safilo reserves the right to vary that appointment. So long as the notes are listed on the Luxembourg Stock Exchange, Safilo will maintain a paying and transfer agent in Luxembourg.

6. Safilo Capital International S.A. was incorporated in Luxembourg on December 11, 2002. Safilo Capital International S.A. obtained all necessary consents, approvals, and authorisations of the board of directors of the issuer and each of the Subsidiary Guarantors in connection with the issuance of the notes on May 15, 2003. The resolutions authorizing the guarantees of the notes were as follows: Safilo S.p.A., May 9, 2003; Safilo International B.V., May 12, 2003; Safint Optical UK Limited, May 2, 2003 and; Safilo America, Inc., May 12, 2003.

7. The notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The ISIN is XS0168632890 for the Regulation S Global Note and XS0168633278 for the Rule 144A Global Note. The Common Code is 016863289 for the Regulation S Global Note and 016863327 for the Rule 144A Global Note.

8. According to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the notes shall be freely transferable on therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

INDEX TO FINANCIAL STATEMENTS

AUDITOR'S REPORT To the Board of Directors of Sàfilo S.p.A.

We have audited the accompanying consolidated balance sheets of Sàfilo S.p.A. (the "Company") and its subsidiaries (together the "Sàfilo Group" or the "Group") as at 31 December 2002, 2001 and 2000, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Sàfilo Group as at 31 December 2002, 2001 and 2000 and of the results of its operations, its cash flows and its changes in shareholders' equity for the years then ended, in accordance with Italian accounting principles as described in Note 3.

These consolidated financial statements, as described in Note 2, have been prepared to be included in the Offering Circular dated 12 May 2003 and should not be used for any other purposes.

Padua, 3 April 2003

PricewaterhouseCoopers S.p.A.

Antonio Taverna
(Partner)

SÀFILO GROUP CONSOLIDATED BALANCE SHEETS at 31 December (in thousands of Euro, unless otherwise stated)

	Note	2002	2001	2000
ASSETS				
Current assets:				
Cash and cash equivalents	5	51,443	30,856	14,747
Trade receivables (net of provision for doubtful accounts)	6	197,024	251,102	205,593
Inventory (net)	7	191,058	162,460	139,500
Other current receivables	8	45,697	38,746	34,582
Total current assets		**485,222**	**483,164**	**394,422**
Non-current assets:				
Property, plant and equipment, (net)	9	176,875	151,514	134,024
Intangible assets	10	431,255	396,384	38,240
Investments in associates and long-term financial assets		131,179	22,809	10,795
Total non-current assets		739,309	570,707	183,059
Total assets		**1,224,531**	**1,053,871**	**577,481**

LIABILITIES & SHAREHOLDERS' EQUITY

Current liabilities:				
Short-term borrowings	12	16,082	647,364	74,362
Trade payables	14	151,817	106,570	107,592
Income tax payables	15	18,829	16,281	14,222
Other current payables and accrued expenses	16	73,843	64,652	45,715
Current provisions	17	139	3,685	4,021
Total current liabilities		**260,710**	**838,552**	**245,912**
Non-current liabilities:				
Long-term borrowings	13	835,198	56,848	84,413
Termination Indemnity Liability (TFR)	18	26,546	23,636	21,219
Long-term provisions	19	11,423	5,608	4,034
Total non-current liabilities		**873,167**	**86,092**	**109,666**
Total liabilities		**1,133,877**	**924,644**	**355,578**
Shareholders' equity attributable to minority shareholders		**6,002**	**9,739**	**88,626**
Shareholders' equity:				
Share capital	20	33,350	33,350	25,823
Other reserves and retained earnings[(1)]		40,980	78,857	79,861
Income pertaining to the Group		10,322	7,281	27,593
Total shareholders' equity attributable to the Group		**84,652**	**119,488**	**133,277**
Total shareholders' equity		**90,654**	**129,227**	**221,903**
Total liabilities and shareholders' equity		**1,224,531**	**1,053,871**	**577,481**

(1) Other reserves and retained earnings include a foreign currency translation reserve amounting to €5,203, €1,564 and €2,305 as at 31 December 2002, 2001 and 2000, respectively.

SÀFILO GROUP CONSOLIDATED STATEMENTS OF OPERATIONS for the years ended 31 December (in thousands of Euro, unless otherwise stated)

	Note	2002	2001	2000
Net sales	21	894,052	844,952	685,609
Cost of sales	22	(347,947)	(352,202)	(297,561)
Gross profit		**546,105**	**492,750**	**388,048**
Selling and marketing expenses	23	(283,868)	(272,453)	(220,444)
General and administrative expenses	24	(119,116)	(96,703)	(80,626)
Other income/(expense), (net)	25	(34)	(240)	(381)
Operating income/(loss)		**143,087**	**123,354**	**86,597**
Interest income/(expense) and other financial charges	26	(70,858)	(34,275)	(11,521)
Extraordinary income/(expense), (net)	27	937	1,442	220
Amortisation of goodwill	10	(23,850)	(43,012)	(3,705)
Income/(loss) before taxation		**49,316**	**47,509**	**71,591**
Tax expense	15	(35,598)	(36,412)	(21,853)
Net income/(loss) before minority shareholders		**13,718**	**11,097**	**49,738**
Income attributable to minority shareholders	28	(3,396)	(3,816)	(22,145)

Net income		**10,322**	**7,281**	**27,593**

SÀFILO GROUP CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended 31 December (in thousands of Euro, unless otherwise stated)

	Note	2002	2001	2000
Cash flows from operating activities				
Net income		10,322	7,281	27,593
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortisation	10	36,413	54,270	6,581
Depreciation	9	29,708	27,627	24,583
Loss/(gain) on disposal of property, plant and equipment		(100)	22	53
Changes in operating assets and liabilities:				
Trade receivables and other current receivables		1,867	(47,116)	(61,816)
Inventory		(41,531)	(20,687)	(35,523)
Trade payables and other current payables and accrued expenses		70,419	24,749	84,785
Pension fund and Termination Indemnity Liability (TFR)		2,910	2,417	2,157
Other (net)		2,641	709	4,014
Net cash provided by (used in) operating activities		**112,649**	**49,272**	**52,427**
Cash flows from investing activities:				
Purchase of property, plant and equipment (net of disposals)		(58,350)	(44,980)	(45,887)
Acquisition of investments in associates		(630)	(11,316)	(258)
Purchase of treasury shares	11	(80,988)	—	—
Disposal of investments in associates		986	256	31
Purchase of shares in public offer		(28,948)	(502,488)	—
Acquisition of intangible assets[(1)]		(48,815)	(16,609)	(1,916)
Net cash provided from (used in) investing activities:		**(216,745)**	**(575,137)**	**(48,030)**
Cash flows from financing activities:				
Proceeds from issue of ordinary shares		—	5,110	—
Proceeds from borrowings		848,278	548,229	952
Dividend paid by Sàfilo S.p.A.		(22,011)	(2,966)	(2,966)
Dividends paid by subsidiaries	28	(1,664)	(1,765)	(1,277)
Repayment of bond		(10,329)	(5,165)	—
Repayment of borrowings		(617,238)	(19,656)	(24,706)
Net cash provided from (used in) financing activities		**197,036**	**523,787**	**(27,997)**
Effect of exchange rate		**(6,760)**	**(3,581)**	**(2,950)**
Net increase in cash and cash equivalents		**86,180**	**(5,659)**	**(26,550)**
Cash and cash equivalents at the beginning of the period		**(41,959)**	**(36,300)**	**(9,750)**
Cash and cash equivalents at the end of the period		**44,221**	**(41,959)**	**(36,300)**
Cash and cash equivalents at the end of the period include:				
Cash and cash equivalents	5	51,443	30,856	14,747
Bank overdraft	12	(686)	(5,347)	(11,467)
Short term loans	12	(6,536)	(67,468)	(39,580)
Cash and cash equivalents at the end of the period		**44,221**	**(41,959)**	**(36,300)**

Supplementary disclosure				
Cash paid for interest		68,165	26,586	10,056
Cash paid for income taxes		38,632	38,465	36,768

(1) Acquisition of intangible assets for the year ended 31 December 2002 includes €39,672, €5,814, €944 and €2,385 relating to restructuring and refinancing costs, goodwill, intellectual property and software and other intangible assets, respectively.

The accompanying notes are an integral part of the financial statement.

SÀFILO GROUP CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP for the years ended 31 December 2001 and 2002 (in thousands of Euro, unless otherwise stated)

	Share capital	Other reserves and retained earnings[(1)]	Net income for the period	Total shareholders' equity
Total consolidated shareholders' equity attributable to the Group at 31 December 2000	**25,823**	**79,861**	**27,593**	**133,277**
Allocation of 2000 net income:				
—dividend paid	—	—	(2,966)	(2,966)
—reserves	—	24,627	(24,627)	—
—other	—	—	—	—
Capital stock conversion in Euro	177	(177)	—	—
Increase in share capital	7,050	(7,050)	—	—
Corporate reorganisation[(2)]	—	(24,778)	—	(24,778)
New issue of share capital	300	4,810	—	5,110
Net income (loss) for the year	—	—	7,281	7,281
Foreign currency translation	—	1,564	—	1,564
Total consolidated shareholders' equity attributable to the Group at 31 December 2001	**33,350**	**78,857**	**7,281**	**119,488**
Allocation of 2001 net income:				
—dividend paid	—	(22,011)	—	(22,011)
—reserves	—	7,281	(7,281)	—
Net income (loss) for the year	—	—	10,322	10,322
Foreign currency translation	—	(23,147)	—	(23,147)
Total consolidated shareholders' equity attributable to the Group at 31 December 2002	**33,350**	**40,980**	**10,322**	**84,652**

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(1) Other reserves and retained earnings include a foreign currency translation reserve amounting to €5,203, €1,564 and €2,305 as at 31 December 2002, 2001 and 2000, respectively.

(2) The Group accounted for the purchases of shares from minority shareholders as if they occurred on 1 January 2001. Consequently €24,778 representing the profit for the year attributable to minority shareholders in the holding Company, was accounted for as a reduction of other reserves and retained earnings. In 2001 the amortisation of goodwill related to the corporate reorganisation was €39,501, representing the amortisation for the entire year.

The accompanying notes are an integral part of the financial statement.

1. The Sàfilo Group

The Sàfilo Group and its operations

The principal activity of Sàfilo S.p.A. and its subsidiaries (the "Sàfilo Group" or the "Group") is the production of eyewear. The Group's manufacturing facilities are primarily based in Italy (five plants), Austria and Slovenia (one plant each). The 2002 parent company Sàfilo S.p.A. ("the Company" or "Sàfilo") is incorporated as a limited liability company in Italy and as detailed below, due to changes in the structure of the Group since July 2001, is the successor of Fimit S.p.A. and Programma 2001 S.p.A., the holding companies of the Group in 2001 and 2002, respectively. For the country of incorporation of the subsidiaries refer to Note 30. At 31 December 2002 the Group employed 6,651 employees. The registered office of Sàfilo S.p.A. is in Belluno.

Corporate reorganisation

Sàfilo S.p.A., the current parent company of the Sàfilo Group, is the successor business entity of Fimit S.p.A., Programma 2001 S.p.A. and Programma 2002 S.p.A. following a series of mergers in connection with the reorganisation of the ownership structure of the Sàfilo Group during 2001 and 2002.

Prior to July 2001, Sàfilo S.p.A. was a holding company of the Sàfilo Group and was listed on the Milan stock exchange. At this time a company controlled by certain members of the Tabacchi family, Fimit S.p.A., owned 59.98% of the shares of Sàfilo S.p.A. The remaining 40.02% was owned by public shareholders.

In July 2001, Sàfilo S.p.A entered into a series of transactions leading to a change in ownership resulting in the company being delisted from the Milan stock exchange. The following is a summary of the transactions undertaken:

- During July 2001, Programma 2002 S.p.A., a wholly owned subsidiary of Programma 2001 S.p.A., commenced a public offer for the shares of Sàfilo S.p.A. held by the public, leading to it acquiring 38.41% of Sàfilo's ordinary shares by 31 December 2001. Programma 2001 S.p.A. was controlled by certain members of the Tabacchi family.

- On 17 December 2001, Sàfilo S.p.A. was delisted from the Milan stock exchange.

- On 20 December 2001, Fimit S.p.A. merged with and into Programma 2001 S.p.A. As a result of the Fimit merger, Programma 2001 S.p.A. directly owned 59.98% of the ordinary shares of former Sàfilo S.p.A. and indirectly owned 38.41% of its shares through its wholly-owned subsidiary Programma 2002 S.p.A. The remaining 1.61% of Sàfilo S.p.A.'s shares were owned by public shareholders. The Fimit merger was given retroactive effect to 1 April 2001.

- On 28 February 2002, Programma 2002 S.p.A. completed the acquisition of the residual 1.61% of Sàfilo S.p.A. shares held by the public.

- During the month of June 2002 Sàfilo S.p.A. acquired 9.52% of the shares of Programma 2001 S.p.A. The shares were accounted for as treasury shares, in accordance with art. 2359 (bis) of Italian Civil Code.

- On 1 July 2002, Sàfilo S.p.A. merged with and into Programma 2002 S.p.A. On 23 October 2002, Programma 2002 S.p.A. merged with and into Programma 2001 S.p.A. Both mergers were given effect from 1 January 2002.

- Following its merger with Programma 2002 S.p.A., Programma 2001 S.p.A. changed its name to Sàfilo S.p.A. and is the current parent company of the Sàfilo Group.

The corporate reorganisation was accounted for in the following manner:

- The mergers of Fimit S.p.A. and Programma 2001 S.p.A., of Programma 2002 S.p.A. with Programma 2001 S.p.A. and Sàfilo S.p.A. were accounted for under the purchase method, under which the purchase price was allocated to the fair value of assets and liabilities, with any residual amount being allocated to goodwill.

The reorganisation of the Sàfilo Group in connection with the purchase of the shares owned by the public, and the subsequent merger of Sàfilo S.p.A. with its holding companies Programma 2001 S.p.A. and Programma 2002 S.p.A., has affected the financial statements of the Sàfilo Group as at 31 December 2001 and 2002 as follows:

- In respect of the purchase of 40.02% of the shares of Sàfilo S.p.A. held by the public, the holding companies Programma 2001 S.p.A. and Programma 2002 S.p.A. recognized €395,007 and €28,984 as goodwill in 2001 and 2002, respectively. Goodwill amortisation was €20,234 and € 39,501 in 2002 and 2001, respectively.

- The cash used in investing activities in 2001 for the purchase of minority shareholders was €502,488 represented by €107,482 as shareholders' equity attributable to minority shareholders and €395,007 as goodwill.

- The reduction in amortisation between 2001 and 2002 was due to the increase to 20 years in the estimate of the useful life of the goodwill from an estimate of 10 years at the date of the original acquisition of the goodwill.

- As part of the restructuring, 3,176,000 treasury shares were purchased in 2002 for total consideration of €80,988 and recorded as long term financial assets.

- The purchases in 2001 and 2002, respectively, of 38.41% and 1.61% of the shares of Sàfilo S.p.A. held by the public, were funded primarily by external resources. These external sources, including €50,000 of the proceeds from a securitisation of receivables undertaken during 2002, were €548,229 and €281,040 in 2001 and 2002, respectively.

- Outstanding long-term and short-term borrowings, including € 50,000 from a securitisation of receivables in 2002, amounted to € 901,280 and €704,212 as at 31 December 2002 and 2001, respectively, compared to €158,775 as at 31 December 2000.

- Fees and one-off commissions related to the reorganisation and refinancing program totalling €39,672 have been deferred and amortised over the duration of the financings. Amortisation of these capitalised fees amounted to €9,620 in 2002.

- In December 2002 the Group completed the refinancing of the debt incurred in connection with the purchase of the shares held by the public. In connection with this refinancing, CSFB Private Equity acquired an indirect minority interest in Sàfilo S.p.A. by purchasing shares of our parent company, Sàfilo Holding, from companies controlled by Vittorio Tabacchi. The following table sets forth the sources of funds for the December 2002 refinancing:

Sources	**(€ in millions)**
Senior credit facilities	€540.0
Subordinated bridge notes	300.0
Securitization bridge facility	50.0
	€890.0

2. Basis of preparation of the consolidated financial statements

Basis of preparation—The accompanying financial statements are derived from the financial statements that were prepared for Italian legal and statutory purposes in accordance with the law governing the preparation of financial statements in Italy, as interpreted by, and integrated with, the accounting principles established by Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri, the Italian accounting profession. The balance sheets and the statements of operations have been reclassified in accordance with the Statements of the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri (the "Italian Accounting Principles"). The reclassification, however, does not affect the consolidated results of operations and consolidated shareholders' equity in any of the years presented. In addition, the notes to the consolidated financial statements include a level of detail in the note disclosure as is customary for international reporting. The financial statements as at 31 December 2000 were translated into Euro at the exchange rate of Italian Lire 1,936.27 = €1. The consolidated financial statements of Sàfilo S.p.A. as at 31 December 2000 have been restated in order to consolidate the same predecessor business entities as are included in the financial statements for the years ended 31 December 2002 and 2001. Accordingly, the consolidated financial statements as at 31 December 2000 also include the assets, liabilities, costs and revenues of Fimit S.p.A.

Principles of consolidation—The consolidated financial statements of the Company include all majority-owned domestic and foreign subsidiaries. Equity investments, in which the Company has ownership interests between 20% and 50%, are accounted for using the equity method, if such investments are material.

Sàfilo India Private Ltd and Sàfilo Singapore Pte Ltd have been consolidated since 1 January 2002; before that date these investments were recorded at cost because it was deemed that they were immaterial.

The financial statements used for the consolidation are those approved, or prepared for approval, at the shareholders' meetings of the respective Group companies. They are adjusted, where necessary, to conform with the Company's accounting principles, which are in conformity with Italian Accounting Principles.

All significant intercompany transactions and balances are eliminated. Unrealised intercompany profits and gains and losses arising from transactions between Group companies are also eliminated.

The financial statements of foreign subsidiaries are translated into Euro using the year-end exchange rate for balance sheet items and the average exchange rate for the year for statements of income and cash flow items. Translation differences are recorded in a foreign currency translation reserve within consolidated shareholders' equity.

The Group does not have operations in highly inflationary economies.

Use of estimates—In conformity with Italian Accounting Principles, the preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

3. Summary of significant accounting policies

Foreign currency translation

Foreign currency transactions are translated into Euro using the exchange rate prevailing at the date of the transaction. Balances outstanding at year end are translated into Euro at the year end exchange rate. Translation gains derived from non monetary financial assets and liabilities are deferred and charged to profit when realised.

Cash and cash equivalents

Cash comprises cash in hand and cash held at call with banks. All liquid investments with original maturities of three months or less are considered cash equivalents.

Trade receivables

Trade receivables are stated at their estimated realisable value. Trade receivables which are factored to financial institutions for a single returnable fixed sum, with recourse to the Sàfilo Group, are treated as not being fully settled until such time as the Sàfilo Group is notified by the factor that the trade receivable has been settled by the customer. Advanced payments received from the financial institutions are recorded as cash receipts with an offsetting liability. Any factoring fee incurred is expensed in the period in which the factoring takes place.

Under a securitisation program entered into by the Safilo S.p.A. in December 2002, each month a gross amount of receivables, as determined by the Company, are sold without recourse to a special purpose vehicle (SPV) in exchange for cash, which is received in two instalments: a) first instalment, representing 80% of nominal value of receivables sold, is received at the same time as invoices are sold; b) the remaining 20% is received, net of commissions, at the conclusion of the 10-year securitisation program.

Inventory

Inventories are stated at the lower of purchase or production cost (on a weighted average cost basis), including all product-related costs, or their corresponding market value. Obsolete and slow-moving inventories are written down to their estimated realizable value. Obsolete and slow-moving inventory provision is recorded as part of the cost of sales.

Property, plant and equipment

Tangible fixed assets are recorded at purchase or production cost or revalued amount. Cost includes related charges and direct and indirect expenses reasonably attributable to individual assets.

Certain property, plant and equipment have been revalued on the basis of indices established by laws issued by the Italian Ministry of Finance, with the objective of restating the net book value of the assets to a level which more closely reflects market value of such assets. Based upon independent appraisals, such revaluations have not exceeded the recoverable amount of the assets.

Tangible fixed assets are depreciated each year on a straight-line basis using rates that reflect the technical and economic residual useful lives of the assets.

The estimated useful life and the depreciation rates applied are as follows:

—Buildings	20 to 33 years	3% - 5.3%
—Plant and machinery	7 to 14 years	7.5% - 15.5%
—Industrial and commercial equipment	2 to 3 years	40%
—Other assets	3 to 10 years	10% - 30%

Maintenance costs are expensed as incurred. Improvement expenditures are allocated to the related assets and depreciated over their residual useful lives.

Intangible assets

Intangible assets are stated at purchase or production cost, including any directly-related charges, and amortised on a straight-line basis over the period they are expected to provide benefit.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill derived from acquisitions is capitalised and subsequently amortised over a 5 to 20 year period. Goodwill from the corporate reorganisation was amortised over 10 years in 2001. Starting from 2002 the useful life of such goodwill was extended to 20 years, based upon management's estimate of the effective benefits expected from the corporate reorganisation and in accordance with market practice for the sector and previous acquisitions (Smith Sport Optics Inc).

Capitalized costs relating to intellectual property mainly include trademarks and licenses and are amortised over a maximum of ten years, or over the life of the license contract, whichever is shorter.

Marketing research expenses include deferred expenses related to studies for a proprietary database and software and are amortised over a 5 year period.

Start-up and development cost benefiting future accounting periods is deferred, with the approval of the Board of Statutory Auditors, and amortised over five years. Start-up costs mainly includes advisory and legal costs related to start-up operations. Development expenses include cost related to the refurbishing and overhauling of sales and/or production facilities.

Other intangible assets including leasehold improvements are amortised over the life of the contract.

The useful lives adopted to amortise intangible assets are as follows:

—Start-up and development costs	5 years
—Research and development	3 years/5 years

—Industrial trademarks	life of the contract
—Concessions, licenses and trademarks	10 years/life of contract
—Goodwill	5 years/20 years
—Other deferred charges	3 years/life of contract

Investments in associates

Investments in associates are stated at cost, determined on the basis of their purchase, subscription or appraised value. They are written down to reflect any permanent impairment in value.

Investments in associates are represented by stockholdings of 50% or less and by stockholdings, of more than 50% that are deemed to be insignificant in the context of the Group's consolidated financial statements.

Provisions for risks and charges

Provisions for risks and charges are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The provisions reflect the best estimate of losses to be incurred based on the information available.

Payables

Payables are stated at their face value.

Treasury shares

Treasury shares are accounted for at cost and included in long term financial assets.

Employee benefits

Social costs

The Group incurs employee costs relating to the provision of benefits such as health services. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to cost of sales.

Termination indemnity liability (TFR)

The liability for termination indemnities ("TFR") relates to the Sàfilo Group's employees in its Italian operations. In accordance with Italian Severance Pay Statutes, an employee benefit is to be accrued for service to date and is payable immediately upon separation between the employee and each company. The TFR is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. The liability is adjusted annually for a cost of living index provided by the Italian Government. There is no vesting period or funding requirement associated with the liability. The liability recorded in the balance sheet is unfunded and represents the amount that the employee would be entitled to if the employee leaves at the balance sheet date.

Social pension costs

In the normal course of business each entity contributes independently to state pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of income. The Italian companies do not have any defined benefit pension schemes.

Income taxes

Current income taxes are provided for on the basis of estimated taxable income, determined in accordance with current fiscal legislation, taking into account any available exemptions, benefits and tax credits. Deferred taxes are also provided for, where applicable, gross of tax assets derived from tax payments that will be recoverable when timing differences reverse.

Deferred tax assets and liabilities are recorded under the liability method for the expected future tax consequences of tax loss carry forwards and temporary differences between the carrying amounts and the tax bases of the assets and liabilities based upon enacted tax laws and rates. Deferred tax assets are recognized to the extent it is probable that the temporary difference will be realized. A valuation allowance is provided, as deemed appropriate, for tax benefits available to the subsidiaries of the Group when it is more likely than not that a tax benefit will not be realized.

Revenue recognition

Revenues from the sale of products are recognized at the time ownership passes, which is generally upon shipment to the customer, as this is the date that the risks and rewards of ownership are transferred to the customers. Sales of products are shown net of product discounts, rebates, returns and VAT.

Sales that include the right of the dealer to return unsold products, which mainly occur in the United States, are recognised upon shipment of the product to the dealer. Provision for product return is estimated based upon historical trends and specific knowledge of any dealer to return products and is accrued and included within the provision for doubtful accounts which is offset against the receivable. After revenues are recognized, discounts for early payment are recorded as interest expenses.

Revenues from royalties are accrued in accordance with the terms of the relevant agreement and are usually recognised on that basis.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods.

The Group records amounts billed to customers for shipping and handling as a reduction in other selling expenses.

Accruals and deferrals

Accruals and deferrals are recorded to match costs and revenues in the accounting periods to which they relate.

Advertising and promotion costs

Advertising and promotion costs are expensed on accrual basis.

Extraordinary items

Transactions are recorded as extraordinary items when they are not directly related to the ordinary activities of the Group during the fiscal year.

Government grants

Grants that compensate the Group for the cost of an asset are recorded directly to shareholders' equity and not recognised in the statements of income.

Debt issuance costs

Expenditures arising from issuance of debt are recorded as intangible assets and amortised over the period of debt.

Environmental and product liabilities

The Group recognises losses and accrues liabilities relating to environmental and product liability matters. Accordingly, the Group recognises a loss if available information indicates that it is probable and reasonably estimable. In the event of a loss being neither probable nor reasonably estimable but still possible, the Group discloses this contingency in the notes to its consolidated financial statements.

3. Summary of significant accounting policies

With respect to environmental liabilities, the Group estimates losses on a case-by-case basis and makes the best estimate it can, based on available information. With respect to product liabilities, the Group estimates losses on the basis of current facts and circumstances, prior experience with similar matters, the number of claims and the anticipated cost of administering, defending and, in some cases, the settlement of such cases.

Capital leases

Assets utilised under non-cancellable lease agreements have been accounted for in the consolidated financial statements in accordance with International Accounting Standards ("IAS") Statement n. 17. Assets classified as capital leases have been capitalised and depreciated. The assets are depreciated at rates equal to those used for the Group's owned assets and included within depreciation expense.

Derivative products

The Group uses derivative products to manage exposure to fluctuations in both foreign currency and interest rates. To hedge against exposure to changes in foreign currency exchange rates on assets and liabilities denominated in currencies other than Euro, the Group enters into foreign currency forward contracts mainly, and options. Discounts or premiums on forward contracts and options (the difference between the current spot exchange rate and the forward exchange rate at the inception of the contract) are amortised over the life of the contract using the straight line method.

The Group periodically enters into foreign currency contracts to hedge commitments, transactions or foreign income. For foreign currency contracts acquired for the purpose of hedging identified commitments, the gain or loss is generally deferred and included in the basis of the transaction underlying the commitment. If the underlying transaction is not completed, the contract is marked to market with any realised or unrealised gains or losses reflected in income. Gains or losses on transaction hedges are recognised in cost of sales and offset the gains or losses on the related transaction. Foreign currency contracts acquired for the purpose of hedging commitments are disclosed in Note 29.

The Group's policy is to abstain from transactions of a speculative nature relating to the use of financial instruments; consequently all use of these instruments is exclusively devoted to manage and cover exchange or interest rate risks.

The Group periodically enters into interest rate swaps (IRS), which synthetically adjust interest rates on certain indebtedness. IRS involve the exchange of fixed and floating rate interest payments over the life of the agreement without the exchange of the notional amount. The differential to be paid or received is accrued as adjustments to interest income or expense over the life of the original IRS contract. Upon early termination of an interest rate swap, gains or losses are deferred and amortised as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap.

Fair value of financial instruments

The carrying amounts of certain of the Group's financial instruments including cash and cash equivalents, accounts receivable, other receivables and assets, accounts payable, accrued liabilities and other payables and liabilities, approximate to fair value due to their short maturities. Based on borrowing rates currently available to the Group for loans with similar terms and with similar circumstances, the carrying value of its debt obligations approximates to fair value.

Concentration of credit risk

Financial assets, which potentially subject the Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of the provision for doubtful accounts, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of single customers or geographical risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded as provision for doubtful accounts.

Impairment

The Group assesses annually whether there is a permanent impairment of its assets. In accordance with Italian legislation, impairments, other than those that are temporary, are expensed in the statement of income. When there is a change in the economic conditions, previous impairments may be reversed.

4. Related parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2002, 2001 and 2000 are detailed below. Transactions were entered into with related parties during the ordinary course of business and on normal commercial terms.

Balances and transactions with related parties of the Group as at and for the years ended 31 December 2002, 2001 and 2000 consist of the following:

i. Year-end balances with related parties:

Balance sheet	Relationship		2002	2001	2000
Trade receivables:					
—Optifashion As Istanbul....................	Associated		129	152	102
Trade payables:					
—Elegance International Holdings Ltd	Associated	Sàfilo S.p.A.	3,345	—	—
		Sàfilo USA	5,051	—	—
		Sàfilo Far East	27	22	55
		Total	8,423	22	55
Other current receivables:					
—Elegance International Holdings Ltd	Associated	Sàfilo Far East	396	—	—
Other intangible assets:					
—Credit Suisse First Boston.................	Indirect shareholder		2,037	—	—
Long term loans:					
—Safilens Srl	Other shareholdings		200	—	—
—Credit Suisse First Boston.................	Indirect shareholder		299,229	—	—
Investment in associates and long-term financial assets:					
—Programma 5000 S.r.l. (treasury shares)..	Indirect shareholders		80,988		
—TBR..	Shareholder		629	—	—

ii. Transactions with related parties:

Balance sheet	Relationship		2002	2001	2000
Net sales:					
—Optifashion As Istanbul	Associated		171	203	248
Cost of sales:					
—Elegance International Holdings Ltd..	Associated	Sàfilo USA	16,996	—	—

		Sàfilo Far East	120	—	—
		Total	17,116	—	—
Rent:					
—TBR Inc (USA)	Other shareholdings	Sàfilo USA	1,322	—	—
Dividends from associated subsidiaries:					
—Elegance International Holdings Ltd	Associated	Sàfilo Far East	1,167	—	—
Interest income:					
—Safilens Srl	Other shareholdings		2	—	—
Interest expenses:					
—Credit Suisse First Boston	Indirect shareholder		1,249	—	—
Debt issuance costs:					
—Credit Suisse First Boston	Indirect shareholder		383	—	—

Jointly with other banks, Credit Suisse First Boston is also lender of the long term loans, as indicated in Note 13.

Treasury shares were purchased from Programma 5000 S.r.l., an indirect shareholder.

5. Cash and cash equivalents

These items total €51,443 as at 31 December 2002, compared with €30,856 and €14,747 as at 31 December 2001 and 2000, respectively, and reflect short term investments at market rates. The balance as at 31 December 2000 includes €742 of Italian treasury bonds, which were sold in 2001.

	2002	2001	2000
Currency			
US Dollar	6,277	11,546	3,577
Euro	37,834	11,123	5,135
Hong Kong Dollar	928	3,215	1,718
Canadian Dollar	1,058	1,483	978
Japanese Yen	2,193	1,181	1,109
Slovenian Taller	580	662	475
Australian Dollar	748	570	785
GB Pound Sterling	802	462	651
Swiss Franc	237	393	—
South African Rand	378	181	122
Brazilian Real	138	40	197
Singapore Dollar	178	—	—
Indian Rupee	54	—	—
Malaysian Ringgit	38	—	—
Total	51,443	30,856	14,747

Cash and cash equivalents include €25 million of restricted cash related to transaction fees arising from the December 2002 refinancing, which were not paid until after 31 December 2002.

6. Trade receivables (net of provision for doubtful accounts)

2002	2001	2000

Gross value	213,128	266,473	218,570
Provision for doubtful accounts	(16,104)	(15,371)	(12,977)
Net value	197,024	251,102	205,593

Trade receivables are derived from sales of products to domestic and foreign customers. The exchange risk of receivables in currencies other than Euro are hedged by specific hedging contracts arranged centrally.

As discussed in Note 3 in the year ended 31 December 2002, Safilo S.p.A. participated in a trade receivable securitisation program.

As at 31 December 2002 €76,443 of receivables had been sold and the related cash received. €50,000 of €76,433 had been collected. The outstanding amount has been included in long term financial assets (Note 11).

The increase of €45,509 in the net trade receivables balance between 31 December 2000 and 31 December 2001 reflects the growth in sales and the inclusion of Sàfilo Switzerland and Sàfilo Hong Kong in the consolidation.

As at 31 December 2001, the amount of €266,473 includes €602 of receivables from the non consolidated subsidiaries Sàfilo India Ltd and Sàfilo Singapore.

The provision for doubtful accounts also includes a provision for unsold products that are expected to be returned, in accordance with contract with the final dealer. This provision was €4.1 million, €4.3 million and €3.9 million as at 31 December 2002, 2001 and 2000, respectively.

7. Inventory (net)

	2002	2001	2000
—Raw materials and supplies	37,161	36,584	29,396
—Work in progress	11,337	7,526	10,493
—Finished products	142,560	118,350	99,611
	191,058	162,460	139,500

Inventory is recorded net of an obsolescence and slow moving inventory provision amounting to €13,074, €15,398 and €12,951 as at 31 December 2002, 2001 and 2000, respectively. Expense for obsolescence and slow moving inventory was €20,305, €36,069 and €20,335 in 2002, 2001 and 2000, respectively. This expense declined significantly in 2002 due to management's estimation of higher net realisable value of obsolete inventory resulting from Sàfilo's increased disposals of obsolete inventory in discounted sales, as opposed to higher levels of scrapping obsolete inventory in prior periods.

8. Other current receivables

	2002	2001	2000
Value added tax (VAT) receivables	6,812	4,195	4,970
Tax credits and advance payments	8,449	5,383	5,596
Deferred tax assets	18,026	16,296	13,778
Prepayments and accrued income	3,600	5,457	6,734

Receivables from salespersons	3,600	3,798	3,347
Other receivables	5,210	3,617	157
	45,697	38,746	34,582

Deferred tax assets represent receivables from tax authorities arising from temporary differences between taxable income and statutory income.

Prepayments and accrued income amount to €3,600 as at 31 December 2002, €5,457 as at 31 December 2001 and €6,734 as at 31 December 2000 and include:

As at 31 December 2002:

- Prepaid advertising expenses of €1,150;
- Prepaid lease instalments of €1,760;
- Other accrued income and prepayments of €690.

As at 31 December 2001:

- Prepaid interest on loans of €1,511;
- Prepaid advertising expenses of €1,536;
- Prepaid royalties of €182;
- Prepaid lease instalments of €567;
- Other accrued income and prepayments of €1,661.

As at 31 December 2000:

- Prepaid interest on loans of €1,595;
- Prepaid advertising expenses of €2,191;
- Premium for hedging contracts deferred over the life of the contract of €714;
- Deferment of royalty costs paid in advance of €955;
- Other accrued income and prepayments of €1,279.

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

SÀFILO GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December (in thousands of Euro, unless otherwise stated)

9. Property, plant and equipment, net

	Land and Buildings	Plant and equipment	Furniture, office equipment and vehicles	Assets under construction	Total

Cost					
Balance at 31 December 1999	52,814	113,233	32,812	9,769	208,628
Revaluation	1,579	321	7	—	1,907
Sub Total	*54,393*	*113,554*	*32,819*	*9,769*	*210,535*
Additions	18,669	24,935	5,425	11,773	60,802
Translation differences	(227)	(258)	1,184	(91)	608
Transfer from assets under construction	—	—	—	(13,782)	(13,782)
Revaluation Law 342/2000	—	10,665	—	—	10,665
Disposals/transfers to other categories	(175)	(2,909)	(1,427)	—	(4,511)
Balance at 31 December 2000	**72,660**	**145,987**	**38,001**	**7,669**	**264,317**
Accumulated Depreciation					
Balance at 31 December 1999	(10,077)	(81,754)	(17,094)	—	(108,925)
Depreciation charge	(2,370)	(18,082)	(4,131)	—	(24,583)
Reclassifications	(182)	(360)	(58)	—	(600)
Consolidation adjustment	(6)	109	(8)	—	95
Translation differences	27	379	(515)	—	(109)
Disposals	4	2,660	1,165	—	3,829
Balance at 31 December 2000	**(12,604)**	**(97,048)**	**(20,641)**	**—**	**(130,293)**

	Land and Buildings	Plant and equipment	Furniture, office equipment and vehicles	Assets under construction	Total
Cost					
Balance at 31 December 2000	71,081	135,058	37,994	7,669	251,802
Revaluations	1,579	10,929	7	—	12,515
Sub total	*72,660*	*145,987*	*38,001*	*7,669*	*264,317*
Additions	8,341	31,645	10,278	9,328	59,592
Translation differences	89	(353)	973	(72)	637
Transfer from assets under construction	—	—	—	(12,410)	(12,410)
Disposals/transfers to other categories	(6)	(17,814)	(3,833)	—	(21,653)
Balance at 31 December 2001	**81,084**	**159,465**	**45,419**	**4,515**	**290,483**
Accumulated Depreciation					
Balance at 31 December 2000	(12,604)	(97,048)	(20,641)	—	(130,293)
Depreciation charge	(2,777)	(21,286)	(3,564)	—	(27,627)
Consolidation adjustment	—	(68)	—	—	(68)
Translation differences	(564)	105	(594)	—	(1,035)
Disposals	4	17,614	2,435	—	20,053
Balance at 31 December 2001	**(15,923)**	**(100,683)**	**(22,364)**	**—**	**(138,970)**

	Land and Buildings	Plant and equipment	Furniture, office equipment and vehicles	Assets under construction	Total
Cost					
Balance at 31 December 2001	79,505	148,536	45,412	4,515	277,968
Revaluations	1,579	10,929	7	—	12,515
Sub total	*81,084*	*159,465*	*45,419*	*4,515*	*290,483*
Additions	7,783	13,719	23,460	21,397	66,359
Translation differences	(1,091)	(1,132)	(4.985)	(135)	(7,343)
Transfer from assets under construction	56	728	535	(6,614)	(5,295)
Disposals/transfers to other categories	(63)	(2,483)	(3,531)	—	(6,077)
Balance at 31 December 2002	**87,769**	**170,297**	**60,898**	**19,163**	**338,127**
Accumulated Depreciation					
Balance at 31 December 2001	(15,923)	(100,683)	(22,364)	—	(138,970)
Depreciation charge	(2,213)	(21,285)	(6,210)	—	(29,708)
Translation differences	82	502	2,973	—	3,557
Transfer from assets under construction	(245)	2,143	(3,222)	—	(1,324)
Disposals	22	2,363	2,807	—	5,192
Balance at 31 December 2002	**(18,277)**	**(116,960)**	**(26,016)**	**—**	**(161,253)**
Net Book Value					
Balance at 31 December 2000	**60,056**	**48,939**	**17,360**	**7,669**	**134,024**
Balance at 31 December 2001	**65,162**	**58,782**	**23,055**	**4,515**	**151,514**
Balance at 31 December 2002	**69,493**	**53,337**	**34,882**	**19,163**	**176,875**

As at 31 December 2002, bank borrowings are secured by property, plant and equipment to the value of €141.1 million.

Selected properties, plant and equipment located in Italy were revalued in accordance with specific laws. Such laws allowed the revaluation of the selected properties, plant and equipment based upon indices, with the limitation that the revalued amount net of the accumulated depreciation would not exceed the recoverable amount of the assets.

SÀFILO GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December (in thousands of Euro, unless otherwise stated)

10. Intangible assets

	Goodwill	Intellectual property	Marketing research expenses	Start up and development costs	Other intangible assets	Total
Cost						
Balance at 31 December 1999	50,505	14,704	3,292	2,623	9,305	80,429
Additions	151	406	443	27	889	1,916
Currency translation	1,319	(34)	(190)	(56)	146	1,185
Disposals/transfers to other categories	—	—	—	—	—	—
Balance at 31 December 2000	**51,975**	**15,076**	**3,545**	**2,594**	**10,340**	**83,530**

Amortisation						
Balance at 31 December 1999 ..	(18,024)	(7,769)	(2,417)	(1,903)	(8,596)	(38,709)
Amortisation charge	(3,705)	(1,215)	(281)	(438)	(942)	(6,581)
Disposals	—	—	—	—	—	
Balance at 31 December 2000	**(21,729)**	**(8,984)**	**(2,698)**	**(2,341)**	**(9,538)**	**(45,290)**
Cost						
Balance at 31 December 2000 ..	51,975	15,076	3,545	2,594	10,340	83,530
Additions	395,007	1,028	102	4	15,476	411,617
Currency translation	975	(22)	2	—	(158)	797
Disposals/transfers to other categories................................	—	—	—	—	—	—
Balance at 31 December 2001	**447,957**	**16,082**	**3,649**	**2,598**	**25,658**	**495,944**
Amortisation						
Balance at 31 December 2000 ..	(21,729)	(8,984)	(2,698)	(2,341)	(9,538)	(45,290)
Amortisation charge	(43,012)	(1,429)	(474)	(230)	(9,125)	(54,270)
Disposals	—	—	—	—	—	—
Balance at 31 December 2001	**(64,741)**	**(10,413)**	**(3,172)**	**(2,571)**	**(18,663)**	**(99,560)**

	Goodwill	Intellectual property	Marketing research expenses	Start up and development costs	Other intangible assets	Total
Cost						
Balance at 31 December 2001 ...	447,957	16,082	3,649	2,598	25,658	495,944
Additions	34,762	944	—	9	41,759	77,474
Currency translation	(6,183)	(146)	(53)	(1)	(96)	(6,479)
Transfer from assets under construction	—	700	—	202	(613)	289
Balance at 31 December 2002 .	**476,536**	**17,580**	**3,596**	**2,808**	**66,708**	**567,228**
Amortisation charge						
Balance at 31 December 2001 ...	(64,741)	(10,413)	(3,172)	(2,571)	(18,663)	(99,560)
Amortisation charge	(23,850)	(1,420)	(124)	(31)	(10,988)	(36,413)
Disposals	—	—	—	—	—	—
Balance at 31 December 2002 .	**(88,591)**	**(11,833)**	**(3,296)**	**(2,602)**	**(29,651)**	**(135,973)**
Net Book Value						
Balance at 31 December 2000 .	**30,246**	**6,092**	**847**	**253**	**802**	**38,240**
Balance at 31 December 2001 .	**383,216**	**5,669**	**477**	**27**	**6,995**	**396,384**
Balance at 31 December 2002 .	**387,945**	**5,747**	**300**	**206**	**37,057**	**431,255**

Goodwill as at 31 December 2002 mainly reflects the following:

- Goodwill totalling €364,221 (€355,507 as at 31 December 2001), net of amortisation, arose in connection with the purchase from the public of the remaining shares of Sàfilo S.p.A. The 2002 balance reflects the additional goodwill arising in connection with the 2002 acquisition. The goodwill arising in 2001 was initially amortised over ten years. In 2002, when the purchase of the remaining shares and the integration was completed, the estimate of the useful life of the goodwill, including the net book value of goodwill arising from the 2001 acquisition, was increased from 10 to 20 years.

- The acquisition of Smith Sport Optics, with a net book value of €12,616 (€16,805 and €17,009 as at 31 December 2001 and 2000, respectively). The original amount of goodwill is being amortised on a straight-line basis over 20 years from 1996.

- Goodwill of €7,760 resulting from the consolidation of minor subsidiaries. The original amount is being amortised on a straight-line basis over 15 years since 1994.

- Goodwill attributable to the acquisition of Solstice, represented by six stores on the US market. The original cost is deferred over five years and the residual amount is €2,231.

- Goodwill paid to the local distributor and the licensee for the sale of products in Japan under the "Dior" and "Polo" trademarks for a total of €466, net of amortisation (€972 and €1,554 as at 31 December 2001 and 2000, respectively). This goodwill is being amortised on a straight-line basis over five years.

- Goodwill paid to the local distributor and the licensee for the sale of products in Brazil for a total of €89, net of amortisation (€273 and €434 as at 31 December 2001 and 2000, respectively). This goodwill is being amortised on a straight-line basis over five years.

- Goodwill totalling €562 representing miscellaneous goodwill on minor subsidiaries. The original cost is being amortised on straight line basis up to 20 years commencing from 1989.

Intellectual property includes:

- Industrial patents totalling €588 as at 31 December 2001 (nil as at 31 December 2002 and 2000) arising from costs incurred by a U.S. subsidiary for the use of a patent.

- Trademarks and licenses totalling to €5,205 as at 31 December 2002 (€5,087 as at 31 December 2001 and €6,098 as at 31 December 2000). Included in the 31 December 2002 balance is €3,911 paid for the Carrera trademarks (€4,719 and €6,161 as at 31 December2001 and 2000 respectively).

"Start-up and development costs", net of amortisation, totalling €206 as at 31 December 2002 (€27 as at 31 December 2001 and €253 as at 31 December 2000), relates to costs incurred by certain subsidiaries to develop marketing and operating plans for the start of new sales divisions.

"Marketing research costs", net of amortisation, totalling €300 as at 31 December 2002 (€477 as at 31 December 2001 and €847 as at 31 December 2000), refers to expenses incurred for software applications. During 2001 and 2000, €102 and €443, respectively, were capitalized because those costs are expected to have a benefit in future years.

As at 31 December 2002, "Other intangible fixed assets" include:

- Transaction costs totalling €37,616 (€1,936 as at 31 December 2001) incurred for the public offer and subsequent delisting of Sàfilo S.p.A.

- Cost incurred by the Parent Company during the year for improvements to leasehold premises amounting to €1,002 (€787 as at 31 December 2001 and nil as at 31 December 2000), net of amortisation. This cost is being amortised over the life of the contract.

- The cost incurred during the year and in the previous year for the start-up of the e-commerce project for €277, net of amortisation (€322 as at 31 December 2000).

- The cost of new software and IT applications totalling €1,502 (nil as at 31 December 2001 and 2000). SAFILO GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December (in thousands of Euro, unless otherwise stated)

11. Investments in associates and long term financial assets

	2002	2001	2000
Investments in associates at 1 January	20,089	8,587	7,992
Additions	630	11,316	258
Disposals	(986)	(256)	(31)
Translation differences	(1,394)	442	561
Impairments	—	—	(193)
Investments in associates at 31 December	**18,339**	**20,089**	**8,587**
Long term financial assets	112,840	2,720	2,208
	131,179	**22,809**	**10,795**

	Interest in share capital %	Relationship	31 December 2002
Investment:			

Banca Popolare di Lodi	0.65%	Other shareholdings	10,198
Elegance International Holdings Lts	23.05%	Associate	6,999
TBR Inc. (USA)	33.33%	Other shareholdings	568
Optifashion As (Turkey)	50%	Non consolidated related party	353
Safilens Srl	17.50%	Other shareholdings	129
Other	—	Other shareholdings	92
			18,339

During 2002 the Group acquired 33.33% in TBR Inc. from shareholders of Sàfilo for consideration of €629.

During 2001 the balance was affected by the following transactions:

- On 17 July 2001 Sàfilo India Private Limited was incorporated, based in Bombay with a capital stock of Rs 70,000,000 (€1.6 million), and the Group holds 75% ownership. This company commenced operations in December 2001.

- On 9 October 2001 Sàfilo Singapore Pte Ltd. was incorporated, based in Singapore with capital stock of Singapore $1,000,000, and is 100% owned by the Group. This company commenced operations in December 2001.

- In February 2001, Sàfilo S.p.A. also acquired 746,250 shares in Banca Popolare di Lodi, representing 0.648% of the total share capital, for total consideration of €10,198. These shares are quoted on the Italian Stock Exchange. This equity investment has been included in investments in associates and long-term financial assets as it is considered a long-term investment. The market value of these investments as at 31 December 2001 was €6.3 million. In accordance with the accounting policies of the Group, the directors have not written down the undertaking because they consider as temporary the reduction in the value of the investment.

SÀFILO GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December (in thousands of Euro, unless otherwise stated)

11. Investments in associates and long term financial assets

During 2000, the balance was affected by the following transactions:

- On 14 November 2001 Sàfilo Switzerland AG was incorporated, based in Liestal (Switzerland) with a capital stock of Sfr 1 million, and the Group holds 77% ownership. This company commenced operations in 2001.

- Translation differences represent the accruals of exchange differences related to investment in shares denominated in foreign currency.

Long term financial assets as at 31 December 2002 include:

- €80,988 representing 3,176,000 shares of Programma 2001 S.p.A. (now Sàfilo S.p.A.) or 9.52% of share capital;

- €26,433 representing the difference between receivables sold to Sunlight Srl and cash received upfront. This difference will be collected after 10 years, at the end of the securitisation program (Note 3);

- €677 (€980 as at 31 December 2001 and €1,241 as at 31 December 2000) relating to tax advances on the reserve for termination indemnities paid by certain Italian Group companies;

- As at 31 December 2001 only, €1,447 relating to a non interest-bearing loan to an associated company, and to guarantee deposits.

12. Short-term borrowings

	2002	2001	2000
Bank overdraft	686	5,347	11,467
Short term loans	6,536	67,468	39,580
Bonds (Note 13) redeemable within 12 months	—	10,329	5,165
Current portion of long-term borrowings (Note 13)	8,359	564,220	18,150
Current portion in other providers of financing	501	—	—
	16,082	**647,364**	**74,362**

The reduction in short term loans from €67,468 as at 31 December 2001 to €6,536 as at 31 December 2002 was primarily due to the repayment of short term loans as part of the December refinancing.

Short-term loans can be analysed as follows:

	31 December 2002
Loan in Euro, bearing interest at 3.636%, repayable on 28 January 2003	6,000
Other short-term loans	536
Total short-term loans	**6,536**

13. Long-term borrowings

	2002	2001	2000
Loans	534,274	620,604	91,963
Less: Current portion of loans	(8,359)	(564,220)	(18,150)
Notes	299,229	—	10,329
Other providers of financing	10,167	464	271
Less: Current portion in other providers of financing	(501)	—	—
Other long term debt	388	—	—
	835,198	**56,848**	**84,413**

During 2002 almost all long term loans in existence as at 31 December 2001 were repaid, and new loans were entered into.

The weighted average interest rates of the borrowings are as follows:

	2002 weighted average interest rate	2001 weighted average interest rate	2000 weighted average interest rate
Euro	5.79%	4.3%	—

US	.59%	2.75%	6.7%
Italian Lire	—	—	4.1%
ATS	—	—	5.4%

The maturity profile of the carrying amount of the Group's long-term debt as at 31 December 2002 was as follows:

	31 December 2002
2004	25,280
2005	31,679
2006	47,184
2007	57,769
2008	63,968
2009 and beyond	609,318
	835,198

The Group has entered into hedging arrangements in respect of its foreign currency obligations and interest rate exposures.

Loans are as follows:

31 December 2002	Outstanding balance	Current portion
Long-term loans of Sàfilo		
— Loan in Euro from Credit Suisse First Boston jointly with San Paolo IMI and UniCredit Banca Mobiliare—Term A1—bearing interest rate of 5.1529%—payable on 31 December 2009	50,000	1,580
— Loan in Euro from Credit Suisse First Boston jointly with San Paolo IMI and UniCredit Banca Mobiliare—Term B—bearing interest rate of 5.6529%—payable on 31 December 2010	135,000	—
— Loan in Euro from Credit Suisse First Boston jointly with San Paolo IMI and UniCredit Banca Mobiliare—Term C—bearing interest rate of 5.6529%—payable on 31 December 2011	135,000	—
— Loan in US$151,373,400 from Credit Suisse First Boston jointly with San Paolo IMI and UniCredit Banca Mobiliare—Term C—bearing interest rate of 3.5876%—payable on 31 December 2009	144,344	4,539
Long-term loans of Group subsidiaries:		
— Loan in US$70,607,950 from Credit Suisse First Boston jointly with San Paolo IMI and UniCredit Banca Mobiliare—Term A2—bearing interest rate of 3.5876%—payable on 31 December 2009	67,329	2,116
— Loan of Yen 300,000,000, bearing interest at a floating rate (1.2% as at 31 December 2001) repayable on 30 April 2004	2,412	—
—Other	189	124
Total	**534,274**	**8,359**

Notes

The balance as at 31 December 2002 includes:

- €97,766 notes with a nominal value of US$100,000 from Credit Suisse First Boston bearing an interest rate of 9.91%—repayable quarterly and maturing on 16 December 2012.

- €201,463 notes from Credit Suisse First Boston bearing an interest rate of 9.68%—repayable quarterly and maturing on 16 December 2012.

- Bonds with a nominal value of Lire 50 billion (€25,555,555) were issued on 1 July 1995 with the last reimbursement expected to occur on 31 May 2007. As at 31 December 2001 the outstanding amount was €10,329 compared to €15,494 as at 31 December 2000. The bond holders at the general meeting on 28 March 2002 approved the early redemption of the bonds. The outstanding bonds were reimbursed by the end of 2002 at par value.

Other providers of financing

The balance as at 31December 2002 includes:

- €1,653, of which €413 represents the current portion (€2,066 and €788 as at 31 December 2001 and 2000), of a loan granted to Sàfilo by SIMEST S.p.A., a financial institution owned by the Italian Government, for a project involving the commercial penetration of the Japanese market, bearing interest at a fixed rate of 1.44%;

- €1,050 (€833 as at 31 December 2001) representing the long-term portion of a loan under the economic development law sponsored by Government of Italy;

- €7,464 of capital leases, of which €88 represents the current portion.

Capital leases include €1,212, relating to machinery whose leasing contracts expire up to 2007, and €6,252, relating to improvements to buildings whose leasing contracts expire up to 2012.

14. Trade payables

	31 December		
	2002	2001	2000
Purchase of materials	36,316	29,998	34,545
Purchase of products and subcontract costs	35,479	25,585	26,948
Commission and royalties	22,605	22,111	19,319
Advertising and sponsorship costs	11,005	8,016	8,112
Services received from third parties	20,239	16,421	10,970
Purchase of fixed assets	17,750	4,417	7,643
Amounts owed to related companies	8,423	22	55
	151,817	**106,570**	**107,592**

15. Income taxes

Income tax

Income taxes totalled €35,598 in 2002 (€36,412 in 2001 and €21,853 in 2000), and take into account available exemptions, benefits and tax credits in 2001, and the parent company and the US subsidiaries.

Income taxes include deferred tax assets (net of deferred tax liabilities) totalling €3,252 in 2001 and €5,125 in 2000, and have been calculated on provisions and carry-forward tax losses whose tax benefits are deferred over time. These taxes have been provided for because it is reasonably certain that they will be recovered in future years.

The components of income tax expense (benefit) reflected in the statements of operations are as follows:

	2002	2001	2000
Income tax expense/(benefit):			
Italian	4,273	12,017	6,004
Foreign	31,772	26,769	20,974
Total current	36,045	38,786	26,978
Deferred tax charge/(credit):			
Italian	(46)	(2,098)	(448)
Foreign	(401)	(276)	(4,677)
Total deferred	(447)	(2,374)	(5,125)
	35,598	**36,412**	**21,853**

Tax loss carryforwards:

Expiring	Amount

Italy	2003	—
	2004	—
	2005	—
	2006	785
	2007 and beyond	1,028
		1,813

The tax for the year ended 31 December 2002 is higher than the standard rate of corporation tax in Italy (40.25%). The differences are explained below:

	31 December 2002(millions of Euro)
Corporation Tax at 40.25%	19.8
Amortisation of goodwill not deductible for tax purpose	7.8
Foreign tax	5.5
Impairment not deductible for tax purpose	0.7
Expenses not deductible for tax purpose	1.8
Consolidated income tax	**35.6**

Each entity of the Group is subject to taxation in its country of incorporation. The entities incorporated in Italy are subject to income taxes in Italy (IRPEG tax) which had a statutory rate of 36% for the years ended 31 December 2002 and 2001 and 37% for the year ended 31 December 2000. Italian entities are also subject to a 4.25% local income tax (IRAP tax). Foreign subsidiaries are subject to income taxes of the countries in which they operate. The relationship between income tax expense and pretax accounting income is affected by a number of items, including various tax credits, certain expenses not allowable for income tax purposes and different tax rates applicable to foreign subsidiaries.

In the context of tax legislation and the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company. Net losses carry forward for tax purposes of Italian entities may be utilised only to offset taxable income for IRPEG tax.

For the entities incorporated in Italy, periods remain open to review by the Italian tax and customs authorities with respect to tax liabilities for five years.

Income tax payable

Outstanding payables to the tax authorities are €18,829 as at 31 December 2002, €16,281 as at 31 December 2001 and €14,222 as at 31 December 2000, and relate to the liability for current income taxes of Group companies.

16. Other current payables and accrued expenses

	2002	**2001**	**2000**
Payroll	17,004	17,433	16,912
Social security	7,073	6,160	5,243
Accruals for bonuses to salespersons	17,309	18,071	10,460
Payable to salespersons	1,315	1,391	—

Payable for services related to financial restructuring	7,516	—	—
Accrual for advertising and sponsorship expenses	6,607	3,925	3,981
Accrual for loan interest expense	2,692	7,689	1,465
Accruals for insurance, leasing and other charges	4,492	3,543	2,556
Payable to minority shareholders	2,732	—	—
Other payable	7103	6,440	5,098
	73,843	**64,652**	**45,715**

Amounts due to social security, €7,073 as at 31 December 2002, €6,160 as at 31 December 2001 and €5,243 as at 31 December 2000, mainly relate to contributions payable one month in arrears by Group companies in relation to employees' wages and salaries.

Payable to minority shareholders includes dividends approved in previous year shareholders' meetings and dividends accrued.

17. Current provisions

	Balance as at 1 January 2000	Movements in the year: Accruals	Utilisation	Translation difference	Balance as at 31 December 2000
Tax claims	—	1,549	—	—	1,549
Foreign exchange risks	1,674	423	(589)	(16)	1,492
Other	194	973	(177)	(10)	980
Total	**1,868**	**2,945**	**(766)**	**(26)**	**4,021**

	Balance as at 1 January 2001	Movements in the year: Accruals	Utilisation	Translation difference	Balance as at 31 December 2001
Tax claims	1,549	—	(1,549)	—	—
Foreign exchange risks	1,492	3,216	(1,425)	(304)	2,979
Other	980	332	(601)	(5)	706
Total	**4,021**	**3,548**	**(3,575)**	**(309)**	**3,685**

	Balance as at 1 January 2002	Movements in the year: Accruals	Utilisation	Translation difference	Balance as at 31 December 2002
Foreign exchange risks	2,979	—	(2,979)	—	—
Other	706	74	(632)	(9)	139
Total	**3,685**	**74**	**(3,611)**	**(9)**	**139**

Utilisation of provision refers to amounts released to statement of operations. The provision for tax litigation amounted to €1,549 as at 1 January 2001 and reflects the tax authorities' assessment of Sàfilo's tax position.

The exchange fluctuation provision amounted to €2,979 as at 1 January 2002 and €1,492 as at 1 January 2001 and has been provided for to cover net unrealised losses on foreign currency balances.

The provision for other risks and charges amounted to €980 as at 1 January 2001. It was increased during 2000 by €973 mainly for the reorganisation of the sales division of the Group's German subsidiary.

The provision for other risks and charges as at 1 January 2002 amounted to €706 and also includes:

- €103 for a risk with a specific client;
- €124 for a provision relating to an reorganisation restructuring in the subsidiary in Slovenia.

SÀFILO GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December (in thousands of Euro, unless otherwise stated)

18. Termination Indemnity Liability (TFR)

	2002	2001	2000
At 1 January	23,636	21,219	19,062
Provision for the year	6,064	5,731	4,497
Acquisitions	—	—	184
Utilised	(3,154)	(3,314)	(2,524)
Balance at 31 December	**26,546**	**23,636**	**21,219**

19. Long-term provisions

		Movements in the year			
	Balance as at 1 January 2000	Accruals	Utilisation	Translation difference	Balance as at 31 December 2000
Employee benefits	928	984	(1,020)	74	966
Product warranty	1,077	497	—	26	1,600
Agents indemnity	1,050	430	(12)	—	1,468
Total	**3,055**	**1,911**	**(1,032)**	**100**	**4,034**

		Movements in the year			
	Balance as at 1 January 2001	Accruals	Utilisation	Translation difference	Balance as at 31 December 2001
Employee benefits	966	1,721	(1,435)	59	1,311
Product warranty	1,600	1,247	(659)	36	2,224
Agents indemnity	1,468	605	—	—	2,073
Total	**4,034**	**3,573**	**(2,094)**	**95**	**5,608**

		Movements in the year			
	Balance as at 1 January 2002	Accruals	Utilisation	Translation difference	Balance as at 31 December 2002
Employee benefits	1,311	1,889	(1,572)	(241)	1,387

Product warranty	2,224	556	(368)	(123)	2,289
Provision for deferred gains on foreign currency exchange rates	—	5,478	—	—	5,478
Agents indemnity	2,073	207	(11)	—	2,269
Total	**5,608**	**8,130**	**(1,951)**	**(364)**	**11,423**

The pensions fund ("Employee benefits") represents the liability of certain Group companies under supplementary labour agreements to pay additional retirement benefits to their employees. The product warranty reserve has been provided to cover the estimated cost of replacing defective products.

The Agents indemnity provision represents the costs that would be incurred if the agreement with the agents is terminated by the Group. The provision for Agents indemnity is estimated based upon Italian and European law and historical trends.

Provision for deferred gains on foreign currency exchange rates represents the translation gain on loans in US dollars other than those that are current. Such translation gains will be recorded as profit if and when realised.

20. Shareholders' equity attributable to the Group

Share capital

Sàfilo's share capital as at 31 December 2002 and 2001 was made up by 33,350,000 shares, with a par value of €1, for a total of €33,350.

The Company owns 3,176,000 treasury shares purchased during 2002.

The Parent Company's share capital as at 31 December 2000 was made up by 50 million shares, with a par value of Lire 1000 (€0.52) for a total of Lire 50 billion (€25,822,845).

21. Segment Information

The Group has had only one business segment during the three years ended 31 December 2002, being the production of prescription frames, sunglasses and sport goggles. The following is an analysis based on the country in which the customer is located:

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Geographical analysis:			
Italy	145,691	159,429	114,436
Europe (excluding Italy)	267,055	209,401	161,572
North America	353,469	345,419	303,604
Far East	51,981	49,365	38,945
Japan	24,046	24,237	20,110
Australia	11,123	10,613	9,436
Other countries	40,687	46,488	37,506
	894,052	**844,952**	**685,609**

22. Cost of sales

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Materials, finished products and changes in inventories	172,632	179,254	143,792
Salaries and related contributions	90,738	85,218	77,406
Subcontracting costs	46,973	46,613	34,249
Industrial depreciation	24,607	25,206	21,941
Other costs	12,997	15,911	20,173
	347,947	**352,202**	**297,561**

Materials, finished products and changes in inventories

This item includes purchases of raw material, consumables, finished products and obsolescence:

- Inventory variation of finished products amounted to €34,769 in 2002, €17,019 in 2001 and €21,743 in 2000;

- Inventory variation of work-in-progress amounted to €4,281 in 2002, €3,100 in 2001 and €3,254 in 2000;

- Inventory variation of raw materials amounted to €1,079 in 2002, €7,072 in 2001 and €10,612 in 2000;

- Purchase expenses amounted to €214,762 in 2002, €202,493 in 2001 and €180,654 in 2000. The increase compared with 2000 is mainly due to the higher volume of semifinished products being purchased from third parties, which is partly offset by lower purchase prices of raw materials.

Salaries and related contributions

This item includes:

- Wages, salaries, social security, termination indemnities, pension costs and other costs related to staff involved in production activities amounted to €82,312 in 2002, €85,218 in 2001 and €81,581 in 2000;

- Capitalisation of labour costs incurred on internally constructed machines and equipments. Capitalised expenses amount to €8,406 in 2002, €6,180 in 2001 and €3,874 in 2000.

Subcontracting costs

This item includes the cost third parties manufacturing semifinished products, where material is provided by the Group.

The increase of €12,365 between 2000 and 2001 is largely explained as a consequence of the increase in production volumes.

Industrial depreciation

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Buildings	2,213	2,777	2,370
Plant and machinery	16,193	14,826	13,769
Equipment	5,092	6,460	4,313
Other assets	1,109	1,143	1,489
	24,607	**25,206**	**21,941**

Other costs

This item includes industrial services, maintenance and rental costs related to production and energy costs. Rental costs related to machinery and equipment amounted to €7,405 in 2002, €5,338 in 2001 and € 3,977 in 2000. Other costs include (gains)/losses on currency swaps totalling €(3,105) in 2002, €1,356 in 2001 and €9,189 in 2000.

23. Selling and marketing expenses

	Year ended 31 December 2002	**Year ended 31 December 2001**	**Year ended 31 December 2000**
Staff costs	31,535	30,125	24,490
Services from independent salespersons	76,993	79,685	66,587
Royalties	70,887	69,154	52,469
Advertising and promotion	73,309	67,430	56,494
Other selling expenses	31,144	26,059	20,404
	283,868	**272,453**	**220,444**

Staff costs

This item includes wages, salaries, social security, termination indemnities, pension and other costs of staff involved in commercial departments.

Services from independent salespersons

This item includes:

- Wages, salaries, social security, termination indemnities, pension and other costs about agents employed by the Group and amounted to € 4,041 in 2002, €5,224 in 2001 and €8,223 in 2000;

- Commissions to independent salespersons amounted to €72,745 in 2002, €73,856 in 2001 and €57,934 in 2000. The increase compared to 2000 is explained by the increase in sales;

- Provisions in relation to the independent agents' termination indemnity reserve amounted to €207 in 2002, €605 in 2001 and € 430 in 2000. This provision represents the Group's estimate of the costs that would be incurred if Sàfilo terminated its contracts with agents.

Royalties

Royalties include fees paid for the utilisation of trademarks or brands, usually charged based upon quantities sold. Royalties in 2002 represent 7.9% of net sales compared with 8.2% in 2001 and 7.7% in 2000.

Advertising and promotion

Advertising and promotion includes fees paid to media, advertising agencies and contribution to licensor for advertising campaigns under royalties contracts.

Increases are due to higher investment in advertising during year 2001.

Other selling expenses

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Transport, logistics and other sales costs	28,246	22,677	17,449
Bad debt provision	2,639	2,944	2,783
Warranty provision	259	438	172
	31,144	**26,059**	**20,404**

24. General and administrative expenses

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Staff costs	65,697	54,122	42,483
Other staff related costs	5,813	3,505	2,684
Depreciation and amortisation	8,095	5,454	5,517
Other general and administrative expenses	38,182	31,042	26,202
Annual fees for outsourcing information system	1,255	1,129	795
Other provision	74	1,451	2,945
	119,116	**96,703**	**80,626**

Other general and administrative expenses include fees for services related to administrative, legal and tax consulting and rental costs for Solstice stores in the USA.

Depreciation and amortisation

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended December 2000
Amortisation start up and development	31	230	438
Amortisation marketing research costs	124	294	280
Amortisation intellectual properties	1,421	1,429	1,215
Amortisation of other capitalised costs	1,418	1,080	942
Amortisation of other costs	5,101	2,421	2,642
	8,095	**5,454**	**5,517**

25. Other income/(expenses), (net)

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Losses on disposal of assets	(220)	(170)	(107)
Other operating charges	(1,251)	(789)	(449)
Gain on disposal of assets	120	192	160
Other operating income	2,004	1,063	963
Tax relief related to new employees	242	466	—
Other taxes	(929)	(1,002)	(948)
	(34)	**(240)**	**(381)**

Other operating income in 2002 includes €1,113 one-off state contributions received in relation to newly employed staff.

26. Interest income/(expense) and other financial charges

Net interest expense

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Interest expense	60,000	24,312	9,717
Less: interest income	(847)	(624)	(1,055)
Bank charges	2,085	2,362	2,859
Debt issuance costs	9,620	8,225	—
	70,858	**34,275**	**11,521**

Interest expense for 2002 includes:

- Interest totalling €43,512 on senior loans and other debts, including interest in the amount of €87 on the notes issued by the SPV that purchases Sàfilo's trade receivables;
- Pre-payment interest and other costs totalling €13,256 incurred in connection with the repayment and termination of existing indebtedness before the refinancing;
- Discounts granted to customers for early payments totalling € 3,232.

Debt issuance costs mainly include the amortisation of other capitalised costs. Such costs refer mainly to legal and other fees incurred at the inception of loans. These costs have been deferred and amortised over the repayment period of the loans.

Bank charges include banks' fees, gains and losses on financial instruments excluding gain and losses on currency swaps, whose costs are included in Cost of sales.

Debt issuance costs in 2002 include €9,451 of cost related to bridge financing that was expensed when the bridge loan obtained to finance the public offer, was repaid as part of the refinancing and € 169 representing the amortisation for year 2002 of the additional costs related to the refinancing.

27. Extraordinary income/(expenses), (net)

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Dividend on investments	1,306	1,427	1,096
Indemnities and reimbursement	390	371	321
Other extraordinary expenses	(759)	(356)	(1,197)
	937	**1,442**	**220**

Other extraordinary income/(expenses) in 2002 include:

Other extraordinary expenses:

- €1,570 representing expenses which are not tax deductible, mainly relating to prior year under accrual of costs
- The difference relates to prior year under accruals and miscellaneous expenses and losses not related to the core business.

Other extraordinary income:

- €1,104 of tax credit on foreign dividends that Safilo S.p.A. is confident it can collect.
- €699 representing non taxable revenues.
- The difference relates to prior year over accruals and miscellaneous income not related to the core business.

Other extraordinary income/(expenses) in 2001 include:

Other extraordinary expenses:

- €2,097 representing and extraordinary provision for unexpected fluctuations in foreign currency exchange rates.
- €956 of cost incurred during the year as the result of a tax assessment at the Parent Company in 2000.
- The difference relates to prior year under accruals and miscellaneous expenses and losses not related to the core business.

Other extraordinary income:

- €2,066 relating to the release of a provision set aside in prior years against possible liabilities, but which is no longer required as the reasons for the provision no longer exist.

- €878 for deferred tax assets on carry-forward tax losses and provisions relating to prior years in the financial statements of certain subsidiaries.

- €340 for the proceeds of a settlement with the former minority partner in the Japanese subsidiary.

- The difference reflects over accruals in previous years and miscellaneous income not related to the core business.

Other extraordinary expenses in 2000 include previous years under- and over-accruals and miscellaneous expenses and income not related to the core business.

28. Income attributable to minority shareholders

Income attributable to minority shareholders include:

	%	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Sàfilo Hellas	49.00%	1,663	931	769
Sàfilo Australia	49.00%	957	1,151	1,217
Sàfilo Hong Kong	49.00%	399	186	—
Lenti Srl	46.00%	179	214	129
Sàfilo Switzerland	23.00%	108	—	—
Sàfilo S.p.A.'s minority shareholders		—	1,115	19,695
Other		90	219	335
		3,396	**3,816**	**22,145**

Actual dividends paid to minority shareholders other than minority shareholders in the holding company were:

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000
Sàfilo Hellas	768	611	161
Sàfilo Australia	896	1,154	1,116
	1,664	**1,765**	**1,277**

29. Contingencies, commitments and operating risks

i. Minimum contractual obligations

	At 31 December 2002
Within one year	32,301
Between one and two years	2,856
In more than two years	5,415
	40,572

Minimum contractual obligations include minimum payments under royalties and sponsorships contracts totalling €30,455 and operating leasing totalling €10,117. SÀFILO GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December (in thousands of Euro, unless otherwise stated)

29. Contingencies, commitments and operating risks

Unsecured and secured guarantees

	As at 31 December 2002
Unsecured guarantees on behalf of third parties	4,206
Secured guarantees on behalf of third parties:	
—Mortgage and lien on machinery, plant and other tangible assets of the group companies	141,156
—Lien on trade receivables of the holding company	109,409
—Lien on shares and quotas of certain subsidiaries	189,295
—Lien on shares of the Parent Company	80,988
—Lien on trade mark and patents of the Group	3,916
Total secured guarantees	524,764
	528,970

Commitments and lines of credit

As at 31 December 2002, the Group had open domestic currency swaps and options with limits, totalling approximately €76,285 (at the year end exchange rate), which expire on 30 April 2004. These contracts hedge expected foreign currency receipts from exports in US$ due by certain overseas subsidiaries.

As at 31 December 2002 the Group has open domestic currency swaps, totalling approximately €95,356 (at the year end exchange rate), which expire on 30 April 2003 for US$ 100 million.

Stock option plan

The Group has a stock option plan at one of its subsidiaries, involving four employees. Under this plan, these four employees have been allocated 240,000 shares of the subsidiaries, representing 2.6% of the share capital.

Credit line

- €148,906 from bank overdrafts;
- €232,002 from short-term loans;
- €244,566 from swap contracts;
- €976,253 from medium and long term loans;

As at 31 December 2001, credit lines available to Group companies are summarized as follows:

- Parent Company: €27 million from bank overdrafts, €68 million from advances against bank collection notices and from the negotiation of trade notes, €128 million from export advances and forward contracts, and €214 million from short and medium-term loans;
- North American trading subsidiaries: US$ 36.4 million from short and medium-term loans and bank overdrafts, Can$ 2.7 million from bank overdrafts;
- Japanese subsidiary: Yen 985 million from short and medium-term loans;
- Austrian subsidiaries: €16.7 million from short and medium-term loans;
- Other Group companies, the equivalent of €10 million from bank overdrafts.

As at 31 December, 2000, credit lines available to Group companies are summarized as follows:

- €32,150 from bank overdrafts;
- €52,420 from advances against bank collection advices and for the negotiation of trade notes;
- €55,183 from short-term loans;
- US$35 million from short and medium-term loans and from the bank overdrafts of subsidiaries in the United States;
- Can$2.5 million from the bank overdrafts of the Canadian subsidiary;
- €16,715 from short and medium-term loans and from the bank overdrafts of the Austrian subsidiaries;
- YEN 957 million from short and medium-term loans to the Japanese subsidiary;
- The equivalent of approximately €8,135 in overdraft facilities from other Group subsidiaries.

Other

In 2001 and 2000 certain consolidated subsidiaries signed contracts for the production and marketing of designer sunglasses and frames for corrective eyewear. Some of these contracts may outline guaranteed minimums, a commitment to invest in advertising and promotion or both.

As at 31 December 2001, the Group had open domestic currency swaps and options with limits, totalling approximately €88,664 (at the year-end exchange rate), which expire by 31 March 2003. These contracts hedge expected foreign currency receipts from exports in US$ and GBP due by certain overseas subsidiaries.

As at 31 December 2000, the Group had open domestic currency swaps and options with limits, totalling approximately €91,196, which expired during 2002. These contracts hedge expected foreign currency receipts from exports in US$ and GBP.

ii. Environmental matters

The enforcement of environmental regulation in Italy and other countries where the Sàfilo Group operates its production facilities is evolving, and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage and accordingly have not provided for such obligations.

iii. Legal proceedings

Various claims and legal proceedings have been asserted or instituted against the Group, including some which could result in expenditures, and some which demand monetary damages. There is a range of possible outcomes for all such legal matters in which the companies of the Group are involved. The Company does not believe any of the legal matters, if adversely decided, are reasonably likely to have a material adverse effect on the Company and the Group.

30. Principal subsidiaries

Companies included in the consolidation are:

Location—Entity	Share capital	Ownership %
Holding Company		
Sàfilo S.p.A.	€32,350,000	
Other Italian entities		
Oxsol S.r.l—Pieve di Cadore, Belluno	€45,000	100.00
Lenti S.r.l—Bergamo	€500,000	54.00
Smith Sport Optics S.r.l—Florence	€102,775	100.00
Foreign entities		
Sàfilo International B.V.—Rotterdam, The Netherlands	€24,165,700	100.00
Safint B.V.—Rotterdam, The Netherlands	€18,200	100.00
Sàfilo Capital International—Luxembourg	€7,750	100.00
Sàfilo Benelux S.A.—Zaventem, Belgium	€560,000	100.00
Sàfilo Espana S.A.—Madrid, Spain	€390,650	100.00
Sàfilo France S.a.r.l.—Paris, France	€960,000	100.00
Sàfilo GmbH—Cologne, Germany	€511,300	100.00
Sàfilo Nordic AB—Taby, Sweden	SEK 500,000	100.00
Sàfilo Far East Ltd.—Hong Kong	HKD 49,700,000	100.00
Safint Optical Investment—Hong Kong	HKD 10,000	51.00
Sàfilo Hong Kong Ltd.—Hong Kong	HKD 100,000	51.00
Sàfilo Singapore Pte. Ltd.—Singapore	S$400,000	100.00
Sàfilo Optical Sdn. Bhd—Kuala Lumpur, Malaysia	MYR 100,000	100.00
Sàfilo Hellas Ottica S.A.—Athens, Greece	€300,000	51.00
Sàfilo Nederland B.V.—Bilthoven, The Netherlands	€18,200	100.00
Sàfilo South Africa—Bryanston, South Africa	ZAR 3,383	100.00
Sàfilo Austria GmbH—Traun, Austria	€217,582	100.00
Carrera Optyl GmbH—Traun, Austria	€7,630,648	95.00
Carrera Optyl d.o.o.—Ormoz, Slovenia	SIT 135,101,000	100.00
Carrera Optyl Marketing GmbH—Traun, Austria	€181,683	100.00
Sàfilo Japan Co Ltd—Tokyo, Japan	YEN 100,000,000	100.00
Sàfilo do Brasil Ltda—San Paulo, Brasil	R$8,077,500	100.00
Sàfilo Portugal Lda.—Lisbon, Portugal	€500,000	100.00
Sàfilo Switzerland—Liestal, Switzerland	SFR 1,000,000	77.00
Sàfilo India Ltd.	INR 42,000,000	75.00
Safint Australia Pty Ltd—Sydney, Australia	AUD 3,000,000	100.00
Sàfilo Australia Partnership—Sydney, Australia	AUD 204,081	51.00

Safint Optical UK Ltd.—United Kingdom	GBP 21,139,001	100.00
Sàfilo UK Ltd.—North Workshire, United Kingdom	GBP 250	100.00
Sàfilo America Inc.—Delaware, USA	US$8,430	100.00
Sàfilo USA Inc.—New Jersey, USA	US$23,289	100.00
FTL Corp.—Delaware, USA	US$110	100.00
Sàfilo Realty Corp.—Delaware, USA	US$10,000	100.00
Smith Sport Optics Inc.—Idaho, USA	US$12,558	97.75
Solstice Marketing Corp.—USA	US$1,000	100.00
2844-2580 Quebec Inc.—Montreal, Canada	CAD 100,000	100.00
Sàfilo Canada Inc.—Montreal, Canada	CAD 2,470,425	100.00
Canam Sport Eyewear Inc.—Montreal, Canada	CAD 300,011	100.00

31. Subsequent events

No material subsequent events occurred between 31 December 2002 and the date of these financial statements.

Independent Auditor's report

To the Board of Directors of
Safilo Capital International S.A.

We have audited the accompanying accounts of Safilo Capital International S.A. for the period from December 11, 2002 (date of incorporation) to December 31, 2002 on page 2 to 5. These accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Safilo Capital International S.A. as of December 31, 2002 and of the results of its operations for the period then ended.

PricewaterhouseCoopers S.à r.l. Luxembourg, April 28, 2003

Réviseur d'entreprises
Represented by

Ian Whitecourt

SÀFILO CAPITAL INTERNATIONAL S.A. BALANCE SHEET as at December 31, 2002 (expressed in euro)

	Note(s)	EUR
ASSETS		
Subscribed Capital Unpaid		
of which called up		23,250
Financial assets		2,892
Loans	3	296,746,740

Current assets		
Other receivable		1,212,192
Cash at banks		7,982
Deferred charges		7,472,348
Loss for the period		2,519,975
Total assets		**307,982,487**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Subscribed capital	4	31,000
Amounts owed to credit institution		
Repayable more than one year		299,229,320
Repayable less than one year		8,706,010
Other creditors		16,157
Total shareholders' equity and liabilities		**307,982,487**

The accompanying notes form an integral part of these accounts.

SÀFILO CAPITAL INTERNATIONAL S.A. PROFIT AND LOSS ACCOUNT for the period from December 11, 2002 (date of incorporation) to December 31, 2002 (expressed in euro)

	Note(s)	EUR
CHARGES		
Value adjustment on deferred charges		30,797
Interest payable and similar charges		3,688,598
Other operating charges		12,772
Total charges		**3,732,167**
INCOME		
Interest receivable and similar income		1,212,192
Loss for the period		**2,519,975**
Total income		**3,732,167**

The accompanying notes form an integral part of these accounts.

SÀFILO CAPITAL INTERNATIONAL S.A. NOTES TO THE ACCOUNTS as at December 31, 2002

Note 1—General

Safilo Capital International S.A. ("the Company") is a limited company incorporated under the laws of Luxembourg on December 11, 2002. On the basis of the Article of Association the Company's first statutory accounting year runs from December 11, 2002 to December 31, 2003.

The object of the Company is to carry out all transactions pertaining directly or indirectly to the acquisition of participations in any enterprise in any form whatsoever, and the administration, management, control and development of those participations.

The registered office of the Company is established in L-2514 Luxembourg, 9, rue Schiller.

Note 2—Accounting policies

The annual accounts are established in conformity with the provisions of Luxembourg law and with generally accepted accounting principles.

2.1 Foreign currency translation

Transactions on currencies other than euros (EUR) are recorded at exchange rates prevailing at the transaction date.

Assets and liabilities expressed in currencies other than EUR are translated into EUR at year-end exchange rates unless the conversion would result in an unrealised exchange gain.

All unrealized and realized exchange loss and the realized exchange gain resulting from these conversions are accounted for in the profit and loss account whereas the unrealized exchange gains are not accounted for.

2.2 Financial Assets

Financial assets are valued at acquisition cost. In case of permanent impairment in value of investments, appropriate write-downs are recorded, unless changed circumstances support restoration up to the original cost.

2.3 Deferred charges

The fees on the bridge loan are recorded as deferred charges. The fees are to be amortised on a straight line basis over the duration of the loan.

2.4 Profit and loss account

Income and expenses denominated in currencies other than the EUR are translated at the exchange prevailing at the date of the relevant transaction.

Note 3—Loans

The Company entered in to a loan agreement with Safilo International BV, the rights, titles and interests of which have been pledged to UBM S.p.A. (as security agent), to secure the senior credit facilities and the bridge notes.

Note 4—Subscribed capital

The subscribed capital of EUR 31,000, issued and partially paid, is represented by 3,100 nominative/bearer shares with a nominal value of EUR 10 each. All these share have been paid up to an extent of 25%.

Note 5—Legal reserve

Under Luxembourg law, 5% of the net profit of the year must be allocated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution.

Note 6—Taxes

The Company is liable to all taxes applicable to a Luxembourg limited company.

ANNEX A
SUMMARY OF SIGNIFICANT DIFFERENCES
BETWEEN ITALIAN ACCOUNTING PRINCIPLES AND IFRS AND U.S. GAAP

The consolidated financial statements of Safilo S.p.A included in this offering circular are derived from the consolidated financial statements that were prepared for Italian legal and statutory purposes in accordance with the Italian law governing the preparation of financial statements, as interpreted by, and integrated with, the accounting principles established by the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri, the Italian accounting profession, (collectively, "Italian Accounting Principles).

Italian Accounting Principles differs from International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States of America ("U.S. GAAP") in respects which might be material to the financial information included in this Offering Memorandum. In making an investment decision, investors must rely upon their own examination of Sàfilo S.p.A., the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Italian Accounting Principles and IFRS and U.S. GAAP and how those differences might effect the financial information included in this Offering Memorandum.

Certain significant differences between Italian Accounting Principles and IFRS and U.S. GAAP relevant to the consolidated financial statements of Safilo S.p.A. are summarised below. However, this summary does not purport to provide a comprehensive analysis, including quantification, of such differences but rather it is a listing of potential differences in accounting principles related to the consolidated financial statements of Safilo. Safilo S.p.A. has not quantified these differences, nor undertaken a reconciliation of its Italian Accounting Principles financial statements to IFRS or U.S. GAAP. Had Safilo S.p.A. undertaken any such quantification or reconciliation, other potentially significant accounting and disclosure differences may have come to their attention which are not identified below. Accordingly, Safilo S.p.A. can provide no assurance that the identified differences in the summary below represent all of the principal differences relating to the consolidated financial statements of Safilo. Further, no attempt has been made to identify future differences between Italian Accounting Principles and IFRS and U.S. GAAP resulting from prescribed changes in accounting standards.

Regulatory bodies that promulgate Italian Accounting Principles, IFRS and U.S. GAAP have significant on-going projects that could affect a future comparison such as this. Finally, no attempt has been made to identify all future differences between Italian Accounting Principles and IFRS and U.S. GAAP that may affect the consolidated financial statements of Safilo S.p.A. as a result of transactions or events that may occur in the future.

Differences in Accounting Principles

Start Up and Marketing Research Costs

Under Italian Accounting Principles, certain costs related to the formation, start up, marketing and research of a company may be deferred and capitalized as an intangible asset and amortized on a straight-line basis over a period not exceeding five years, if certain conditions are met. These costs are written down to their recoverable amount when an impairment exists.

Under IFRS and U.S. GAAP, start-up and marketing and research costs are expensed as incurred. In addition, costs for research and development, including those incurred for the production of internal USe software, are required to be expensed until such time as the products are determined to be commercially feasible.

Capital Costs (Costs of an Equity Transaction)

Under Italian Accounting Principles, costs incurred in connection with the issuance of equity (e.g., capital increases, mergers, spin-offs, acquisitions) may be capitalized and amortized on a straight-line basis over a maximum period of five years.

Under IFRS and U.S. GAAP, such costs are deducted from shareholders' equity.

Treasury Stock (Own Shares)

Under Italian Accounting Principles, treasury stock (issued shares reacquired by the issuer) is classified on the balance sheet as an asset and stated at cost, and is classified in the statement of cash flows as an investing activity. The cost of acquired treasury stock is treated as an appropriation of retained earnings.

Under IFRS and U.S. GAAP, the cost of acquired treasury stock is presented on the balance sheet as a reduction of shareholders' equity and is classified as a financing activity in the Statement of Cash Flows.

Revaluation and impairment of Property

Under Italian Accounting Principles revaluation of fixed assets is permitted when allowed by a specific Italian laws. The amount of the revaluation increases the value of the related fixed assets and is credited to shareholders' equity reserves while the depreciation is computed based on the restated value. According to Italian Accounting Principles fixed assets are generally tested for impairment, when circumstances indicate a potential impairment, by comparing discounted expected future cash flows to be generated from such assets to their current carrying value. If the discounted expected future cash flows are lower than the carrying value of the fixed assets, the difference is accounted for as an impairment in value. Only impairments that are other than temporary are recognized as a cost in the statement of income. When there is a change in the economic conditions, previoUS impairment can be reversed.

Under IFRS, there are two possible approaches. The benchmark treatment requires an asset to be carried at cost less accumulated depreciation and impairment. Under the alternative treatment, revaluation of fixed assets at fair value is permitted, and the highest and best use to determine fair value of the asset may be utilized. The increase of the carrying amount of an asset as a result of a revaluation must be credited directly to equity under revaluation surplus, unless it reverses a revaluation decrease for the same asset that was previously recognized as an expense. In such a case, the increase must be recognized in the income statement. A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognized as an expense. An entity must assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount.

Under U.S. GAAP, revaluations of fixed assets are not permitted, while recognition of an impairment is required if certain conditions are met. In the case that there is a "triggering event" that indicates a potential impairment of fixed assets, in fact, an impairment is tested first by comparing undiscounted expected future cash flows to the carrying value of the assets. If the undiscounted expected cash flows are determined to be lower than the carrying value, an impairment is indicated. Once it is determined that a fixed asset is impaired, the amount of the impairment, as under Italian Accounting Principles, is calculated as the difference between the carrying value of the fixed asset and the expected future cash flows from that asset on a discounted basis. Further, once recognized, impairments under U.S. GAAP cannot be reversed.

Business combinations

A business combination involves the bringing together of separate entities into one economic entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified. A uniting of interests (pooling) occurs where it is not possible to identify an acquirer; instead the shareholders of the combining entities join in substantially equal arrangements to share control. A group reorganisation can arise from transactions among entities which operate under common control.

Under Italian Accounting principles the classification of a business combination as a uniting of interests or as an acquisition is largely dependent on the legal form. Some business combination result in neither an uniting of interests nor in an acquisition. Moreover certain business combinations can be classified as a uniting of interests even if an acquirer can be identified.

Under IFRS business combinations are almost always accounted for as acquisitions and they require that the purchase method of accounting is used to portray the financial effect of an acquisition. IFRS severely restricts the circumstances in which transactions can be recognised as a uniting of interests. Specific IFRS guidance about business combinations excludes from its scope transactions among entities under common control.

U.S. GAAP requires the use of the purchase method of accounting for all business combinations.

Amortisation of Goodwill (Business Combination)

Under Italian Accounting Principles, goodwill arising on acquisition of investments in subsidiaries is capitalized and amortized on a straight-line basis, over the period of its estimated useful life, up to a maximum of 20 years.

Under IFRS, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. In certain limited cases goodwill may be demonstrated to have a useful life in excess of 20 years. If the Useful life does exceed 20 years, amortization is still mandatory and the reasons for rebutting the 20 year maximum useful life presumption must be disclosed.

Under U.S. GAAP, following the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized. Existing goodwill is required to be tested annually for impairment.

Consolidation and Investment in Subsidiaries

Under Italian Accounting Principles, a subsidiary with activities dissimilar to that of the parent can be excluded from consolidation if such exclusion is essential for the consolidated financial statements to present a true and fair view of the state of affairs of the parent. Subsidiaries excluded from the consolidation are accounted for using the equity method.

Under IFRS, subsidiaries must be excluded from consolidation if there are severe long-term restrictions on the exercise of the parent's rights to obtain cash flows or if the parent acquires the subsidiary and holds it exclusively for subsequent re-sale in the near future. Dissimilar activities between a parent and subsidiary are not grounds for excluding the subsidiary from consolidation. Under IFRS, entities that are excluded from consolidation may be classified as either available-for-sale or held for trading financial assets and measured at fair value (see (h)—Financial assets).

Under U.S. GAAP, all investments in which a parent company has a controlling financial interest represented by the direct or indirect ownership of a majority voting interest (more than 50%) are required to be consolidated, except those in which control of the subsidiary is temporary or significant doubt exists regarding the parent's ability to control the subsidiary. Subsidiaries excluded from the consolidation are accounted for using the equity method.

Consolidation and Investment in Special Purpose Entities

Under Italian Accounting Principles, special purpose entities (SPEs) generally are not consolidated due to the absence of an ownership interest by the enterprise on whose behalf the SPE was created.

Under IFRS, an enterprise is required to consolidate a SPE when the substance of the relationship between them indicates that the enterprise controls the SPE.

Under U.S. GAAP, the principles of consolidation have been expanded beyond SPEs to encompass all legal entities know as Variable Interest Entities, ("VIE"s). U.S. GAAP specifies that companies must consolidate all VIEs in which they have an interest if the company is either exposed to a majority of the VIE's risks or receives a majority of the benefits from the VIE's activities.

Government Grants

Under Italian Accounting Principles government grants received as compensation for expenses already incurred are recognized in the income statement after resolution of the granting autorithy to pay it. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants must be deferred and matched with the depreciation on the asset for which the grant arises. A third approach is allowed: grants can be recognised directly in equity.

Under IFRS government grants (or contributions) received as compensation for expenses already incurred are recognized in the income statement once the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants must be deferred and matched with the depreciation on the asset for which the grant arises. Grants that relate to recognised assets must be presented in the balance sheet as either deferred income, or by deducting the grant in arriving at the carrying amount of the asset, in which case the grant is recognised as a reduction of depreciation.

U.S. GAAP similar to IFRS.

Investments in debt and equity securities

Under Italian Accounting Principles, long-term investments include debt and equity securities of issuers that are not associated companies (generally less than 20% ownership interest; 10% for listed companies) and for which the company has a positive intent and ability to hold for an indefinite period of time or, in the case of debt securities, until maturity. Long-term investments in debt and equity securities are reported at acquisition cost less impairment losses. Long-term investments are written-down to their recoverable amount when an impairment exists. Under Italian Accounting Principles, only permanent impairment of assets is recognized. The impairment is the entity's best estimate of the expected loss. There is no detailed guidance as to the measurement of impairment losses. When conditions leading to the impairment no longer exist, it is possible to reverse the impairment. However, the measurement guidance to be adopted is similar to IFRS.

IFRS and U.S. GAAP define three categories of marketable securities, the classification criteria and requirements for subsequent measurement are presented in the table below:

Classification	IFRS	US GAAP
Trading		
Debt and equity securities held for sale in the short term.	Reported at fair value. Unrealized and realized gains and losses recognized in the income statement.	Similar to IFRS.
Held-to-maturity		
Debt securities held with a positive intent and ability to hold to maturity.	Reported at amortized cost.	Similar to IFRS.
Available-for-sale	Reported at fair value.	Reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

Hedging Contracts and Derivatives

Under Italian Accounting Principles, contracts related to the hedging of futures contracts or of existing assets and liabilities, including the purchase and sale of other currencies to settle existing foreign currency accounts receivables and payables, are not recognized until the hedged transaction affects the income statement. No accounting principle for other derivative instruments has been issued under Italian Accounting Principles.

Under IFRS, if a contract is designated as and is considered effective as a hedge, it must be designated as a "cash flow" or a "fair value" hedge. Gains and losses of "cash flow" hedges are deferred as a component of shareholders' equity. The deferred gain and losses are then released to the profit and loss statement when the hedged item affects the income statement. Gains and losses of "fair value" hedges recognized to the income statement during the year incurred.

Under U.S. GAAP, all derivative instruments are required to be recorded in the balance sheet at fair value. Changes in fair value are recorded currently in earnings unless the item is designated, qualifies and is effective as a hedge. Fair value is defined as the amount that would be paid or received to terminate the derivative instrument at the balance sheet date. Changes in the fair value of derivatives designated as part of a hedge transaction, depending on the nature of the hedge, are recorded in each period in either current earnings or other comprehensive income, a separate component of equity. For fair value hedge transactions in which a company is hedging exposure to changes in fair value of an asset or liability (such as an interest rate swap which converts fixed-rate debt to variable-rate debt), changes in the fair value of the derivative instrument are reported in earnings. These gains and losses may be offset, in part or in whole, depending on a variety of factors, by the gains and losses on the underlying hedged asset or liability, which are also recorded in earnings.

For cash flow hedge transactions in which a company is hedging the variability of cash flows (such as an interest rate swap which converts variable-rate debt to fixed-rate debt), changes in the fair value of the derivative instrument are reported in other comprehensive income. Gains and losses reported in other comprehensive income are reclassified to earnings in the period in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in earnings immediately.

Foreign Currency Transactions

Under Italian Accounting Principles, receivables and payables resulting from foreign currency transactions are translated according to exchange rates in effect as of the date of the transaction. Short-term receivables and payables outstanding at year-end are translated according to exchange rates in effect at year-end, while long-term receivables and payables outstanding at year end are adjusted to exchange rates in effect at year-end only to the extent that the net adjustment results in a loss; if the net adjustment results in a gain, such gains are deferred until they are realized.

Under IFRS, at the balance sheet date, foreign currency monetary balances are reported using the closing exchange rate. All differences that arise are recorded in the income statement.

Under U.S. GAAP, all receivables and payables outstanding at the balance sheet date are to be translated at the year-end exchange rate and all differences that arise are recorded in the income statement as unrealized foreign exchange gain/(loss).

Minority Interests

Under Italian Accounting Principles, minority interest is considered part of the total consolidated shareholders' equity.

Under IFRS and U.S. GAAP, minority interest is presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.

Staff Leaving Indemnities (Reserve for Termination Indemnities)

Under Italian Accounting Principles, staff leaving indemnities (TFR) are accrued, net of advances paid, on the basis of what accrued would be paid to them if they left the company at year-end, without taking into account future leaving or discounting the liability.

Under IFRS, employee benefit obligations must be accrued using the "projected unit credit method."

Under U.S. GAAP, it is acceptable to calculate TFR using either of the above-mentioned methods.

Provision for Risks and Charges

Under Italian Accounting Principles, provisions for liabilities and charges should be made to cover losses or debts, the nature of which are clearly defined and which at the balance sheet date are either likely to be incurred or certain to be incurred, but for which the amount of, or the date on which they will arise, is uncertain. The amount of future cash expenditures expected to be required to settle the obligation is not required to be discounted.

Under IFRS, a provision should only be made when an enterprise has a present obligation (legal or constructive) as a result of a past event; it is probable (more likely than not) that a future outflow of economic benefits will be required to settle the obligation; and, a reliable estimate of the amount of the obligation can be made. The entity must discount the anticipated cash flows expected to be required to settle the obligation if the impact is material.

The treatment of loss contingencies under U.S. GAAP is similar to IFRS. However, if a range of estimates for the obligation is determined and no amount in the range is more likely than any other amount in the range, the "minimum" (rather than the mid-point) amount must be used to measure the liability. The entity must discount the anticipated cash flows expected to be required to settle the obligation if the impact is material.

Factoring of receivables

Under Italian accounting Principles receivables transferred to third parties, pursuant a factoring arrangement, are treated as sold and therefore discharged from the balance sheet.

Under IFRS and U.S. GAAP trade receivables transferred to a third party, pursuant to factoring arrangements, that do not meet the legal criteria to be treated as sales, are classified as secured receivables, with a corresponding liability recorded as secured borrowings.

Extraordinary Items

Under Italian Accounting Principles, extraordinary items include both items of a recurring and non-recurring nature. Recurring items reported as extraordinary items under Italian Accounting Principles include gains and losses on disposal of fixed assets and investments, adjustments of prior year accruals to actual amounts realized and other matters. Under U.S. GAAP and IFRS, the restructuring costs cannot be considered as extraordinary items. Under Italian Accounting Principles, such costs have to be classified as extraordinary items.

Under IFRS, extraordinary items are defined as income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly. Virtually all items of income and expense included in the determination of net profit and loss are considered to arise in the course of the ordinary activities of the enterprise and therefore, only on rare occasions does an event or transaction give rise to an extraordinary item under IFRS.

Under U.S. GAAP, as is the case under IFRS, the definition of extraordinary items is more restrictive than Italian Accounting Principles and only items that are both unusual in nature and infrequent in occurrence are classified as extraordinary, net of tax effect.

Differences in Disclosure

There are a number of significant disclosure differences between Italian Accounting Principles, IFRS and U.S. GAAP. Some of the more significant disclosure differences are summarized below:

Disclosure Differences

Disclosures in financial statements are generally more extensive under U.S. GAAP and IFRS than under Italian Accounting Principles. Disclosures required under U.S. GAAP which are not typically found, or required to the same extent, under Italian Accounting Principles include, but are not limited to:

a. a description of cash and cash equivalents;

b. details of off-balance sheet risk and commitments;

c. concentrations of credit risk;

d. details of guarantees to third parties;

e. details of financial instruments including:

    i. market values; and

    ii. nature of instruments and terms including credit and market risk, cash requirements, information regarding financial instruments used as hedges of firm commitments, amount of loss, if any party to the financial instrument fails to perform and policy regarding collateral requirements;

f. financing facilities and terms including the description of the debt instrument, due dates, interest rates, whether the debt is secured or unsecured, and repayments due for the subsequent five years;

g. description of leasing commitments including minimum lease payments for the five subsequent years;

h. the amount of asset valuation allowances on inventories and investments;

i. reconciliation from the statutory tax rate to the effective tax rate and information regarding net operating loss carry-forwards and their dates of expiration;

j. earnings per share information (the earning per share information is provided also by the Italian Accounting Principles—even though this is on voluntary basis, but this is true also for the cash flow statement);

k. reporting of comprehensive income, which affects the presentation of the primary financial statements as well as footnote disclosures;

l. non-cash transactions reference to the statement of cash flows and interest and income taxes paid during each year;

m. financial information relative to segments, such as revenues, operating income and identifiable assets; export sales by geographic area and major customers;

n. classification of leasehold improvements; capitalized software and debt issue costs

o. narratives relating to the use of estimates; and

p. details of related party transactions.

Recently issued accounting pronouncements

Currently there are no pronouncements in draft issued by Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri, and such body is not expected to issue new pronouncements, because its main function have been taken over by the new Italian accounting regulatory body "Organismo Italiano di Contabilità", created in 2003. The Organismo Italiano di Contabilità is has not yet issued any pronouncements in draft.

Starting with the financial statements with closing date on or after 1 January 2005, Italian companies with securities listed on any stock exchange in the European Union are required to present their consolidated financial statements in accordance with IFRS.

There is currently an uncertainty regarding the accounting rules that will govern the transition from current Italian Accounting Principles to IFRS.

EXHIBIT A - SELECTED ACCOUNTS

SAFILO CAPITAL INTERNATIONAL S.A.
9, rue Schiller
L-2519 Luxembourg
R.C. Luxembourg B 90 240

Annual Report and Accounts

dicembre 31, 2002

Safilo Capital International S.A.

Balance sheet as at December 31, 2002
(expressed in euro)

	Note(s)	EUR
ASSETS		
Subscribed Capital Unpaid		
of which called up		23 250
Financial assets		
Loans		296 746 740
Current assets		
Other receivable		1 212 192
Cash at banks		7 982
Deferred charges		7 472 348
Loss for the period		2 519 975
Total assets		**307 982 487**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Subscribed capital	3	31 000
Amounts owed to credit institution		
Repayable more than one year		299 229 320
Repayable less than one year		8 706 010
Other creditors		16 157
Total shareholders' equity and liabilities		**307 982 487**

The accompanying notes form an integral part of these accounts.

Safilo Capital International S.A.

Profit and loss account for the period from December 11, 2002 (date of incorporation) to December 31, 2002
(expressed in euro)

	Note(s)	EUR
CHARGES		
Value adjustment on deferred charges		30 797
Interest payable and similar charges		3 688 598
Other operating charges		12 772
Total charges		**3 732 167**
INCOME		
Interest receivable and similar income		1 212 192
Loss for the period		**2 519 975**
Total income		**3 732 167**

The accompanying notes form an integral part of these accounts.

Safilo Capital International S.A.

Notes to the accounts as at December 31, 2002

Note 1 - General

Safilo Capital International S.A. ("the Company") is a limited company incorporated under the laws of Luxembourg on December 11, 2002. On the basis of the Article of Association the Company's first statutory accounting year runs from December 11, 2002 to December 31, 2003.

The object of the Company is to carry out all transactions pertaining directly or indirectly to the acquisition of participations in any enterprise in any form whatsoever, and the administration, management, control and development of those participations.

The registered office of the Company is established in L-2514 Luxembourg, 9, rue Schiller.

Note 2 - Accounting policies

The annual accounts are established in conformity with the provisions of Luxembourg law and with generally accepted accounting principles.

2.1 Foreign currency translation

Transactions on currencies other than euros (EUR) are recorded at exchange rates prevailing at the transaction date.

Assets and liabilities expressed in currencies other than EUR are translated into EUR at year-end exchange rates unless the conversion would result in an unrealized exchange gain.

All unrealized and realized exchange loss and the realized exchange gain resulting from these conversions are accounted for in the profit and loss account whereas the unrealized exchange gains are not accounted for.

2.2 Financial Assets

Financial assets are valued at acquisition cost. In case of permanent impairment in value of investments, appropriate write-downs are recorded, unless changed circumstances support restoration up to the original cost.

2.3 Deferred charges

The fees on the bridge loan are recorded as deferred charges. The fees are to be amortised on a straight line basis over the duration of the loan.

2.4 Profit and loss account

Income and expenses denominated in currencies other than the EUR are translated at the exchange prevailing at the date of the relevant transaction.

Note 3 - Subscribed capital

The subscribed capital of EUR 31,000, issued and partially paid, is represented by 3,100 nominative/bearer shares with a nominal value of EUR 10 each. All these share have been paid up to an extent of 25%.

Note 4 - Legal reserve

Under Luxembourg law, 5% of the net profit of the year must be allocated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution.

Note 5 - Taxes

The Company is liable to all taxes applicable to a Luxembourg limited company.

Safilo S.p.A.
Statement of Income as at December 31, 2002

	2002 €
REVENUES:	
Net sales	471,082
Cost of Sales	
Materials and change in inventories	149,086
Payroll and related contributions	65,580
Subcontracting costs	39,144
Industrial depreciation	15,411
Other industrial costs	9,110
Total	281,331
Gross Profit	189,751
Selling, General and Administrative Expenses	
Salaries and related contributions	24,555
Commission	19,280
Royalties	46,642
Advertising and promotion	23,275
Other depreciation	2,091
Other expenses	33,702
Total	149,545
Income from operations	40,206
OTHER INCOME (EXPENSE):	
Interest expense, net	-56,768
Amortization of Goodwill	-2,700
Amortization of Financing Costs	-9,589
Dividends	127,975
Other income (expense), net	-3,049
Total	55,869
Income before taxes	96,075
Income taxes	-4,100
NET INCOME FOR THE YEAR	91,975

Safilo International B.V.
Rotterdam
Annual Report and Accounts
dicembre 31, 2002

Safilo International B.V.
Rotterdam
dicembre 31, 2002

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Safilo International B.V.
Rotterdam
Annual Report
dicembre 31, 2002

The Board of Directors is pleased to present the annual report and accounts of the Company for the financial year ended December 31, 2002.

Overview of Activities

The principal activity of the Company in the course of its financial year was the holding of group companies.
In December 2002 the Company was party of a refinancing agreement resulting in financing activities between Companies that belong to the Safilo Group.

The Company declared dividends during the year for a total consideration of EUR 74,776,438 (2001 : EUR 17,706,916).

During the period under review, the Company recorded a net profit of EUR 71,796,060 (2001 : EUR 19,553,678) details of which are set out in the attached Profit and Loss Account.

Future Developments

The Management does not anticipate any major changes during the coming financial year.

Post Balance Sheet Events

No matters or circumstances of importance have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Company, the results of those operations or the affairs of the Company.

Amsterdam
maggio 28, 2003
The Managing Directors

Mr. G. Lorenzon	Mr. R. Vedovotto
Mr. U. di Leva	Mr. M.F. Selhorst

(expressed in EUR)

Safilo International B.V.
Rotterdam
Balance Sheet as at December 31, 2002
(before appropriation of results)

	Notes	*2002*	*2001*
ASSETS			
Intangible Fixed Assets	-4	0	0
Financial Fixed Assets			
Investments	-5	57.651.245	56.901.242
Medium Term Financial Assets			
Loans to Group Company	-6	296.746.740	0
Current Assets			
Interest receivable from Group Company	-7	1.267.832	0
Receivable from group companies	-8	985.057	2.449.577
VAT claimable		339	926
Cash at banks		23.668	1.398.565
		2.276.896	3.849.068
TOTAL ASSETS		**356.674.881**	**60.750.310**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's Equity	-9		
Issued and fully paid share capital		24.165.700	24.165.700
Share premium		17.801.406	17.801.406
Retained earnings		18.484.047	16.637.295
Net result for the year		71.796.060	19.533.678
Dividend		-74.776.438	-17.706.916
		57.470.775	60.451.153
Medium Term Liability			
Loans from Group Company	-10	297.446.740	0
Current Liabilities			
Interest payable to Group Company	-11	1.259.853	0
Wage tax payable		158.757	0
Corporate income tax 2001 payable		120.203	237.407
Corporate income tax 2002 payable		151.521	0
Accrued expenses and other liabilities	-12	67.032	61.750
		1.757.366	299.157
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		356.674.881	60.750.310

The accompanying notes form part of these accounts.

(expressed in EUR)

Safilo International B.V.
Rotterdam

Profit and Loss Account for the Year Ended December 31, 2002

	Notes	2002	2001
Operating Income / (Expenses)			
Management fees subsidiaries		50.200	49.507
Result on sale Carrera shares		-22.117	135.386
Income from Safilo Japan dispute		0	68.283
General and administrative expenses	-13	-621.844	-253.070
		-593.761	106
Financial Income (Loss)			
Dividend Income	-14	72.408.736	19.379.546
Interest income Group Companies	-15	1.267.832	0
Interest expense Group Companies	-16	-1.259.853	0
Interest income banks		7.908	13.461
Interest expenses overdraft banks		0	-452
Corporate income tax - overdue interest		-2.386	0
Foreign currency exchange results:			
- realized transaction result		-60.838	4.588
- revaluation result unrealized		-11.990	0
		72.349.409	19.397.143
Result before provision for extraordinary result		71.755.648	19.397.249
Extraordinary expenses USA		-178.500	0
Result before taxation		71.577.148	19.397.249
Provision for corporate tax	-17	218.912	156.429
NET RESULT FOR THE YEAR		71.796.060	19.553.678

The accompanying notes form part of these accounts.

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

1 Group Affiliation and Principal Activities

The Company, incorporated on December 19, 1984, is a limited liability company with its statutory seat in Rotterdam, The Netherlands.

The principal activity of the Company is the holding and financing of group companies.

2 Basis of Presentation

The accompanying annual accounts have been prepared in accordance with principles of accounting generally accepted in The Netherlands and are in compliance with the provisions of the Netherlands Civil Code, Book 2, Title 9.

3 Significant Accounting Policies

a General

Assets and liabilities are stated at face value unless indicated otherwise.

b Goodwill

The goodwill paid has been amortised over a five year period.

c Financial Fixed Assets

The investments in subsidiaries are stated at historical acquisition cost or, in case of a permanent impairment of the value of the investment, at lower of historical acquisition cost or market value.
Further information on the financial position and results of operations of the investments as required by Dutch law is contained in the annual accounts of these investments, which are available to directors and shareholders. Consolidation of the financial statements takes place on the level of the ultimate parent company.

d Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into EUR at rates of exchange applicable at the balance sheet date.
Transactions in foreign currencies are translated at the rates in effect at the dates of transactions.

e Foreign Currencies

Exchange rates used at year-end are:

	2002	***2001***
AUD	0,5351500	0,5739900
GBP	1,5354900	1,6346100
HKD	0,1221818	0,1440780
JPY	0,0080212	0,0085354
SEK	0,1096283	0,1074500
USD	0,9528347	1,1236000
ZAR	0,1111761	0,0937500

f Recognition of Income and Expense

Dividends from investments are recorded as income in the year they are declared.
Other income and expenses, including taxation, are recognized and reported on an accruals basis.

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

4	**Intangible Fixed Assets**	***2002***	***2001***
	Goodwill Safilo Nederland B.V.	6.807	6.807
	less: accumulated amortisation	-6.807	-6.807
		0	0

5	**Investments**	***2002***	***2001***

The movements in the investment account are as follows:

Balance January 1	56.901.242	58.329.676
Acquisitions / additional capital inserted	750.003	1.008.941
Dispositions	0	-2.437.375
	57.651.245	56.901.242

The composition of the investments is as follows:

	% held		
Safilo Benelux N.V., Belgium	100	1.786.443	1.786.443
Safilo Espana S.A., Spain	100	506.849	506.849
Safilo GmbH, Germany	100	3.880.918	3.880.918
Safint B.V., The Netherlands	100	18.151	18.151
Safilo France S.a.r.l., France	100	797.603	797.603
Safilo Nordic A.B., Sweden	100	57.946	57.946
Optifashion Optik Sanayi Ve Ticaret A.S., Turkey	50	353.473	353.473
Safilo Far East Limited, Hong Kong	100	5.659.700	5.659.700
Safint Optical UK Ltd., UK	100	23.943.445	23.943.445
Safilo Hellas S.A., Greece	51	166.424	166.424
Safilo Austria GmbH, Austria	83.50	226.004	226.004
Carrera Optyl Brillen Vertriebs- und Erzeugungs GmbH, Austria	95	7.839.510	7.839.510
Safilo Nederland B.V., The Netherlands	100	1.152.602	1.152.602

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

5. Investments, continued

Safint Australia Pty Ltd., Australia	100	2.027.726	2.027.726
Safilo South Africa Pty Ltd., South Africa	100	2.622.193	1.872.193
Safilo Japan Co. Ltd., Japan	100	561.061	561.061
Safilo do Brasil Ltda,, Brazil	100	4.289.586	4.289.586
Safilo Portugal Lda, Portugal	100	499.500	499.500
Safilo Switzerland AG, Switserland	76	521.508	521.508
Safilo India Private Ltd., India	75	740.600	740.600
Safilo Capital International SA, Luxembourg	1/3100	3	0
		57.651.245	56.901.242

The investment in Safilo GmbH comprises a capital contribution in the amount of DEM 3,000,000 with the condition that in case Safilo GmbH makes profits in the future the capital contribution will be repaid.

6 Loans to Group Company

			2002	*2001*
Safilo SpA Italy				
medium term loan facility from 12/16/2002 due 12/16/2003 at 10.18% on 365/360 year.			201.463.270	0
medium term loan facility from 12/16/2002 due 12/16/2003 at 10.41% on 365/360 year.	USD	100.000.000	95.283.470	0
			296.746.740	0

7 Interest Receivable from Group Company

			2002	*2001*
Safilo SpA, Italy				
EUR 201,463,270 @ 10.18% from 12/16 - 12/31 15/360 days			854.540	0
USD 100,000,000 @ 10.41% from 12/16 - 12/31 15/360 days	USD	433.750	413.292	0
			1.267.832	0

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

8 Receivable from Group Companies

			2002	*2001*
Safilo Espana S.A.:				
-management fees			12.600	12.615
Safilo France S.a.r.l.:				
- management fees			10.800	10.800
Safilo Nordic A.B.:				
- management fees			4.400	4.402
Safilo GmbH:				
- management fees			12.400	12.343
Safilo Benelux N.V.:				
-management fees			10.000	9.348
Safint B.V.				
-corporate income tax			279.879	148.733
- invoices paid			19.241	0
Safilo Nederland B.V.				
- corporate income tax			615.687	256.763
Safilo Austria GmbH, Austria			0	57.602
Carrera Optyl Brillen V GmbH, Austria			0	1.869.688
Safilo SpA re Safilo Capital SA, Luxembourg			-3	0
Safilo Japan Co. Ltd.				
- Sunreeve dispute	JPY	2.500.000	20.053	68.283
			985.057	2.449.577

9 Shareholder's Equity

The authorized share capital of the Company is EUR 100,000,000 divided into 1,000,000 shares of EUR 100 each.
At balance sheet date a total of 241,657 shares were issued and fully paid.
Movements in the shareholder's equity accounts are as follows:

	2001	*Changes for the Year*	*2002*
Issued and fully paid share capital	24.165.700	0	24.165.700
Share premium	17.801.406	0	17.801.406
Retained earnings	16.637.285	1.846.762	18.484.047
Net result for the year	19.553.678	-19.553.678	
		71.796.060	71.796.060
Dividend	-17.706.916	17.706.916	0
		-74.776.438	-74.776.438
	60.451.153	-2.980.378	57.470.775

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

10	**Loans from Group Company**			***2002***	***2001***
	Safilo Capital SA. Luxembourg				
	medium term loan facility from 12/16/2002 due 12/16/2003 at 10.08% on 365/360 year.			201.463.270	0
	medium term loan facility from 12/16/2002 due 12/16/2003 at 10.31% on 365/360 year.	USD	100.000.000	95.283.470	0
	Safilo Switzerland AG				
	Unlimited period due at eight days notice.			700.000	0
				297.446.740	0

11	**Interest Payable to Group Company**			***2002***	***2001***
	Safilo Capital SA. Luxembourg				
	EUR 201,463,270 @ 10.08% from 12/16 - 12/31 15/360 days			846.146	0
	USD 100,000,000 @ 10.31% from 12/16 - 12/31 15/360 days	USD	429.583	409.322	0
	Safilo Switzerland AG				
	EUR 700,000 from 11/19/02 - 12/31 @ 5.5% 41/360 days			4.385	0
				1.259.853	0

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

12	**Accrued Expenses and Other Liabilities**	***2002***	***2001***
	Accrued professional fees	42.724	18.535
	Accrued tax advisor	11.331	4.336
	Accounts payable	10.477	34.459
	Accrued audit fee	2.500	3.270
	Accrued rent	0	1.150
		67.032	61.750

13	**General and Administrative Expenses**	***2002***	***2001***
	Salaries	497.800	11.345
	Professional fees	50.571	32.045
	Tax advisers fees	27.622	10.210
	Travel expenses	26.302	15.003
	General expenses	7.271	4.591
	Bank charges	5.962	2.367
	Audit fees – Japan	2.680	0
	Audit fees	2.348	3.572
	Rent (until May 2002)	750	2.284
	Telephone and fax	401	0
	Registration fees	137	134
	Legal fees	0	350
	Legal fees – Japan	0	113.304
	International Chamber of Commerce	0	53.215
	Legal fees – South Africa	0	0
	Non-refundable VAT	0	4.650
		621.844	253.070

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

14 Dividend Income			***2002***	***2001***
Safint Optical UK Ltd.	USD	49.105.304	48.687.519	6.469.613
	GBP	800.000	1.273.328	0
Safilo France S.a.r.l.			5.520.000	1.527.463
Safilo Nordic A.B.	SEK	3.160.000	347.108	0
Safilo Hellas S.A.			799.170	636.097
Safint B.V.			300.000	657.981
	USD	750.000	804.367	0
Safint Australia Pty Ltd.	AUD	1.100.000	651.914	694.433
Safilo Espana S.A.			2.000.000	901.518
Safilo Far East Limited	USD	11.626.478	12.025.330	8.492.441
			72.408.736	19.379.546

15 Interest Income			***2002***	***2001***
Safilo SpA, Italy				
EUR 201,463,270 @ 10.18% from 12/16 - 12/31 15/360 days			854.540	0
USD 100,000,000 @ 10.41% from 12/16 - 12/31 15/360 days	USD	433.750	413.292	0
			1.267.832	0

16 Interest Expenses			***2002***	***2001***
Safilo Capital SA, Luxembourg				
EUR 201,463,270 @ 10.08% from 12/16-12/31 15/360 days			846.146	0
USD 100,000,000 @ 10.31% from 12/16 - 12/31 15/360 days	USD	429.583	409.322	0
Safilo Switzerland AG				
EUR 700,000 from 11/19/02 - 12/31 @ 5.5% 41/360 days			4.385	0
			1.259.853	0

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
dicembre 31, 2002

17 Provision for Corporate Tax

The corporate tax is based on the fiscal results, taking into account that certain income and expenses as reported in the profit and loss account are exempted from taxation.

18 Directors and Employees

The Company had no employees.
The Company has no employees other than its directors.
The Company had five directors during the year, Mr. S.W. Beelen resigned March l, 2002.
Three directors received a remuneration in 2002, included in the administrative expenses.
The Company has no supervisory directors.

Safilo International B.V.
Rotterdam
Supplementary Information
dicembre 31, 2002

1 Proposed Appropriation of Results

Subject to the provision under Dutch law that no dividends can be declared until all losses have been recovered, profits are at the disposal of the Annual General Meeting of Shareholders in accordance with Article 13 of the Company's Articles of Incorporation.

The management proposed not to declare a further dividend and to add the net result for the year to the retained earnings.

This proposal has not been reflected in the accompanying annual accounts.

2 Post Balance Sheet Events

No matters or circumstances of importance have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Company, the results of those operations or the affairs of the Company.

3 Auditors' Report

The accounts are subject to an audit, of which the outcome is being reported to the auditors of the ultimate parent company for consolidation purposes.

Company Registration No. 3026578

SAFINT OPTICAL (UK) LIMITED

Report and Financial Statements

31 December 2002

Deloitte & Touche
Cambridge

SAFINT OPTICAL (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M T Cooney
D Salvador

SECRETARY

Mrs J M Meyer

REGISTERED OFFICE

Hill House
1 Little New Street
London
EC4A 3TR

BANKERS

San Paolo Bank
15 Carter Lane
London
EC4V 5SP

SOLICITORS

Allen & Overy
One New Change
London
EC4M 9QQ

AUDITORS

Deloitte & Touche
Chartered Accountants
Cambridge

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

The company's principal activity is the holding of investments.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

A summary of the year's results is given on page [30] of the financial statements.

The profit for the year after dividends was £1,424,510 (2001 profit - £47,164).

The directors anticipate satisfactory results in the coming year.

DIVIDENDS

Interim dividends totalling £31,932,561 (2001 - £3,973,693) were paid on 6 September 2002, 26 September 2002, 27 September 2002, 30 October 2002, 28 November 2002 and 11 December 2002.

The directors do not recommend the payment of a final dividend.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

M T Cooney
D Salvador
K Gardner (appointed 10 December 2002, resigned 11 December 2002)

None of the directors was beneficially interested in the share capital of the Company. M T Cooney held 1,249 shares in Safilo UK Limited (a subsidiary of Safint Optical (UK) Limited) throughout 2001, which carried a Put Option to sell the shareholding to Safint Optical (UK) Limited. On 31 January 2001 M T Cooney exercised the Put Option to sell his shareholding in Safilo UK Limited to Safint Optical (UK) Limited, in exchange for £1,400,555 Loan Notes.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

D SALVADOR

Director

27 March 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAFINT OPTICAL (UK) LIMITED

We have audited the financial statements of Safint Optical (UK) Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Cambridge

1 April 2003

SAFINT OPTICAL (UK) LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002		2001	
		£	£	£	£
Other operating charges			(47,904)		(32,191)
1nvestment income	4	35,071,117		4,254,838	
Interest receivable and similar income		(856)		4,130	
Interest payable and similar charges	5	(26,730)		(56,678)	
			35,043,531		4,202,290
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			34,995,627		4,170,099
Tax on profit on ordinary activities	6		1,638,556		149,242
PROFIT FOR THE FINANCIAL YEAR			33,357,071		4,020,857
Dividends	7		31,932,561		3,973,693
			1,424,510		47,164
Retained profit brought forward			58,520		11,356
Retained profit carried forward			1,483,030		58,520

There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the profit and loss account.

All activities derive from continuing operations.

BALANCE SHEET
31 December 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Investments	8	22,528,560	22,528,560
CURRENT ASSETS			
Cash at bank and in hand		143,808	98,407
CREDITORS: amounts falling due within one year	9	50,337	1,429,446
NET CURRENT ASSETS (LIABILITIES)		93,471	(1,331,039)
TOTAL ASSETS LESS CURRENT LIABILITIES		22,622,031	21,197,521
CAPITAL AND RESERVES			
Called up share capital		21,139,001	21,139,001
Profit and loss account	10	1,483,030	58,520
EQUITY SHAREHOLDERS' FUNDS	11	22,622,031	21,197,521

These financial statements were approved by the Board of Directors on 27 March 2003.
Signed on behalf of the Board of Directors

D. SALVADOR

Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Investments

Investments in subsidiaries and associates are stated in the balance sheet at cost, less provision for any impairment in value.

Group accounts

The company has taken advantage of Section 228 of the Companies Act 1985 not to prepare group accounts as it is a wholly owned subsidiary of Safilo International BV and consolidated accounts are prepared by its ultimate parent, Safilo SpA.

Cash flow statement

The company is exempt from preparing a cash flow statement as group accounts are publicly available.

Foreign exchange

Profit and loss items and non-monetary items in the balance sheet denominated in foreign currencies are translated at the rates of exchange ruling on the dates on which the transactions occurred. Monetary items in the balance sheet are translated at the rate of exchange ruling at the balance sheet date.

Exchange differences are taken to the profit and loss account.

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' remuneration for the year ended 31 December 2002 was £2,500, including social security costs of £ nil (2001 - £ nil).
The directors were the only employees.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002	2001
	£	£
Profit on ordinary activities before taxation is after charging: Auditors' remuneration	4,489	3,646

Auditors' remuneration for other services was £38,636 (2001 - £27,973).

4. INVESTMENT INCOME

	2002	2001
	£	£
Income from fixed asset investments	35,071,117	4,254,838

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	£	£
Loan notes	26,730	56,678

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

6. TAX ON PROFIT OR ORDINARY ACTIVITIES

	2002 £	2001 £
United Kingdom corporation tax at 30% (2001 - 30%)	15,102,484	1,352,195
Less relief for overseas taxation	15,102,484	1,352,195
	-	-
Overseas taxation	1,638,556	149,242
	1,638,556	149,242

The tax charge is low because credit is available for tax suffered at source on foreign investment income.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year differs to the standard tax rate for the reasons set out in the following reconciliation:

	2002 £	2001 £
Profit on ordinary activities before tax	34,995,627	4,170,099
Tax at 30% thereon	10,498,688	1,251,030
Factors affecting charge for the year:		
UK dividend income	(690,000)	(381,000)
Unrelieved foreign taxes	1,638,556	149,242
Double tax relief	(15,102,484)	(1,352,195)
Underlying tax	5,293,796	482,165
Total actual amount of current tax	1,638,556	149,242

The total amount of advance corporation tax that has been written off which remains available for recovery against future corporation tax liabilities amounts to £3,000 (2001-£3,000).

7. DIVIDENDS

	2002 £	2001 £
Ordinary shares		
Interim paid - £1.51 per ordinary share (2001 – 18.8 pence)	31,932,561	3,973,693

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

8. INVESTMENTS HELD AS FIXED ASSSETS

	2002 Shares in subsidiary undertaking £	2001 Other joint participating interests £	Total £
Cost			
At 1 January 2002 and 31 December 2001	1,978,560	20,550,000	22,528,560

Safilo UK Limited

The company owns 2,500 ordinary shares of 10p each of Safilo UK Limited, a company incorporated in the United Kingdom, representing 100% (2001 - 100%) of its ordinary share capital.

Safilo America Inc.

The company owns 66 class A common shares of US$100 each (49%) and 71p preferred shares of US$10 each (100%) of Safilo America Inc., incorporated in the United States.

Both companies are involved in the distribution of spectacles on behalf of Safilo SpA.

Consolidated accounts have not been prepared as Safint Optical (UK) Limited is itself a wholly owned subsidiary. In the opinion of the directors, the investments are not worth less than the amounts stated above.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Loan notes	-	1,400,555
Accruals	50,337	28,891
	50,337	1,429,446

10. CALLED UP SHARE CAPITAL.

	2002 £	2001 £
Authorised		
50,000,000 ordinary shares of £1.00 each	50,000,000	50,000,000
Called up, allotted and fully paid		
21,139,001 ordinary shares of £1.00 each	21,139,001	21,139,001

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit attributable to members of the company	33,357,071	4,020,857
Dividends	(31,932,561)	(3,973,693)
Net addition to shareholders' funds	1,424,510	47,164
Opening shareholders' funds	21,197,521	21,150,357
Closing shareholders' funds	22,622,031	21,197,521

12. ULTIMATE PARENT COMPANY

The company's ultimate controlling party and ultimate parent undertaking is Safilo SpA, a company registered in Italy. Safilo SpA prepares consolidated financial statements for the group. Copies of the group financial statements are available from the company secretary, Safilo SpA, VII Strada 15-35129 Padova, Italy.

The company's immediate parent undertaking is Safilo International BV, a company registered in the Netherlands. Group financial statements are not prepared by Safilo International BV.

13. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions available under paragraph 3c of FRS 8, not to disclose transactions with fellow group companies.

On 31 January 2001 M T Cooney exercised a Put Option for his shareholding of 1,249 shares in Safilo UK Limited to be sold to Safint Optical (UK) Limited for £1,400,555 in exchange for Loan Notes. The interest paid to Michael Cooney during the year on the loan notes was £26,730 (2001 - £56,678). The Loan Notes were repaid on 30 April 2002.

14. COMMITMENTS

The ultimate parent company Safilo SpA has entered into a loan, which is guaranted by various subsidiaries within the group, including Safint Optical (UK) Limited. Safint Optical UK Limited has agreed to act as a guarantor and grants security for the loan with its entire assets without limit

ADDITIONAL INFORMATION

The additional information, which comprises of the trading profit and loss account and the related notes 1 to 4, has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the independent auditors' report thereon.

TRADING PROF1T AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £	2001 £
INCOME		-	-
LESS: OVERHEAD EXPENSES			
General	1	47,904	32,191
Financial	2	26,730	56,678
		74,684	88,869
NET TRADING LOSS FOR THE YEAR		(74,634)	(88,869)
ADD: OTHER INCOME			
Investment income	3	35,071,117	4,254,838
Interest receivable and similar income	4	(856)	4,130
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		34,995,627	4,170,099

NOTES TO THE TRADING PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

		2002	2001
		£	£
1.	**GENERAL EXPENSES**		
	Directors' fees	2,500	-
	Audit and accountancy	43,125	31,620
	Bank charges	2,279	571
		47,904	32,191
2.	**FINANCIAL EXPENSES**		
	Interest payable		
	Loan notes	26,730	56,678
3.	**INVESTMENT INCOME**		
	Income from other fixed asset investments	35,071,117	4,254,838
4.	**INTEREST RECEIVABLE AND SIMILAR INCOME**		
	Bank interest	2,895	3,754
	(Loss)/profit on exchange	(3,751)	375
		(856)	4,130

Safilo America, Inc. and Subsidiaries

Consolidated Balance Sheet
As of December 31, 2002

Assets	
Current assets	
Cash & cash equivalents	7.703.471
A/R, net	47.058.606
Inventory	70.436.369
Prepaid & Other Assets	2.614.112
Deferred & Prepaid Inc. Taxes	5.601.607
Total current assets	133.414.165
Cost	33.992.865
Accum. Deprec.	17.573.033
PP&E, net	18.419.832
Goodwill, net	19.480.307
Deferred Taxes	1.417.907
Other Assets	5.763.114
Total assets	176.495.325
Liabilities and Stockholders' Equity	
Current liabilities	
Current Mat. of LTD	2.391.924
Accounts Payable	23.289.836
Accrued Expenses	20.408.859
Other	890.672
Payable to related Party	592.147
Total current liabilities	47.573.438
L/T Debt	68.389.950
Commitments & Contingencies	162.470
Total liabilities	116.125.858
Stockholders' equity	
Common Stock	1.330
Preferred Stock	7.100
APIC – Common	1.812.045
Retained Earnings	59.585.055
Cummul. Trans. Adj.	-1.036.063
Total stockholders' equity	60.369.467
Total liabilities and stockholders' equity	176.495.325

Safilo America, Inc. and Subsidiaries

Consolidated Statement of Earnings
For the Year Ended December 31, 2002

Net sales	345.924.713
Costs and Expenses	
Cost of Sales	161.588.469
Selling Expenses	81.962.018
General and administrative expenses	51.191.925
Depreciation and amortization	4.711.014
	299.453.426
Income from operations	46.471.287
Interest expense/(income)	10.947
Other income/(expense), net	-542.077
Income before provision for income taxes	45.940.157
Provision for income taxes	18.749.796
Net income	27.190.361

SAFILO SPA

RECLASSIFIED STATEMENTS OF INCOME FOR THE YEARS ENDED AS OF 12.31.2001 AND 12.31.2000

(In thousands of Euro)

	2001	**2000**
REVENUES:		
Net sales	420.281	323.349
COST OF SALES		
Materials and change in inventories	136.284	103.227
Subcontracting costs	42.309	33.615
Industrial depreciation	22.709	14.470
Payroll and related contributions	65.167	59.400
Other industrial costs	8.976	6.262
Total	**275.445**	**216.974**
Gross profit	**144.836**	**106.375**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and related contributions	21.141	15.603
Commission	24.023	17.528
Royalties	42.145	30.133
Advertising and promotion	12.207	10.644
Other depreciation	2.384	996
Other expenses	17.194	11.160
Total	**119.094**	**86.064**
Income from operations	**25.742**	**20.311**
OTHER INCOME (EXPENSE):		
Interest income	399	504
Interest expense	-8.495	-6.792
Dividends	17.894	12.319
Other income (expense), net	-3.497	-3.622
Total	**6.301**	**2.409**
Income before taxes	**32.043**	**22.720**
Income taxes	-8.400	-7.100
NET INCOME FOR THE YEAR	**23.643**	**15.620**

(expressed in EUR)

Safilo International B.V.
Rotterdam
Balance Sheet as at December 31, 2001
(before appropriation of results)

ASSETS	*Notes*	*2001*	*2000*
Intangible Fixed Assets	(4)	0	0
Financial Fixed Assets			
Investments	(5)	56,901,242	58,329,676
Current Assets			
Receivable from group companies	(6)	2,449,577	201,268
Prepaid expenses		0	74,282
Other receivables		926	119
Cash at banks		1,398,565	93,368
		3,849,068	369,037
TOTAL ASSETS		60,750,310	58,698,713
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's Equity	(7)		
Issued and fully paid share capital		24,165,700	24,165,612
Share premium		17,801,406	17,801,494
Retained earnings		16,637,285	15,408,319
Net result for the year		19,553,678	13,405,791
Dividend		(17,706,916)	(12,176,825)
		60,451,153	58,604,391
Current Liabilities			
Corporate income tax payable		237,407	0
Group and other liabilities		61,750	94,322
		299,157	94,322
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		60,750,310	58,698,713

The accompanying notes form part of these accounts.

(expressed in EUR)

Safilo International B.V.
Rotterdam
Profit and Loss Account for the Year Ended December 31, 2001

	Notes	*2001*	*2000*
Operating Income / (Expenses)			
Management fees subsidiaries		49,507	49,507
Gain on sale Carrera shares		135,386	0
Income from Safilo Japan dispute		68,283	0
General and administrative expenses	(8)	(253,070)	(322,043)
		106	(272,536)
Financial Income (Loss)			
Interest income	(9)	13,461	8,309
Interest expenses	(10)	(452)	(5,759)
Dividend income	(11)	19,379,546	13,678,695
Refunded withholding tax		0	21,489
VAT correction previous years		0	(13,101)
Foreign currency exchange results		4,588	(9,945)
Amortization, and depreciation expenses	(4)	0	(1,361)
		19,397,143	13,678,327
Result before provision for extraordinary result		19,397,249	13,405,791
Extraordinary result		0	0
Result before taxation		19,397,249	13,405,791
Provision for corporate tax	(12)	156,429	0
NET RESULT FOR THE YEAR		19,553,678	13,405,791

The accompanying notes form part of these accounts.

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
December 31, 2001

1 Group Affiliation and Principal Activities

The Company, incorporated on December 19, 1984, is a limited liability company with its statutory seat in Rotterdam, The Netherlands.

The principal activity of the Company is the holding and financing of group companies.

2 Basis of Presentation

The accompanying annual accounts have been prepared in accordance with principles of accounting generally accepted in The Netherlands and are in compliance with the provisions of the Netherlands Civil Code, Book 2, Title 9.

3 Significant Accounting Policies

a General

Assets and liabilities are stated at face value unless indicated otherwise.

b Goodwill

The goodwill is amortised over a five year period.

c Financial Fixed Assets

The investments in subsidiaries are stated at historical acquisition cost or, in case of a permanent impairment of the value of the investment, at lower of historical acquisition cost or market value.

Further information on the financial position and results of operations of the investments as required by Dutch law is contained in the annual accounts of these investments, which are available to directors and shareholders. Consolidation of the financial statements takes place on the level of the ultimate parent company.

d Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into EURO at rates of exchange applicable at the balance sheet date.

Transactions in foreign currencies are translated at the rates in effect at the dates of transactions.

e Foreign Currencies

Exchange rates used at year-end are:

	2001	***2000***
AUD	0.5739900	0.5929319
DKK	0.6770700	0.1340505
GBP	1.6346100	1.5844417
GRD	0.0029347	0.0029344
HKD	0.1440780	0.1360524
JPY	0.0085354	0.0092775
SEK	0.1074500	0.1128098
USD	1.1236000	1.0611786
ZAR	0.0937500	0.1398142

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
December 31, 2001

3 Significant Accounting Policies, continued

f Recognition of Income and Expense

Dividends from investments are recorded as income in the year they are declared.
Other income and expenses, inclining taxation, are recognized and reported on an accruals basis.

4 Intangible Fixed Assets	***2001***	***2000***
Goodwill Safilo Nederland B.V.	6,807	6,807
less: accumulated amortisation	(6,807)	(6,807)
	0	0

5 Investments	***2001***	***2000***
The movements in the investment account are as follows:		
Balance January 1	58,329,676	55,781,418
Acquisitions	1,008,941	2,700,633
Dispositions	(2,437,375)	(152,375)
	56,901,242	58,329,676

The composition of the investments is as follows:

	% held		
Safilo Benelux N.V., Belgium	100	1,786,443	1,786,443
Safilo Espana S.A., Spain	100	506,849	506,849
Safilo GmbH, Germany	100	3,880,918	3,880,914
Safint B.V., The Netherlands	100	18,151	18,151
Safilo France S.a.r.l., France	100	797,603	797,603
Safilo A.B., Sweden	100	57,946	57,946
Optifashion Optik Sanayi Ve Ticaret A.S., Turkey	50	353,473	353,473
Safilo Far East Limited, Hong Kong	100	5,659,700	5,659,700
Safint Optical UK Ltd., UK	100	23,943,445	23,943,445
Safilo Hellas S.A., Greece	51	166,424	166,424
Safilo Austria GmbH, Austria	83.5	226,004	283,606
Carrera Optyl Brillen Vertriebs- und Erzeugungs GmbH, Austria	95	7,839,510	10,219,283
Safilo Nederland B.V., The Netherlands	100	1,152,602	1,152,602

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
December 31, 2001

5. Investments, continued

Safint Australia Pty Ltd., Australia	51	2,027,726	2,027,726
Safilo South Africa Pty Ltd., South Africa	100	1,872,193	1,872,193
Safilo Japan Co. Ltd., Japan	100	561,061	561,061
Safilo do Brasil Ltda., Brasil	100	4,289,586	4,289,586
Safilo Portugal Lda, Portugal	100	499,500	499,500
Safilo Switserland AG, Switserland	76	521,508	253,171
Safilo India Private Ltd., India	75	740,600	0
		56,901,242	58,329,676

The investment in Safilo GmbH comprises a capital contribution in the amount of DEM 3,000,000 with the condition that in case Safilo GmbH makes profits in the future the capital contribution will be repaid.

6 Receivable from Group Companies

			2001	*2000*
Safilo Espana S.A.:				
- management fees			12,615	12,615
Safilo France S.a.r.l.:				
- management fees			10,800	10,800
Safilo A.B. :				
- management fees			4,402	4,402
Safilo GmbH:				
- management fees			12,343	12,343
Safilo Benelux N.V.:				
- management fees			9,348	9,348
Safint B.V.				
- corporate income tax			148,733	(615)
Safilo Nederland B.V.				
- corporate income tax			256,763	0
Carrera Austria Optyl Trading GmbH, Austria			57,602	152,375
Carrera Optyl Brillen Vertriebs- und Erzeugungs GmbH, Austria			1,868,688	0
Safilo Japan Co. Ltd.				
- Sunreeve dispute	JPY	8,000,000	68,283	0
			2,449,577	201,268

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
December 31, 2001

7 Shareholder's Equity

The authorized share capital of the Company is EUR 100,000,000 divided into 1,000,000 shares of EUR 100 each.
At balance sheet date a total of 241,657 shares were issued and fully paid.
Movements in the shareholder's equity accounts are as follows:

	2000	***Changes for the Year***	***2001***
Issued and fully paid share capital	24,165,612	88	24,165,700
Share premium	17,801,494	(88)	17,801,406
Retained earnings	15,408,319	1,228,966	16,637,285
Net result for the year	13,405,791	(13,405,791)	
		19,553,678	19,553,678
Dividend	(12,176,825)	12,176,825	0
		(17,706,916)	(17,706,916)
	58,604,391	1,846,762	60,451,153

8 General and Administrative Expenses

			2001	***2000***
Tax advisers fees			10,210	22,543
Audit fees			3,572	3,097
Legal fees			350	900
Legal fees - Japan	JPY	12,275,132	113,304	157,310
International Chamber of Commerce			53,215	0
Legel fees - South Africa			0	5,736
Audit fees - Japan			0	45,496
Professional fees			32,045	43,655
Salaries			11,345	11,345
Rent			2,284	2,269
Bank charges			2,367	3,168
Registration fees			134	138
Telephone and fax			0	324
Travel expenses			15,003	21,114
General expenses			4,591	4,948
Non-refundable VAT			4,650	0
			253,070	322,043

(expressed in EUR)

Safilo International B.V.
Rotterdam
Notes to the Annual Accounts
December 31, 2001

9	Interest Income	*2001*	*2000*
	Current account banks	3,260	2,236
	Time deposits	10,201	6,013
	Tax authorities	0	60
		13,461	8,309

10	Interest Expenses	*2001*	*2000*
	Current account banks	452	5,759

11	Dividend Income	*2001*	*2000*
	Safint Optical UK Ltd.	6,469,613	4,273,891
	Safilo France S.a.r.l.	1,527,463	990,918
	Safilo A.B.	0	296,839
	Safilo Hellas S.A.	636,097	500,234
	Safint B.V.	657,981	907,560
	Safint Australia Pty Ltd.	694,433	439,754
	Safilo Espana S.A.	901,518	1,202,024
	Safilo Benelux N.V.	0	235,499
	Safilo Far East Limited	8,492,441	4,831,976
		19,379,546	13,678,695

12 Provision for Corporate Tax

The corporate tax is based on the fiscal results, taking into account that certain income and expenses as reported in the profit and loss account are exempted from taxation.

13 Directors and Employees

The Company had no employees.
The Company had three directors during the year of which one of them received a remuneration of NLG 25,000. No loans or advances have been given to or received from any director.
The Company has no supervisory directors.

SAFINT OPTICAL (UK) LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

	Note	£	2001 £	2000 £
Other operating charges			32,191	36,894
Investment income	4	4,254,838		2,821,051
Interest receivable and similar income		4,130		3,823
Interest payable and similar charges	5	(56,678)		(188)
			4,202,290	2,824,686
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			4,170,099	2,787,792
Tax on profit on ordinary activities	6		149,242	141,053
PROFIT FOR THE FINANCIAL YEAR			4,020,857	2,646,739
Dividends	7		3,973,693	2,640,359
			47,164	6,386
Retained profit brought forward			11,356	4,970
Retained profit carried forward			58,520	11,356

There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the profit and loss account.

All activities derive from continuing operations.

SAFINT OPTICAL (UK) LIMITED

BALANCE SHEET 31 December 2001	Note	2001 £	2000 £
FIXED ASSETS			
Investments	8	22,528,560	21,121,000
CURRENT ASSETS			
Cash at bank and in hand		98,407	45,734
CREDITORS: amounts falling due within one year	9	1,429,446	16,377
NET CURRENT (LIABILITIES)/ASSETS		(1,331,039)	29,357
TOTAL ASSETS LESS CURRENT LIABILITIES		21,197,521	21,150,357
CAPITAL AND RESERVES			
Called up share capital	11	21,139,001	21,139,001
Profit and loss account		58,520	11,356
TOTAL EQUITY SHAREHOLDERS' FUNDS		21,197,521	21,150,357

These financial statements were approved by the Board of Directors on 20 March 2002

Signed on behalf of the Board of Directors

D. Salvador

Director

20 March 2002

SAFINT OPTICAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Investments

Investments in subsidiaries and associates are stated in the balance sheet at cost, less provision for any impairment in value.

Group accounts

The company has taken advantage of Section 228 of the Companies Act 1985 not to prepare group accounts as it is a wholly owned subsidiary of Safilo International BV and consolidated accounts are prepared by its ultimate parent, Safilo SpA.

Cash flow statement

The company is exempt from preparing a cash flow statement as group accounts are publicly available.

Foreign exchange

Profit and loss account items and non-monetary items in the balance sheet denominated in foreign currencies are translated at the rates of exchange ruling on the dates on which the transactions occurred. Monetary items in the balance sheet are translated at the rate of exchange ruling at the balance sheet date.

Exchange differences are taken to the profit and loss account.

2 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Neither director received any emoluments in the two years ended 31 December 2001.

The directors were the only employees.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £	2000 £
Profit on ordinary activities before taxation is after charging:		
Auditors' remuneration	3,646	3,393

SAFINT OPTICAL (UK) LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

Auditors' remuneration for other services was £27,973 (2000-£33,357).

4 INVESTMENT INCOME

	2001 £	2000 £
Income from fixed asset investments	4,254,838	2,821,051

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £	2000 £
Loan notes	56,678	-
Interest paid on overdue tax	-	188
	56,678	188

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
United Kingdom corporation tax at 30% (2000 - 30%)	1,352,195	1,292,102
Less relief for overseas taxation	1,352,195	1,292,102
	-	-
Overseas taxation	149,242	141,053
	149,242	141,053

The tax charge is low because credit is available for tax suffered at source on foreign investment income.

The total amount of advance corporation tax that has been written off which remains available for recovery against future corporation tax liabilities amounts to £3,000 (2000 - £3,000).

SAFINT OPTICAL (UK) LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

7 DIVIDENDS

	2001 £	2000 £
Ordinary shares		
Interim paid - 18.80 pence per ordinary share (2000 - 12.49 pence)	3,973,693	2,640,353

8 INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiary undertaking £	Other joint participating interests £	Total £
Cost			
At 1 January 2001	571,000	20,550,000	21,121,000
Additions in year	1,407,560	-	1,407,560
At 31 December 2001	1,978,560	20,550,000	22,528,560
At 31 December 2000	571,000	20,550,000	21,121,000

Safilo UK Limited

The company owns 2,500 ordinary shares of 10p each of Safilo UK Limited, a company incorporated in the United Kingdom, representing 100% (2000 - 50.04%) of its ordinary share capital.

Safilo America Inc.

The company owns 66 class A common shares of US$100 each (49%) and 71 P preferred shares of USS10 each (100%) of Safilo America Inc., incorporated in the United States.

Both companies are involved in the distribution of spectacles on behalf of Safilo SpA.

Consolidated accounts have not been prepared as Safint Optical (UK) Limited is itself a wholly owned subsidiary. In the opinion of the directors, the investments are not worth less than the amounts stated above.

SAFINT OPTICAL (UK) LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Loan Notes	1,400,555	-
Accruals	28,891	16,377
	1,429,446	16,377

10 BORROWINGS

	2001 £	2000 £
Loan notes	1,400,555	-
The maturity of the above amounts is as follows:		
In one year or less, or on demand	1,400,555	-

11 CALLED UP SHARE CAPITAL

	2001 £	2000 £
Authorised		
50,000,000 ordinary shares of £1.00 each	50,000,000	50,000,000
Called up, allotted and fully paid		
21,139,001 ordinary shares of £1.00 each	21,139,001	21,139,001

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Profit attributable to members of the company	4,020,857	2,646,739
Dividends	(3,973,693)	(2,640,353)
Net addition to shareholders' funds	47,164	6,386
Opening shareholders' funds	21,150,357	21,143,971
Closing shareholders' funds	21,197,521	21,150,357

13 ULTIMATE PARENT COMPANY

The company's ultimate controlling party and ultimate parent undertaking is Safilo SpA, a company registered in Italy. Safilo SpA prepares consolidated financial statements for the group. Copies of the group financial statements are available from the company secretary, Safilo SpA, VII Srada 15, 35129 Padova, Italy.

The company's immediate parent undertaking is Safilo International BV, a company registered in the Netherlands. Group financial statements are not prepared by Safilo International BV.

14 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions available under paragraph 3c of FRS 8, not to disclose transactions with fellow group companies.

On 31 January 2001 M T Cooney exercised a Put Option for his shareholding of 1,249 shares in Safilo UK Limited to be sold to Safint Optical (UK) Limited for £1,400,555 in exchange for Loan Notes. The interest paid to Michael Cooney during the year on the Loan Notes was £56,678. The Loan Notes will be repaid on 30 April 2002.

ADDITIONAL INFORMATION

The additional information, which comprises of the trading profit and loss account and the related notes 1 to 4, has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.

SAFINT OPTICAL (UK) LIMITED

TRADING PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

	Note	2001 £	2000 £
INCOME		-	-
LESS: OVERHEAD EXPENSES			
General	1	32,191	36,894
Financial	2	56,678	188
		88,869	37,082
NET TRADING LOSS FOR THE YEAR		(88,869)	(37,082)
ADD: OTHER INCOME			
Investment income	3	4,254,838	2,821,051
Interest receivable and similar income	4	4,130	3,823
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,170,099	2,787,792

SAFINT OPTICAL (UK) LIMITED

NOTES TO THE TRADING PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

		2001	2000
		£	**£**
1	**GENERAL EXPENSES**		
	Audit and accountancy	31,620	36,750
	Bank charges	571	144
		32,191	56,894
2	**FINANCIAL EXPENSES**		
	Interest payable		
	Loan notes	56,678	-
	Interest paid on overdue tax	-	188
		56,678	188
3	**INVESTMENT INCOME**		
	Income from other fixed asset investments	4,254,838	2,821,051
4	**INTEREST RECEIVABLE AND SIMILAR INCOME**		
	Bank interest	3,754	4,219
	Profit/(loss) on exchange	376	(396)
		4,130	3,823

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