CONFERENCE CALL Q1 2012 RESULTS – MAY 4, 2012

Roberto Vedovotto, Chief Executive Officer

Thank you very much. Good evening to you all and welcome to Safilo first quarter 2012 results conference call. As always, I'm here tonight with Vincenzo Giannelli, our CFO and Barbara Ferrante and together we will try to guide you through the financial results of the first quarter of this year and of course at the end we will try to leave some time for questions in case you have some at the end of the full presentation.

I would like to start by saying that as anticipated during our last conference call back in March, in a context of challenging market conditions, 2012 is still and will still be a transition year for Safilo. Particularly due to the termination of the Armani licensees, to the new additions to our portfolio and to the organizational changes being implemented.

So with that said and with that in mind, I would like to quickly focus on the key facts of the first quarter 2012. Let me start from the geographies and let's start with the United States. In the United States, our business in the quarter has been very resilient. Our performance continued to be extremely strong particularly into the independent optician channel, where we have been able to once again consolidate our absolute leadership position, growing the top-line.
In particular in the U.S. we have successfully restocked the brands not renewed in 2011 with strong propositions of names which have had double-digit growth like Kate Spade, Boss Orange and the new Fossil lady collection.
Positive trading conditions were evident in some selective European countries mainly France and Germany. We have experienced in both of those countries still solid growth. In France and Germany, we also progressed, thanks to the very healthy performance of key accounts where we are capitalizing on the recent efforts and we are now consolidating our competitive position.
In this market context, we consider strategic to guarantee best-in-class service and tailored-made product offering, being efficient and offering the right product. For this reason we have been working extensively and we expect to see the first results of the activities started 18 months ago early during the course of this year.

Looking at Europe, I would like also to really highlight an area in which we are probably the strongest company in the industry because once again in Russia, we have had an excellent double-digit sales growth and which is again, into a situation where really last year we had strong double-digit growth and we expect Russia to become one of our leading European markets. Clearly also following the acquisition of Polaroid, where Polaroid in Russia, in terms of brand awareness, is the most popular eyewear brand ahead of everyone else.

When it comes to Asia, we performed well in the quarter, particularly in terms of orders collected of the Shanghai and Seoul trade show in February, we have had a very positive performance. And of course is still encouraging is a sign of the health of the region, as well as of the development on our portfolio in the high-end, diffusion and fashion segment. We continue to increase our door penetration, we continue to extend the product offering with Chinese and Asia fit and of course we keep expanding our diffusion lines and we have only recently launch Carrera in China and the launch has been extremely successful.
Fewer brands were the relatively moderating the quarter, the main reason being that we have had a slower intake of orders during the month of January also due to the anticipation of the Chinese New Year, which ultimately translated into some delayed shipments.
In Asia, we're also progressing in agreement with licensors with more selective distribution of products and it has had a little bit of an impact in the business. Among the key events of the quarter, I would also like, in terms of the brand portfolio, mention the global launch of our first Céline eyewear collection.

We are extremely pleased to see an enthusiastic response to this product, much better than what we had expected, and this is probably due to the fact that, as you know, Céline is one of the most desirable names in the international fashion scene and it does perfectly fit into our portfolio in terms of values and proposition.
Giving the challenging market environment, as expected, the quarter has had some weakness which is also coming from the second semester of last year in Southern Europe.

Particularly, sales in Italy were soft, mainly in the independent optician channel and there was a similar situation in Spain, in Portugal and to a lesser extent into Greece.
Despite these market conditions, we are pleased to see that based on recent market data, Safilo brand portfolio is either inline or outperforming the competition at the point of sales.

Now, our quarterly results were overall in-line with expectations in terms of top-line operating results and financial performance. In particular, and before giving for details to Vincenzo, the organic performance of our business was slightly positive in the quarter. We consider this as a positive sign in consideration of the fact that market environment in 2011 and 2010, particularly in the first semester of 2011 and 2010 was not as challenging as it is today and particularly as it is today in Europe.

As already mentioned, the phase-out of the Armani licenses is negatively effecting our performance in all regions as expected and also in all product categories. And that goes together with the –discontinued Nine West and Valentino business, particularly in the U.S market.

Finally, a small portion of our business is sport business, ski goggles and helmets, which have not being helped by the very unfavorable weather conditions during the course of the winter.

When it comes to operating and financial performance, they were both strong, even if impacted by the decline of volumes, which of course has being not avoidable given what happened with the Armani license. We ended the period with a financial leverage substantially in line with record low level achieved at the end of 2011, proving the strength of our business model and the actions in place and the validity of the actions put in place.

I will now handed over to Vincenzo to elaborate on more details and I then come back at the end for some additional, very brief remarks. Vincenzo.

Vincenzo Giannelli, Chief Financial Officer

Thank you, Roberto.
I will start from **slide three** summarizing that main financial highlights for the period. In the first quarter of 2012 reported sales to stood at €288.7 million, down 4% at current exchange rates, and down 6.3% at constant exchange rates. This decrease in top line is entirely explained by the decline in revenues recorded by the Armani licensees and by the decline in revenues on the licenses discontinued at the end of 2011, including on these licensees of course the effect of some returns of unsold products.

The gross margin was equal to 60.3% of sales, just 60 basis points lower than the one recorded in the first quarter of 2011, which was one of the highest reached by Safilo.
At the operating level the EBITDA, and EBIT margins were 11.2% and 8% of sales respectively, down around 230 basis points on the third quarter of 2011, mainly impacted by the incidence of SG&A expenses.
Looking at the bottom-line, net profit was €12 million with a net margin of 4.1% compared to 6.1% of sales in the first quarter of 2011.
Net debt was equal to €243 million in line with the level reached at the end of last year of 238.3 million, 9% lower compared to March 2011.

Moving to **slide four**. Let's look now to the drivers of the top line. As anticipated by Roberto, all regions and product categories were affected by the deceleration of the Armani licenses. This was particularly evident in Europe, with a lower impact on U.S and Asia.
Revenues of our core wholesale business were down 4.6% at current exchange rates, 6.8% at constant exchange rates with specific underlying trends by region. Americas were down 2.6% at current exchange rates, 6.2% constant currency. The organic sales performance was strong, positive by almost 3% in the period thanks to the good sales trends in the prescription independent opticians channel in the U.S.

Looking at the retail networks, Solstice stores registered a positive start to the year with sales growth driven by the continuing improvement of the like-for-like performance of the network, up 3.7%. On this front, I want to highlight that we kept focusing on the efficiency plan started in 2011 and in the quarter we closed eight additional stores streamlining the network to a total of 143 shops. We are pursuing a multi-channel strategy with Solstice meaning that we are growing the business also through the e-commerce platform as well as through outlet stores.
In Asia, sales were up 3.5% at current exchange rates, down 1.3% at constant exchange rates. And as highlighted by Roberto, the organic business trend was positive low single-digit in the quarter. This was partially explained by a slow start in January of deliveries in China, because of the Chinese New Year, which we recovered in the second part of the quarter starting from February.
Just to give you a bit of color on the general positive trend of the region, the travel retail business grew 20%, South Korea was up by almost 10%.
Let's now move to Europe, which was challenging given the current market scenario, the organic performance was not too different from what we registered in the last quarter of 2011, with meaningful differences by countries and distribution channels. In any case we're pleased to see that where the market is experiencing a positive trend, our offer is progressing nicely. This is case of France which, on all brands, but Armani, was up 10%, Germany almost 9%, and Russia up 14%.

Now let's move to **slide 5**, the main drivers of our operating performance. In the first quarter, EBITDA was equal to €32.3 million or 11.2% in terms of margin, driven almost entirely by the wholesale business.
As said, in the quarter we continued to register a very high industrial profitability, despite the declining volumes of sale and the impact of some product returns. This negatives were almost entirely recovered through several efficiency programs in place today after the revision of the Group development processes and the rationalization of the brand portfolio.
Below the gross margin, the higher incidence of G&A on turnover is due to the operating leverage and is mostly due to the investments that we had performed to support the development of the brands and markets mainly in terms of new management structures and strengthening of sales and marketing organization and tools, including trade marketing which is crucial. And those investment started in the second part of 2011, so on the performance quarter-by- quarter, year-on-year the first quarter is affected by this higher incidence of SG&A.

Below the operating line, on **slide six**, net interest expenses declined in the period by roughly 15% thanks to the advanced partial early redemption of the €60 million high yield bond undertaken in June 2011.
On the other hand, total financial charges were influenced by the lower positive impact of exchange rate differences related to balance sheet items.
Tax rate was equal to 32.7% of our pretax profit which also envisaged lower minority interest as we purchased –a further shareholding in the subsidiary in China, one of Safilo most strategic region.
All-in-all we closed the quarter with a positive net result of €12 million and the net margin on sales of 4.1% compared to the 6.1% in the first quarter of 2011. As highlighted by Roberto results were positive. Despite the lower net profit of the period, we were able to slightly improve the free cash flow, thanks to –tight control of the working capital as well as investment.

If we now move to **slide seven**, you can appreciate that the cash flow from operations increased mainly thanks to the decline in working capital needs which was explained by lower volumes of sale and the level of inventory which remained substantially in-line with the same period of 2011.
On the trade receivables front the decline in business in Southern Europe is also improving the average payment terms as they are typically longer in those countries. In the quarter, the ratio of the net working capital on the last 12 months sales slightly improved to 28.5% of sales compared to the 28.8% in the same period of 2011.

Finally, on the Groups net debt, **slide eight**, you can appreciate this substantial alignment with the level reached at the end of last year, of €243.2 million, confirming the leverage of 2.1 times. This is a clear improvement compared to the same quarter of 2011, when our net debt was equal to €268.2 million.

The composition of our gross debt also remained in-line with the mix of lines at the end of December 2011. With the revolving facility grown at the end of March 2012 for €50 million.
I now hand it back over to Roberto for his final remarks.

Roberto Vedovotto, Chief Executive Officer

Okay. Thank you, Vincenzo.
I would like to say that in the development that we are seeing in Asia, as we have said in our press release, we have decided to increase our shareholding in our subsidiary in China. So we bought back the shares from our partners and we are now up to 90% and this is clearly a sign of a strong commitment to Asia in general and to China in particular.

I also wanted to mention as a final remark, that as you have seen and I promised, April 3, so probably three days later than what we had said, because we said first quarter, April 3 the acquisition of Polaroid Eyewear was completed, at a better price than what we had said at the beginning.
As I said in the press release, I think that Polaroid is a key, strategic step towards our long-term objectives and we are really enthusiastic about this opportunity that we will have to exploit at the best.
Polaroid represents I think a significant event in the market, it is a great opportunity to move way beyond the current industry focus, which is mainly, if not only, represented by fashion oriented products. The idea with Polaroid is that we want to really focus on the functional message of the –polarized lenses which have a huge potential growth ahead of us and of course the value proposition is embedding high quality lens expertise in a fast growing specialist and value for money segment.

With that said, I would finally suggest that of course we do realize that we have several challenges in front of us, given the marketplace and given the relevant event for our company but also and more importantly a number of really important and compelling opportunities on which we really focus and we really want to leverage going forward, to become more efficient and to be able to conquer each single inch of this market which is very difficult at the moment. We're confident that we're going to be reaching our medium term goals, thanks to the number of activities that have been implemented.

With that said, I'd like to excuse ourselves for doing this conference call on a Friday afternoon, we know that it is always a little bit challenging. So, a special thanks for all of you that have been listening just ahead of the weekend we really appreciate and we're now ready for all of your question, if you have any. Thank you very much.