**Conference Call Q3 and9M 2010 Results – November 5, 2010 (6pm CET)**

**Roberto Vedovotto – Safilo Group CEO**

Good evening to you all and welcome to Safilo's third quarter and nine months 2010 results conference call.

As always, Francesco Tagliapietra and Barbara Ferrante are here with me. Today I am also very proud and glad to introduce to you Vincenzo Giannelli. Vincenzo joined Safilo a couple of months ago in the role of Chief Financial Officer, strengthening our team in an area that is key for the further implementation of our strategy.

We will together run through the presentation, leaving as much time as possible for the questions you might have at the end of the discussion.

I am pleased with the results that we are presenting to you today since they are again positive, recovering numbers for the Group. In particular:

- We saw sustained top line growth, partially helped by positive currency impacts. More importantly, ex FX, I would like to underline that each of the Group's businesses reported good organic revenue growth in the quarter, with consistent results in the fastest growing regions and improvements in some European markets;

- We achieved better YoY profitability, with important recoveries all along our P&L;

- We remained focused on core business investments and working capital management, which allowed us to generate additional positive Cash Flows in the third quarter;

- We further reduced our net debt, ending the period with a leverage ratio below 3x after many years;

- We moved forward with our strategic partners, renewing at the end of September, the partnership with Christian Dior, one of the highest-ranked luxury industry leaders.
  We are particularly happy about this strategic agreement which represents a key milestone for Safilo Group in its new journey.

Before getting into the numbers in more details, I would like to start by mentioning that in this quarter we continued to enhance our brands and product portfolio through the following strategic initiatives:

- Fall 2010 marks the debut of Tommy Hilfiger's new eyewear collection, manufactured and distributed by Safilo Group. The collection has been specifically designed with a classic and modern feel that reflects Tommy Hilfiger's classic American style. To commemorate the 25th Anniversary of the Tommy Hilfiger brand, founded in 1985, Tommy Hilfiger also designed a special edition sunglass called "TH 1985". We are very confident about the future success of this brand in the eyewear diffusion segment, both in its reference markets, US and Asia, but also in Europe;

- August saw the debut of the brand new Boss Orange eyewear collection. After the success of the BOSS Black and HUGO eyewear collections, the new BOSS Orange frames, for men and women, reflect the young and fashionable spirit of the brand, in line with the most innovative design trends. Launch activities were very intense and wide reaching. Products were presented as a preview in some of the most important retail chains in Europe in order to allow immediate strong coverage in high level pos. The collection's creative concept, 'Bless the boring', has also become a very interactive website, with a specially developed contest for the Facebook community. I would like to stress that Hugo Boss is one of our powerful brands.

- We keep pushing on all our strategic, priority brands:

  - with the new Giorgio Armani's frames of life eyewear collections, a project inspired by his extraordinary archive collections, rediscovering the artisan quality of those products and evoking those traditional production methods;

- with the Gucci Eyeweb line, dedicated to the young and dynamic digital generation, expanding its stylish expression to unisex ski goggles for Winter 2010/2011.
  With Gucci, we are also going to launch the first new children's eyewear collections to be presented at the beginning of next year.

Let's take a step back and go to the numbers in more details. I would like to give you a brief overview of Q3 2010 results. Let's start from geography.

- Looking at the regional distribution of our revenues, we experienced:

1. Better performance in Europe, turning positive for the first time after two years of constant decline;
2. Additional improvements in the Americas, thanks to the good trends registered in the US in both product categories: sunglasses and prescription frames;
3. Good growth rates in Asia, with greater China remaining the main growth engine there;

- In terms of business Drivers, in the third quarter we saw:

1. High single-digit volumes growth, supported by improving price/mix dynamics;
2. Better results of all our important, strategic licensed brands;
3. Among the other priority brands in our portfolio, we are very satisfied with the strong results of Marc Jacobs, Marc by Marc Jacobs and Hugo Boss as said before. I would like to underline here the successful debut in August of the brand new Boss Orange eyewear collection;
4. Once again Tommy Hilfiger's first eyewear collection designed and produced by Safilo was also launched in the quarter and we are very happy with the market response so far;
5. Among our house brands, Carrera improved its overall performance in the quarter, driven by a very strong sun business. Smith sport also performed particularly well thanks to a strong 2010 preorder season;
6. If we look at the product categories, sunglasses remained very strong in all channels on a world-wide basis, while prescription frames saw a good YoY recovery, growing double digit at constant perimeter also thanks to an improved product mix effect.

Operating profitability improved considerably mainly thanks to:

1. A better absorption of the production capacity in all our plants, which enabled us to achieve higher industrial profitability;
2. A smaller and more performing retail business;
3. Control of SG&A expenses.

We were Cash positive in the third quarter, further improving, as said, the Group's Financial leverage. At the end of September, our Net Financial Position decreased by 2.5% compared to the end of June thus impacting our financial charges, which are decreasing. This was possible thanks to:

1. Stronger operating results;
2. Better working capital management;
3. Focused investments in the core business;

Let me move to Safilo's Q3 FINANCIAL HIGHLIGHTS:

- Total sales were up by 11.9%, at 237.9 million euro;
  I would like to remind you that at the end of last year we sold our non strategic, loss making retail activities in Spain and Australia. In Q3 2009, these chains registered 9.4 million euro of sales, with a negative EBITDA of 0.8 million euro.

  At constant exchange rates and perimeter, total sales in Q3 2010 would have been up by 7.6% over Q3 2009.

- Profitability improved:

  - Gross margin increased to 57.3% of total sales or 136.2 million euro, an improvement of 310bps over the 54.2% margin registered in Q3 09;

  - EBITDA reached 17.7 million euro or 7.5% of total sales compared to the 1.6% Q3 09 EBITDA of 3.5 million euro;

  - EBIT was 7.7 million euro or 3.2% of total sales, compared to the adjusted Q3 09 operating loss of 7.6 million euro;

  - Net result was basically at break even, slightly negative for 365 thousand euro versus the adjusted loss of 22.1 million euro in the same period of last year.

The 9M 2010 were therefore characterized by the following:

- Total sales at 818.2 million euro, growing by 5.6% or 5.4% at constant perimeter and exchange rates;

- Gross margin of 59.0%, improving by 140 bps;

- EBITDA and EBIT respectively at 10.1% and 6.4% of total sales, up 300 and 360 bps on the adjusted 9M 09 results;

- Total net result of the period negative for 3.6 million euro versus the adjusted 9M 09 loss of 30.0 million euro;

- The Net Financial Position at the end of September improved to 262.7 million euro, thanks to the additional cash flow generated during Q3 2010.

Our top line growth, which reached 11.9% (+7.6% constant perimeter and exchange rates), was driven by:

1. the good uplift of the wholesale business, where revenues increased by 16.5% at current exchanges (+7.5% at constant exchange rates ), driven by volumes growth and an improved product mix.

   Carrera accelerated its growth pace, up 31% in the quarter thanks to the expansion program that the Group is carrying out. Among our house brands, we are also focusing on Smith which is currently performing very well in its sport segment.

   As already mentioned, all of our most important licensed brands showed improving results thanks to their strong product collections and to consumers returning to higher value propositions. We then had a very good debut for some new collections like Boss Orange and Tommy Hilfiger.

2. Strong like for like retail business.
   At constant perimeter and exchange rates, the channel grew by 9.5% in Q3 2010, thanks to the comp sales performance of our Solstice stores, up 12.4% in the period, proving again the solid performance of sunglasses market in the US market.

In the nine months to September 2010, the Wholesale business was up by 8.5% (+4.6% at constant exchange rates) and the retail business grew by 15.8% at constant perimeter and exchange rates.

From a regional standpoint:

Europe improved in this third quarter, growing organically ( at constant perimeter and exchange rates) by 11% (+5.7% reported) after the flattish performance of the previous quarters.
France and Spain were the top performers of the region, together with some Nordic markets and the Russian area where we are growing nicely with all our high-end brands.
Business remained flattish in Italy also due to the distribution reorganization of the close-out channel, while sales in Greece continued to decline heavily in the third quarter (-52%).

In the nine-month period, revenues in Europe increased by 2.3% at constant perimeter and exchange rates (-1.1% reported).

In the third quarter, Americas performed very well, further improving the performance achieved in the first two quarters of the year. At current exchange rates, the region posted a good +21.7% (+8.1% at constant exchange rates) with a particularly solid performance of the US market in all the main distribution channels.

Department stores performed extremely well and we had better results also with our most important client, 3Os (independent opticians), generally more exposed to the prescription frames business. Results in the area were also positively affected by the growth of Smith sport business.

Over the nine months 2010, Americas' sales grew by 12.4% at current exchange rates (+6.3% at constant exchange rates ).

Asia maintained a double digit growth rate in the period, with greater China markets performing well and Japan still mitigating the overall Asian performance, although with a less negative result compared to previous quarters. Duty free business remained highly positive across all markets.
Sales in the region increased by +29.7% at current exchange rates (+11.9% at constant currency ) in the three months to September.

Over the nine-month period sales in Asia were up 23.1% at current exchange rates (+16.3% at constant exchange rates ).

By product category, Q3 experienced:

The rebound of prescription frames sales, which grew 7.6%, driven by:

- better sales volumes in some of the most important channels and brands;
- a generally improved price/mix effect;

The Sunglasses business posted additional growth in the period, up 19.3% and improving all around its product offer and in all its reference markets and channels.

In the nine months of 2010, sales of sunglasses grew by 8.8%, while prescription frames registered an improvement of 2.0%.

In terms of OPERATING PROFITABILITY, EBITDA improved by 590 bps in Q3 2010, driven by:

- the uplift of Gross Margin, progressing by 310 bps to 57.3% of sales compared to 54.2% registered in Q3 2009. As for the previous quarters of the year, this result was explained by the better absorption of production capacity in light of increasing volumes, higher productivity of our plants in terms of people involved, and the improving mix of products sold.

  However, as we know, this is by all means a volume business and we need a higher utilization of our plants in order to improve our industrial leverage. We were running at 65-70% of our total capacity in the period in consideration.

  In addition, the reorganization and clean up of selected distribution channels needs further improvement: as we discussed in previous quarters, we are prudently increasing our provisions for inventory obsolescence in consideration of temporary lower sales of close-out products.

Below the GROSS MARGIN:

- We recovered another 330 bps in the area of SG&A expenses, which in this analysis exclude depreciation and amortization costs, with selling and marketing costs generally benefitted from the retail business divestiture.

In Q3 2010, EBITDA in the wholesale business reached 16.6 million euro or 7.7% of revenues, 550 bps better than the 2.2% margin recorded in Q3 2009. Such improvement was driven by Gross margin recovery and higher operating leverage of SG&A expenses.

The retail business, in the third quarter, achieved a positive EBITDA of 1.1 million euro against the loss of 0.6 million euro registered in the same period of last year. The result was explained by the sale of the loss-making retail activities that, in Q3 2009, recorded 0.8 million euro negative EBITDA and again by the better performance of Solstice stores in the period.

In the nine months of 2010, total EBITDA recovered 300 bps, standing at 10.1% of sales, compared to the adjusted 7.1% margin recorded in the nine months of 2009.

EBITDA in the wholesale business improved to 10.5% of revenues, up 210 bps compared with the adjusted 8.4% margin recorded in the nine months of 2009.

The retail business closed the nine months with a positive EBITDA of 4.0 million euro compared with the loss of 3.2 million euro registered in the same period last year.

Below the OPERATING LINE, from a financial standpoint, we had an almost nil impact in Q3 2010, due to:

- the 40% drop of net interest expenses meaning what we pay on the two main components of our debt – which stood at 6.1 million euro versus 10.1 million recorded in Q3 09. If we strip out the HYB interest, the costs of the Senior debt declined by 77% to 1.2 million euro (5.2 million in Q3 09) in light of the material reduction of the net financial position;

- the positive impact of net exchange rate differences - that, I remind you, are mainly related to the accounting effect of FX differences on balance sheet items. These were positive for 7.4 million euro in Q3 2010, registering an opposite trend compared to the strong negative effect they had in 1H 2010, due to the continuing yo-yo of the dollar, whose spot rate at the end of September devaluated quite heavily against the Euro, compared to the end of June (1.36 vs 1.22).

On the taxation front:

Net result was still impacted by the Group's impossibility to accrue deferred tax assets. For this reason income taxes, in the third quarter, stood at 6.5 million euro on a pre-tax profit of 7.3 million euro.

All in all, the net result in Q3 2010 was slightly negative for 365 thousand euro compared with the adjusted loss of 22.1 million euro registered in Q3 2009.

The net result for the nine months to September 2010, was negative for a total 3.6 million euro compared with the adjusted loss of 30.0 million euro registered in 9M 2009.

Free Cash Flow in the nine months of 2010 improved significantly, generating a total cash flow of 64.5 million euro, compared with an outflow of 12.3 million in 9M 2009.

This result implies a free cash flow generation of 12.6 million euro in the third quarter 2010 thanks to:

- the improved net result;
  focused working capital management, which allowed the release of additional resources for 6.6 million euro, in spite of the seasonal increase of inventories;
- The outflow for investing activities stood at 8.1 million euro in Q3 2010 (8.8 million euro in Q3 2009), taking the total net investments of the nine months of 2010 to 18.7 million euro versus 28.3 million in 9M 2009;
- Capex in the period was mainly dedicated to the maintenance and the technological improvements of our production factories.

As a result of the above, at the end of the nine months 2010, the Net debt was equal to 262.7 million euro, 2.5% better than the position of 269.4 million euro registered at the end of June 2010.
We are glad to see that now Financial Leverage is below 3 times, at 2.8 at the end of September 2010. It was 3.4 time at the end of June and 4.5 times at the end of March 2010.