



2005 Annual Report

Safilo®

GROUP

GIORGIO ARMANI

EMPORIO ARMANI

ALEXANDER
MCQUEEN

B&B
BLUEBAY

BOTTEGA VENETA

BOUCHERON
PARIS

CARRERA

DIESEL®
FOR SUCCESSFUL LIVING

55
DSL

Dior

GUCCI

IMATRA R.C., INC.
Safilo
SUNGLASSES

MARC JACOBS

MaxMara
OCCHIALI

OLIVER

OXO
SUNGLASSES

pierre cardin

RALPH LAUREN
EYEWEAR

Safilo®

SMITH

VALENTINO

STELLA McCARTNEY

YVES SAINT LAURENT

AVAILABLE IN NORTH AMERICA ONLY

CHESTERFIELD®

kate spade
NEW YORK

FOSSIL

claiborne

JLO
BY JENNIFER LOPEZ

liz claiborne

LUCY COUTURE
MADE IN THE GLAMOROUS USA

NINE WEST
EYEWEAR

SAKS
FIFTH
AVENUE

SAFILO GROUP S.p.A.

Registered office: 36100 Vicenza (VI), Stradella dell'Isola no. 1

Share Capital Euro 70,843,213.00 fully paid-in

Vicenza Company's office and Tax number 03032950242

Vicenza Chamber of Commerce No. 293499

2005 Annual Report





The Safilo Group is leader in the high-end eyewear market and heads world production of optical, sunglass, fashion and sports products thanks to its portfolio of trademarks that includes the most prestigious names of the international fashion system.

This leadership position has been earned through years of experience, professional competence and advanced know-how, all combined to present exclusive collections which are particularly valued in international markets.

LEADER IN FASHION AND LUXURY EYEWEAR



Safilo Group, which in 2005 reached the prestigious target of a billion euros in turnover, sells its products through 28 direct subsidiaries and a network of exclusive distributors covering over 130,000 points of sale worldwide.



SAFILO FAR EAST



AUSTRALIA
CHINA
HONG KONG
JAPAN
MALAYSIA
SINGAPORE

SAFILO AMERICA

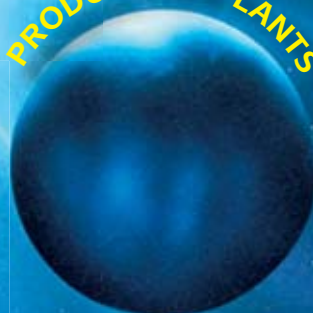


BRAZIL
CANADA
LATIN AMERICA
USA

SAFILO IN THE WORLD

Safilo
GROUP

PRODUCTION PLANTS



LONGARONE
MARTIGNACCO
ORMOZ
PRECENICCO
S. MARIA DI SALA
RESEARCH DIVISION

SPORT



ITALY
CANADA
USA

SAFILO EUROPE & R.o.W.

AUSTRIA
BELGIUM
DENMARK
FINLAND
FRANCE
GERMANY
GREECE
INDIA
ITALY
NETHERLANDS
NORWAY
PORTUGAL
SLOVENIA
SOUTH AFRICA
SPAIN
SWEDEN
SWITZERLAND
UK

Safilo



A HISTORY OF MORE THAN 70 YEARS REFLECTED IN THE NEW CORPORATE IMAGE

It was 1934 when Guglielmo Tabacchi decided to take over the first Italian eyewear factory dating back to 1878 in Pieve di Cadore. Today, 72 years later, Safilo Group's success and prestige are recognised the world over. All Safilo's products stand

out for their quality, style, elegance and innovation, features that are reflected in the new corporate image - a strong symbol designed to keep the company's original spirit alive even through its modernization and while remaining true to itself.



Images from the television advertising campaign



Roadshow – Milan, November 2006

SAFILO GROUP IS LISTED ON THE STOCK EXCHANGE

December 9th 2005 was a milestone date for Safilo: the company was listed on the Electronic share market (MTA) managed by Borsa Italiana. This signaled the start of a significant development process for the company, which was able to avail of new resources to compete in the world market and sustain its future growth strategies.



Vittorio Tabacchi, Chairman of Safilo Group, and Massimo Capuano, CEO of Borsa Italiana



Plaque bearing the opening price of Safilo shares



Roberto Vedovotto, Vittorio Tabacchi and Massimiliano Tabacchi





ANNUAL REPORT
DECEMBER 31, 2005

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139 Report of Independent Auditors



Chairman's letter to the shareholders

Dear Shareholders,

The year 2005 will remain an important year in the history of Safilo with the Company's admission to the Italian Stock Exchange. On December 9, 2005 the shares in our company commenced trading and the success of this extraordinary operation is one of personal satisfaction but especially the most tangible sign of the success of a company that has always shared the same values when reaching its own goals.

The year 2005 was again one of growth for the Group, with turnover increasing by 8.5%, going over the Euro 1,025.3 million. Particularly significant was the performance in Asia (+20.0%) and in the American market (+9.1%), but important results were also achieved in the European market and in the Italian market where Safilo recorded growth respectively of 3% and of 12,2% in spite of weak economic conditions.

In profitability terms the Group improved its results in spite the strong impact of extraordinary costs related to the stock exchange listing. Operating profit grew by 5.9% reaching Euro 117.9 million compared to Euro 111.3 million of prior year. The net result, in reduction, reflects the effects deriving from extraordinary financial costs related to the stock exchange listing and U.S. dollar fluctuations. The determining factors that allowed the Group to reach, also in 2005, its growth targets are the constant attention to the design and development of new models, the quality of the product, the selective distribution policy and the focus on licensors' and customers' needs, both in technical and design terms.

We have ambitious objectives but the potential for growth of the Safilo Group remains very high. The strategy in the coming years will be concentrated on the objective of further strengthening our leadership position on the luxury business segment trying to improve our market share in countries where we are already present and investing in new high potential markets.

The Chairman
Vittorio Tabacchi

A handwritten signature in black ink, appearing to read 'V. Tabacchi', written over a light blue background.

Corporate Officers

Board of Directors

Chairman	Vittorio Tabacchi
Vice-Chairman	Giannino Lorenzon
Chief Executive Officer	Roberto Vedovotto
Directors	Thompson Dean (*) Ennio Doris Carlo Gilardi Julian Masters (*) Charles Paul Pieper (*) Riccardo Ruggiero Massimiliano Tabacchi Colin Taylor (*)

Board of Statutory Auditors

Chairman	Franco Corgnati
Regular Auditor	Nicola Gianese
Regular Auditor	Paolo Mazzi
Alternate member	Ornella Rossi
Alternate member	Giampietro Sala

Internal Control Committee

Chairman	Carlo Gilardi Ennio Doris Riccardo Ruggiero
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Remuneration Committee

Chairman	Carlo Gilardi Riccardo Ruggiero Roberto Vedovotto
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Independent Auditors

PricewaterhouseCoopers S.p.a.

(*) Resigned on February 15, 2006

designer enzo angelicotti

Safilo
glamour

Selected consolidated Financial Data¹

Economic data (in Euro million)	2005	%	2004	%
Net sales	1,025.3	100.0	944.7	100.0
Cost of sales	(416.5)	40.6	(381.5)	40.4
Gross profit	608.8	59.4	563.2	59.6
Ebitda before non recurring operating items ²	163.0	15.9	146.8	15.5
Ebitda after non recurring operating items ²	153.0	14.9	146.8	15.5
Operating profit before non recurring operating items ²	127.9	12.5	111.3	11.8
Operating profit after non recurring operating items ²	117.9	11.5	111.3	11.8
Pre-tax result before non recurring financial items ²	30.6	3.0	41.8	4.4
Pre-tax result after non recurring financial items ²	11.1	1.1	41.8	4.4
Group net income before non recurring items ²	22.9	2.2	18.9	2.0
Group net income after non recurring items ²	3.1	0.3	18.9	2.0

Balance sheet data (in Euro million)	2005	%	2004	%
Total assets	1,844.5	100.0	1,604.2	100.0
Net working capital	245.1	13.3	229.3	14.3
Net debt position	479.0	26.0	807.2	50.3
Total Shareholders' equity	827.2	44.8	445.4	27.8
Total capital invested	238.7	12.9	234.1	14.6

Financial data (in Euro million)	2005	2004
Cash F. from op. act. before changes in O.W.C.	35.6	61.2
Changes in Operating Working Capital	(2.3)	(5.2)
Net cash used in investment activities	(37.3)	(28.6)
Net cash provided by (used in) financing activities	39.6	(19.1)

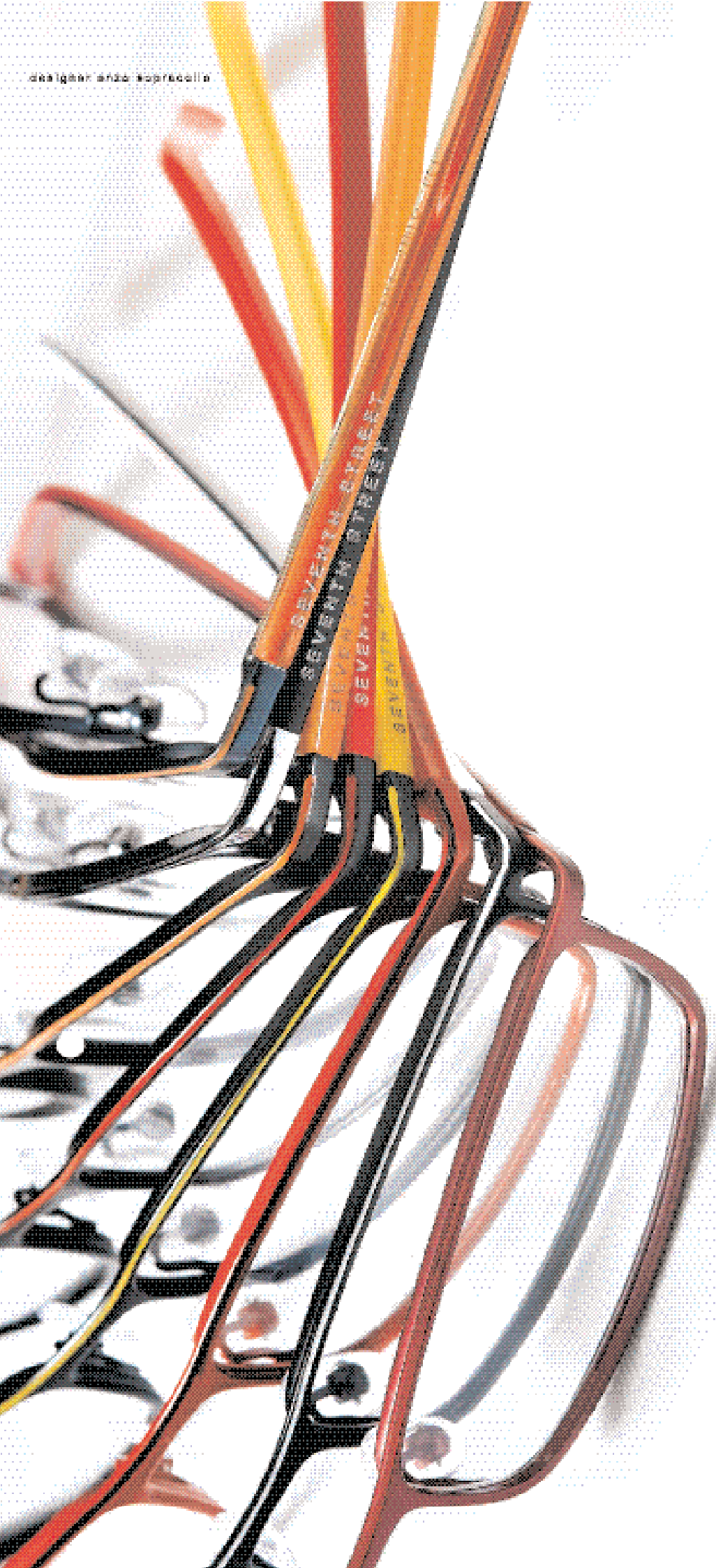
Stock exchange	2005	2004
Basic EPS	0.02	0.10
Diluted EPS	0.02	0.10
Shares maximum price	4.940	nd
Shares minimum price	4.713	nd
Average number of shares	151,978,671	nd
Number of shares in common stock	283,372,852	49,200,000

¹ Some accounts relating to the financial year ended December 31, 2004 were adjusted compared to those reported in the Offering Memorandum presented for the IPO process, following the European Community's approval of the amendment to IAS 39 issued on April 14, 2005 relating to the cash flow hedges.

² Non recurring operating and financial items refer to costs related to the IPO such as consultancy expenses, personnel compensation, greater interest paid on early reimbursement of loans and the accelerated depreciation on fees.

³ At December 31, 2004 the nominal value of shares included in common stock was equal to Euro 1.00 while at December 31, 2005 the above value amounts to Euro 0.25.

SEVEN HTH STRUT EET



designer and supplier



DIRECTORS' REPORT



IMATRA[®]

R.C., INC.

s u n g l a s s e s

IMATRA

DIRECTORS' REPORT

Activities of the Group

The Safilo Group is present in the eyewear market for over 70 years and is the second operator worldwide, in terms of revenues, development, production and wholesale distribution of products on the eyewear market, such as optical frames, sunglasses and sporting articles, among which ski and motocross goggles and technical glasses for other sports.

The Group is world leader in the high-end market and manages a brand portfolio of own and licensed brands, selected based on the criteria of competitive positioning and international prestige, in order to implement a precise strategy of segmentation of the clientele. The Group has progressively expanded its brand portfolio to include licensed brands of the luxury and fashion world, establishing long-term partnerships with its licensors through contracts lasting 5 to 8 years, most of which are repeatedly renewed over the years.

The leading Group brands are *Safilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay*. The Group's primary licensed brands include *Alexander McQueen*, *Bottega Veneta*, *Boucheron*, *Diesel*, *55DSL*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Imatra*, *Jennifer Lopez*, *Juicy Couture*, *Kate Spade*, *Liz Claiborne*, *Marc Jacobs*, *Nine West*, *Oliver*, *Pierre Cardin*, *Polo Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino* and *Yves Saint Laurent*.

The Group directly controls the whole production – distribution chain, which relates to the following phases: research and innovative technology, product design and development, planning, programming and purchasing, production, quality, marketing and communications, selling, distribution and logistics. Safilo is strongly involved in the development and design of the product, undertaken by a team of designers capable of guaranteeing innovative stylistic and technical continuity which since ever represents one of most important strengths of the company.

The production is carried out in five factories owned by the Group, four of them located in Italy and one in Slovenia. For products purchased from third parties, the Group has created a team specialised in testing that the quality of items purchased is in line with the Group's best standards.

The selective distribution is carried out at three main distribution centres - a headquarters at Padova, a centre at Parsippany (New Jersey, USA) and at Hong Kong - and by other minor distribution centres, ensuring an optimal level of service to clients. The Safilo Group is present in approximately 130 countries, of which 30 through its direct sales branches, while in the remaining countries the distribution is carried out through over 170 independent distributors. Each branch coordinates a consolidated network of local sales representatives, which operate prevalently in exclusivity, reaching over 130,000 retail outlets, including opticians, optometrists, ophthalmologists, retail chain stores, department stores and other specialised outlets. The Group maintains a high level of customer relations, and the reputation of its clientele ensures appropriate positioning of Group and licensed brands. In particular, its strategic choice to select retailers for the products and their positioning inside the retail outlet has been a point of strength with the licensors of prestigious brands and a distinguishing factor from the Group's major competitors.

Main strengths

In the opinion of management, the Group owes its success to its strengths which distinguish the Group in the eyewear market worldwide, and which include:

- important portfolio of prestigious brands, with a strong presence in the luxury and high fashion segment;
- excellence in the design, innovation and quality of the product;
- worldwide distribution platform and presence in the markets;
- excellent service to the clientele;
- diversified nature of the revenues;
- constant growth in revenues;

The Products

The Safilo Group operates in the development, production and wholesale distribution of eyewear. In particular, the product range, marketing both the Group's and licensed brands, includes optical frames, sunglasses, sports eyewear and other accessories.

The various lines produced target different consumer groups, through products with retail prices positioned in the high-end market. In particular, the average retail price of optical frames and sunglasses in 2005 was approximately Euro 130.

The products offered by the Group are highly complementary as the sunglasses are a product more related to fashion tendencies while optical frames are more related to demographic changes.

The Group's continual attention to consumer tastes, fashion trends and technological innovations is evident in the constant introduction of new models and the continuous updating of existing ones.

In particular, for products on the Asian markets, the Group is capable of developing specific optical glass frames which satisfy the specific physiological characteristics of these populations (Asian fitting), with particular attention to the Japanese market.

Each year over 2,500 new optical frames, sunglasses and sports articles are introduced onto the market, making over 4,500 models available to the public.

The Brands

The Group's brand portfolio is composed of Safilo Group brands, consisting of optical frames, sunglasses and sporting articles and licensed brands with prestigious collections of optical frames and sunglasses. The latter are principally positioned in the high-end eye-wear market with a strong presence in the luxury segment.

In 2005, the sales of licensed brands represented approximately 80% of the consolidated revenues of the Safilo Group, while those relating to the Group's own brands such as *Safilo*, *Oxydo*, *Blue Bay*, *Carrera* and *Smith* related to the remaining 20%.

In order to minimise the risk related to the volatility of consumer tastes, the Group continues a policy of maintaining a diversified brand portfolio by geographic positioning and target by age, gender, income, and needs of the final consumers.

As a consequence, the Group's licensed brand portfolio includes luxury brands of worldwide renown (for example *Armani*, *Dior*, *Gucci*), local fame (for example, on the North American market, *Liz Claiborne*, *Juicy Couture* and *Nine West*) and brands targeting consumers with a trendy taste. At the same time, to satisfy the needs of clientele differentiated by age, Diesel and Kate Spade are aimed at younger consumers, while Valentino and Max Mara to a more adult clientele.

The Group's brands have great strategic importance for the growth objectives in the medium to high-end Fashion and Casual-Sport segments in all product categories (optical frames, sunglasses and sporting articles, such as ski goggles and helmets and technical goggles for various sports).

The licensed brand portfolio of the Safilo Group is one of the most important and diversified in the eyewear market. A lot of brands rely on Safilo Group; some of these brands are of worldwide renown, such as *Armani*, *Dior*, *Gucci*, while others operate only in specific countries, such as *Fossil*, *Liz Claiborne*, *Kate Spade*, *Nine West* and *Saks Fifth Avenue*. The Group's licenses for these brands are exclusive contracts with a duration of between 5 to 8 years. These contracts provide for the recognition to the licensors of the royalties calculated as a percentage on the net sales deriving from the collections, with guaranteed minimum annual amounts which must be paid periodically. In many cases, these minimum guaranteed royalties are calculated on a percentage basis of the brand sales in the previous year or, in few cases, consist of prefixed amounts.

During 2005 prestigious brands such as *Boss*, *Hugo Boss*, *Marc Jacobs* and *Imatra*, sponsored by the Italian MotoGP World Champion Valentino Rossi, joined the prestigious Group *brand portfolio*.

This year the Group has consolidated its brand portfolio extending the duration of some contracts related to some of the most prestigious brands:

- Armani and Emporio Armani until December 31, 2012;
- Dior until December 31, 2010;
- Gucci until December 31, 2010;

At December 31, 2005 the contract for the production and distribution of products with the *Burberry* brand expired.

Research, development & design activities

The function of research and development is essentially focused on two types of activities:

- the design of the product;
- the research and development of new materials, technologies and manufacturing processes and instruments/machinery.

The research and development activities on materials and manufacturing processes and on machinery is carried out internally in the "Research and Innovative Technology Division", while the activity relating to the design of the product is carried out by three internal stylistic centres of the Group (in Italy, USA and Hong Kong) focused on the specific design requirements of the different markets in which they operate.

Product design

In relation to the development of the products with positioning in the high-end market, the Group has realised for over a decade the strategic importance of the Design function of the product.

The research and development activity of the design consists, among other matters, in the elaboration of colour/material forms and combinations for the creation of new models. This division is organised in three Style Centres and is composed of designers and employees developing prototypes. The main Style Centre is located in Italy, while the other two, located in the United States and Hong Kong, undertake specialised stylistic activities for the collections in their respective regions. The product design function, considered its strategic importance, has been constantly strengthened in time.

The Group Style Centres on average develop over 2,500 new models each year.

Research and development of the materials, manufacturing processes and instrument/machinery

The research and development activities on materials and manufacturing processes is directed, on the one hand, towards the improvement of the technical characteristics of the products and, on the other, to develop innovative manufacturing processes to optimise efficiency and quality.

In 2005, the Research and Innovative Technology Division activity was focused on:

- research of new manufacturing materials in order to increase the resistance and duration of the products;
- innovation of the product for sporting use;
- innovation of the glass product both as an aesthetic factor and as a protective factor;
- study of new solutions to achieve reduced weight, convenience and variability in the optical frame;
- design and construction of new machinery which can improve the efficiency and quality of the manufacturing process.

This activity, in recent years, has resulted in the registration of numerous patents, such as for example elastic frames, the fixtures for the nose and face, the "base" of the lens, nose pads, as well as external and internal protection of ski goggles.

The research and development activity on instruments/machinery has the purpose to internally design and develop precision and moulding instruments with the objective of improving the efficiency, the use and the quality of the manufacturing processes. Management believe that maintaining this activity internally reduces the time period between the development of the product and its marketing, in order to obtain constant savings in manufacturing costs.

Marketing and communication

The marketing and communication activity in support of the image of its brands, licensed brands and products constitutes a key element of success to achieve profitability growth for the Group.

The principal objectives of the Group's marketing strategy are:

- ensure the correct image profile perceived by the brands in portfolio, increasing the positioning in the high-end market, in particular in the fashion and luxury segments;
- communicate the distinctive characteristics in terms of product design and technology in the different categories (optical frames, sunglasses, sport).

The Group elaborates its marketing and advertising communication strategy on a worldwide basis through a medium-long term marketing plan (3 years) and a short-term plan (annual). The plans take into consideration indications from the market, the needs and tastes of the final consumers and other competitive factors such as price, type of products and advertising and promotional investments.

The Group develops a specific marketing plan for each of the brands in portfolio, adopting differentiated strategies and actions in order to permit the optimal positioning for each brand and avoid overlapping of image.

For the licensed brands, the Group develops the strategy in close co-ordination with the licensors.

In 2005, the total Group investments in marketing and advertising communication amounted to approximately Euro 78.5 million, equal to approx. 7.6% of Group consolidated revenues.

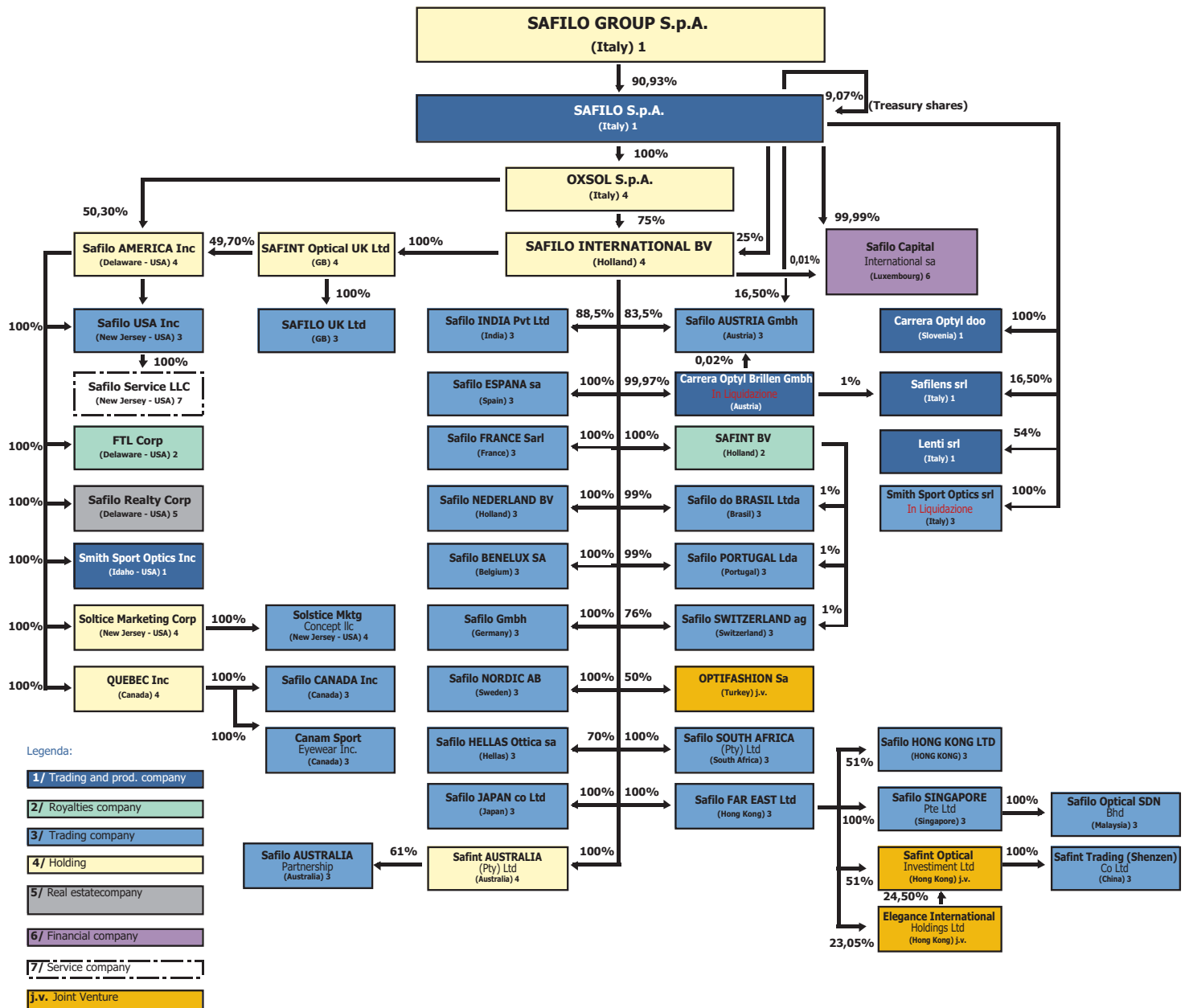
The marketing and communication activities are sub-divided principally between actions directed at the consumers and trade marketing centred on the sales outlets of the clients.

The activities directed at the consumers represent approximately two thirds of the Group advertising and promotional investments; the principal medias used are the printed press (weekly and monthly), billboards, television (in particular for own brands), sponsoring (principally in the sporting world for the brands Carrera and Smith), public relations with journalists and opinion leaders in the fashion, show business and sports world.

The trade marketing activity centred on the sales outlets of the principal clients represent approximately one third of the Group's advertising and promotional investments and is of fundamental importance both for directing the choice of the final purchaser on the brands and products of the Group and the client loyalty policy. The principal instruments used are sample materials inside the sales outlet (banner, display, posters), special shop window fronts, consumer promotion activity developed specifically for the purchasers of the most important optical clients, training courses and demonstrative materials on the characteristics of the Group brands and products directed at the sales personnel of the optical clients.

The creative strategic communication and the media strategy used, while maintaining maximum coherence with Group decisions, are adapted to the specific needs of the market to ensure maximum effectiveness in reaching pre-fixed goals.

The Safilo Group





CARRERA

SUNGLASSES



designer enzo angelini



CARRERA

SPORT ADDICTED

"LIFE IS A RACE YOU MUST BEAT IT EVERY GATE"

Hermann Maier



Stock Exchange Listing

On September 14, 2005, the Shareholders' Meeting of the holding company Safilo Group S.p.A., (which also deliberated to change the company's name from Safilo Holding S.p.A. to Safilo Group S.p.A.), approved the request for admission to the Mercato Telematico Azionario (MTA) of Borsa Italiana.

On December 9, 2005, the shares of Safilo Group S.p.A. were admitted to trading on the Milan Stock Exchange at an initial price of Euro 4.9 per share.

The Global Offer initially consisted of 140,000,000 shares, of which 64,300,000 shares offered for subscription, 3,947,252 shares offered to the beneficiaries of the 2003-2007 and 2004-2008 Stock Option Plans and 71,752,748 shares offered for sale by the shareholders SunlightLuxco A S.à.r.l. and SunlightLuxco III S.à.r.l..

Against the requests received and in virtue of partial exercise, by the Co-ordinators of the Offer, of the option related to the securities loan (so-called "Over allotment") given by the selling shareholders' for a total amount of 16,800,000 shares, a total of 156,800,000 shares were allocated as follows:

- 37,873,800 shares to Italian retail investors through the public offer;
- 118,926,200 shares, to Professional Investors in Italy and International Institutional Investors in relation to the Institutional Placement.

Following the partial exercise, in January 2006, of the so-called Greenshoe option by the Co-ordinators of the Offer for a total amount of 7,667,515 shares, the selling shareholders SunlightLuxco A S.à.r.l. and SunlightLuxco III S.à.r.l. were returned the shares, subject to the securities loan, equal to 9,132,485 shares.

The offer generated a total demand of over Euro 1.5 billion and the company commenced trading on the Stock Exchange with a capitalisation of approximately Euro 1.4 billion, placing the Safilo Group amongst the largest Italian listed industrial companies.

The institutional placement led to the subscription of over 250 institutional investors which included the largest Italian and international investment funds. The shares reserved for the retail sector in Italy resulted in the subscription of over 43,000 private investors.

Management's discussion and analysis of results of operations and financial conditions

The year 2005 was a fundamental year in the history of the Group. After the leveraged buy-out operation in 2001, when the company took on significant levels of bank debt, the success of the stock market listing has permitted the Group to return to a position of financial equilibrium.

The current situation, together with a favourable market environment, should guarantee positive growth in profitability in the coming years, and it is hoped, of the value of the shares.

Economic results

Consolidated statement of operations (in Euro million)	2005	%	2004	%	Change %
Net sales	1,025.3	100.0	944.7	100.0	8.5
Cost of sales	(416.5)	(40.6)	(381.5)	(40.4)	9.2
Gross profit	608.8	59.4	563.2	59.6	8.1
Selling and marketing expenses	(379.4)	(37.0)	(344.1)	(36.4)	10.3
General and administrative expenses	(102.6)	(10.0)	(106.9)	(11.3)	(4.0)
Other income/(expenses), net	1.1	0.1	(0.9)	(0.1)	(222.2)
Non recurring operating expenses	(10.0)	(1.0)	-	-	n.s.
Operating income	117.9	11.5	111.3	11.8	5.9
Share of income/(loss) of associates	1.5	0.1	-	-	n.s.
Interest expense and other financial charges, net	(88.8)	(8.7)	(69.4)	(7.3)	28.0
Non recurring financial charges	(19.5)	(1.9)	-	-	n.s.
Income before taxation	11.1	1.1	41.9	4.4	(73.5)
Income tax expense	(4.8)	(0.5)	(19.9)	(2.1)	(75.9)
Net income	6.3	0.6	22.0	2.3	(71.4)
Net income attributable to minority interests	3.2	0.3	3.1	0.3	3.2
Net income attributable to the Group	3.1	0.3	18.9	2.0	(83.6)
EBITDA before non recurring items	163.0	15.9	146.8	15.5	11.0
EBITDA after non recurring items	153.0	14.9	146.8	15.5	4.2
Basic EPS (Euro)	0.02		0.10		
Diluted EPS (Euro)	0.02		0.10		

The results in 2005

Again in 2005 the Group improved its operating results, as in the previous year. In spite of significant extraordinary costs, due in particular to the stock market listing, the consolidated operating result amounted to Euro 117.9 million, an improvement of 5.9% compared to the previous year.

The good results achieved are principally attributable to the increase in sales which again saw the strong appreciation from consumers of the Group's collections. It is particularly noteworthy that this growth was obtained without the contribution of any new business, either in terms of strategic acquisitions or the launch of new brands.

When considered that in some markets where the Group is leader, the economic environment is not particularly favourable, it is even more evident that the commercial strength of its own collections and of the brands sold permitted us to acquire greater market share.

The year 2005 also saw the commencement of a series of projects to create the foundations for further improvements in the future. The most important among these is undoubtedly the lean manufacturing project, which continues in the objective of rendering the group factories more efficient. During the year analysis and agreement took place with trade unions to reduce the

excessive number of production facilities, which in some cases were not very efficient. In 2006, the closure will take place of factories considered not essential and the transfer will be made to new work practices, which will guarantee a level of production and service more in line with the expectations of the clients.

In relation to licenses, the year 2005 saw the non-renewal of the Burberry licence and, at the beginning of 2006, the non-renewal of the Polo Ralph Lauren license. Countering this, a new agreement was signed in the final quarter, until 2013, with Hugo Boss, a consolidated brand in the clothing sector and in strong growth in recent years.

The expansion programme of the American chain Solstice continues with excellent results both in terms of sales and profitability. Investments are expected to continue in new openings maintaining a limited and selective presence in the American retail market.

Business development

The tables below set forth our net sales by geographic region, product category and brand category for the years ended December 31, 2004 and 2005:

Net sales by geographic region (in Euro million)	2005	%	2004	%	change%
Italy	138.6	13.5	123.5	13.1	12.2
Europe (excl. Italy)	339.4	33.1	329.6	34.9	3.0
The Americas	383.3	37.4	351.3	37.2	9.1
Asia Pacific	119.8	11.7	99.8	10.6	20.0
Other	44.2	4.3	40.5	4.2	9.1
Total	1,025.3	100.0	944.7	100.0	8.5

Net sales by product (in Euro million)	2005	%	2004	%	change%
Prescription frames	422.1	41.2	425.0	45.0	(0.7)
Sunglasses	527.7	51.5	445.5	47.2	18.5
Sports products	61.2	6.0	57.5	6.1	6.4
Other	14.3	1.3	16.7	1.7	(14.4)
Total	1,025.3	100.0	944.7	100.0	8.5

Net sales by brand category (in Euro million)	2005	%	2004	%	change%
Owned brands	190.7	18.6	197.4	20.9	(3.4)
Licensed brands	820.2	80.0	731.2	77.4	12.2
Other	14.4	1.4	16.1	1.7	(10.6)
Total	1,025.3	100.0	944.7	100.0	8.5

Group sales, at current exchange rates, amounted to Euro 1,025.3 million with an increase of 8.5% compared to Euro 944.7 million recorded in 2004. The slight movement in the average Euro/US dollar exchange rate did not result in any significant changes.

The excellent results were achieved thanks to the increase in the sales of licensed products (+12.2%) and to the strong increase in sales in all of the markets in which the Group operates, with the Asian market being particularly noteworthy (+20.0%).

The year also confirmed the important growth in the sunglasses segment (+18.5%), together with substantially stable sales for optical frames.

The opening of new outlets continued at a sustained rate for the outlet chain Solstice as well as the launch of new brands such as *Marc Jacobs* and *Imatra*, this latter endorsed by the GP motorbike world champion *Valentino Rossi*.

Italy: The sales in the domestic market were well above expectations with an increase of 12.2% compared to 2004. The appreciation of the Italian eyewear market for the collections of the Group has permitted the reaching of excellent performances, both in the sales of sunglasses (+13.9%) and optical frames (+9.1%). The growth recorded in this latter sector represents an important achievement within a strategy to increase the presence in the optical frame market. Sporting articles, helmets and goggles also recorded excellent results with an increase of approximately 50%. The major brands which contributed to this excellent performance were *Armani*, *Dior*, *Gucci* and *Valentino* while of the Group brands, *Oxydo* and *Sàfilo* recorded excellent results.

Europe (excluding Italy): the European market recorded a growth of 3.0% with a positive performance in the sunglasses category (+9.4%) and substantially stable sales of optical eyewear frames (-1.3%). In relation to the analysis by country, Spain and Germany were confirmed as the markets with the greatest contribution to the good performance. In terms of growth by brand *Armani*, *Dior*, *Gucci* and *Valentino* with the best performers, in line with that recorded in Italy.

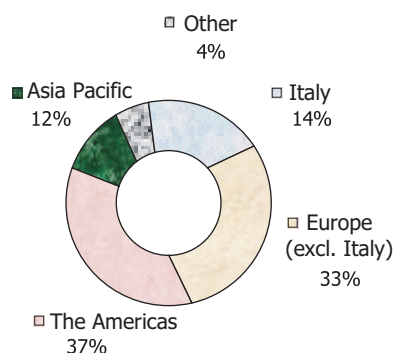
The Americas: the sales in the American markets confirm the growth already experienced in the previous quarters of 2005 with an increase of 9.1% compared to the previous year (at constant exchange rates: +9.9%). Canada and Brazil continue to be markets in strong growth increasing respectively by 19.1% and by 52.2%. The Group has successfully focused its marketing strategies on the independent opticians and department stores sectors, becoming absolute leader in both sales channels. In relation to the brands, excellent results were obtained in all of the most important collections, in particular *Armani*, *Dior* and *Gucci*, together with the classical American brands such as *Kate Spade*, *Liz Claiborne* and *J.Lo*. The excellent performance in the sporting sector is also recalled, with important growth in the sale of goggles and sunglasses of the brand Smith.

Excellent results were also recorded in the sales division Outlook (+19.1%) and in the retail chain Solstice (+56.2%), which now numbers 54 outlets.

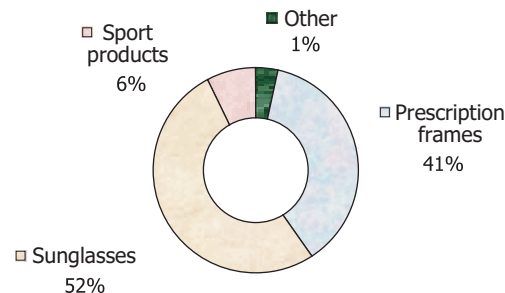
Asia Pacific: the Asian market throughout the year confirmed the excellent growth rates reported in the previous quarters: revenues increased in the year by 20.0%. All the merchandise categories continued to provide excellent results, both in terms of volumes and turnover. The optical frames reached the same growth rates as the sunglasses with an increase of 20% compared to 2004. This success is due to the continued close attention of the Group in relation to the promising Asian market and is even more significant when it is considered that in 2004 compared to 2003 the revenues in the Asian market had already increased by approximately 30%. Also in Asia, as in America, almost all the major brands contributed to the strong growth in the year with particularly good results in

Australia (+8.4%), Japan (+10.9%), Korea (+72.6%), Philippines (+97.3%) and China (+110%).

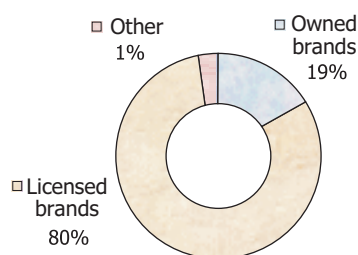
2005 net sales by geographic region



2005 net sales by product category



2005 net sales by brand category



The statements of operations

The good performance of sales and the stability of the American currency have permitted the Group to substantially maintain industrial profitability levels unchanged compared to 2004. The increasing attention to design and to quality of the new collections and the increase in the personnel costs from normal salary increases was off-set by a series of actions intended to reduce the cost of sales.

In absolute terms, the gross industrial profit increased from Euro 563.2 million in 2004 (with a percentage of 59.6% on revenues) to Euro 608.8 million in 2005 (equal to 59.4% of revenues) with an increase of 8.1%.

The selling expenses, such as commissions, royalties and marketing costs, increased slightly above those compared to revenues (from 36.4% in 2004 to 37.0% in 2005) in that the sales mix saw a change towards licensed products which incur fixed royalty percentages and marketing expenses.

The general and administrative costs, which are normally stable, decreased as a percentage on net sales (from 11.3% in 2004 to 10.0% in 2005) as a consequence of fixed costs containment activities taken by the Group during this financial period.

Non recurring operating costs, such as third-parties consultancy and company's management compensation, strictly related to the IPO, were separately disclosed in the consolidated income statement.

At a financial level the advanced repayment of loans, in accordance with the application of IFRS standards, and the increase in the value of loans in US dollars (following the appreciation of the currency at December 31, 2005) resulted in higher extraordinary accounting costs which more than off-set the improved operating results, resulting in a reduced net profit compared to 2004 (Euro 6.3 million in 2005 compared to Euro 22.0 million in the previous year).

Balance sheet and capex

Condensed consolidated balance sheet <i>(in Euro million)</i>	2005	2004	Change
Property, plant and equipment, net	193.6	195.8	(2.2)
Intangible assets	25.6	21.2	4.4
Goodwill	797.7	795.8	1.9
Other non current assets	103.3	59.6	43.7
Total non current assets	1,120.2	1,072.4	47.8
Net working capital	245.1	229.3	15.8
Total capital invested	1,365.3	1,301.7	63.6
Employee benefits liability and provision for risks	59.1	49.1	10.0
Net debt position	479.0	807.2	(328.2)
Shareholders' equity attributable to the Group	821.7	440.3	381.4
Shareholders' equity attributable to minority shareholders	5.5	5.1	0.4
Total capital invested	1,365.3	1,301.7	63.6

Investments in property, plant and equipment and intangible assets amount to Euro 38,6 million (Euro 31,2 million in the previous year) and are subdivided by geographic region in the table below:

Capex <i>(in Euro million)</i>	2005	2004	Change
Italy	26.4	21.9	4.5
Europe	5.7	5.9	(0.2)
America	5.5	2.2	3.3
Far-East	1.0	1.0	0.0
Corporate	-	0.2	(0.2)
Total	38.6	31.2	7.4

The investments in property, plant and equipment and intangible assets are principally concentrated in the subsidiary Safilo S.p.A., which includes the Italian factories. These investments in 2005 concerned the renewal of plant and equipment relating to new models. The intangible investments related mainly to software and the management of the brands in portfolio.

In relation to foreign investments, in Europe these principally related to the factory in Slovenia while in United States the expenditures related to the development of the Solstice retail chain.

The financial position¹

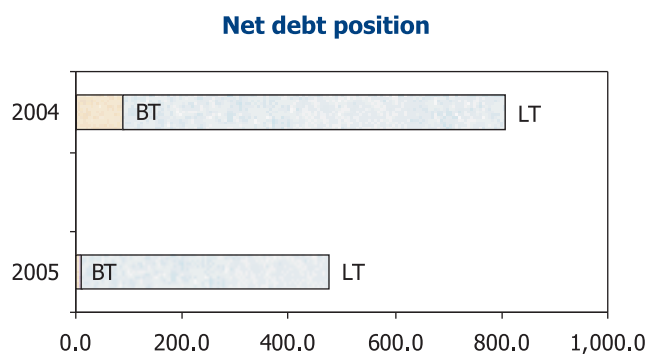
Below are reported the principal accounts in the cash flow statement and of the net financial position at December 31, 2005 compared to the previous year:

Consolidated statements of cash flows <i>(in Euro million)</i>	2005	2004	Change
Cash and cash equivalent at the beginning of the period	18.2	23.6	(5.4)
Net income	6.3	22.0	(15.7)
Depreciation and amortization	35.2	35.5	(0.3)
Other non monetary items	9.7	2.4	7.3
Interest expenses and income tax expense	(15.6)	0.9	(16.5)
Movements in working capital	(2.3)	(5.2)	2.9
Cash flows from operating activity	33.3	55.6	(22.3)
Cash flows used in investing activities	(37.3)	(28.6)	(8.7)
Dividends paid	(3.0)	(3.1)	0.1
Repayment of borrowings	(190.4)	(49.0)	(141.4)
Bank deposit for interests on convertible bonds payment	(108.5)	-	(108.5)
Preceeds from borrowings	24.9	29.8	(4.9)
Net increase in share capital	313.6	-	313.6
Cash flows for investments and from financing activities	(0.7)	(50.9)	50.2
Effect of exchange rates	(4.6)	(4.7)	0.1
Other movements in shareholders' equity	(1.7)	(5.4)	3.7
Cash and cash equivalent at the end of the period	44.5	18.2	26.3

The net debt position

Net debt position <i>(in Euro million)</i>	2005	2004	Change
Current portion of long term borrowings	(174.0)	(107.3)	(66.7)
Bank overdrafts and short term borrowings	(10.0)	(15.7)	5.7
Cash and cash equivalents	173.2	33.8	139.4
Short term net debt position	(10.8)	(89.2)	78.4
Long term borrowings	(468.2)	(718.0)	249.8
Long term net debt position	(468.2)	(718.0)	249.8
Net debt position	(479.0)	(807.2)	328.2

¹ Some accounts relating to the financial year ended December 31, 2004 were adjusted compared to those reported in the Offering Memorandum prepared for the IPO process, following the European Community's approval of the amendment to IAS 39 issued on April 14, 2005 relating to the cash flow hedges.



Legenda:

ST= Short term

LT= Long term

The stock exchange listing of the company has permitted a significant reduction in the Group debt, which reached a level that may now be considered at normalised levels for an industrial company. The significant level of cash at December 31, 2005 is justified by what is needed to repay approximately Euro 115 million to the holders of the High Yield bonds on January 13, 2006.

In consideration of the new financial situation the Group intends to carry out a restructuring of its loans in order to improve the loan conditions and ensure better flexibility of the guarantees.

Financial risks

The Group is exposed to various risks of a financial nature: market risks and cash flow risks.

The risks of a financial nature are managed at a central level based on the Group hedging policies through the use of derivative instruments which minimise the effects deriving from foreign exchange rate fluctuations (especially in relation to the U.S. Dollar), and the effect of interest rate movements.

The market risks can be divided into the following three categories:

Foreign currency risks

The Group operates at international level and is therefore exposed to foreign currency risks, especially in relation to the U.S. dollar as a large part of sales are made in the United States. The Group has constantly attempted to reduce the impact from the movements in the U.S. dollar by procuring suppliers in areas where it is possible to purchase in U.S. dollars. For transactions not covered by purchases in U.S. dollars, the Group uses hedging instruments such as foreign currency contracts on U.S. dollars.

Changes in fair value risk

The Group holds some assets which may change in value over time dependent on market movements.

Credit risk

The Group strives to reduce as much as possible the risk relating to the insolvency of its customers through rules which ensure that sales are made to customers who are reliable and solvent. These rules, associated with reducing the exposure of individual client permits a reduced concentration of the receivable and therefore minimizes the related risk.

Cash flow risks

The strong debt exposes the Group to the risk of changes in the interest rate. In particular the variable interest rate loans result in a cash flow risk while the fixed interest rates result in a potential change in the fair value of the loans.

The derivative financial instruments are only used with the intention of hedging, in order to reduce the foreign currency or interest rate risk. For these amounts, at the beginning of the hedge, there exists the formal designation and documentation of the hedging relation. The cover is highly effective, the effectiveness can be reliably measured and the hedging is highly effective over the accounting periods for which it is designated.

It is underlined that the Group does not utilise financial instruments for speculative purposes.

Transition to International Financial Reporting Standards (IFRS)

The European Union Regulation No. 1606/2002 of July 19, 2002, enacted in Italy under Law No. 306/2003, established that, effective from 2005, all companies in the European Union whose shares are listed on a regulated market are obliged to present Consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as the comparability of financial information is considered fundamental for the full integration of the markets and financial services.

The consolidated financial statements of the Safilo Group for the year ended December 31, 2005 therefore represent the first annual accounts prepared in accordance with international accounting standards.

The transition date, that is the beginning of the year prior to the first adoption of the IFRS, was January 1, 2004. The Group has retrospectively applied the IFRS approved by the European Commission to all of the periods ended prior to the transition date, except for some exemptions permitted and the obligatory exceptions adopted in accordance with IFRS 1, as further described in the notes to the financial statements.

Control of the company and corporate governance

At December 31, 2005, Only 3T S.p.A., with headquarters in Vicenza, Stradella dell'Isola n.1, held 36.80% of the shares of Safilo Group S.p.A.. A minority share is held respectively by the companies SunlightLuxco A (approximately 2.73%) and SunlightLuxco III (approximately 9.54%), belonging to the Credit Suisse First Boston group while the remaining shares are held by the market.

In 2005, in view of the admission process to trading on the Italian Stock Exchange, the Safilo Group S.p.A updated its corporate governance system to the principles contained in the "Self Governance Code of Listed Companies" prepared by the Corporate Governance Committee of Listed Companies issued by Borsa Italiana S.p.A., which was updated in July 2002 (the "Code").

The Board of Directors, composed of a majority of non-executive and independent directors, in compliance with the criteria contained in the Code, resolved, in a meeting on September 14, 2005, to adhere to the requirements of the Code and adopt all of the provisions necessary and appropriate to update its system of corporate governance and its corporate structure. More specifically:

- an *Audit Committee* and a *Remuneration Committee* were set up, whose members were appointed by the Board of Directors on October 24, 2005. These Committees represent an integral part of the Board of Directors, and undertake their duties in an autonomous and independent manner. They have a function of direction and supervision and also of ensuring satisfactory management control procedures are in place, in accordance with the provisions recommended by the Code;
- the company adopted the *Code of Conduct* in relation to "internal dealings", in accordance with the provisions issued by Borsa Italiana S.p.A.;
- the board delegated to the Managing Director the management of price sensitive information and the proposal for the adoption, by the Board of Directors, of a procedure for the internal management and external communication of documents and information relating to the Company, with particular reference to price sensitive information.

Also for the purposes of updating and amending its corporate governance model to the Code, the Shareholders' Meeting of the Company, on September 14, 2005, approved the Regulations relating to Shareholders' Meetings.

The Company in 2005 also commenced a process to update its organisation, management and control systems in accordance with Legislative Decree No. 231/2001, with the objective of creating a structure with procedures and controls which would prevent any events that would result in the attribution of administrative responsibility to the Company.

⁴ After the exercise of the Greenshoe option in January 2006 the percentages are respectively 2.13% and 7.44% for a total quota of common stock equal to 9.57%.

Treasury shares or quotas in holding companies

Information is provided, in accordance with article 40 of Legislative Decree No. 127 of 1991 second paragraph, letter d, that the subsidiary Safilo S.p.A. at December 31, 2005 held 3,176,000 treasury shares equal, to 9.074% of the share capital, for a total value of Euro 80,988 thousand.

Shares held by Directors and Statutory Auditors

Name and surname	Office	Company	Number of shares at the end of previous financial year	Number of shares purchased	Number of shares sold	Number of shares at the end of current financial year	Title
Directors							
Vittorio Tabacchi	Chairman	Safilo Group S.p.A.	-	-	-	-	-
Giannino Lorenzon	Vice-Chairman	Safilo Group S.p.A.	-	2,400	-	2,400	property
Roberto Vedovotto	Chief Ex. Officer	Safilo Group S.p.A.	-	-	-	-	-
Thompson Dean	Director	Safilo Group S.p.A.	-	-	-	-	-
Ennio Doris	Director	Safilo Group S.p.A.	-	-	-	-	-
Carlo Gilardi	Director	Safilo Group S.p.A.	-	-	-	-	-
Julian Masters	Director	Safilo Group S.p.A.	-	-	-	-	-
Charles Paul Pieper	Director	Safilo Group S.p.A.	-	-	-	-	-
Riccardo Ruggiero	Director	Safilo Group S.p.A.	-	-	-	-	-
Massimiliano Tabacchi	Director	Safilo Group S.p.A.	-	-	-	-	-
Colin Taylor	Director	Safilo Group S.p.A.	-	-	-	-	-
Statutory auditors							
Franco Corgnati	Chairman	Safilo Group S.p.A.	-	-	-	-	-
Nicola Gianese	Regular auditor	Safilo Group S.p.A.	-	-	-	-	-
Paolo Mazzi	Regular auditor	Safilo Group S.p.A.	-	-	-	-	-
Other							
Tatiana Amboni	Vittorio Tabacchi's wife	Safilo Group S.p.A.	-	3,600	-	3,600	property

Besides the company ONLY 3T., jointly controlled by Vittorio Tabacchi, Massimiliano Tabacchi and Samantha Tabacchi holds n. 104,283,160 shares of Safilo Group S.p.A.

Stock option plans

On February 25, 2003, the shareholders' meetings of Safilo Group S.p.A. and of Safilo S.p.A. approved the 2003-2007 Plan - "Stock Option plans of the Safilo Group S.p.A. and Safilo S.p.A. 2003-2007".

In execution of the 2003-2007 Plan, some employees and consultants of companies of the Safilo Group were vested with exercisable options on a maximum number of 992,128 ordinary shares of Safilo Group S.p.A. or, whenever specific events arise, on a maximum number of 672,510 ordinary shares of Safilo S.p.A.

On November 24, 2004 and December 16, 2004 respectively, the shareholders' meetings of Safilo Group S.p.A. and of Safilo S.p.A. approved the 2004-2008 Plan - "Stock Option plans of the Safilo Group S.p.A. and Safilo S.p.A. 2004-2008".

In execution of the 2004-2008 Plan, some employees and consultants of companies of Safilo Group S.p.A. were vested with exercisable options on a maximum number of 1,004,079 ordinary shares of Safilo Group S.p.A. or, whenever specific events arise, on a maximum number of 714,285 ordinary shares of Safilo S.p.A.

The option rights relating to the 2003-2007 Plan matured on March 1, 2005, while those relating to the 2004-2008 Plan matured on the quotation of the Safilo Group S.p.A.

All of the rights relating to the above-mentioned plans, in accordance with the provisions contained in the respective regulations, as modified on October 24, 2005, following the listing of Safilo Group S.p.A. were exercisable exclusively on the shares of Safilo Group S.p.A. in two tranches: (i) in relation to 50% of the rights, before the commencement in trading of the shares of Safilo Group S.p.A. on the MTA segment in order to permit the beneficiaries to subscribe for shares of Safilo Group S.p.A. and the sale of the shares on the Institutional Placement, (ii) in relation to the remaining 50% of the rights, from the first working day after the expiry of 180 days from the commencement of trading of the shares of Safilo Group S.p.A. on the MTA segment.

It should be noted that the beneficiaries of the 2003-2007 and 2004-2008 Plans have exercised the first tranche of the option rights relating to these plans for a total of 986,813 rights of which 755,785 relating to the first stock option plan at a price of Euro 2.5325 per share (including nominal price and share premium) and 231,028 rights relating to the second plan at a price of Euro 3.5438 per share (including nominal price and share premium) totalling 3,947,252 shares with total receipts of approximately Euro 10.9 million.

On October 24, 2005, the extraordinary Shareholders' Meeting of the Company resolved to delegate to the Board of Directors all the powers to adopt a new medium-long term incentive plan following the listing of the Company, with the purpose to provide incentive and the retention of the management and to determine, together with the opinions of the remuneration committee, the form and characteristics of this new plan, which may be implemented, alternatively, through the vesting of option rights for the subscription of new shares, or through the issue of financial instruments, or in the form of profit-sharing on profits matured or distributions made, or any other form established by the board. This new incentive plan will have a duration of between three and five years, in accordance with that established by the board, and will be made for directors, executives and consultants of the Safilo Group.

Subsequent events to the year-end and outlook

The first months of 2006 confirmed the positive growth in orders of the previous year. This data provides management with confidence on its forecasts and expectations, as well as the capacity of the Group to achieve improved results in 2006 compared to the ones of the previous year.

On January 11, 2006 the license agreement with Yves Saint Laurent has been extended until the end of 2010.

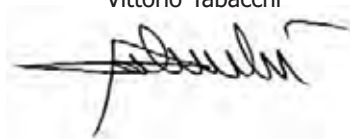
On January 13, 2006, the subsidiary Safilo Capital International S.A. with headquarters in Luxembourg, repaid 35% of the bonds listed on the Luxembourg market (Senior notes 9.625%) for a total amount of Euro 105 million, also making a payment to the holders of the bonds of approximately Euro 10 million for the higher interest related to the advance repayment of the bond.

On February 27, 2006, the Group announced the non-renewal of the license agreement for the manufacture and marketing of Ralph Lauren sunglasses, which expires on December 31, 2006. The turnover in 2005 of the brands belonging to the Polo Ralph Lauren Group was approximately 10% of the total Group turnover.

For the Board of Directors

The Chairman

Vittorio Tabacchi

A handwritten signature in black ink, appearing to read 'V. Tabacchi', is written over a light blue rectangular background.

designer enzo angelotti

OXYDO
SUNGLASSES



CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES
AT DECEMBER 31, 2005

B&B
BLUEBAY



designer enzo angelillo

**Consolidated Financial Statements as of and for the years ended December 31, 2005
and December 31, 2004¹**

Consolidated Balance Sheets

<i>(Euro/000)</i>	Note	31/12/2005	31/12/2004
ASSETS			
Current assets			
Cash in hand and at banks	4.1	173,232	33,835
Trade receivables, net	4.2	307,558	274,067
Inventory, net	4.3	208,802	192,196
Assets held for sale	4.4	2,984	-
Other current receivables	4.5	31,679	31,746
Total current assets		724,255	531,844
Non-current assets			
Property, plant and equipment, net	4.6	193,603	195,768
Intangible assets	4.7	25,580	21,226
Goodwill	4.8	797,734	795,774
Investments in associates	4.9	13,492	10,167
Financial assets available-for-sale	4.10	6,009	6,897
Deferred tax assets	4.11	81,263	40,663
Other non-current assets	4.12	2,571	1,826
Total non-current assets		1,120,252	1,072,321
Total assets		1,844,507	1,604,165

¹ Some accounts relating to the financial year ended December 31, 2004 were adjusted compared to those reported in the Offering Memorandum prepared for the IPO process, following the European Community's approval of the amendment to IAS 39 issued on April 14, 2005 relating to the cash flow hedges.

(Euro/000)	Note	31/12/2005	31/12/2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	4.13	184,006	122,981
Trade payables	4.14	192,286	173,606
Tax payables	4.15	20,872	19,183
Other current payables and accrued expenses	4.16	82,888	67,421
Provisions for risks and charges	4.17	128	136
Total current liabilities		480,180	383,327
Non-current liabilities			
Long-term borrowings	4.18	468,242	718,006
Employee benefits liability	4.19	39,424	34,607
Provisions for risks and charges	4.17	8,644	6,356
Deferred tax liabilities	4.11	10,969	8,019
Other non-current liabilities	4.20	9,836	8,479
Total non-current liabilities		537,115	775,467
Total liabilities		1,017,295	1,158,794
Shareholders' equity			
Share capital	4.21	70,843	49,200
Share premium reserve	4.22	751,276	406,217
Ret. earnings and other reserves	4.23	358	(27,643)
Fair value and cash flow reserves	4.24	(3,899)	(6,342)
Income attributable to the Group		3,097	18,866
Total shareholders' equity attributable to the Group		821,675	440,298
Shareholders' equity attributable to minority shareholders		5,537	5,073
Total shareholders' equity		827,212	445,371
Total liabilities and shareholders' equity		1,844,507	1,604,165

Consolidated Statements of Operations for the years ended December 31, 2005 and December 31, 2004

(Euro/000)	Note	2005	2004
Net sales	5.1	1,025,274	944,740
Cost of sales	5.2	(416,505)	(381,529)
Gross profit		608,769	563,211
Selling and marketing expenses	5.3	(379,419)	(344,067)
General and administrative expenses	5.4	(102,572)	(106,964)
Other income and expenses, net	5.5	1,069	(866)
Non recurring operating expenses	5.6	(9,978)	-
Operating income		117,869	111,314
Share of income (loss) of associates	5.7	1,532	(42)
Interest expense and other financial charges, net	5.8	(88,767)	(69,428)
Non recurring financial charges	5.9	(19,507)	-
Income before taxation		11,127	41,844
Income tax expenses	5.10	(4,810)	(19,855)
Net income		6,317	21,989
Net income attributable to minority interests		3,220	3,123
Net income attributable to the Group		3,097	18,866
Earnings per share (Euro) – Basic	5.11	0.02	0.10
Earnings per share (Euro) - Diluted	5.11	0.02	0.10

Consolidated Statement of recognised income and expense for the years ended December 31, 2005 and December 31, 2004

<i>(Euro/000)</i>	Note	2005	2004
Cash flow hedges	4.24	(2,780)	(3,637)
Financial assets available-for-sale	4.24	(452)	(398)
Actuarial gain/losses	4.23	(3,207)	-
Translation differences	4.23	10,153	4,843
Other movements	4.23	701	-
Total		4,415	808
Net income in the period		6,317	21,989
Total recognised income for the year		10,732	22,797
Net income attributable to the Group		3,097	18,866
Income and expenses attributable to the Group		4,208	703
Total		7,305	19,569
Net income attributable to minority interests		3,220	3,123
Income and expenses attributable to minorities		207	105
Total		3,427	3,228
Total profit (loss)		10,732	22,797

Consolidated Statements of Cash Flows for the years ended December 31, 2005 and December 31, 2004

(Euro/000)	2005	2004
A – Cash and cash equivalents at the beginning of the period	18,191	23,636
B - Cash flows from (for) operating activities		
Net income in the period (including minority interests)	6,317	21,989
Amortisation and Depreciation	35,197	35,505
Share income (loss) on equity investments	2,644	770
Net changes in the employees' benefits	4,812	6,217
Net changes in other provisions	2,232	(4,476)
Interest expenses	88,114	67,586
Income taxes	4,810	19,855
Income from operating activities prior to movements in working capital	144,126	147,446
(Increase)/Decrease in trade receivables and other current receivables	(28,396)	8,213
(Increase) Decrease in inventory	(2,314)	(37,153)
Increase (Decrease) in trade payables and other current payables	28,423	23,727
Interest expenses paid ²	(71,085)	(59,947)
Income taxes paid	(37,429)	(26,642)
Total (B)	33,325	55,644
C - Cash flows from (for) investing activities		
Purchase of property, plant and equipment (net of disposals)	(27,737)	(26,643)
Acquisition of investments in associates and financial assets	-	287
Disposal of investments in associates and financial assets	-	227
Purchase of intangible assets	(9,602)	(2,491)
Total (C)	(37,339)	(28,620)
D - Cash flows from (for) financing activities		
Proceeds from borrowings	24,967	29,864
Repayment of borrowings	(190,382)	(49,003)
Bank deposit for High Yield repayment	(105,000)	-
Bank deposit for interests on convertible bonds payment	(3,534)	-
Net increase in share capital	313,639	-
Dividends paid	(3,025)	(3,149)
Total (D)	36,665	(22,288)
E - Cash flows for the year (B+C+D)	32,651	4,736
Effect of exchange rates	(4,621)	(4,735)
Other movements in shareholders' equity	(1,675)	(5,446)
Total (F)	(6,296)	(10,181)
G – Cash and cash equivalents at the end of the period (A+E+F)	44,546	18,191

² At December 31, 2005 this item includes Euro 10,106 thousand due to the penalty paid on January 13, 2006 for the early reimbursement of part of the High Yield bond.

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1. General information

1.1 General information

Safilo Group S.p.A., holding company, is a limited liability company registered in Italy with the Companies' Registry of Vicenza, has a registered office in Vicenza – Stradella dell'Isola 1 and an administrative seat at the subsidiary Safilo S.p.A. at Padova – Industrial Zone VII strada 15.

These consolidated financial statements are presented in thousands of Euro, covering the financial period from January 1, 2005 to December 31, 2005 with comparative figures for the period from January 1, 2004 to December 31, 2004.

These financial statements have been approved by the Board of Directors on March 28, 2006. Companies included in the consolidation area are reported in the paragraph 2.2 "Consolidation method and consolidation area".

1.2 Activities of the Group

Safilo is the second largest eyewear producer worldwide and is the worldwide leader in the eyewear luxury segment and is also one of the top three sports eyewear producers and distributors worldwide.

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

The products of the Group are sold in 130 countries and there are approximately 130,000 retail outlets worldwide. The Group directly distributes its products in 28 of its principal markets worldwide through its subsidiaries and thanks to a strong sales team of over 1,400 persons.

The Group brands include *Sàfilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay*, while the licensed brands include *Alexander McQueen*, *Bottega Veneta*, *Boucheron*, *Diesel*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Kate Spade*, *Liz Claiborne*, *Marc Jacobs*, *Marc by Marc Jacobs*, *Max Mara*, *Nine West*, *Oliver*, *Pierre Cardin*, *Polo Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino* and *Yves Saint Laurent*.

1.3 Stock exchange listing

On September 14, 2005, the Shareholders' Meeting of the parent company Safilo Group S.p.A. (which also deliberated to change the company's name from Safilo Holding S.p.A. to Safilo Group S.p.A.) approved the request for admission to the Mercato Telematico Azionario (MTA) of Borsa Italiana.

On December 9, 2005, the shares of Safilo Group S.p.A. were admitted to trading on the MTA at an initial price of Euro 4.9 per share.

The Global Offer initially consisted of 140,000,000 shares, of which 64,300,000 shares offered for subscription, 3,947,252 shares offered to the beneficiaries of the 2003-2007 and 2004-2008 Stock Option Plans and 71,752,748 shares offered for sale by the shareholders SunlightLuxco A S.à.r.l. and

SunlightLuxco III S.à.r.l..

Against the requests received and in virtue of the exercise, by the Co-ordinators of the Offer, of the loan option (so-called "Over allotment") totalling 16,800,000 shares, a total of 156,800,000 shares were allocated as follows:

- 37,873,800 shares to Italian retail investors in relation to the public offer;
- 118,926,200 shares, to Professional Investors in Italy and International Institutional Investors in relation to the Institutional Placement.

Following the exercise, in January 2006, of the so-called Greenshoe by the Co-ordinators of the Offer for a total amount of 7,667,515 shares, the selling shareholders SunlightLuxco A S.à.r.l. and SunlightLuxco III S.à.r.l. were returned the shares subject to the loan, equal to 9,132,485 shares.

2. Summary of significant accounting policies

2.1 General information

Accounting policies adopted for the preparation of these consolidated financial statements are those here below following; they have been applied in a comparative manner for both financial years presented.

Consolidated financial information reported for financial years ended December 31, 2005 and December 31, 2004 was prepared in accordance with the IFRS issued by the International Accounting Standards Board and approved by the European Commission as at December 31, 2005.

Some new IFRS principles, some amendments and IFRIC interpretations have already been issued by IASB and will be effective after the approval of these financial statements. The Group has decided, as permitted, for an early adoption of two amendments at IFRS. These amendments relate to:

- IAS 19 – Accounting treatment for actuarial gain and losses;
- IAS 39 – Accounting treatment for cash flow hedges intercompany transactions.

All the remaining accounting principles, amendments or interpretations should not have significant impact on future consolidated financial statements.

The consolidated financial statements of the Group are presented in Euro. The Euro is the functional currency as it is the currency in which the Group principally operates.

The consolidated financial statements for the years ended December 31, 2005 and 2004 were prepared in accordance with the cost criteria except for available-for-sale financial assets and some financial assets or liabilities including derivative instruments.

The preparation of the consolidated financial statements require the Directors to make estimates and assumptions that impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. Actual results could differ from those estimates. The financial statements area most impacted by the above estimates and assumptions are reported in the paragraph 2.20 "Use of estimates".

This is the first financial statements prepared in accordance with International Accounting Standards. The adoption of IFRS involved significant adjustments to equity and net result determined in accordance with Italian GAAP. See section 10 "Transition to IFRS" for further details.



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2.2 Consolidation method and consolidation area

The direct and indirect holdings, included in the consolidation scope under the line-by-line method, in addition to the parent company Safilo Group S.p.A., are the following:

	value	Share capital	Quota held %
ITALIAN COMPANIES			
Safilo S.p.A. – Pieve di Cadore (BL)	EUR	35,000,000	100
Oxsol S.p.A. - Pieve di Cadore (BL)	EUR	121,000	100
Lenti Srl – Bergamo	EUR	500,000	54
Smith Sport Optics S.r.l. (in liquidation) – Florence	EUR	102,775	100
FOREIGN COMPANIES			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100
Safint B.V. - Rotterdam (NL)	EUR	18,200	100
Safilo Capital Int. S.A. (Lxembourg)	EUR	31,000	100
Safilo Benelux S.A. - Zaventem (B)	EUR	560,000	100
Safilo Espana S.A. - Madrid (E)	EUR	390,650	100
Safilo France S.a.r.l. - Paris (F)	EUR	960,000	100
Safilo Gmbh - Köln (D)	EUR	511,300	100
Safilo Nordic AB - Taby (S)	SEK	500,000	100
Safilo Far East Ltd. - Hong Kong	HKD	49,700,000	100
Safint Optical Investment Ltd -Hong Kong	HKD	10,000	51
Safilo Hong-Kong Ltd – Hong-Kong	HKD	100,000	51
Safilo Singapore Pte – Ltd - Singapore	SGD	400,000	100
Safilo Optical Sdn Bhd – Kuala Lumpur – Malaysia	MYR	100,000	100
Safilo Trading (Shenzhen) Co. Inc. China	CNY	2,481,000	51
Safilo Hellas Ottica S.a. – Atene (GR)	EUR	489,990	70
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100
Safilo South Africa – Bryanston (South Africa)	ZAR	3,383	100
Safilo Austria Gmbh -Traun (A)	EUR	217,582	100
Carrera Optyl Gmbh (in liquidation) –Traun (A)	EUR	7,630,648	100
Carrera Optyl D.o.o. - Ormoz (SLO)	SIT	135,101,000	100
Carrera Optyl Marketing Gmbh – Traun (A)	EUR	181,683	100
Safilo Japan Co Ltd (Tokyo)	JPY	100,000,000	100
Safilo Do Brasil Ltda – San Paulo (Brasil)	BRL	8,077,500	100
Safilo Portugal Lda – Lisboa (P)	EUR	500,000	100
Safilo Switzerland – Liestal (Switzerland)	CHF	1,000,000	77
Safilo India Ltd	INR	42,000,000	88.5
Safint Australia Pty Ltd.- Sidney (Australia)	AUD	3,000,000	100
Safilo Australia Partnership – Sidney (Australia)	AUD	204,081	61
Safint Optical UK Ltd. (UK)	GBP	21,139,001	100
Safilo UK Ltd. - North Workshire (UK)	GBP	250	100
Safilo America Inc. - Delaware (USA)	USD	8,430	100
Safilo USA Inc.- New Jersey (USA)	USD	23,289	100
FTL Corp. - Delaware (USA)	USD	10	100
Safilo Realty Corp. Delaware (USA)	USD	10,000	100
Safilo Services LLC - New Jersey (USA)	USD	-	100
Smith Sport Optics Inc. - Idaho (USA)	USD	12,162	100
Solstice Marketing Corp. – (USA)	USD	1,000	100
2844-2580 Quebec Inc. – Montreal (CAN)	CAD	100,000	100
Safilo Canada Inc. - Montreal (CAN)	CAD	2,470,425	100
Canam Sport Eyewear Inc. Montreal (CAN)	CAD	300,011	100

Investments in subsidiaries

The companies in which the Group exercises control ("subsidiary companies"), either due to direct shareholdings or indirect holding of the majority of the voting rights, having the power to determine the financial and operating choices of the company and thus obtaining the relative benefits, are consolidated using the line-by-line method. The existence of potential exercisable voting rights at the balance sheet date are considered in order to determine control. The subsidiary companies are consolidated from the date on which control is assumed and are deconsolidated from the date when control ceases.

The business combinations, in which the control of a company/entity is acquired, are recorded applying the purchase method, where the assets and liabilities acquired are initially measured at their current value at the acquisition date. The difference between the purchase cost and the current value of the assets and liabilities acquired, if positive, are allocated to goodwill, and if negative are recorded in the income statement. The acquisition cost is based on the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and any other accessory charges.

On consolidation, the amounts resulting from intra-group operations between consolidated companies are eliminated, in particular in relation to receivables and payables at the balance sheet date, costs and revenues as well as financial income and charges. Also excluded are the gains and losses realised between companies fully consolidated.

Investments in associates

The holdings in companies/entities in which a significant influence is exercised ("associated companies") is presumed to exist when the percentage held is between 20% and 50% and are valued under the equity method. Due to the application of the equity method, the value of the investment is aligned to the net equity adjusted, where necessary, to reflect the application of the IFRS and includes the recording of any goodwill identified at the moment of the acquisition. The quota of gains/losses realised by the associated companies after the acquisition is recorded in the income statement, while the quota of movements of the reserves after the acquisition is recorded in the equity reserves. When the share of losses of the Group in an associated company is equal to or exceeds its holding in the associated company, taking into account all receivables not guaranteed, the value of the investment is fully written down and the Group does not record further losses above its share, except where the Group has the obligation to cover these losses. The gains and losses not realised generated on operations with associated companies are eliminated for the part pertaining to the Group.

2.3 Segment information

The following information is provided with reference to the geographic areas in which the Group operates. The geographic areas were identified as the primary segments of activity. The criteria applied for the identification of the primary segments of activity were inspired, among other issues, by the manner in which management directs the Group and attributes managerial responsibility. In particular, this criteria is based on the regrouping by geographical area of the headquarters of the companies belonging to the Group; therefore, the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

Finally, it is noted that at the date of the present report no secondary segments were identified. In particular, the secondary segments could be related, also in consideration of market practices, to the "distribution" system. In the circumstances, however, the distribution of the products is almost exclusively wholesale; in fact the distribution activity through sales points directly controlled by the Group (retail sales) is marginal.

2.4 Translation of financial statements in currencies other than the Euro

The rules for the translation of financial statements of companies in currencies other than the functional currency of the Euro are the following:

- the assets and the liabilities were translated using the exchange rate at the balance sheet date;
- the costs and revenues, and income and charges, were translated using the average exchange rate for the year;
- the "translation reserve" includes both the foreign exchange differences generated from the translation of foreign currency transactions at a rate different than at the balance sheet date and those generated from the translation of the opening shareholders' equity at a rate different than at the balance sheet date;
- the goodwill and the fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date;
- in the preparation of the consolidated cash flow statement the average exchange rates for the year are used to convert the cash flows of foreign subsidiaries.

The exchange rates applied in the conversion of financial statements of companies prepared in a currency other than the Euro at December 31, 2005 were as follows:

	Year end December 31, 2005	Year end December 31, 2004	Average 2005	Average 2004
USD	1.1797	1.3621	1.2441	1.2439
HKD	9.1474	10.5881	9.6768	9.6881
CHF	1.5551	1.5429	1.5483	1.5438
CAD	1.3725	1.6416	1.5079	1.6167
JPY	138.9	139.65	136.8492	134.4446
GBP	0.6853	0.70505	0.6836	0.6787
SEK	9.3885	9.0206	9.2822	9.1244
AUD	1.6109	1.7459	1.6327	1.6905
ZAR	7.4642	7.6897	7.9191	8.0092
SIT	239.5	239.76	239.5681	239.0874
BRL	2.7432	3.67282	3.0346	3.6329
IND	53.1679	59.7404	54.8365	56.3422
SGD	1.9628	2.2262	2.0702	2.1016
MYR	4.4584	5.17529	4.7567	4.7262
CNY	9.5204	11.2781	10.1983	10.2975

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

2.5 Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any loss in value. The cost includes all charges directly incurred in bringing the assets to their current location and condition. Interest charges relating to the construction of tangible fixed assets are charged directly to the income statement.

The charges incurred for the maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the income statement in the year in which they are incurred. The capitalisation of the costs relating to the expansion, modernisation or improvement of owned tangible fixed assets or of those held in leasing, is made only when they satisfy the requirements to be separately classified as an asset or part of an asset. The inscription value is adjusted for depreciation on a systematic basis, over its useful life.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, recording any loss in the income statement. When the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and depreciation had been recorded.

The assets held through finance lease contracts, where the majority of the risks and rewards related to the ownership of an asset have been transferred to the Group, are recognised as assets of the Group at their fair value or, if lower, at the current value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under financial payables. The assets are depreciated applying the criteria and rates indicated below.

The leased assets where the lessor bears the majority of the risks and rewards related to an asset are recorded as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease contract.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, in accordance with the following depreciation rates:

Buildings	20- 33 years
Plant, machinery & equipment	5 - 15 years
Furniture, EDP and motor vehicles	4 - 8 years

Land is not depreciated.

When the asset to be depreciated is composed of separately identifiable elements whose useful life differ significantly from the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the "*component approach*" principle.

2.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, and capable of generating future economic benefits. These assets are recorded at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortisation, and any loss in value. The amortisation begins when the asset is available for use and is recorded on a systematic basis over the useful life of the asset.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, recording any loss in the income statement. When the reasons for the write-down no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would be recorded if no write-down had taken place and amortisation had been recorded.

Goodwill

Goodwill represents the excess of the purchase cost compared to the fair value of the share of equity in the subsidiary or associated company at the purchase date, or of the business unit acquired. The goodwill deriving from the purchase of subsidiaries is recorded under intangible assets, while that deriving from the purchase of associated companies is included in the investments in associated companies. Goodwill is not amortised, but is subject to an impairment test on an annual basis. For the purposes of the impairment test the goodwill is allocated to the smallest cash-generating unit which can be identified and compared with the discounted operating cash flows generated. Gains and losses deriving from the sale of an entity are determined considering the value of the goodwill relating to the entity sold.

Trademarks and licenses

Trademarks and licences are recorded at cost. They have a finite useful life and are recorded at cost net of accumulated amortisation. The amortisation is calculated on a straight-line basis allocating the cost of trademarks and licences over the duration of the relative contracts.

Software

The licenses purchased and relating to software are capitalised on the basis of the costs incurred for their acquisition and in bringing them to their current condition. The amortisation is calculated on a straight-line basis over their estimated useful life (from 3 to 5 years).

The costs associated with the development and maintenance of software programmes are recorded as costs when incurred. The costs which are directly associated with the production of unique and identifiable software products controlled by the Group and which generate future economic benefits beyond one year are recorded as intangible fixed assets. The direct costs include the costs relating to employees developing the products as well as any appropriate share of general costs.

2.7 Assets held for sale

These include non-current assets (or groups of assets held for sale) whose book value is recoverable principally through sale rather than continued use. The assets available-for-sale are measured at the

lower between their purchase cost, net of accumulated depreciation, and the current value less costs to sell.

2.8 Impairment of non financial assets

At each balance sheet date the Group performs a review of the book value of its the tangible and intangible fixed assets in order to assert if there are indicators of the existence of a potential loss in value. When it is determined that a potential loss exists, the Directors make valuations on the recoverable amount of those assets in order to identify the potential amount of the loss. Where it is not possible to make an estimate of the recoverable amount of an asset individually considered, the Group makes an estimate of the recoverable amount of the cash generating unit the asset belong to.

Intangible assets with an indefinite useful life such as goodwill are tested on a yearly basis and whenever there are circumstances that indicate that an impairment may exist, calculating the related loss.

When the recoverable amount of an asset is lower than its book value, the related loss is accounted for in the income statement.

2.9 Financial instruments

The classification of the financial instrument is dependent upon the purpose for which the financial instrument was acquired. Management determines the classification of its financial instruments on the initial recognition in the financial statements. The purchases and sales of financial instruments are recognised at the transaction date or at the date when the Group commits to purchase or sell the asset. All financial instruments are initially recognised at fair value.

Financial assets

The financial assets are classified into the following categories:

- financial assets measured at fair value with changes recognised in the income statement: this category includes the financial assets acquired principally for sale in the short-term or those designated as such by management, in addition to derivative instruments unless they are not designated as hedges (in relation to the treatment of derivatives reference should be made to the following paragraph). The fair value of these instruments is determined with reference to the market value (offer price) at the balance sheet date; in the case of non-quoted instruments they are determined through technical financial valuation methods commonly used. The fair value changes of the instruments belonging to this category are recognised in the income statement. The financial instruments in this category are classified as short-term if they are "held for trading" or if it is expected that they will be sold within 12 months from the balance sheet date. The Group has not held this kind of activities in the periods covered by these financial statements.
- loans and receivables: they are non-derivative financial instruments, with fixed or determinable payments, not quoted in an active market and concern the medium/long-term period and are normally included under trade receivables. They are stated as current assets except for amounts due beyond 12 months from the balance sheet date. These latter are

classified under non-current assets. These assets are measured at amortised cost, on the basis of the effective interest rate. Any loss in value determined through an impairment test is recognised in the income statement. In particular, trade receivables: they are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. A doubtful debt provision is made when there is evidence that the Group will not be capable of receiving the original amount due. The provisions made are recorded in the income statement.

- investments held-to-maturity: they are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the full intention and capacity to maintain until maturity. The receivables and the investments held-to-maturity are measured under the amortised cost method using the effective interest rate. The Group did not hold this type of investment in the period reported upon.
- Financial assets available-for-sale: they are non-derivative financial instruments that are explicitly designated in this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording the changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or, in the case of negative cumulative changes, when it is considered that the reduction in value already recorded under equity can not be recovered. The classification as a current or non-current asset depends on the intentions of management and of the real liquidity of the security; they are recorded under current assets when they are expected to be realised within 12 months.

The financial assets are derecognised from the balance sheet when the right to receive the cash flows from the instrument ceases and the Group has transferred all the risks and rewards relating to the instrument.

Loans

Loans are initially recognised at fair value less transaction costs. After initial recognition, they are measured at amortised cost; all differences between the amount financed (net of the transaction costs) and the nominal value are recognised in the income statement over the duration of the loan using the effective interest method. When there is a change in the expected cash flows and management is capable of estimating it reliably, the value of the loans is recalculated to reflect the expected change in the cash flows. The value of the loans is recalculated on the basis of the current value of the new expected cash flows and of the internal rate of the original yield.

The loans are classified under current liabilities unless the company has an unconditional right to defer the payment for at least 12 months after the balance sheet date.

The loans are derecognised from the balance sheet when they expire and the Group has transferred all the risks and rewards relating to the instrument.

Derivative instruments

The derivative financial instruments are only used with the intention of hedging, in order to reduce the foreign currency or interest rate risk. In compliance with IAS 39 as approved by the European

Commission, the derivative financial instruments can be recorded in accordance with the "hedge accounting" method only when, at the beginning of the hedge, the following conditions are met: a formal designation and documentation relating to the hedge exists; it is presumed that the hedge is highly effective; the effectiveness can be reliably measured and the hedge is highly effective over the accounting periods for which it was designated.

All the derivative financial instruments are measured at fair value, as established in accordance with IAS 39. When the financial instruments have the characteristics to be recorded under hedge accounting, the following accounting treatment is applied:

- Fair value hedge – if a derivative financial instrument is designated as a hedge to the exposure of the changes in the current value of an asset or liability in the financial statements attributable to a specific risk which can have effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instrument is recognised in the income statement. The profit or loss on the item hedged, related to the risk hedged, changes the book value of that item and is recognised in the income statement.
- Cash flow hedge – if a derivative financial instrument is designated as a hedge to the exposure of the changes in the cash flows of an asset or liability recorded in the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or of the losses of the financial instrument is recognised in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated to a hedge or to that part of the hedge which has become ineffective, are immediately recorded in the income statement. If a hedge instrument or a relation of a hedge is closed, but the operation hedged has not yet been realised, the cumulative profits and losses, up to that moment recorded in equity, are recognised in the income statement when the relative operation is realised. If the operation hedged is no longer considered probable, the profits or losses not yet realised recorded in equity are recognised immediately in the income statement.

If the hedge accounting cannot be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognised in the income statement.

2.10 Inventory

Inventories are measured at the lower of purchase or production cost and the net realisable value. The cost of raw materials and purchased finished products is calculated using the weighed average cost method. The cost of semi-finished products and internally produced finished goods includes design, raw material, direct labour costs and the indirect costs allocated based on normal production capacity.

The net realisable value is determined based on the estimated selling price in normal market conditions, net of direct sales costs.

Against the value of inventories as determined above, provisions are made in order to take account of obsolete or slow-moving inventories.

2.11 Cash in hand and at banks

Cash and cash equivalents include cash, bank deposits on demand, other highly liquid short-term investments and bank overdrafts. This latter, is stated under current liabilities. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recorded in the income statement.

2.12 Shareholders' equity

Share capital

The share capital is the amount of the subscribed and paid-in capital of the Parent Company.

2.13 Employee benefits

Pension plans

The Group recognises different forms of defined benefit plans and defined contribution plans, in line with the local conditions and practices in the countries in which it carries out its activities.

The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year. The defined benefit plans are based on the working life of the employees and on the remuneration received by the employee during a predetermined period of employment.

The obligation of the company to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent consultants using the projected unit credit method. The obligation deriving from defined benefit plans represents the current value of the estimated future cash flows and is determined using the projected unit credit method. The related costs are recorded in the income statement on the basis of the estimated employment period of employees. Actuarial gain or losses are recorded in an equity reserve in the period in which they arise.

Remuneration plans under the form of share capital participation

The Group recognises additional benefits to some employees and consultants through "equity-settled" type stock options. In accordance with IFRS 2 – Share-based payments, the current value of the stock options determined at the vesting date applying the "Black & Scholes" method is recognised in the income statement under personnel costs in constant quotas over the period between the vesting date of the stock options and the maturity date, and directly to an equity reserve.

The effects of the vesting conditions not related to the market are not taken into consideration in the fair value of the vested options but are important in the valuation of the number of options which are expected to be exercised.

At the balance sheet date the Group reviews its estimates on the number of options which are expected to be exercised. The impact of the revision of the original estimates is recognised in the income statement over the maturity period and directly in equity reserves.

On the exercise of the stock option the amounts received from the employee, net of the costs directly attributable to the transaction, are credited to share capital for an amount equal to the nominal value of the shares issued and to the share premium reserve for the remaining part.

2.14 Provisions for risks and charges

The Group records provisions for risks and charges when it has an obligation, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Group to settle the obligation, and a reliable estimate of the amount can be made. The changes in estimates are recorded in the income statement of the period in which the changes occur.

2.15 Revenue recognition

The revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognises the revenues from the sale of goods sold at the shipment date, when all the risks and rewards relating to the ownership of the goods have been transferred to the client, or on delivery to the client, in accordance with the sales terms agreed. If the sale includes the right for the client to return unsold goods (generally these clauses are only applied in the United States), the revenue is recognised on the shipment to the client, net of a provision which represents the best estimate of the products to be returned by the client and which the Group is unable to place on the market. This provision is based on specific historical data and on the specific knowledge of the clients; historically there have not been significant differences between the estimates made and the products actually returned.

2.16 Royalties

The Group recognises Royalty income and expenses in accordance with the accruals principle and in compliance with the substance of the contracts agreed.

2.17 Dividends

They are recorded when the right of the shareholders to receive the payment arises, which normally occurs at the shareholders' meeting for the distribution of dividends. The distribution of dividends is therefore recorded as a liability in the financial statements in the period in which the distribution is approved by the Shareholders' Meeting.

2.18 Income taxes

Income taxes include all the taxes calculated on the assessable income of the companies of the Group. The income taxes are recorded in the income statement, except those relating to accounts directly credited or debited to equity, in which case the fiscal effect is recognised directly to equity.

The deferred taxes are calculated on fiscal losses and all the timing differences between the assessable income of an asset or liability and the relative book value, with the exception of the goodwill and of those differences deriving from investments in subsidiaries for which a write-down is not expected in the foreseeable future. The deferred tax assets are recognised only for those amounts for which it is probable there will be future assessable income to recover the amounts. The deferred tax assets and liabilities are compensated when the income tax is applied by the same fiscal authority and when there is a legal right of compensation. The deferred tax assets and liabilities are

determined with the fiscal rates that are expected to be applied, in accordance with the regulations of the countries in which the Group operates, in the years in which the temporary differences will be realised or extinguished.

Deferred tax assets and liabilities are offset when income taxes are applied by the same tax authorities and there is a legal right to compensate. Deferred income tax is determined using tax rates that are expected to apply in the different jurisdictions where the Group operates for the financial years in which the temporary differences will be realised or extinguished.

2.19 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss of the Group, adjusted by the quota attributable to the preference shareholders, by the weighed average number of ordinary shares outstanding during the year, excluding treasury shares.

Diluted

Diluted earnings per share is calculated by dividing the profit or loss of the Group, adjusted by the quota attributable to the preference shareholders, by the weighed average number of ordinary shares outstanding during the year, excluding treasury shares. In order to calculate the diluted earnings per share, the average weighed number of shares outstanding is adjusted in respect of the dilutive potential ordinary shares (stock options and convertible bonds), while the profit or loss of the Group is adjusted to take into account the effects, net of income taxes, of the conversion.

2.20 Use of estimates

The preparation of the consolidated financial statements require the Directors to apply accounting principles and methods that, in some circumstances, are based on difficulties and subjective valuations and estimates based on the historical experience and assumptions which are from time to time considered reasonable and realistic based on the relative circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the accounts in the financial statements, which uses the above-mentioned estimates and assumptions, may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based. Below are briefly described the accounting standards which require greater subjectivity by the directors in the preparation of the estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the consolidated financial statements of the Group.

- Goodwill: in accordance with the accounting standards adopted for the preparation of the financial statements, the company annually verifies the goodwill in order to assert the existence of any loss in value to be recorded in the income statement. In particular, the verification results in the determination of the fair value related to the goodwill allocated to the financial cash-generating units. When the fair value is lower than the book value of the cash-generating unit, a write-down of the goodwill should be recorded. The allocation of the goodwill to the cash-generating units and the determination of their fair value requires

estimates which depend on factors that may change over time with consequent effects, which may be significant, compared to the valuations made by the Directors.

- Write-down of tangible fixed assets: in accordance with the accounting standards applied by the Group, the tangible fixed assets are verified to assert if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the above- mentioned difficulties requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is determined that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential loss in value as well as the estimates for their determination depends on factors which may vary over time impacting upon the valuations and estimates made by the Directors.
- Deferred taxes: the accounting of the deferred tax assets is made on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred tax asset depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.

2.21 Estimates of the fair value

The fair value of the financial instruments traded in an active market are based on the listed price at the balance sheet date.

The fair value of the financial instruments not traded in an active market are calculated in accordance with valuation techniques. The techniques used are varied and the assumptions used are based on the market conditions at the balance sheet date. More specifically:

- the fair value of the interest rate swaps is calculated on the basis of the current value of the future cash flows;
- the fair value of the forward currency hedging contracts is determined on the basis of the current value of the differences between the contracted forward exchange rate and the market rate at the balance sheet date;
- the fair-value of the advanced repayment option included in the bond issued by the subsidiary Safilo Capital International S.A. was valued using models applied by primary financial institutions;
- the fair value of the convertible option included in the convertible bonds issued by the parent company Safilo Group SpA is estimated indirectly as the differential between the nominal value of the loan and the fair value of the quota of debt;
- the fair value of the stock options is calculated using the Black-Scholes model.



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3. Financial risks and derivative instruments

The Group is exposed to various risks of a financial nature: market risks and cash flow risks.

The risks of a financial nature are managed at a central level based on the group hedging policies through the use of derivative instruments which minimise the effects deriving from foreign exchange rate fluctuations (especially in relation to the U.S. Dollar), and the effect of interest rate movements.

Market risk

The market risks can be divided into the following three categories:

Foreign currency risks

The Group operates at international level and is therefore exposed to foreign currency risks, especially in relation to the US dollar as a large part of sales are made in the United States. The group has constantly attempted to reduce the impact from the movements in the U.S. Dollar by procuring suppliers in areas where it is possible to purchase in U.S. Dollars. In relation to the portion of U.S. dollars movements that are not hedged by purchases in U.S. Dollars, the Group uses hedging instruments such as forward currency contracts.

Changes in fair value risk

The group holds some assets which may change in value over time dependent on market movements.

Credit risk

The Group strives to reduce as much as possible the risk relating to the insolvency of its customers through rules which ensure that sales are made to customers who are reliable and solvent. These rules, associated with reducing the exposure of individual client permits a reduced concentration of the receivable and therefore minimises the risk.

Cash flow risks

The strong debt exposes the Group to the risk consequent to changes in the interest rate. In particular the variable interest rate loans result in a cash flow risk while the fixed interest rates result in a potential change in the fair value of the loans.

4. Notes to the Consolidated Balance Sheets

4.1 Cash in hand and at banks

The account represents the temporary liquidity held invested at market rates.

The important increase compared to the previous year is due to the liquidity, equal to Euro 317,179 thousand, deriving from the stock exchange listing of the parent company Safilo Group S.p.a. which was used:

- for the repayment on December 9, 2005 of part of the medium/long-term loans in the subsidiary Safilo S.p.A. and consisting of financing from UniCredit Banca d'Impresa S.p.A. and San Paolo IMI S.p.A., for a total amount of Euro 170,609 thousand;
- for the repayment on January 13, 2006 of 35% of the bond (High Yield) recorded in the financial statements of the Luxembourg subsidiary Safilo Capital International S.A. for nominal Euro 105,000 thousand and for the payment of the higher charges on the advanced repayment for an amount of Euro 10,106 thousand;
- for the payment of the costs relating to the IPO process;
- for the payment, still outstanding at the date of the approval of these financial statements, of Euro 3,534 thousand for interest on the Convertible Bond issued by the parent company on December 9, 2005.

The following table shows the reconciliation with the closing net cash reported in the cash flow statement:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
Cash and banks	173,232	33,835
Bank overdrafts	(10,046)	(15,644)
Bank deposit for interests on conv. bonds payment	(3,534)	-
Bank deposit for High Yield reimbursement	(115,106)	-
Total	44,546	18,191

4.2. Trade receivables, net

This account is comprised as follows:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
Gross value	328,928	294,442
Allowance for doubtful accounts	(21,370)	(20,375)
Net value	307,558	274,067

At parity of exchange rates, the net trade receivables increased by Euro 22,898 thousand due in particular to the increase in sales in the fourth quarter of 2005 compared to the previous year.

The Group does not have a significant concentration of its credit risk as its receivables are related to a large number of customers.

Allowance for doubtful accounts includes the provision for products given to clients which, in accordance with specific contractual clauses, are expected to be returned as not placed to the final customers. This accrual is accounted for as a reduction of sales in the income statement.

Allowance for doubtful accounts also includes the accrual for insolvency accounted for on the income statement on the line "general and administrative expenses" (note 5.4).

The movements in the allowance for doubtful accounts are as follows:

(Euro/000)	Balance at January 1, 2005	Increase	Decrease	Transl. Diff.	Balance at December 31, 2005
Allowance for doubtful accounts	13,894	1,904	(3,750)	438	12,486
Sales return provision	6,481	7,660	(6,311)	1,054	8,884
Total	20,375	9,564	(10,061)	1,492	21,370

4.3 Inventory, net

This account is comprised as follows:

(Euro/000)	31 Dec. 2005	31 Dec. 2004
Raw materials	43,784	34,966
Work-in-progress	8,123	9,001
Finished products	176,272	162,801
Gross	228,179	206,768
Obsolescence provision	(19,377)	(14,572)
Total	208,802	192,196

The growth in raw materials is aimed at supporting the forecasted increase of the internal production in 2006.

The increase in finished products is due for approximately Euro 13,380 thousand to the strengthening of the US Dollar compared to the Euro.

For obsolete and slow moving items, a specific accrual, based on their possible future sale or use, has been accounted for. The accrual has impacted income statement at the line "cost of sales" (note 5.2).

The movements in the obsolescence provision are as follows:

<i>(Euro/000)</i>	Balance at January 1, 2005	Increase	Transl. Diff.	Balance at December 31, 2005
Obsolescence provision	14,572	3,256	1,549	19,377
Total	14,572	3,256	1,549	19,377

4.4 Assets held for sale

The account amounts to Euro 2,984 thousand and refers to the net book value of the building of the Austrian subsidiary Carrera Brillen (Traun) which is classified under current asset, in view of the programmed sale of the assets over a short time period.

4.5 Other current receivables

This account is comprised as follows:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
VAT receivable	5,208	3,953
Tax credits and payments on account	11,454	11,831
Prepayments and accrued income	5,281	5,450
Receivables from agents	4,943	4,379
Financial derivative instruments	-	1,911
Other current receivables	4,793	4,222
Total	31,679	31,746

The tax credits and payments on account principally relate to the income tax payments on account and will be compensated against the relative taxes payable.

Prepayments and accrued income at December 31, 2005 include:

- Prepaid advertising costs of Euro 2,247 thousand;
- Prepaid insurance premiums of Euro 329 thousand;
- Prepaid rent and operating leases of Euro 1,225 thousand;
- Accrued income and other prepayments of Euro 1,480 thousand.

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

At December 31, 2005 financial derivative instruments, reported on the assets side at December 31, 2004 for Euro 1,911 thousand, are included in "other non current liabilities" for a total amount of Euro 878 thousand (note 4.16).

The account other short-term receivables from the Industry Ministry of Safilo S.p.A. for Euro 1,257 thousand refers to grants approved but not yet paid by the Ministry on loans extinguished in 2002. The account also includes receivables for insurance reimbursements due to various companies of the Group.



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4.6 Property, plant and equipment, net

<i>(Euro/000)</i>	Balance at January 1, 2004	Increase	Decrease	Reclass.	Transl. Diff.	Balance at December 31, 2004
Gross value						
Land and buildings	100,883	9,543	(724)	199	(374)	109,527
Plant and machinery	144,424	11,818	(4,703)	-	(344)	151,195
Equipment and other assets	106,327	12,834	(11,123)	-	(2,254)	105,784
Plant under construction	9,922	13,571	-	(19,915)	(36)	3,542
Total	361,556	47,766	(16,550)	(19,716)	(3,008)	370,048
Accumulated depreciation						
Land and buildings	18,250	2,868	(591)	-	(55)	20,472
Plant and machinery	73,672	11,555	(4,677)	-	(144)	80,406
Equipment and other assets	68,988	15,613	(9,874)	-	(1,325)	73,402
Total	160,910	30,036	(15,142)	-	(1,524)	174,280
Net book value	200,646	17,730	(1,408)	(19,716)	(1,484)	195,768

<i>(Euro/000)</i>	Balance at January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance at December 31, 2005
Gross value						
Land and buildings	109,527	4,510	(1,025)	(5,444)	535	108,103
Plant and machinery	151,195	6,989	(2,061)	-	413	156,536
Equipment and other assets	105,784	18,339	(2,038)	-	4,540	126,625
Plant under construction	3,542	1,493	-	(2,268)	64	2,831
Total	370,048	31,331	(5,124)	(7,712)	5,552	394,095
Accumulated depreciation						
Land and buildings	20,472	3,440	(249)	(2,460)	99	21,302
Plant and machinery	80,406	11,265	(1,651)	-	172	90,192
Equipment and other assets	73,402	14,913	(1,897)	-	2,580	88,998
Total	174,280	29,618	(3,797)	(2,460)	2,851	200,492
Net book value	195,768	1,713	(1,327)	(5,252)	2,701	193,603

As described in the note 4.4 "assets held for sale", the reclassification of land and buildings for a net value of Euro 2,984 thousand refers to the net book value of land and buildings of the Austrian subsidiary Carrera Brillen (Traun).

A part of the property, plant and equipment held by Group companies, for a total amount of Euro 160 million, is burdened by mortgages and/or liens given in favour of credit institutes to guarantee the loans obtained.

Some of the Group companies have property, plant and equipment in leasing. The following table shows the gross value and the related accumulated depreciation fund for property, plant and equipment in leasing while the information related to the leasing contracts are disclosed in the paragraph 4.18 "Long-term borrowings".

(Euro/000)	31 Dec. 2005	31 Dec. 2004
Land and buildings	14,261	13,325
Accumulated depreciation (-)	(230)	(116)
Net book value	14,031	13,209
Plant and machinery	1,837	1,837
Accumulated depreciation (-)	(1,437)	(1,234)
Net book value	400	603
Equipment and other assets	377	484
Accumulated depreciation (-)	(107)	(127)
Net book value	270	357
Net book value	14,701	14,169

4.7 Intangible assets

(Euro/000)	Balance at January 1, 2004	Increase	Decrease	Reclass.	Transl. Diff.	Balance at December 31, 2004
Gross value						
Software costs	1,130	1,892	-	4,057	(107)	6,972
Trademarks and licences	33,317	1,325	-	(785)	(31)	33,826
Other intangible assets	22,942	-	-	(5,092)	(109)	17,741
Intangible assets in progress	947	153	-	(944)	6	162
Total	58,336	3,370	-	(2,764)	(241)	58,701
Accumulated amortization						
Software costs	961	1,121	-	3,247	(72)	5,257
Trademarks and licences	11,092	3,903	-	(170)	(7)	14,818
Other intangible assets	21,919	444	-	(4,963)		17,400
Total	33,972	5,468	-	(1,886)	(79)	37,475
Net book value	24,364	(2,098)	-	(878)	(162)	21,226

(Euro/000)	Balance at January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance at December 31, 2005
Gross value						
Software costs	6,972	1,709	(739)	-	197	8,139
Trademarks and licences	33,826	7,618	-	-	65	41,509
Other intangible assets	17,741	416	-	-	342	18,499
Intangible assets in progress	162	-	-	(141)	12	33
Total	58,701	9,743	(739)	(141)	616	68,180
Accumulated amortization						
Software costs	5,257	1,304	(739)	-	120	5,942
Trademarks and licences	14,818	3,986	-	-	14	18,818
Other intangible assets	17,400	288	-	-	152	17,840
Total	37,475	5,578	(739)	-	286	42,600
Net book value	21,226	4,165	-	(141)	330	25,580

Amortization and depreciation costs related to intangible assets and property, plant and equipment for the 2005 and 2004 financial years are divided into these income statement lines:

(Euro/000)	note	2005	2004
Cost of sales	5.2	25,382	24,800
Sales and marketing	5.3	2,545	2,360
General and administrative	5.4	7,270	8,345
Total		35,197	35,505

4.8 Goodwill

(Euro/000)	Balance at January 1, 2004	Transl. Diff.	Balance at December 31, 2004
Goodwill	797,232	(1,458)	795,774
Net book value	797,232	(1,458)	795,774

(Euro/000)	Balance at January 1, 2005	Transl. Diff.	Balance at December 31, 2005
Goodwill	795,774	1,960	797,734
Net book value	795,774	1,960	797,734

For impairment tests purposes the Group has identified its cash-generating units (CGUs) that substantially match with the entities of the Safilo Group operating in each country. Goodwill divided by groups of CGUs is as follows:

Goodwill (Euro/000)	Italy and Europe	America	Asia	Total
31-dic-05	270,349	234,410	292,975	797,734
31-dic-04	269,693	233,834	292,247	795,774

The recoverable amount of the cash-generating units has been determined based on estimated cash flow projections. This computation derives from five-year financial budgets approved by management considering its expectations for market and Group development. Such cash flows have been discounted using a rate that reflects specific features and risks for the country in which the CGU operate.

Cash flows beyond the five-year period are extrapolated using the perpetual estimated growth rate that do not exceed the long-term average growth rate forecasted by analysts for the business in which the CGU operates.

Key assumptions	Discount rate "WACC"		Growth rate "g"	
	2005	2004	2005	2004
Euro Area	6.5%	6.2%	1.0%	1.0%
USA Area	7.5%	6.6%	1.0%	1.0%
Far East Area	8.8%	8.0%	2.0%	1.7%
Australia	8.3%	7.8%	1.0%	1.0%
Japan	4.7%	4.1%	1.0%	1.0%
South Africa	10.4%	10.4%	4.7%	4.5%
India	11.7%	10.8%	3.6%	4.3%
Brasil	13.2%	12.2%	4.9%	5.0%

4.9 Investments in associates

Investments in associated companies refer to:

Company	Registered office or headquarters	% of share capital	Type of investment	Main activity
Elegance Int. Holdings Ltd	Hong Kong	23.05%	Associated company	commercial
Optifashion As	Turkey	50.00%	Non consol. subsid.	commercial
TBR Inc.	USA	33.33%	Associated company	real estate

The movements in investments in associated companies during the year were as follows:

(Euro/000)	31.12.2004				Movements for the year				Balance at December 31, 2005
	Gross value	Reval. (Deval.)	Net book value	Share of results (note 5.7)	Dividends	Effect on equity	Reclass.	Transl. diff.	
TBR Inc.	-	-	-	122	-	225	437	109	893
Elegance Ltd	5,406	4,465	9,871	1,399	(580)	-	-	1,602	12,292
Optifashion	353	(57)	296	11	-	-	-	-	307
Total	5,759	4,408	10,167	1,532	(580)	225	437	1,711	13,492

There were no new acquisitions in 2005. The changes compared to December 31, 2004 are principally due to the gains realised in the year, net of the dividends distributed. The table below reports the principal data relating to the last approved financial statements of the above-mentioned companies:

31 Dec 2004							
<i>(Euro/000)</i>	Assets	Liabilities	Net equity	Net sales	Profit (Loss)	% Group	Group net equity
Elegance Ltd	55,738	11,759	43,979	21,797	2,232	23.05%	9,871
Optifashion As	371	75	296	1,055	70	50.00%	296
Total	56,109	11,834	44,275	22,852	2,302		10,167

31 Dec 2005							
<i>(Euro/000)</i>	Assets	Liabilities	Net equity	Net sales	Profit (Loss)	% Group	Group net equity
Elegance Ltd	67,990	16,748	51,242	20,571	1,350	23.05%	12,293
Optifashion As	613	170	443	1,107	85	50.00%	306
TBR Inc.	5,396	2,717	2,679	1,161	368	33.33%	893
Total	73,999	19,635	54,364	22,839	1,803		13,492

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

4.10 Financial assets available-for-sale

The account represents the financial assets which may be sold. They are measured at current value with a corresponding entry in the fair value equity reserve. This value is calculated with reference to official listed market prices at the balance sheet date.

<i>(Euro/000)</i>	% of share capital	Relationship	31 Dec. 2005	31 Dec. 2004
Banca Pop. Italiana S.p.A.	==	Other equity inv.	5,589	6,087
TBR Inc. (USA)	33.33%	Other equity inv.	-	437
Safilens Srl	17.50%	Other equity inv.	209	209
Unicredit S.p.A.	==	Other equity inv.	168	122
Other	==	Other equity inv.	43	42
Total			6,009	6,897

The movements in the above-mentioned assets available-for-sale were as follows:

(Euro/000)	31.12.2004			Movements for the year			Balance at December 31, 2005
	Gross value	Reval. (Deval.)	Net book value	Incr.	Decr.	Reclass.	
Banca Pop. Italiana	10,198	(4,111)	6,087	-	(498)	-	5,589
UNICREDIT	48	74	122	46	-	-	168
TBR -USA	437	-	437	-	-	(437)	-
Safilens Srl	209	-	209	-	-	-	209
Other	42	-	42	1	-	-	43
Total	10,934	(4,037)	6,897	47	(498)	(437)	6,009

With reference to the investment held in Banca Popolare Italiana S.p.A., an amount totalling Euro 3,370 thousand was recorded in the income statement in 2005 relating to the part of the cumulative negative changes in previous years considered as a permanent impairment in value no longer recoverable in future years.

4.11 Deferred tax assets and deferred tax liabilities

(Euro/000)	2005	2004
Deferred tax assets		
- recoverable within 1 year	24,258	16,824
- recoverable after 1 year	57,006	23,839
Total	81,263	40,663
Deferred tax liabilities		
- recoverable within 1 year	533	640
- recoverable after 1 year	10,436	7,379
Total	10,969	8,019
Total, net	70,294	32,644

Deferred tax assets

Deferred tax assets refer to income taxes calculated on fiscal losses recoverable in future years and temporary differences between the tax basis of assets and liabilities and their carrying amount.

(Euro/000)	Balance at January 1, 2005	impact on			Balance at December 31, 2005
		Income Statement	Equity	Reclass.	
Fiscal losses	15,862	21,002	-		36,864
ICO profit and obsolescence	7,990	1,323	2,120	-	11,433
Receivables	5,237	(46)	15	-	5,206
Contingent liabilities	1,499	752	(1)	-	2,250
Employee benefits liability	1,058	616	(1)	-	1,673
Intangible assets	844	5,956	-	-	6,800
IPO costs	-	-	5,972	-	5,972
Property, plant and equipment	2,197	426	77	(341)	2,359
Unrealised exchange differences	871	1,279	-	-	2,150
Derivative instruments - fair value	1,791	-	(422)	-	1,369
Equity investments	624	1,295	(1,255)	-	664
Goodwill	505	1,017	13	-	1,535
Other payables	935	(573)	3	-	365
Interest expenses on conv. Bonds	-	640	(640)	-	-
Effect of exchange rates	-	-	1,418	-	1,418
Other	1,250	177	-	(222)	1,205
Total	40,663	33,864	7,299	(563)	81,263

The following table shows the Group fiscal losses on which deferred tax assets have been calculated as there is a reasonable expectation of the recovery of these amounts through future assessable income.

Financial year	Expiring date	Tax losses (Euro/000)	Def. taxes (Euro/000)
2003	2008	1,711	565
2004	2009	30,602	10,099
2005	2010	79,565	26,200
Total		111,878	36,864

Deferred tax liabilities

Deferred tax liabilities refer to taxes calculated on the temporary differences between the book value of the assets and liabilities and the related fiscal value.

The most important account included in deferred tax liabilities principally derives from the effects of the different criteria used in the calculation of the depreciation of tangible fixed assets of Safilo S.p.A.

In particular, in 2003 the estimates of the useful life of some assets were revised with particular reference to the category plant and machinery. The effects of this revision, both for fiscal purposes and for Italian Accounting Standards purposes were adjusted in 2003, while in compliance with IFRS 1, Paragraph 7, they were calculated as if the assets were always depreciated in accordance with the re-determined useful life.

(Euro/000)	impact on			Balance at December 31, 2005
	Balance at January 1, 2005	Income Statement	Equity	
Property, plant and equipment, net	7,604	99	24	7,727
Goodwill	90	295	16	401
Equity investments	-	1,565	85	1,650
Derivative instruments - fair value	-	418	-	418
Dividends	-	99	-	99
Interest expenses on convertible bonds	640	-	(640)	-
Other	(315)	833	140	658
Effect of exchange rates	-	-	16	16
Total	8,019	3,309	(359)	10,969

4.12 Other non-current assets

At December 31, 2005, the other non-current assets amount to Euro 2,571 thousand and relate:

- to the fair value of the advanced repayment option included in the bond issued by the subsidiary Safilo Capital International S.A.. The valuation was made using models applied by primary financial institutions and resulted in the recognition of a fair value of the option of Euro 1,268 thousand;
- to deposits and other long-term receivables.



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4.13 Short-term borrowings

This account is comprised as follows:

(Euro/000)	31 Dec. 2005	31 Dec. 2004
Bank overdrafts	5,046	12,144
Short-term bank loans	5,000	3,500
Short-term portion of long-term loans	26,614	23,448
Short-term portion of High Yield bond	105,000	-
Short-term portion of financial leasing	3,436	2,516
Convertible bonds	-	53,063
Payable for High Yield advance repayment	10,106	-
Other short-term loans	28,804	28,310
Total	184,006	122,981

Short-term bank loans, related to the subsidiary Safilo S.p.A., are as follows:

- a short-term loan of Euro 3,000 thousand granted by Banca Popolare di Vicenza on December 30, 2005 with an interest rate of 3.227% and reimbursed on January 31, 2006;
- a short-term loan of Euro 2,000 thousand granted by Cassa di Risparmio di Padova e Rovigo on December 30, 2005 with an interest rate of 3.227% and reimbursed on February 28, 2006.

The short-term portion of the High Yield bond refers to the quota of debt which was repaid in advance on January 13, 2006 by the Luxembourg subsidiary Safilo Capital International S.A. for a total amount equal to 35% of the Euro 300 million nominal value; the payable for the High Yield advanced repayment refers to the penalty paid as compensation to the bond holders following the advanced repayment.

With reference to the Convertible Bond present in the financial statements of the parent company at December 31, 2004, it should be noted that on December 5, 2005 SunlightLuxco A S.à.r.l. and SunlightLuxco III S.à.r.l., holders of the convertible bonds, exercised their right to convert the bonds into shares in accordance with the procedure set out in the extraordinary Shareholders' Meeting of the parent company on September 14, 2005.

Other short-term loans include, for an amount of Euro 28,296 thousand, a payable to a primary factoring company deriving from the contract signed by the subsidiary Safilo S.p.A.

Short-term loans divided by currency are as follows:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
Euro	162,642	103,021
U.S. Dollar	19,205	17,812
YEN	2,160	2,148
Total	184,006	122,981

Interest rate applied on Group bank overdrafts on an average basis amounts to about 3%. Interest rates on long term loan are reported in the note 4.18 "long-term borrowings".

4.14 Trade payables

This account is comprised as follows:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
Payables for purchase of raw materials	42,098	33,794
Payables for finished products and subcontractors	71,299	71,336
Payables for commissions and royalties	26,725	23,091
Payables for advertising and promotional costs	20,309	14,519
Payables for services	28,556	18,125
Payables for purchase of fixed assets	3,299	12,741
Total	192,286	173,606

Trade payables for purchases of raw materials reflect the higher purchases of the last quarter of 2005 to support the production.

The growth of payables for third party services represents a result of costs incurred for the quotation which will be paid during the first quarter of 2006.



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4.15 Tax payables

Tax payables at December 31, 2005 amount to Euro 20,872 thousand and relate for Euro 8,471 thousand to income taxes for the year, for Euro 5,117 thousand to VAT payables and for the remainder to various tax liabilities and local taxes.

The accrual for current income tax expenses is disclosed in the note related to income taxes (5.10).

4.16 Other current payables and accrued expenses

This account is comprised as follows:

(Euro/000)	31 Dec. 2005	31 Dec. 2004
Payables to personnel and social security institutions	44,921	30,199
Provision for client credit notes and premiums	17,195	15,851
Payables to agents	2,962	2,379
Accrued advertising & sponsorship costs	2,746	1,931
Accrued interest on long term payables	3,628	3,618
Other accruals and deferred income	2,897	5,475
Payables to minority shareholders for dividends	2,170	2,264
Financial derivative instruments	878	-
Payable for interest on the Convertible Bond	3,534	1,958
Other current liabilities	1,957	3,746
Total	82,888	67,421

Payables to personnel and social security institutions principally refer to wages and salaries for December and for vacation days matured and not taken. The increase compared to previous year refers to the normal salary increase and to personnel compensation linked to the IPO process.

Payables to minority shareholders relate to dividends approved at the shareholders' meetings and not yet paid at the balance sheet date.

The account derivative financial instruments refers to the liability deriving from the fair value of the forward currency contracts that in the previous financial year represented instead an asset for a total amount of Euro 1,911 thousand (note 4.5).

A summary of the characteristics and the fair value of the derivative contracts in force at December 31, 2005 and December 31, 2004 is shown below:

	December 31, 2005		December 31, 2004	
	Nominal value	Fair value	Nominal value	Fair value
	(USD/000)	(Euro/000)	(USD/000)	(Euro/000)
Foreign currency contracts				
Expiry year 2005			27,000	1,911
Expiry year 2006	34,000	(878)		
Total	34,000	(878)	27,000	1,911

Gains and losses recorded in the Cash flow reserve in equity at the balance sheet date will be reversed in the income statement over the duration of the hedged loans.

4.17 Provisions for risks and charges

This account is comprised as follows:

(Euro/000)	Balance at January 1, 2005	Increase	Decrease	Transl. Diff.	Balance at December 31, 2005
Product warranty provision	3,119	312	(312)	-	3,119
Agent's severance provision	2,861	416	(116)	3	3,164
Litigations	-	2,000	-	-	2,000
Other provisions for risks and charges	376	191	(251)	45	361
Provisions for risks - long term	6,356	2,919	(679)	48	8,644
Provisions for risks - short term	136		(8)		128
Total	6,492	2,919	(687)	48	8,772

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

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

The accrual for the financial year has been recorded on the income statement in the line "selling and marketing expenses (note 5.3).

4.18 Long-term borrowings

This account is comprised as follows:

(Euro/000)	31 Dec. 2005	31 Dec. 2004
Long-term borrowings	456,763	705,489
Payables for finance leases	10,616	11,055
Other medium/long term loans	863	1,462
Total	468,242	718,006

Medium/long-term loans refer:

- to a convertible bond with a nominal value of Euro 300 million, issued on May 15, 2003 by the Luxembourg subsidiary Safilo Capital International S.A., at a fixed rate of 9.625% and repayment on May 15, 2013. As reported in the note 4.13 "short-term borrowings", the above-mentioned loan was partially repaid by the Luxembourg subsidiary Safilo Capital International S.A. for an amount of Euro 105,000 thousand.
- to the Senior loan agreement originally granted by a pool of banks composed of UniCredit Banca d'Impresa S.p.A. and San Paolo IMI S.p.A.. On December 9, 2005, this loan was paid in advance for a total amount of Euro 188,502 thousand.
- to a long-term credit line (capex) provided, in relation with the above Senior loan agreement, by UniCredit Banca d'Impresa S.p.A. for an amount of Euro 21,000 thousand.
- The bond and the Senior Loan agreement, in accordance with International Accounting Standards, were measured under the amortised cost method.

Some Group companies acquired some fixed assets in leasing (see note 4.6). The average duration of leasing contracts is 10 years. All leasing contracts at the balance sheet date are reimbursable through constant instalments and the contracts do not include any option for reviewing the original contract.

(Euro/000)	Note	31 Dec. 2005	31 Dec. 2004
Property, plant and equipment	4.6	16,475	15,646
Instalments paid		(2,726)	(2,253)
Interests		303	178
Total debt		14,052	13,571

Short term leasing financial debts	4.13	3,436	2,516
Long term leasing financial debts	4.18	10,616	11,055

Total debt		14,052	13,571
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Some Group companies entered into operating leasing contracts. Costs related to operating leasing contracts are recorded in the income statement in the line "cost of sales" (note 5.2), "selling and marketing expenses" (note 5.3) and "general and administrative expenses" (note 5.4).

Other medium and long term loans refer:

- to a loan given to the subsidiary Safilo S.p.A. by SIMEST S.p.A. for a project to develop a commercial programme on the Japanese market, at a fixed rate of 1.44%,
- to a loan given to the subsidiary Safilo S.p.A. in accordance with the Law 46/82 at a rate of 0.705%.

The repayment dates of loans are as follows:

(Euro/000)	31 Dec. 2005
Within 2007	30,464
Within 2008	33,564
Within 2009	20,471
Within 2010	131,068
Over 2010	252,675
Total	468,242

The principal characteristics of the loans in force at December 31, 2005 and at December 31, 2004 are as follows:

31 Dec. 2005					
<i>(Euro/000)</i>		Nominal interest value	Internal Interest rate	Fair value	Expiry
Senior Loan - Term B	EURO	Euribor + 2.75%	6.2402%	134,400	31/12/2010
Senior Loan - Term C	EURO	Euribor + 3.25%	6.7288%	61,226	31/12/2011
Senior Loan - Term A1 - T2	USD	Libor + 2.25%	8.4636%	40,670	31/12/2009
Senior Loan - Term A2	USD	Libor + 2.25%	8.2889%	45,890	31/12/2009
Capex line	EURO	Euribor + 2.50%	4.6460%	7,000	31/12/2009
Capex Line	EURO	Euribor + 2.50%	4.6426%	14,000	31/12/2009
High Yield	EURO	9.625%	10.6887%	337,013	15/05/2013
Loans in YEN	YEN	Tibor + 0.54%	Tibor + 0.54%	2,160	27/03/2006

31 Dec. 2004					
<i>(Euro/000)</i>		Nominal interest value	Internal Interest rate	Fair value	Expiry
Senior Loan - Term A1 - T1	EURO	Euribor + 2.25%	5.9422%	44,250	31/12/2009
Senior Loan - Term B	EURO	Euribor + 2.75%	5.9032%	135,000	31/12/2010
Senior Loan - Term C	EURO	Euribor + 3.25%	6.3899%	135,000	31/12/2011
Senior Loan - Term A1 - T2	USD	Libor + 2.25%	6.3176%	98,373	31/12/2009
Senior Loan - Term A2	USD	Libor + 2.25%	6.1508%	45,891	31/12/2009
High Yield	EURO	9.625%	10.6887%	306,990	15/05/2013
Loans in YEN	YEN	Tibor + 0.54%	Tibor + 0.54%	2,148	27/03/2006

The fair value of the loans refer to the residual nominal value at the balance sheet date except for the High Yield bond whose fair value derives from its market value at December 31, 2005.

The medium/long-term loans and short-term loans sub-divided by currency are as follows:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
Euro	402,980	596,153
U.S. Dollars	65,262	121,853
Total	468,242	718,006

The above loans are guaranteed by mortgages on buildings owned by some companies of the Group, by pledges on the share capital of Safilo S.p.A and by pledges on the shares of some subsidiaries, on the trademarks and on part of the trade receivables of the Group.

The contractual agreements relating to the loans granted by the pool of banks composed of Credit Suisse First Boston, San Paolo IMI Spa and UniCredit Banca d'Impresa Spa include a series of obligations which concern the operating and financial aspects of said loans. In particular, it is requested that pre-determined levels related to certain parametric indices (covenants), calculated based on the data of the final statements at the end of every three month period, are respected. The possibility cannot be excluded that such parameters may not be complied with. Should such parameters not be complied with, the conditions with which the loan relationship is to be continued must be negotiated with the financiers, that is appropriate waivers or modifications to adapt the above-mentioned parameters. If this does not happen, an "Event of Default" could take place, that may involve obligatory early repayment of the loans granted.

The following table shows credit lines granted to the Group, their utilization and the credit lines available at the balance sheet date:

<i>(Euro/000)</i>	Granted Credit lines	Utilization	Available credit lines
Credit lines on short term loans	69,307	11,814	57,494
Credit lines on long term loans	303,186	303,186	-
Total	372,493	315,000	57,494



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4.19 Employee benefits liability

This account shows the following movements:

<i>(Euro/000)</i>	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005
Employee benefits liability	34,607	7,234	(2,417)	39,424
Total	34,607	7,234	(2,417)	39,424

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

The amounts charged to the income statement (operating and financial components) and the net equity (actuarial differences) can be sub-divided as follows:

<i>(Euro/000)</i>	31 Dec. 2005
Service cost	3,371
Interest cost	656
Actuaril gain (losses)	3,207
Total	7,234

Actuarial estimates used for the employees' benefit are based on:

- a) demographic parameters;
- b) economic parameters;
- c) financial parameters.

Demographic parameters are normally summarized in tables based on samples deriving from different institutes (Istat, Inail, Inps, National accounts, etc).

Economic parameters principally refer to long-term inflation rates and financial yield rate, crucial for the revaluation of amounts accrued in the employees' benefit fund.

Economic parameters also include compensation dynamics of the work-force in question. Personnel compensation average increase has been taken into account considering the employees' service life and the professional qualification (blue collars, white collars, executives).

The most important financial parameter is the discount rate. For the present value of the future stream of cash flows related to the services and charges the zero coupon rate term structure derived from the swap rates interest term structure on December 31, 2005 has been used.

4.20 Other non-current liabilities

The other non-current liabilities at December 31, 2005 amount to Euro 9,836 thousand and include:

- liabilities deriving from existing contracts with licensors for the production and distribution of licensed products;
- liabilities deriving from the market valuation of interest rate swap contracts. This value was calculated by specialised financial institutions on the basis of normal market conditions.

A summary of the characteristics and the fair value of interest rate swap contracts in force at December 31, 2005 and December 31, 2004 is shown below:

(Euro/000)	December 31, 2005		December 31, 2004	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swap				
Expiry 2007	164,080	537	319,708	(3,432)
Expiry 2010	25,000	(1,681)	25,000	(1,804)
Expiry 2011	25,000	(2,127)	25,000	(2,104)
Total	214,080	(3,271)	369,708	(7,340)

Gains and losses recorded in the Cash flow reserve in equity at the balance sheet date will be reversed in the income statement over the duration of the hedged loans.

4.21 Share capital

The extraordinary Shareholders' Meeting of September 14, 2005 of the parent company Safilo Group S.p.A., in relation to the quotation process, resolved to increase the share capital to be subscribed by third parties servicing the stock exchange placement of the shares of the company on the Milan Stock Exchange.

As a consequence of this decision the following share capital movements took place:

- On November 10, 2005, 7,380,000 preferred shares of the share capital were converted into 7,380,000 ordinary shares while at the same time reducing the nominal value of all of the ordinary shares from Euro 1.00 each to Euro 0.25 each and the consequent sub-division of the nominal share capital of Euro 49,200,000 into 196,800,000 ordinary shares.
- On December 5, 2005, the conversion took place of the convertible bonds into 18,325,600 ordinary shares of a nominal value of Euro 0.25 each, for a total amount of Euro 4,581.4 thousand.
- On December 6, 2005, 3,947,252 shares with a nominal value of Euro 0.25 each were issued, for a total value of Euro 986.9 thousand, servicing the Stock option plans approved by the extraordinary shareholders' meetings of February 25, 2003 and November 24, 2004.
- On December 9, 2005, the parent company, servicing the stock exchange placement of its shares on the Milan Stock Exchange, issued 64,300,000 shares of a nominal value of Euro 0.25 each, for a total value of Euro 16,075 thousand.

Following the above-mentioned operations, at December 31, 2005, the share capital of the parent company Safilo Group S.p.A was Euro 70,843,213, consisting of 283,372,852 shares with a nominal value of Euro 0.25 each

Share capital movements can be summarized as follows:

(Euro)	N. of preferred shares	N. of ordinary shares	Total number of shares	Nominal value	Total value
Share capital at 31 Dec. 2004	7,380,000	41,820,000	49,200,000	1,00	49,200,000
Preferred shares conversion	(7,380,000)	7,380,000	-		
Total post-conversion	-	49,200,000	49,200,000	1,00	49,200,000
sub-division of shares	-	196,800,000	196,800,000	0,25	49,200,000
Convertible bond conversion	-	18,325,600	18,325,600	0,25	4,581,400
Stock option	-	3,947,252	3,947,252	0,25	986,813
Capital increase	-	64,300,000	64,300,000	0,25	16,075,000
Share capital at 31 Dec. 2005	-	283,372,852	283,372,852	0,25	70,843,213

4.22 Share premium reserve

The share premium reserve amounts to Euro 751,276 thousand and consists of:

- for Euro 406,217 thousand, the higher value attributed on the conferment of shares by the subsidiary Safilo S.p.A compared to the nominal value of the corresponding increase in share capital;
- for Euro 345,059 thousand (i) the higher price paid compared to the nominal value of the shares, at the moment of the placement of the shares on the Milan Stock Exchange, less the quotation charges incurred, (ii) the higher value coming from stock options exercised, (iii) the higher amount deriving from the conversion of the convertible bonds.



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4.23 Retained earnings and other reserves

The retained earnings and other reserves include both the reserves of the subsidiary companies generated after their inclusion in the consolidation scope and the currency differences deriving from the translation into Euro of the financial statements of consolidated companies.

(Euro/000)	January 1, 2004	Previous year's profit allocation	Impact on equity	Impact on P&L	Dividends distribution	Consolidation area	December 31, 2004
Group translation difference	-	-	(4,738)	-	-	-	(4,738)
Translation difference - Minority	-	-	(105)	-	-	-	(105)
Total	-	-	(4,843)	-	-	-	(4,843)
Other reserves - Group	(24,184)	-	1,040 ³	(540)	-	779	(22,905)
Other reserves - Minority	5,876	-	-	107	(3,149)	(779)	2,055
Total	(18,308)	-	1,040	(433)	(3,149)	-	(20,850)
Total	(18,308)	-	(3,803)	(433)	(3,149)	-	(25,693)

(Euro/000)	January 1, 2005	Previous year's profit allocation	Impact on equity	Impact on P&L	Dividends distribution	Consolidation area	December 31, 2005
Group translation difference	(4,738)	-	9,946	-	-	-	5,208
Translation difference - Minority	(105)	-	207	-	-	-	102
Total	(4,843)	-	10,153	-	-	-	5,310
Other reserves - Group	(22,905)	18,866	(2,506) ⁴	1,695	-	-	(4,850)
Other reserves - Minority	2,055	3,123	-	62	(3,025)	-	2,215
Total	(20,850)	21,989	(2,506)	1,757	(3,025)	-	(2,635)
Total	(25,693)	21,989	7,647	1,757	(3,025)	-	2,675

³ Portion of the convertible bonds allocated to equity.

⁴ Actuarial losses on employees' benefits and other miscellaneous movements.

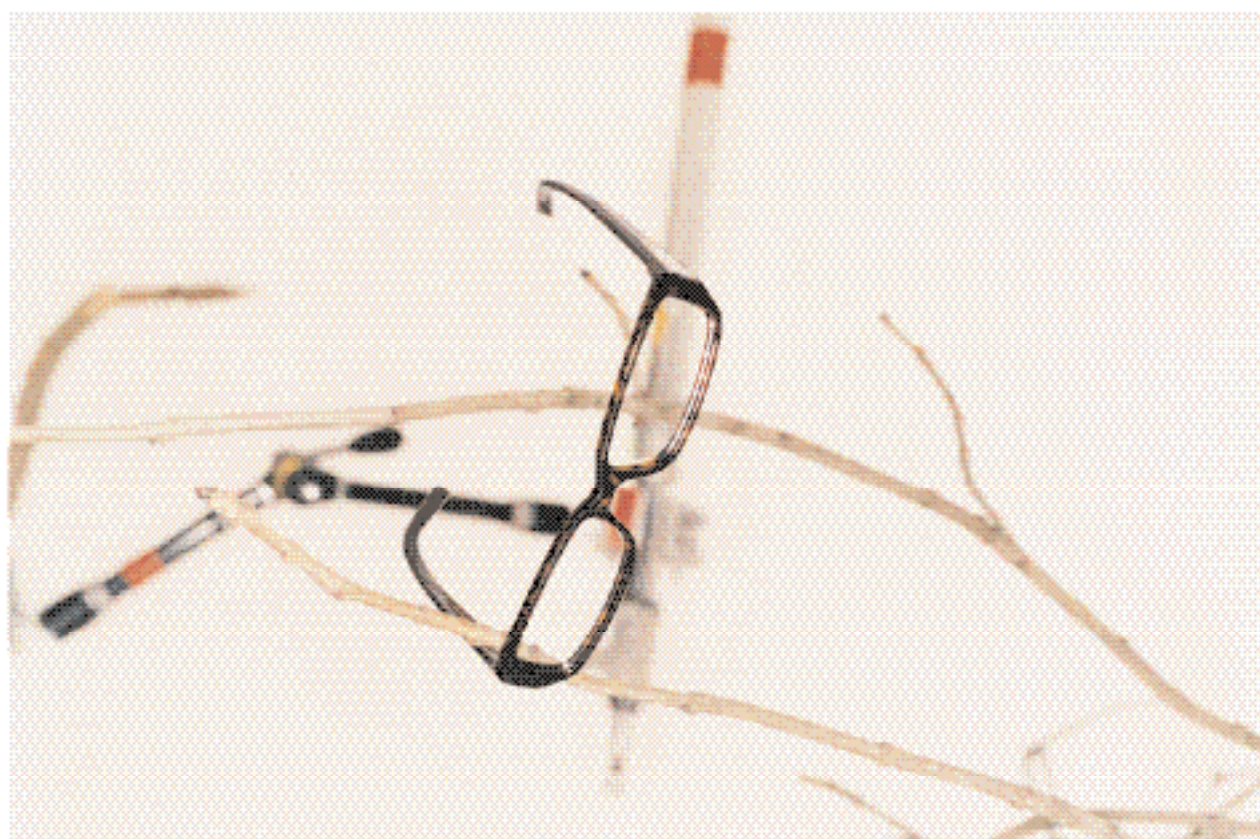
4.24 Fair value and cash flow reserves

This account is comprised as follows:

<i>(Euro/000)</i>	Balance at January 1, 2004	Impact on equity	Impact on P&L	Balance at December 31, 2004
Cash flow reserve	1,481	(3,637)	(1,481)	(3,637)
Fair value reserve	(2,307)	(398)	-	(2,705)
Total	(826)	(4,035)	(1,481)	(6,342)

<i>(Euro/000)</i>	Balance at January 1, 2005	Impact on equity	Impact on P&L	Balance at December 31, 2005
Cash flow reserve	(3,637)	(2,780)	3,637	(2,780)
Fair value reserve	(2,705)	(452)	2,038	(1,119)
Total	(6,342)	(3,232)	5,675	(3,899)

The cash flow reserve refers to the current value of the interest rate swap contracts and to the current value of the forward currency contracts, while the fair value reserve refers to the current value of the investments classified under financial assets available-for-sale.



PHOTOGRAPH BY GUERRER TELLEN

MARC JACOBS
EYEWEAR



MaxMara

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4.25 Consolidated changes in shareholders' equity

In accordance with IFRS 1, the table below sets forth the movements of equity for the years ended December 31, 2005 and 2004.

(Euro/000)	Share capital	Share premium	Translation difference	Fair value and cash flow reserve	Retained earnings	Net profit	Total equity
Group net equity at January 1, 2004	49,200	406,217	-	(826)	(24,183)	-	430,408
Retained earnings	-	-	4,738	(5,516)	1,278	-	(8,976)
2004 net profit	-	-	-	-	-	18,866	18,866
Group net equity at Dec. 31, 2004	49,200	406,217	(4,738)	(6,342)	(22,905)	18,866	440,298
Minority interests at January 1, 2004	-	-	-	-	5,876	-	5,876
Retained earnings	-	-	(105)	-	(672)	-	(777)
Dividends distribution	-	-	-	-	(3,149)	-	(3,149)
2004 net profit	-	-	-	-	-	3,123	3,123
Minority interests at December 31, 2004	-	-	(105)	-	2,055	3,123	5,073
Consolidated net equity at Dec. 31, 2004	49,200	406,217	(4,843)	(6,342)	(20,850)	21,989	445,371

(Euro/000)	Share capital	Share premium	Translation difference	Fair value and cash flow reserve	Retained earnings	Net profit	Total equity
Group net equity at January 1, 2005	49,200	406,217	(4,738)	(6,342)	(22,905)	18,866	440,298
Previous year's profit allocation	-	-	-	-	18,866	(18,866)	-
Capital increase	21,643	345,059	-	-	-	-	366,702
Retained earnings	-	-	9,946	2,443	(811)	-	11,578
2005 net profit	-	-	-	-	-	3,097	3,097
Group net equity at Dec. 31, 2005	70,843	751,276	5,208	(3,899)	(4,850)	3,097	821,675
Minority interests at January 1, 2005	-	-	(105)	-	2,055	3,123	5,073
Previous year's profit allocation	-	-	-	-	3,123	(3,123)	-
Retained earnings	-	-	207	-	62	-	269
Dividends distribution	-	-	-	-	(3,025)	-	(3,025)
2005 net profit	-	-	-	-	-	3,220	3,220
Minority interests at December 31, 2005	-	-	102	-	2,215	3,220	5,537
Consolidated net equity at Dec. 31, 2005	70,843	751,276	5,310	(3,899)	(2,635)	6,317	827,212

4.26 Stock options plans

On March 25, 2003, the respective shareholders' meetings of Safilo Holding S.p.A. (now Safilo Group S.p.A.) and Safilo S.p.A. approved the "SOP I", which provides for the free vesting of rights for the subscription of new shares issued to some employees and consultants of the companies of the Group.

On November 24, 2004 and December 16, 2004 respectively, the shareholders' meetings of Safilo Group S.p.A. and Safilo S.p.A. approved a new plan, the "SOP II", which provides for the free vesting of rights for the subscription of new shares issued to some employees and consultants of the companies of the Group.

The fair value of the options, in accordance with the requirements of IFRS, is recorded under personnel costs with a corresponding increase in a specific equity reserve over the duration of the maturity period, as the stock option plans are of an "equity-settled" type. In compliance with the requirements of IFRS 2, irrespective of which company is obliged to issue the new shares, the stock option cost is recorded in the company in which the employees carry out their employment. The amount received, net of the costs directly attributable to the transaction, will be credited to the share capital (nominal value) and the share premium reserve, when the options are exercised.

With reference to the first stock option plan mentioned above, the Group has decided to apply the exemption for share based payments. In substance IFRS 2 is applied from January 1, 2004 for all the options issued after November 7, 2004 but not matured ("vested") before January 1, 2005. The application of this exemption results in the recording of only the third tranche of the 2003-2007 stock option plan as a cost in the income statement of the Group.

The total costs recorded for the years 2005 and 2004 are summarised as follows:

<i>(Euro/000)</i>	31 Dec. 2005	31 Dec. 2004
SOP I	79	658
SOP II	1,635	-
Total	1,714	658

As reported in the Directors' Report, in December 2005 the holders of these options, in consideration of the quotation of the company Safilo Group S.p.A. on the Italian Stock Market, exercised 50% of the rights in their possession.

SOP I	2005			2004		
	Strike	N. of Shares	N. of rights	Strike	N. of Shares	N. of rights
At January 1, 2005	2.5325	3,932,540	983,135	2.5325	3,968,512	992,128
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Not assigned	-	-	-	-	-	-
Forfeited	-	-	-	2.5325	(35,972)	(8,993)
Exercised	2.5325	(3,023,140)	(755,785)	-	-	-
At Dec. 31, 2005	2.5325	909,400	227,350	2.5325	3,932,540	983,135
- of which exercisable	2.5325	909,400	227,350		2,634,802	658,700

SOP II	2005			2004		
	Strike	N. of Shares	N. of rights	Strike	N. of Shares	N. of rights
At January 1, 2005	3.5438	4,016,316	1,004,079	-	-	-
Issued	-	-	-	3.5438	4,016,316	1,004,079
Granted	3.5438	4,016,316	1,004,079	-	-	-
Not assigned	-	-	-	-	-	-
Forfeited	3.5438	(54,352)	(13,588)	-	-	-
Exercised	3.5438	(924,112)	(231,028)	-	-	-
At Dec. 31, 2005	3.5438	3,037,852	759,463	-	-	-
- of which exercisable	3.5438	3,037,852	759,463	-	-	-

TOTAL SOP I + SOP II	2005			2004		
	Avg. Strike	N. of Shares	N. of rights	Avg. Strike	N. of Shares	N. of rights
At January 1, 2005	2.5325	3,932,540	983,135	2.5325	3,968,512	992,128
Issued	-	-	-	3.5438	4,016,316	1,004,079
Granted	3.5438	4,016,316	1,004,079	-	-	-
Not assigned	-	-	-	-	-	-
Forfeited	3.5438	(54,352)	(13,588)	2.5325	(35,972)	(8,993)
Exercised	2.7693	(3,947,252)	(986,813)	-	-	-
At Dec. 31, 2005	3.3108	3,947,252	986,813	2.5325	3,932,540	983,135
- of which exercisable		3,947,252	986,813		2,634,802	658,700



STELLA MCCARTNEY
SUNGLASSES

5. Notes to the Consolidated Statements of Operations

5.1 Net sales

Group sales in 2005 amounted to Euro 1,025,274 thousand and report an increase of 8.5% compared to Euro 944,740 thousand recorded in the previous year. The slight change in the average Euro/US dollar exchange rate in 2005 compared to 2004 did not result in any significant changes.

We refer the reader to the directors' report and the note 5.13 "Segment information" for further details regarding the sales trend compared to previous year.

5.2 Cost of sales

This account is comprised as follows:

<i>(Euro/000)</i>	2005	2004
Purchase of materials and finished products	282,892	263,126
Change in inventories	(7,770)	(36,722)
Salaries and contributions	91,278	95,846
Capitalisation of costs for increase in fixed assets (-)	(9,851)	(7,475)
External processing	23,275	33,473
Industrial depreciation	25,382	24,800
Rental and operating leases	766	956
Other industrial costs	10,533	7,525
Total	416,505	381,529

The increase in purchases relates principally to the higher quantities of finished products acquired as a consequence of both increased sales and the "outsourcing" strategy of the company with the objective of greater recourse to external suppliers.

This changes in inventories are comprised as follows:

<i>(Euro/000)</i>	2005	2004
Finished products	(913)	(36,674)
Work-in-progress	1,321	252
Raw materials	(8,178)	(300)
Total	(7,770)	(36,722)

Salaries and contributions decreased by approximately 4.8%, principally as a result of the decrease in the average number of employees in the production facilities of the Group.

The total workforce of the Group at December 31, 2005 and 2004 is broken down as follows:

	31 Dec. 2005	31 Dec. 2004
Headquarters at Padua	766	707
Production facilities	4,192	4,561
Commercial companies	1,053	1,024
Solstice	374	221
Total	6,385	6,513

The average number of employees broken down by category is summarised as follows:

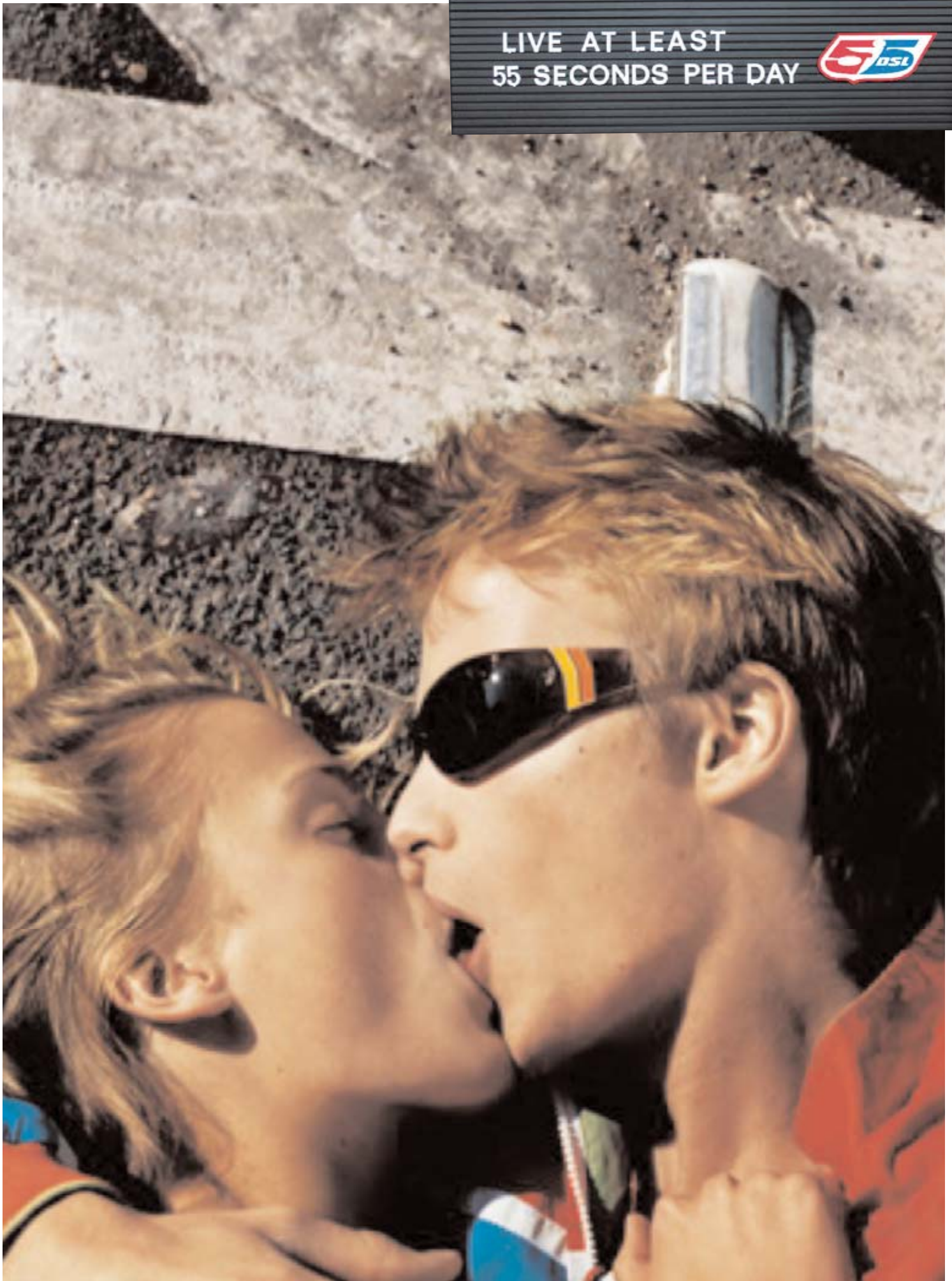
	2005	2004
Managers	76	76
Clerical	1,967	1,810
Factory	4,280	4,636
Total	6,323	6,522

Compared to 2004 the costs for external processing decreased by Euro 10,198 thousand, due to the re-entry of some processes previously outsourced to the factories of the Group. The other costs include energy, industrial services, maintenance and consultancy services relating to the production area.

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5.3 Selling and marketing expenses

This account is comprised as follows:

(Euro/000)	2005	2004
Salaries and contributions	81,817	73,852
Commissions and independent agents	74,725	65,585
Royalties	91,040	79,980
Advertising and promotional costs	78,493	76,482
Amortisation & depreciation	2,545	2,360
Logistic costs	14,259	12,968
Rental and operating leases	5,873	4,606
Utilities	713	347
Provision for risks	2,919	1,109
Other sales and marketing expenses	27,035	26,778
Total	379,419	344,067

The increase of sales and marketing expenses is a result of the increase in the after-sales structure, of the development of the American retail chain Solstice and of the normal salary increases.

The growth in commissions and royalties expenses is directly related to the increased sales. In particular the amount of royalties has been impacted by a mix of sales more focused on licensed products.

5.4 General and administrative expenses

This account is comprised as follows:

(Euro/000)	2005	2004
Salaries and contributions	49,986	52,165
Doubtful debt provision	1,904	4,566
Amortisation & depreciation	7,270	8,345
Consultants fees	8,970	9,927
Rental and operating leases	6,226	5,464
EDP costs	3,543	3,469
Insurance costs	2,091	1,893
Utilities	3,486	3,486
Security and cleaning	2,109	1,636
Taxes (other than on income)	2,228	2,299
Other general and administrative expenses	14,759	13,714
Total	102,572	106,964

General and administrative expenses for the different Group companies decreased by about 4% as a result of cost containment activities taken by the Group during 2005 financial year.

5.4.1 Remuneration (including all possible and deferred remuneration) and benefits-in-kind received by Directors and Statutory Auditors)

All forms of remuneration paid by the Parent Company and by its direct or indirect subsidiaries to Directors and Statutory Auditors, in office as of the balance sheet date, for the year ended December 31, 2005 are reported below:

Name and surname	Office	Period covered	Expiring	Compensation related to the holding company	Other
				(Euro/000)	(Euro/000)
Directors					
Vittorio Tabacchi	Chairman	2005	Approval of Dec. 31, 2007 financial st.	10	2,092
Giannino Lorenzon	Vice-Chairman	2005	Approval of Dec. 31, 2007 financial st.	10	1,156
Roberto Vedovotto (*)	Chief Ex. Officer	2005	Approval of Dec. 31, 2007 financial st.	10	1,865
Carlo Maria Calabria	Director	from 01/01 to 29/04/2005	Approval of Dec. 31, 2004 financial st.	3	-
Thompson Dean	Director	2005	Approval of Dec. 31, 2007 financial st.	10	20
Ennio Doris	Director	from 6/12 to 31/12/2005	Approval of Dec. 31, 2007 financial st.	1	-
Carlo Gilardi	Director	2005	Approval of Dec. 31, 2007 financial st.	10	20
Julian Masters	Director	from 29/04 to 31/12/2005	Approval of Dec. 31, 2007 financial st.	7	13
Charles Paul Pieper	Director	from 29/04 to 31/12/2005	Approval of Dec. 31, 2007 financial st.	7	13
Riccardo Ruggiero	Director	from 6/12 to 31/12/2005	Approval of Dec. 31, 2007 financial st.	1	-
Massimiliano Tabacchi	Director	2005	Approval of Dec. 31, 2007 financial st.	10	413
Colin Taylor	Director	2005	Approval of Dec. 31, 2007 financial st.	10	20
Statutory auditors					
Franco Corgnati	Chairman	2005	Approval of Dec. 31, 2007 financial st.	23	29
Nicola Gianese	Regular auditor	2005	Approval of Dec. 31, 2007 financial st.	16	-
Paolo Mazzi	Regular auditor	2005	Approval of Dec. 31, 2007 financial st.	16	21

(*) As a result of the IPO process the Chief Executive Officer Roberto Vedovotto has received a bonus equal to Euro 8,545 thousand related to the increase in the value of the Group for the period 2003-2005. This amount has been included in the account "Salaries and contributions".

5.4.2 Stock option attributed to Directors and Statutory Auditors

Name and surname	Office	Options at the beginning of the financial year			Options assigned during the year		
		N. of options	Average strike price	Average expiring date	N. of options	Average strike price	Average expiring date
Directors							
Vittorio Tabacchi	Chairman	-	-	-	-	-	-
Giannino Lorenzon	Vice - Chairman	269,818	2.6736	-	-	-	-
Roberto Vedovotto	Chief Ex. Officer	567,124	2.8607	-	-	-	-
Carlo Maria Calabria	Director	-	-	-	-	-	-
Thompson Dean	Director	-	-	-	-	-	-
Ennio Doris	Director	-	-	-	-	-	-
Carlo Gilardi	Director	-	-	-	-	-	-
Julian Masters	Director	-	-	-	-	-	-
Charles Paul Pieper	Director	-	-	-	-	-	-
Riccardo Ruggiero	Director	-	-	-	-	-	-
Massimiliano Tabacchi	Director	38,030	3.3895	-	-	-	-
Colin Taylor	Director	-	-	-	-	-	-
Statutory auditors							
Franco Corgnati	Chairman	-	-	-	-	-	-
Nicola Gianese	Regular auditor	-	-	-	-	-	-
Paolo Mazzi	Regular auditor	-	-	-	-	-	-

Name and surname	Office	Options exercised during the year			Options expired during the year	Options at the end of the financial year		
		N. of options	Average strike price	Average expiring date	N. of options	N. of options	Average strike price	Avg. expiring date (in years)
Directors								
Vittorio Tabacchi	Chairman	-	-	-	-	-	-	-
Giannino Lorenzon	Vice - Chairman	134,909	2.5325	-	-	134,909	2.8147	0.54
Roberto Vedovotto	Chief Ex. Officer	283,562	2.5325	-	-	283,562	3.1889	0.54
Carlo Maria Calabria	Director	-	-	-	-	-	-	-
Thompson Dean	Director	-	-	-	-	-	-	-
Ennio Doris	Director	-	-	-	-	-	-	-
Carlo Gilardi	Director	-	-	-	-	-	-	-
Julian Masters	Director	-	-	-	-	-	-	-
Charles Paul Pieper	Director	-	-	-	-	-	-	-
Riccardo Ruggiero	Director	-	-	-	-	-	-	-
Massimiliano Tabacchi	Director	19,015	3.2351	-	-	19,015	3.5438	0.54
Colin Taylor	Director	-	-	-	-	-	-	-
Statutory auditors								
Franco Corgnati	Chairman	-	-	-	-	-	-	-
Nicola Gianese	Regular auditor	-	-	-	-	-	-	-
Paolo Mazzi	Regular auditor	-	-	-	-	-	-	-

Each option gives the beneficiary the right to subscribe 4 shares at the average strike price.

5.5 Other income and expenses, net

This account is comprised as follows:

<i>(Euro/000)</i>	2005	2004
Losses on asset disposals	(621)	(585)
Other operating expenses	(974)	(2,894)
Gains on asset disposals	159	100
Other operating revenues	2,505	2,513
Total	1,069	(866)

5.6 Non recurring operating expenses

This item mainly refer to costs related to compensation for company's managers and external consultants linked to the IPO process.

5.7 Share of income (losses) of associates

This account amounts to Euro 1,532 thousand and consists of the profits and losses deriving from the equity valuation of the holdings in associated companies (note 4.9).

5.8 Interest expense and other financial charges, net

This account is comprised as follows:

<i>(Euro/000)</i>	2005	2004
Interests on loans	34,954	34,734
Interest and charges on High Yield	29,773	29,575
Interest on convertible bonds	3,517	3,277
Bank charges	4,820	4,702
Exchange losses	21,125	8,015
Financial discounts	5,262	4,715
Write-down on financial assets	3,370	-
Other financial charges	243	2,878
Total financial charges	103,064	87,896
Interest income	848	437
Exchange gains	11,740	17,792
Other financial income	1,709	239
Total financial income	14,297	18,468
Total financial charges, net	88,767	69,428

As already described in the note 4.10 "available-for-sale financial assets" the impairment of the value of the investment held in Banca Popolare Italiana, being considered a permanent reduction, was recorded in the 2005 income statement for a total amount of Euro 3,370 thousand.

Exchange losses have been significantly impacted by costs related to the American Dollar revaluation of foreign currency loans resulting in a charge of Euro 15,031 thousand due to both the repayments made and the residual debt at the balance sheet date.

5.9 Non recurring financial charges

This account is comprised as follows:

(Euro/000)	2005	2004
Accelerated fees for advance repayment	9,401	-
Penalty on High Yield advance repayment	10,106	-
Total	19,507	-

The advance repayment of a portion of the Senior loan and of one third of the High Yield bond through the use of proceeds from the stock exchange listing has had the following effect on income statement:

- higher financial charges due to, in accordance with IFRS, the accelerated amortisation of charges related to the above borrowings;
- a penalty to be paid to High Yield bond holders.

5.10 Income tax expenses

(Euro/000)	2005	2004
Current taxes	(35,366)	(31,192)
Deferred taxes	30,556	11,337
Total	(4,810)	(19,855)

The year ended December 31, 2005 was characterised by a significant reduction in the amount of the fiscal charge compared to the previous year; both financial years are marked by a largely higher percentage than the theoretical tax rates.

Theoretical income taxes are calculated using a 33% rate on estimated taxable income for the year. The above percentage represents the tax rate (IRES) that the Italian holding company is subject to. Effective income taxes can be reconciled with the theoretical income taxes as follows:

(Euro/000)	%	2005	%	2004
Income before taxation	100.0	11,127	100.0	41,844
Tax calculated at domestic tax rate	33.0	3,672	33.0	13,808
IRAP and other taxes	55.0	6,117	15.5	6,470
Income not subject to tax	(49.9)	(5,557)	(13.0)	(5,449)
Non deductible costs	18.0	1,998	1.9	792
Other permanent differences	(12.8)	(1,419)	10.1	4,233
Effective tax charge	43.2	4,811	47.4	19,854

The decrease of the 2005 tax rate compared to the previous year mainly derives from the higher incidence of income not subject to tax related to some Group companies and to previous years' tax losses utilization made by some subsidiaries that have recorded positive taxable income instead of tax losses as in previous years.

5.11 Earnings per share

(Euro)	2005	2004
Basic EPS	0,02	0,10
Diluted EPS	0,02	0,10

Basic and diluted EPS computation is as follows:

(Euro/000)	2005	2004
Profit for ordinary shares	2.686	15.956
Average number of ordinary shares	176.954	167.280
Basic EPS	0,02	0,10

(Euro/000)	2005	2004
Profit for ordinary shares	2.686	15.956
Profit for preferred shares	411	2.910
Profit at income statement	3.097	18.866
Interest expense on convertible bonds	2.356	2.196
Profit for EPS diluted computation	5.453	21.062
Average number of ordinary shares:	176.954	167.280
Dilutive effects:		
- convertible bonds	16.798	18.326
- preferred shares	27.060	29.520
- stock option	2.414	701
Total	223.226	215.827
Diluted EPS	0,02	0,10

5.12 Dividends

During the current and the previous financial year the holding company Safilo Group S.p.A. has not paid any dividends to its shareholders.

5.13 Segment information

The following information is provided with reference to the geographical areas where the Group operates. The geographical area has been identified as the primary segment. The criteria used in identifying the primary segment have been based on the modality of which management operates the Group and the way it attributes managerial responsibilities. In particular such criteria are based on the grouping of geographical areas which are defined by the location of the registered office of each Group Company. Therefore segment information is determined by the invoices issued at country of origin and not by the country of destination.

At the date of these financial statements the secondary segment is not identified. In particular secondary segment could be defined, in line with the standard procedure, as the "wholesale". In our case the products distribution of products is almost entirely "wholesale" whilst the distribution activity through direct sales points controlled by the Group ("retail") is only marginal.

December 31, 2005							
(Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales:							
-to other segments	280,865	37,540	1,833	977		(321,215)	-
-to third parties	240,196	288,389	376,899	119,786	4		1,025,274
Total Net Sales	521,061	325,929	378,732	120,763	4	(321,215)	1,025,274
Gross Profit	207,167	143,100	199,029	60,930	4	(1,461)	608,769
Operating income	33,777	51,341	40,996	20,960	(9,687)	(19,518)	117,869
Interest expense							(119,687)
Interest income							14,783
Share losses of inv. - equity method	(3,370)						(3,370)
Share income/(loss) of associates			123	1,398	11		1,532
Income taxes							(4,810)
Net income							6,317
Gross profit margin	40%	44%	53%	50%			59%
Operating profit margin	6%	16%	11%	17%			11%
Other information							
Segment assets	549,219	402,573	411,351	340,174	26,472		1,729,789
Investment in equity method assoc.			893	12,293	306		13,492
Unallocated corporate assets							101,226
Consolidated total assets							1,844,507
Segment liabilities	213,626	34,783	39,947	16,699	15,057		320,112
Unallocated corporate liabilities							697,183
Consolidated total liabilities							1,017,295
Capital expenditure	26,406	5,688	5,544	1,027	-		38,665
Depreciation & Amortization	24,999	5,615	3,601	961	21		35,197
Non-cash expenses other than depreciation	5,666	2,793	457	887	-		9,803

- (1) Operating companies with based in Italy.
(2) Operating companies with based in European countries different from Italy, India and South Africa.
(3) Operating companies with based in USA, Canada and Brazil.
(4) Operating companies with based in the Far East, Australia, Singapore, Malaysia and China.
(5) Non operating companies.

December 31, 2004							
(Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales:							
-to other segments	275,951	44,587	1,088	348	30	(322,004)	-
-to third parties	221,801	280,398	342,699	99,815	27		944,740
Total Net Sales	497,752	324,985	343,787	100,163	57	(322,004)	944,740
Gross Profit	192,258	137,793	181,174	54,454	58	(2,526)	563,211
Operating income	33,577	32,426	32,708	22,539	574	(10,510)	111,314
Interest expense							(87,897)
Interest income							18,469
Share income/(loss) of associates	2			(111)	67		(42)
Income taxes							(19,855)
Net income							21,989
Gross profit margin	39%	42%	53%	54%			60%
Operating profit margin	7%	10%	10%	23%			12%
Other information							
Segment assets	439,422	401,867	392,221	332,369	1,384		1,567,263
Investment in equity method associates				9,871	296		10,167
Unallocated corporate assets							26,735
Consolidated total assets							1,604,165
Segment liabilities	179,901	37,769	42,433	16,747	5,647		282,497
Unallocated corporate liabilities							876,297
Consolidated total liabilities							1,158,794
Capital expenditure	21,949	5,921	2,210	972	169		31,221
Depreciation & Amortization	23,989	6,893	3,848	762	12		35,504
Non-cash expenses other than depreciation	4,522	3,852	4,261	1,202	-		13,837

- (1) Operating companies with based in Italy.
(2) Operating companies with based in European countries different from Italy, India and South Africa.
(3) Operating companies with based in USA, Canada and Brazil.
(4) Operating companies with based in the Far East, Australia, Singapore, Malaysia and China.
(5) Non operating companies.

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6. Transactions with related parties

The nature of the related party relationships is disclosed in the table here below:

Related parties (Euro/000)	Relationship	2005	2004
Receivables			
Safilens s.r.l.	(a)	207	-
Elegance International Holdings Ltd	(a)	750	525
Total		957	525
Payables			
Safilens s.r.l.	(a)	22	-
Elegance International Holdings Ltd	(a)	8,533	10,715
Total		8,555	10,715
Revenues			
Optifashion As	(b)	179	268
Safilens s.r.l.	(a)	2	-
Elegance International Holdings Ltd	(a)	578	4
Total		759	272
Costs			
Safilens s.r.l.	(a)	81	387
Elegance International Holdings Ltd	(a)	20,673	21,654
TBR Inc.	(a)	1,107	1,054
Total		21,861	23,095

(a) associated company

(b) unconsolidated subsidiary

The nature of the transactions with related parties is illustrated in the table below. These transactions relate to commercial relationships on the basis of prices defined at normal market conditions similar to transactions with third parties.

Safilo USA rents its headquarters and distribution centre in the USA (New Jersey), based on a rental contract with TBR Inc., a company one-third owned by Vittorio Tabacchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., one third by a subsidiary company of the Safilo Group S.p.A. and one third by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for Euro 629,000. In 2005 the Group paid rent of Euro 1,107 thousand to TBR Inc. The terms and conditions of the rental contract are in line with market conditions for similar contracts.

Safilo Far East Limited, a subsidiary of Safilo Group S.p.A, holds 23.05% of Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange. Elegance is a producer of eyewear products in Asia, and to which the Group assigns part of its production. The price and the other conditions of the production contract between Safilo Far East Limited and Elegance are in line with those applied by Elegance to its other clients. Massimiliano Tabacchi, director of Safilo Group S.p.A., and Mario Pietribiasi, executive of the Group, are non-executive directors of Elegance. In addition, Mario Pietribiasi is also a shareholder of the company with a holding of 0.30%.

7. Contingent liabilities

The Group does not have any significant contingent liabilities that have not been discussed in the previous notes or not covered by appropriate provisions.

Nevertheless, as at December 31, 2005, we are currently 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, are groundless, nevertheless a negative outcome of them beyond estimates, could have a material adverse effect on our business, financial condition or results of operations.

Among the most important claims in monetary terms, we highlight: (i) a June 2005 claim against Safilo S.p.A. in legal fees allegedly owed to an Italian law firm for legal services provided to the defendants from 1999 to 2001 related to the IPO; (ii) a claim alleging unfair business practices against Safilo S.p.A. by one of our clients, who later filed bankruptcy. The claim has been taken over by the plaintiff's receiver, who seeks damages; (iii) two companies (having the same owner) that are clients of the Group filed two claims against Safilo S.p.A. seeking damages for breach of contract. We filed a claim against the same two companies, seeking payment owed to us for products sold.

8. Commitments

At the balance date the Group has not significant purchase commitments.

9. Subsequent events

In the period subsequent to the closing of the financial year, there were no events that could be considered to significantly affect the data contained in the present report.

During the first quarter of 2006 a significant increase in orders has taken place; the Group is facing, with some difficulties, this growth by increasing its production capability.

On January 13, 2006, the subsidiary Safilo Capital International S.A., with headquarters in Luxembourg, made an advance repayment of 35% of the bonds listed on the Luxembourg market (Senior notes 9 5/8%), for a total amount of nominal Euro 105,000 thousand.

At the end of January 2006 the Group completed a significant step of the "lean manufacturing project", which resulted in the closure of the manufacturing activities in the plants of Calalzo, Coseano and Ronchis.

On January 27, 2006, the Group announced the non-renewal of the licence agreement for the production and distribution of Ralph Lauren sunglasses, which expires on December 31, 2006. This licence had an impact of 10% of the entire turnover. Appropriate actions have already been taken to minimise the impact of this missing renewal in 2006 and subsequent years.

10. Transition to International Financial Reporting Standards (IFRS)

10.1 Transition to International Financial Reporting Standards (IFRS)

The European Union Regulation No. 1606/2002 of July 19, 2002, enacted in Italy under Law No. 306/2003, established that, effective from 2005, all companies in the European Union whose shares are listed on a regulated market are obliged to present Consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as the comparability of financial information is considered fundamental for the full integration of the markets and financial services.

The consolidated financial statements of the Safilo Group for the year ended December 31, 2005 therefore represent the first annual accounts prepared in accordance with international accounting standards approved by the European Commission.

The transition date, that is the beginning of the year prior to the first adoption of the IFRS, was January 1, 2004. The Group has retrospectively applied the IFRS approved by the European Commission to all of the periods ended prior to the transition date, except for some exemptions permitted and the obligatory exceptions adopted in accordance with IFRS 1, as described in the following paragraph.

The balance sheet at January 1, 2004 reflects the following differences in treatment compared to the consolidated financial statements at December 31, 2003, prepared in accordance with Italian Accounting Standards:

- all assets and liabilities were measured and recognised in accordance with the IFRS approved by the European Commission, including those not in accordance with Italian Accounting Standards;
- all the assets and liabilities which are required to be recognised by Italian Accounting Standards, but not permitted by IFRS, as approved by the European Commission, were eliminated;
- some accounts in the financial statements were reclassified in accordance with the IFRS approved by the European Commission.

The effects of these adjustments were directly recognised in the opening shareholders' equity at the transition date (January 1, 2004).

As a result of the adoption of the amendments described in the note 2.1, the following reconciliation forms differ from the ones reported in the information prospectus for admission to the Mercato Telematico Azionario (MTA).

10.2 Format for the presentation of the financial statements

For the Balance Sheet the "current/non-current" criteria was adopted while for the Income Statement the classification of costs according to their destination was adopted as this criterion is considered by the Company to be more appropriate to give relevant, reliable and more significant information if compared with the classification of costs according to their nature. For the cash flow statement the indirect method was adopted.

10.3 Exemptions permitted and obligatory exceptions from the application of the IFRS approved by the European Commission

Exemptions permitted by IFRS 1 adopted on the first application of the IFRS approved by the European Commission:

- business combinations: it was decided not to retrospectively apply IFRS 3 – Business combinations for the operations carried out before the transition date to IFRS approved by the European Commission;
- fair value or re-determination of the value as replacement of cost: for the buildings at the production site of Ormoz, instead of the original cost of the asset at the acquisition date, the re-valued amount was adopted in accordance with Italian re-valuation laws which at the date of the revaluations approximated to the market value of the assets;
- employee benefits: all of the cumulative actuarial gains and losses existing at January 1, 2004 were recorded;
- translation reserve deriving from the conversion of financial statements in currencies other than the Euro: the cumulative net exchange differences deriving from the previous conversion of financial statements in currencies other than the Euro were not recorded at the transition date;
- classification and measurement of the financial instruments: IAS 32 – Financial Instruments: disclosure and presentation and IAS 39 – Financial instruments: recognition and measurement, were adopted, as permitted, from January 1, 2004;
- share-based payments: the provisions of IFRS 2 – Share-based payments are applied from January 1, 2004, in accordance with the prospective method to all capital instrument assignments after November 7, 2002 and not matured at the transition date.

Obligatory exemptions of IFRS 1 on the first application of the IFRS approved by the European Commission:

- cancellation of financial assets and liabilities: the financial assets and/or liabilities other than derivatives relating to transactions made before January 1, 2004 which were eliminated in the financial statements prepared in accordance with Italian Accounting Standards, shall not be recognised and therefore not re-stated in the financial statements;
- accounting of hedging operations: a derivative shall not be treated as a hedge operation if the relative hedge did not exist at the transition date;
- estimates: the estimates made at the transition date to the IFRS approved by the European Commission shall be in conformity with the estimates made at the same date in accordance with the Italian Accounting Standards (after the necessary adjustments to reflect any differences in the accounting standards).

Treatments chosen in relation to the accounting options permitted by IFRS approved by the European Commission

- Inventories: in accordance with IAS 2 - Inventories, the cost of inventories shall be determined adopting either the FIFO or the weighed average cost method. It was decided to

use the weighted average cost method.

- Measurement of tangible and intangible fixed assets: after initial recognition at cost, IAS 16 – Property, plant and equipment and IAS 38 - Intangible assets, allows these assets to be valued at cost, or periodically determining the market value and adjusting the book value to this value at the measurement date. It was decided to adopt the cost method.
- Financial charges: IAS 23 - Financial charges, provides that the financial charges shall be charged directly to the income statement, or, in the presence of certain conditions, the possibility to capitalise these charges together with the cost of acquisition, construction or production of the asset to which they refer. It was decided to charge such financial charges to the income statement;

Significant effects of the transition either with regard to the classification of the various accounts in the financial statements or in relation to their measurement and, therefore, to the consequent effects on the balance sheet and income statement

The effects, in relation to both reclassifications and adjustments, of the transition to the IFRS approved by the European Commission on the balance sheet at January 1, 2004 (transition date) and at December 31, 2004 (in Euro millions) and the relative explanatory notes are reported in the section following the notes to the financial statements.

The preparation of the financial statements in accordance with IFRS accounting standards requires management to make estimates and assumptions which have an impact on the amounts reported in the financial statements and the relative notes.

10.4 Description of the significant effects of the transition either with regard to the classification of the various accounts in the financial statements or in relation to their measurement and, therefore, to the consequent effects on the balance sheet and income statement

In the following table, the effects, in relation to both reclassifications and adjustments, of the transition to the IFRS approved by the European Commission on the balance sheet at January 1, 2004 (transition date) and at December 31, 2004, are shown:

January 1, 2004 (in Euro million)	ITA GAAP	Reclass.	Adjust.	IFRS approved by the European Commission
ASSETS				
Current assets				
Cash in hand and at banks	38,7	13,0	-	51,7
Trade receivables, net	209,1	75,0	(4,0)	280,1
Inventory, net	166,6	-	(4,4)	162,2
Other current receivables	67,0	(35,5)	4,5	35,8
Total current assets	481,4	52,5	(3,9)	529,8
Non-current assets				
Property, plant and equipment	184,1	0,9	15,6	200,6
Intangible assets	63,1	(37,3)	(1,4)	24,4
Goodwill	797,2	-	-	797,2
Investments in associates	11,9	-	(0,1)	11,8
Financial assets available-for-sale	10,9	-	(3,4)	7,5
Deferred tax assets	35,6	(2,2)	3,1	36,5
Other non-current assets	3,8	(1,8)	-	2,0
Total non-current assets	1.106,6	(40,4)	13,8	1.080,0
Total assets	1.588,0	12,1	9,9	1.609,8

January 1, 2004	ITA GAAP	Reclass.	Adjust.	IFRS approved by the European Commission
(in Euro million)				
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short term borrowings	51,5	53,1	-	104,6
Trade payables	141,7	-	-	141,7
Tax payables	16,3	(0,5)	-	15,8
Other current payables and accrued expenses	71,0	-	1,9	72,9
Total current liabilities	280,5	52,6	1,9	335,0
Non-current liabilities				
Long term borrowings	812,1	(36,6)	(0,9)	774,6
Employee benefits	28,8	0,4	(0,7)	28,5
Provisions for risks and charges	38,6	(0,8)	(26,8)	11,0
Deferred tax liabilities	6,4	(3,1)	15,3	18,6
Other non-current liabilities	2,2	(0,6)	4,2	5,8
Total non-current liabilities	888,1	(40,7)	(8,9)	838,5
Total liabilities	1.168,6	11,9	(7,0)	1.173,5
Shareholders' equity				
Share capital	49,2	-	-	49,2
Share premium reserve	406,2	-	-	406,2
Retained earnings (deficit)	(30,9)	(10,5)	17,2	(24,2)
Other reserves	-	-	(0,8)	(0,8)
Translation difference	(10,5)	10,5	-	-
Total shareholders' equity attributable to the Group	414,0	-	16,4	430,4
Shareholders' equity attrib. to minority shareholders	5,4	-	0,5	5,9
Total shareholders' equity	419,4	-	16,9	436,3
Total liabilities and shareholders' equity	1.588,0	11,9	9,9	1.609,8



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December 31, 2004	ITA GAAP	Reclass.	Adjust.	IFRS approved by the European Commission
(in Euro million)				
ASSETS				
Current assets				
Cash in hand and at banks	33,8	-	-	33,8
Trade receivables, net	220,3	57,8	(4,0)	274,1
Inventory, net	196,3	(0,1)	(4,0)	192,2
Other current receivables	59,9	(29,5)	1,3	31,7
Total current assets	510,3	28,2	(6,7)	531,8
Non-current assets				
Property, plant and equipment	184,1	1,1	10,6	195,8
Intangible assets	55,4	(32,2)	(2,0)	21,2
Goodwill	753,3	-	42,5	795,8
Investments in associates	10,2	-	-	10,2
Financial assets available-for-sale	11,0	(0,1)	(4,0)	6,9
Deferred tax assets	37,1	(0,2)	3,8	40,7
Other non-current assets	3,2	(1,4)	-	1,8
Total non-current assets	1.054,3	(32,8)	50,9	1.072,4
Total assets	1.564,6	(4,6)	44,2	1.604,2

December 31, 2004	ITA GAAP	Reclass.	Adjust.	IFRS approved by the European Commission
(in Euro milioni)				
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short term borrowings	98,8	26,1	(1,9)	123,0
Trade payables	173,8	(0,2)	-	173,6
Tax payables	19,2	-	-	19,2
Other current payables and accrued expenses	64,2	0,9	2,3	67,4
Provisions for risks and charges	-	0,1	-	0,1
Total current liabilities	356,0	26,9	0,4	383,3
Non-current liabilities				
Long term borrowings	746,6	(30,8)	2,2	718,0
Employee benefits	31,9	0,3	2,4	34,6
Provisions for risks and charges	7,5	(1,1)	-	6,4
Deferred tax liabilities	7,6	0,1	0,3	8,0
Other non-current liabilities	1,1	-	7,4	8,5
Total non-current liabilities	794,7	(31,5)	12,3	775,5
Total liabilities	1.150,7	(4,6)	12,7	1.158,8
Shareholders' equity				
Share capital	49,2	-	-	49,2
Share premium reserve	406,2	-	-	406,2
Retained earnings (deficit)	(45,6)	-	17,9	(27,7)
Other reserves	-	-	(6,3)	(6,3)
Translation difference	(0,7)	-	19,6	18,9
Total shareholders' equity attributable to the Group	409,1	-	31,2	440,3
Shareholders' equity attributable to minority shareholders	4,8	-	0,3	5,1
Total shareholders' equity	413,9	-	31,5	445,4
Total liabilities and shareholders' equity	1.564,6	(4,6)	44,2	1.604,2

The following table reports the reconciliation of the net equity, determined in accordance with the Italian Accounting Standards and the net equity determined in accordance with the IFRS approved by the European Commission:

<i>(in Euro million)</i>	January 1, 2004	December 31, 2004	Note
Shareholders' Equity as reported under Italian Gaap	419,4	413,8	
Trade receivables	(4,0)	(4,0)	(1)
Promotional and advertising material	(4,4)	(4,1)	(2)
Derivative instruments measured at fair value	0,3	(6,4)	(3)
Revaluation of property, plant and equipment	15,5	10,6	(4)
Start-up, research and development costs	(1,4)	(2,0)	(5)
Financial assets available for sale measured at fair value	(3,4)	(4,0)	(6)
Employee benefits	(1,1)	(4,2)	(7)
Provision for deferred currency transition	26,8	-	(8)
Debt issuance costs	(1,4)	(1,7)	(9)
Adjustments to convertible debts	2,3	1,9	(10)
Goodwill amortisation	-	42,5	(11)
Tax effect on reconciling items	(12,2)	3,5	(12)
Other	(0,2)	(0,5)	
Shareholders' Equity as reported under IFRS	436,3	445,4	

The following table reports the effects of reclassifications and adjustments, of the transition on the income statement relating to the year ended December 31, 2004:

December 31, 2004 <i>(in Euro million)</i>	ITA GAAP	Reclass.	Adjust.	IFRS approved by the European Commission
Net sales	939,8	0,8	4,1	944,7
Cost of sales	(383,5)	4,4	(2,4)	(381,5)
Gross profit	556,3	5,2	1,7	563,2
Selling and Administrative expenses	(441,2)	(9,0)	(0,8)	(451,0)
Amortization of goodwill	(42,6)	-	42,6	-
Other income and expenses, net	-	(0,7)	(0,2)	(0,9)
Operating income	72,5	(4,5)	43,3	111,3
Extraordinary expenses, net	(2,2)	2,2	-	-
Interest expenses and other financial charges, net	(36,4)	2,2	(35,2)	(69,4)
Income tax expenses	(31,3)	1,4	10,0	(19,9)
Net income	2,6	1,3	18,1	22,0
Net income attributable to minority interests	3,2	-	(0,1)	3,1
Net income/(loss) attributable to the Group	(0,7)	-	19,6	18,9

The following table reports the reconciliation of the net result for the year ended December 31, 2004, calculated according to the Italian Accounting Standards and the net result calculated according to the IFRS approved by the European Commission:

(in Euro million)	Note
Net income attributable to the Group under Italian Gaap	(0,7)
Depreciation of property, plant and equipment	(4,9) (4)
Start-up, development and research costs	(0,6) (5)
Employee benefits	(3,1) (7)
Provision for deferred currency translation	(26,8) (8)
Amortization of Goodwill	42,5 (11)
Income taxes	12,6 (12)
Other	(0,1)
Net income attributable to the Group under IFRS	18,9

Explanatory notes are provided below of the adjustments contained in the reconciliation of the balance sheet and income statement:

- (1) IAS 39, Paragraph 58, provides that an entity shall assess at each balance sheet whether there is any objective evidence that a financial asset or group of financial assets is impaired. At the transition date an assessment was made and some trade receivables had a book value lower than the current value of the expected future financial cash flows discounted at the original effective interest rate of the financial asset.
- (2) The adjustment relates to promotional and advertising materials which in the financial statements prepared in accordance with the Italian Accounting Standards were recorded under inventories, while for IFRS purposes approved by the European Commission they should not be recorded in this account as they are not considered inventories in accordance with IAS 2, Paragraph 6.
- (3) The adjustment relates to the effects connected to the fair value that, in accordance with IAS 39, Paragraph 46 for financial assets and Paragraph 47, Point (a) for financial liabilities, shall be made for all derivative instruments. In the Italian Accounting Standards the hedging operations must not be valued, but contribute to the formation of the result for the period adjusting the item hedged to include the effects of the hedge.
- (4) The adjustment represents the effects of a different depreciation criteria on tangible fixed assets. In particular, the Italian Accounting Standards depreciate land together with buildings while IAS 16, Paragraph 58, provides that the quota relating to land shall not be depreciated. In addition, the estimated useful life of some assets were reviewed whose effects in relation to the financial statements prepared in accordance with the Italian Accounting Standards were adjusted in 2003, while in compliance with IFRS 1, Paragraph 7, the effects were calculated as if the assets were always depreciated in accordance with the re-determined useful life.

- (5) Based on the Italian Accounting Standards, the Group capitalised some costs, principally relating to expansion and set-up costs incurred for the issuing of equity and company registration fees. IAS 32, Paragraph 37, provides that the transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax effect. The costs relating to company registration fees do not satisfy the requisites required by IAS 38, Paragraphs 9 and 10, for the accounting of an intangible asset, and therefore shall be recognised in the income statement when incurred.
- (6) The adjustment relates to the valuation of the investments classified as financial assets available-for-sale. These investments were classified in the financial statements prepared in accordance with the Italian Accounting Standards as financial assets and measured at cost, and adjusted for permanent impairment in value. In accordance with IAS 39, Paragraphs 46 and 55 point (b), these investments are measured at fair value and the gains and losses are recorded in a separate equity reserve which must be charged to the income statement when the gain or loss is realised on sale.
- (7) The adjustment relates to the valuation of the existing liabilities against the employee benefits to be paid after termination of employment, including the employee leaving indemnity due by the Italian companies. In accordance with the Italian Accounting Standards, the benefits are represented by liabilities determined in accordance with local legislation, while the rules contained in IAS 19, Paragraph 50, provide for their calculation through the use of technical actuaries.
- (8) As required by IAS 21, Paragraph 23, the payables and receivables in currencies other than the Euro shall be translated at the balance sheet date, recording the effects deriving from changes in the value relating to the movement in exchange rates in the income statement of the year even if not yet realised. In the financial statements prepared in accordance with the Italian Accounting Standards in force at January 1, 2004, the changes originating from foreign currency movements relating to long-term receivables and payables were suspended until their realisation.
- (9) The adjustment relates to the different accounting treatment of the costs incurred on loans received. In particular, in accordance with the Italian Accounting Standards, these costs were capitalised under intangible assets and amortised over the duration of the loan, while IAS 39, Paragraph 43, provides that these costs shall be recorded as a direct reduction of the amount of the loans received and amortised applying the criteria of the effective interest rate.
- (10) The adjustment relates to the accounting of the convertible bond. In particular, in accordance with the Italian Accounting Standards the bond shall be accounted for based on the sums received, without a separate valuation of the convertible option. In accordance with IAS 32, Paragraphs 15, 28 and 29, the convertible option shall be valued at the issuance date of the bond and recorded in an equity reserve and as a reduction/increase of the bond; this loan is then accounted for in accordance with the amortised cost method, applying the effective interest rate criteria.
- (11) This adjustment relates to the reversal of the amortisation on the goodwill made in 2004. In accordance with the Italian Accounting Standards, the goodwill is amortised over 20 years, while IFRS 3, Paragraph 55, provides that the goodwill shall not be amortised. Instead, the acquirer shall assess it for impairment annually. This assessment was made at the transition

date to the IFRS (January 1, 2004), and at December 31, 2004 and no impairment emerged.

- (12) The adjustment relates to the effect of the deferred taxes calculated on the IFRS adjustments approved by the European Commission previously described. The recording of the deferred taxes was performed in accordance with the provisions contained in IAS 12, Paragraphs 15, 24 and 61.

The reclassifications contained in the reconciliations of the balance sheets and income statements reported above are principally attributable to the method adopted for the accounting of the transfer of trade receivables made through a securitisation programme and factoring operations. In particular, in 2003 a securitisation operation took place through the incorporation of a vehicle company (Law 130/99), in which a portfolio of receivables was initially ceded for an amount of Euro 76.4 million. This vehicle financed the acquisition of the above-mentioned receivables through the issue of quoted securities. At January 1, 2004, the value of the receivables ceded and not yet received amounted to Euro 75.0 million. In January 2004, the Group closed the securitisation operation and undertook an operation to place the trade receivables with a factoring company. The balance of the trade receivables ceded to the factoring company at December 31, 2004 and not yet received at that date amounted to Euro 58.1 million.

In relation to the preparation of the financial statements in accordance with Italian Accounting Standards, the trade receivables ceded both through securitisation operations and with recourse clauses, were derecognised from the financial statements in accordance with accounting standard No. 15 issued by the Italian Accounting Board (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri). In addition, the above-mentioned vehicle company was not consolidated as the Group did not have any holding, and in any case the companies incorporated in accordance with Law 130/99 must record the receivables acquired and the payables contracted under the line and therefore off-balance sheet; therefore the consolidation of these vehicles would not have resulted in the recording of the receivables ceded and the payables contracted of the vehicle.

With reference to the preparation of the financial statements prepared in accordance with the IFRS approved by the European Commission, in application of the SIC 12, which governs the consolidation of vehicle companies, it was determined that the vehicle was controlled by the Group and that therefore it should be consolidated by the Group. In addition, the receivables and payables acquired by the vehicle were accounted "above the line", with consequent representation of these amounts in the balance sheet at January 1, 2004. In relation to the transfer operations of trade receivables to the factoring company, it was determined that the conditions did not exist as required by IAS 39, Paragraphs 17 and thereafter, for the de-recognition from the balance sheet and therefore they were recorded in the financial statements, and a payable was recorded to the factoring company. In particular, the Group considered following the transfer of the trade receivables to the factoring company that it continued to substantially maintain the benefits and risks connected to the receivables ceded, in that the guarantee provided to the assignee in the case of non-payment by the debtors was above the risk historically experienced on the clients. This guarantee contained a minimum threshold of Euro 1.5 million per year, whereby the factoring company does not recognise insolvencies reported by Safilo up to that amount and therefore the risk of insolvency of the debtor remains with Safilo.

Below is reported the effects as at January 1, 2004 of the above-mentioned reclassification:

- increase in trade receivables of Euro 75.0 million, relating to the amount of receivables ceded to SPE;
- increase in financial payables, with a consequent deterioration in the net debt of Euro 50.0 million, relating to the payables of SPE to third party lenders;
- increase in liquidity of Euro 13.0 million, relating to the liquidity of SPE;
- decrease of other receivables of Euro 37.5 million, represented by the receivable that the Issuer has from SPE.

With regard to the effects of the reclassification described above at December 31, 2004, they can be summarised as follows:

- increase in trade receivables of Euro 58.1 million, relating to the amount of receivables ceded to a factoring company;
- increase of the financial payables, with consequent deterioration of the net debt of Euro 26.5 million, represented by the advance given to Safilo by the factoring company;
- decrease of the other current assets of Euro 31.6 million, represented by the receivables from the factoring company for the transfers not yet paid by the factoring company.

In addition the reclassifications contained in the reconciliations of the balance sheets and income statements shown above report the costs incurred for obtaining the Senior Loan and for the issue of the High Yield Bond, which for the Italian Accounting Standards were shown under intangible fixed assets, while for the IFRS approved by the European Commission they were recorded as a reduction of the payables contracted. This reclassification amounts to Euro 37.3 million and 31.6 million respectively at January 1, 2004 and at December 31, 2004.

Reconciliation of the statement of cash flows

The following table reports the effects relating to the transition on the cash flow statement for the year ended December 31, 2004:

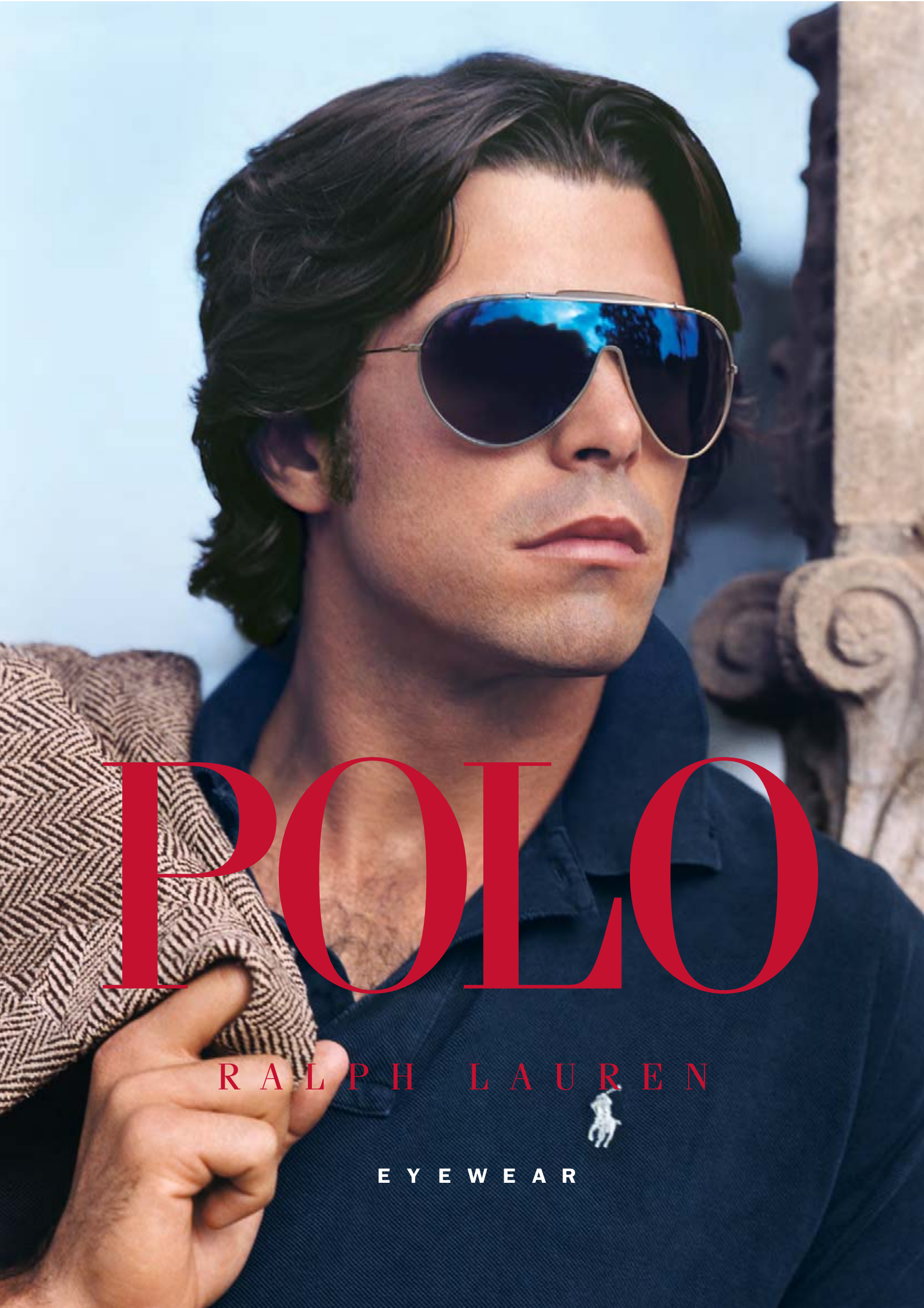
December 31, 2004 (in Euro million)		ITA GAAP	Delta	IFRS approved by the European Commission	Note
A -	Cash and cash equivalents at the beginning of the period	10,6	13,0	23,6	(a)
B -	Cash flows from (for) operating activities				
	Net income for the period (including minority interests)	2,5	19,5	22,0	(b)
	Amortisation and depreciation	79,8	(44,3)	35,5	(c)
	Decrease in fees (amortised cost)	-	4,7	4,7	
	Share (income) loss on equity investments	0,9	(0,1)	0,8	
	Stock option	3,1	3,1	6,2	(d)
	Employee benefits	(30,5)	26,0	(4,5)	(e)
	Income from operating activities prior to movements in working capital	55,8	8,9	64,7	
	(Increase)/Decrease in trade receivables and other current receivables	(10,4)	11,8	1,4	(f)
	(Increase) Decrease in inventory, net	(36,8)	(0,3)	(37,1)	(g)
	Increase (Decrease) in trade payables and other current payables and accrued expenses	32,8	(6,2)	26,6	(h)
	Total (B)	41,4	14,2	55,6	
C -	Cash flows from (for) investing activities				
	Purchase of property, plant and equipment (net of disposals)	(27,8)	1,1	(26,7)	
	Acquisition of investments in associates and financial assets	(0,1)	0,4	0,3	
	Disposal of investments in associates and financial assets	-	0,2	0,2	
	Purchase of intangible assets	(3,2)	0,7	(2,5)	
	Total (C)	(31,1)	2,4	(28,7)	
D -	Cash flows from (for) financing activities				
	Proceeds from borrowings	29,9	-	29,9	
	Repayment of borrowings	(24,3)	(24,7)	(49,0)	(f)
	Dividends paid	(3,1)	-	(3,1)	(i)
	Total (D)	2,5	(24,7)	(22,2)	
E -	Cash flows for the year (B+C+D)	12,8	(8,1)	4,7	
	Effect of exchange rates	(5,2)	0,4	(4,8)	
	Other movements in shareholders' equity	-	(5,3)	(5,3)	(j)
F -	Cash and cash equivalents at the end of the period	18,2		18,2	

Explanatory notes are provided below on the differences in the cash flow reconciliation relating to the year 2004:

- (a) The change follows the effect of the different criteria for recording the securitisation operations between IFRS approved by the European Commission and the Italian Accounting Standards.
- (b) The changes represent the effects on net profit as a consequence of the application of the IFRS approved by the European Commission. This difference is shown in detail in the above reconciliation of the net profit determined in accordance with the Italian Accounting Standards and the net profit determined in accordance with the IFRS approved by the European Commission.
- (c) The change represents for Euro 37.6 million the different criteria for the calculation of amortisation and depreciation between the IFRS approved by the European Commission and the Italian Accounting Standards on goodwill and on tangible assets as described in detail in the preceding notes 4 and 11.
- (d) The nature of the change is described in detail in note 7 of the preceding table.
- (e) The change principally refers to the different accounting treatment between IFRS approved by the European Commission and the Italian Accounting Standards in relation to recording the effects of the translation of foreign currency payables and receivables from that of the Euro, described in detail in note 8 of the previous table.
- (f) The change is principally due to the combined effect of the reclassification relating to the securitisation and factoring described with reference to the reconciliation of the net equity determined in accordance with the Italian Accounting Standards and the net equity determined in accordance with the IFRS approved by the European Commission.
- (g) The change represents the different criteria for the recording of the inventories described in note 2 of the previous table.
- (h) The change is principally represented by the recording of the deferred taxes on the accounting adjustments consequence of the transition to the IFRS approved by the European Commission.
- (i) Relates to the profits distributed to the minority shareholders by the subsidiary companies of the Issuer.
- (j) The change represents the combined effects relating to the valuation of the financial assets available-for-sale whose change in the fair value is recorded in a specific equity reserve (see note 6 of the previous table) and in particular the criteria required by the IFRS approved by the European Commission for the recording of employee benefits given under the form of stock options.



**REPORT OF INDEPENDENT AUDITORS
TO THE CONSOLIDATED ANNUAL REPORT**



POLO

RALPH LAUREN



EYEWEAR

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of
Safilo Group SpA

- 1 We have audited the consolidated financial statements of Safilo Group SpA and its subsidiaries, which comprise the balance sheet, income statement, cash flow statement, statement of recognized income and expense and the related notes as of 31 December 2005. These consolidated financial statements are the responsibility of Safilo Group's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The responsibility for the audit of the financial statements of certain subsidiaries and associated companies, representing 1,4 per cent of the consolidated assets and 4,5 per cent of consolidated net sales, is that of other auditors.

- 3 The consolidated financial statements present the prior year corresponding figures prepared in accordance with the same accounting principles. Furthermore, note 10 to the consolidated financial statements, explains the effects of the transition to IFRS as adopted by the European Union. As shown in the note 10.1 the Directors have modified the information related to the transition to IFRS, which have been formerly approved and included

in the Offering Memorandum prepared in connection to the global offering and related admission to the automated screen-based stock market of Borsa Italiana of the Safilo Group SpA's ordinary shares. These "Reconciliation Schedules" have been audited by us and reference is made to our report dated 14 September, 2005. The information presented in note 10 have been audited by us to provide a reasonable basis for our opinion on the consolidated financial statement at 31 December 2005.

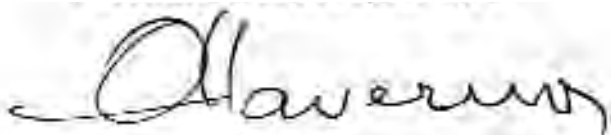
- 4 In our opinion, the consolidated financial statements of Safilo Group as of 31 December 2005 comply with IFRS as adopted by the European Union; accordingly, they give a true and fair view of the financial position, the results of operations, the recognized income and expense and cash flows of Safilo Group for the year then ended.

Padua, 12 April 2006

(This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation)

PricewaterhouseCoopers SpA

signed by



Antonio Taverna
(Partner)

Safilo S.p.A. - Italy
Safilo Australia - Sydney
Safilo Austria - Linz
Safilo Benelux - Bruxelles
Safilo do Brasil - São Paulo
Safilo Canada - Montreal
Safilo China - Shenzhen
Safilo España - Madrid
Safilo Far East - Hong Kong
Safilo France - Paris
Safilo Germany - Köln
Safilo Hellas - Athens
Safilo Hong Kong - Hong Kong
Safilo India - Mumbai
Safilo Japan - Tokyo
Safilo Latin America - Miami
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Carrera Optyl - Ormoz (Slovenia)
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