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as of March 31, 2006

Safilo S.p.A.

Date of issue: May 15, 2006

This Quarterly Report is available on the website:

www.safilo.com

SAFILO S.P.A.

Settima Strada, 15

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Contents

CORPORATE OFFICERS	4
1. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS.....	5
2. SELECTED ECONOMIC AND FINANCIAL DATA	6
3. SUBSEQUENT EVENTS	11
4. CONSOLIDATED FINANCIAL STATEMENTS	12
5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2006 AND DECEMBER 31, 2005 AND FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005	17
6. NOTES TO THE CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2006 AND DECEMBER 31, 2005	20
7. NOTES TO THE CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005	38
8. RELATED PARTY TRANSACTIONS	44
9. CONTINGENT LIABILITIES.....	45
10. COMMITMENTS	45
FORWARD-LOOKING STATEMENTS.....	46

Corporate Officers

Board of Directors

<i>Chairman</i>	Vittorio Tabacchi
<i>Vice-Chairman</i>	Giannino Lorenzon
<i>Chief Executive Officer</i>	Roberto Vedovotto
<i>Directors</i>	Ennio Doris Carlo Gilardi Riccardo Ruggiero Massimiliano Tabacchi

Board of Statutory Auditors

<i>Chairman</i>	Franco Corgnati
<i>Regular Auditor</i>	Lorenzo Lago
<i>Regular Auditor</i>	Paolo Mazzi
<i>Alternate member</i>	Ornella Rossi
<i>Alternate member</i>	Giampietro Sala

Internal Control Committee

<i>Chairman</i>	Carlo Gilardi Ennio Doris Riccardo Ruggiero
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Remuneration Committee

<i>Chairman</i>	Carlo Gilardi Riccardo Ruggiero Roberto Vedovotto
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Independent Auditors

PricewaterhouseCoopers S.p.a.

1. Management's discussions and analysis of results of operations and financial conditions

1.1 General information

Safilo S.p.A., holding company, is a limited liability company registered in Italy. The registered office is located in Pieve di Cadore (BL) – Piazza Tiziano 8, whilst the administrative headquarters are located in Padua – Industrial Zone, VII strada 15.

Companies included in the consolidation area are reported in the paragraph 5.2 "Consolidation method and consolidation area".

1.2 Activities of the Group

Safilo is the second largest eyewear producer worldwide and the worldwide leader in the eyewear luxury segment and 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. 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 1,300 persons.

The Group brands include *Safilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay* while the 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*, *Max Mara*, *Nine West*, *Oliver*, *Pierre Cardin*, *Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino* and *Yves Saint Laurent*.

2. Selected economic and financial data

2.1 Introduction

The first quarter 2006 results confirmed the growth trend, both in terms of turnover and operating profit, recently highlighted. A significant increase in net income occurred as a result of the lower incidence of interest expenses.

Net sales were extremely positive, particularly in the U.S. and the Far East, and thanks to a positive exchange rate effect. Europe, meanwhile, was penalized by a production capacity lower than market demand and could not fully develop its potential, yet managed to grow substantially in some important markets such as Italy and UK.

Operating income showed a slight increase as a consequence of the combined effect of different factors such as the first effects of the industrial reorganization with the grouping, during the first half of January, of the three industrial plants.

The net income more than doubled compared with the first quarter of 2005 thanks to the net sales increase and the lower incidence of interest expenses as a result of the improved financial position of the Group.

First quarter 2006 cash flows, even if negative as a consequence of the normal seasonality of turnover, however have improved when compared to the same period of the previous year, as a result of both increased profitability and better net working capital control.

2.2 Sales Analysis

The net sales of the Group in the first 3 months of 2006 amounted to Euro 302.1 million, an increase of 7.5% compared to the Euro 281.0 million recorded in the same period of the previous year. At constant exchange rates the increase would have been 3.3%.

The strong growth of sunglasses sales was once again confirmed (+13.4%) while the sale of prescription frames remains stable (-0.7%).

An analysis of the turnover subdivided between licensed and house brands shows largely similar sales figures for these two segments, indicating the overall appreciation of the various collections presented by the Group.

From a geographical point of view the highest growth in sales was seen in America where turnover increased by 19.4% (also due to a positive exchange rate effect without which the increase would however have been approximately 9%). Impressive results were also seen in the Far East (+17.0%) and in Italy (+10.2%).

Net sales by Geographic region (millions of Euro)	Quarter 1 2006	%	Quarter 1 2005	%	Change %
Italy	39.9	13.2	36.2	12.9	10.2
Europe (excluding Italy)	94.3	31.2	103	36.7	(8.4)
The Americas	119.3	39.5	99.9	35.5	19.4
Asia Pacific	35.8	11.9	30.6	10.9	17.0
Other	12.8	4.2	11.3	4.0	13.3
Total	302.1	100.0	281.0	100.0	7.5

Net sales by Product (millions of Euro)	Quarter 1 2006	%	Quarter 1 2005	%	Change %
Prescription frames	107.4	35.6	108.2	38.5	(0.7)
Sunglasses	177.5	58.7	156.5	55.7	13.4
Sports products	13.2	4.4	12.3	4.4	7.3
Other	4.0	1.3	4.0	1.4	0.0
Total	302.1	100.0	281.0	100.0	7.5

Italy: The sales in the Italian market (+10.2%) continue the growth recorded in 2005 trend evident during the course of 2005, with a similar increase for both prescription frames and sunglasses. Brands which recorded particularly impressive performances were *Armani*, *Gucci*, *Valentino* and the house brand *Safilo*.

Europe (excluding Italy): The significant increase in production capacity has not allowed us to entirely satisfy market demand, however specific brands such as *Armani*, *Diesel*, *Valentino* and house brands in general have enjoyed considerable growth. At a national level good increases in sales were seen in Germany, the United Kingdom and the northern European countries in general.

The Americas: Sales in the American market are strong. Even without the positive exchange rate effect deriving from the strengthening of the US Dollar and the expansion of the Solstice retail chain, turnover in the U.S.A. would however have shown a 7% growth, with slightly better results in the sunglasses sector compared to the sales of prescription frames. As far as individual brands are concerned sales of *Armani*, *Dior*, *Gucci* and the own brand *Smith* in the sports sector were particularly impressive.

The Solstice retail chain, at March 31st, numbered 55 stores.

Asia Pacific: The Asian market continues to provide the Group with impressive growth in sales (+17.0% at current exchange rates; +10.9% at constant exchange rates). Sales were strong both in the sunglass and prescription frame sectors. Particularly notable results were registered in Australia, China and Hong Kong. The growth in the brands *Armani*, *Dior* and *Gucci* was particularly strong.

2.3 Economic results

Consolidated statement of operations					
<i>(millions of Euro)</i>	Q1 2006	%	Q1 2005	%	Change
					%
Net sales	302.1	100.0	281.0	100.0	7.5
Cost of sales	(117.0)	(38.7)	(112.6)	(40.1)	3.9
Gross profit	185.1	61.3	168.4	59.9	9.9
Selling and marketing expenses	(111.8)	(37.0)	(102.3)	(36.4)	9.3
General and administrative expenses	(29.5)	(9.8)	(26.3)	(9.4)	12.2
Other income/(expenses), net	0.2	0.1	0.1	0.0	100.0
Operating income	44.0	14.6	39.9	14.1	10.3
Interest expense and other financial charges, net	(13.3)	(4.4)	(18.9)	(6.7)	(29.6)
Income before taxation	30.7	10.2	21.0	7.4	46.2
Income tax expenses	(12.6)	(4.2)	(12.5)	(4.4)	0.8
Net income	18.1	6.0	8.5	3.0	112.9
Net income attributable to minority interests	1.1	0.4	1.2	0.4	(8.3)
Net income attributable to the Group	17.0	5.6	7.3	2.6	132.9
EBITDA	53.1	17.6	48.6	17.3	9.3

Group operating income improved more than 10% when compared to the same period of the previous year (from Euro 39.9 million in the first quarter of 2005 to Euro 44.0 million in the first quarter of 2006) as a result of turnover growth and a slight increase in margins.

EBITDA for the first quarter 2006 Group amounted Euro 53.1 million (equal to 17.6% of net sales) compared to Euro 48.6 million (equal to 17.3% of net sales) in the same period of 2005.

Profitability improvement was particularly significant at gross profit level driven by the positive effect deriving from U.S. Dollar strengthening and the first results of the Group industrial reorganization.

The increased incidence of selling and marketing and general and administrative expenses, both due to exchange rate effect and a rise in payroll costs as a result of a higher number of employees in the first quarter of 2006, contained operating income improvement.

Interest expenses reduced significantly due to the improved Group financial position and the lack of effects deriving from changes in foreign exchange rates which had negatively impacted the first quarter of 2005.

Group net income for the first quarter of 2006 increased by 132.9% from Euro 7.3 million in the first quarter of 2005 to Euro 17.0 million in the same period of 2006.

2.4 Balance sheet and financial situation

Condensed consolidated balance sheet			
<i>(millions of Euro)</i>	March 31, 2006	December 31, 2005	Change
Property, plant and equipment, net	192.7	193.6	(0.9)
Intangible assets	24.4	25.6	(1.2)
Goodwill	364.8	365.1	(0.3)
Other non current assets	73.0	71.3	1.7
Total non current assets	654.9	655.6	(0.7)
Net working capital	320.9	290.4	30.5
Total capital invested	975.8	946.0	29.8
Employee benefits liability and provision for risks	62.2	59.1	3.1
Net debt position	508.6	501.2	7.4
Shareholders' equity attributable to the Group	398.5	380.2	18.3
Shareholders' equity attributable to minority shareholders	6.5	5.5	1.0
Total capital invested	975.8	946.0	29.8

Condensed consolidated statements of cash flows			
<i>(millions of Euro)</i>	Q1 2006	Q1 2005	Change
Cash and cash equivalent at the beginning of the period	25.9	18.2	7.7
Net income	18.1	8.5	9.6
Depreciation and amortization	9.1	8.7	0.4
Other non monetary items	0.6	1.1	(0.5)
Interest expenses and income tax expense	12.3	15.8	(3.5)
Movements in working capital	(47.8)	(67.2)	19.4
Cash flows from operating activity	(7.7)	(33.1)	25.4
Cash flows used in investing activities	(7.6)	(5.6)	(2.0)
Dividends paid	(0.2)	(0.2)	0.0
Repayment of borrowings	(0.6)	(0.8)	0.2
Preceeds from borrowings	11.4	45.1	(33.7)
Cash flows for investing and from financing activities	3.0	38.5	(35.5)
Effect of exchange rates	(0.3)	1.4	(1.7)
Other movements in shareholders' equity	3.6	0.2	3.4
Cash and cash equivalents at the end of the period	24.5	25.2	(0.7)

Cash flows from operating activity

Cash flows from operating activity during the first quarter of 2006, even if negative as a result of the seasonality of net sales, showed a significant improvement when compared to the same period of the previous year. This positive effect derived, in addition to the increased net income, from a more

efficient management of working capital. It is important to note that working capital, as a percentage of net sales, is consistently improving and particularly very positive results were achieved both for cash collections and for trade payables whilst inventory shows a slight increase in particular in some foreign subsidiaries.

Cash flows for investing activities

Cash outflows in investment activities increased by Euro 2.0 million when compared to the same period of the previous year and mainly refer to the replacements of equipment in the facilities and to the new opening of the Solstice stores.

Cash flows from financing activities

Financing activities generated lower cash flows as a consequence of a reduced level of liquidity borrowed during the first quarter of 2006. During the first three months of 2005 the Group, in order to support its temporary financial needs was granted a short term loan for a total amount of approximately Euro 45 million related to the revolving facility of the Senior Loan.

2.5 Personnel

Group personnel as of March 31, 2006, December 31, 2005 and March 31, 2005 is shown in the following table:

	As of March 31, 2006	As of December 31, 2005	As of March 31, 2005
Padua headquarters	798	765	734
Production plants	4,210	4,192	4,294
Commercial subsidiaries	1,071	1,053	1,031
Solstice	341	374	236
Total	6,420	6,384	6,295

3. Subsequent events

On April 12, 2006 Safilo Group announced the extension to 2013 of the current licensing agreement with Max Mara. On the same date the two companies reached an important new agreement that foresees the development and distribution of glasses under the Max&Co. brand. The launch of the new Max&Co. collection, which will be primarily dedicated to a market with a young and fashionable target, is planned for 2007. This agreement will also expire in 2013.

There were no other events that could be considered to significantly affect the data contained in the present report.

4. Consolidated Financial Statements

Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005

(Euro/000)	Note	31/03/2006	31/12/2005
ASSETS			
Current assets			
Cash in hand and at banks	6.1	34,400	151,018
Trade receivables, net	6.2	340,994	307,558
Inventory, net	6.3	212,766	208,802
Assets held for sale	6.4	2,956	2,984
Derivative financial instruments	6.5	1,263	-
Other current receivables	6.6	61,579	64,733
Total current assets		653,958	735,095
Non-current assets			
Property, plant and equipment, net	6.7	192,712	193,603
Intangible assets	6.8	24,368	25,580
Goodwill	6.9	364,752	365,121
Investments in associates	6.10	13,187	13,492
Financial assets available-for-sale	6.11	6,939	6,009
Deferred tax assets	6.12	49,536	49,279
Derivative financial instruments	6.5	1,950	1,268
Other non-current assets	6.13	1,348	1,303
Total non-current assets		654,792	655,655
Total assets		1,308,750	1,390,750

(Euro/000)	Note	31/03/2006	31/12/2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	6.14	74,351	184,006
Trade payables	6.15	188,419	182,633
Tax payables	6.16	25,158	20,870
Derivative financial instruments	6.5	-	878
Other current liabilities	6.17	76,281	79,423
Provision for risks and charges	6.18	340	128
Total current liabilities		364,549	467,938
Non-current liabilities			
Long-term borrowings	6.19	468,586	468,242
Employee benefits liability	6.20	40,886	39,365
Provisions for risks and charges	6.18	8,504	8,644
Deferred tax liabilities	6.12	12,453	10,969
Derivative financial instruments	6.5	2,322	3,271
Other non-current liabilities	6.21	6,531	6,565
Total non-current liabilities		539,282	537,056
Total liabilities		903,831	1,004,994
Shareholders' equity			
Share capital	6.22	35,000	35,000
Share premium reserve	6.23	53,350	53,350
Retained earnings and other reserves	6.24	294,038	285,326
Fair value and cash flow reserves	6.25	(929)	(3,899)
Income attributable to the Group		17,002	10,442
Total shareholders' equity attributable to the Group		398,461	380,219
Shareholders' equity attributable to minority shareholders		6,458	5,537
Total shareholders' equity		404,919	385,756
Total liabilities and shareholders' equity		1,308,750	1,390,750

Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005

(Euro/000)	Note	Q1 2006	Q1 2005
Net Sales	7.1	302,125	280,961
Cost of Sales	7.2	(117,008)	(112,567)
Gross Profit		185,117	168,394
Selling and marketing expenses	7.3	(111,846)	(102,274)
General and administrative expenses	7.4	(29,538)	(26,325)
Other income/(expenses), net	7.5	247	85
Operating income		43,980	39,880
Share of income/(loss) of associates	7.6	38	(9)
Interest expense and other financial charges, net	7.7	(13,317)	(18,920)
Income before taxation		30,701	20,951
Income tax expenses	7.8	(12,589)	(12,447)
Net income		18,112	8,504
Net income attributable to minority interests		1,110	1,182
Net income attributable to the Group		17,002	7,322

Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005

(Euro/000)	Q1 2006	Q1 2005
Cash flows from operating activities		
Net income	18,112	8,504
Depreciation and Amortization	9,078	8,695
Share income on equity investments	(968)	(371)
Net movements in the employee benefits liability	1,538	1,082
Net movements in other provisions	83	411
Interest expenses	11,282	14,895
Income tax expense	12,588	12,447
Income from operating activities prior to movements in working capital	51,713	45,663
Changes in operating Assets and Liabilities		
(Increase) Decrease in trade receivables and other current receivables	(33,298)	(56,498)
(Increase) Decrease in inventory, net	(5,967)	8,930
Increase (Decrease) in trade payables and other current payables	(8,540)	(19,648)
Interest expenses paid	(6,546)	(6,718)
Income taxes paid	(5,017)	(4,753)
A - Net Cash (used in) operating activities	(7,655)	(33,024)
Cash Flows from investing activities		
Purchase of property, plant and equipment (net of disposals)	(7,084)	(5,171)
Purchase of intangible assets	(481)	(391)
B - Net Cash (used in) investing activities	(7,565)	(5,562)
Cash Flows from Financing activities		
Proceeds from borrowings	11,423	45,106
Repayment of borrowings	(542)	(806)
Dividends paid	(249)	(220)
C - Net Cash provided by financing activities	10,632	44,080
Effect of exchange rates	(341)	1,355
Other movements in shareholders' equity	3,550	230
Net increase in cash and cash equivalents	3,209	1,585
D - Cash and cash equivalents at the beginning of the period	25,866	18,151
E - Cash and cash equivalents at the end of the period	24,487	25,230

Consolidated Statement of recognised income and expense for the three months ended March 31, 2006 and 2005

(Euro/000)	Note	Q1 2006	Q1 2005
Cash flow hedges	6.25	1,504	(151)
Financial assets available-for-sale	6.25	930	380
Actuarial gain/losses		478	-
Translation differences		(2,250)	2,088
Other movements		(287)	-
Total		375	2,317
Net income for the period		18,112	8,504
Total recognized income for the year		18,487	10,821
Net income attributable to the Group		17,002	7,322
Income and expenses attributable to the Group		315	2,289
Total		17,317	9,611
Net income attributable to minority interests		1,110	1,182
Income and expenses attributable to minorities		60	28
Total		1,170	1,210
Total profit (loss)		18,487	10,821

5. Notes to the Consolidated Financial Statements as of March 31, 2006 and December 31, 2005 and for the three months ended March 31, 2006 and 2005

5.1 General information

Economic and financial information is provided with reference to the three months period ended March 31, 2006 and 2005, whilst balance sheet information is provided with reference to March 31, 2006 and December 31, 2005.

Accounting policies adopted for the preparation of this interim consolidated financial report have been applied in a comparative manner for both financial periods presented. They are also consistent with those applied for the Group IFRS annual consolidated financial statements as of December 31, 2005.

This Quarterly Report and the related consolidated financial data have been prepared in accordance with Consob regulations n. 11971 dated May 14, 1999 as modified by Consob resolution n. 14990 dated April 14, 2005.

The consolidated financial information reported for the period ended March 31, 2006 was prepared also in accordance with the IFRS issued by the *International Accounting Standards Board* and approved by the European Commission as at December 31, 2005. In particular, this interim financial report has been prepared in accordance with IAS 34 – *Interim Financial Reporting*.

5.2 Consolidation method and consolidation area

The direct and indirect holdings, included in the consolidation scope under the line-by-line method, are the following:

	value	Share capital	Quota held %
ITALIAN COMPANIES			
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. (Luxembourg)	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 - Cologne (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 (Brazil)	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.- Sydney (Australia)	AUD	3,000,000	100
Safilo Australia Partnership – Sydney (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

5.3 Translation of financial statements in currencies other than the Euro

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

	As of March 31, 2006	As of December 31, 2005	As of March 31, 2005	Average for the three months ended March 31, 2006	Average for the three months ended March 31, 2005
USD	1.2104	1.1797	1.2964	1.2023	1.3113
HKD	9.3923	9.1474	10.111	9.3273	10.2257
CHF	1.5801	1.5551	1.5486	1.559	1.5488
CAD	1.4084	1.3725	1.5737	1.3894	1.6083
JPY	142.42	138.9	138.4	140.5132	137.0126
GBP	0.6964	0.6853	0.6885	0.6862	0.6936
SEK	9.4315	9.3885	9.143	9.3525	9.0736
AUD	1.6997	1.6109	1.6763	1.6274	1.691
ZAR	7.5066	7.4642	8.0898	7.4113	7.8793
SIT	239.56	239.5	239.73	239.5088	239.7361
BRL	2.6437	2.7432	3.4708	2.6409	3.4975
IND	54.0109	53.1679	56.733	53.3708	57.3218
SGD	1.9582	1.9628	2.1377	1.9552	2.1452
MYR	4.458	4.4584	4.9263	4.4814	5.1695
CNY	9.7038	9.5204	10.7341	9.6793	10.8575

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.

5.4 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 according to the prevailing circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the various accounts in the financial statements, which uses the above-mentioned estimates and assumptions, may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

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

6. Notes to the Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005

6.1 Cash in hand and at banks

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

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Cash in hand and cash held at banks	34,400	151,018
Total	34,400	151,018

The significant decrease compared to the previous year is due to the definitive use of IPO proceeds a portion of which, at December 31, 2005 was still present in Group current accounts. Such liquidity was used for the reimbursement of 35% of the bond (High Yield) and for the payment of the higher charges for a total amount of Euro 115,106 thousand in January 2006.

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

<i>(Euro/000)</i>	March 31, 2006	March 31, 2005
Cash in hand and cash held at banks	34,400	25,630
Bank overdrafts	(9,913)	(400)
Total	24,487	25,230

6.2 Trade receivables, net

This account is comprised as follows:

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Gross value	363,869	328,928
Allowance for doubtful accounts	(22,875)	(21,370)
Net value	340,994	307,558

At parity of exchange rates, net trade receivables increased by Euro 35,471 thousand, due in particular to the increase in sales in the first quarter of 2006 compared to the same period of 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 accrual for products supplied to clients which, in

accordance with specific contractual clauses, are expected to be returned as not placed with the final customer. This accrual is accounted for as a reduction of sales in the income statement.

The allowance for doubtful accounts also includes the accrual for insolvency accounted for in the income statement under “general and administrative expenses” (note 7.4).

6.3 Inventory, net

This account is comprised as follows:

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Raw materials	44,000	43,784
Work-in-progress	8,219	8,123
Finished products	180,761	176,272
Gross	232,980	228,179
Obsolescence provision	(20,214)	(19,377)
Total	212,766	208,802

Finished products slightly increased, in particular in foreign subsidiaries, when compared to the end of 2005, as a result of the seasonality of net sales.

For obsolete and slow moving items, a specific accrual, based on their possible future sale or use, has been accounted for. The accrual impacted upon the income statement at the line “cost of sales” (note 7.2).

The movements in the obsolescence provision were as follows:

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Translation difference	Balance as of March 31, 2006
Obsolescence provision	19,377	1,113	(276)	20,214
Totale	19,377	1,113	(276)	20,214

6.4 Assets held for sale

This account amounts to Euro 2,956 thousand and refers to the net book value of the building of the Austrian subsidiary Carrera Brillen (Traun), which is classified under current assets, due to the planned sale of the assets over a short period time frame.

6.5 Derivative financial instruments

The following table represents the amounts related to the derivative financial instruments contained in the balance sheet:

(Euro/000)	March 31, 2006	December 31, 2005
Current Assets		
- Foreign currency contracts	245	-
- Interest rate swaps	1,018	-
Total	1,263	-
Non current Assets		
- Options	1,950	1,268
Total	1,950	1,268
Current liabilities		
- Foreign currency contracts	-	878
Total	-	878
Non current liabilities		
- Interest rate swaps	2,322	3,271
Total	2,322	3,271

A summary of the characteristics and the fair value of the derivative contracts in force at March 31, 2006 and December 31, 2005 is shown below:

	March 31, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
	<i>(USD/000)</i>	<i>(Euro/000)</i>	<i>(USD/000)</i>	<i>(Euro/000)</i>
Foreign currency contracts				
Expiry year 2006	\$20,000	245	\$34,000	(878)
Total	20,000	245	34,000	(878)

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 coming financial periods.

A summary of the characteristics and the fair value of interest rate swap contracts in force at March 31, 2006 and December 31, 2005 is shown below:

(Euro/000)	March 31, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2007	189,886	1,018	-	-
Total	189,886	1,018	-	-

(Euro/000)	March 31, 2006		December 31, 2005	
	<i>Contractual value</i>	<i>Fair value</i>	<i>Contractual value</i>	<i>Fair value</i>
Expiry year 2007	-	-	164,080	537
Expiry year 2010	25,000	(1,002)	25,000	(1,681)
Expiry year 2011	25,000	(1,320)	25,000	(2,127)
Total	50,000	(2,322)	214,080	(3,271)

The market valuation of interest rate swap contracts was calculated by specialised financial institutions on the basis of normal market conditions.

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.

The fair value of the advanced repayment option included in the notes issued by the subsidiary Safilo Capital International S.A.. is reported among non current assets. 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 1,950 thousand.

6.6 Other current receivables

This account is comprised as follows:

(Euro/000)	March 31, 2006	December 31, 2005
Receivables from the holding company Safilo Group S.p.A.	33,092	33,818
VAT receivable	3,891	4,453
Tax credits and advance payments	7,200	11,445
Prepayments and accrued income	8,247	5,281
Receivables from sale agents	4,810	4,943
Other current receivables	4,339	4,793
Total	61,579	64,733

The receivables from our holding company Safilo Group S.p.A. refer to the following:

- for Euro 20,300 thousand to deferred tax assets recorded by Safilo S.p.A. during 2005 and attributed to its holding Company Safilo Group S.p.A. as a result of the fiscal regime (“consolidato fiscale nazionale”). The above fiscal regime, where Safilo Group S.p.A. is the holding company and Safilo S.p.A., Oxsol S.p.A. and Lenti S.r.l. are the subsidiaries, resulted in that the tax losses recorded by Safilo S.p.A. during financial year 2005 were transferred to the holding company. Receivables from the holding company represent the counterpart for fiscal benefits transferred to the holding company;
- for the remaining part to the costs incurred by Safilo S.p.A for the IPO process and recharged to its parent company Safilo Group S.p.A..

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 March 31, 2006 include:

- Prepaid advertising costs of Euro 2,574 thousand;
- Prepaid insurance premiums of Euro 672 thousand;
- Prepaid rent and operating leases of Euro 978 thousand;
- Prepaid royalties of Euro 1,523;
- Prepaid commercial costs of Euro 2,500.

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

Other short-term receivables relate to the receivable from the Italian Ministry of Industry ("Ministry") for Euro 1,257 thousand in relation to grants approved but not yet paid by the Ministry on loans that were extinguished in 2002. The remaining part mainly refers to receivables for insurance reimbursements and other short term receivables related to various Group companies.

6.7 Property, plant and equipment, net

(Euro/000)	Balance as of January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of December 31, 2005
Gross value						
Land and buildings	109,527	4,510	(1,025)	(5,444)	535	108,103
Plant and machinery	151,193	6,989	(2,061)	-	413	156,534
Equipment and other assets	105,785	18,339	(2,038)	-	4,540	126,626
Assets 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	20,473	3,440	(249)	(2,460)	99	21,303
Plant and machinery	80,406	11,265	(1,651)	-	172	90,192
Equipment and other assets	73,400	14,913	(1,897)	-	2,580	88,996
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

(Euro/000)	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of March 31, 2006
Gross value						
Land and buildings	108,103	88	-	-	(112)	108,079
Plant and machinery	156,534	1,685	(136)	-	(89)	157,994
Equipment and other assets	126,626	4,994	(252)	-	(1,021)	130,347
Assets under construction	2,831	1,522	-	(1,116)	(13)	3,224
Total	394,095	8,289	(388)	(1,116)	(1,235)	399,645
Accumulated depreciation						
Land and buildings	21,303	819	-	(27)	(21)	22,074
Plant and machinery	90,192	2,921	(104)	-	(39)	92,970
Equipment and other assets	88,996	3,674	(195)	-	(587)	91,888
Total	200,492	7,414	(299)	(27)	(647)	206,933
Net Book Value	193,603	875	(89)	(1,089)	(588)	192,712

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

6.8 Intangible assets

(Euro/000)	Balance as of January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of December 31, 2005
Gross value						
Software costs	6,972	970	-	-	197	8,140
Trademarks and licenses	33,827	7,618	-	-	65	41,510
Other intangible assets	17,740	416	(11,337)	-	342	7,162
Intangible assets in progress	162	-	-	(141)	11	32
Total	58,701	9,004	(11,337)	(141)	616	56,843
Accumulated amortization						
Software costs	5,257	1,304	(739)	-	120	5,941
Trademarks and licenses	14,818	3,986	-	-	14	18,819
Other intangible assets	17,400	288	(11,337)	-	152	6,503
Total	37,475	5,578	(12,076)	-	287	31,263
Net Book Value	21,226	3,426	739	(141)	330	25,580

(Euro/000)	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of March 31, 2006
Gross value						
Software costs	8,139	409	(6)	-	(29)	8,513
Trademarks and licenses	41,509	31	-	-	(13)	41,527
Other intangible assets	7,162	41	(865)	-	(50)	6,288
Intangible assets in progress	33	-	-	-	-	33
Total	56,842	481	(871)	-	(92)	56,360
Accumulated amortization						
Software costs	5,942	455	(6)	-	(14)	6,377
Trademarks and licenses	18,818	1,069	-	-	(3)	19,884
Other intangible assets	6,502	140	(865)	-	(46)	5,731
Total	31,262	1,664	(871)	-	(63)	31,992
Net Book Value	25,580	(1,183)	-	-	(29)	24,368

Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the three months ended March 31, 2006 and 2005 are divided into the following income statement accounts:

(Euro/000)	note	Three months ended March,	
		2006	2005
Cost of sales	7.2	5,673	6,027
Selling and marketing expenses	7.3	683	556
General and administrative expenses	7.4	2,722	2,112
Total		9,078	8,695

6.9 Goodwill

(Euro/000)	Balance as of January 1, 2005	Translation Difference	Balance as of December 31, 2005
Goodwill	363,161	1,960	365,121
Net Book Value	363,161	1,960	365,121

(Euro/000)	Balance as of January 1, 2006	Translation Difference	Balance as of March 31, 2006
Goodwill	365,121	(369)	364,752
Net Book Value	365,121	(369)	364,752

As reported in paragraph 5.4 “use of estimates” some valuation processes, in particular the most complex such as the calculation of permanent impairments in values for property, plant and equipment, intangible assets and goodwill, are made in full only for the preparation of the Annual financial statements when all the necessary information is available unless “impairment” indicators exist that require an immediate valuation of a potential loss in value.

6.10 Investments in associates

Investments in associates refer to the following:

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 consolidated subsidiary	Commercial
TBR Inc.	USA	33.33%	Associated company	Real Estate

The movements in investments in associates during the period were as follows:

(Euro/000)	31.12.2005			Movements of the period		
	Gross value	Reval. (Deval.)	Net book value	dividends (note 7.6)	Transl. diff.	Balance as of March 31, 2006
TBR Inc.	437	456	893	38	(23)	908
Elegance Ltd	5,406	6,887	12,293	-	(320)	11,973
Optifashion As	353	(47)	306	-	-	306
Total	6,196	7,296	13,492	38	(343)	13,187

There were no new acquisitions during the first three months of 2006. The changes compared to December 31, 2005 are mainly due to the gains realized in the quarter, net of the dividends distributed, and exchange rate effects.

The company Optifashion A.s., with its 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.

6.11 Financial assets available-for-sale

This 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.

(Euro/000)	% of share capital	Relationship	March, 31 2006	December 31, 2005
Banca Popolare Italiana S.p.A.	==	Other equity inv.	6,515	5,589
Safilens Srl	17.50%	Other equity inv.	209	209
Unicredit S.p.A.	==	Other equity inv.	172	168
Other	==	Other equity inv.	43	43
Total			6,939	6,009

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

(Euro/000)	31.12.2005			Movements of the period	
	Gross value	Reval. (Deval.)	Net book value	Increase	Balance as of March 31, 2006
Banca Popolare Italiana S.p.A.	10,198	(4,609)	5,589	926	6,515
Safilens Srl	209	-	209	-	209
Unicredit S.p.A.	48	120	168	4	172
Other	43	-	43	-	43
Total	10,498	(4,489)	6,009	930	6,939

6.12 Deferred tax assets and deferred tax liabilities

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Deferred tax assets	49,536	49,279
Deferred tax liabilities	12,453	10,969
Total, net	37,083	38,310

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 book carrying amount.

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.

<i>(Euro/000)</i>	Tax losses	Financial year	Expiring date	Calculated deferred tax assets	Transfer to holding company	Total deferred tax asset for tax losses
	26,313	2004	2009	8,683	-	8,683
	61,535	2005	2010	20,306	(20,306)	-
Total	87,848			28,989	(20,306)	8,683

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 tax value.

The most important account included in deferred tax liabilities mainly derives from the effects of the different criteria used in the calculation of the depreciation of the property, plant and equipment of Safilo S.p.A.

6.13 Other non-current assets

At March 31, 2006, the other non-current assets amount to Euro 1,348 thousand and mainly relate to deposits and other long-term receivables due to various Group companies.

6.14 Short-term borrowings

This account is comprised as follows:

(Euro/000)	March 31, 2006	December 31, 2005
Bank overdrafts	4,911	5,046
Short-term bank loans	15,002	5,000
Short-term portion of long-term loans	24,012	26,614
Short-term portion of High Yield bond	-	105,000
Payable for High Yield advance repayment	-	10,106
Short-term portion of financial leasing	2,411	3,436
Other short-term loans	28,015	28,804
Total	74,351	184,006

The short-term portion of the High Yield bond as of December 31, 2005 referred 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 charges paid as compensation to the bond holders following the advanced repayment.

Other short-term loans include, for an amount of Euro 27,713 thousand, a payable to a primary factoring company deriving from the contract signed by Safilo S.p.A..

Short-term loans by currency are as follows:

(Euro/000)	March 31, 2006	December 31, 2005
Euro	55,589	162,641
U.S. Dollar	18,762	19,205
Yen	-	2,160
Total	74,351	184,006

Average interest rates applied on Group bank overdrafts amount to about 3.2%. Interest rates on long term loans are reported in the note 6.19 "long-term borrowings".

6.15 Trade payables

This account is comprised as follows:

(Euro/000)	March 31, 2006	December 31, 2005
Payables to the holding company Safilo Group S.p.A.	854	-
Purchase of raw materials	47,241	42,098
Purchase of finished products and subcontractors	67,048	71,299
Commissions and royalties	31,475	26,725
Advertising and marketing costs	18,751	17,456
Services received from third parties	19,928	21,756
Payables for purchase of property, plant and equipment and intangible assets	3,122	3,299
Total	188,419	182,633

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

The growth of payables for advertising and marketing costs is mainly related to the increase in net sales, whereas the growth of payables for royalties mainly refers to a mix of sales more focused on licensed products.

6.16 Tax payables

Tax payables as of March 31, 2006 amount to Euro 25,158 thousand and relate for Euro 13,060 thousand to income taxes, for Euro 6,238 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 (7.8).

6.17 Other current liabilities

(Euro/000)	March 31, 2006	December 31, 2005
Due to personnel and social security institutions	45,682	44,913
Premiums to clients	11,579	17,195
Agent fee payable	2,677	2,962
Advertising & sponsorship costs	1,258	2,746
Interest expense payables on long term payables	7,240	3,628
Other accrued expenses	3,787	2,897
Due to minority shareholders for dividends	1,330	2,170
Payables to the holding company Safilo Group S.p.A.	222	959
Other current liabilities	2,506	1,953
Total	76,281	79,423

The account “Due to personnel and social security institutions” mainly refers to wages and salaries for March, the accrual for Christmas bonuses and for vacation days matured and not taken.

The account “Due to minority shareholders for dividends” relates to the dividends approved at the shareholders’ meetings and not yet paid at the interim balance sheet date.

6.18 Provisions for risks and charges

This account is comprised as follows:

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Balance as of March 31, 2006
Product warranty provision	3,119	-	(7)	-	3,112
Agent’s severance provision	3,164	147	(27)	-	3,284
Litigations	2,000	-	(652)	-	1,348
Other provisions for risks and charges	361	410	-	(11)	760
Provisions for risks - long term	8,644	557	(686)	(11)	8,504
Provisions for risks - short term	128	242	(30)	-	340
Total	8,772	799	(716)	(11)	8,844

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 event 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 period has been recorded in the income statement in the line “selling and marketing expenses” (note 7.3).

6.19 Long-term borrowings

This account is comprised as follows:

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Long term borrowings	457,251	456,763
Payables for finance leases	10,472	10,616
Other medium/long term loans	863	863
Total	468,586	468,242

Medium/long-term loans mainly refer to a bond for a total amount of nominal Euro 195 million and to

the Senior loan agreement granted by UniCredit Banca d'Impresa S.p.A. and San Paolo IMI S.p.A.

The bond and the Senior Loan agreement, in accordance with International Accounting Standards, were measured under the amortised cost method.

Payables for finance leases refer to property, plant and equipment which have been acquired in leasing by some Group companies. 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.

Some Group companies also entered into operating leasing contracts. Costs related to operating leasing contracts are recorded in the income statement in the line "cost of sales" (note 7.2), "selling and marketing expenses" (note 7.3) and "general and administrative expenses" (note 7.4).

The repayment dates of loans are as follows:

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Within 2 years	31,187	30,464
Within 3 years	32,955	33,564
Within 4 years	20,160	20,471
Within 5 years	131,249	131,068
Beyond 5 years	253,035	252,675
Total	468,586	468,242

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

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Euro	403,402	402,980
U.S. Dollar	63,780	65,262
Yen	1,404	-
Total	468,586	468,242

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	161,996	20,972	141,024
Credit lines on long term loans	300,991	300,991	-
Total	462,987	321,963	141,024

6.20 Employee benefits liability

This account shows the following movements:

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Balance as of March 31, 2006
Employee benefit liability	39,365	2,002	(481)	40,886
Totale	39,365	2,002	(481)	40,886

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.

6.21 Other non current liabilities

The other non-current liabilities as of March 31, 2006 amount to Euro 6,531 thousand and include liabilities deriving from existing contracts with licensors for the production and distribution of licensed products.

6.22 Share capital

Safilo's capital stock as of March 31, 2006 amounted to Euro 35,000 thousand and consisted of 35,000,000 ordinary shares having a nominal value of Euro 1 per share.

6.23 Share premium reserve

The share premium reserve amounts to Euro 53,350 thousand and refers to:

- Euro 29,000 thousand for the higher price paid by the parent company's shareholders above the nominal price, in relation to the decision to underwrite the share capital increase, approved in the extraordinary shareholders' meeting on April 30, 2003;
- Euro 24,350 thousand for the higher price paid by the parent company's shareholders above the nominal value, in relation to underwriting the share capital increase, decided with the extraordinary shareholders' meeting on May 19, 2004.

6.24 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 the consolidated companies.

6.25 Fair value and cash flow reserves

This account is comprised as follows:

<i>(Euro/000)</i>	Balance as of January 1, 2005	Impact on equity	Impact on Income Statement	Balance as of 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)

<i>(Euro/000)</i>	Balance as of January 1, 2006	Impact on equity	Impact on Income Statement	Balance as of March 31, 2006
Cash flow reserve	(2,780)	1,504	536	(740)
Fair value reserve	(1,119)	930	-	(189)
Total	(3,899)	2,434	536	(929)

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.

6.26 Consolidated changes in shareholders' equity

In accordance with IFRS 1, the table below shows the movements of equity for the periods ended March 31, 2006 and 2005.

<i>(Euro/000)</i>	Share capital	Share premium	Shareholders' contrib.	Treasury shares	Transl. Diff.	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
Group net equity as of January 1, 2005	35,000	53,350	4,810	(80,988)	(4,738)	(6,342)	40,784	21,610	63,486
Previous year's income allocation	-	-	-	-	-	-	21,610	(21,610)	-
Retained earnings	-	-	-	-	2,060	229	-	-	2,289
2005 net income	-	-	-	-	-	-	-	7,322	7,322
Group net equity as of March 31, 2005	35,000	53,350	4,810	(80,988)	(2,678)	(6,113)	62,394	7,322	73,097
Minority interests as of January 1, 2005	-	-	-	-	(105)	-	2,055	3,123	5,073
Previous year's income allocation	-	-	-	-	-	-	3,123	(3,123)	-
Retained earnings	-	-	-	-	28	-	-	-	28
Dividends distribution	-	-	-	-	-	-	(220)	-	(220)
2005 net income	-	-	-	-	-	-	-	1,182	1,182
Minority interests as of March 31, 2005	-	-	-	-	(77)	-	4,958	1,182	6,063
Consolidated net equity as of March 31, 2005	35,000	53,350	4,810	(80,988)	(2,755)	(6,113)	67,352	8,504	79,160

<i>(Euro/000)</i>	Share capital	Share premium	Shareholders' contrib.	Treasury shares	Transl. Diff.	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
Group net equity as of January 1, 2006	35,000	53,350	299,523	(80,988)	5,208	(3,899)	61,583	10,442	380,219
Previous year's income allocation	-	-	-	-	-	-	10,442	(10,442)	-
Retained earnings	-	-	-	-	(2,310)	2,970	580	-	1,240
2006 net income	-	-	-	-	-	-	-	17,002	17,002
Group net equity as of March 31, 2006	35,000	53,350	299,523	(80,988)	2,898	(929)	72,605	17,002	398,461
Minority interests as of January 1, 2006	-	-	-	-	102	-	2,215	3,220	5,537
Previous year's income allocation	-	-	-	-	-	-	3,220	(3,220)	-
Retained earnings	-	-	-	-	60	-	-	-	60
Dividends distribution	-	-	-	-	-	-	(249)	-	(249)
2006 net income	-	-	-	-	-	-	-	1,110	1,110
Minority interests as of March 31, 2006	-	-	-	-	162	-	5,186	1,110	6,458
Consolidated net equity as of March 31, 2006	35,000	53,350	299,523	(80,988)	3,060	(929)	77,791	18,112	404,919

6.27 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 first quarter of 2006 and 2005 are summarised as follows:

<i>(Euro/000)</i>	March 31, 2006	March 31, 2005
SOP I	-	79
SOP II	389	-
Total	389	79

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.

7. Notes to the Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005

7.1 Net sales

Group sales in the first quarter of 2006 amount to Euro 302,125 thousand and report an increase of 7.5% compared to the same period of the previous year.

Reference should be made to the paragraph 2.2 “sales analysis” for further details regarding the first quarter 2006 sales trend compared to the same period of the previous year.

7.2 Cost of sales

This account is comprised as follows:

<i>(Euro/000)</i>	Three months ended March,	
	2006	2005
Purchase of raw materials and finished products	85,149	70,068
Change in inventories	(5,963)	7,267
Payroll and social security contributions	24,058	22,674
Capitalization of costs for increase in property, plant and equipment	(2,407)	(2,217)
Subcontracting costs	8,396	6,364
Depreciation	5,673	6,027
Rental and operating leases	146	187
Other industrial costs	1,956	2,197
Total	117,008	112,567

The increase in purchases of raw materials and finished products relates mainly to the higher quantities of finished products acquired as a consequence of increased sales.

These changes in inventories are comprised as follows:

<i>(Euro/000)</i>	Three months ended March,	
	2006	2005
Finished products	(5,634)	5,377
Work-in-progress	(154)	(308)
Raw materials	(175)	2,198
Total	(5,963)	7,267

Salaries and contributions increased by approximately 6.1%, principally as a result of normal salary increases.

The total average workforce of the Group for the first quarter 2006 and 2005 is broken down as follows:

	Q1 2006	Q1 2005
Padua headquarters	789	723
Production plants	4,206	4,372
Commercial subsidiaries	1,067	1,025
Solstice	350	226
Total	6,412	6,346

External processing increased by Euro 2,032 when compared to the same period of the previous year as a result of an increased utilization of external subcontractors in order to manage the increased production needs.

The other costs include energy, industrial services, maintenance and consultancy services relating to the production area.

7.3 Selling and marketing expenses

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Payroll and social security contributions	22,291	20,906
Commissions to sales agents	21,690	20,248
Royalty expenses	27,130	25,869
Advertising and promotional costs	24,849	22,541
Amortisation & depreciation	683	556
Logistic costs	3,961	3,251
Rental and operating leases	1,703	1,346
Utilities	181	71
Provision for risks	429	510
Other sales and marketing expenses	8,929	6,976
Total	111,846	102,274

The increase of selling 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 normal salary increases.

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

7.4 General and administrative expenses

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Payroll and social security contributions	15,422	13,293
Allowance for doubtful accounts	566	860
Amortization & depreciation	2,722	2,112
Consultants fees	1,391	2,088
Rental and operating leases	1,700	1,514
EDP costs	895	886
Insurance costs	718	547
Utilities	1,014	645
Security and cleaning	454	468
Taxes (other than on income)	552	606
Other general and administrative expenses	4,104	3,306
Total	29,538	26,325

The growth in salaries is a result of the development of the headquarters in Padua and of normal salary increases.

7.5 Other income/(expenses), net

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Losses on asset disposals	(31)	(2)
Other operating expenses	(59)	(190)
Gains on asset disposals	8	5
Other operating revenues	329	272
Total	247	85

7.6 Share of income/(loss) of associates

This account amounts to Euro 38 thousand and consists of the income and losses deriving from the equity valuation of the holdings in associated companies (note 6.10).

7.7 Interest expense and other financial charges, net

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Interest expense on loans	5,928	7,521
Interest expense and charges on High Yield	5,354	7,374
Bank commissions	985	1,013
Foreign exchange rate differences	3,438	6,880
Financial discounts	1,465	1,196
Other financial charges	300	18
Total financial charges	17,470	24,002
Interest income	219	72
Foreign exchange rate differences	3,250	5,008
Other financial income	684	2
Total financial income	4,153	5,082
Total financial charges, net	13,317	18,920

Interest expenses significantly decreased when compared to the first quarter of 2005 as a consequence of the Group's lower debt and the absence of the negative effects deriving from changes in foreign exchange rates that had impacted upon the first quarter of the previous year.

7.8 Income tax expenses

(Euro/000)	Three months ended March,	
	2006	2005
current taxes	(9,609)	(11,565)
deferred taxes	(2,980)	(882)
Total	(12,589)	(12,447)

7.9 Seasonality and unusual items

Revenues are partially influenced by seasonality, as Safilo Group experiences the highest level of demand during the first half-year due to the sales of sunglasses leading up to the summer months and the lower level of sales demand in the third quarter because, traditionally, the second half-year sales campaign is launched during Autumn.

During the first quarter of 2006, there were no unusual or extraordinary items affecting assets, liabilities, equity, net income or cash flows.

7.10 Dividends

During the first quarter of 2006 the holding company Safilo S.p.A. has not paid any dividends to its shareholders.

7.11 Segment information

The following information is provided with reference to the geographical areas in which the Group operates. The geographical area has been identified as the primary segment. The criteria used in identifying the primary segment are based on the modality of which management operates the Group and the manner in which it attributes managerial responsibilities. 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 the secondary segment could be defined, in line with the standard procedure, as “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.

March 31, 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-to other segments	87,199	11,671	102	306	-	(99,278)	-
-to third parties	67,644	80,414	118,221	35,846	-	-	302,125
Total Net Sales	154,843	92,085	118,323	36,152	-	(99,278)	302,125
Gross Profit	66,464	42,011	60,745	17,092	-	(1,195)	185,117
Operating income	17,970	10,639	10,574	5,448	87	(738)	43,980
Interest expense							(17,470)
Interest income							4,153
Share income/(loss) of associates			38				38
Income taxes							(12,589)
Net income							18,112
<i>Gross profit margin</i>	<i>43%</i>	<i>46%</i>	<i>51%</i>	<i>47%</i>			<i>61%</i>
<i>Operating income margin</i>	<i>12%</i>	<i>12%</i>	<i>9%</i>	<i>15%</i>			<i>15%</i>
Other information							
Depreciation & Amortization	6,432	1,292	1,089	242	23		9,078

March 31, 2005 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-to other segments	77,964	7,502	130	7	-	(85,603)	-
-to third parties	62,779	89,462	98,070	30,637	13		280,961
Total Net Sales	140,743	96,964	98,200	30,644	13	(85,603)	280,961
Gross Profit	55,748	47,275	50,148	15,081	13	129	168,394
Operating income	9,864	32,683	9,011	5,300	259	(17,237)	39,880
Interest expense							(24,002)
Interest income							5,082
Share income/(loss) of associates			(9)				(9)
Income taxes							(12,447)
Net income							8,504
<i>Gross profit margin</i>	<i>40%</i>	<i>49%</i>	<i>51%</i>	<i>49%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>7%</i>	<i>34%</i>	<i>9%</i>	<i>17%</i>			<i>14%</i>
Other information							
Depreciation & Amortization	5,862	1,845	776	207	5		8,695

(1) Operating companies based in Italy.

(2) Operating companies based in European countries other than Italy, India and South Africa.

(3) Operating companies based in USA, Canada and Brazil.

(4) Operating companies based in the Far East, Australia, Singapore, Malaysia and China.

(5) Non operating companies.

8. Related party transactions

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

Related parties (Euro/000)	Relationship	March 31, 2006	December 31, 2005
<i>Receivables</i>			
Safilens s.r.l.	(a)	196	207
Optifashion As	(b)	17	-
Elegance International Holdings Ltd	(a)	500	750
Total		713	957

<i>Payables</i>			
Safilens s.r.l.	(a)	11	22
Elegance International Holdings Ltd	(a)	19,135	8,533
Total		19,146	8,555

Related parties (Euro/000)	Relationship	Q1 2006	Q1 2005
<i>Revenues</i>			
Optifashion As	(b)	158	53
Safilens s.r.l.	(a)	-	2
Total		158	55
<i>Costs</i>			
Safilens s.r.l.	(a)	-	42
Elegance International Holdings Ltd	(a)	12,646	11,301
TBR Inc.	(a)	299	263
Total		12,945	11,606

These transactions relate to commercial relationships and are based on prices defined at normal market conditions for similar 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 the first quarter of 2006, the Group paid rent of Euro 299 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 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 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%.

9. 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, at March 31, 2006, 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. However, a negative outcome of them beyond that estimated, could have a material adverse effect on our business, financial condition or on 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), 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.

10. Commitments

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

FORWARD-LOOKING STATEMENTS

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

These factors include, among other things:

- factors affecting our ability to negotiate, maintain and renew license arrangements on satisfactory terms with leading designers;
- uncertainties associated with changing consumer preferences;
- the impact of currency exchange rate and interest rate fluctuations;
- risks relating to our manufacturing and distribution operations and our arrangements with third party manufacturers;
- risks relating to international sales and exposure to changing local conditions;
- factors affecting our ability to compete effectively in the eyewear market, including new products and distribution strategies of our competitors;
- risks associated with our significant debt and our ability to meet our financial obligations;

- human resource factors, including our ability to retain our senior management and other key personnel and employee costs;
- factors affecting our ability to design, develop and introduce successful new products;
- factors affecting our ability to obtain or maintain intellectual property protection for our products;
- uncertainties associated with general economic conditions;
- governmental factors, including the costs of compliance with regulations and the impact of regulatory changes; and
- other risks, uncertainties and factors inherent in our business.

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

FURTHER INFORMATION

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