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**as of June 30, 2006**

**Safilo S.p.A.**

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**SAFILO S.P.A.**

Settima Strada, 15

35129 Padua - Italy

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## Corporate Officers as of June 30, 2006

### Board of Directors

<i>Chairman</i>	Vittorio Tabacchi
<i>Vice-Chairman</i>	Giannino Lorenzon
<i>Chief Executive Officer</i>	Roberto Vedovotto <sup>1</sup>
<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

### Independent Auditors

PricewaterhouseCoopers S.p.a.

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<sup>1</sup> Resigned effective as from July 31, 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### 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 1.2 "Consolidation method and consolidation area".

### Activities of the Group

Safilo has been in the eyewear market for over 70 years and is one of the major operators in the sector of design manufacture and distribution of sunglasses and other eyewear products. Safilo is the global leader in the high-end eyewear segment markets 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 30 principal markets worldwide through its 28 commercial subsidiaries and thanks to a strong sales team of over 1,400 persons. In the remaining markets, where the Group doesn't have commercial subsidiaries, the products are sold through over 170 independent distributors.

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*, *Hugo Boss*, *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*.

## Introduction

The first-half year of 2006 ended with satisfactory results in terms of profitability and turnover growth.

There was consistent growth in the major world markets with excellent commercial results in spite of the negative impact of some brands (*Burberry* and *Polo*) which are no longer in the Group portfolio.

Operating profit has suffered a slight decrease due to various exceptional costs and investments in marketing which will support further future development of sales.

The financial position has been greatly improved thanks to the reduction of the debt and the positive effect of the exchange rate difference.

Net income shows a slight reduction as a consequence of the impact of these extraordinary operating and financial expenses.

A Group debt restructuring was completed at the end of June 2006 which resulted in the replacement of the previous Senior Loan with a new long-term contract maturing in December 2011. These credit lines, which exceed the short-term cash requirements of the Group, have been negotiated obtaining improved interest rates and more flexible guarantees.

In the first six months of the year, as in 2005, the seasonal fluctuation of working capital has led to a slight erosion of liquidity.

## Sales Analysis

Turnover in the first six months of 2006 reached 605.4 million Euro, an increase of 7.8% compared to the 561.8 million Euro recorded in the first six months of 2005. At constant exchange rates the increase in sales was equal to 5.5%.

The positive results achieved in the first semester of the year is thanks to the good sales performance of licensed products and to the positive recovery of the sales of the company's house brands (+13.2%) - confirmation of the effectiveness of the house brand re-launch strategies. Performances in the Italian and American markets were impressive, with increases of 9.2% and 16.4% respectively.

The second quarter recorded an 8.0% increase in revenues, indicating faster growth, at equal exchange rates, compared to the first months of the year. This improvement is the result of a positive sales climate in general and an increased production capacity.

It should furthermore be underlined that these positive results have been achieved despite the evidence of the first effects of the slow down in sales of *Ralph Lauren* products, in consideration of the termination of the Licence Agreement at the end of 2006.

Net sales by Geographic region (millions of Euro)	Six months ended June 30,					Second Quarter				
	2006	%	2005	%	Ch. %	2006	%	2005	%	Ch. %
Italy	85.5	14.1	78.3	13.9	9.2	45.6	15.0	42.1	15.0	8.3
Europe (excluding Italy)	194.4	32.1	199.5	35.5	(2.6)	100.1	33.0	96.5	34.4	3.7
The Americas	231.5	38.2	198.9	35.4	16.4	112.2	37.0	99	35.2	13.3
Asia Pacific	68.8	11.4	63.2	11.3	8.9	33.0	10.9	32.6	11.6	1.2
Other	25.2	4.2	21.9	3.9	15.1	12.4	4.1	10.6	3.8	17.0
<b>Total</b>	<b>605.4</b>	<b>100.0</b>	<b>561.8</b>	<b>100.0</b>	<b>7.8</b>	<b>303.3</b>	<b>100.0</b>	<b>280.8</b>	<b>100.0</b>	<b>8.0</b>

Net sales by Product (millions of Euro)	Six months ended June 30,					Second Quarter				
	2006	%	2005	%	Ch. %	2006	%	2005	%	Ch. %
Prescription frames	213.8	35.3	217.2	38.7	(1.6)	106.4	35.1	109.0	38.8	(2.4)
Sunglasses	358.7	59.3	316.9	56.4	13.2	181.2	59.7	160.4	57.1	13.0
Sports products	24.0	4.0	19.9	3.5	20.6	10.8	3.6	7.6	2.7	42.1
Other	8.9	1.4	7.8	1.4	14.1	4.9	1.6	3.8	1.4	28.9
<b>Total</b>	<b>605.4</b>	<b>100.0</b>	<b>561.8</b>	<b>100.0</b>	<b>7.8</b>	<b>303.3</b>	<b>100.0</b>	<b>280.8</b>	<b>100.0</b>	<b>8.0</b>

*Italy.* The domestic market continues to register positive results, with a 9.2% increase in the semester and an 8.3% increase in the second quarter compared to 2005. The 2006 collections were very well received in Italy, leading to the achievement of excellent results for both sunglasses (+6.8%) and prescription frames (+14.3%). The brands which have contributed most to the achievement of these results are *Armani*, *Gucci*, *Valentino* and the house brands *Safilo* and *Oxydo*.

*Europe (excluding Italy).* During the first six months of the year Europe has had to deal with the customer service issues which emerged at the beginning of the year and which have led to a slight fall in sales (-2.6%). The greater production levels, however, together with a greater focus on deliveries to European clients have allowed a positive result to be achieved in the second quarter of the year (+3.7%). The sale of sunglasses has been the driving force behind the improvement achieved, with, from a geographical point of view, good results in Germany (+13.1%) and Great Britain (+11.9%). In terms of growth per brand, the brands *Armani*, *Diesel*, *Dior*, *Valentino* and the house brands *Safilo*, *Blue Bay* and *Oxydo* should be highlighted.

*The Americas.* The American market has again confirmed the growth trend evident in the first quarter of 2006 with an increase in sales in the second quarter of 13.3%. These results have been achieved despite this area being more greatly penalised by the reduction in sales of the *Ralph Lauren* brand. Growth in sales in the department stores and sports outlets has been significant, while the brands *Armani*, *Dior*, *Gucci*, *Valentino* and, in the sports sector, the house brand *Smith*, have enjoyed particularly impressive results.

Excellent results have been achieved by the sales division Outlook with an increase of 11.3% in the first six months of the year, and by the retail chain Solstice (+42.1% in the first six months) which, at June 30, 2006, counted 68 stores (13 of which were opened in the second quarter alone).

*Asia Pacific.* Sales in the Asian market continue to register extremely positive growth rates (+8.9% in the first six months at current exchange rates and +6.4% at constant exchange rates). All product categories have enjoyed considerable success in this geographical market with sunglass sales in particular achieving 12.5% growth in the semester and 9.1% in the second quarter. The *Armani*, *Dior* and *Gucci* collections have been particularly well received in these first six months of the year, while the branches in the Asian market which have achieved especially impressive results are Hong Kong (+19.3%), China (+52.9%) and Australia (+6.0%).

## Economic results

Consolidated Statement of operations (millions of Euro)	Six months ended June 30,					Second Quarter				
	2006	%	2005	%	Ch.%	2006	%	2005	%	Ch.%
Net sales	605.4	100.0	561.8	100.0	7.8	303.3	100.0	280.9	100.0	8.0
Cost of sales	(240.4)	(39.7)	(223.1)	(39.7)	7.8	(123.4)	(40.7)	(110.6)	(39.4)	11.6
<b>Gross profit</b>	<b>365.0</b>	<b>60.3</b>	<b>338.7</b>	<b>60.3</b>	<b>7.8</b>	<b>179.9</b>	<b>59.3</b>	<b>170.3</b>	<b>60.6</b>	<b>5.6</b>
Selling and marketing expenses	(223.6)	(36.9)	(204.4)	(36.4)	9.4	(112.8)	(37.2)	(102.1)	(36.3)	10.5
General and administrative expenses	(66.1)	(10.9)	(54.4)	(9.7)	21.5	(35.5)	(11.7)	(28.1)	(10.0)	26.3
Other income/(expenses), net	1.1	0.2	0.4	0.1	175.0	0.9	0.3	0.3	0.1	200.0
<b>Operating income</b>	<b>76.4</b>	<b>12.7</b>	<b>80.3</b>	<b>14.3</b>	<b>(4.9)</b>	<b>32.5</b>	<b>10.7</b>	<b>40.4</b>	<b>14.4</b>	<b>(19.6)</b>
Interest expense and other financial charges, net	(27.0)	(4.5)	(42.0)	(7.5)	(35.7)	(13.7)	(4.5)	(23.0)	(8.2)	(40.4)
Non recurring financial charges	(9.3)	(1.5)	-	0.0	ns	(9.3)	(3.1)	0.0	0.0	ns
<b>Income before taxation</b>	<b>40.1</b>	<b>6.7</b>	<b>38.3</b>	<b>6.8</b>	<b>4.7</b>	<b>9.5</b>	<b>3.1</b>	<b>17.4</b>	<b>6.2</b>	<b>(45.4)</b>
Income tax expenses	(16.5)	(2.7)	(12.3)	(2.2)	34.1	(4.0)	(1.3)	0.1	0.0	ns
<b>Net income</b>	<b>23.6</b>	<b>4.0</b>	<b>26.0</b>	<b>4.6</b>	<b>(9.2)</b>	<b>5.5</b>	<b>1.8</b>	<b>17.5</b>	<b>6.2</b>	<b>(68.6)</b>
Net income attributable to minority interests	1.8	0.3	2.0	0.4	(10.0)	0.7	0.2	0.8	0.3	(12.5)
<b>Net income attributable to the Group</b>	<b>21.8</b>	<b>3.7</b>	<b>24.0</b>	<b>4.2</b>	<b>(9.2)</b>	<b>4.8</b>	<b>1.6</b>	<b>16.7</b>	<b>5.9</b>	<b>(71.3)</b>
<b>EBITDA</b>	<b>94.7</b>	<b>15.6</b>	<b>97.7</b>	<b>17.4</b>	<b>(3.1)</b>	<b>41.6</b>	<b>13.7</b>	<b>49.1</b>	<b>17.5</b>	<b>(15.3)</b>

The Group's operating profits are slightly lower than the first six months of 2005 as a result of the greater impact of commercial costs and the extraordinary costs related to the resignation of the Chief Executive Officer during the month of July.

The operating result of the first six months of 2006 (which reached 76,4 million Euro compared to 80,3 million Euro in the same period of 2005), benefited from an improved sales performance and continuation of the profitability at an industrial level. The increase in marketing costs resulting from the intensification of the strategy for house brands and alternative brands in place of *Ralph Lauren*, and increased administrative expenses resulting from the exceptional costs, compensated the positive performance at the industrial profit level.

EBITDA reached 94,7 million Euro compared to 97,7 million Euro in the first six months of 2005 and was affected by the same problems mentioned above.

The financial position improved considerably compared to the same period of 2005, thanks to the positive effect of the significant reduction of the debt and the positive impact of the exchange rate difference.

Net income has reduced compared to the first six months of the previous year (-9.2%, equal to 21,8 million Euro compared to 24,0 million Euro in 2005) as a consequence of the impact of the extraordinary expenses.

The quarterly analysis highlights a considerably lower operating profit resulting from marketing expenses and the exceptional costs mentioned above. A reduction in the percentage marginality at the industrial level, caused by particularly complex models and the increased use of third party suppliers to support production, should also be underlined.

**Balance sheet and financial situation**

<b>Condensed consolidated balance sheet</b> <i>(millions of Euro)</i>	<b>June 30,</b> <b>2006</b>	<b>December</b> <b>31, 2005</b>	<b>Change</b>
Property, plant and equipment, net	192.1	193.6	(1.5)
Intangible assets	23.4	25.6	(2.2)
Goodwill	364.1	365.1	(1.0)
Other non current assets	70.1	72.5	(2.4)
<b>Total non current assets</b>	<b>649.7</b>	<b>656.8</b>	<b>(7.1)</b>
Net working capital	325.4	300.3	25.1
<b>Total capital invested</b>	<b>975.1</b>	<b>957.1</b>	<b>18.0</b>
Employee benefits liability and provisions	61.5	59.1	2.4
Net debt position	500.6	501.2	(0.6)
Other non current liabilities	8.1	11.1	(3.0)
Shareholders' equity attributable to the Group	399.2	380.2	19.0
Shareholders' equity attributable to minority shareholders	5.8	5.5	0.3
<b>Total capital invested</b>	<b>975.2</b>	<b>957.1</b>	<b>18.1</b>

<b>Condensed consolidated statements of cash flows</b> <i>(millions of Euro)</i>	<b>Six months ended June 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Cash and cash equivalent at the beginning of the period</b>	<b>25.9</b>	<b>18.2</b>	<b>7.7</b>
Net income	23.6	26.0	(2.4)
Depreciation and amortization	18.2	17.5	0.7
Other non monetary items	2.6	3.0	(0.4)
Interest expenses and income tax expense	12.3	(2.6)	14.9
Movements in working capital	(41.6)	(32.5)	(9.1)
<b>Cash flows from operating activity</b>	<b>15.1</b>	<b>11.4</b>	<b>3.7</b>
Cash flows used in investing activities	(13.2)	(12.1)	(1.1)
Dividends paid	(1.5)	(1.7)	0.2
Repayment of borrowings	(304.2)	(10.6)	(293.6)
Proceeds from borrowings	304.4	4.5	299.9
<b>Cash flows for investing and from financing activities</b>	<b>(14.5)</b>	<b>(19.9)</b>	<b>5.4</b>
Effect of exchange rates	2.1	1.3	0.8
Other movements in shareholders' equity	3.2	1.0	2.2
<b>Cash and cash equivalents at the end of the period</b>	<b>31.8</b>	<b>12.0</b>	<b>19.8</b>

*Cash flows from operating activity*

The cash generated in the first half-year of 2006 was positive and higher when compared with the same period in the previous year. Nevertheless, there has been a strong erosion of cash as a consequence of the increase in the value of inventories. This derives from the necessity to guarantee a better service to the clientele both through the finished products held and through the reduction of the production lead time which requires the holding of a high level of raw materials. The above cash erosion in working capital has been partially offset by the good results achieved in the receivables collection and in the management of supplier payments.

*Cash flows for investing activities*

Cash outflows in investment activities increased by Euro 1.1 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*

The cash flow deriving from the financial management is impacted by the Group refinancing operation, which saw the replacement of the previous Senior Loan with a new loan for the same amount.

<b>Net debt position</b> <i>(millions of Euro)</i>	<b>June 30,</b> <b>2006</b>	<b>March 31,</b> <b>2006</b>	<b>Change</b> <b>Jun-Mar</b>	<b>December</b> <b>31, 2005</b>	<b>Change</b> <b>Jun-Dec</b>
Current portion of long term borrowings	(58.6)	(54.4)	(4.2)	(174.0)	115.4
Bank overdrafts and short term borrowings	(3.0)	(19.9)	16.9	(10.0)	7.0
Cash and cash equivalents	34.9	34.4	0.5	151.0	(116.1)
<b>Short term net debt position</b>	<b>(26.7)</b>	<b>(39.9)</b>	<b>13.2</b>	<b>(33.0)</b>	<b>6.3</b>
Long term borrowings	(473.9)	(468.6)	(5.3)	(468.2)	(5.7)
<b>Long term net debt position</b>	<b>(473.9)</b>	<b>(468.6)</b>	<b>(5.3)</b>	<b>(468.2)</b>	<b>(5.7)</b>
<b>Net debt position</b>	<b>(500.6)</b>	<b>(508.5)</b>	<b>7.9</b>	<b>(501.2)</b>	<b>0.6</b>

**Reconciliation of the parent company's shareholders' equity and net income with the consolidated balances as of June 30, 2006 and December 31, 2005 and for the six months ended June 30, 2006.**

<i>(millions of Euro)</i>	Equity as of June 30, 2006	Net income/ (loss) first half 2006	Equity as of December 31, 2005
Balances per Safilo S.p.A. statutory financial statements	429.7	(7.2)	434.1
Shareholders' equity of consolidated companies	989.9	45.8	971.8
Book value of consolidated subsidiaries	(1,330.3)	-	(1,333.9)
Goodwill	321.9	-	321.9
Differences arising from consolidation	17.1	(0.1)	17.2
Elimination of dividends paid within the Group	-	(15.0)	-
Elimination of intercompany gains within the Group	(15.8)	0.3	(16.1)
Elimination of intercompany profit included in inventory	(13.7)	0.6	(15.9)
Investments in associates - equity method	6.0	-	6.4
Other consolidation entries	0.2	(0.8)	0.2
<b>Total Shareholders' equity</b>	<b>405.0</b>	<b>23.6</b>	<b>385.7</b>
Shareholders' equity attributable to minority shareholders	5.8	1.8	5.5
<b>Total shareholders' equity attributable to the Group</b>	<b>399.2</b>	<b>21.8</b>	<b>380.2</b>

**Personnel**

Group personnel as of June 30, 2006, December 31, 2005 and June 30, 2005 is shown in the following table:

	June 30, 2006	December 31, 2005	June 30, 2005
Padua Headquarters	842	765	765
Production plants	4,398	4,192	4224
Commercial subsidiaries	1,075	1,053	1049
Solstice	417	374	266
<b>Total</b>	<b>6,732</b>	<b>6,384</b>	<b>6,304</b>

**Subsequent events**

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

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets

<i>(Euro/000)</i>	<i>Note</i>	<b>30/06/2006</b>	<b>31/12/2005</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash in hand and at banks	<i>2.1</i>	34,867	151,018
Trade receivables, net	<i>2.2</i>	347,401	307,558
Inventory, net	<i>2.3</i>	217,044	208,802
Assets held for sale	<i>2.4</i>	-	2,984
Derivative financial instruments	<i>2.5</i>	1,669	-
Other current receivables	<i>2.6</i>	64,956	64,733
<b>Total current assets</b>		<b>665,937</b>	<b>735,095</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	<i>2.7</i>	192,116	193,603
Intangible assets	<i>2.8</i>	23,390	25,580
Goodwill	<i>2.9</i>	364,070	365,121
Investments in associates	<i>2.10</i>	12,497	13,492
Financial assets available-for-sale	<i>2.11</i>	5,722	6,009
Deferred tax assets	<i>2.12</i>	48,571	49,279
Derivative financial instruments	<i>2.5</i>	2,106	2,506
Other non-current assets	<i>2.13</i>	1,344	1,303
<b>Total non-current assets</b>		<b>649,816</b>	<b>656,893</b>
<b>Total assets</b>		<b>1,315,753</b>	<b>1,391,988</b>

<i>(Euro/000)</i>	<i>Note</i>	<b>30/06/2006</b>	<b>31/12/2005</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	<i>2.14</i>	61,584	184,006
Trade payables	<i>2.15</i>	207,124	182,633
Tax payables	<i>2.16</i>	24,122	20,870
Derivative financial instruments	<i>2.5</i>	86	878
Other current liabilities	<i>2.17</i>	74,318	79,423
Provision for risks and charges	<i>2.18</i>	503	128
<b>Total current liabilities</b>		<b>367,737</b>	<b>467,938</b>
<b>Non-current liabilities</b>			
Long-term borrowings	<i>2.14</i>	473,927	468,242
Employee benefits liability	<i>2.19</i>	41,273	39,365
Provisions for risks and charges	<i>2.18</i>	8,807	8,644
Deferred tax liabilities	<i>2.12</i>	10,880	10,969
Derivative financial instruments	<i>2.5</i>	1,568	4,509
Other non-current liabilities	<i>2.20</i>	6,529	6,565
<b>Total non-current liabilities</b>		<b>542,984</b>	<b>538,294</b>
<b>Total liabilities</b>		<b>910,721</b>	<b>1,006,232</b>
<b>Shareholders' equity</b>			
Share capital	<i>2.21</i>	35,000	35,000
Share premium reserve	<i>2.22</i>	53,350	53,350
Retained earnings and other reserves	<i>2.23</i>	289,286	285,326
Fair value and cash flow reserves	<i>2.24</i>	(160)	(3,899)
Income attributable to the Group		21,773	10,442
<b>Total shareholders' equity attributable to the Group</b>		<b>399,249</b>	<b>380,219</b>
<b>Shareholders' equity attributable to minority shareholders</b>		<b>5,783</b>	<b>5,537</b>
<b>Total shareholders' equity</b>		<b>405,032</b>	<b>385,756</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,315,753</b>	<b>1,391,988</b>

### Consolidated Statements of Operations

(Euro/000)	Note	Six months ended June 30,		Second Quarter	
		2006	2005	2006	2005
Net sales	3.1	605,405	561,841	303,280	280,880
Cost of sales	3.2	(240,446)	(223,124)	(123,438)	(110,557)
<b>Gross profit</b>		<b>364,959</b>	<b>338,717</b>	<b>179,842</b>	<b>170,323</b>
Selling and marketing expenses	3.3	(223,598)	(204,409)	(112,778)	(102,135)
General and administrative expenses	3.4	(66,064)	(54,430)	(35,500)	(28,105)
Other income/(expenses), net	3.5	1,169	362	922	277
<b>Operating income</b>		<b>76,466</b>	<b>80,240</b>	<b>32,486</b>	<b>40,360</b>
Share of income/(loss) of associates	3.6	(24)	214	(62)	223
Interest expense and other financial charges, net	3.7	(27,010)	(42,098)	(13,693)	(23,178)
Non recurring financial items	3.8	(9,282)	-	(9,282)	-
<b>Income before taxation</b>		<b>40,150</b>	<b>38,356</b>	<b>9,449</b>	<b>17,405</b>
Income tax expenses	3.9	(16,549)	(12,310)	(3,960)	137
<b>Net income</b>		<b>23,601</b>	<b>26,046</b>	<b>5,489</b>	<b>17,542</b>
Net income attributable to minority interests		1,828	2,014	718	832
<b>Net income attributable to the Group</b>		<b>21,773</b>	<b>24,032</b>	<b>4,771</b>	<b>16,710</b>

## Consolidated Statements of Cash Flows

<i>(Euro/000)</i>	<b>Six months ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Net income	23,600	26,046
Depreciation and Amortization	18,231	17,464
Share income on equity investments	102	(7)
Net movements in the employee benefits liability	1,942	2,076
Net movements in other provisions	571	918
Interest expenses	31,712	32,467
Income tax expense	16,549	12,310
<b>Income from operating activities prior to movements in working capital</b>	<b>92,707</b>	<b>91,274</b>
<b>Changes in operating Assets and Liabilities</b>		
(Increase) Decrease in trade receivables and other current receivables	(49,572)	(65,313)
(Increase) Decrease in inventory, net	(14,095)	18,952
Increase (Decrease) in trade payables and other current payables	21,960	13,900
Interest expenses paid	(20,503)	(30,122)
Income taxes paid	(15,414)	(17,264)
<b>Net Cash provided by operating activities</b>	<b>15,083</b>	<b>11,427</b>
<b>Cash Flows from investing activities</b>		
Purchase of property, plant and equipment (net of disposals)	(12,307)	(11,224)
Disposal of investments in associates and financial assets	209	-
Purchase of intangible assets	(1,119)	(873)
<b>Net Cash (used in) investing activities</b>	<b>(13,217)</b>	<b>(12,097)</b>
<b>Cash Flows from financing activities</b>		
Proceeds from borrowings	304,447	4,493
Repayment of borrowings	(304,209)	(10,634)
Dividends paid	(1,478)	(1,647)
<b>Net Cash (used in) financing activities</b>	<b>(1,240)</b>	<b>(7,788)</b>
Effect of exchange rates	2,071	1,372
Other movements in shareholders' equity	3,272	969
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,969</b>	<b>(6,117)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>25,866</b>	<b>18,151</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>31,835</b>	<b>12,034</b>

**Consolidated Statement of recognised income and expense**

<i>(Euro/000)</i>	<i>Note</i>	<b>Six months ended June 30,</b>		<b>Second Quarter</b>	
		<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Cash flow hedges	2.24	2,790	(4,392)	1,286	(4,241)
Financial assets available-for-sale	2.24	(78)	(206)	(1,008)	(586)
Actuarial gain/losses		(483)	-	(961)	-
Translation differences		(6,120)	6,002	(3,870)	3,914
Other movements		(373)	490	(86)	490
<b>Total</b>		<b>(4,264)</b>	<b>1,894</b>	<b>(4,639)</b>	<b>(423)</b>
Net income for the period		23,601	26,046	5,489	17,542
<b>Total recognized income for the year</b>		<b>19,337</b>	<b>27,940</b>	<b>850</b>	<b>17,119</b>
Net income attributable to the Group		21,773	24,032	4,771	16,710
Income and expenses attributable to the Group		(4,160)	1,162	(4,475)	(1,127)
<b>Total</b>		<b>17,613</b>	<b>25,194</b>	<b>296</b>	<b>15,583</b>
Net income attributable to minority interests		1,828	2,014	718	832
Income and expenses attributable to minorities		(104)	249	(164)	221
<b>Total</b>		<b>1,724</b>	<b>2,263</b>	<b>554</b>	<b>1,053</b>
<b>Total profit (loss)</b>		<b>19,337</b>	<b>27,457</b>	<b>850</b>	<b>16,636</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

#### 1.1 General information

Economic information is provided with reference to the three months period and to the six months period ended June 30, 2006 and 2005; financial information is provided with reference to the six months ended June 30, 2005 and 2005, whilst balance sheet information is provided with reference to June 30, 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 the financial periods presented. They are also consistent with those applied for the Group IFRS annual consolidated financial statements as of December 31, 2005.

The consolidated financial information reported for the period ended June 30, 2006 has been prepared 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*.

#### 1.2 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 %
<b>ITALIAN COMPANIES</b>			
Oxsol S.p.A. - Pieve di Cadore (BL)	EUR	121,000	100
Lenti S.r.l. – Bergamo	EUR	500,000	54
Smith Sport Optics S.r.l. (in liquidation) – Florence	EUR	102,775	100
<b>FOREIGN COMPANIES</b>			
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 (L)	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 (RC)	HKD	49,700,000	100
Safint Optical Investment Ltd - Hong Kong (RC)	HKD	10,000	51
Safilo Hong-Kong Ltd – Hong Kong (RC)	HKD	100,000	51
Safilo Singapore Pte – Ltd - Singapore (SGP)	SGD	400,000	100
Safilo Optical Sdn Bhd – Kuala Lumpur (MAL)	MYR	100,000	100
Safilo Trading Co. Inc. - Shenzhen (RC)	CNY	2,481,000	51
Safilo Hellas Ottica S.a. – Athens (GR)	EUR	489,990	70
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100
Safilo South Africa – Bryanston (ZA)	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
Safilo Japan Co Ltd - Tokyo (J)	JPY	100,000,000	100
Safilo Do Brasil Ltda – San Paulo (BR)	BRL	8,077,500	100
Safilo Portugal Lda – Lisbon (P)	EUR	500,000	100
Safilo Switzerland – Liestal (CH)	CHF	1,000,000	77
Safilo India Ltd - Mumbay (IND)	INR	42,000,000	88.5
Safint Australia Pty Ltd.- Sydney (AUS)	AUD	3,000,000	100
Safilo Australia Partnership – Sydney (AUS)	AUD	204,081	61
Safint Optical UK Ltd. - London (GB)	GBP	21,139,001	100
Safilo UK Ltd. - North Workshire (GB)	GBP	250	100
Safilo America Inc. - Delaware (USA)	USD	8,430	100
Safilo USA Inc.- New Jersey (USA)	USD	-	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. – Delaware (USA)	USD	1,000	100
Solstice Marketing Concepts LLC – Delaware (USA)	USD	-	100
2844-2580 Quebec Inc. – Montreal (CDN)	CAD	100,000	100
Safilo Canada Inc. - Montreal (CDN)	CAD	2,470,425	100
Canam Sport Eyewear Inc. - Montreal (CDN)	CAD	300,011	100

### 1.3 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			Average for the six months ended June 30,	
	June 30, 2006	December 31, 2005	June 30, 2005	2006	2005
USD	1.2713	1.1797	1.2092	1.2293	1.2847
HKD	9.8745	9.1474	9.3990	9.5394	10.0124
CHF	1.5672	1.5551	1.5499	1.5610	1.5462
CAD	1.4132	1.3725	1.4900	1.3999	1.5875
JPY	145.7500	138.9	133.9500	142.1245	136.1992
GBP	0.6921	0.6853	0.6742	0.6870	0.6859
SEK	9.2385	9.3885	9.4259	9.3269	9.1425
AUD	1.7117	1.6109	1.5885	1.6548	1.6643
ZAR	9.1848	7.4642	8.0254	7.7996	7.9820
SIT	239.6300	239.5	239.4700	239.5672	239.6369
BRL	2.7575	2.7432	2.8476	2.6965	3.3089
IND	58.5514	53.1679	52.6268	55.2594	56.0872
SGD	2.0137	1.9628	2.0377	1.9766	2.1162
MYR	4.6714	4.4584	4.5960	4.5321	4.9732
CNY	10.1648	9.5204	10.0079	9.8756	10.6352

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.

#### 1.4 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.

## 2. Notes to the Consolidated Balance Sheets

### 2.1 Cash in hand and at banks

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

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Cash in hand and cash held at banks	34,867	151,018
<b>Total</b>	<b>34,867</b>	<b>151,018</b>

The significant decrease compared to the previous year is due to the 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 related 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>	June 30, 2006	June 30, 2005
Cash in hand and cash held at banks	34,867	52,492
Bank overdrafts	(3,032)	(40,458)
<b>Total</b>	<b>31,835</b>	<b>12,034</b>

### 2.2 Trade receivables, net

This account is comprised as follows:

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Gross value	370,701	328,928
Allowance for doubtful accounts	(23,300)	(21,370)
<b>Net Value</b>	<b>347,401</b>	<b>307,558</b>

At parity of exchange rates, net trade receivables increased by Euro 45,653 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 3.4).

### 2.3 Inventory, net

This account is comprised as follows:

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Raw materials	44,985	43,784
Work-in-progress	8,267	8,123
Finished goods	182,959	176,272
<b>Gross</b>	<b>236,211</b>	<b>228,179</b>
Obsolescence provision	(19,167)	(19,377)
<b>Total</b>	<b>217,044</b>	<b>208,802</b>

The inventories of finished products increased compared to the end of 2005, in particular in the overseas branches, due to the seasonality of the sales and the development of the Solstice outlet chain.

The current level of inventories, substantially higher compared to the same period of 2005, is today more in line with the necessity of service requested by the clientele.

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 3.2).

The movements in the obsolescence provision were as follows:

<i>(Euro/000)</i>	Balance as of January 1, 2006		Translation Difference	Balance as of June 30, 2006
Obsolescence provision	19,377	656	(866)	19,167
<b>Total</b>	<b>19,377</b>	<b>656</b>	<b>(866)</b>	<b>19,167</b>

### 2.4 Assets held for sale

At December 31, 2005 this account included the net book value of the building of the Austrian subsidiary Carrera Brillen (Traun), which was classified under current assets, in view of the programmed sale of the assets over a short period time frame. The above transaction took place during the second quarter of 2006 leading to a gain of Euro 272 thousand.

### 2.5 Derivative financial instruments

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

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
<b>Current Assets</b>		
- Foreign currency contracts	573	-
- Interest rate swaps - <i>cash flow hedge</i>	975	-
- Interest rate swaps - <i>at fair value through P&amp;L</i>	121	-
<b>Total</b>	<b>1,669</b>	<b>-</b>
<b>Non current Assets</b>		
- Interest rate swaps - <i>cash flow hedge</i>	-	1,238
- Options	2,106	1,268
<b>Total</b>	<b>2,106</b>	<b>2,506</b>
<b>Current liabilities</b>		
- Foreign currency contracts	-	878
- Interest rate swaps - <i>at fair value through P&amp;L</i>	86	-
<b>Total</b>	<b>86</b>	<b>878</b>
<b>Non current liabilities</b>		
- Interest rate swaps - <i>cash flow hedge</i>	-	4,509
- Interest rate swaps - <i>at fair value through P&amp;L</i>	1,568	-
<b>Total</b>	<b>1,568</b>	<b>4,509</b>

A summary of the characteristics and the fair value of the derivative contracts in force at June 30, 2006 and December 31, 2005 is shown below:

	June 30, 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>
Expiry year 2006	\$19,000	573	\$34,000	(878)
<b>Total</b>	<b>19,000</b>	<b>573</b>	<b>34,000</b>	<b>(878)</b>

The gains and losses directly recorded under equity in the period are recognised in the income statement on the closing of the hedge contract.

A summary of the characteristics and the fair value of interest rate swap contracts in force at June 30, 2006 and December 31, 2005 is shown below:

	June 30, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
	<i>(Euro/000)</i>			
Expiry year 2007	179,376	1,010	191,614	537
Expiry year 2010	25,000	(906)	25,000	(1,681)
Expiry year 2011	25,000	(662)	25,000	(2,127)
<b>Total</b>	<b>229,376</b>	<b>(558)</b>	<b>241,614</b>	<b>(3,271)</b>

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

Following the refinancing operation concluded on June 26, 2006 (reference should be made to note 2.14 for

further information), some designated interest rate swap contracts hedging the cash flows deriving from the Senior Loan saw their function modified.

In particular, some contracts were re-designated by the Group to hedge cash flows deriving from the new loan with the recording of their fair value under non-current assets and a corresponding entry in the cash flow reserve under net equity.

The derivative financial instruments no longer designated as hedges were reclassified from the account "interest rate swaps – cash flow hedge" in relation to "financial liabilities at fair value recorded in the income statement" with the recording of their fair value under financial charges instead of net equity.

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 2,106 thousand.

## 2.6 Other current receivables

This account is comprised as follows:

(Euro/000)	June 30, 2006	December 31, 2005
Receivables from the holding company Safilo Group S.p.A.	34,869	33,818
VAT receivable	2,880	4,453
Tax credits and advance payments	8,561	11,445
Prepayments and accrued income	9,781	5,281
Receivables from sale agents	4,573	4,943
Other current receivables	4,292	4,793
<b>Total</b>	<b>64,956</b>	<b>64,733</b>

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

- for Euro 21,951 thousand to deferred tax assets recorded by Safilo S.p.A. during 2005 and 2006 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. are to be 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 June 30, 2006 include:

- Prepaid advertising costs of Euro 1,593 thousand;
- Prepaid insurance premiums of Euro 369 thousand;
- Prepaid rent and operating leases of Euro 1,048 thousand;

- Prepaid royalties of Euro 2,028 thousand;
- Prepaid costs incurred for the “Revolving Facility” loan of Euro 2,046 thousand;
- Other prepaid costs, mainly commercial, of Euro 2,697 thousand.

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.

## 2.7 Property, plant and equipment, net

<i>(Euro/000)</i>	Balance as of January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of December 31, 2005
<b>Gross value</b>						
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
Assets under construction	3,542	1,493	-	(2,268)	64	2,831
<b>Total</b>	<b>370,048</b>	<b>31,331</b>	<b>(5,124)</b>	<b>(7,712)</b>	<b>5,552</b>	<b>394,095</b>
<b>Accumulated depreciation</b>						
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
<b>Total</b>	<b>174,280</b>	<b>29,618</b>	<b>(3,797)</b>	<b>(2,460)</b>	<b>2,851</b>	<b>200,492</b>
<b>Net Book Value</b>	<b>195,768</b>	<b>1,713</b>	<b>(1,327)</b>	<b>(5,252)</b>	<b>2,701</b>	<b>193,603</b>

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of June 30, 2006
<b>Gross value</b>						
Land and buildings	108,103	251	(1,279)	-	(304)	106,771
Plant and machinery	156,536	2,492	(484)	-	(254)	158,290
Equipment and other assets	126,625	11,967	(845)	-	(2,912)	134,835
Assets under construction	2,831	2,216	-	(1,505)	(46)	3,496
<b>Total</b>	<b>394,095</b>	<b>16,926</b>	<b>(2,608)</b>	<b>(1,505)</b>	<b>(3,516)</b>	<b>403,392</b>
<b>Accumulated depreciation</b>						
Land and buildings	21,302	1,616	(1,318)	-	(76)	21,524
Plant and machinery	90,192	5,804	(376)	-	(119)	95,501
Equipment and other assets	88,998	7,628	(782)	-	(1,593)	94,251
<b>Total</b>	<b>200,492</b>	<b>15,048</b>	<b>(2,476)</b>	<b>-</b>	<b>(1,788)</b>	<b>211,276</b>
<b>Net Book Value</b>	<b>193,603</b>	<b>1,878</b>	<b>(132)</b>	<b>(1,505)</b>	<b>(1,728)</b>	<b>192,116</b>

Part of the property, plant and equipment held by Group companies, for a total amount of approximately Euro 155 million, is pledged by mortgages and/or liens given in favor of credit institutes to guarantee the loans obtained.

## 2.8 Intangible assets

<i>(Euro/000)</i>	Balance as of January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of December 31, 2005
<b>Gross value</b>						
Software costs	6,972	1,709	(739)	-	197	8,139
Trademarks and licenses	33,826	7,618	-	-	65	41,509
Other intangible assets	17,741	416	-	-	342	18,499
Intangible assets in progress	162	-	-	(141)	12	33
<b>Total</b>	<b>58,701</b>	<b>9,743</b>	<b>(739)</b>	<b>(141)</b>	<b>616</b>	<b>68,180</b>

### Accumulated amortization

Software costs	5,257	1,304	(739)	-	120	5,942
Trademarks and licenses	14,818	3,986	-	-	14	18,818
Other intangible assets	17,400	288	-	-	152	17,840
<b>Total</b>	<b>37,475</b>	<b>5,578</b>	<b>(739)</b>	<b>-</b>	<b>286</b>	<b>42,600</b>

<b>Net Book Value</b>	<b>21,226</b>	<b>4,165</b>	<b>-</b>	<b>(141)</b>	<b>330</b>	<b>25,580</b>
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<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of June 30, 2006
<b>Gross value</b>						
Software costs	8,139	757	(18)	-	(97)	8,781
Trademarks and licenses	41,508	203	-	-	(34)	41,677
Other intangible assets	18,499	585	(1,528)	-	(115)	17,441
Intangible assets in progress	34	-	-	-	(1)	33
<b>Total</b>	<b>68,180</b>	<b>1,545</b>	<b>(1,546)</b>	<b>-</b>	<b>(247)</b>	<b>67,932</b>

### Accumulated amortization

Software costs	5,943	906	(18)	-	(47)	6,784
Trademarks and licenses	18,818	2,137	-	-	(10)	20,945
Other intangible assets	17,840	140	(1,105)	-	(61)	16,814
<b>Total</b>	<b>42,600</b>	<b>3,183</b>	<b>(1,123)</b>	<b>-</b>	<b>(118)</b>	<b>44,542</b>

<b>Net Book Value</b>	<b>25,580</b>	<b>(1,638)</b>	<b>(423)</b>	<b>-</b>	<b>(129)</b>	<b>23,390</b>
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Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the six months ended June 30, 2006 and 2005 are divided into the following income statement accounts:

(Euro/000)	Six months ended June 30,		
		2006	2005
Cost of sales	3.2	11,395	12,081
Selling and marketing expenses	3.3	1,525	1,156
General and administrative expenses	3.4	5,311	4,227
<b>Total</b>		<b>18,231</b>	<b>17,464</b>

## 2.9 Goodwill

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

(Euro/000)	Balance as of January 1, 2006	Translation Difference	Balance as of June 30, 2006
Goodwill	365,121	(1,051)	364,070
<b>Net Book Value</b>	<b>365,121</b>	<b>(1,051)</b>	<b>364,070</b>

The present account refers to the goodwill included in the value of the investment in Safilo S.p.A. received in conferment in December 2002 as well as the purchase of the business unit in 2003 from the American company SRLS LCC (Outlook Eyewear).

## 2.10 Investments in associates

Investments in associates refer to the following:

Company	Registered office or headquarters	% of share capital	Type of investment	Main activity
Elegance I. Holdings Ltd	Hong Kong - China	23.05%	Associated company	Commercial
Optifashion As	Turchia	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 June 30, 2006
TBR Inc.	437	456	893	75	(66)	902
Elegance Ltd	5,406	6,887	12,293	(25)	(905)	11,363
Optifashion As	353	(47)	306	(74)	-	232
<b>Total</b>	<b>6,196</b>	<b>7,296</b>	<b>13,492</b>	<b>(24)</b>	<b>(971)</b>	<b>12,497</b>

There were no new acquisitions during the first six 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 in relation to the true and fair view of the consolidated assets and liabilities, financial position and results of operations of the Group.

### 2.11 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.

<i>(Euro/000)</i>	% of share capital	Relationship	June 30, 2006	December 31, 2005
Banca Popolare Italiana S.p.A.	==	Other equity inv.	5,503	5,589
Safilens Srl	17.50%	Other equity inv.	-	209
Unicredit S.p.A.	==	Other equity inv.	176	168
Other	==	Other equity inv.	43	43
<b>Total</b>			<b>5,722</b>	<b>6,009</b>

The movements of the account in the period are shown below. The investment in Safilens Srl recorded in the accounts at December 31, 2005 for a value of Euro 209 thousand was sold to third parties in April 2006 for a total price of Euro 66 thousand:

<i>(Euro/000)</i>	31.12.2005			Movements of the period		Balance as of June 30, 2006
	Gross value	Reval. (Deval.)	Net book value	Decrease	Reval. (Deval.)	
Banca Popolare Italiana S.p.A.	10,198	(4,609)	5,589	-	(86)	5,503
Safilens Srl	209	-	209	(209)	-	-
Unicredit S.p.A.	48	120	168	-	8	176
Other	43	-	43	-	-	43
<b>Total</b>	<b>10,498</b>	<b>(4,489)</b>	<b>6,009</b>	<b>(209)</b>	<b>(78)</b>	<b>5,722</b>

### 2.12 Deferred tax assets and deferred tax liabilities

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Deferred tax assets	<b>48,571</b>	<b>49,279</b>
Deferred tax liabilities	<b>10,880</b>	<b>10,969</b>
<b>Total, net</b>	<b>37,691</b>	<b>38,310</b>

#### 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
	1,711	2003	2008	565	-	565
	30,602	2004	2009	10,099	-	10,099
	61,535	2005	2010	20,306	(20,306)	-
	5,003	2006	2011	1,651	(1,651)	-
<b>Total</b>	<b>97,140</b>			<b>32,620</b>	<b>(21,957)</b>	<b>10,663</b>

#### 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.

#### 2.13 Other non-current assets

At June 30, 2006, the other non-current assets amount to Euro 1,344 thousand and mainly relate to deposits and other long-term receivables due to various Group companies.

## 2.14 Bank overdrafts and borrowings

This account is comprised as follows:

<i>(Euro/000)</i>	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>Bank overdrafts and short-term borrowings</b>		
Bank overdrafts	3,032	5,046
Short-term bank loans	-	5,000
Short-term portion of long-term loans	22,641	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	1,074	3,436
Other short-term loans	34,837	28,804
<b>Total</b>	<b>61,584</b>	<b>184,006</b>
<b>Long-term borrowings</b>		
Long term borrowings	462,887	456,763
Payables for finance leases	10,274	10,616
Other medium/long term loans	766	863
<b>Total</b>	<b>473,927</b>	<b>468,242</b>
<b>Total bank overdrafts and borrowings</b>	<b>535,511</b>	<b>652,248</b>

As already described in the paragraph "Management's discussion and analysis", on June 26, 2006 the Group completed an important refinancing operation through the replacement of the Senior Loan received in 2002 with a new loan. The pool of banks which coordinated the refinancing operation was comprised of Banca Intesa S.p.A., Sanpaolo IMI S.p.A. and UniCredit Banca Mobiliare S.p.A.

The new loan, which at June 30, 2006 had a short-term portion equal to Euro 21,269 thousand and a medium/long-term portion equal to Euro 275,415 thousand, matures on December 31, 2011 and is subdivided into the following credit lines:

- Euro 200 million, relating to the "Facility A", with half yearly repayments starting from December 2006 until December 2011. The Facility A is in turn subdivided into three tranches, of which one in Euro (Tranche A1, Euro 80 million) at an interest rate of Euribor plus a spread of 0.60%; and two in US Dollars (Tranche A2 and Tranche A3, USD 70.4 million and USD 80.5 million respectively) at an interest rate of Libor plus a spread of 0.60%.

- Euro 200 million, relating to the "Revolving Facility" composed of two Tranches also provided in US Dollars (Tranche B1 Euro 170 million, Tranche B2 Euro 30 million) utilised at June 30, 2006 for Euro 100 million.

The operation provides for more advantageous conditions compared to the previous loan in relation to the guarantees provided and the repayment terms and also in relation to the margin applied to the reference parameters (EURIBOR or LIBOR), with a spread of 0.60% annually compared to the previous spread which, depending on the different tranches, was in the range of 2.25% to 3.25%.

With the income deriving from the new contract the Group repaid the previous Senior Loan with a total payment equal to Euro 300,340 thousand. The settlement of the previous loan resulted, in the recording of non-recurring financial charges in the income statement for a total amount of Euro 7,749 thousand relating to the acceleration of the amortisation of the charges incurred on the loan settled (reference should be made to

note 3.8 for further details).

In relation to the High Yield bond, the short-term portion at December 31, 2005 was repaid in advance on January 13, 2006 by the Luxembourg subsidiary Safilo Capital International S.A. for an amount equal to 35% of the nominal value of Euro 300 million. The remaining part of the bond equal to a nominal value of Euro 195 million is included in the account "Long-term borrowings". The payable for the advanced High Yield payment in the financial statements at December 31, 2005 refers to the additional charges paid to the bondholders following the above-mentioned advance repayment.

The above loans, valued under the amortised cost method, are guaranteed by pledges on the shares of Safilo S.p.A. and by guarantee provided by Safilo S.p.A. and by Safilo USA Inc..

The payables for finance leases refer to property, plant and equipment acquired under leasing contracts by Group companies. The average duration of leasing contracts is 10 years. All leasing contracts at the balance sheet date are repayable through constant instalments and the contracts do not include any option for reviewing the original contract.

Some Group companies have entered into operating lease contracts. Costs related to operating lease contracts are recorded in the income statement in the accounts "cost of sales" (note 3.2), "selling and marketing expenses" (note 3.3) and "general and administrative expenses" (note 3.4).

Other short-term loans include, for an amount of Euro 33,229 thousand, a payable to a primary factoring company deriving from the contract signed by Safilo S.p.A.

The repayment dates of loans are as follows:

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Within 2 years	24,465	30,464
Within 3 years	40,446	33,564
Within 4 years	40,595	20,471
Within 5 years	47,721	131,068
Beyond 5 years	320,700	252,675
<b>Total</b>	<b>473,927</b>	<b>468,242</b>

Borrowings by currency are as follows:

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
<b>Short-term</b>		
Euro	41,404	162,641
U.S. Dollar	17,505	19,205
Yen	1,372	2,160
HKD	1,303	-
<b>Total</b>	<b>61,584</b>	<b>184,006</b>
<b>Medium/long-term</b>		
Euro	373,846	402,980
U.S. Dollar	100,081	65,262
<b>Total</b>	<b>473,927</b>	<b>468,242</b>
<b>Total borrowings</b>	<b>535,511</b>	<b>652,248</b>

Average interest rates applied on Group bank overdrafts amount to about 3.25%.

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 borrowings	111,710	3,032	108,678
Credit lines on long-term borrowings	398,716	298,716	100,000
<b>Total</b>	<b>510,426</b>	<b>301,748</b>	<b>208,678</b>

The contractual agreements relating to the loans granted by the pool of banks composed of Banca Intesa S.p.A., San Paolo IMI S.p.A. and UniCredit Banca Mobiliare S.p.A. 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 six 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.

Covenants in the current contractual agreement are calculated as a ratio between net financial position and EBITDA and EBITDA and financial income and expenses.

Covenants as of June 30, 2006 are not comparable with the ones related to December 31, 2005 as they refer to two different financial agreements. However it should be underlined that the number of covenants has been reduced as well as the frequency of their calculation.

The Group net debt position as of June 30 2006 compared with the same as of the end of the first quarter and as of December 31, 2005 is the following:

<b>Net debt position</b> <i>(millions of Euro)</i>	<b>June 30, 2006</b>	<b>March 31, 2006</b>	<b>Change Jun-Mar</b>	<b>December 31, 2005</b>	<b>Change Jun-Dec</b>
Current portion of long term borrowings	(58.6)	(54.4)	(4.2)	(174.0)	115.4
Bank overdrafts and short term borrowings	(3.0)	(19.9)	16.9	(10.0)	7.0
Cash and cash equivalents	34.9	34.4	0.5	151.0	(116.1)
<b>Short term net debt position</b>	<b>(26.7)</b>	<b>(39.9)</b>	<b>13.2</b>	<b>(33.0)</b>	<b>6.3</b>
Long term borrowings	(473.9)	(468.6)	(5.3)	(468.2)	(5.7)
<b>Long term net debt position</b>	<b>(473.9)</b>	<b>(468.6)</b>	<b>(5.3)</b>	<b>(468.2)</b>	<b>(5.7)</b>
<b>Net debt position</b>	<b>(500.6)</b>	<b>(508.5)</b>	<b>7.9</b>	<b>(501.2)</b>	<b>0.6</b>

### 2.15 Trade payables

This account is comprised as follows:

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Purchase of raw materials	52,251	42,098
Purchase of finished products and subcontractors	69,124	71,299
Commissions and royalties	35,955	26,725
Advertising and marketing costs	24,693	17,456
Services received from third parties	22,486	21,756
Payables for purchase of property, plant and equipment and intangible assets	2,615	3,299
<b>Total</b>	<b>207,124</b>	<b>182,633</b>

Trade payables for purchases of raw materials reflect the higher purchases in the second 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.

### 2.16 Tax payables

Tax payables as of June 30, 2006 amount to Euro 24,122 thousand and relate for Euro 11,685 thousand to income taxes, for Euro 6,843 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 (3.9).

### 2.17 Other current liabilities

<i>(Euro/000)</i>	June 30, 2006	December 31, 2005
Due to personnel and social security institutions	43,326	44,913
Premiums to clients	12,457	17,195
Agent fee payable	3,064	2,962
Advertising & sponsorship costs	4,288	2,746
Interest expense payables on long term payables	2,382	3,628
Other accrued expenses	4,046	2,898
Due to minority shareholders for dividends	1,335	2,170
Payables to the holding company Safilo Group S.p.A.	1,314	959
Other current liabilities	2,106	1,952
<b>Total</b>	<b>74,318</b>	<b>79,423</b>

The account "Due to personnel and social security institutions" mainly refers to wages and salaries for June, 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.

#### 2.18 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 June 30, 2006
Product warranty provision	3,119	135	-	-	3,254
Agent's severance provision	3,164	291	(27)	-	3,428
Litigations	2,000	-	(652)	-	1,348
Other provisions for risks and charges	361	448	-	(32)	777
<b>Provisions for risks - long term</b>	<b>8,644</b>	<b>874</b>	<b>(679)</b>	<b>(32)</b>	<b>8,807</b>
<b>Provisions for risks - short term</b>	<b>128</b>	<b>375</b>	<b>-</b>	<b>-</b>	<b>503</b>
<b>Total</b>	<b>8,772</b>	<b>1,249</b>	<b>(679)</b>	<b>(32)</b>	<b>9,310</b>

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 3.3).

#### 2.19 Employee benefits liability

This account shows the following movements:

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Balance as of June 30, 2006
Employee benefit liability	39,365	2,977	(1,069)	41,273
<b>Totale</b>	<b>39,365</b>	<b>2,977</b>	<b>(1,069)</b>	<b>41,273</b>

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.

#### 2.20 Other non current liabilities

The other non-current liabilities as of June 30, 2006 amount to Euro 6,529 thousand and include liabilities

deriving from existing contracts with licensors for the production and distribution of licensed products.

#### 2.21 Share capital

Safilo's capital stock as of June 30, 2006 amounted to Euro 35,000 thousand and consisted of 35,000,000 ordinary shares having a nominal value of Euro 1 per share.

#### 2.22 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.

#### 2.23 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 the consolidated companies.

#### 2.24 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)
<b>Total</b>	<b>(6,342)</b>	<b>(3,232)</b>	<b>5,675</b>	<b>(3,899)</b>

<i>(Euro/000)</i>	Balance as of January 1, 2006	Impact on equity	Impact on Income Statement	Balance as of June 30, 2006
Cash flow reserve	(2,780)	2,790	1,027	1,037
Fair value reserve	(1,119)	(78)	-	(1,197)
<b>Total</b>	<b>(3,899)</b>	<b>2,712</b>	<b>1,027</b>	<b>(160)</b>

The cash flow reserve, created in accordance with IAS 39, includes the fair value of the interest rate swaps

contracts hedging interest rate movements and the fair value of forward exchange contracts designated to hedge against the exchange risk.

As described in note 2.5, as a consequence of the refinancing operation concluded on June 26, 2006, some interest rate swap contracts designated to hedge the cash flows of the previous Senior Loan were not re-designated by the Group to hedge against the cash flow deriving from the new loan, with the consequent recording of their fair value in the income statement. This is one of the most significant components impacting upon the cash flow reserve compared to December 31, 2005.

The fair value reserve refers to the current value of the investments classified under financial assets available-for-sale.

## 2.25 Consolidated changes in shareholders' equity

In accordance with IFRS 1, the table below shows the movements of equity for the periods ended June 30, 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
<b>Group net equity as of January 1, 2005</b>	<b>35,000</b>	<b>53,350</b>	<b>4,810</b>	<b>(80,988)</b>	<b>(4,738)</b>	<b>(6,342)</b>	<b>40,784</b>	<b>21,610</b>	<b>63,486</b>
Previous year's income allocation	-	-	-	-	-	-	21,610	(21,610)	-
Retained earnings	-	-	-	-	5,815	(4,598)	1,347	-	2,564
2005 net income	-	-	-	-	-	-	-	24,032	24,032
<b>Group net equity as of June 30, 2005</b>	<b>35,000</b>	<b>53,350</b>	<b>4,810</b>	<b>(80,988)</b>	<b>1,077</b>	<b>(10,940)</b>	<b>63,741</b>	<b>24,032</b>	<b>90,082</b>
<b>Minority interests as of January 1, 2005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(105)</b>	<b>-</b>	<b>2,055</b>	<b>3,123</b>	<b>5,073</b>
Previous year's income allocation	-	-	-	-	-	-	3,123	(3,123)	-
Retained earnings	-	-	-	-	187	-	62	-	249
Dividends distribution	-	-	-	-	-	-	(1,647)	-	(1,647)
2005 net income	-	-	-	-	-	-	-	2,014	2,014
<b>Minority interests as of June 30, 2005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>3,593</b>	<b>2,014</b>	<b>5,689</b>
<b>Consolidated net equity as of June 30, 2005</b>	<b>35,000</b>	<b>53,350</b>	<b>4,810</b>	<b>(80,988)</b>	<b>1,159</b>	<b>(10,940)</b>	<b>67,334</b>	<b>26,046</b>	<b>95,771</b>

<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
<b>Group net equity as of January 1, 2006</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>5,208</b>	<b>(3,899)</b>	<b>61,583</b>	<b>10,442</b>	<b>380,219</b>
Previous year's income allocation	-	-	-	-	-	-	10,442	(10,442)	-
Retained earnings	-	-	-	-	(6,033)	3,739	(449)	-	(2,743)
2006 net income	-	-	-	-	-	-	-	21,773	21,773
<b>Group net equity as of June 30, 2006</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(825)</b>	<b>(160)</b>	<b>71,576</b>	<b>21,773</b>	<b>399,249</b>
<b>Minority interests as of January 1, 2006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>102</b>	<b>-</b>	<b>2,215</b>	<b>3,220</b>	<b>5,537</b>
Previous year's income allocation	-	-	-	-	-	-	3,220	(3,220)	-
Retained earnings	-	-	-	-	(87)	-	(17)	-	(104)
Dividends distribution	-	-	-	-	-	-	(1,478)	-	(1,478)
2006 net income	-	-	-	-	-	-	-	1,828	1,828
<b>Minority interests as of June 30, 2006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>3,940</b>	<b>1,828</b>	<b>5,783</b>
<b>Consolidated net equity as of June 30, 2006</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(810)</b>	<b>(160)</b>	<b>75,516</b>	<b>23,601</b>	<b>405,032</b>

## 2.26 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 first six months of 2006 and 2005 are summarised as follows:

<i>(Euro/000)</i>	June 30, 2006	June 30, 2005
SOP I	-	79
SOP II	389	859
<b>Total</b>	<b>389</b>	<b>938</b>

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. The holders will be able to exercise the remaining rights in their possession related to SOP I and SOP II respectively within June 20, 2007 and September 20, 2008.

In compliance with the powers delegated by the shareholders' meeting of October 24, 2005, the Board of Directors of Safilo Group S.p.A. on May 31, 2006 approved a share capital increase of the Company up to a maximum nominal value of Euro 2,125,296.25 through the issue of a maximum of 8,501,185 ordinary shares with a value of Euro 0.25 each and a share premium of Euro 4.16. The shares will be offered in accordance with the regulations of the new "2006 Stock Option Plan" approved by the Board. This plan will have a duration of four years (2006-2010). The beneficiaries of the plan will be (in a similar manner to previous plans) some directors, executives and collaborators of companies of the Safilo Group, and provides for the vesting of option rights assigned based on  $\frac{1}{4}$  for each year of the Plan. The criteria for the vesting of the Options will be based on the reaching, by the Safilo Group S.p.A., of prefixed consolidated EBITDA levels by the Board of Directors.

In relation to the Board of Directors at June 30, 2006, the beneficiaries of the vesting rights were identified while the acceptance will take place in the coming months through the compilation of specific forms.

### 3. Notes to the Consolidated Statements of Operations

#### 3.1 Net sales

Group sales in the first six months of 2006 amount to Euro 605,405 thousand and report an increase of 7.8% compared to the same period of the previous year.

Reference should be made to the paragraphs “Sales analysis” and “Management’s discussion and analysis” for further details regarding the first half of 2006 sales trend compared to the same period of the previous year.

#### 3.2 Cost of sales

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Purchase of raw materials and finished products	176,230	138,840	91,081	68,772
Capitalization of costs for increase in PP&E	(4,844)	(5,058)	(2,437)	(2,841)
Change in inventories	(14,092)	14,338	(8,129)	7,071
Payroll and social security contributions	49,709	46,383	25,651	23,709
Subcontracting costs	17,788	11,626	9,392	5,262
Depreciation	11,395	12,081	5,722	6,054
Rental and operating leases	289	459	143	272
Other industrial costs	3,971	4,455	2,015	2,258
<b>Total</b>	<b>240,446</b>	<b>223,124</b>	<b>123,438</b>	<b>110,557</b>

The increase in the cost of materials and finished products, associated with the increase in inventories compared to December 31, 2005, is proportionally greater than the increase in sales. This increase is a direct consequence of the strong request of products from the market and the necessity to strengthen the production levels.

The change in inventories, already commented in note 2.3, is broken down as follows:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Finished products	(12,667)	11,194	(7,033)	5,817
Work-in-progress	(299)	1,445	(145)	1,753
Raw materials	(1,126)	1,699	(951)	(499)
<b>Total</b>	<b>(14,092)</b>	<b>14,338</b>	<b>(8,129)</b>	<b>7,071</b>

Compared to the same period in the previous year, Group production personnel costs have increased due to

normal labour increases and the higher utilisation of temporary staff which are not included in the table below.

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

	Six months ended June 30,	
	2006	2005
Padua Headquarters	808	738
Production plants	4,268	4,308
Commercial subsidiaries	1,070	1,033
Solstice	379	239
<b>Total</b>	<b>6,525</b>	<b>6,318</b>

There was a strong increase in outsourcing compared to the same period in 2005. This structure, although costly from an economic viewpoint, has guaranteed a strong increase in the production capacity maintaining good flexibility for the future.

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

### 3.3 Selling and marketing expenses

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Payroll and social security contributions	45,601	41,900	23,310	20,994
Commissions to sales agents	43,102	40,307	21,412	20,059
Royalty expenses	53,859	53,032	26,729	27,163
Advertising and promotional costs	50,925	43,202	26,076	20,661
Amortisation & depreciation	1,525	1,156	842	600
Logistic costs	8,066	6,955	4,105	3,704
Consultants fees	2,260	1,949	1,168	827
Rental and operating leases	3,563	2,683	1,860	1,337
Utilities	410	185	229	114
Provision for risks	874	884	445	374
Other sales and marketing expenses	13,413	12,156	6,602	6,302
<b>Total</b>	<b>223,598</b>	<b>204,409</b>	<b>112,778</b>	<b>102,135</b>

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 agents is directly related to the increased sales.

The marketing costs increased compared to 2005. This is attributable to both higher advertising investments aimed at developing the sales of brands which will substitute brands whose contracts are expiring, and to

strengthening of the identification of the Group's own brands in the marketplace.

### 3.4 General and administrative expenses

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Payroll and social security contributions	36,190	27,088	20,768	13,795
Allowance for doubtful accounts	1,111	1,543	545	683
Amortisation & depreciation	5,311	4,227	2,589	2,115
Consultants fees	4,623	4,686	2,206	2,598
Rental and operating leases	3,269	3,162	1,569	1,648
Utilities	2,970	2,779	1,502	1,666
EDP costs	1,773	1,816	878	930
Insurance costs	1,450	1,165	732	618
Taxes (other than on income)	1,031	1,044	479	438
Other general and administrative expenses	8,336	6,920	4,232	3,614
<b>Total</b>	<b>66,064</b>	<b>54,430</b>	<b>35,500</b>	<b>28,105</b>

The increase in personnel costs includes Euro 6 million of extraordinary charges related to the resignation of the Chief Executive Officer. The remainder of the increase in costs derives from normal salary increases and from the development of the headquarters in Padua.

### 3.5 Other income/(expenses), net

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Losses on asset disposals	(128)	(367)	(97)	(365)
Other operating expenses	(247)	(468)	(188)	(278)
Gains on asset disposals	282	42	274	37
Other operating revenues	1,262	1,155	933	883
<b>Total</b>	<b>1,169</b>	<b>362</b>	<b>922</b>	<b>277</b>

The account "Gains from asset disposals" includes the gain of Euro 272 thousand realised by the Austrian subsidiary Carrera Brillen (Traun), a company in liquidation, following the sale of the building from which the company operated (reference to note 2.4).

Other operating revenues mainly include extraordinary income and insurance reimbursements.

### 3.6 Share of income/(loss) of associates

This account amounts to Euro 24 thousand and consists of the income and losses deriving from the equity valuation of the holdings in associated companies (note 2.10).

### 3.7 Interest expense and other financial charges, net

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Interest expense on loans	13,593	17,607	7,665	10,086
Interest expense and charges on High Yield	8,837	14,860	3,483	7,486
Bank commissions	2,132	2,202	1,147	1,189
Foreign exchange rate differences	7,356	16,304	3,918	9,424
Financial discounts	3,294	2,749	1,829	1,553
Losses on financial assets disposal	138	-	138	0
Other financial charges	1,027	42	727	24
<b>Total financial charges</b>	<b>36,377</b>	<b>53,764</b>	<b>18,907</b>	<b>29,762</b>
Interest income	461	258	242	186
Foreign exchange rate differences	8,041	11,193	4,791	6,185
Dividends	6	211	6	211
Other financial income	859	4	175	2
<b>Total financial income</b>	<b>9,367</b>	<b>11,666</b>	<b>5,214</b>	<b>6,584</b>
<b>Total financial charges, net</b>	<b>27,010</b>	<b>42,098</b>	<b>13,693</b>	<b>23,178</b>

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

### 3.8 Non recurring financial charges

(Euro/000)	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Accelerated amortization of fees on borrowings	7,749	-	7,749	-
Fair value of non-hedging IRS	1,533	-	1,533	-
<b>Total</b>	<b>9,282</b>	<b>-</b>	<b>9,282</b>	<b>-</b>

As already described in note 2.14, the refinancing operation concluded by the Group on June 26, 2006 resulted, in application of the IFRS, in the recording of non-recurring financial charges in the income statement for a total amount of Euro 7,749 thousand relating to the acceleration of the amortisation of the charges incurred on the loan settled.

As described in notes 2.5 and 2.24, as a consequence of the refinancing operation concluded on June 26, 2006, some contracts designated to hedge the cash flows of the previous Senior Loan were not re-designated by the Group to hedge against the cash flow deriving from the new loan, with the consequent recording of their fair

value under non-recurring financial charges.

### 3.9 Income tax expenses

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2006	2005	2006	2005
Current taxes	18,628	22,714	9,019	11,149
Deferred taxes	(2,079)	(10,404)	(5,059)	(11,286)
<b>Total</b>	<b>16,549</b>	<b>12,310</b>	<b>3,960</b>	<b>(137)</b>

### 3.10 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 half of 2006, there were no unusual or extraordinary items affecting assets, liabilities, equity, net income or cash flows.

### 3.11 Dividends

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

### 3.12 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.

Six months ended June 30, 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	173,252	23,928	62	10	-	(197,252)	-
-to third parties	140,828	167,372	228,441	68,764	-	-	605,405
<b>Total Net Sales</b>	<b>314,080</b>	<b>191,300</b>	<b>228,503</b>	<b>68,774</b>	<b>-</b>	<b>(197,252)</b>	<b>605,405</b>
<b>Gross Profit</b>	<b>131,198</b>	<b>84,326</b>	<b>117,654</b>	<b>32,506</b>	<b>-</b>	<b>(725)</b>	<b>364,959</b>
<b>Operating income</b>	<b>28,528</b>	<b>18,721</b>	<b>20,307</b>	<b>9,317</b>	<b>88</b>	<b>(495)</b>	<b>76,466</b>
Interest expense							(45,658)
Interest income							9,366
Share income/(loss) of associates	-	-	75	(25)	(74)		(24)
Income taxes							(16,549)
<b>Net income</b>							<b>23,601</b>
<i>Gross profit margin</i>	<i>42%</i>	<i>44%</i>	<i>51%</i>	<i>47%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>9%</i>	<i>10%</i>	<i>9%</i>	<i>14%</i>			<i>13%</i>
<b>Other information</b>							
Depreciation & Amortization	12,856	2,605	2,185	575	10		18,231

Six months ended June 30, 2005 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	146,240	16,294	172	17	13	(162,736)	-
-to third parties	133,903	169,402	195,281	63,252	3	-	561,841
<b>Total Net Sales</b>	<b>280,143</b>	<b>185,696</b>	<b>195,453</b>	<b>63,269</b>	<b>16</b>	<b>(162,736)</b>	<b>561,841</b>
<b>Gross Profit</b>	<b>112,905</b>	<b>90,464</b>	<b>103,761</b>	<b>31,843</b>	<b>17</b>	<b>(273)</b>	<b>338,717</b>
<b>Operating income</b>	<b>20,530</b>	<b>42,991</b>	<b>21,992</b>	<b>11,348</b>	<b>1,025</b>	<b>(17,646)</b>	<b>80,240</b>
Interest expense							(53,764)
Interest income							11,666
Share income/(loss) of associates	1	-	-	213	-		214
Income taxes							(12,310)
<b>Net income</b>							<b>26,046</b>
<i>Gross profit margin</i>	<i>40%</i>	<i>49%</i>	<i>53%</i>	<i>50%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>7%</i>	<i>23%</i>	<i>11%</i>	<i>18%</i>			<i>14%</i>
<b>Other information</b>							
Depreciation & Amortization	12,290	3,148	1,582	435	9		17,464

Second Quarter 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	86,053	12,257	(40)	(296)	-	(97,974)	-
-to third parties	73,184	86,958	110,220	32,918	-	-	303,280
<b>Total Net Sales</b>	<b>159,237</b>	<b>99,215</b>	<b>110,180</b>	<b>32,622</b>	<b>-</b>	<b>(97,974)</b>	<b>303,280</b>
<b>Gross Profit</b>	<b>64,734</b>	<b>42,315</b>	<b>56,909</b>	<b>15,414</b>	<b>-</b>	<b>470</b>	<b>179,842</b>
<b>Operating income</b>	<b>10,558</b>	<b>8,082</b>	<b>9,733</b>	<b>3,869</b>	<b>1</b>	<b>243</b>	<b>32,486</b>
Interest expense							(28,188)
Interest income							5,213
Share income/(loss) of associates	-	-	37	(25)	(74)		(62)
Income taxes							(3,960)
<b>Net income</b>							<b>5,489</b>
<i>Gross profit margin</i>	<i>41%</i>	<i>43%</i>	<i>52%</i>	<i>47%</i>			<i>59%</i>
<i>Operating income margin</i>	<i>7%</i>	<i>8%</i>	<i>9%</i>	<i>12%</i>			<i>11%</i>
<b>Other information</b>							
Depreciation & Amortization	6,424	1,313	1,096	333	(13)		9,153

Second Quarter 2005 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	68,276	8,792	42	10	13	(77,133)	-
-to third parties	71,124	79,940	97,211	32,615	(10)	-	280,880
<b>Total Net Sales</b>	<b>139,400</b>	<b>88,732</b>	<b>97,253</b>	<b>32,625</b>	<b>3</b>	<b>(77,133)</b>	<b>280,880</b>
<b>Gross Profit</b>	<b>57,157</b>	<b>43,189</b>	<b>53,613</b>	<b>16,762</b>	<b>4</b>	<b>(402)</b>	<b>170,323</b>
<b>Operating income</b>	<b>10,666</b>	<b>10,308</b>	<b>12,981</b>	<b>6,048</b>	<b>766</b>	<b>(409)</b>	<b>40,360</b>
Interest expense							(29,762)
Interest income							6,584
Share income/(loss) of associates	1	-	9	213	-		223
Income taxes							137
<b>Net income</b>							<b>17,542</b>
<i>Gross profit margin</i>	<i>41%</i>	<i>49%</i>	<i>55%</i>	<i>51%</i>			<i>61%</i>
<i>Operating income margin</i>	<i>8%</i>	<i>12%</i>	<i>13%</i>	<i>19%</i>			<i>14%</i>
<b>Other information</b>							
Depreciation & Amortization	6,428	1,303	806	228	4		8,769

- (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.

## RELATED PARTY TRANSACTIONS

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

<b>Related parties</b>			
<i>(Euro/000)</i>	<b>Relationship</b>	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<i>Receivables</i>			
Elegance International Holdings Ltd	(a)	301	750
Optifashion As	(b)	19	-
Safilens s.r.l.	(c)	196	207
<b>Total</b>		<b>516</b>	<b>957</b>
<i>Payables</i>			
Elegance International Holdings Ltd	(a)	8,816	8,533
Safilens s.r.l.	(c)	-	22
<b>Total</b>		<b>8,816</b>	<b>8,555</b>
<b>Related parties</b>			
	<b>Relationship</b>	<b>Six months ended June 30, 2006</b>	<b>2005</b>
<i>Revenues</i>			
Optifashion As	(b)	188	89
Safilens s.r.l.	(c)	-	2
Elegance International Holdings Ltd	(a)	-	4
<b>Total</b>		<b>188</b>	<b>95</b>
<i>Costs</i>			
Safilens s.r.l.	(c)	-	53
Elegance International Holdings Ltd	(a)	11,961	7,279
TBR Inc.	(a)	588	536
<b>Total</b>		<b>12,549</b>	<b>7,868</b>

- (a) Associated company
- (b) Unconsolidated subsidiary
- (c) Other equity investment

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 half of 2006, the Group paid rent of Euro 588 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%.

## **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 June 30, 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.

## **COMMITMENTS**

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

## FORWARD-LOOKING STATEMENTS

This Half-year Report includes forward-looking statements. All statements other than statements of historical fact included in this Half-year 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 Half-year 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**

For further information:

Francesco Tagliapietra,

Director of Administration and Control

Phone: (+39) 049 6985111