



Nine-month Report  
as of September 30, 2006

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[www.safilo.com](http://www.safilo.com)

**SAFILO GROUP S.P.A.**

Settima Strada, 15

35129 Padua - Italy

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## Corporate Officers as of September 30, 2006

### Board of Directors

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

### Board of Statutory Auditors

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

### Internal Control Committee

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

<i>Chairman</i>	Carlo Gilardi Giannino Lorenzon Riccardo Ruggiero
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### Independent Auditors

PricewaterhouseCoopers S.p.a.

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

### **General information**

Safilo Group S.p.A., holding company, is a limited liability company registered in Italy with the Companies' Registry of Vicenza. Starting from April 27, 2006 it has transferred its registered office from Vicenza to Pieve di Cadore (Belluno). At the same date it has established an administrative office at the subsidiary Safilo S.p.A. at Padova – 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*, *J. Lo by Jennifer Lopez*, *Juicy Couture*, *Kate Spade*, *Liz Claiborne*, *Marc Jacobs*, *Marc by Marc Jacobs*, *Max Mara*, *Nine West*, *Oliver*, *Pierre Cardin*, *Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino* and *Yves Saint Laurent*.

## Introduction

The first nine months confirm the Group's growth both in terms of turnover and profitability, despite the negative impact from the exit of some brands (*Burberry and Polo*) from the Group portfolio.

While operating profit has fallen slightly following extraordinary costs incurred during the first half year and the marketing investments made to support future growth in sales, financial charges have significantly decreased due to reduced borrowing resulting from the use of IPO proceeds, the positive effect of the exchange rate and the effects of the refinancing operation completed in June 2006. These factors have had a significant impact on the Group's net profit (+83%) compared to the same period of the previous year.

Obstacles limiting industrial production capacity have been overcome and an industrial reorganisation programme is being implemented; the results compensate the extraordinary costs related to the non-renewal of the *Polo* licensing agreement.

Cash generation in the period has been negatively affected by the significant growth in working capital related to stock increases aimed both at meeting forecast sales increases and reaching stock levels needed to meet customer demand.

## Sales Analysis

Group sales for the first nine months of 2006 amounted to Euro 843.6 million, an increase of 8.6% over the sales of Euro 776.7 million for the first nine months of 2005. At equivalent exchange rates for both periods the sales increase would have been 7.8%.

The excellent results reported in the first nine months of the year were due to the good performance of the sales of products under licence and to the significant upturn in own brand sales (+13.8%), demonstrating the success of the house brands marketing strategy relaunch. The most successful results were obtained in the Italian and American markets, with increases of 13.3% and 12.4% respectively.

The third quarter has shown particularly good figures with sales increasing by 10.8% over the same quarter in 2005. At an equivalent exchange rate the increase would be 13.5%. The improvement confirms our customers' appreciation of the collections presented by the Group and is the outcome of an overall buoyant commercial position and an expanded production capacity.

It should also be noted that these results have been achieved despite a sharp slowdown in sales of Ralph Lauren products, whose licencing agreement finishes at the end of 2006, and also the suspension of sales of Burberry products which were present in 2005. If the impact of the effects of these two brands was excluded from the results, the increase in turnover for the third quarter would have been 19.9%.

Net sales by Geographic region (millions of Euro)	Nine months ended September 30,					Third Quarter				
	2006	%	2005	%	Ch. %	2006	%	2005	%	Ch. %
Italy	115.5	13.7	101.9	13.1	13.3	30.0	12.6	23.6	11.0	27.1
Europe (excluding Italy)	271.1	32.1	264.9	34.1	2.3	76.7	32.2	65.4	30.4	17.3
The Americas	326.2	38.7	290.3	37.4	12.4	94.7	39.8	91.4	42.5	3.6
Asia Pacific	95.5	11.3	89.2	11.5	7.1	26.7	11.2	26	12.1	2.7
Other	35.3	4.2	30.4	3.9	16.1	10.1	4.2	8.5	4.0	18.8
<b>Total</b>	<b>843.6</b>	<b>100.0</b>	<b>776.7</b>	<b>100.0</b>	<b>8.6</b>	<b>238.2</b>	<b>100.0</b>	<b>214.9</b>	<b>100.0</b>	<b>10.8</b>

  

Net sales by Product (millions of Euro)	Nine months ended September 30,					Third Quarter				
	2006	%	2005	%	Ch. %	2006	%	2005	%	Ch. %
Prescription frames	329.9	39.1	325.9	42.0	1.2	116.1	48.7	108.7	50.6	6.8
Sunglasses	457.0	54.2	401.4	51.7	13.9	98.3	41.3	84.5	39.3	16.3
Sports products	42.6	5.0	38.3	4.9	11.2	18.6	7.8	18.4	8.6	1.1
Other	14.1	1.7	11.1	1.4	27.0	5.2	2.2	3.3	1.5	57.6
<b>Total</b>	<b>843.6</b>	<b>100.0</b>	<b>776.7</b>	<b>100.0</b>	<b>8.6</b>	<b>238.2</b>	<b>100.0</b>	<b>214.9</b>	<b>100.0</b>	<b>10.8</b>

*Italy.* The sales in the Italian market report an increase of 13.3% compared to the first nine months of the previous year and 27.1% on the third quarter. Significantly, the increase (+15.7%) of sales volumes demonstrates the appreciation of Italian customers for the 2006 collections. It should be noted that the substantial sales increases were made in both sunglasses (+11.8%) and spectacle frames (+16.0%). The *Armani*, *Dior* and *Gucci* brands were particularly successful, as were the house brands *Carrera*, *Safilo* and *Oxydo*. The latter benefited, as stated above, from the coordinated action taken to relaunch their image with the consequent positive sales results.

*Europe (excluding Italy).* The European market, which appeared to be in difficulty in the first half of 2006, reports an increase of 2.3% compared to the same period in 2005. The expanded production capacity enabled the Group to regain optimal levels of service and improved delivery times, resulting in an increased turnover of 17.3% for the quarter, with particularly good results in the sale of sunglasses. The breakdown by country reports excellent results in Germany (+14.3%) and in Great Britain (+25.2%), whilst the analysis of turnover by brand shows good performances by *Armani*, *Dior*, *Valentino* and among in-house brands, *Safilo*, *Blue Bay* and *Oxydo*.

*America.* The American market is undoubtedly the market most affected by the reported ending of the licencing with Ralph Lauren. Despite this, it was among the best performing markets and even in the third quarter, calculated at an equivalent exchange rate, turnover registers a 7.7% increase compared to the same period in 2005. The progress for department stores has again been very positive, there has been an excellent performance in the sporting section and substantial improvement in the sales of Smith brand ski goggles and sunglasses. In the designer brand market, excellent sales were recorded by *Armani*, *Diesel*, *Dior* and *Gucci* as well as classical American brands such as *Chesterfield*, *J.Lo by Jennifer Lopez* and *Juicy Couture*.

The retail chain Solstice reported good results (+31.5% for the nine months) and at September 30, 2006 operated 74 outlets of which 20 were opened in 2006.

*Asia.* The turnover in the Far East confirms the satisfactory growth recorded in previous quarters (+7.1% at current exchange rates and +7.3% at fixed rates on a year to date basis), principally due to the success of sunglasses. It should be noted that the sales in the area were adversely affected by the opening, starting from 2007, of the Korean branch, as was recently announced, which led to a suspension of relations with the current

distributors. The Armani, Dior and Gucci brands performed best and, by geographical area progress was most apparent in Hong Kong (+15.9%), China (+42.5%), Singapore (+25.5%) and Thailand (+51.2%).



Economic results<sup>1</sup>

Consolidated Statement of operations (millions of Euro)	Nine months ended September 30,					Third Quarter				
	2006	%	2005	%	Ch.%	2006	%	2005	%	Ch.%
Net sales	843.6	100.0	776.7	100.0	8.6	238.2	100.0	214.9	100.0	10.8
Cost of sales	(334.9)	(39.7)	(308.7)	(39.7)	8.5	(94.4)	(39.6)	(85.6)	(39.8)	10.3
<b>Gross profit</b>	<b>508.7</b>	<b>60.3</b>	<b>468.0</b>	<b>60.3</b>	<b>8.7</b>	<b>143.8</b>	<b>60.4</b>	<b>129.3</b>	<b>60.2</b>	<b>11.2</b>
Selling and marketing expenses	(316.1)	(37.5)	(287.6)	(37.0)	9.9	(92.5)	(38.8)	(83.2)	(38.7)	11.2
General and administrative expenses	(92.6)	(11.0)	(79.5)	(10.2)	16.5	(26.3)	(11.0)	(25.1)	(11.7)	4.8
Other income/(expenses), net	0.9	0.1	0.4	0.1	125.0	(0.6)	(0.3)	0.1	0.0	(700.0)
<b>Operating income</b>	<b>100.9</b>	<b>11.9</b>	<b>101.3</b>	<b>13.2</b>	<b>(0.4)</b>	<b>24.4</b>	<b>10.3</b>	<b>21.1</b>	<b>9.8</b>	<b>15.6</b>
Interest expense and other financial charges, net	(36.6)	(4.3)	(60.9)	(7.8)	(39.9)	(9.8)	(4.1)	(17.0)	(7.9)	(42.4)
Non recurring financial charges	(9.3)	(1.1)	(9.4)	(1.2)	(1.1)	0.0	0.0	(0.7)	(0.3)	(100.0)
<b>Income before taxation</b>	<b>55.0</b>	<b>6.5</b>	<b>31.0</b>	<b>4.2</b>	<b>77.4</b>	<b>14.6</b>	<b>6.2</b>	<b>3.4</b>	<b>1.6</b>	<b>329.4</b>
Income tax expenses	(23.6)	(2.8)	(12.7)	(1.6)	85.8	(6.9)	(2.9)	(2.5)	(1.2)	176.0
<b>Net income</b>	<b>31.4</b>	<b>3.7</b>	<b>18.3</b>	<b>2.6</b>	<b>71.6</b>	<b>7.7</b>	<b>3.3</b>	<b>0.9</b>	<b>0.4</b>	<b>755.6</b>
Net income attributable to minority interests	2.3	0.3	2.4	0.3	(4.2)	0.4	0.2	0.4	0.2	0.0
<b>Net income attributable to the Group</b>	<b>29.1</b>	<b>3.4</b>	<b>15.9</b>	<b>2.3</b>	<b>83.0</b>	<b>7.3</b>	<b>3.1</b>	<b>0.5</b>	<b>0.2</b>	<b>1,360.0</b>
<b>EBITDA</b>	<b>128.1</b>	<b>15.2</b>	<b>127.4</b>	<b>16.4</b>	<b>0.5</b>	<b>33.4</b>	<b>14.0</b>	<b>29.7</b>	<b>13.8</b>	<b>12.5</b>
Basic EPS (Euro)	0.10		0.08			0.02		0.00		
Diluted EPS (Euro)	0.10		0.08			0.02		0.00		

The results of the Group in the first 9 months of the year were satisfactory in operational terms and in terms of net profit, following good commercial growth in the principal global markets.

Operating profit amounted to Euro 100.9 million, in line with the first nine months of 2005 (Euro 101.3 million), in spite of a drop in margins (from 13.2% to 11.9%), principally due to greater advertising investments and extraordinary administrative costs in the first half of the year.

The first negative effects of a reduction in profits of Ralph Lauren products have been offset by savings achieved with the implementation of the industrial reorganisation project. There have been no extraordinary provisions to cover the obsolescence risk of the Ralph Lauren products. We will only be in a position to estimate the quantity of unsold goods at the year end, which coincides with the contract expiry date.

The EBITDA has increased slightly, from Euro 127.4 million in the first nine months of 2005 to the current Euro 128.1 million, despite coming under the same pressures already felt at operating profit level.

Financial charges have reduced significantly due to the decrease in Group borrowings and as a result the refinancing operation completed in June 2006. In addition, the favourable terms agreed with banks have more than offset the increased interest rates on financial markets.

Good operating results and contained financial charges have resulted in a marked increase in net profit compared to the same period in the previous year (+83%, equal to Euro 29.1 million compared to Euro 15.9 million in 2005).

<sup>1</sup> Some accounts relating to the nine months ended September 30, 2005 were adjusted compared to those reported in the Offering Memorandum prepared for the IPO process, following the European Community's approval of the amendment to IAS 39 issued on April 14, 2005 relating to the cash flow hedges.

The quarter results show particularly positive results, both for operating profit (+15.6% equal to Euro 24.4 million compared to Euro 21.1 million in the third quarter of 2005) and in the financial management, resulting in a strong increase in net profit over the third quarter of the previous year.

Balance sheets and financial situation<sup>2</sup>

Condensed consolidated balance sheet (millions of Euro)	September 30, 2006	December 31, 2005	Change
Property, plant and equipment, net	192.6	193.6	(1.0)
Intangible assets	22.4	25.6	(3.2)
Goodwill	796.7	797.7	(1.0)
Other non current assets	104.0	104.6	(0.6)
<b>Total non current assets</b>	<b>1,115.7</b>	<b>1,121.5</b>	<b>(5.8)</b>
Net working capital	321.3	254.9	66.4
<b>Total capital invested</b>	<b>1,437.0</b>	<b>1,376.4</b>	<b>60.6</b>
Employee benefits liability and provisions	65.6	59.1	6.5
Net debt position	512.0	479.0	33.0
Other non current liabilities	5.9	11.1	(5.2)
Shareholders' equity attributable to the Group	848.1	821.7	26.4
Shareholders' equity attributable to minority shareholders	5.4	5.5	(0.1)
<b>Total capital invested</b>	<b>1,437.0</b>	<b>1,376.4</b>	<b>60.6</b>

Condensed consolidated statements of cash flows (millions of Euro)	Nine months ended September 30,		
	2006	2005	Change
<b>Cash and cash equivalent at the beginning of the period</b>	<b>44.5</b>	<b>18.2</b>	<b>26.3</b>
Net income	31.4	18.3	13.1
Depreciation and amortization	27.3	26.1	1.2
Other non monetary items	3.6	3.0	0.6
Interest expenses and income tax expense	21.3	23.6	(2.3)
Movements in working capital	(88.8)	(32.7)	(56.1)
<b>Cash flows from operating activity</b>	<b>(5.2)</b>	<b>38.3</b>	<b>(43.5)</b>
Cash flows used in investing activities	(21.3)	(17.7)	(3.6)
Dividends paid	(1.9)	(2.4)	0.5
Repayment of borrowings	(316.1)	(11.0)	(305.1)
Proceeds from borrowings	302.6	20.8	281.8
<b>Cash flows for investing and from financing activities</b>	<b>(36.7)</b>	<b>(10.3)</b>	<b>(26.4)</b>
Effect of exchange rates	1.0	3.8	(2.8)
Other movements in shareholders' equity	3.9	(0.4)	4.3
<b>Cash and cash equivalents at the end of the period</b>	<b>7.5</b>	<b>49.6</b>	<b>(42.1)</b>

<sup>2</sup> Some accounts relating to the nine months ended September 30, 2005 were adjusted compared to those reported in the Offering Memorandum prepared for the IPO process, following the European Community's approval of the amendment to IAS 39 issued on April 14, 2005 relating to the cash flow hedges.

### *Cash flows from operating activity*

In the first nine months of 2006 there was a small cash absorption following an increase in working capital mainly due to increased levels of inventory held. This is partly due to the development of the American chain Solstice, and partly to the policy of increasing stocks of raw materials and finished products in order to maximise productivity levels and improve the quality of client service.

### *Cash flows for investing activities*

The cash absorbed by investments is similar to the same period of the previous year, and mainly relates to industrial investments and opening new shops in the Solstice chain.

### *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.

<b>Net debt position</b> <i>(millions of Euro)</i>	<b>September 30, 2006</b>	<b>June 30, 2006</b>	<b>Change Sep-Jun</b>	<b>December 31, 2005</b>	<b>Change Sep-Dec</b>
Current portion of long term borrowings	(22.5)	(24.0)	1.5	(135.6)	113.1
Bank overdrafts and short term bank borrowings	(39.2)	(3.0)	(36.2)	(10.0)	(29.2)
Other short term borrowings	(31.2)	(34.6)	3.4	(38.4)	7.2
Cash and cash equivalents	46.8	45.0	1.8	173.2	(126.4)
<b>Short term net debt position</b>	<b>(46.1)</b>	<b>(16.6)</b>	<b>(29.5)</b>	<b>(10.8)</b>	<b>(35.3)</b>
Long term borrowings	(465.9)	(473.9)	8.0	(468.2)	2.3
<b>Long term net debt position</b>	<b>(465.9)</b>	<b>(473.9)</b>	<b>8.0</b>	<b>(468.2)</b>	<b>2.3</b>
<b>Net debt position</b>	<b>(512.0)</b>	<b>(490.5)</b>	<b>(21.5)</b>	<b>(479.0)</b>	<b>(33.0)</b>

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

<i>(millions of Euro)</i>	Equity as of September 30, 2006	Net income/ (loss) first 9 months 2006	Equity as of December 31, 2005
Balances per Safilo Group S.p.A. statutory financial statements	813.7	(0.2)	813.9
Shareholders' equity of consolidated companies	1,424.8	43.6	1,405.9
Book value of consolidated subsidiaries	(2,137.5)	0.0	(2,138.9)
Goodwill	754.5	0.0	754.5
Differences arising from consolidation	17.0	(0.2)	17.2
Elimination of dividends paid within the Group	0.0	(15.8)	-
Elimination of intercompany gains within the Group	(15.7)	0.4	(16.1)
Elimination of intercompany profit included in inventory	(13.1)	1.4	(15.9)
Investments in associates - equity method	6.0	0.1	6.4
Other consolidation entries	3.8	2.1	0.2
<b>Total Shareholders' equity</b>	<b>853.5</b>	<b>31.4</b>	<b>827.2</b>
Shareholders' equity attributable to minority shareholders	5.4	2.3	5.5
<b>Total shareholders' equity attributable to the Group</b>	<b>848.1</b>	<b>29.1</b>	<b>821.7</b>

**Personnel**

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

	September 30, 2006	December 31, 2005	September 30, 2005
Padua Headquarters	857	766	765
Production plants	4,563	4,192	4,185
Commercial subsidiaries	1,072	1,053	1,037
Solstice	507	374	311
<b>Total</b>	<b>6,999</b>	<b>6,385</b>	<b>6,298</b>

### **Subsequent events**

On November 9th the Group purchased the chain of retail shops known Loop Vision. The chain is comprised of 61 stores situated in Spain and is considered to be one of the leading distribution outlets in the luxury sector in one of the strongest growing European markets. The total cost of the purchase was approximately 23 million Euro.

## CONSOLIDATED FINANCIAL STATEMENTS<sup>3</sup>

### Consolidated Balance Sheets

<b>(Euro/000)</b>	<b>Note</b>	<b>30/09/2006</b>	<b>31/12/2005</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash in hand and at banks	2.1	46,780	173,232
Trade receivables, net	2.2	308,708	307,558
Inventory, net	2.3	244,723	208,802
Assets held for sale	2.4	-	2,984
Derivative financial instruments	2.5	848	-
Other current receivables	2.6	53,295	31,679
<b>Total current assets</b>		<b>654,354</b>	<b>724,255</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	2.7	192,580	193,603
Intangible assets	2.8	22,417	25,580
Goodwill	2.9	796,739	797,734
Investments in associates	2.10	12,549	13,492
Financial assets available-for-sale	2.11	6,901	6,009
Deferred tax assets	2.12	81,159	81,263
Derivative financial instruments	2.5	1,966	2,506
Other non-current assets	2.13	1,439	1,303
<b>Total non-current assets</b>		<b>1,115,750</b>	<b>1,121,490</b>
<b>Total assets</b>		<b>1,770,104</b>	<b>1,845,745</b>

<sup>3</sup> Some accounts relating to the nine months ended September 30, 2005 were adjusted compared to those reported in the Offering Memorandum prepared for the IPO process, following the European Community's approval of the amendment to IAS 39 issued on April 14, 2005 relating to the cash flow hedges.

<b>(Euro/000)</b>	<b>Note</b>	<b>30/09/2006</b>	<b>31/12/2005</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	2.14	92,890	184,006
Trade payables	2.15	183,448	192,286
Tax payables	2.16	16,387	20,872
Derivative financial instruments	2.5	2,023	878
Other current liabilities	2.17	84,462	82,010
Provision for risks and charges	2.18	-	128
<b>Total current liabilities</b>		<b>379,210</b>	<b>480,180</b>
<b>Non-current liabilities</b>			
Long-term borrowings	2.14	465,932	468,242
Employee benefits liability	2.19	43,733	39,424
Provision for risks and charges	2.18	9,482	8,644
Deferred tax liabilities	2.12	12,394	10,969
Derivative financial instruments	2.5	122	4,509
Other non-current liabilities	2.20	5,758	6,565
<b>Total non-current liabilities</b>		<b>537,421</b>	<b>538,353</b>
<b>Total liabilities</b>		<b>916,631</b>	<b>1,018,533</b>
<b>Shareholders' equity</b>			
Share capital	2.21	70,843	70,843
Share premium reserve	2.22	751,276	751,276
Retained earnings and other reserves	2.23	(3,910)	358
Fair value and cash flow reserves	2.24	803	(3,899)
Income attributable to the Group		29,106	3,097
<b>Total shareholders' equity attributable to the Group</b>		<b>848,118</b>	<b>821,675</b>
<b>Shareholders' equity attributable to minority shareholders</b>		<b>5,355</b>	<b>5,537</b>
<b>Total shareholders' equity</b>		<b>853,473</b>	<b>827,212</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,770,104</b>	<b>1,845,745</b>



## Consolidated Statements of Operations

(Euro/000)	Note	Nine months ended September 30,		Third Quarter	
		2006	2005	2006	2005
Net sales	3.1	843,601	776,726	238,196	214,885
Cost of sales	3.2	(334,858)	(308,676)	(94,412)	(85,552)
<b>Gross profit</b>		<b>508,743</b>	<b>468,050</b>	<b>143,784</b>	<b>129,333</b>
Selling and marketing expenses	3.3	(316,111)	(287,606)	(92,513)	(83,197)
General and administrative expenses	3.4	(92,647)	(79,532)	(26,278)	(25,066)
Other income/(expenses), net	3.5	870	376	(607)	11
<b>Operating income</b>		<b>100,855</b>	<b>101,288</b>	<b>24,386</b>	<b>21,081</b>
Share of income/(loss) of associates	3.6	398	1,532	422	1,318
Interest expense and other financial charges, net	3.7	(36,972)	(62,428)	(10,142)	(18,284)
Non recurring financial charges	3.8	(9,282)	(9,366)	0	(700)
<b>Income before taxation</b>		<b>54,999</b>	<b>31,026</b>	<b>14,666</b>	<b>3,415</b>
Income tax expenses	3.9	(23,610)	(12,710)	(6,934)	(2,480)
<b>Net income</b>		<b>31,389</b>	<b>18,316</b>	<b>7,732</b>	<b>935</b>
Net income attributable to minority interests		2,283	2,431	455	417
<b>Net income attributable to the Group</b>		<b>29,106</b>	<b>15,885</b>	<b>7,277</b>	<b>518</b>
Earnings per share - <i>Basic</i> (Euro)	3.10	0.10	0.08	0.02	0.00
Earnings per share - <i>Diluted</i> (Euro)	3.10	0.10	0.08	0.02	0.00

## Consolidated Statements of Cash Flows

(Euro/000)	Nine months ended September 30,	
	2006	2005
<b>Cash flows from operating activities</b>		
Net income (including minority interests)	31,389	18,316
Depreciation and Amortization	27,252	26,103
Share (income) on equity investments	(1,460)	(1,152)
Net movements in the employee benefits liability	4,360	2,113
Net movements in other provisions	740	2,024
Interest expenses	40,594	60,765
Income tax expense	22,661	12,710
<b>Income from operating activities prior to movements in working capital</b>	<b>125,536</b>	<b>120,879</b>
<b>Changes in operating Assets and Liabilities</b>		
(Increase) Decrease in trade receivables and other current receivables	(31,413)	(13,908)
(Increase) Decrease in inventory, net	(41,754)	14,318
Increase (Decrease) in trade payables and other current payables	(15,694)	(33,108)
Interest expenses paid	(21,834)	(38,463)
Income taxes paid	(20,104)	(11,373)
<b>Net Cash provided by operating activities</b>	<b>(5,263)</b>	<b>38,345</b>
<b>Cash Flows from investing activities</b>		
Purchase of property, plant and equipment (net of disposals)	(20,091)	(16,446)
Disposal of investments in associates and financial assets	557	116
Purchase of intangible assets	(1,751)	(1,353)
<b>Net Cash (used in) investing activities</b>	<b>(21,285)</b>	<b>(17,683)</b>
<b>Cash Flows from financing activities</b>		
Proceeds from borrowings	302,637	20,763
Repayment of borrowings	(316,105)	(10,960)
Dividends paid	(1,872)	(2,371)
<b>Net Cash (used in) provided by financing activities</b>	<b>(15,340)</b>	<b>7,432</b>
Effect of exchange rates	1,027	3,759
Other movements in shareholders' equity	3,864	(413)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(36,997)</b>	<b>31,440</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>44,546</b>	<b>18,191</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>7,549</b>	<b>49,631</b>

## Consolidated Statement of recognised income and expense

(Euro/000)	Note	Nine months ended September 30,		Third Quarter	
		2006	2005	2006	2005
Cash flow hedges	2.24	1,921	(2,416)	(869)	1,976
Financial assets available-for-sale	2.24	1,526	12	1,604	218
Actuarial gain/losses		(484)	-	(1)	-
Translation differences		(7,120)	8,700	(1,000)	2,698
Other movements		(797)	676	(424)	186
<b>Total</b>		<b>(4,954)</b>	<b>6,972</b>	<b>(690)</b>	<b>5,078</b>
Income for the period		31,389	18,316	7,732	935
<b>Total income</b>		<b>26,435</b>	<b>25,288</b>	<b>7,042</b>	<b>6,013</b>
Income attributable to the Group		29,106	15,885	7,277	518
Income and (expense) pertaining to the Group		(4,849)	6,770	(689)	5,125
<b>Total</b>		<b>24,257</b>	<b>22,655</b>	<b>6,588</b>	<b>5,643</b>
Income attributable to minority interests		2,283	2,431	455	417
Income and (expense) attributable to minority		(105)	202	(1)	(47)
<b>Total</b>		<b>2,178</b>	<b>2,633</b>	<b>454</b>	<b>370</b>
<b>Total income</b>		<b>26,435</b>	<b>25,288</b>	<b>7,042</b>	<b>6,013</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 nine months period ended September 30, 2006 and 2005. Financial information is provided with reference to the nine months period ended September 30, 2006 and 2005 whilst balance sheet information is provided with reference to September 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.

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

The consolidated financial information reported for the period ended September 30, 2006 has been prepared also in accordance with the IFRS issued by the *International Accounting Standards Board* (IASB) 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*, considering the recommendations given by Consob resolution n. DEM 6064293 dated July 28, 2006.

#### 1.2 Consolidation method and consolidation area

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

	Value	Share capital	Quota held %
<b>ITALIAN COMPANIES</b>			
Safilo S.p.A. – Pieve di Cadore (BL)	EUR	35,000,000	100
Oxsol S.p.A. - Pieve di Cadore (BL)	EUR	121,000	100
Lenti S.r.l. – Bergamo	EUR	500,000	75.6
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 Eyewear (Shenzhen) Company Limited	CNY	839,318	51
Safilo Korea Ltd – Seoul (K)	KRW	300,000,000	100
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 - Mumbai (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 nine months ended	
	September 30, 2006	December 31, 2005	September 30, 2005	September 30, 2006	September 30, 2005
USD	1.2660	1.1797	1.2042	1.2445	1.2626
HKD	9.8640	9.1474	9.3412	9.6649	9.8297
CHF	1.5881	1.5551	1.5561	1.5663	1.5486
CAD	1.4136	1.3725	1.4063	1.4095	1.5462
JPY	149.3400	138.9000	136.2500	144.1436	136.0002
GBP	0.6777	0.6853	0.68195	0.6846	0.6848
SEK	9.2797	9.3885	9.3267	9.2943	9.2189
AUD	1.6992	1.6109	1.5828	1.6644	1.6442
ZAR	9.8277	7.4642	7.6765	8.2430	7.9673
SIT	239.5900	239.5000	239.5200	239.5849	239.5863
BRL	2.7429	2.7432	2.66655	2.7199	3.1552
IND	58.1631	53.1679	52.9186	56.5576	55.1324
SGD	2.0076	1.9628	2.0353	1.9887	2.0914
MYR	4.6684	4.4584	4.5389	4.5817	4.8458
CNY	10.0066	9.5204	9.7444	9.9687	10.3923
KRW	1,198.0200	n.a	n.a	1,222.0826	n.a

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 Sheet

### 2.1 Cash in hand and at banks

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

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
Cash in hand and at banks	46,780	173,232
<b>Total</b>	<b>46,780</b>	<b>173,232</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>	September 30, 2006	September 30, 2005
Cash in hand and cash held at banks	46,780	50,153
Bank overdrafts and short term bank borrowings	(39,231)	(522)
<b>Total</b>	<b>7,549</b>	<b>49,631</b>

### 2.2 Trade receivables, net

This account is comprised as follows:

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
Gross value	330,886	328,928
Allowance for doubtful accounts	(22,178)	(21,370)
<b>Net value</b>	<b>308,708</b>	<b>307,558</b>

At parity of exchange rates, net trade receivables increased by Euro 6,349 thousand, due to the increase in sales in the third 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>	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Raw materials	46,765	43,784
Work-in-progress	8,757	8,123
Finished products	209,543	176,272
<b>Gross</b>	<b>265,065</b>	<b>228,179</b>
Obsolescence provision	(20,342)	(19,377)
<b>Total</b>	<b>244,723</b>	<b>208,802</b>

The increase in value of the stock of raw materials is directly related to the increase in the production levels of the Group's manufacturing plants.

Goods in stock have increased compared to the end of 2005 as a result of commercial policies aimed at improving the level of service to clients. The development of the retail chain Solstice, and the consequent necessity of stock for the stores, has contributed to the increased value of the warehouses of finished products.

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>	<b>Balance as of January 1, 2006</b>	<b>Increase</b>	<b>Transl. Diff.</b>	<b>Balance as of September 30, 2006</b>
Obsolescence provision	19,377	1,836	(871)	20,342
<b>Totale</b>	<b>19,377</b>	<b>1,836</b>	<b>(871)</b>	<b>20,342</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>	September 30, 2006	December 31, 2005
<b>Current Assets</b>		
- Foreign currency contracts	110	-
- Interest rate swaps - <i>cash flow hedge</i>	587	-
- Interest rate swaps - <i>at fair value through P&amp;L</i>	151	-
<b>Total</b>	<b>848</b>	<b>-</b>
<b>Non current Assets</b>		
- Interest rate swaps - <i>cash flow hedge</i>	16	1,238
- Options	1,950	1,268
<b>Total</b>	<b>1,966</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>	2,023	-
<b>Total</b>	<b>2,023</b>	<b>878</b>
<b>Non current liabilities</b>		
- Interest rate swaps - <i>cash flow hedge</i>	122	4,509
- Interest rate swaps - <i>at fair value through P&amp;L</i>	-	-
<b>Total</b>	<b>122</b>	<b>4,509</b>

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

Foreign currency contracts	September 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	\$5,000	(7)	\$34,000	(878)
Expiry year 2007	\$20,000	117	\$0	0
<b>Total</b>	<b>25,000</b>	<b>110</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 September 30, 2006 and December 31, 2005 is shown below:

Interest rate swaps	September 30, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2007	179,611	720	191,614	537
Expiry year 2010	25,000	(834)	25,000	(1,681)
Expiry year 2011	65,000	(1,278)	25,000	(2,127)
<b>Total</b>	<b>269,611</b>	<b>(1,392)</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 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 through profit and loss"* 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 1,950 thousand.

## 2.6 Other current receivables

This account is comprised as follows:

(Euro/000)	September 30, 2006	December 31, 2005
VAT receivable	8,623	5,208
Tax credits and advance payments	9,379	11,454
Prepayments and accrued income	15,166	5,281
Receivables from sale agents	3,579	4,943
Other current receivables	16,548	4,793
<b>Total</b>	<b>53,295</b>	<b>31,679</b>

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 September 30, 2006 include:

- Prepaid advertising costs of Euro 6,223 thousand;
- Prepaid insurance premiums of Euro 549 thousand;
- Prepaid rent and operating leases of Euro 1,268 thousand;
- Prepaid royalties of Euro 2,206 thousand;
- Prepaid costs incurred for the "Revolving Facility" loan of Euro 1,952 thousand;
- Other prepaid costs, mainly commercial, of Euro 2,968 thousand.

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

Other current receivables include:

- An advance payment on 2007 royalties for a total amount of Euro 11,779 thousand;
- 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;
- 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 September 30, 2006
<b>Gross value</b>						
Land and buildings	108,103	605	(1,328)	0	(288)	107,092
Plant and machinery	156,536	4,477	(677)	0	(242)	160,094
Equipment and other assets	126,625	17,483	(1,545)	0	(2,785)	139,778
Assets under construction	2,831	798	0	(8)	(37)	3,584
<b>Total</b>	<b>394,095</b>	<b>23,363</b>	<b>(3,550)</b>	<b>(8)</b>	<b>(3,352)</b>	<b>410,548</b>
<b>Accumulated depreciation</b>						
Land and buildings	21,302	2,390	(1,323)	0	(71)	22,298
Plant and machinery	90,192	8,649	(503)	0	(109)	98,229
Equipment and other assets	88,998	11,433	(1,443)	0	(1,547)	97,441
<b>Total</b>	<b>200,492</b>	<b>22,472</b>	<b>(3,269)</b>	<b>-</b>	<b>(1,727)</b>	<b>217,968</b>
<b>Net Book Value</b>	<b>193,603</b>	<b>891</b>	<b>(281)</b>	<b>(8)</b>	<b>(1,625)</b>	<b>192,580</b>

## 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>
<b>Accumulated amortization</b>						
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>0</b>	<b>(141)</b>	<b>330</b>	<b>25,580</b>

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of September 30, 2006
<b>Gross value</b>						
Software costs	8,139	1,149	(18)	34	(102)	9,202
Trademarks and licenses	41,509	328	0	(34)	(31)	41,772
Other intangible assets	18,499	699	(1,516)	0	(133)	17,549
Intangible assets in progress	33	0	0	0	(2)	31
<b>Total</b>	<b>68,180</b>	<b>2,176</b>	<b>(1,534)</b>	<b>-</b>	<b>(268)</b>	<b>68,554</b>
<b>Accumulated amortization</b>						
Software costs	5,942	1,368	(18)	24	(56)	7,260
Trademarks and licenses	18,818	3,203	0	(24)	(9)	21,988
Other intangible assets	17,840	209	(1,089)	0	(71)	16,889
<b>Total</b>	<b>42,600</b>	<b>4,780</b>	<b>(1,107)</b>	<b>-</b>	<b>(136)</b>	<b>46,137</b>
<b>Net Book Value</b>	<b>25,580</b>	<b>(2,604)</b>	<b>(427)</b>	<b>-</b>	<b>(132)</b>	<b>22,417</b>

Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the nine months ended September 30, 2006 and 2005 are divided into the following income statement accounts:

<i>(Euro/000)</i>	Nine months ended September 30,	
	2006	2005
Cost of sales	3.2	15,029
Selling and marketing expenses	3.3	2,263
General and administrative expenses	3.4	9,960
<b>Total</b>	<b>27,252</b>	<b>26,103</b>

2.9 Goodwill

(Euro/000)	Balance as of January 1, 2005	Translation Difference	Balance as of December 31, 2005
Goodwill	795,774	1,960	797,734
<b>Net book value</b>	<b>795,774</b>	<b>1,960</b>	<b>797,734</b>

(Euro/000)	Balance as of January 1, 2006	Translation Difference	Balance as of September 30, 2006
Goodwill	797,734	(995)	796,739
<b>Net book value</b>	<b>797,734</b>	<b>(995)</b>	<b>796,739</b>

The present account refers to the goodwill included in the value of the investment in Safilo S.p.A. received as a contribution in kind 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	Share of inc./losses, net of dividends	Transl. diff.	Balance as of September 30, 2006
TBR Inc.	437	456	893	110	(62)	941
Elegance Ltd	5,406	6,887	12,293	(25)	(892)	11,376
Optifashion As	353	(47)	306	(74)	-	232
<b>Total</b>	<b>6,196</b>	<b>7,296</b>	<b>13,492</b>	<b>11</b>	<b>(954)</b>	<b>12,549</b>

There were no new acquisitions during the first nine 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.

(Euro/000)	% of share capital	Relationship	September 30, 2006	December 31, 2005
Banca Popolare Italiana S.p.A.	==	Other equity inv.	6,669	5,589
Safilens Srl	==	Other equity inv.	-	209
Unicredit S.p.A.	==	Other equity inv.	189	168
Other	==	Other equity inv.	43	43
<b>Total</b>			<b>6,901</b>	<b>6,009</b>

The movements of the account in the period are shown below. On September 2006 the subsidiary Safilo S.p.A. sold 46,500 of its 746,250 shares of Banca Popolare Italiana while 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:

(Euro/000)	31.12.2005			Movements of the period		Balance as of September 30, 2006
	Gross value	Reval. (Deval.)	Net book value	Decrease	Reval. (Deval.)	
Banca Popolare Italiana S.p.A.	10,198	(4,609)	5,589	(348)	1,428	6,669
Safilens Srl	209	-	209	(209)		-
Unicredit S.p.A.	48	120	168		21	189
Other	43	-	43			43
<b>Total</b>	<b>10,498</b>	<b>(4,489)</b>	<b>6,009</b>	<b>(557)</b>	<b>1,449</b>	<b>6,901</b>

## 2.12 Deferred tax assets and deferred tax liabilities

(Euro/000)	September 30, 2006	December 31, 2005
Deferred Tax Assets	<b>81,159</b>	<b>81,263</b>
Deferred Tax Liabilities	<b>12,394</b>	<b>10,969</b>
<b>Total, net</b>	<b>68,765</b>	<b>70,294</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.

Financial year	Expiring date	Tax losses (Euro/000)	Total deferred tax assets (Euro/000)
2003	2008	1,711	565
2004	2009	30,602	10,099
2005	2010	79,565	26,200
2006	2011	11,925	3,935
<b>Total</b>		<b>123,803</b>	<b>40,799</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 September 30, 2006, the other non-current assets amount to Euro 1,439 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:

(Euro/000)	September 30, 2006	December 31, 2005
<b>Bank overdrafts and short-term borrowings</b>		
Bank overdrafts	4,731	5,046
Short-term bank loans	34,500	5,000
Short-term portion of long-term loans	21,353	26,614
Short-term portion of High Yield bond	0	105,000
Payable for High Yield advance repayment	0	10,106
Short-term portion of financial leasing and other loans	1,081	3,944
Other short-term loans	31,225	28,296
<b>Total short-term</b>	<b>92,890</b>	<b>184,006</b>
<b>Long-term borrowings</b>		
Long-term borrowings	455,062	456,763
Payables for finance leases	10,105	10,616
Other medium/long term loans	765	863
<b>Total long-term</b>	<b>465,932</b>	<b>468,242</b>
<b>Total bank overdrafts and borrowings</b>	<b>558,822</b>	<b>652,248</b>

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 September 30, 2006 had a short-term portion equal to Euro 21,353 thousand and a medium/long-term portion equal to Euro 265,961 thousand included in the account "Long-term borrowings", 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 September 30, 2006 for Euro 90 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 proceeds 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 High Yield advance repayment 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 principally guaranteed by pledges on the shares of Safilo S.p.A. and by personal guarantees provided by the companies directly financed.

The payables for finance leases refer to property, plant and equipment acquired under leasing contracts by Group companies. The average residual life 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 30,019 thousand, a payable to a primary factoring company deriving from the contract signed by the subsidiary Safilo S.p.A.

The repayment dates of loans are as follows:

<i>(Euro/000)</i>	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Within 2 years	25,973	30,464
Within 3 years	40,583	33,564
Within 4 years	40,735	20,471
Within 5 years	47,881	131,068
Beyond 5 years	310,760	252,675
<b>Total</b>	<b>465,932</b>	<b>468,242</b>

Borrowings by currency are as follows:

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
<b>Short-term</b>		
Euro	74,097	162,641
U.S. Dollar	17,588	19,205
Yen	0	2,160
HKD	1,205	-
<b>Total</b>	<b>92,890</b>	<b>184,006</b>
<b>Medium/long-term</b>		
Euro	364,023	402,980
Yen	1,339	0
U.S. Dollar	100,570	65,262
<b>Total</b>	<b>465,932</b>	<b>468,242</b>
<b>Total borrowings</b>	<b>558,822</b>	<b>652,248</b>

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

<i>(Euro/000)</i>	Granted Credit lines	Utilization	Available credit lines
Credit lines on short term loans	186,780	68,937	117,843
Credit lines on long term loans	400,552	290,552	110,000
<b>Total</b>	<b>587,332</b>	<b>359,489</b>	<b>227,843</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.

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

<b>Net debt position</b> <i>(millions of Euro)</i>	<b>September 30, 2006</b>	<b>June 30, 2006</b>	<b>Change Sep-Jun</b>	<b>December 31, 2005</b>	<b>Change Sep-Dec</b>
Current portion of long term borrowings	(22.5)	(24.0)	1.5	(135.6)	113.1
Bank overdrafts and short term bank borrowings	(39.2)	(3.0)	(36.2)	(10.0)	(29.2)
Other short term borrowings	(31.2)	(34.6)	3.4	(38.4)	7.2
Cash and cash equivalents	46.8	45.0	1.8	173.2	(126.4)
<b>Short term net debt position</b>	<b>(46.1)</b>	<b>(16.6)</b>	<b>(29.5)</b>	<b>(10.8)</b>	<b>(35.3)</b>
Long term borrowings	(465.9)	(473.9)	8.0	(468.2)	2.3
<b>Long term net debt position</b>	<b>(465.9)</b>	<b>(473.9)</b>	<b>8.0</b>	<b>(468.2)</b>	<b>2.3</b>
<b>Net debt position</b>	<b>(512.0)</b>	<b>(490.5)</b>	<b>(21.5)</b>	<b>(479.0)</b>	<b>(33.0)</b>

#### 2.15 Trade payables

This account is comprised as follows:

<i>(Euro/000)</i>	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Purchase of raw materials	51,300	42,098
Purchase of finished products and subcontractors	62,441	71,299
Commissions and royalties	18,898	26,725
Advertising and marketing costs	20,137	20,309
Services received from third parties	27,687	28,556
Payables for purchase of property, plant and equipment and intangible assets	2,985	3,299
<b>Total</b>	<b>183,448</b>	<b>192,286</b>

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

#### 2.16 Tax payables

Tax payables at September 30, 2006 amount to Euro 16,387 thousand and relate for Euro 10,490 thousand to income taxes, for Euro 4,438 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

This account is comprised as follows:

(Euro/000)	September 30, 2006	December 31, 2005
Due to personnel and social security institutions	38,168	44,921
Premiums to clients	19,875	17,195
Agent fee payable	2,201	2,962
Advertising & sponsorship costs	5,877	2,746
Interest expense payables on long term loans	10,385	3,628
Other accrued expenses	3,050	2,897
Due to minority shareholders for dividends	1,522	2,170
Payable for interest on the convertible bond	-	3,534
Other current liabilities	3,384	1,957
<b>Total</b>	<b>84,462</b>	<b>82,010</b>

The account "Due to personnel and social security institutions" mainly refer to wages and salaries for September, the accrual for Christmas bonuses and for vacation days matured and not taken.

The increase in "interest expense payables on long term loans" is due to the interest expenses accrued on the new loan that will be paid on December 31, 2006.

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.

Payable for interest on the convertible bond as at December 31, 2005 has been reimbursed on April 28, 2006.

## 2.18 Provisions for risks and charges

(Euro/000)	Balance as of January 1, 2006	Increase	Decrease	Transl. diff.	Balance as of September 30, 2006
Product warranty provision	3,119	677			3,796
Agent's severance provision	3,164	444	(87)		3,521
Litigations	2,000		(652)		1,348
Other provisions for risks and charges	361	486		(30)	817
<b>Provisions for risks - long term</b>	<b>8,644</b>	<b>1,607</b>	<b>(739)</b>	<b>(30)</b>	<b>9,482</b>
<b>Provisions for risks - short term</b>	<b>128</b>	<b>0</b>	<b>(128)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>8,772</b>	<b>1,607</b>	<b>(867)</b>	<b>(30)</b>	<b>9,482</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	Transl. diff.	Balance as of September 30, 2006
Employee benefit liability	39,424	6,008	(1,648)	(51)	43,733
<b>Total</b>	<b>39,424</b>	<b>6,008</b>	<b>(1,648)</b>	<b>(51)</b>	<b>43,733</b>

This payable 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 September 30, 2006 amount to Euro 5,758 thousand and include liabilities deriving from existing contracts with licensors for the production and distribution of licensed products.

#### 2.21 Share capital

At September 30, 2006, Safilo Group S.p.A.'s share capital equals Euro 70,843,213, consisting of 283,372,852 ordinary shares with a nominal value of Euro 0.25 each.

#### 2.22 Share premium reserve

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

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

#### 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 September 30, 2006
Cash flow reserve	(2,780)	1,921	1,255	396
Fair value reserve	(1,119)	1,526		407
<b>Total</b>	<b>(3,899)</b>	<b>3,447</b>	<b>1,255</b>	<b>803</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 sets forth the movements of equity for the periods ended September 30, 2006 and 2005.



(Euro/000)	Share capital	Share premium	Translation difference	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
<b>Group net equity as of January 1, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>(4,738)</b>	<b>(6,342)</b>	<b>(22,905)</b>	<b>18,866</b>	<b>440,298</b>
Previous year's income allocation	-	-	-	-	18,866	(18,866)	-
Retained earnings	-	-	8,560	(2,405)	1,930	-	8,085
First HY 2005 net income	-	-	-	-	-	15,885	15,885
<b>Group net equity as of September 30, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>3,822</b>	<b>(8,747)</b>	<b>(2,109)</b>	<b>15,885</b>	<b>464,268</b>
<b>Minority interests as of January 1, 2005</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	-	-	140	-	62	-	202
Dividends distribution	-	-	-	-	(2,371)	-	(2,371)
Second HY 2005 net income	-	-	-	-	-	2,431	2,431
<b>Minority interests as of September 30, 2005</b>	<b>-</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>2,869</b>	<b>2,431</b>	<b>5,335</b>
<b>Consolidated net equity as of September 30, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>3,857</b>	<b>(8,747)</b>	<b>760</b>	<b>18,316</b>	<b>469,603</b>

(Euro/000)	Share capital	Share premium	Translation difference	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
<b>Group net equity as of January 1, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>5,208</b>	<b>(3,899)</b>	<b>(4,850)</b>	<b>3,097</b>	<b>821,675</b>
Previous year's income allocation	-	-	-	-	3,097	(3,097)	-
Retained earnings	-	-	(7,037)	4,702	(328)	-	(2,663)
2006 net income	-	-	-	-	-	29,106	29,106
<b>Group net equity as of September 30, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>(1,829)</b>	<b>803</b>	<b>(2,081)</b>	<b>29,106</b>	<b>848,118</b>
<b>Minority interests as of January 1, 2006</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	-	-	(83)	-	(510)	-	(593)
Dividends distribution	-	-	-	-	(1,872)	-	(1,872)
2006 net income	-	-	-	-	-	2,283	2,283
<b>Minority interests as of September 30, 2006</b>	<b>-</b>	<b>-</b>	<b>19</b>	<b>-</b>	<b>3,053</b>	<b>2,283</b>	<b>5,355</b>
<b>Consolidated net equity as of September 30, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>(1,810)</b>	<b>803</b>	<b>972</b>	<b>31,389</b>	<b>853,473</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.

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 ("SOP III"). 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 ¼ 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.

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 ("SOP I"), 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.

It should be noted that in December 2005 the holders of the options related to SOP I and SOP II, 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 respectively within June 20, 2007 and September 20, 2008.

The total costs recorded for the first nine months of 2006 and 2005 are summarised as follows:

<i>(Euro/000)</i>	September 30, 2006	September 30, 2005
SOP I	-	79
SOP II	389	1,237
SOP III	54	0
<b>Total</b>	<b>443</b>	<b>1,316</b>

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

#### 3.1 Net sales

Group sales in the first nine months of 2006 amount to Euro 843,601 thousand and report an increase of 8.6% compared to the same period of the previous year.

Reference should be made to the paragraphs "Sales analysis" in "Management's discussion and analysis" for further details regarding the first nine months 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)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Purchase of raw materials and finished products	260,471	198,119	84,241	59,279
Capitalization of costs for increase in PP&E	(7,160)	(7,244)	(2,316)	(2,186)
Change in inventories	(41,753)	9,601	(27,661)	(4,737)
Payroll and social security contributions	74,792	67,362	25,083	20,979
Subcontracting costs	27,021	16,044	9,233	4,418
Depreciation	15,029	17,150	3,634	5,069
Rental and operating leases	403	702	114	243
Other industrial costs	6,055	6,942	2,084	2,487
<b>Total</b>	<b>334,858</b>	<b>308,676</b>	<b>94,412</b>	<b>85,552</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)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Finished products	(37,909)	10,175	(25,242)	(1,019)
Work-in-progress	(781)	1,013	(482)	(432)
Raw materials	(3,063)	(1,587)	(1,937)	(3,286)
<b>Total</b>	<b>(41,753)</b>	<b>9,601</b>	<b>(27,661)</b>	<b>(4,737)</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 nine months of 2006 and 2005 is broken down as follows:

	Nine months ended September 30,	
	2006	2005
Padua Headquarters	823	747
Production plants	4,355	4,270
Commercial subsidiaries	1,071	1,035
Solstice	412	260
<b>Total</b>	<b>6,661</b>	<b>6,312</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:

(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Payroll and social security contributions	66,733	61,818	21,132	19,918
Commissions to sales agents	60,464	56,125	17,362	15,818
Royalty expenses	74,170	71,197	20,311	18,165
Advertising and promotional costs	68,512	60,742	17,587	17,540
Amortisation & depreciation	2,263	1,774	738	618
Logistic costs	13,001	9,805	4,935	2,850
Consultants fees	3,037	2,473	777	524
Rental and operating leases	5,847	4,129	2,284	1,446
Utilities	802	264	392	79
Provision for risks	1,607	2,050	733	1,166
Other sales and marketing expenses	19,675	17,229	6,262	5,073
<b>Total</b>	<b>316,111</b>	<b>287,606</b>	<b>92,513</b>	<b>83,197</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 whilst the marketing costs increased compared to 2005 as a result 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:

(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Payroll and social security contributions	46,860	37,867	10,619	10,779
Allowance for doubtful accounts	1,761	1,672	650	129
Amortisation & depreciation	9,960	7,179	4,649	2,952
Consultants fees	6,836	6,515	2,213	1,829
Rental and operating leases	4,651	4,710	1,382	1,548
Utilities	4,578	4,421	1,608	1,642
EDP costs	2,617	2,671	844	854
Insurance costs	2,102	1,730	652	565
Taxes (other than on income)	1,599	1,607	567	563
Other general and administrative expenses	11,683	11,160	3,094	4,205
<b>Total</b>	<b>92,647</b>	<b>79,532</b>	<b>26,278</b>	<b>25,066</b>

The increase in personnel costs includes Euro 6 million of extraordinary charges related to the resignation of the former 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:

(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Losses on asset disposals	(201)	(533)	(73)	(166)
Other operating expenses	(616)	(731)	(368)	(263)
Gains on asset disposals	306	162	24	120
Other operating revenues	1,381	1,478	(190)	320
<b>Total</b>	<b>870</b>	<b>376</b>	<b>(607)</b>	<b>11</b>

The account "Gains on 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 398 thousand and consists of the income and losses deriving from the equity valuation of the holdings in associated companies.

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

This account is comprised as follows:

(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Interest expense on loans	17,521	26,214	3,928	8,607
Interest expense and charges on High Yield	13,791	22,317	4,954	7,458
Interest on convertible bonds	-	2,868	-	821
Bank commissions	2,980	3,456	847	1,254
Foreign exchange rate differences	7,757	18,184	401	1,880
Financial discounts	3,949	3,942	655	1,193
Losses on financial assets disposal	121	-	(17)	-
Other financial charges	2,023	163	996	121
<b>Total financial charges</b>	<b>48,142</b>	<b>77,144</b>	<b>11,764</b>	<b>21,334</b>
Interest income	902	431	260	173
Foreign exchange rate differences	8,805	13,830	764	2,637
Dividends	6	229	0	18
Other financial income	1,457	226	598	222
<b>Total financial income</b>	<b>11,170</b>	<b>14,716</b>	<b>1,622</b>	<b>3,050</b>
<b>Total financial charges, net</b>	<b>36,972</b>	<b>62,428</b>	<b>10,142</b>	<b>18,284</b>

Interest expenses significantly decreased when compared to the first nine months 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 nine months of the previous year.

### 3.8 Non recurring financial charges

(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Accelerated amortization of fees on borrowings	7,749	9,366	-	700
Fair value of non-hedging IRS	1,533	-	-	-
<b>Total</b>	<b>9,282</b>	<b>9,366</b>	<b>0</b>	<b>700</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.

The amount relating to the first nine months of 2005 relates to the acceleration of the amortisation on the financial charges incurred at September 30, 2005 following the advance repayment utilising the income deriving from the stock exchange listing.

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

(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Current taxes	22,661	27,047	4,032	4,333
Deferred taxes	949	(14,337)	2,902	(1,853)
<b>Total</b>	<b>23,610</b>	<b>12,710</b>	<b>6,934</b>	<b>2,480</b>

### 3.10 Earnings per share

(Euro)	Nine months ended September 30,	
	2006	2005
Basic Earnings per share	0.10	0.08
Diluted Earnings per share	0.10	0.08

Basic and diluted EPS computation is as follows:

Basic (Euro)	Nine months ended September 30,	
	2006	2005
Profit for ordinary shares	29,105,602	15,884,564
Average number of ordinary shares	283,372,852	196,800,000
<b>Basic EPS</b>	<b>0.10</b>	<b>0.08</b>

Diluted (Euro)	Nine months ended September 30,	
	2006	2005
Profit for ordinary shares	29,105,602	15,884,564
Profit for preferred shares	-	-
<b>Profit at income statement</b>	<b>29,105,602</b>	<b>15,884,564</b>
Interest expense on convertible bonds	-	1,921,366
<b>Profit for EPS diluted computation</b>	<b>29,105,602</b>	<b>17,805,930</b>
Average number of ordinary shares:	283,372,852	196,800,000
Dilutive effects:		
- convertible bonds	-	18,325,600
- preferred shares	-	-
- stock options	744,570	2,892,861
<b>Total</b>	<b>284,117,422</b>	<b>218,018,461</b>
<b>Diluted EPS</b>	<b>0.10</b>	<b>0.08</b>

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

### 3.12 Dividends

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

### 3.13 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.



Nine months ended September 30, 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	249,780	35,000	1,632	11	0	(286,423)	0
-to third parties	192,709	233,709	321,703	95,480	0		843,601
<b>Total Net Sales</b>	<b>442,489</b>	<b>268,709</b>	<b>323,335</b>	<b>95,491</b>	<b>0</b>	<b>(286,423)</b>	<b>843,601</b>
<b>Gross Profit</b>	<b>182,091</b>	<b>110,664</b>	<b>171,773</b>	<b>45,488</b>	<b>0</b>	<b>(1,273)</b>	<b>508,743</b>
<b>Operating income</b>	<b>37,736</b>	<b>17,919</b>	<b>32,919</b>	<b>12,651</b>	<b>409</b>	<b>(779)</b>	<b>100,855</b>
Interest expense							(57,425)
Interest income							11,171
Share income/(loss) of associates			110	362	(74)		398
Income taxes							(23,610)
<b>Net income</b>							<b>31,389</b>
<i>Gross profit margin</i>	<i>41%</i>	<i>41%</i>	<i>53%</i>	<i>48%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>9%</i>	<i>7%</i>	<i>10%</i>	<i>13%</i>			<i>12%</i>
<b>Other information</b>							
Depreciation & Amortization	19,328	3,790	3,322	796	16	0	27,252

Nine months ended September 30, 2005 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	204,749	25,308	1,109	24	20	(231,210)	-
-to third parties	177,982	224,131	285,342	89,267	4	-	776,726
<b>Total Net Sales</b>	<b>382,731</b>	<b>249,439</b>	<b>286,451</b>	<b>89,291</b>	<b>24</b>	<b>(231,210)</b>	<b>776,726</b>
<b>Gross Profit</b>	<b>158,340</b>	<b>113,896</b>	<b>150,744</b>	<b>45,244</b>	<b>24</b>	<b>(198)</b>	<b>468,050</b>
<b>Operating income</b>	<b>25,274</b>	<b>46,335</b>	<b>30,450</b>	<b>16,126</b>	<b>1,013</b>	<b>(17,910)</b>	<b>101,288</b>
Interest expense							(86,511)
Interest income							14,717
Share income/(loss) of associates	1			1,631	(100)		1,532
Income taxes							(12,710)
<b>Net income</b>							<b>18,316</b>
<i>Gross profit margin</i>	<i>41%</i>	<i>46%</i>	<i>53%</i>	<i>51%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>7%</i>	<i>19%</i>	<i>11%</i>	<i>18%</i>			<i>13%</i>
<b>Other information</b>							
Depreciation & Amortization	18,616	4,182	2,657	633	15		26,103

- (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 Asia including also a company located in Australia.
- (5) Non operating companies

Third Quarter 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	76,528	11,072	1,570	1	-	(89,171)	-
-to third parties	51,881	66,337	93,262	26,716	-	-	238,196
<b>Total Net Sales</b>	<b>128,409</b>	<b>77,409</b>	<b>94,832</b>	<b>26,717</b>	<b>-</b>	<b>(89,171)</b>	<b>238,196</b>
<b>Gross Profit</b>	<b>50,893</b>	<b>26,338</b>	<b>54,119</b>	<b>12,982</b>		<b>(548)</b>	<b>143,784</b>
<b>Operating income</b>	<b>9,208</b>	<b>(802)</b>	<b>12,612</b>	<b>3,334</b>	<b>318</b>	<b>(284)</b>	<b>24,386</b>
Interest expense							(11,765)
Interest income							1,622
Share income/(loss) of associates	-	-	35	387	0		422
Income taxes							(6,933)
<b>Net income</b>							<b>7,732</b>
<i>Gross profit margin</i>	<i>40%</i>	<i>34%</i>	<i>57%</i>	<i>49%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>7%</i>	<i>-1%</i>	<i>13%</i>	<i>12%</i>			<i>10%</i>
<b>Other information</b>							
Depreciation & Amortization	6,472	1,185	1,137	221	6		9,021

Third Quarter 2005 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	58,509	9,014	937	7	7	(68,474)	-
-to third parties	44,079	54,729	90,061	26,015	1	-	214,885
<b>Total Net Sales</b>	<b>102,588</b>	<b>63,743</b>	<b>90,998</b>	<b>26,022</b>	<b>8</b>	<b>(68,474)</b>	<b>214,885</b>
<b>Gross Profit</b>	<b>45,435</b>	<b>23,432</b>	<b>46,983</b>	<b>13,401</b>	<b>7</b>	<b>75</b>	<b>129,333</b>
<b>Operating income</b>	<b>4,744</b>	<b>3,344</b>	<b>8,458</b>	<b>4,778</b>	<b>22</b>	<b>(265)</b>	<b>21,081</b>
Interest expense							(22,035)
Interest income							3,051
Share income/(loss) of associates				1,418	(100)		1,318
Income taxes							(2,480)
<b>Net income</b>							<b>935</b>
<i>Gross profit margin</i>	<i>44%</i>	<i>37%</i>	<i>52%</i>	<i>51%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>5%</i>	<i>5%</i>	<i>9%</i>	<i>18%</i>			<i>10%</i>
<b>Other information</b>							
Depreciation & Amortization	6,326	1,034	1,075	198	6		8,639

- (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 Asia including also a company located in Australia.
- (5) Non operating companies

## RELATED PARTY TRANSACTIONS

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

Related parties (Euro/000)	Relationship	September 30, 2006	December 31, 2005
<i>Receivables</i>			
Elegance International Holdings Ltd	(a)	379	750
Optifashion As	(b)	-	-
<b>Total</b>		<b>379</b>	<b>750</b>

<i>Payables</i>			
Elegance International Holdings Ltd	(a)	7,835	8,533
<b>Total</b>		<b>7,835</b>	<b>8,533</b>

Related parties	Relationship	Nine months ended September 30,	
		2006	2005
<i>Revenues</i>			
Optifashion As	(b)	193	117
Elegance International Holdings Ltd	(a)	-	-
<b>Total</b>		<b>193</b>	<b>117</b>
<i>Costs</i>			
Elegance International Holdings Ltd	(a)	20,419	16,373
TBR Inc.	(a)	872	804
<b>Total</b>		<b>21,291</b>	<b>17,177</b>

- (a) Associated company
- (b) Unconsolidated subsidiary

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 thousand. In the first nine months of 2006, the Group paid rent of Euro 872 thousand to TBR Inc. The terms and conditions of the rental contract are in line with market conditions for similar contracts.

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

## **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 September 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.

**SAFILO GROUP S.p.A. – FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2006**

**Balance sheets**

<i>(Euro/000)</i>	<b>30/09/2006</b>	<b>31/12/2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash in hand and at banks	8,055	22,214
Other current receivables	4,203	1,712
<b>Total current assets</b>	<b>12,258</b>	<b>23,926</b>
<b>Non-current assets</b>		
Investments in subsidiaries	805,026	805,026
Deferred tax assets	33,522	31,984
<b>Total non-current assets</b>	<b>838,548</b>	<b>837,010</b>
<b>Total assets</b>	<b>850,806</b>	<b>860,936</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings	-	700
Trade payables	528	9,653
Tax payables	63	2
Other current liabilities	22,261	36,654
<b>Total current liabilities</b>	<b>22,852</b>	<b>47,009</b>
<b>Non-current liabilities</b>		
Long term loans	14,200	0
Employee benefits liability	63	59
<b>Totale passività non correnti</b>	<b>14,263</b>	<b>59</b>
<b>Total non-current liabilities</b>	<b>37,115</b>	<b>47,068</b>
<b>Shareholders' equity</b>		
Share capital	70,843	70,843
Share premium reserve	751,276	751,276
Retained earnings and other reserves	(8,251)	(906)
Net Income/(loss)	(177)	(7,345)
<b>Total shareholders' equity</b>	<b>813,691</b>	<b>813,868</b>
<b>Total liabilities and shareholders' equity</b>	<b>850,806</b>	<b>860,936</b>

## Statements of Operations

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(Euro/000)	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Net sales	-	-	-	-
Cost of sales	-	-	-	-
<b>Gross profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Selling and marketing expenses	-	-	-	-
General and administrative expenses	(312)	(50)	(7)	(14)
Other income/(expenses), net	78	2	(230)	(1)
<b>Operating income</b>	<b>(234)</b>	<b>(48)</b>	<b>(237)</b>	<b>-15</b>
Share of income/(loss) of associates	-	-	-	-
Interest expense and other financial charges, net	128	(2,868)	(52)	(821)
<b>Income before taxation</b>	<b>(106)</b>	<b>(2,916)</b>	<b>(289)</b>	<b>(836)</b>
Income tax expenses	(71)	520	56	127
<b>Net income/(loss)</b>	<b>(177)</b>	<b>(2,396)</b>	<b>(233)</b>	<b>(709)</b>

## Statements of Cash Flows

(Euro/000)	Nine months ended September 30,	
	2006	2005
<b>Cash flows from operating activities</b>		
Net income	(177)	(2,396)
Net movements in the employee benefits liability	4	-
<b>Income from operating activities prior to movements in working capital</b>	<b>(173)</b>	<b>(2,396)</b>
<b>Changes in operating Assets and Liabilities</b>		
(Increase) Decrease in trade receivables and other current receivables	(4,023)	2
Increase (Decrease) in trade payables and other current payables	(19,928)	2,312
<b>Net Cash (used in) operating activities</b>	<b>(24,124)</b>	<b>(82)</b>
<b>Cash Flows from investing activities</b>		
Acquisition of investments in associates and financial assets	-	-
<b>Net Cash (used in) provided by investing activities</b>	<b>-</b>	<b>-</b>
<b>Cash Flows from financing activities</b>		
Proceeds from borrowings	14,200	100
Repayment of borrowings	(700)	-
<b>Net Cash (used in) provided by financing activities</b>	<b>13,500</b>	<b>100</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(10,624)</b>	<b>18</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>18,679</b>	<b>40</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>8,055</b>	<b>58</b>

## Statement of changes in Shareholders' Equity

<i>(Euro/000)</i>	Share capital	Share premium	Retained earnings and other reserves	Net income/ (loss)	Total equity
<b>Total equity as of January 1, 2005</b>	49,200	406,217	1,837	(2,743)	454,511
Previous year's income allocation	-	-	(2,743)	2,743	-
Result of the period	-	-	-	(2,396)	(2,396)
<b>Total equity as of September 30, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>(906)</b>	<b>(2,396)</b>	<b>452,115</b>
Increase of share capital	21,643	345,059	-	-	366,702
Result of the period	-	-	-	(4,949)	(4,949)
<b>Total equity as of December 31, 2005</b>	<b>70,843</b>	<b>751,276</b>	<b>(906)</b>	<b>(7,345)</b>	<b>813,868</b>
Previous year's income allocation	-	-	(7,345)	7,345	-
Retained earnings	-	-	-	-	-
Result of the period	-	-	-	(177)	(177)
<b>Total equity as of September 30, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>(8,251)</b>	<b>(177)</b>	<b>813,691</b>

For the Board of Directors  
The Chairman  
Vittorio Tabacchi