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as of September 30, 2006

Safilo S.p.A.

Date of issue: November 13, 2006

This Nine-month Report is available on the website:

www.safilo.com

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

Independent Auditors

PricewaterhouseCoopers S.p.a.

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

General information

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

Companies included in the consolidation area are reported in the paragraph 1.2 "Consolidation method and consolidation area".

Activities of the Group

Safilo has been in the eyewear market for over 70 years and is one of the major operators in the sector of design manufacture and distribution of sunglasses and other eyewear products. Safilo is the global leader in the high-end eyewear segment markets and also one of the top three sports eyewear producers and distributors worldwide.

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

The products of the Group are sold in 130 countries and there are approximately 130,000 retail outlets worldwide. The Group directly distributes its products in 30 principal markets worldwide through its 28 commercial subsidiaries and thanks to a strong sales team of over 1,400 persons. In the remaining markets, where the Group doesn't have commercial subsidiaries, the products are sold through over 170 independent distributors.

The Group brands include *Safilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay* while the licensed brands include *Alexander McQueen*, *Bottega Veneta*, *Boucheron*, *Diesel*, *55DSL*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Hugo Boss*, *Imatra*, *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
Total	843.6	100.0	776.7	100.0	8.6	238.2	100.0	214.9	100.0	10.8

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	1.6	11.1	1.4	27.0	5.2	2.2	3.3	1.5	57.6
Total	843.6	99.9	776.7	100.0	8.6	238.2	100.0	214.9	100.0	10.8

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), 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

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
Gross profit	508.7	60.3	468.0	60.3	8.7	143.8	60.4	129.3	60.2	11.2
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	(92.3)	(10.9)	(79.5)	(10.2)	16.1	(26.3)	(11.0)	(25.1)	(11.7)	4.8
Other income/(expenses), net	0.8	0.1	0.4	0.1	100.0	(0.4)	(0.2)	0.1	0.0	ns
Operating income	101.1	12.0	101.3	13.2	(0.2)	24.6	10.4	21.1	9.8	16.6
Interest expense and other financial charges, net	(36.7)	(4.4)	(58.0)	(7.5)	(36.7)	(9.6)	(4.0)	(16.1)	(7.5)	(40.4)
Non recurring financial charges	(9.3)	(1.1)	(9.4)	(1.2)	(1.1)	0.0	0.0	(9.4)	(4.4)	ns
Income before taxation	55.1	6.5	33.9	4.5	62.5	15.0	6.4	(4.4)	(2.1)	(440.9)
Income tax expenses	(23.5)	(2.8)	(13.2)	(1.7)	78.0	(7.0)	(2.9)	(0.9)	(0.4)	ns
Net income	31.6	3.7	20.7	2.8	52.7	8.0	3.5	(5.3)	(2.5)	(250.9)
Net income attributable to minority interests	2.3	0.3	2.4	0.3	(4.2)	0.5	0.2	0.4	0.2	25.0
Net income attributable to the Group	29.3	3.4	18.3	2.5	60.1	7.5	3.3	(5.7)	(2.7)	(231.6)
EBITDA	128.3	15.2	127.4	16.4	0.7	33.6	14.1	29.7	13.8	13.1

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 101.1 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 12.0%), 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 128.3 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 (+60.1%, equal to Euro 29.3 million compared to Euro 18.3 million in 2005).

The quarter results show particularly positive results, both for operating profit (+16.6% equal to Euro 24.6 million compared to Euro 21.1 million in the third quarter of 2005) and in the financial management, resulting in a dramatically increased net profit over the third quarter of the previous year.

Balance sheet and financial situation

Condensed consolidated balance sheet <i>(millions of Euro)</i>	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	364.1	365.1	(1.0)
Other non current assets	84.7	72.5	12.2
Total non current assets	663.8	656.8	7.0
Net working capital	339.9	300.3	39.6
Total capital invested	1,003.7	957.1	46.6
Employee benefits liability and provisions	65.5	59.1	6.4
Net debt position	520.1	501.2	18.9
Other non current liabilities	5.9	11.1	(5.2)
Shareholders' equity attributable to the Group	406.8	380.2	26.6
Shareholders' equity attributable to minority shareholders	5.4	5.5	(0.1)
Total capital invested	1,003.7	957.1	46.6

Condensed consolidated statements of cash flows <i>(millions of Euro)</i>	Nine months ended September 30,		
	2006	2005	Change
Cash and cash equivalent at the beginning of the period	25.9	18.2	7.7
Net income	31.6	20.7	10.9
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	21.1	21.2	(0.1)
Movements in working capital	(78.2)	(32.7)	(45.5)
Cash flows from operating activity	5.4	38.3	(32.9)
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
Cash flows for investing and from financing activities	(36.7)	(10.3)	(26.4)
Effect of exchange rates	1.0	3.8	(2.8)
Other movements in shareholders' equity	3.9	(0.4)	4.3
Cash and cash equivalents at the end of the period	(0.5)	49.6	(50.1)

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.

Net debt position <i>(millions of Euro)</i>	September 30, 2006	June 30, 2006	Change Sep-Jun	December 31, 2005	Change Sep-Dec
Current portion of long term borrowings	(22.5)	(24.0)	1.5	(135.6)	113.1
Bank overdrafts and short t. 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	38.7	34.8	3.9	151.0	(112.3)
Short term net debt position	(54.2)	(26.8)	(27.4)	(33.0)	(21.2)
Long term borrowings	(465.9)	(473.9)	8.0	(468.2)	2.3
Long term net debt position	(465.9)	(473.9)	8.0	(468.2)	2.3
Net debt position	(520.1)	(500.7)	(19.4)	(501.2)	(18.9)

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 nine months 2006	Equity as of December 31, 2005
Balances per Safilo S.p.A. statutory financial statements	427.9	(10.4)	434.1
Shareholders' equity of consolidated companies	996.9	54.0	971.8
Book value of consolidated subsidiaries	(1,332.5)	0.0	(1,333.9)
Goodwill	321.9	0.0	321.9
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	3.7	2.1	0.2
Total Shareholders' equity	412.2	31.6	385.7
Shareholders' equity attributable to minority shareholders	5.4	2.3	5.5
Total shareholders' equity attributable to the Group	406.8	29.3	380.2

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	856	765	765
Production plants	4,563	4,192	4,185
Commercial subsidiaries	1,072	1,053	1,037
Solstice	507	374	311
Total	6,998	6,384	6,298

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

Consolidated Balance Sheets

<i>(Euro/000)</i>	<i>Note</i>	30/09/2006	31/12/2005
ASSETS			
Current assets			
Cash in hand and at banks	<i>2.1</i>	38,725	151,018
Trade receivables, net	<i>2.2</i>	308,708	307,558
Inventory, net	<i>2.3</i>	244,723	208,802
Assets held for sale	<i>2.4</i>	-	2,984
Derivative financial instruments	<i>2.5</i>	848	-
Other current receivables	<i>2.6</i>	71,650	64,733
Total current assets		664,654	735,095
Non-current assets			
Property, plant and equipment, net	<i>2.7</i>	192,580	193,603
Intangible assets	<i>2.8</i>	22,417	25,580
Goodwill	<i>2.9</i>	364,126	365,121
Investments in associates	<i>2.10</i>	12,549	13,492
Financial assets available-for-sale	<i>2.11</i>	6,901	6,009
Deferred tax assets	<i>2.12</i>	47,636	49,279
Derivative financial instruments	<i>2.5</i>	1,966	2,506
Other non-current assets	<i>2.13</i>	15,641	1,303
Total non-current assets		663,816	656,893
Total assets		1,328,470	1,391,988

<i>(Euro/000)</i>	<i>Note</i>	30/09/2006	31/12/2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	<i>2.14</i>	92,890	184,006
Trade payables	<i>2.15</i>	183,037	182,633
Tax payables	<i>2.16</i>	16,325	20,870
Derivative financial instruments	<i>2.5</i>	2,023	878
Other current liabilities	<i>2.17</i>	84,641	79,423
Provision for risks and charges	<i>2.18</i>	0	128
Total current liabilities		378,916	467,938
Non-current liabilities			
Long-term borrowings	<i>2.14</i>	465,932	468,242
Employee benefits liability	<i>2.19</i>	43,670	39,365
Provisions for risks and charges	<i>2.18</i>	9,482	8,644
Deferred tax liabilities	<i>2.12</i>	12,394	10,969
Derivative financial instruments	<i>2.5</i>	122	4,509
Other non-current liabilities	<i>2.20</i>	5,758	6,565
Total non-current liabilities		537,358	538,294
Total liabilities		916,274	1,006,232
Shareholders' equity			
Share capital	<i>2.21</i>	35,000	35,000
Share premium reserve	<i>2.22</i>	53,350	53,350
Retained earnings and other reserves	<i>2.23</i>	288,405	285,326
Fair value and cash flow reserves	<i>2.24</i>	803	(3,899)
Income attributable to the Group		29,283	10,442
Total shareholders' equity attributable to the Group		406,841	380,219
Shareholders' equity attributable to minority shareholders		5,355	5,537
Total shareholders' equity		412,196	385,756
Total liabilities and shareholders' equity		1,328,470	1,391,988

Consolidated Statements of Operations

<i>(Euro/000)</i>	<i>Note</i>	Nine months ended September 30,		Third Quarter	
		2006	2005	2006	2005
Net sales	<i>3.1</i>	843,601	776,726	238,196	214,885
Cost of sales	<i>3.2</i>	(334,858)	(308,676)	(94,412)	(85,552)
Gross profit		508,743	468,050	143,784	129,333
Selling and marketing expenses	<i>3.3</i>	(316,111)	(287,606)	(92,513)	(83,197)
General and administrative expenses	<i>3.4</i>	(92,335)	(79,481)	(26,271)	(25,051)
Other income/(expenses), net	<i>3.5</i>	792	374	(377)	12
Operating income		101,089	101,337	24,623	21,097
Share of income/(loss) of associates	<i>3.6</i>	398	1,532	422	1,318
Interest expense and other financial charges, net	<i>3.7</i>	(37,100)	(59,560)	(10,090)	(17,462)
Non recurring financial items	<i>3.8</i>	(9,282)	(9,366)	0	(9,366)
Income before taxation		55,105	33,943	14,955	(4,413)
Income tax expenses	<i>3.9</i>	(23,539)	(13,230)	(6,990)	(920)
Net income		31,566	20,713	7,965	(5,333)
Net income attributable to minority interests		2,283	2,431	455	417
Net income attributable to the Group		29,283	18,282	7,510	(5,750)

Consolidated Statements of Cash Flows

<i>(Euro/000)</i>	Nine months ended September 30,	
	2006	2005
Cash flows from operating activities		
Net income	31,566	20,713
Depreciation and Amortization	27,252	26,103
Share income on equity investments	(1,460)	(1,152)
Net movements in the employee benefits liability	4,356	2,113
Net movements in other provisions	740	2,024
Interest expenses	40,594	57,810
Income tax expense	22,661	13,231
Income from operating activities prior to movements in working capital	125,709	120,842
Changes in operating Assets and Liabilities		
(Increase) Decrease in trade receivables and other current receivables	(29,376)	(13,809)
(Increase) Decrease in inventory, net	(41,754)	14,318
Increase (Decrease) in trade payables and other current payables	(7,032)	(33,188)
Interest expenses paid	(22,082)	(38,463)
Income taxes paid	(20,104)	(11,373)
Net Cash provided by operating activities	5,361	38,327
Cash Flows from investing activities		
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)
Net Cash (used in) investing activities	(21,285)	(17,683)
Cash Flows from financing activities		
Proceeds from borrowings	302,637	20,763
Repayment of borrowings	(316,105)	(10,960)
Dividends paid	(1,872)	(2,371)
Net Cash (used in) financing activities	(15,340)	7,432
Effect of exchange rates	1,027	3,759
Other movements in shareholders' equity	3,865	(412)
Net increase (decrease) in cash and cash equivalents	(26,372)	31,423
Cash and cash equivalents at the beginning of the period	25,866	18,151
Cash and cash equivalents at the end of the period	(506)	49,574

Consolidated Statement of recognised income and expense

<i>(Euro/000)</i>	<i>Note</i>	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
Total		(4,954)	6,972	(690)	5,078
Net income for the period		31,566	20,713	7,965	(5,333)
Total recognized income for the year		26,612	27,685	7,275	(255)
Net income attributable to the Group		29,283	18,282	7,510	(5,750)
Income and expenses attributable to the Group		(4,848)	6,770	(688)	5,608
Total		24,435	25,052	6,822	(142)
Net income attributable to minority interests		2,283	2,431	455	417
Income and expenses attributable to minorities		(106)	202	(2)	(47)
Total		2,177	2,633	453	370
Total profit (loss)		26,612	27,685	7,275	228

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, 2005 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.

The consolidated financial information reported for the period ended September 30, 2006 has been prepared in accordance with the IFRS issued by the *International Accounting Standards Board* and approved by the European Commission as at December 31, 2005. In particular, this interim financial report has been prepared in accordance with IAS 34 – *Interim Financial Reporting*.

1.2 Consolidation method and consolidation area

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

	Value	Share capital	Quota held %
ITALIAN COMPANIES			
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
FOREIGN COMPANIES			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100
Safint B.V. - Rotterdam (NL)	EUR	18,200	100
Safilo Capital Int. S.A. - Luxembourg (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 - Mumbay (IND)	INR	42,000,000	88.5
Safint Australia Pty Ltd.- Sydney (AUS)	AUD	3,000,000	100
Safilo Australia Partnership – Sydney (AUS)	AUD	204,081	61
Safint Optical UK Ltd. - London (GB)	GBP	21,139,001	100
Safilo UK Ltd. - North Workshire (GB)	GBP	250	100
Safilo America Inc. - Delaware (USA)	USD	8,430	100
Safilo USA Inc.- New Jersey (USA)	USD	-	100
FTL Corp. - Delaware (USA)	USD	10	100
Safilo Realty Corp. - Delaware (USA)	USD	10,000	100
Safilo Services LLC - New Jersey (USA)	USD	-	100
Smith Sport Optics Inc. - Idaho (USA)	USD	12,162	100
Solstice Marketing Corp. – Delaware (USA)	USD	1,000	100
Solstice Marketing Concepts LLC – Delaware (USA)	USD	-	100
2844-2580 Quebec Inc. – Montreal (CDN)	CAD	100,000	100
Safilo Canada Inc. - Montreal (CDN)	CAD	2,470,425	100
Canam Sport Eyewear Inc. - Montreal (CDN)	CAD	300,011	100

1.3 Translation of financial statements in currencies other than the Euro

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

	As of			Average for the 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 Sheets

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 cash held at banks	38,725	151,018
Total	38,725	151,018

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	38,725	50,096
Bank overdrafts and short t. bank borrowings	(39,231)	(522)
Total	(506)	49,574

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)
Net Value	308,708	307,558

At parity of exchange rates, net trade receivables increased by Euro 6,349 thousand, due in particular to the increase in sales in the first quarter of 2006 compared to the same period of the previous year.

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

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

The allowance for doubtful accounts also includes the accrual for insolvency accounted for in the income statement under "general and administrative expenses" (note 3.4).

[2.3 Inventory, net](#)

This account is comprised as follows:

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
Raw materials	46,765	43,784
Work-in-progress	8,757	8,123
Finished goods	209,543	176,272
Gross	265,065	228,179
Obsolescence provision	(20,342)	(19,377)
Total	244,723	208,802

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>	Balance as of January 1, 2006	Increase	Translation Difference	Balance as of September 30, 2006
Obsolescence provision	19,377	1,836	(871)	20,342
Total	19,377	1,836	(871)	20,342

[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:

(Euro/000)	September 30, 2006	December 31, 2005
Current Assets		
- Foreign currency contracts	110	-
- Interest rate swaps - <i>cash flow hedge</i>	587	-
- Interest rate swaps - <i>at fair value through P&L</i>	151	-
Total	848	-
Non current Assets		
- Interest rate swaps - <i>cash flow hedge</i>	16	1,238
- Options	1,950	1,268
Total	1,966	2,506
Current liabilities		
- Foreign currency contracts	-	878
- Interest rate swaps - <i>at fair value through P&L</i>	2,023	-
Total	2,023	878
Non current liabilities		
- Interest rate swaps - <i>cash flow hedge</i>	122	4,509
- Interest rate swaps - <i>at fair value through P&L</i>	-	-
Total	122	4,509

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
	(USD/000)	(Euro/000)	(USD/000)	(Euro/000)
Expiry year 2006	\$5,000	(7)	\$34,000	(878)
Expiry year 2007	\$20,000	117	\$0	0
Total	25,000	110	34,000	(878)

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 (Euro/000)	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)
Total	269,611	(1,392)	241,614	(3,271)

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 recorded in the income statement" with the recording of their fair value under financial charges instead of net equity.

The fair value of the advanced repayment option included in the notes issued by the subsidiary Safilo Capital International S.A. is reported among non current assets. The valuation was made using models applied by primary financial institutions and resulted in the recognition of a fair value of the option of Euro 1,950 thousand.

2.6 Other current receivables

This account is comprised as follows:

(Euro/000)	September 30, 2006	December 31, 2005
Receiv. from the holding company Safilo Group S.p.A.	22,336	33,818
VAT receivable	4,718	4,453
Tax credits and advance payments	9,303	11,445
Prepayments and accrued income	15,166	5,281
Receivables from sale agents	3,579	4,943
Other current receivables	16,548	4,793
Total	71,650	64,733

The account balance "receivables from the holding company Safilo Group S.p.A." refer, for a total amount of Euro 21,909 thousand, to deferred tax assets recorded by Safilo S.p.A. during 2005 and 2006 (note 2.12) and attributed to its holding Company Safilo Group S.p.A. as a result of the fiscal regime ("*consolidato fiscale nazionale*"). The above fiscal regime, where Safilo Group S.p.A. is the holding company and Safilo S.p.A., Oxsol S.p.A. and Lenti S.r.l. are the subsidiaries, resulted in that the tax losses recorded by Safilo S.p.A. are to be transferred to the holding company. Receivables from the holding company represent the counterpart for fiscal benefits transferred to the holding company. The remaining part of the account balance relates to advance payments made by Safilo S.p.A. on behalf of the holding company. The significant decrease in receivables from Safilo Group mainly relates to costs incurred by Safilo S.p.A for the IPO process and recharged to Safilo Group S.p.A.; these have been paid by the parent company in the third quarter of 2006.

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

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of September 30, 2006
Gross value						
Land and buildings	108,103	605	(1,328)	-	(288)	107,092
Plant and machinery	156,536	4,477	(677)	-	(242)	160,094
Equipment and other assets	126,625	17,483	(1,545)	-	(2,785)	139,778
Assets under construction	2,831	798	0	(8)	(37)	3,584
Total	394,095	23,363	(3,550)	(8)	(3,352)	410,548
Accumulated depreciation						
Land and buildings	21,302	2,390	(1,323)	-	(71)	22,298
Plant and machinery	90,192	8,649	(503)	-	(109)	98,229
Equipment and other assets	88,998	11,433	(1,443)	-	(1,547)	97,441
Total	200,492	22,472	(3,269)	-	(1,727)	217,968
Net Book Value	193,603	891	(281)	(8)	(1,625)	192,580

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
Gross value						
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
Total	58,701	9,743	(739)	(141)	616	68,180
Accumulated amortization						
Software costs	5,257	1,304	(739)	-	120	5,942
Trademarks and licenses	14,818	3,986	-	-	14	18,818
Other intangible assets	17,400	288	-	-	152	17,840
Total	37,475	5,578	(739)	-	286	42,600
Net Book Value	21,226	4,165	-	(141)	330	25,580

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of September 30, 2006
Gross value						
Software costs	8,139	1,149	(18)	34	(102)	9,202
Trademarks and licenses	41,508	328	-	(34)	(31)	41,771
Other intangible assets	18,499	699	(1,516)	-	(133)	17,549
Intangible assets in progress	34	-	-	-	(2)	32
Total	68,180	2,176	(1,534)	-	(268)	68,554
Accumulated amortization						
Software costs	5,943	1,368	(18)	24	(56)	7,261
Trademarks and licenses	18,818	3,203	0	(24)	(9)	21,988
Other intangible assets	17,840	209	(1,089)	-	(71)	16,889
Total	42,600	4,780	(1,107)	-	(136)	46,137
Net Book Value	25,580	(2,604)	(427)	-	(132)	22,417

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		15,029	17,150
Selling and marketing expenses	3.2	2,263	1,774
General and administrative expenses	3.3	9,960	7,179
Total	3.4	27,252	26,103

2.9 Goodwill

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

<i>(Euro/000)</i>	Balance as of January 1, 2006	Translation Difference	Balance as of September 30, 2006
Goodwill	365,121	(995)	364,126
Net Book Value	365,121	(995)	364,126

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

2.10 Investments in associates

Investments in associates refer to the following:

Company	Registered office or headquarters	% of share capital	Type of investment	Main activity
Elegance I. Holdings Ltd	Hong Kong - China	23.05%	Associated company	Commercial
Optifashion As	Turchia	50.00%	Non consolidated subsidiary	Commercial
TBR Inc.	USA	33.33%	Associated company	Real Estate

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

<i>(Euro/000)</i>	31.12.2005			Movements of the period		Balance as of September 30, 2006
	Gross value	Reval. (Deval.)	Net book value	Share of inc./losses, net of dividends	Transl. diff.	
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
Total	6,196	7,296	13,492	11	(954)	12,549

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.

<i>(Euro/000)</i>	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
Total		6,901	6,009

The movements of the account in the period are shown below:

<i>(Euro/000)</i>	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
Total	10,498	(4,489)	6,009	(557)	1,449	6,901

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.

2.12 Deferred tax assets and deferred tax liabilities

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
Deferred tax assets	47,636	49,279
Deferred tax liabilities	12,394	10,969
Total, net	35,242	38,310

Deferred tax assets

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

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

<i>(Euro/000)</i>	Tax losses	Financial year	Expiring date	Calculated deferred tax assets	Transfer to holding company	Total deferred tax asset for tax losses
	1,711	2003	2008	565	-	565
	30,602	2004	2009	10,099	-	10,099
	57,573	2005	2010	18,999	(18,999)	-
	8,818	2006	2011	2,910	(2,910)	-
Total	96,993			32,572	(21,909)	10,663

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 15,641 thousand and refer to the following:

- for Euro 14,200 thousand to a loan, expiring December 31, 2007, granted to Safilo Group S.p.A. at an interest rate of Euribor plus a spread of 0.1%;
- for the remaining part 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
Bank overdrafts and short-term borrowings		
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	-	105,000
Payable for High Yield advance repayment	-	10,106
Short-term portion of financial leasing and other loans	1,081	3,944
Other short-term loans	31,225	28,296
Total	92,890	184,006
Long-term borrowings		
Long term borrowings	455,062	456,763
Payables for finance leases	10,105	10,616
Other medium/long term loans	765	863
Total	465,932	468,242
Total bank overdrafts and borrowings	558,822	652,248

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, 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 income deriving from the new contract the Group repaid the previous Senior Loan with a total payment equal to Euro 300,340 thousand. The settlement of the previous loan resulted, in the recording of non-recurring financial charges in the income statement for a total amount of Euro 7,749 thousand relating to the acceleration of the amortisation of the charges incurred on the loan settled (reference should be made to note 3.8 for further details).

In relation to the High Yield bond, the short-term portion at December 31, 2005 was repaid in advance on

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

The above loans, valued under the amortised cost method, are 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 Safilo S.p.A.

The repayment dates of loans are as follows:

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
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
Total	465,932	468,242

Borrowings by currency are as follows:

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

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

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

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 quarter and as of December 31, 2005 is the following:

Net debt position <i>(millions of Euro)</i>	September 30, 2006	June 30, 2006	Change Sep-Jun	December 31, 2005	Change Sep-Dec
Current portion of long term borrowings	(22.5)	(24.0)	1.5	(135.6)	113.1
Bank overdrafts and short t. 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	38.7	34.8	3.9	151.0	(112.3)
Short term net debt position	(54.2)	(26.8)	(27.4)	(33.0)	(21.2)
Long term borrowings	(465.9)	(473.9)	8.0	(468.2)	2.3
Long term net debt position	(465.9)	(473.9)	8.0	(468.2)	2.3
Net debt position	(520.1)	(500.7)	(19.4)	(501.2)	(18.9)

2.15 Trade payables

This account is comprised as follows:

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
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	17,456
Services received from third parties	27,276	21,755
Payables for purchase of property, plant and equipment and intangible assets	2,985	3,300
Total	183,037	182,633

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

2.16 Tax payables

Tax payables as of September 30, 2006 amount to Euro 16,325 thousand and relate for Euro 10,428 thousand to income taxes, for Euro 4,437 thousand to VAT payables and for the remainder to various tax liabilities and local taxes.

The accrual for current income tax expenses is disclosed in the note related to income taxes (3.9).

2.17 Other current liabilities

<i>(Euro/000)</i>	September 30, 2006	December 31, 2005
Due to personnel and social security institutions	38,130	44,913
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	2,898
Due to minority shareholders for dividends	1,522	2,170
Payables to the holding company Safilo Group S.p.A.	222	959
Other current liabilities	3,379	1,952
Total	84,641	79,423

The account "Due to personnel and social security institutions" mainly refers 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.

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

2.18 Provisions for risks and charges

This account is comprised as follows:

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	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	0	(30)	817
Provisions for risks - long term	8,644	1,607	(739)	(30)	9,482
Provisions for risks - short term	128		(128)	-	-
Total	8,772	1,607	(867)	(30)	9,482

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	39,365	6,004	(1,648)	(51)	43,670
Total	39,365	6,004	(1,648)	(51)	43,670

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

2.20 Other non current liabilities

The other non-current liabilities as of 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

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

2.22 Share premium reserve

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

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

2.23 Retained earnings and other reserves

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

2.24 Fair value and cash flow reserves

This account is comprised as follows:

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

<i>(Euro/000)</i>	Balance as of January 1, 2006	Impact on equity	Impact on Income Statement	Balance as of September 30, 2006
Cash flow reserve	(2,780)	1,921	1,255	396
Fair value reserve	(1,119)	1,526		407
Total	(3,899)	3,447	1,255	803

The cash flow reserve, created in accordance with IAS 39, includes the fair value of the interest rate swaps contracts hedging interest rate movements and the fair value of forward exchange contracts designated to hedge against the exchange risk.

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

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

2.25 Consolidated changes in shareholders' equity

In accordance with IFRS 1, the table below shows the movements of equity for the periods ended September 30, 2006 and 2005.

<i>(Euro/000)</i>	Share capital	Share premium	Shareholders' contrib.	Treasury shares	Transl. Diff.	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
Group net equity as of January 1, 2005	35,000	53,350	4,810	(80,988)	(4,738)	(6,342)	40,784	21,610	63,486
Previous year's income allocation	-	-	-	-	-	-	21,610	(21,610)	-
Retained earnings	-	-	-	-	8,560	(2,405)	1,930	-	8,085
2005 net income	-	-	-	-	-	-	-	18,282	18,282
Group net equity as of September 30, 2005	35,000	53,350	4,810	(80,988)	3,822	(8,747)	64,324	18,282	89,853
Minority interests as of January 1, 2005	-	-	-	-	(105)	-	2,055	3,123	5,073
Previous year's income allocation	-	-	-	-	-	-	3,123	(3,123)	-
Retained earnings	-	-	-	-	140	-	62	-	202
Dividends distribution	-	-	-	-	-	-	(2,371)	-	(2,371)
2005 net income	-	-	-	-	-	-	-	2,431	2,431
Minority interests as of September 30, 2005	-	-	-	-	35	-	2,869	2,431	5,335
Consolidated net equity as of September 30, 2005	35,000	53,350	4,810	(80,988)	3,857	(8,747)	67,193	20,713	95,188

<i>(Euro/000)</i>	Share capital	Share premium	Shareholders' contrib.	Treasury shares	Transl. Diff.	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
Group net equity as of January 1, 2006	35,000	53,350	299,523	(80,988)	5,208	(3,899)	61,583	10,442	380,219
Previous year's income allocation	-	-	-	-	-	-	10,442	(10,442)	-
Retained earnings	-	-	-	-	(7,037)	4,702	(326)	-	(2,661)
2006 net income	-	-	-	-	-	-	-	29,283	29,283
Group net equity as of September 30, 2006	35,000	53,350	299,523	(80,988)	(1,829)	803	71,699	29,283	406,841
Minority interests as of January 1, 2006	-	-	-	-	102	-	2,215	3,220	5,537
Previous year's income allocation	-	-	-	-	-	-	3,220	(3,220)	0
Retained earnings	-	-	-	-	(83)	-	(510)	-	(593)
Dividends distribution	-	-	-	-	-	-	(1,872)	-	(1,872)
2006 net income	-	-	-	-	-	-	-	2,283	2,283
Minority interests as of September 30, 2006	-	-	-	-	19	-	3,053	2,283	5,355
Consolidated net equity as of September 30, 2006	35,000	53,350	299,523	(80,988)	(1,810)	803	74,752	31,566	412,196

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 $\frac{1}{4}$ for each year of the Plan. The criteria for the vesting of the Options will be based on the reaching, by the Safilo Group S.p.A., of prefixed consolidated EBITDA levels by the Board of Directors.

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	-
Total	443	1,316

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	67,361	25,083	20,978
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	6,943	2,084	2,488
Total	334,858	308,676	94,412	85,552

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)
Total	(41,753)	9,601	(27,661)	(4,737)

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	822	747
Production plants	4,355	4,270
Commercial subsidiaries	1,071	1,035
Solstice	412	260
Total	6,660	6,312

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
Total	316,111	287,606	92,513	83,197

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

The growth in commissions to agents is directly related to the increased sales.

The marketing costs increased compared to 2005. This is attributable to both higher advertising investments aimed at developing the sales of brands which will substitute brands whose contracts are expiring, and to strengthening of the identification of the Group's own brands in the marketplace.

3.4 General and administrative expenses

This account is comprised as follows:

<i>(Euro/000)</i>	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Payroll and social security contributions	46,761	37,867	10,571	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	855
Insurance costs	2,102	1,730	652	565
Taxes (other than on income)	1,599	1,607	568	563
Other general and admin. expenses	11,470	11,109	3,134	4,189
Total	92,335	79,481	26,271	25,051

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

3.5 Other income/(expenses), net

This account is comprised as follows:

<i>(Euro/000)</i>	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Losses on asset disposals	(201)	(533)	(73)	(166)
Other operating expenses	(616)	(731)	(369)	(263)
Gains on asset disposals	306	162	24	120
Other operating revenues	1,303	1,476	41	321
Total	792	374	(377)	12

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

Other operating revenues mainly include extraordinary income and insurance reimbursements.

3.6 Share of income/(loss) of associates

This account amounts to Euro 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	7,457
Bank commissions	2,980	3,456	848	1,254
Foreign exchange rate differences	7,756	18,184	400	1,880
Financial discounts	3,949	3,942	655	1,193
Losses on financial assets disposal	121	-	(17)	0
Other financial charges	2,023	163	996	121
Total financial charges	48,141	74,276	11,764	20,512
Interest income	772	431	311	173
Foreign exchange rate differences	8,805	13,830	764	2,637
Dividends	6	229	0	18
Other financial income	1,458	226	599	222
Total financial income	11,041	14,716	1,674	3,050
Total financial charges, net	37,100	59,560	10,090	17,462

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	0	9,366
Fair value of non-hedging IRS	1,533	-	0	-
Total	9,282	9,366	0	9,366

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

<i>(Euro/000)</i>	Nine months ended September 30,		Third Quarter	
	2006	2005	2006	2005
Current taxes	22,661	27,047	4,033	4,333
Deferred taxes	878	(13,817)	2,957	(3,413)
Total	23,539	13,230	6,990	920

3.10 Seasonality and unusual items

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

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

3.11 Dividends

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

3.12 Segment information

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

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

Nine months ended September 30, 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-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
Total Net Sales	442,489	268,709	323,335	95,491	0	(286,423)	843,601
Gross Profit	182,091	110,664	171,773	45,488	0	(1,273)	508,743
Operating income	37,736	17,919	32,919	12,651	643	(779)	101,089
Interest expense							(57,423)
Interest income							11,041
Share income/(loss) of associates			110	362	(74)		398
Income taxes							(23,539)
Net income							31,566
<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>
Other information							
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
Net sales							
-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
Total Net Sales	382,731	249,439	286,451	89,291	24	(231,210)	776,726
Gross Profit	158,340	113,896	150,744	45,244	24	(198)	468,050
Operating income	25,275	46,335	30,450	16,126	1,061	(17,910)	101,337
Interest expense							(83,643)
Interest income							14,717
Share income/(loss) of associates	1			1,631	(100)		1,532
Income taxes							(13,230)
Net income							20,713
<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>
Other information							
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 the one located in Australia.
- (5) Non operating companies.

Third Quarter 2006 <i>(Euro/000)</i>	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-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
Total Net Sales	128,409	77,409	94,832	26,717	-	(89,171)	238,196
Gross Profit	50,893	26,338	54,119	12,982	-	(548)	143,784
Operating income	9,208	(802)	12,612	3,334	555	(284)	24,623
Interest expense							(11,765)
Interest income							1,675
Share income/(loss) of associates	-	-	35	387	0		422
Income taxes							(6,990)
Net income							7,965
<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>
Other information							
Depreciation & Amortization	6,472	1,185	1,137	221	6		9,021

Third Quarter 2005 <i>(Euro/000)</i>	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-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
Total Net Sales	102,588	63,743	90,998	26,022	8	(68,474)	214,885
Gross Profit	45,435	23,432	46,983	13,401	7	75	129,333
Operating income	4,745	3,344	8,458	4,778	36	(264)	21,097
Interest expense							(29,879)
Interest income							3,051
Share income/(loss) of associates				1,418	(100)		1,318
Income taxes							(920)
Net income							(5,333)
<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>
Other information							
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 the one 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 <i>(Euro/000)</i>	Relationship	September 30, 2006	December 31, 2005
<i>Receivables</i>			
Elegance International Holdings Ltd	(a)	379	750
Optifashion As	(b)	-	-
Total		379	750

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

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

- (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 588 thousand to TBR Inc. The terms and conditions of the rental contract are in line with market conditions for similar contracts.

Safilo Far East Limited, a subsidiary of Safilo S.p.A, holds 23.05% of Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange. Elegance is a producer of eyewear products in Asia, and to which the Group assigns part of its production. The price and the other conditions of the production contract between Safilo Far East Limited and Elegance are in line with those applied by Elegance to

its other clients. Massimiliano Tabacchi, director of Safilo S.p.A., and Mario Pietribiasi, executive of the Group, are non-executive directors of Elegance. In addition, Mario Pietribiasi is also a shareholder of the company with a holding of 0.30%.

CONTINGENT LIABILITIES

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

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

COMMITMENTS

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

FORWARD-LOOKING STATEMENTS

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

These factors include, among other things:

- factors affecting our ability to negotiate, maintain and renew license arrangements on satisfactory terms with leading designers;
- uncertainties associated with changing consumer preferences;
- the impact of currency exchange rate and interest rate fluctuations;
- risks relating to our manufacturing and distribution operations and our arrangements with third party manufacturers;
- risks relating to international sales and exposure to changing local conditions;
- factors affecting our ability to compete effectively in the eyewear market, including new products and distribution strategies of our competitors;
- risks associated with our significant debt and our ability to meet our financial obligations;
- human resource factors, including our ability to retain our senior management and other key personnel and employee costs;
- factors affecting our ability to design, develop and introduce successful new products;
- factors affecting our ability to obtain or maintain intellectual property protection for our products;
- uncertainties associated with general economic conditions;

- governmental factors, including the costs of compliance with regulations and the impact of regulatory changes; and
- other risks, uncertainties and factors inherent in our business.

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

FURTHER INFORMATION

For further information:

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