

GIORGIO ARMANI

EMPORIO ARMANI



Blue Bay



HUGO

BOTTEGA VENETA

BOUCHERON









GUCCI

IMATRA°

MARC JACOBS

MaxMara















STELL/McC\RTNEY

VALENTINO

WesSaint/aurent

AVAILABLE IN NORTH AMERICA ONLY





claiborne

kate spade

liz claiborne



MARC BY MARC JACOBS

NINE WEST









A NEW MANAGEMENT FOR AN EVEN BRIGHTER FUTURE



On August 3rd 2006, the Board of Directors appointed Claudio Gottardi and Massimiliano Tabacchi CEO and CO-CEO respectively of Safilo Group.

The twenty years' experience of Claudio Gottardi, already in charge of Safilo USA, and the technical expertise and product experience of Massimiliano Tabacchi, who has been working with the company for six years, guarantee the Group's development towards important new expansion plans and, at the same time, the continuity of the business's management.

Vittorio Tabacchi, Massimiliano Tabacchi, CO-CEO, and Claudio Gottardi, CEO.

SAFILO RECEIVES THE LEONARDO QUALITÀ ITALIA 2006 AWARD

On December 4th 2006, the President of the Italian Republic, Giorgio Napolitano, presented Vittorio Tabacchi with the Leonardo Qualità Italia 2006 award. The award, which is given to outstanding businessmen and men of culture in the Italian Quality System for results achieved by their companies in international markets which testify to Italian entrepreneurial excellence, was presented during a ceremony at the Palazzo del Quirinale, in the presence of Laura Biagiotti, Chairwoman of the Leonardo Committee, and Luca Cordero di Montezemolo, Chairman of Confindustria



Vittorio Tabacchi receives the award from the President of the Italian Republic Giorgio Napolitano, in the presence of Laura Biagiotti and Luca Cordero di Montezemolo.





Paris



Barcelona



London



THE MOST GLAMOROUS LOCATIONS

Paris, New York, London, Madrid, Barcelona: Safilo collections are on display in the world's most *glamorous* cities, capitals of luxury, and the hotbeds for latest trends and innovation.

FASHION WINDOWS



Los Angeles

SOLSTICE

Safilo owns the SOLSTICE retail chain in the USA which, with it *high-end* retail locations, is recognised for its superior customer service, attention to detail and high level products. In 2006 the chain was awarded the prestigious Accessories Council Excellence (ACE) Award as "Speciality Retailer of the Year".

In the USA and Spain, the Solstice and Loop Vision retail stores, found in prestigious, carefully selected locations, represent the reference point for the true "must-have" collections of high-end eyewear.



Vigo



The Group has recently acquired the Spanish chain Loop Vision, which is considered to be one of the leading distribution realities in the luxury segment in one of Europe's fastest growing markets.





LEADER IN HIGH-END EYEWEAR



The Safilo Group produces and distributes sunglasses and optical frames for the fashion world's most celebrated brands. This enviable achievement has been possible thanks to years of experience, professionalism and advanced know-how, culminating in the presentation of exclusive collections which are greatly appreciated also by leading celebrities from the world of international cinema and show business.

The Safilo Group, which ended 2006 with an ever increasing turnover of 1,122 million €, distributes its products through 30 commercial subsidiaries and a network of exclusive distributors covering over 130,000 points of sale worldwide.

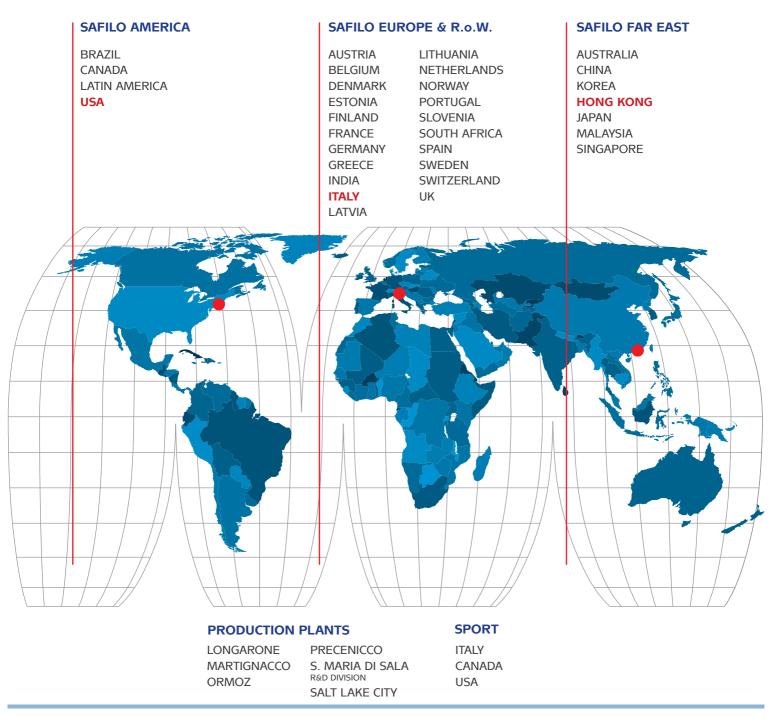




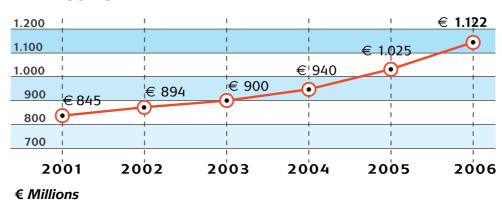


SHAKIRA - www.wireimage.com

THE SAFILO UNIVERSE



THE RESULTS

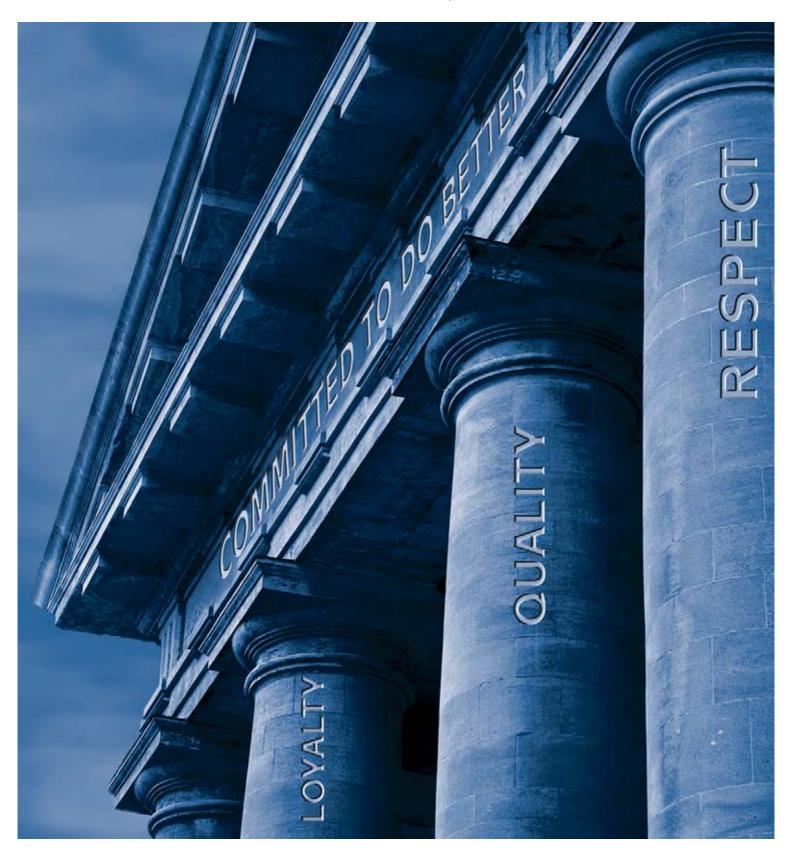


SAFILO VALUES

COMMITTED TO DO BETTER

Loyalty, quality, respect: these are the values which must lie at the core of the company and its employees to be *committed to do better*.

In addition, in July 2006 the Safilo Group adopted a Code of Ethics: this document establishes the principles of loyalty, integrity, transparency and correctness in behaviour and in conducting relations, both within the company and towards third parties.



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Chairman's letter to the shareholders

Dear Shareholders,

After the Stock Exchange listing in 2005 and the renegotiation of the remaining debt at the end of June 2006, we can say that an era has ended for the Safilo Group and that 2006 marks the start of a new one.

After the extensive investment of resources and energy in these matters, the Group is now ready to take off and grow, basing its success on those strong points that have always distinguished it, i.e. customer services, innovation in design and technical solutions, top quality products and firm shared conviction in the same values and goals.

To these bearing columns of the company we must add a very important brand portfolio and excellent relationships with the licensors, thanks to our long-standing trust in each other following the brilliant results we have obtained so far, all factors that have helped the Safilo Group to be recognised as world leader in the luxury product field.

During the last quarter we completed the takeover of the Spanish chain Loop, which is added to the American chain Solstice, thus confirming our intentions to strengthen our strategies to develop a strong retail presence in the highend eyewear market segment.

2006 was again another year of growth, with turnover increasing by 9.4% with excellent growth rates in all the world markets and an improvement, net of the effects caused by the failed renewal of the Polo licence, that would have exceeded 13%. We are very proud of the trends of our housebrands, and we count on even better results in the future. Our licensed designer brands are equally important, and in the last months we acquired Hugo Boss, Marc by Marc Jacobs and Armani A/X, whose sales will have an effect on the 2007 and 2008 periods. In the last quarter of 2007 we will also add the Banana Republic collection, the last important licensing agreement we signed at the end of the year with the Gap Group, leading American clothing manufacturer.

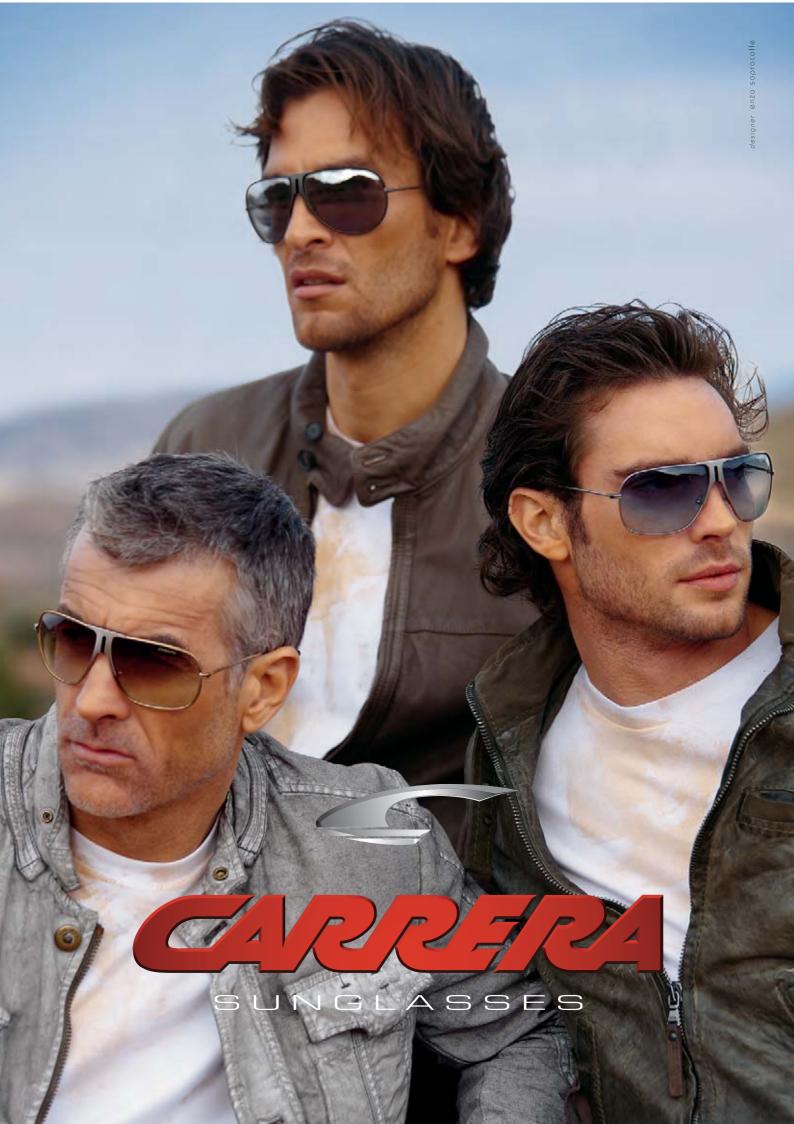
In profitability terms the Group improved its results in spite of the strong impact of extraordinary events which did not allow us to improve the profitability percentage. The operating profit grew by 6.5% reaching Euro 125.6 million against Euro 117.9 million in the previous year. The net profit increased considerably, and reflects the benefits deriving from the drastic reduction in Group debts.

The improved organisation and streamlined production processes, consolidated Group strong points and high growth potential make us very hopeful and optimistic about our future.

Over the next few years we will be concentrating on our objective to further strengthen our sales leadership, with a series of actions and specific projects to improve profitability. We also want to strengthen our leadership in the luxury field, increasing our market shares in the countries where we already operate and investing more in new high growth potential markets, grasping those opportunities that will give us better control of the distribution.

The Chairman Vittorio Tabacchi

mluntage



Corporate Officers as of December 31st, 2006

Board of Directors

Chairman Vittorio Tabacchi

Vice Chairman Giannino Lorenzon

Chief Executive Officer Claudio Gottardi
Co-Chief Executive Officer Massimiliano Tabacchi

Directors Ennio Doris

Carlo Gilardi Riccardo Ruggiero

Board of Statutory Auditors

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

Internal Control Committee

Chairman Carlo Gilardi

Ennio Doris

Riccardo Ruggiero

Remuneration Committee

Chairman Carlo Gilardi

Giannino Lorenzon Riccardo Ruggiero

Independent Auditors

PricewaterhouseCoopers S.p.a.



Summary of key consolidated performance indicators

Economic data (in Euro millions)	2006	%	2005	%
Net sales	1,122.0	100.0	1,025.3	100.0
Cost of sales	(458.5)	40.9	(416.5)	40.6
Gross profit	663.5	59.1	608.8	59.4
Ebitda (*)	162.4	14.5	153.0	14.9
Operating profit	125.6	11.2	117.9	11.5
Profit before taxation	71.1	6.3	11.1	1.1
Group net profit	37.5	3.3	3.1	0.3

Balance sheet data (in Euro millions)	2006	%	2005	%
Total assets	1,813.6	100.0	1,845.8	100.0
Non-current assets	1,130.9	62.4	1,121.5	60.8
Net working capital (*)	362.3	20.0	324.1	17.6
Net financial position (*)	531.8	29.3	479.0	26.0
Group shareholders' equity	838.8	46.3	821.7	44.5

Financial data (in Euro millions)	2006	2005
Cash flow operating activities	6.3	31.7
Cash flow investing activities	(36.9)	(37.3)
Cash flow financing activities	(10.1)	36.7
Closing net cash and cash equivalents	7.1	44.5

Stock exchange (in Euro)	2006	2005
Basic EPS	0.13	0.02
Diluted EPS	0.13	0.02
Shares maximum price	4.836	4.940
Shares minimum price	3.265	4.713
Number of shares (units)	283,372,852	283,372,852

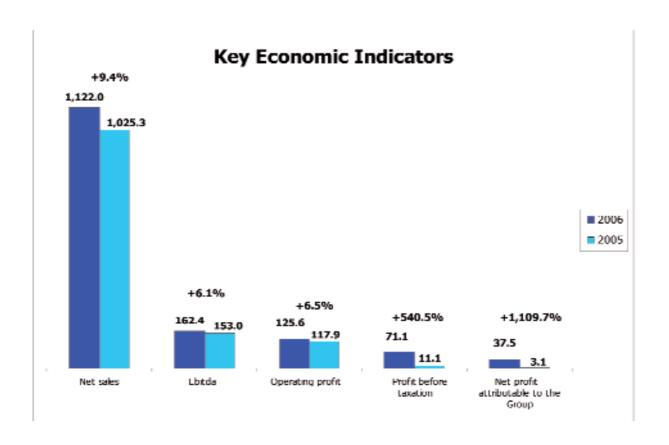
^(*) Note:

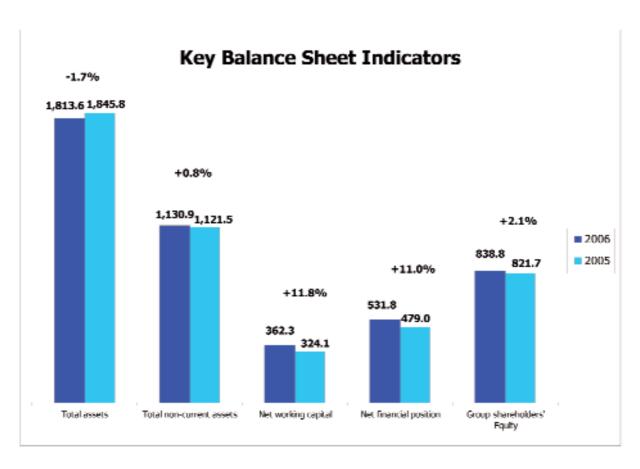
> By "Ebitda" we mean the operating profit, gross of depreciation and amortisation;

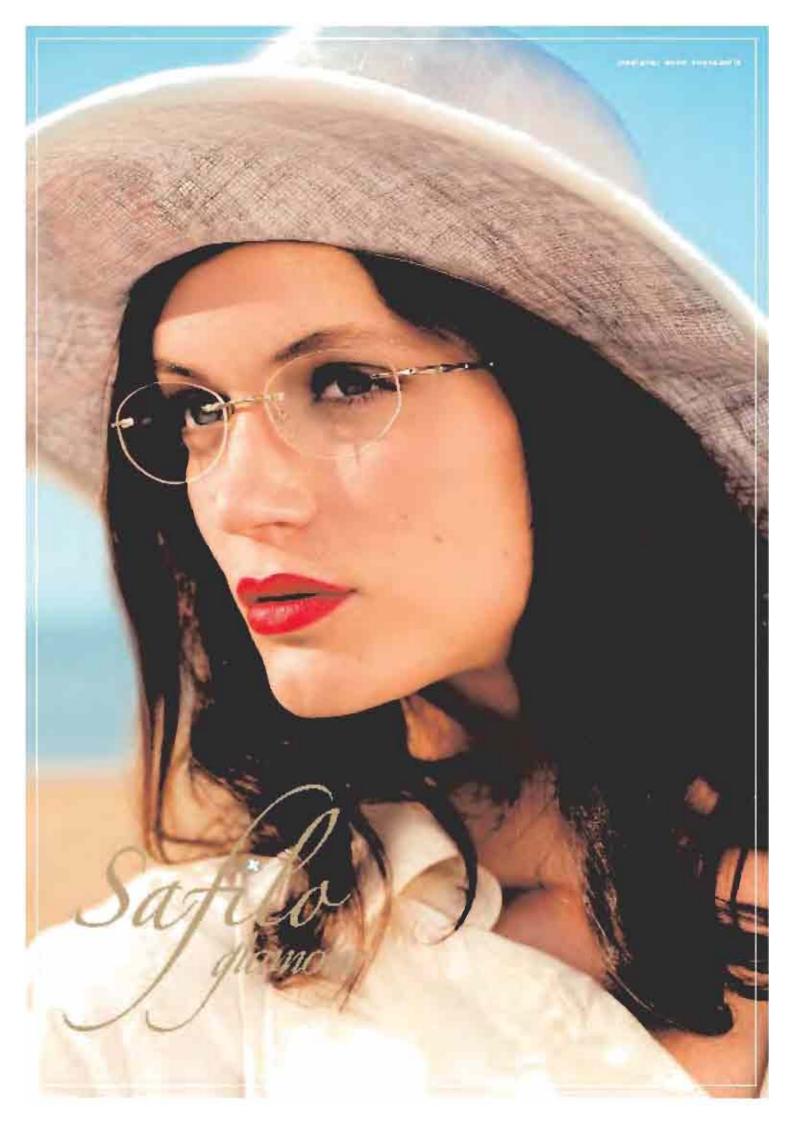
> By "Net working capital" we mean the algebric sum of inventories, trade receivables and trade payables;

> By "Net financial position" (NFP) we mean the sum of bank borrowings and short, medium and long-term loans, net of cash in hand and at bank









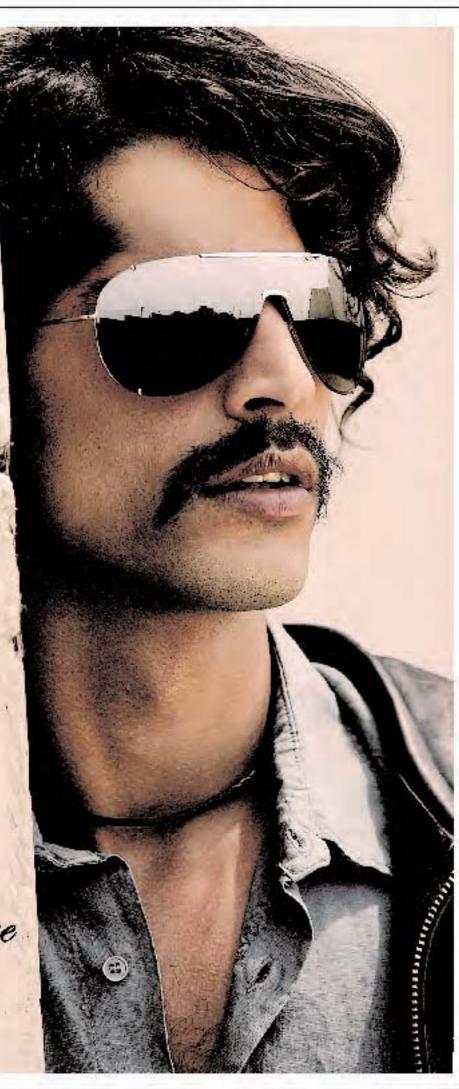


DIRECTORS' REPORT

desipest eszo aspracolle

U Săfilo

Now, Vintage



DIRECTORS' REPORT ON OPERATIONS

The Group activity

The Safilo Group has been working in the eyewear field for more than 70 years, and is the second largest operator worldwide, in terms of sales, in the creation, production and wholesale distribution of eyewear products. It is also the world leader in the luxury eyewear segment and one of the top three sports eyewear producers and distributors worldwide.

The Safilo Group designs, produces and distributes top quality optical frames, sunglasses, sports goggles and accessories, distributing them to specialised stores and retail chain stores.

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

The leading Group brands are Sàfilo, Oxydo, Carrera, Smith and Blue Bay and the licensed brands are Alexander McQueen, A/X Armani Exchange, Banana Republic, BOSS - Hugo Boss, Bottega Veneta, Boucheron, Diesel, 55DSL, Dior, Emporio Armani, Fossil, Giorgio Armani, Gucci, HUGO - Hugo Boss, Imatra, J. Lo by Jennifer Lopez, Juicy Couture, Kate Spade, Liz Claiborne, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max & Co., Nine West, Oliver, Pierre Cardin, Saks Fifth Avenue, Stella McCartney, Valentino e Yves Saint Laurent.

The Group directly controls the entire production – distribution chain, which relates to the following phases: research and innovative technology, product design and development, planning, programming and purchasing, production, quality, marketing and communications, selling, distribution and logistics. Safilo is strongly involved in product development and design with a team of designers capable of guaranteeing innovative stylistic and technical continuity, which has always represented one of the most important strong points of the company.

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

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

Main strong points

The Group owes its success to its strong points which distinguish it in the eyewear market, including:

- Portfolio of prestigious brands, with a leading position in the luxury and high fashion segments;
- Excellence in the design, innovation and quality of the products;
- Worldwide distribution platform and presence in the markets;
- Excellent customer service;
- Diversified revenues.

The products

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

The various lines are targeted to different consumer groups, through products with retail prices in the high-end segment of the market.

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

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

In particular, for products targeted to the Asian market, the Group is able to develop specific prescription frames which satisfy the specific somatic features of these populations (*Asian fitting*), with special attention paid to the Japanese market.

Every year over 2,500 new models of optical frames, sunglasses and sport goggles are introduced into the market, making over 4,500 models available to the public.

The brands and licences

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

In order to minimise the risk related to the volatility of customer tastes, the Group pursues a policy of maintaining a diversified portfolio by geographic area and target by age, gender, income and needs of the final customers.

The Group's own brands have strategic importance for the growth objectives in the medium to highend Fashion and Casual-Sport segments in all product categories (prescription frames, sunglasses and sports items, such as ski goggles and helmets and technical goggles for various sports).

The licensed brand portfolio of the Safilo Group is one of the most important and diversified in the eyewear market. A lot of brands rely on the Safilo Group, some of them being renowned worldwide, such as *Armani, Dior, Gucci,* while others operate only in specific countries, such as *Kate Spade, Nine West* and *Saks Fifth Avenue*. The Group's licenses for these brands are exclusive contracts with duration between 5 and 8 years. These contracts provide for the recognition to the licensors of the

royalties calculated as a percentage of the net sales deriving from the collections, with guaranteed minimum annual amounts which must be paid periodically. In many cases, these minimum guaranteed royalties are calculated on a percentage basis of the brand sales in the previous year or, in a few cases, consist of prefixed amounts.

On December 31st, 2006, the Group terminated a license contract to produce and market products with the *Polo Ralph Lauren* brand. In 2006 this licence had a 6% impact on sales. The specific actions undertaken by the Group to reduce the impact of this failed renewal have given results well beyond all expectations.

During 2006 the Group produced the first collections of sunglasses for the *A/X Armani Exchange* and *Marc by Marc Jacobs* brands, young metropolitan collections with a high fashion contents, which have been initially launched just in the US market and will then be extended to the other world markets in the future. A new licence contract was also signed with the Max Mara Group for the *Max & Co.* brand, and the first collection addressed to a young fashionable market, will be presented in Europe during 2007.

During 2006 the Banana Republic brand also entered the Group's brand portfolio, an "accessible luxury" brand belonging to Gap Inc., for a range of prescription frames and sunglasses, which should be launched at the end of 2007 in the USA and Canada. This is a 5-year contract with a renewal option for a further three years.

The Group also consolidated its brand portfolio, extending the duration of some contracts for some of the most prestigious brands:

- Max Mara until 2013;
- Saks Fifth Avenue until 2011;
- Yves Saint Laurent until 2010.

Research, development and design activities

Research and development is mainly focused on two types of activities:

- Product design;
- > Research and development of new materials, technology, production processes and instruments and machinery.

Product design is carried out by three internal styling centres of the Group (in Italy, USA and Hong Kong) focused on the specific design requirements of the different markets, while the research and development focuses on materials, production processes and machinery and is carried out internally by the "Research and Innovative Technology Division".

Product design

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

The research and development of the design consists, among others, in the elaboration of colour/material forms and combinations to create new models. The division is organised in three Style Centres and is composed of designers and employees developing the prototypes. The main Style Centre is in Italy, while the other two in the USA and Hong Kong undertake specialised styling activities for the collections in their specific regions. The product design function, considered its strategic importance, has been constantly strengthened over the years.

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

Research and development of materials, production processes and instruments/machinery

Research and development of materials and production processes is directed, on one hand, to improving the technical features of the products and, on the other, to develop innovative production processes to optimise efficiency and quality.

In 2006, the Research and Innovative Technology Division focused on:

- Research of new manufacturing materials in order to increase the resistance and duration of the products;
- Innovation of sport products;
- Innovation of the lenses both as an aesthetic factor and a protective factor;
- Study of new solutions to achieve reduced weight, comfort and variability in the fit of the optical frame:
- > Design and construction of new machinery which can improve efficiency and quality of the production process.

Over recent years, these activities have lead to the registration of numerous patents, for example elastic frames, the fixtures for the nose and face, the "base" of the lenses, the nose pads, the external and internal protections on ski goggles.

The research and development into instruments/machinery is addressed to internally design and develop precision and moulding instruments with the aim of improving efficiency, the use and quality of the production process. Management believes that maintaining this activity internally reduces the lead time between product development and its marketing, in order to obtain constant savings in production costs.

Marketing and communication

The marketing and communications activities to back up the image of its brands, licensed brands and products are a key element of success to achieve profitability growth for the Group.

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

- > Ensure the correct image profile that is perceived of the brands in portfolio, increasing the positioning in the high-end market, in particular in the luxury and fashion segments;
- > Communicate the distinctive features in terms of product design and technology in the different categories (optical frames, sunglasses, sport).

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

The Group develops a specific marketing plan for each of the brands in portfolio, adopting differentiated strategies and actions in order to permit the optimal position for each brand and avoid overlapping images. For the licensed brands, the Group develops the strategy in close coordination with the licensors.

In 2006, the total Group investments in marketing and advertising communications were Euro 88.8 million (against Euro 78.5 million in 2005), equal to approx. 7.9% of Group consolidated income (against 7.6% in 2005).

The marketing and communications activities are sub-divided principally between actions addressed to consumers and trade marketing centred on the sales outlets of the clients.

The activities addressed to consumers represent approximately two thirds of the Group's advertising and promotional investments; the main media used are press (weekly and monthly), billboards, sponsoring (principally in the sporting world for the Carrera and Smith brands), public relations with journalists and opinion leaders in the fashion, show business and sports world.

Trade marketing activities centred on the sales outlets of the principal clients, represents approximately one third of the Group's advertising and promotional investments, and are of fundamental importance both for directing the choice of the final customer to the brands and products of the Group, and for the client loyalty policy. The main instruments used are sample materials inside the point of sales (posters, banners, displays, duratrans), special window displays, consumer promotion actions developed specifically for the buyers of the most important optical clients, training courses and demonstration materials on the features of the Group brands and products, addressed to the sales personnel of the optical clients.

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

Human resources

At the end of 2006 the Group had 7,359 employees against 6,385 at the end of 2005. The increase is due to the strengthened production capacity and in the retail area due to the takeover of the Spanish Loop chain (with 277 employees) and the development of the US Solstice chain.

The overall Group employees are divided as follows:

	December 31, 2006	December 31, 2005
Padua headquarters	849	766
Production units	4,573	4,192
Commercial companies	1,083	1,053
Retail	854	374
Total	7,359	6,385

Financial risks

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

The financial risks are managed at a central level based on the Group's hedging policies through the use of derivative instruments which minimise the effects deriving from foreign exchange rate fluctuations (especially in relation to the US dollar) and interest rate movements.

Market risks

The market risks can be divided into the following categories:

Exchange risk

The Group operates at international level and is therefore exposed to exchange rate risks, especially in relation to the US dollar as a large part of sales are made in the USA. The Group has constantly attempted to reduce the impact from the movements in the US dollar by procuring suppliers in areas where it is possible to buy in US dollars. For transactions not covered by purchases in US dollars, the Group uses hedging instruments such as forward foreign currency contracts on US dollars. The information on the fair value and accounting methods for the derivative financial instruments is given in the notes on the financial statements.

Changes in fair value risk

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

Interest rate risk

The debt to the banking system exposes the Group to the risk of changes in interest rates. In particular, variable rate loans create a risk of changes in cash flow, while those at fixed rate create a potential variation in the fair value of the loans.

The Group assesses on a regular basis its risk to exposure to changes in interest rates and manages this risk through recourse to derivative financial instruments called interest rate swaps (IRS), which are used exclusively to hedge the cash flows. The counterparts are primary financial institutions and for the contracts in question, at the beginning of the hedge operation, there is formal designation

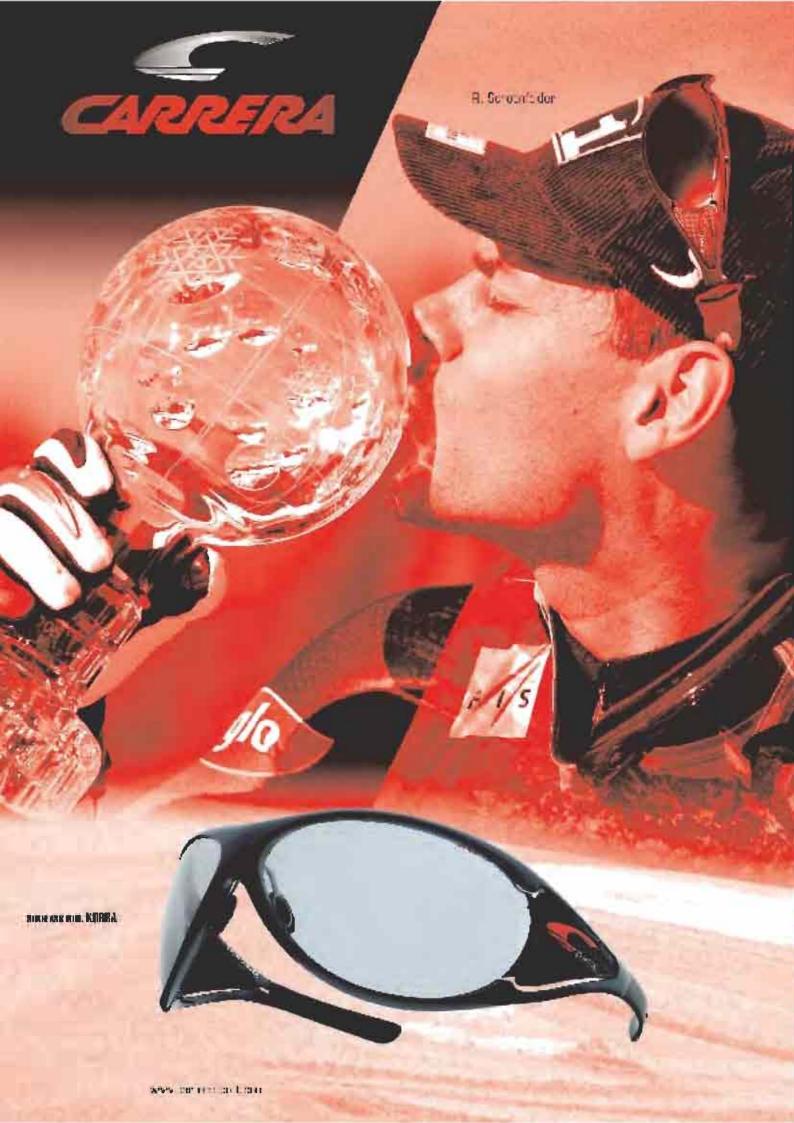
and documentation relative to the hedge. We should underline that the Group does not use financial instruments for speculative purposes.

Credit risk

The Group strives to reduce as far as possible the risk relating to the insolvency of its customers through rules that ensure the sales are made to customers who are reliable and solvent. These rules, based on information about the customers' solvency and historical data, associated with exposure limits of individual clients, permit a reduced concentration of the receivable and therefore minimises the retained risk. The credit risk is divided over a high number of counterparts and clients.

Cash flow risk

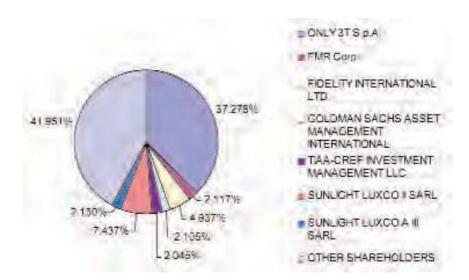
This risk could generate the inability to find the necessary financial resources at good terms to back up the operating activities in the right time. The cash flows, needs for finance and liquidity of the company are constantly monitored at central level by Group treasury, to guarantee effective and efficient management of the financial resources.



Control of the Company and corporate governance

As of December 31st, 2006 Only 3T S.p.A., with headquarters in Vicenza, Stradella dell'Isola n.1, held 37.278% of the shares of Safilo Group S.p.A.

Holders of ordinary shares in Safilo Group as of December 31st, 2006 were as follows:



Safilo adheres and conforms to the new Self-Discipline Code of Listed Companies, issued in March 2006 (the "New code"), integrating and adjusting its system so that it conforms to the new dispositions.

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

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

- ⇒ an Audit Committee and a Remuneration Committee were set up, whose members were appointed by the Board of Directors on October 24th, 2005 and August 3rd, 2006. These Committees represent an integral part of the Board of Directors, and undertake their duties in an autonomous and independent manner. They have a function of direction and supervision and also of ensuring satisfactory management control procedures are in place, in accordance with the provisions recommended by the Code;
- ⇒ in accordance with the provisions issued by Borsa Italiana S.p.A., the company adopted a Code of Conduct in relation to "internal dealing", which was replaced by a new Code of Conduct that was adopted by the Board of Directors on March 28th, 2006, to integrate the new regulations contained in articles 152 sexies − 152 octies of the Issuers Regulations adopted by Consob with resolution no. 11971 of May 14th, 1999;

 \succ the board delegated to the Chief Executive Officer the management of sensitive information and the proposal for the adoption, by the Board of Directors, of a procedure for internal management and external communication of documents and information relating to the Company, with particular reference to price sensitive information. This procedure was approved by the Board of Directors on December 6^{th} , 2005 and disclosed to all those concerned.

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

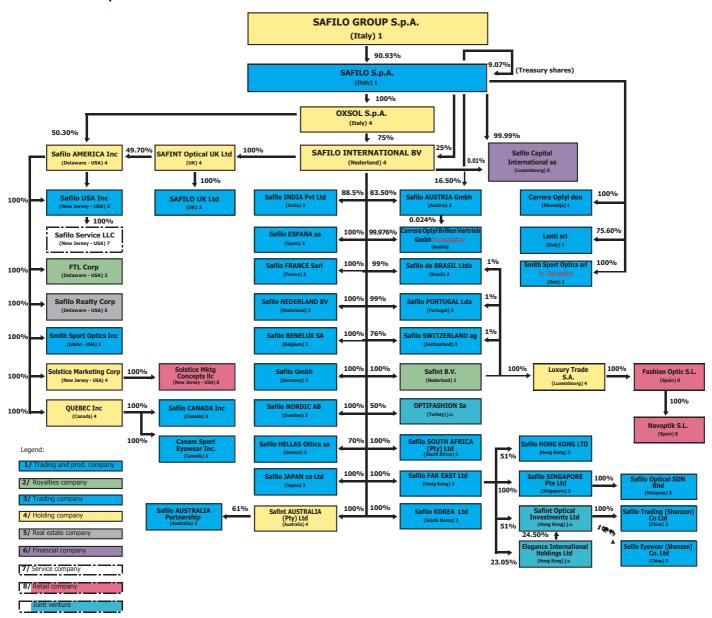
On March 28th, 2006, to conclude a process started in 2005, the Board of Directors adopted its own Ethic Code, containing the company ethical principles that the Group and other companies in the Group must conform to, and must be respected by employees at all levels within the company and all other Group companies, and third parties who co-operate with or have business relationships with the Group. The Ethic Code was disclosed to all those concerned with suitable methods and was also published in the website www.safilo.com, with the recommendation to read the contents and behave in a manner to conform to the principles it contains, with the reminder that observance of the Code is essential for any sort of relationship to continue with the Group.

The principles given in the Ethic Code are also general behaviour rules, which will be very effective regarding potential individual illicit behaviour, in particular with reference to Legislative Decree no. 231/2001. With regards to this, on March 28th, 2006, the Board of Directors adopted an organisation, management and control system in accordance with Legislative Decree 231/2001, with the aim of creating an organic and structured system with procedures and information flows which will prevent any crimes or administrative illicit events that would result in the attribution of administrative responsibility to the Company.

The Board of Directors on March 23rd, 2007 deliberated to conform to the new Self Governance Code of Listed Companies, adopted by the Corporate Governance Committee of Borsa Italiana S.p.A. and published on March 14th, 2006, and has adopted, or has committed to adopt during 2007, all the actions considered mandatory and/or appropriate in order to adequate its corporate governance system and organisation of the company to principles and criteria introduced by it, explaining the rationale of the possible non-adoption of some of them.

Finally, in accordance with the regulations of Borsa Italiana S.p.A., each year a Corporate Governance Report is issued and handed out during the Shareholders' Meeting to approve the Financial Statements, and can be consulted in the website www.safilo.com, which should be referred to for more detailed information about the Company Corporate Governance System.

The Group structure



During 2006 the Safilo Group strengthened its position in the Asian and European markets by opening the new Korean branch on October 11th, Safilo Korea Ltd, and taking over the Spanish chain of stores Loop Vision on November 9th.

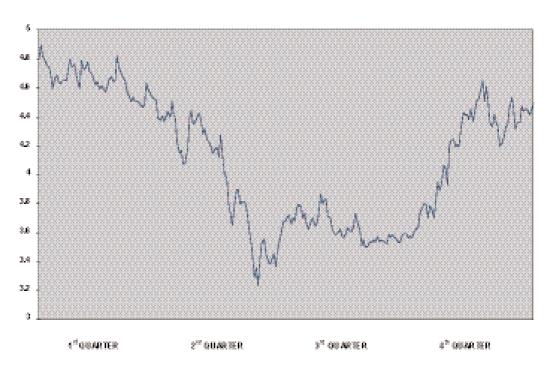
Safilo Korea Ltd is an addition to the other branches in Asia and has its headquarters in Seoul and is controlled 100% by the Group. The company became operative on January 1^{st} , 2007 with the aim of extending the market share of the Group in the country, through the distribution of its products to the retail channel, both opticians and department stores.

With regards to Loop Vision, this was a takeover of the Luxembourg company Luxury Trade S.A., holding company with total control of the Spanish companies Fashion Optik S.L. and Navoptik S.L., which own 63 sales outlets in Spain, with high-bracket clientele (for more details refer to note 4.9 in the notes on the financial statements).

Safilo in the Stock Exchange and financial communication

Safilo in the Stock Exchange

The trend of the shares during 2006, shown in the following graph, shows a significant recovery during the second half of the year after a fall in the value of the shares after the announcement that the Polo Ralph Lauren licence had not been renewed. It is clear that the good results in the second and third quarters, much higher than expectations, helped to restore trust in the capacity of the Group to pursue growth even if a single licence had not been renewed.



Financial communication

Safilo maintained constant dialogue with its Shareholders and investors through active communications by the Investor Relations department, who organised various presentations during the year through conference calls when the Group results are periodically published or for specific events that require direct communications with the market.

The Group also organised days to discuss the company trends and strategies, as well as meetings and road shows, to establish direct contact between top management and the financial community. The economic-financial data, press releases and periodic publications can be seen in the website www.safilo.com.

Information on the operations

2006 was highlighted by the brilliant results in terms of commercial expansion and increased profitability, although unusual events like the failure to renew the Polo Ralph Lauren licence prevented the company from reaching even better results.

Although there were significant improvements, 2006 must be considered as a transition year, during which certain production and commercial projects were launched. At industrial level, internal production capacity was considerably increased, by extending the Italian factories and reorganising the production flows. In commercial terms, 2006 saw the implementation of a series of actions of the brand portfolio reorganisation and of marketing addressed to reduce the impact of the failure to renew an important licence agreement. Finally, in the last quarter, the Group increased its direct distribution presence by taking over the Spanish chain Loop, which has more than 60 sales outlets in the medium-high brackets, and by opening 31 new Solstice stores, forming now a total of 146 direct retail outlets.

In 2006 there was a further increase in Group sales in all the world markets, with extremely good results in Italy and America, and a strong recovery of sales in Europe during the year where, in the last quarter, the growth rate compared to the previous year was more than 20%.

Profitability increased considerably, with a net profit ten times greater than the previous year's. This result was achieved thanks to good operational management but also to reduced financial liabilities, which reflect the reduction of the average debt with respect to 2005.

Cash flow management required an increase in cash needs further to the expansion actions in the retail field and the greater working capital used to back up commercial growth.



Sales analysis

The following tables show the sales divided by geographic area, product and sales channel:

Sales by geographic area					
(in Euro millions)	2006	%	2005	% Ch	ange %
Thole	150.7	14.2	120.6	12.5	15.2
Italy	159,7	14.2	138,6	13.5	
Europe (excluding Italy)	361,3	32.2	339,4	33.1	6.5
The Americas	418,6	37.3	383,3	37.4	9.2
Asia Pacific	129,2	11.5	119,8	11.7	7.8
Rest of the world	53,2	4.8	44,2	4.3	20.4
Total	1,122.0	100.0	1,025.3	100.0	9.4
Sales by product					
(in Euro millions)	2006	%	2005	0/a Ch	ange %
(III Euro IIIIIIIoris)	2000	70	2003	70 CI	larige 70
Prescription frames	419,5	37.4	422,1	41.2	(0.6)
Sunglasses	617,1	55.0	527,7	51.5	16.9
Sport products	66,1	5.9	61,2	6.0	8.0
Other	19,3	1.7	14,3	1.3	35.0
Total	1,122.0	100.0	1,025.3	100.0	9.4
Sales by sales channel					
(in Euro millions)	2006	%	2005	% Change %	
Wholesale	1,079,6	96.2	995,7	97.1	8.4
Retail		3.8	•	2.9	43.4
Retail	42,4	3.0	29,6	2.9	43.4
Total	1,122.0	100.0	1,025.3	100.0	9.4

2006 closed with excellent sales results in all the world markets, thanks to the excellent performance both of the Group brands and the licensed brands. Consolidated sales reached \leqslant 1,122 million with an increase of 9.4% over 2005 (+9.8% at constant exchange rates).

The sales analysis by geographic area shows the significant increase in sales in Europe, with the Italian market progressing and the other countries recovering after the slow first quarter. The American market recorded a good improvement thanks to the strength of the brand portfolio, despite the fall in sales due to the failure to renew the Polo Ralph Lauren license. Sales in the Far East also grew considerably, although the decision in 2006 not to distribute the products in the Korean market awaiting the opening of the company branch penalised the sales growth. Extremely good performance in the emerging markets, especially China and India.

At brand level there was a significant increase in the housebrands (+12.2%), particularly the Carrera brand. Among the licensed brands, which improved by 8.1%, we should mention how all the highest selling brands (Armani, Dior and Gucci) recorded double-digit growth rates.

Sales in the fourth quarter of 2006 stood at \in 278.4 million with a growth of 12.0% over the previous year. At constant exchange rates the improvement would have been 16.2%.

At geographic level, good performances were shown in all the main areas, with excellent results in Europe and the American market growing in local currency by 7.6% despite the effect of the failure to renew the Polo Ralph Lauren license, which caused a considerable downturn in the quarter, also due to the increased returns. The good growth of housebrands continued in the quarter (+7.9%) confirming the trend of the previous quarters, demonstrating the validity of the policies to launch the housebrands.

Italy: sales in the domestic market in 2006 reached \in 159.7 million, with a 15.2% increase compared to 2005, thanks to the excellent sales both in prescription frames (+18.6%) and sunglasses (+13.1%). The sales trend in Italy continues to be extremely positive, as the strong increase in volumes and the turnover expansion of the majority of the brands in portfolio show, testifying general commercial strength, independent from the success of any single collection. Among the brands that stood out in terms of sales growth, besides Diesel and the main designer labels, we should mention the re-launch of the housebrands Safilo and Carrera, and the general good trend of the sports segment.

In the fourth quarter, the sales trend was further strengthened reaching an increase of 20.4% with respect to 2005.

Europe: The European market continued to progress, recovering the non brilliant trend of the first quarter of the year. 2006 closed with \leqslant 361.3 million with a 6.5% increase on a yearly basis, but a +21.1% in the last quarter with respect to the same period the previous year.

The sales increases were recorded in almost all the Countries, with particular emphasis in the northern regions (Germany, Norway, Sweden, UK, etc.), with double-digit increases over 2005.

In terms of single brands, the Safilo and Blue Bay brands posted strong increases, while, among the griffes, Armani and Dior products showed remarkable results.

In January 2007 direct distribution began in the Baltic region (Latvia, Estonia and Lithuania), through single local branches.

America: the American market posted revenues of € 418.6 million in 2006, with an increase of 9.2% over 2005.

Despite the fact that sales in the second half of the year were conditioned by the decreasing revenues from the terminating Polo license, the good commercial growth shows that the other brands in portfolio were able to quickly replace the brand that, until then, had been the most sold in the USA. Very strong increases in all major griffes (Armani, Dior, Gucci, YSL) and in some regional brands (Juicy Couture, Liz Claiborne, Nine West), with brilliant results also in the sports sector, especially the Smith brand which recorded a growth for the year of more than 20%.

In terms of single Countries, besides the USA, very strong sales growth was registered in Canada. In the fourth quarter, the fall in sales is exclusively due to the negative exchange rates impact and to the reduced sales of Polo Ralph Lauren products, while the other brands guaranteed commercial growth in line with the previous quarters. At constant exchange rates, the sales increase for the quarter would have been 7.6%.

Asia: In 2006 revenues in the Far East recorded further growth with respect to the previous year, reaching € 129.2 million with an increase of 7.8%.

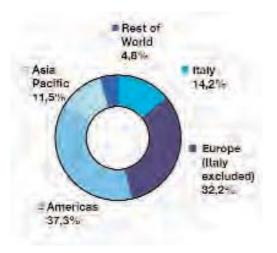
This increase was obtained despite the fact there was an interruption in the distribution of Group's products in the Korean market, awaiting the opening of the direct branch at the beginning of 2007. At geographic level, besides the high increase in China, double-digit growth was also recorded in Singapore and Thailand.

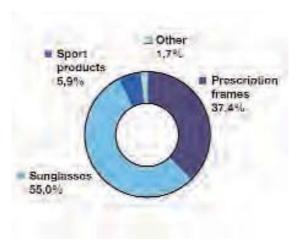
The sales analysis by brand shows excellent results for Armani, Dior, Gucci and Valentino.

The last quarter of 2006 confirmed the good growth trends of the previous quarters, with a sales increase of more than 10%.

Sales by geographic area

Sales by product





Sales by sales channel



Group economic results

Consolidated statement of operations (in Euro millions)	2006	%	2005	%	Change %
Net sales	1,122.0	100.0	1,025.3	100.0	9.4
Cost of sales	(458.5)	(40.9)	(416.5)	(40.6)	10.1
Gross profit	663.5	59.1	608.8	59.4	9.0
Selling and marketing expenses	(415.3)	(37.0)	(379.4)	(37.0)	9.5
General and administrative expenses	(124.1)	(11.1)	(112.6)	(11.0)	10.2
Other income/(expenses), net	1.5	0.1	1.1	0.1	36.4
Operating profit	125.6	11.2	117.9	11.5	6.5
Share of profit/(loss) of associates	1.5	0.1	1.5	0.1	-
Interest expense and other financial charges, no	et (56.0)	(5.0)	(108.3)	(10.6)	(48.3)
Profit before taxation	71.1	6.3	11.1	1.1	n.s.
Income taxes	(30.3)	(2.7)	(4.8)	(0.5)	n.s.
Net profit	40.8	3.6	6.3	0.6	n.s.
Net profit attributable to minority interests	3.3	0.3	3.2	0.3	3.1
Net profit attributable to the Group	37.5	3.3	3.1	0.3	n.s.
EBITDA	162.4	14.5	153.0	14.9	6.1
Basic EPS (Euro)	0.13		0.02		
Diluted EPS (Euro)	0.13		0.02		

The Group income statement shows improved results with respect to the previous year although certain extraordinary costs, in particular the disposal of the stocks of Polo Ralph Lauren products, did not permit to achieve an improvement as percentage on sales, at operating level.

The slight downturn in gross profit is due to the termination of the Polo Ralph Lauren license agreement, with the products sold at lower prices and prudential provisions in view of a possible devaluation of the remaining warehouse stocks.

The improved efficiency in normal industrial management permitted recovering virtually all the above costs, creating the basis for long-lasting growth in industrial margin over the next years.

Commercial costs, most of which are variable, maintained the same impact on sales, despite the fact that new marketing campaigns were implemented to back up the housebrands and new licensed brands.

General and administrative expenses, increased slightly in percentage, mainly reflect the increase in certain provisions for risks.

Financial management brought a very strong reduction in financial expenses, mainly thanks to the reduced debt situation further to the listing of the Group and renegotiation of the Senior Loan at the end of the first semester 2006. This result was also aided by the improved management of translation differences and lower impact of extraordinary costs.

Therefore net income has grown considerably over 2005, reaching 3.3% of sales. This value was influenced by non-recurring costs and therefore net improvement is forecast for 2007.

Condensed balance sheet

Condensed balance sheet	December 31,	December 31,	Change
(In Euro millions)	2006	2005	
Cash in hand and at banks	43.4	173.2	(129.8)
Trade receivables, net	319.5	307.6	11.9
Inventory, net	271.6	208.8	62.8
Other current assets	48.2	34.7	13.5
Total current assets	682.7	724.3	(41.6)
Tangible assets	201.9	193.6	8.3
Intangible assets	22.3	25.6	(3.3)
Goodwill	804.9	797.7	7.2
Other non-current assets	101.8	104.6	(2.8)
Total non current assets	1,130.9	1,121.5	9.4
Total assets	1,813.6	1,845.8	(32.2)
			()
Short-term loans	99.7	184.0	(84.3)
Trade payables	228.8	192.3	36.5
Other current liabilities	94.3	103.8	(9.5)
Total current liabilities	422.8	480.1	(57.3)
Long-term loans	475.6	468.2	7.4
Employee benefit liability	41.0	39.4	1.6
Other non-current liabilities	30.0	30.9	(0.9)
Total non current liabilities	546.6	538.5	8.1
Group shareholders' equity	838.8	821.7	17.1
Minority interests	5.4	5.5	(0.1)
Total liabilities and shareholders' e	eq. 1,813.6	1,845.8	(32.2)

Financial position

Below are reported the main accounts in the cash flow statement and the net financial position at December 31^{st} , 2006, compared to the previous year:

Consolidated statement of cash flow (In Euro millions)	2006	2005	Change
Opening net cash and cash equivalents	44.5	18.2	26.4
Cash flow operating activities	6.3	31.7	(25.3)
Cash flow investing activities	(36.9)	(37.3)	0.5
Cash flow financing activities	(10.1)	36.7	(46.8)
Net effect of exchange rates	3.2	(4.6)	7.8
Closing net cash and cash equivalents	7.1	44.5	(37.5)

Net working capital

The value of working capital linked to commercial management increased by Euro 38.2 million over December 31st, 2005, slightly increasing its percentage on the year's sales.

Net working capital (In Euro millions)	2006	2005	Change	Change%
Trade receivables, net	319.5	307.6	11.9	3.9%
Inventories, net	271.6	208.8	62.8	30.1%
Trade payables	(228.8)	(192.3)	(36.5)	19.0%
Total net working capital	362.3	324.1	38.2	11.8%
% on net sales	32.3%	31.6%		

As the table shows, the increase in working capital is mainly due to the increased level of inventories of finished products. This policy was necessary to guarantee a better customer service level and in view of the increased sales recorded during 2006 and forecast for the first quarter 2007. The higher level of trade receivables is entirely due to the increased sales in the last quarter of the year.

Investments in tangible and intangible fixed assets

Investments in tangible and intangible fixed assets by the Group amount overall to Euro 42.8 million against Euro 38.6 million the previous year, and are comprised as follows:

Capex (In Euro millions)	2006	2005	Change
Italy	20.4	26.4	(6.0)
Europe	6.6	5.7	0.9
America	14.4	5.5	8.9
Far East	1.4	1.0	0.4
Corporate	-	-	-
Total	42.8	38.6	4.2

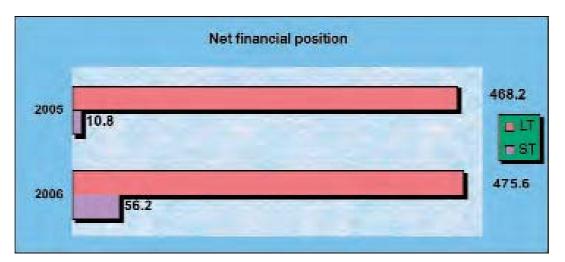
The investments in tangible and intangible fixed assets are mainly concentrated in the subsidiary Safilo S.p.a., which includes the Italian factories. These investments in 2006 concerned the renewal of the plant and equipment relating to new models. The intangible investments related mainly to software and the management of the brands in portfolio.

In relation to foreign investments, in Europe these were mainly related to the production site in Slovenia, while in the USA the expenditures mostly related to the development of the Solstice retail chain.

The difference between the cash flow for investing activities in the cash flow statement and the amount shown in the investments table is due to the fact that the cash flow statement includes financial investments, and is net of any disposals (see the notes on the financial statements for more details).

Net financial position

Net financial position (In Euro millions)	December 31, 2006	December 31, 2005	Change
Current portion of long-term borrowings	(23.6)	(135.6)	112.0
Bank overdrafts and short-term bank borrowings	(36.4)	(10.0)	(26.4)
Other short-term borrowings	(39.6)	(38.4)	(1.2)
Cash and cash equivalents	43.4	173.2	(129.8)
Short-term net financial position	(56.2)	(10.8)	(45.4)
Long-term borrowings	(475.6)	(468.2)	(7.4)
Long-term net financial position	(475.6)	(468.2)	(7.4)
Net financial position	(531.8)	(479.0)	(52.8)



Legend: LT= long-term ST= short-term

The listing of the parent company in December 2005 granted a considerable reduction in Group debts. The high cash level on December 31st, 2005 is justified by the need to repay approximately Euro 115 million to the holders of the High Yield Bond on January 13th, 2006.

In consideration of the changed financial situation, in June, 2006 the Group concluded an important restructuring operation of the debt situation, replacing the previous Senior Loan with a new contract expiring in December 2011. The pool of banks that coordinated the refinancing operation includes Banca Intesa S.p.A., Sanpaolo IMI S.p.A. and UniCredit Banca Mobiliare S.p.A.

This operation offers better conditions than the previous loan both in terms of guarantees and repayment terms, and with regards to the spreads applied to the interest parameter (EURIBOR or LIBOR), with an initial spread of 0.60% yearly with respect to the previous spread which, depending on the tranches, ranged from a minimum of 2.25% to a maximum of 3.25%.

With the proceeds from the new contract, the Group repaid the previous Senior Loan with an overall outflow of Euro 300,3 million.





Reconciliation of the parent company's shareholders' equity and net income with the consolidated balances

(In Euro millions)	Equity as of December 31, 2006	Net income/ (loss) 2006	Equity as of December 31, 2005	Net income/ (loss) 2005
Balances per Safilo Group S.p.A. statutory financial statements	829.7	15.8	813.9	(7.3)
Shareholders' equity of consolidated companies	1,411.1	104.3	1,405.9	52.7
Write-off of the book value of consolidated subsidiaries	(2,145.3)	0.6	(2,138.9)	-
Goodwill	764.4	-	761.0	-
Fair value attributable to tangible assets	10.5	(0.3)	10.7	(0.3)
Elimination of dividends paid within the Group	-	(75.2)	-	(23.3)
Elimination of intercompany gains within the Group	(15.6)	0.5	(16.1)	(10.9)
Elimination of intercompany profit included in inventory	(18.6)	(4.6)	(15.9)	(1.6)
Investments in associates - equity method	6.3	0.5	6.4	0.9
Other consolidation entries	1.7	(0.9)	0.2	(3.9)
Total shareholders' equity	844.2	40.8	827.2	6.3
Shareholders' equity attributable to minority shareholders	5.4	3.3	5.5	3.3
Total shareholders' equity attributable to the Group	838.8	37.5	821.7	3.0

Shares held by Directors and Statutory Auditors

Name and surname	Office	Company	No. of shares as of Dec 31, 2005	No. of shares purchased	No. of shares sold	No. of shares as of Dec 31, 2006	Title
Directors							
Vittorio Tabacchi	Chairman	Safilo Group S.p	.A	-	-	-	-
Giannino Lorenzon	Vice Chairman	Safilo Group S.p	.A. 2,400	27,600	-	30,000	property
Claudio Gottardi	C.E.O.	Safilo Group S.p	.A	63,100	-	63,100	property
Massimiliano Tabacchi	Co-C.E.O.	Safilo Group S.p	.A	-	-	-	-
Ennio Doris	Director	Safilo Group S.p	.A	-	-	-	-
Carlo Gilardi	Director	Safilo Group S.p	.A	-	-	-	-
Riccardo Ruggiero	Director	Safilo Group S.p	.A	-	-	-	-
Statutory auditors							
Franco Corgnati	Chairman	Safilo Group S.p	.A	-	-	-	-
Nicola Gianese	Regular auditor	Safilo Group S.p	.A	-	-	-	-
Paolo Mazzi	Regular auditor	Safilo Group S.p	.A	-	-	-	-
Managers with strat	t. resp.						
Aggregated amount	•	Safilo Group S.p	.A	3,600	-	3,600	property
Other							
Tatiana Amboni	V. Tabacchi's wife	Safilo Group S.p	.A. 3,600	33,800	-	37,400	property

Furthermore the company Only 3T. S.p.A., jointly controlled by Vittorio Tabacchi, Massimiliano Tabacchi and Samantha Tabacchi, on December $31^{\rm st}$, 2006 held no. 105,634,994 shares of Safilo Group S.p.A.

Stock option plans

On March 25th, 2003, the shareholders' meeting of Safilo Group S.p.A. approved the 2003-2007 Plan "Stock Option plans of Safilo Group S.p.A. and Safilo S.p.A. 2003-2007" (in short, 2003 Plan). In execution of the 2003 Plan, some employees and consultants of the Safilo Group were vested with exercisable options on a maximum number of 992,128 ordinary shares, redeemable in Safilo Group S.p.A.

On November 24th, 2004, the shareholders' meeting of Safilo Group S.p.A. approved the "Stock Option plans of Safilo Group S.p.A. and Safilo S.p.A. 2004-2008" (in short 2004 Plan). In execution of the 2004 Plan, some employees and consultants of the Safilo Group were vested with exercisable options on a maximum number of 1,004,079 ordinary shares redeemable in Safilo Group S.p.A.

The option rights relating to the 2003 Plan matured on March 1st, 2005, while those relating to the 2004 Plan matured on the quotation date of Public Offer, on November 21st, 2005.

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

It should be noted that the beneficiaries of the 2003 and 2004 Plans exercised the first tranche of option rights to these plans for a total of 986,813 rights, of which 755,785 relative to the first stock option plan at a price of Euro 2.5325 per share (including nominal price and share premium) and 231,028 rights relating to the second plan at a price of Euro 3.5438 per share (including nominal and share premium) totalling 3,947,252 shares with total receipts for Safilo Group S.p.A. of approximately Euro 10.9 million. The beneficiaries can exercise the remaining rights respectively on June 20th, 2007 and September 20th, 2008.

Further to mandate granted by the shareholders' meeting on October 24th, 2005, the Board of Directors of Safilo Group S.p.A. decided on May 31st, 2006, with aims of management incentive and retention, having consulted the Remuneration Committee, to increase the share capital to a nominal maximum of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares of a value of Euro 0.25 each with a share premium of Euro 4.16. These shares are open to offer for subscription by the beneficiaries of the new regulations of the "Stock Option Plan for Safilo Group S.p.A. 2006-2010" (in short 2006 Plan), approved by the Board. This plan is valid for 4 periods (2006-2010) and, like the previous ones, is addressed to certain directors, executives and consultants of the Safilo Group, and provides maturing option rights assigned at 1/4 for each year in the Plan. The criteria for maturing the options are based on reaching, in the consolidated financial statement of Safilo Group S.p.A., certain conventional consolidated EBITDA levels, fixed by the Board of Directors.

Significant events after the year-end and outlook

The first months of 2007 have confirmed the positive trend in orders and sales of the previous year, and no extraordinary costs are forecast.

These figures comfort the management as to their forecasts and expectations and to the capacity of the Group to reach even better results in 2007 than those attained in the previous year.

There have been no important events after the year-end that could have a significant effect on the data in these documents.

For the Board of Directors
The Chairman
Vittorio Tabacchi

Mundage



KAKÀ

EMPORIO ARMANI



CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31ST, 2006



Consolidated Financial Statements as of and for the years ended December 31st, 2006 and December 31st, 2005

Consolidated balance sheet

(Euro/000)	Note	31/12/2006	31/12/2005
ASSETS			
Current assets			
Cash in hand and at bank	4.1	43,433	173,232
Trade receivables, net	4.2	319,517	307,558
Inventories, net	4.3	271,573	208,802
Assets held for sale	4.4	-	2,984
Derivative financial instruments (1)	4.5	1,597	-
Other current assets (1)	4.6	46,564	31,679
Total current assets		682,684	724,255
Non-current assets			
Property, plant and equipment, net	4.7	201,951	193,603
Intangible assets	4.8	22,274	25,580
Goodwill	4.9	804,911	797,734
Investments in associates	4.10	12,535	13,492
Financial assets available-for-sale	4.11	3,472	6,009
Deferred tax assets	4.12	81,886	81,263
Derivative financial instruments (1)	4.5	1,921	2,506
Other non-current assets (1)	4.13	1,974	1,303
Total non-current assets		1,130,924	1,121,490
Total assets		1,813,608	1,845,745

⁽¹⁾ The amounts relating to financial derivative instruments are exposed in a separate line. The financial statements as at December 31st, 2005 presented for comparison purposes has been reclassified accordingly. The financial derivative instruments in the financial statements as at December 31st, 2005 were included among the "other current assets" and "other non-current assets".

Euro/000) N		31/12/2006	31/12/2005
LIABILITIES AND SHAREHOLDERS' EQUITY	,		
Current liabilities			
Short-term borrowings	4.14	99,677	184,006
Trade payables	4.15	228,802	192,286
Tax payables	4.16	20,716	20,872
Derivative financial instruments (2)	4.5	-	878
Other current liabilities (2)	4.17	72,833	82,010
Provisions for risks and charges	4.18	828	128
Total current liabilities		422,856	480,180
Non-current liabilities			
Long-term borrowings	4.14	475,583	468,242
Employee benefit liability	4.19	40,952	39,424
Provisions for risks and charges	4.18	10,478	8,644
Deferred tax liabilities	4.12	13,082	10,969
Derivative financial instruments (2)	4.5	1,336	4,509
Other non-current liabilities (2)	4.20	5,171	6,565
Total non-current liabilities	0	546,602	538,353
Total liabilities		060.459	1 010 522
Total liabilities		969,458	1,018,533
Shareholders' equity			
Share capital	4.21	70,843	70,843
Share premium reserve	4.22	751,276	751,276
Retained earnings and other reserves	4.23	(22,684)	358
Fair value and cash flow reserves	4.24	1,859	(3,899)
Profit attributable to the Group		37,467	3,097
Total shareholders' equity attributable to the	ne Group	838,761	821,675
Minority interests		5,389	5,537
Total shareholders' equity		844,150	827,212
Total liabilities and shareholders' equity		1,813,608	1,845,745

⁽²⁾ The amounts relating to financial derivative instruments are exposed in a separate line. The financial statements as at December 31st, 2005 presented for comparison purposes has been reclassified accordingly. The financial derivative instruments in the financial statements as at December 31st, 2005 were included among the "other current liabilities" and "other non-current liabilities".

Consolidated statement of operations

(Euro/000)	Note	2006	2005
Net sales	5.1	1,121,983	1,025,274
Cost of sales	5.2	(458,513)	(416,505)
0000 0. 00.00		(100/010)	(120/2007)
Gross profit		663,470	608,769
- W		(445.050)	(2=2,440)
Selling and marketing expenses	5.3	(415,258)	(379,419)
General and administrative expenses	<i>5.4</i>	(118,105)	(102,572)
Other income and expenses, net	5.5	1,467	1,069
Non recurring operating expenses	5.6	(6,000)	(9,978)
Operating profit		125,574	117,869
Share of profit (loss) of associates	<i>5.7</i>	1,513	1,532
Financial charges, net	5.8	(47,056)	(88,767)
Non recurring financial charges	5.9	(8,959)	(19,507)
Profit before taxation		71,072	11,127
Income taxes	5.10	(30,259)	(4,810)
Net profit for the year		40,813	6,317
Net profit attributable to minority interests		3,346	3,220
Net profit attributable to the Group		37,467	3,097
Earnings per share (Euro) – basic	5.11	0.13	0.02
Earnings per share (Euro) — diluted	5.11	0.13	0.02

Consolidated statement of recognised income and expense

(Euro/000)	Note	2006	2005
Profit (loss) attributable to the cash flow reserve	4.24	2,533	(2,780)
Profit (loss) attributable to the fair value reserve	4.24	1,016	(452)
Actuarial profit (loss)	4.23	2,017	(3,207)
Profit (loss) attributable to the conversion fund	4.23	(28,038)	10,153
Profit (loss) attributable to shareholders' equity	4.23	(550)	701
Total profit (loss) attributable to shareholders' equity	,	(23,022)	4,415
Net profit for the year		40,813	6,317
Total recognised profit (loss) for the year		17,791	10,732
Total recognised profit (1033) for the year		17,731	10,732
Attributable to:			
Group		14,877	7,305
Minority shareholders		2,914	3,427
Total recognised profit (loss) for the year		17,791	10,732

Consolidated statement of cash flow

(Euro/000)	31/	12/2006	31/12/2005
A - Opening not each and each o	ruivalente (not		
A - Opening net cash and cash en financial indebtedness - shor		44,546	18,191
B – Cash flow from (for) operation	a activities		
Profit (loss) for the period (inclu	_	40,813	6,317
Amortisation and depreciation	ang miloney medecata)	36,838	35,197
Stock option		527	1,714
Share income (loss) on equity in	vestments	(1,491)	(726)
Net changes in the employee be		4,622	1,605
Net changes in other provisions	,	2,444	2,232
Interest expenses		49,654	88,114
Income taxes		30,259	4,810
Profit (loss) from operating a	activities prior to the		
movements in working capit		163,666	139,263
		-	
(Increase) decrease in trade receiva		(41,021)	(28,396)
(Increase) decrease in inventorie		(68,548)	(2,314)
	ables and other current payables	18,701	31,611
Interest paid		(35,900)	(71,085)
Income taxes paid		(30,559)	(37,429)
Total (B)		6,339	31,650
C - Cash flow from (for) investm	ent activities		
Investments in tangible fixed ass	sets, net of disposals		
and depreciation fund		(35,137)	(27,737)
Acquisition of subsidiaries net of		(2,321)	-
Disposal of investments and bon		3,553	-
Net increase in intangible fixed a		(2,969)	(9,602)
Total (C)		(36,874)	(37,339)
D - Cash flow from (for) financing	ng activities		
New borrowings		320,390	24,967
Repayment of borrowings		(327,427)	(190,382)
Bank deposit for High Yield repa	yment	-	(105,000)
Bank deposit for interests on cor	nvertible bonds payment	-	(3,534)
Net increase in share capital		-	313,639
Dividends paid		(3,063)	(3,025)
Total (D)		(10,100)	36,665
E – Cash flow for the year (B+C-	-D)	(40,635)	30,976
Net effect of exchange rates		3,078	(4,621)
Total (F)		3,078	(4,621)
G - Closing net cash and cash eq	uivalents (net		
financial indebtedness - shor	=	6,989	44,546

Statement of changes in shareholders' equity

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

	Share	Share premium	Translation	Fair value and cash flow	Retained	Net	Total
(Euro/000)	capital	reserve	difference	reserve	earnings	profit	equity
Group shareholders' equity at January 1, 2006	70,843	751,276	5,208	(3,899)	(4,850)	3,097	821,675
Previous year's profit allocation	-	-	-	-	3,097	(3,097)	-
Changes in other reserves	-	-	(27,934)	5,758	1,795	-	(20,381)
2006 net profit	-	-	-	-	-	37.467	37.467
Group shareholders' equity at December 31, 2006	70,843	751,276	(22,726)	1,859	42	37,467	838,761
Minority interests at January 1, 2006	-		102	_	2,215	3,220	5,537
Previous year's profit allocation	-	-	-	-	3,220	(3,220)	-
Retained earnings	-	-	(104)	-	(327)	-	(431)
Dividends distribution	-	-	-	-	(3,063)	-	(3,063)
2006 net profit	-	-	-	-	-	3,346	3,346
Minority interests at December 31, 2006	-	-	(2)	-	2,045	3,346	5,389
Consolidated net equity at December 31, 2006	70,843	751,276	(22,728)	1,859	2,087	40,813	844,150

Consolidated balance sheet pursuant to Consob Resolution no. 15519 of July 27th, 2006

			of which related parties		of which related parties
(Euro/000)	Note	31/12/2006	(note 6)	31/12/2005	(note 6)
ASSETS					
Current assets					
Cash in hand and at bank	4.1	43,433		173,232	
Trade receivables, net	4.2	319,517	4	307,558	957
Inventories, net	4.3	271,573		208,802	
Assets available for sale	4.4	-		2,984	
Derivative financial instruments (1)	4.5	1,597		-	
Other current assets (1)	4.6	46,564		31,679	
Total current assets		682,684		724,255	
Non-current assets					
Property, plant and equipment, net	4.7	201,951		193,603	
Intangible assets	4.8	22,274		25,580	
Goodwill	4.9	804,911		797,734	
Investments in associates	4.10	12,535		13,492	
Financial assets available-for-sale	4.11	3,472		6,009	
Deferred tax assets	4.12	81,886		81,263	
Derivative financial instruments (1)	4.5	1,921		2,506	
Other non-current assets (1)	4.13	1,974		1,303	
Total non-current assets		1,130,924		1,121,490	
Total assets		1,813,608		1,845,745	

⁽¹⁾ The amounts relating to financial derivative instruments are exposed in a separate line. The financial statements as at December 31st, 2005 presented for comparison purposes has been reclassified accordingly. The financial derivative instruments in the financial statements as at December 31st, 2005 were included among the "other current assets" and "other non-current assets".

			of which related parties		of which related parties
(Euro/000)	Note	31/12/2006	(note 6)	31/12/2005	(note 6)
LIABILITIES AND SHAREHOLDERS	6' EQUITY	•			
Current liabilities					
Short-term borrowings	4.14	99,677		184,006	
Trade payables	4.15	228,802	10,360	192,286	8,555
Tax payables	4.16	20,716		20,872	
Derivative financial instruments (2)	4.5	-		878	
Other current liabilities (2)	4.17	72,833		82,010	
Provisions for risks and charges	4.18	828		128	
Total current liabilities		422,856		480,180	
Non-current liabilities					
Long-term borrowings	4.14	475,583		468,242	
Employee benefit liability	4.19	40,952		39,424	
Provisions for risks and charges	4.18	10,478		8,644	
Deferred tax liabilities	4.12	13,082		10,969	
Derivative financial instruments (2)	4.5	1,336		4,509	
Other non-current liabilities (2)	4.20	5,171		6,565	
Total non-current liabilities		546,602		538,353	
Total liabilities		969,458		1,018,533	
Shareholders' equity					
Share capital	4.21	70,843		70,843	
Share premium reserve	4.22	751,276		751,276	
Retained earnings and other reserves	4.23	(22,684)		358	
Fair value and cash flow reserves	4.24	1,859		(3,899)	
Profit attributable to the Group		37,467		3,097	
Total shareholders' equity					
attributable to the Group		838,761		821,675	
Minority interests		5,389		5,537	
Total shareholders' equity		844,150		827,212	
Total liabilities and shareholders' ed	uitv	1,813,608		1,845,745	

⁽²⁾ The amounts relating to financial derivative instruments are exposed in a separate line. The financial statements as at December 31st, 2005 presented for comparison purposes has been reclassified accordingly. The financial derivative instruments in the financial statements as at December 31st, 2005 were included among the "other current liabilities" and "other non-current liabilities".

Consolidated statements of operations pursuant to Consob Resolution no. 15519 of July 27th, 2006

			Of which related parties		Of which related parties
(Euro/000)	Note	2006	(note 6)	2005	(note 6)
Net sales	5.1	1,121,983	221	1,025,274	181
Cost of sales	5.1 5.2	(458,513)	27,192	(416,505)	20,754
		(100/0-0)	,	(/ /	
Gross profit		663,470		608,769	
Selling and marketing expenses	5.3	(415,258)		(379,419)	
General and administrative expenses	5.4	(118,105)	1,152	(102,572)	1,107
Other income and expenses, net	<i>5.5</i>	1,467	1,102	1,069	1/10/
Non recurring operating expenses	5.6	(6,000)		(9,978)	
Operating profit		125,574		117,869	
Share of profit/(loss) of associates	5.7	1,513		1,532	
Financial charges, net	5.8	(47,056)		(88,767)	
Non recurring financial charges	5.9	(8,959)		(19,507)	
Profit before taxation		71,072		11,127	
Income taxes	5.10	(30,259)		(4,810)	
Profit for the year		40,813		6,317	
Net profit attributable to minority inter	ests	3,346		3,220	
Net profit attributable to the Grou	ıp	37,467		3,097	
Earnings per share (Euro) – basic	5.11	0.13		0.02	
Earnings per share (Euro) – diluted	5.11	0.13		0.02	



1. General information

1.1 General information

Safilo Group S.p.A., holding company, is a joint stock company established in Italy in 2002 and registered with the Vicenza Companies' Register. On April 27th, 2006 the company moved its head office from Vicenza to Pieve di Cadore (Belluno) and on the same date opened a secondary branch in the offices of the subsidiary Safilo S.p.A. in Padua.

These consolidated financial statements are presented in thousands of Euro, covering the financial period from January 1^{s} , 2006 to December 31^{s} , 2006, with comparative figures for the period from January 1^{s} , 2005 to December 31^{s} , 2005.

These financial statements were approved by the Board of Directors on March 23rd, 2007.

Companies included in the consolidation area are reported in paragraph 2.3 "Consolidation method and area".

2. Summary of significant accounting policies

2.1 General information

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

Consolidated financial information reported for financial years ended December 31st, 2006 and December 31st, 2005 was prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Commission as at December 31st, 2006. The application of the accounting principles or interpretations issued by IFRIC to the financial statement at December 31st, 2006 has not had any significant impact.

Some new IFRS principles, some amendments and IFRIC interpretations have already been issued by IASB and will be effective after the approval of these consolidated financial statements, even if they can be used in advance. In particular they refer to:

- > The new IFRS 7 accounting principle financial instruments: additional information valid from January 1st, 2007;
- > The new IFRS 8 accounting principle Operational sectors: valid from January 1st, 2009;
- Complementary amendment to IAS 1 Presentation of financial statements: additional information about share capital;

The Group has decided not to apply the new accounting principles and IAS 1 amendment in advance and is currently assessing the impact that these changes could have.

The remaining accounting principles, amendments and interpretations that are applicable after the date of the financial statement are either not applicable or will not have a significant impact.

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

The consolidated financial statement was prepared in accordance with the cost criteria, except for the available for sale financial assets and some financial assets and liabilities including derivative instruments.

The preparation of the consolidated financial statements in accordance with IFRS accounting principles, requires the management to make estimates and assumptions that impact on the amounts reported in the schedules in the financial statements and the relative notes. Actual results could differ from those estimates. The financial statements areas most impacted by the above estimates and assumptions are reported in section 2.22 "Use of estimates".

2.2 Format of financial statements

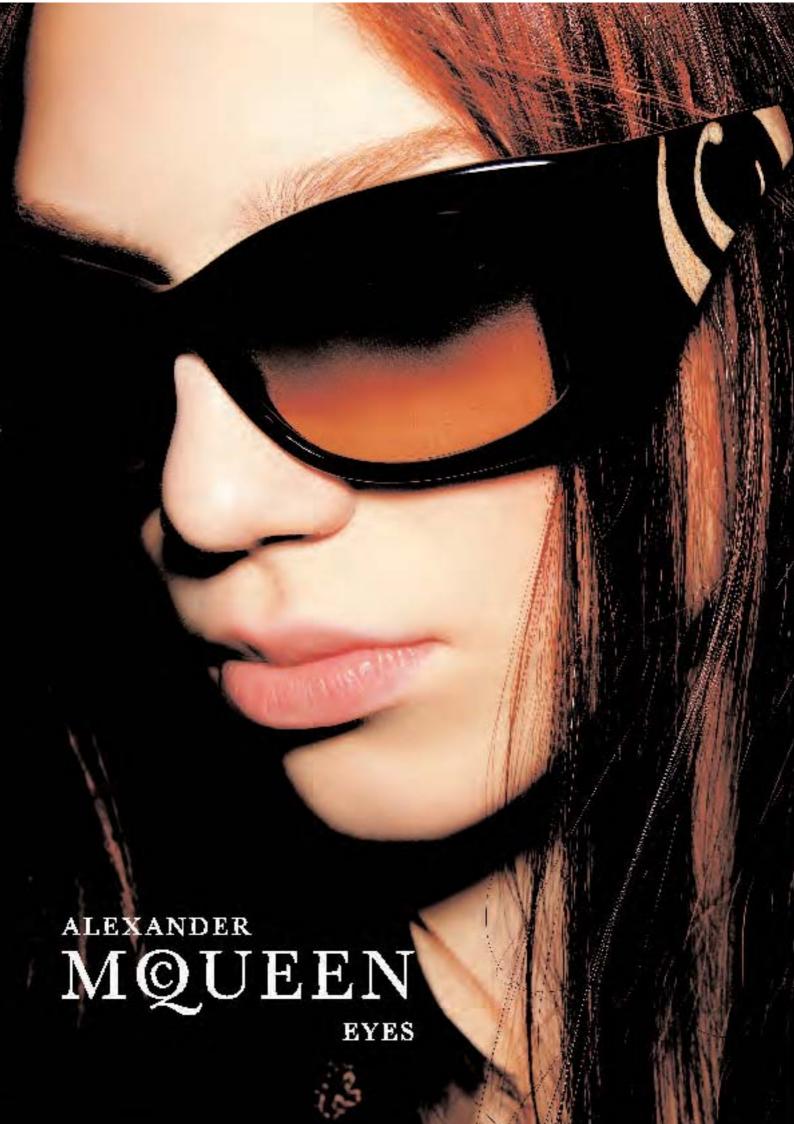
The Safilo Group presents the income statement by function (so-called "cost of sales"), which is considered the most representative with respect to presentation by expense, as it greater conforms to the internal reporting methods and business management and is in line with international practice in the eyewear field.

For the balance sheet, a distinction is made in the assets and liabilities between current and noncurrent, as described in paragraph 51 and following of IAS no. 1. For the statement of cash flows, the indirect method has been used.

2.3 Consolidation method and area

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

Safilo S.p.A Pieve di Cadore (BL)		Currency	Share capital	Share held %
Safilo S.p.A Pieve di Cadore (BL)	ITALIAN COMPANIES			
Oxsol S.p.A Pieve di Cadore (BL) EURO 500,000 75.6 Smith Sport Optics S.r.I. (in liquidation) – Padua EURO 500,000 75.6 Smith Sport Optics S.r.I. (in liquidation) – Padua EURO 102,775 100.0 FOREIGN COMPANIES Safilo International B.V Rotterdam (NL) EURO 18,200 100.0 Safilo Capital Int. S.A. – Luxembourg (L) EURO 31,000 100.0 Safilo Capital Int. S.A. – Luxembourg (L) EURO 31,000 100.0 Safilo Benelux S.A. – Zaventem (B) EURO 560,000 100.0 Safilo Benelux S.A. – Zaventem (B) EURO 390,650 100.0 Safilo Spana S.A. – Madrid (E) EURO 390,650 100.0 Safilo Smotoric A. – Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.I. – Paris (F) EURO 664,118 100.0 Safilo Mordic AB – Taby (S) SEK 500,000 100.0 Safilo Nordic AB – Taby (S) SEK 500,000 100.0 Safilo Hong-Kong Ltd – Hong Kong (RC) HKD 10,000 <		FURO	35,000,000	100.0
Lenti S.rl Bergamo				
Smith Sport Optics S.r.l. (in liquidation) - Padua EURO 102,775 100.0				
Safilo International B.V Rotterdam (NL)	5		·	
Safilo International B.V Rotterdam (NL) EURO 24,165,700 100.0 Safilic Apital Int. S.A Luxembourg (L) EURO 18,200 100.0 Safilo Capital Int. S.A Luxembourg (L) EURO 31,000 100.0 Luxury Trade S.A Luxembourg (L) EURO 1,650,000 100.0 Safilo Benelux S.A Zaventem (B) EURO 560,000 100.0 Safilo Benelux S.A Wadrid (E) EURO 390,650 100.0 Fashion Optic S.L Madrid (E) EURO 390,650 100.0 Safilo Gmbn - Cologne (D) EURO 664,118 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo Silo Grade Taby (S) SEK 500,000 100.0 Safilo Mordic AB - Taby (S) SEK 500,000 100.0 Safilo Hela Chica San Ale Taby (S) SEK 500,000 100.0 Safilo Hela San Chica Chica Chica Chica Chica Chica Chic	Siliui Sport Optics S.i.i. (iii liquidation) – Fauda	LUKU	102,773	100.0
Safint B.V Rotterdam (NL) EURO 18,200 100.0 Safilo Capital Int. S.A Luxembourg (L) EURO 31,000 100.0 Luxury Trade S.A - Luxembourg (L) EURO 1,650,000 100.0 Safilo Benelux S.A Zaventem (B) EURO 560,000 100.0 Safilo Espana S.A Madrid (E) EURO 390,650 100.0 Fashion Optic S.L Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo Gmbh - Cologne (D) EURO 511,300 100.0 Safilo Norica (AB - Taby (S) SEK 500,000 100.0 Safilo Hong-Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SSP) SGD 400				
Safilo Capital Int. S.A. – Luxembourg (L) EURO 31,000 100.0 Luxury Trade S.A. – Luxembourg (L) EURO 1,650,000 100.0 Safilo Benelux S.A Zaventem (B) EURO 390,650 100.0 Safilo Bepana S.A Madrid (E) EURO 390,650 100.0 Rashion Optic S.L Madrid (E) EURO 1,126,845 100.0 Navoptik S.L Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.I Paris (F) EURO 960,000 100.0 Safilo Gmbh - Cologne (D) EURO 511,300 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Optical Investment Ltd - Hong Kong (RC) HKD 10,000 51.0 Safilo Optical Songapore (Song) SGD 400,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Singapore Pte Ltd - Seoul (K) KRW <td></td> <td></td> <td></td> <td></td>				
Luxury Trade S.A Luxembourg (L) EURO 560,000 100.0 Safilo Benelux S.A Zaventem (B) EURO 560,000 100.0 Safilo Espana S.A Madrid (E) EURO 390,650 100.0 Fashion Optic S.L Madrid (E) EURO 1,126,845 100.0 Navoptik S.L Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo Bra Fast Ltd Hong Kong (C) EURO 511,300 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 49,700,000 100.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Soptial Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 51.0 Safilo Sewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Korea Ltd - Seoul (K) K		EURO		
Safilo Benelux S.A Zaventem (B) EURO 560,000 100.0 Safilo Espana S.A Madrid (E) EURO 390,650 100.0 Fashion Optic S.L Madrid (E) EURO 1,126,845 100.0 Navoptik S.L Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo Brah - Cologne (D) EURO 511,300 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Haria Cologo (RC) HKD 10,000 51.0 Safilo Haria Cologo (RC) HKD 10,000 51.0 Safilo Singapore Pte Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000		EURO		100.0
Safilo Espana S.A Madrid (E) EURO 390,650 100.0 Fashion Optic S.L Madrid (E) EURO 1,126,845 100.0 Navoptik S.L Madrid (E) EURO 1,126,845 100.0 Safilo France S.a.r.I - Paris (F) EURO 960,000 100.0 Safilo Grabh - Cologne (D) EURO 511,300 100.0 Safilo Far East Ltd Hong Kong (RC) HKD 49,700,000 100.0 Safilo Far East Ltd Hong Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Korea Ltd - Seval (K) KRW 300,000 100.0 Safilo Singapore (SGP) SGD 400,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 51.0 Safilo Singapore (Seppeare (Seppeare) Company Limited		EURO		100.0
Fashion Optic S.L Madrid (E) EURO 1,126,845 100.0 Navoptik S.L Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.l Paris (F) EURO 960,000 100.0 Safilo Gmbh - Cologne (D) EURO 511,300 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Hordic AB - Taby (S) SEK 500,000 100.0 Safilo Hordic AB - Taby (S) SEK 500,000 100.0 Safilo Hordic AB - Taby (S) SEK 500,000 100.0 Safilo Optical Sdn Bord - Kuala Lumpur (Mal) HKD 100,000 51.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Sewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Sewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Nederland B.V Bilthoven (NL) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO		EURO	560,000	
Navoptik S.L Madrid (E) EURO 664,118 100.0 Safilo France S.a.r.I Paris (F) EURO 960,000 100.0 Safilo Gmbh - Cologne (D) EURO 511,300 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Far East Ltd Hong Kong (RC) HKD 49,700,000 100.0 Safilo Optical Investment Ltd - Hong Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo South Sevewar (Shenzen) Company Limited USD 700,000 51.0 Safilo South Sevewar (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 51.0 Safilo Korea L		EURO	390,650	100.0
Safilo France S.a.r.l. – Paris (F) EURO 960,000 100.0 Safilo Gmbh – Cologne (D) EURO 511,300 100.0 Safilo Nordic AB – Taby (S) SEK 500,000 100.0 Safilo Far East Ltd. – Hong Kong (RC) HKD 49,700,000 100.0 Safilo Optical Investment Ltd – Hong Kong (RC) HKD 100,000 51.0 Safilo Hong-Kong Ltd – Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd – Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Pyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd – Seoul (K) KRW 300,000,000 100.0 Safilo Nederland B.V. – Bilthoven (NL) EURO 18,200 100.0 Safilo Nederland B.V. – Bilthoven (NL) EURO 18,200 100.0 Safilo Austria Gmbh – Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liqu	Fashion Optic S.L Madrid (E)	EURO	1,126,845	100.0
Safilo Gmbh - Cologne (D) EURO 511,300 100.0 Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Far East Ltd Hong Kong (RC) HKD 49,700,000 100.0 Safilo Optical Investment Ltd - Hong Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Fyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) EURO 7,630,648 100.0 <	Navoptik S.L Madrid (E)	EURO	664,118	
Safilo Nordic AB - Taby (S) SEK 500,000 100.0 Safilo Far East Ltd Hong Kong (RC) HKD 49,700,000 100.0 Safint Optical Investment Ltd - Hong Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Gybrical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Nederland B.V Bilthoven (NL) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo Austria Gmbh - Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) - Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0 Sa	Safilo France S.a.r.l. – Paris (F)	EURO	960,000	100.0
Safilo Far East Ltd Hong Kong (RC) HKD 49,700,000 100.0 Safint Optical Investment Ltd - Hong Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a Athens (GR) EURO 489,990 70.0 Safilo Hellas Ottica S.a Athens (GR) EURO 18,200 100.0 Safilo Nederland B.V Bithoven (NL) EURO 18,200 100.0 Safilo Nederland B.V Bithoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Carrera Optyl Grobh (in liquidation) - Traun (A) EURO 7,630,648 100.0 <td>Safilo Gmbh – Cologne (D)</td> <td>EURO</td> <td>511,300</td> <td></td>	Safilo Gmbh – Cologne (D)	EURO	511,300	
Safint Optical Investment Ltd - Hong Kong (RC) HKD 10,000 51.0 Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) - Traun (A) EURO 217,582 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100,000,000 100.0	Safilo Nordic AB - Taby (S)	SEK	500,000	100.0
Safilo Hong-Kong Ltd - Hong Kong (RC) HKD 100,000 51.0 Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh - Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) - Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0	Safilo Far East Ltd Hong Kong (RC)	HKD	49,700,000	100.0
Safilo Singapore Pte Ltd - Singapore (SGP) SGD 400,000 100.0 Safilo Optical Sdn Bhd - Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh - Traun (A) EURO 217,582 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo	Safint Optical Investment Ltd - Hong Kong (RC) HKD	10,000	51.0
Safilo Optical Sdn Bhd – Kuala Lumpur (MAL) MYR 100,000 100.0 Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd – Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a. – Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bithoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) - Traun (A) EURO 7,630,648 100.0 Carrera Optyl Jo.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo Portugal Lda - Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo Lyst	Safilo Hong-Kong Ltd – Hong Kong (RC)	HKD	100,000	51.0
Safilo Trading Co. Inc Shenzen (RC) CNY 2,481,000 51.0 Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd - Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) - Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG - Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo Aus	Safilo Singapore Pte Ltd - Singapore (SGP)	SGD	400,000	100.0
Safilo Eyewear (Shenzen) Company Limited USD 700,000 51.0 Safilo Korea Ltd – Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a. – Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) – Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Partnership – Sydney (AUS) AUD 3,000,000 100.0 Safi	Safilo Optical Sdn Bhd – Kuala Lumpur (MAL)	MYR	100,000	100.0
Safilo Korea Ltd – Seoul (K) KRW 300,000,000 100.0 Safilo Hellas Ottica S.a. – Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd. – Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh - Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) – Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safi	Safilo Trading Co. Inc Shenzen (RC)	CNY	2,481,000	51.0
Safilo Hellas Ottica S.a. – Athens (GR) EURO 489,990 70.0 Safilo Nederland B.V. – Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd. – Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) – Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo Australia Partnership – Sydney (AUS) AUD 3,000,000 100.0 Safilo Aust	Safilo Eyewear (Shenzen) Company Limited	USD	700,000	51.0
Safilo Nederland B.V Bilthoven (NL) EURO 18,200 100.0 Safilo South Africa (Pty) Ltd Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh - Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) - Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG - Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo Australia Partnership - Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Juk Ltd London (GB) GBP 21,139,001 100.0 Safilo	Safilo Korea Ltd – Seoul (K)	KRW	300,000,000	100.0
Safilo South Africa (Pty) Ltd. – Bryanston (ZA) ZAR 3,383 100.0 Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) – Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo Potical UK Ltd. – London (GB) GBP 21,139,001 100.0 Safilo Justralia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo With Ltd. – North Yorkshire (GB) GBP 250 100.0 Safilo Justralia Partnership – Sydney (USA) USD 8,430 100	Safilo Hellas Ottica S.a. – Athens (GR)	EURO	489,990	70.0
Safilo Austria Gmbh -Traun (A) EURO 217,582 100.0 Carrera Optyl Gmbh (in liquidation) – Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo WK Ltd London (GB) GBP 21,139,001 100.0 Safilo WK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo WK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo USA Inc Ne	Safilo Nederland B.V Bilthoven (NL)	EURO	18,200	100.0
Carrera Optyl Gmbh (in liquidation) – Traun (A) EURO 7,630,648 100.0 Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Pty Ltd Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo WL Ltd London (GB) GBP 21,139,001 100.0 Safilo UK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 10 100.0 Safilo Realty Corp D	Safilo South Africa (Pty) Ltd. – Bryanston (ZA)	ZAR	3,383	100.0
Carrera Optyl D.o.o Ormoz (SLO) SIT 135,101,000 100.0 Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG - Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safilo Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Ltda - London (GB) GBP 21,139,001 100.0 Safilo UK	Safilo Austria Gmbh -Traun (A)	EURO	217,582	100.0
Safilo Japan Co Ltd - Tokyo (J) JPY 100.000.000 100.0 Safilo Do Brasil Ltda - San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda - Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG - Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Lyt Ltd London (GB) GBP 21,139,001 100.0 Safilo UK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 23,289 100.0 FTL Corp Delaware (USA) USD 10,000 100.0 Safilo Services LLC - New Jersey (USA) USD - 100.0 Safilo Services LLC - New Jersey (USA) USD 12,162 100.0 Smith Sport Optics Inc Idaho (USA) <	Carrera Optyl Gmbh (in liquidation) – Traun (A)	EURO	7,630,648	100.0
Safilo Do Brasil Ltda – San Paolo (BR) BRL 8,077,500 100.0 Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo LUK Ltd London (GB) GBP 21,139,001 100.0 Safilo UK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 23,289 100.0 FTL Corp Delaware (USA) USD 10,000 100.0 Safilo Realty Corp Delaware (USA) USD - 100.0 Safilo Services LLC - New Jersey (USA) USD 12,162 100.0 Smith Sport Optics Inc Idaho (USA)	Carrera Optyl D.o.o Ormoz (SLO)	SIT	135,101,000	100.0
Safilo Portugal Lda – Lisbon (P) EURO 500,000 100.0 Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership – Sydney (AUS) AUD 204,081 61.0 Safilo Optical UK Ltd. – London (GB) GBP 21,139,001 100.0 Safilo UK Ltd. – North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 23,289 100.0 FTL Corp Delaware (USA) USD 10,000 100.0 Safilo Realty Corp Delaware (USA) USD 10,000 100.0 Safilo Services LLC - New Jersey (USA) USD - 100.0 Smith Sport Optics Inc Idaho (USA) USD 12,162 100.0 Solstice Marketing Corp Delaware (USA) USD - 100.0 Solstice Marketing Concepts LLC - Delaware (USA) USD - 100.0 2844-2580 Quebe	Safilo Japan Co Ltd - Tokyo (J)	JPY	100.000.000	100.0
Safilo Switzerland AG – Liestal (CH) CHF 1,000,000 77.0 Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safilo Optical UK Ltd London (GB) GBP 21,139,001 100.0 Safilo UK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 23,289 100.0 FTL Corp Delaware (USA) USD 10,000 100.0 Safilo Realty Corp Delaware (USA) USD 10,000 100.0 Safilo Services LLC - New Jersey (USA) USD - 100.0 Smith Sport Optics Inc Idaho (USA) USD 12,162 100.0 Solstice Marketing Corp Delaware (USA) USD - 100.0 Solstice Marketing Concepts LLC - Delaware	Safilo Do Brasil Ltda – San Paolo (BR)	BRL	8,077,500	100.0
Safilo India Ltd - Bombay (IND) INR 42,000,000 88.5 Safint Australia Pty Ltd Sydney (AUS) AUD 3,000,000 100.0 Safilo Australia Partnership - Sydney (AUS) AUD 204,081 61.0 Safint Optical UK Ltd London (GB) GBP 21,139,001 100.0 Safilo UK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 23,289 100.0 FTL Corp Delaware (USA) USD 10,000 100.0 Safilo Realty Corp Delaware (USA) USD 10,000 100.0 Safilo Services LLC - New Jersey (USA) USD - 100.0 Smith Sport Optics Inc Idaho (USA) USD 12,162 100.0 Solstice Marketing Corp Delaware (USA) USD 1,000 100.0 Solstice Marketing Concepts LLC - Delaware (USA) USD - 100.0 2844-2580 Quebec Inc Montreal (CAN) CAD 100,000 100.0	Safilo Portugal Lda – Lisbon (P)	EURO	500,000	100.0
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Safint Optical UK Ltd London (GB) GBP 21,139,001 100.0 Safilo UK Ltd North Yorkshire (GB) GBP 250 100.0 Safilo America Inc Delaware (USA) USD 8,430 100.0 Safilo USA Inc New Jersey (USA) USD 23,289 100.0 FTL Corp Delaware (USA) USD 10 100.0 Safilo Realty Corp Delaware (USA) USD 10,000 100.0 Safilo Services LLC - New Jersey (USA) USD - 100.0 Smith Sport Optics Inc Idaho (USA) USD 12,162 100.0 Solstice Marketing Corp Delaware (USA) USD 1,000 100.0 Solstice Marketing Concepts LLC - Delaware (USA) USD - 100.0 2844-2580 Quebec Inc Montreal (CAN) CAD 100,000 100.0	Safint Australia Pty Ltd Sydney (AUS)	AUD	3,000,000	100.0
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Safilo Realty Corp Delaware (USA) Safilo Services LLC - New Jersey (USA) Smith Sport Optics Inc Idaho (USA) Solstice Marketing Corp Delaware (USA) Solstice Marketing Concepts LLC - Delaware (USA) Solstice Marketing Concepts LLC - Delaware (USA) 2844-2580 Quebec Inc Montreal (CAN) USD 10,000 100.0 100.0 100.0	Safilo USA Inc New Jersey (USA)	USD	23,289	100.0
Safilo Services LLC - New Jersey (USA) USD - 100.0 Smith Sport Optics Inc Idaho (USA) USD 12,162 100.0 Solstice Marketing Corp Delaware (USA) USD 1,000 100.0 Solstice Marketing Concepts LLC - Delaware (USA) USD - 100.0 2844-2580 Quebec Inc Montreal (CAN) CAD 100,000 100.0	FTL Corp Delaware (USA)	USD	10	100.0
Smith Sport Optics Inc Idaho (USA)USD12,162100.0Solstice Marketing Corp Delaware (USA)USD1,000100.0Solstice Marketing Concepts LLC - Delaware (USA)USD-100.02844-2580 Quebec Inc Montreal (CAN)CAD100,000100.0	Safilo Realty Corp Delaware (USA)	USD	10,000	100.0
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Solstice Marketing Concepts LLC – Delaware (USA) USD - 100.0 2844-2580 Quebec Inc. – Montreal (CAN) CAD 100,000 100.0				
2844-2580 Quebec Inc. – Montreal (CAN) CAD 100,000 100.0			-	
		-	100,000	
Canam Sport Eyewear Inc Montreal (CAN) CAD 300,011 100.0				



Investments in subsidiaries

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

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

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

The accounting principles used by the subsidiaries have been amended where necessary to adjust them to those adopted by the parent company.

Investments in associates

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

2.4 Segment information

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

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

2.5 Translation of financial statements in currencies other than Euro

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

- > The assets and liabilities were translated using the exchange rate at the balance sheet date;
- > The costs, revenues, income and charges were translated using the average exchange rate for the year;
- > The "conversion reserve" includes foreign exchange differences generated from the translation of the opening shareholders' equity and the movements during the year at a rate different than that at the balance sheet date;
- > The goodwill and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

The exchange rates applied in the conversion of financial statements of companies prepared in currency other than Euro at December 31st, 2006 and December 31st, 2005 were as follows:

	Year end December	Year end December	Average 2006	Average 2005
	31, 2006	31, 2005		
USD	1.3170	1.1797	1.2554	1.2441
HKD	10.2409	9.1474	9.7544	9.6768
CHF	1.6069	1,5551	1.5729	1.5483
CAD	1.5281	1.3725	1.4237	1.5079
JPY	156.9300	138.9000	146.0153	136.8492
GBP	0.6715	0.6853	0.6817	0.6836
SEK	9.0404	9.3885	9.2549	9.2822
AUD	1.6691	1.6109	1.6668	1.6327
ZAR	9.2124	7.4642	8.5402	7.9191
SIT	239.6400	239.5000	239.5961	239.5681
BRL	2.8133	2.7432	2.7331	3.0346
IND	58.2975	53.1679	56.9098	54.8365
SGD	2.0202	1.9628	1.9938	2.0702
MYR	4.6490	4.4584	4.6040	4.7567
CNY	10.2793	9.5204	10.0096	10.1983
KRW	1,224.8100	1,195.1831	1,214.6900	1,273.4000

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

2.6 Tangible fixed assets

Tangible fixed assets are measured at purchase or production cost, net of accumulated depreciation and of possible loss in value. The cost includes all charges directly incurred in bringing assets to their current location and condition. Costs incurred after the purchase are recorded only if they increase the future economic benefits of the asset they refer to. Interest charges relating to the construction of tangible fixed assets are charged directly to the income statement.

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

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

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

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

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

Buildings 20- 33 years

Plant, machinery & equipment 5 - 15 years

Furniture, EDP and motor vehicles 4 - 8 years

Land is not depreciated.

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

The remaining value of the tangible fixed assets and their useful life are reviewed at the end of each financial year. The capital gains or losses from the sale of the assets are posted to the income statement.

2.7 Intangible fixed assets

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

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

Goodwill

Goodwill represents the excess of the purchase cost compared to the fair value of the share of equity in the subsidiary or associated company at the purchase date, or of the business unit acquired. The goodwill deriving from the purchase of subsidiaries is recorded under intangible assets, while that deriving from the purchase of associated companies is included in the investments in associated companies. Goodwill is not amortised, but is subject to an impairment test on an annual basis to ascertain if there is any loss in value.

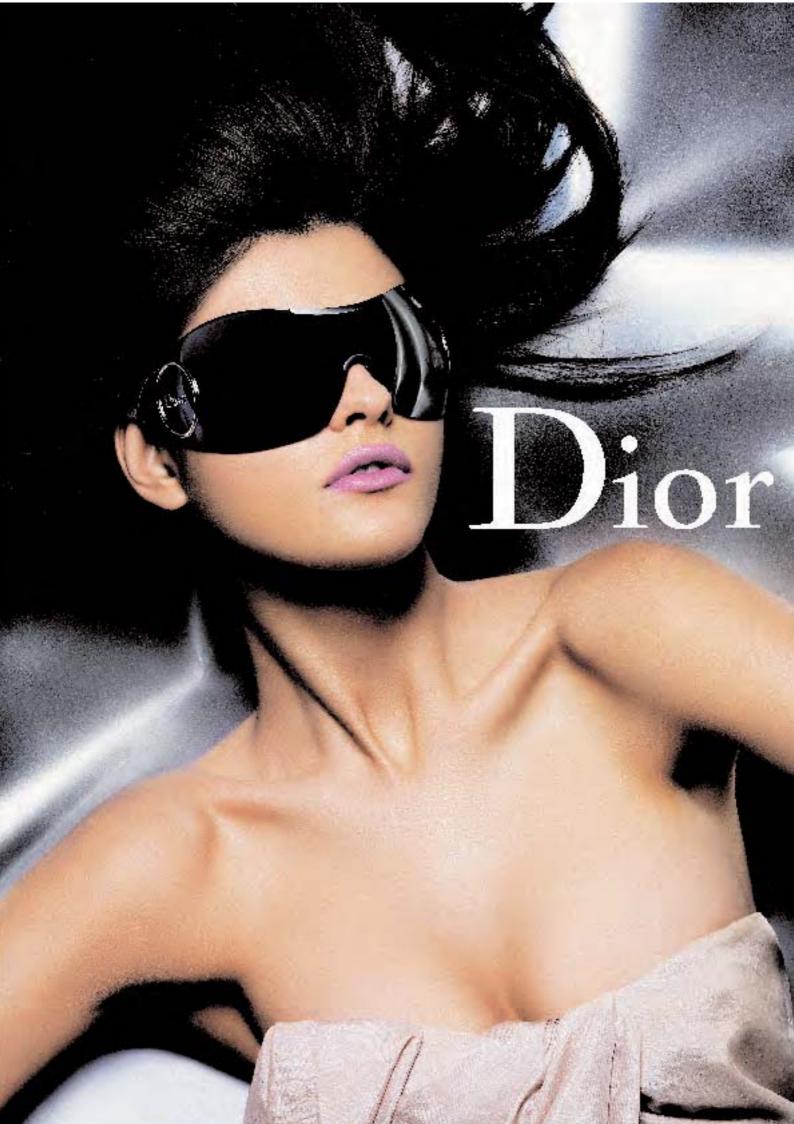
Trademarks and licences

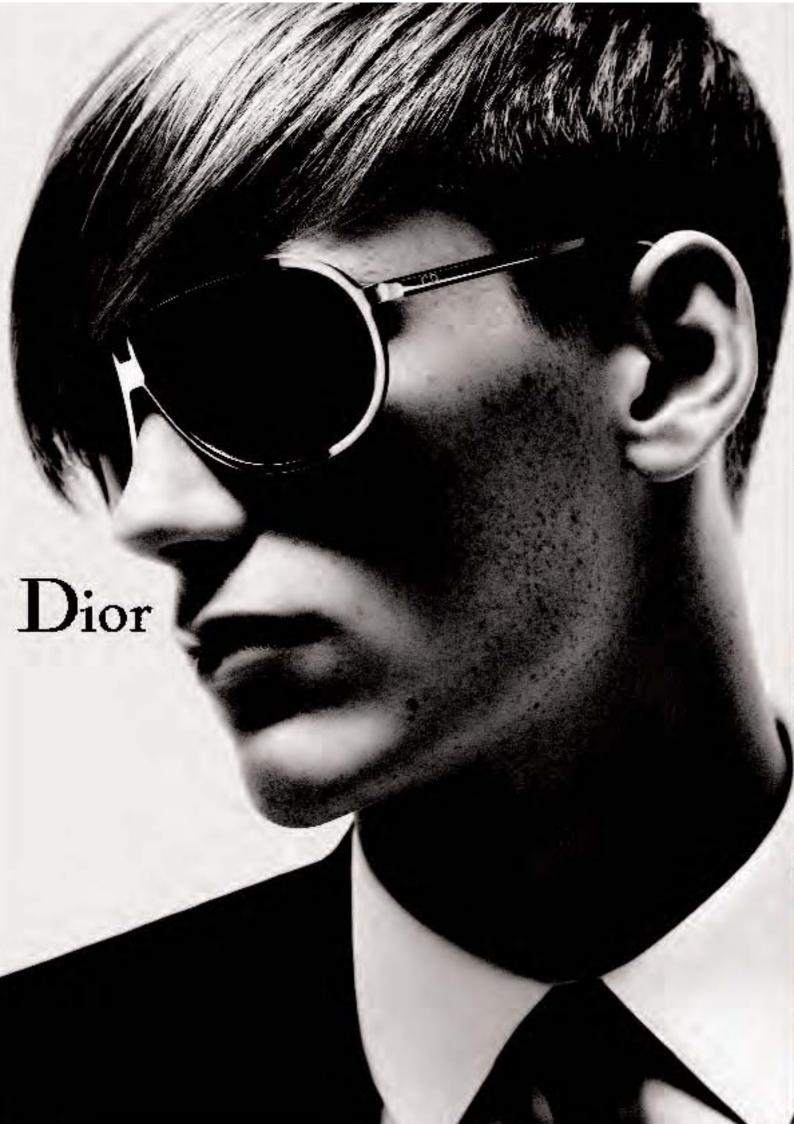
Trademarks and licences are recorded at cost. They have a finite useful life and are recorded at cost net of accumulated amortisation. The amortisation is calculated on a straight-line basis allocating the cost of trademarks and licences over the duration of the relative contracts and the relative useful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

Software

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

The costs associated with the development and maintenance of software programs are posted to the income statement when incurred. The costs which are directly associated with the production of unique and identifiable software products controlled by the Group and which generate future economic benefits beyond one year are recorded as intangible fixed assets if the following conditions





are respected: the costs can be reliably calculated; the Group has the technical and financial resources to complete these products and intends completing the same; the technical feasibility of the product is guaranteed and the use of the products will generate probable future economic benefits beyond one year.

The direct costs include the costs relating to employees developing the software as well as any appropriate share of general costs.

2.8 Assets held for sale

These include non-current assets (or groups of assets held for sale) whose book value is recoverable mainly through sale rather than continued use. The assets available for sale are measured at the lower between their purchase cost, net of accumulated depreciation, and the current value less costs to sell.

2.9 Impairment of non financial assets

Assets with an indefinite useful life are not subject to amortisation but undergo an impairment test at least on an annual basis to control where their book value has been reduced.

Assets subject to amortisation undergo impairment tests when events or circumstances arise that indicate that the book value cannot be recovered. In both cases the loss in value is posted for the book value that exceeds the recoverable value. This value is given by the greater between the fair value of the asset net of the costs for sale and its value for use. If the value for use of an asset cannot be established individually, the recoverable value must be established of the unit that generates cash flow (so-called "cash generating units" or CGU) that the asset is part of. The assets are regrouped at the lowest level that there are independent cash flows for and the Group will then calculate the current value of the estimated future cash flows for the CGU, gross of taxes, applying a before tax discount rate, that reflects the current market evaluations of the long term value of the cash and specific risks with the asset.

When a loss on an asset, other than goodwill, no longer exists or is reduced, the book value of the asset or cash-generating unit is increased to the new estimated recoverable value, which cannot exceed the value that would have been established if there had been no loss due to reduction in value.

A reversal of loss in value is recorded in the income statement as provided by the value calculation model of IAS no. 16.

2.10 Financial instruments

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

Financial assets

The financial assets are classified into the following categories:

- Financial assets measured at fair value through income statement: this category includes the financial assets acquired principally for sale in the short-term or those designated as such by management, in addition to derivative instruments unless they are not designated as hedges (in relation to the treatment of derivatives, reference should be made to the following paragraph). The fair value of these instruments is determined with reference to the market value (offer price) at the balance sheet date; in case of non-quoted instruments they are determined through technical financial valuation methods commonly used. The fair value changes of the instruments belonging to this category are recognised in the income statement. The financial instruments in this category are classified as short-term if they are "held for trading" or if it is expected that they will be sold within 12 months from the balance sheet date. The only assets of this category held by the Group and recorded in the financial statement are the derivative financial instruments.
- Loans and receivables: they are non-derivative financial instruments, with fixed or determinable payments, not quoted in an active market. They are stated as current assets except for amounts due beyond 12 months from the balance sheet date. These latter are classified under non-current assets. These assets are measured at amortised cost on the basis of the effective interest rate. Any loss in value determined through an impairment test is recognised in the income statement. In particular, trade receivables are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. An allowance for doubtful accounts is made when there is evidence that the Group will not be capable of receiving the original amount due. The provisions made are recorded in the income statement.
- Investments held to maturity: they are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the full intention and capacity to maintain until maturity. The receivables and investments held to maturity are measured under the amortised cost method using the effective interest rate net of any writedowns for loss in value. The Group did not hold this type of investment in the period reported on.
- Financial assets available for sale: they are non-derivative financial instruments that are explicitly designated in this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording the changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or, in the case of negative cumulative changes, when it is considered that the reduction in value already recorded under equity cannot be recovered. The classification as a current or non-current asset depends on the intentions of management and of the real liquidity of the security; they are recorded under current assets when they are expected to be realised within 12 months.

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

Loans

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

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

The loans are removed from the balance sheet when they expire and the Group has transferred all the risks and benefits relating to the instruments.

Derivative instruments

In accordance with IAS 39 as approved by the European Commission, the derivative financial instruments used by the Group with the intention of hedging in order to reduce the foreign currency and interest rate risk, can be recorded according to the "hedge accounting" methodology only when:

- > At the beginning of the hedge, a formal designation and documentation relating to the hedge exists,
- > It is presumed that the hedge is highly effective,
- > The effectiveness can be reliably measured and the hedge is highly effective over the accounting periods for which it was designated.

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

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

If the *hedge accounting* can be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognised in the income statement.

2.11 Inventories

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

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

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

2.12 Trade receivables

Trade receivables are classified in the financial statements at their current value and then recalculated using the amortised cost method net of any write-downs for loss in value. An allowance for doubtful accounts is made when there is evidence that the Group will not be capable of receiving the original amount due. The provisions made are recorded in the income statement.

The Group operates with transferring commercial credits to factoring companies. However as said credits, even when they are legally transferred, do not respect all the provisions of the IAS 39, paragraph 17 and following for removal from the balance sheet, they are kept in the financial statement posting a financial debt to the factoring company as a counterbalance. In particular, despite the fact the commercial credits are transferred to the factoring company, the benefits and risks are still maintained on them. The guarantee that is supplied to the concessionaire is represented by the excess clause in the contract whereby, up to preset amount, the factoring company does not recognise the insolvency that is claimed by the Group and, therefore, up to the said present amount, the risk of insolvency of the transferred debtor effectively lies with the Safilo Group.

2.13 Cash in hand and at bank

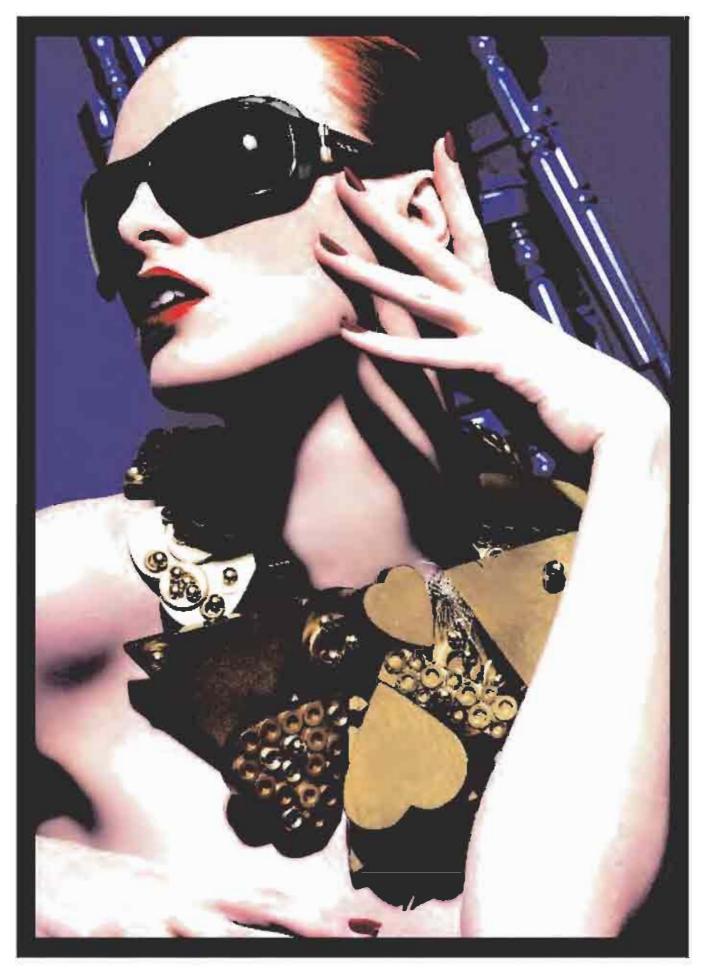
Cash and cash equivalents include cash, bank deposits on demand, other highly liquid short-term investments available at three months from purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recorded in the income statement. Bank overdrafts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

2.14 Employee benefits

Pension plans

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





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

The obligation of the company to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent consultants using the projected unit credit method. The related costs are recorded in the income statement on the basis of the estimated employment period of employees. The company does not suspend actuarial gains or losses further to applying the projected unit credit method, but records them in an equity reserve in the period in which they arise.

Remuneration plans under the form of share capital participation

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

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

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

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

2.15 Provisions for risks and charges

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

2.16 Revenue recognition

The revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognises the revenues from the sale of goods sold at the shipment date, when all the risks and rewards relating to the ownership of the goods have been transferred to the client, or on delivery to the client, in accordance with the sales terms agreed. If the sale includes the right for the client to return unsold goods (generally these clauses are only applied in the United

States), the revenue is recognised on the shipment to the client date, net of a provision which represents the best estimate of the products to be returned by the client and which the Group will no longer be able to place on the market. This provision is based on specific historical data and on the specific knowledge of the clients; historically there have not been significant differences between the estimates made and the products actually returned.

2.17 Public contributions

The Group recognises public contributions when there is reasonable certainty that they will be received and that the conditions required for the contribution have been or will be respected. The contributions received are recorded in the income statement for the time required to relate them to the relative costs and they are considered as deferred income.

2.18 Royalties

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

2.19 Dividends

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

2.20 Income taxes

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

The deferred taxes are calculated on fiscal losses that can be carried forward and all the timing differences between the assessable income of an asset or liability and the relative book value, with the exception of those differences deriving from investments in subsidiaries for which a cancellation is not expected in the foreseeable future. The deferred tax assets are recognised only for those amounts for which it is probable there will be future assessable income to recover the amounts.

The current deferred tax assets and liabilities are compensated when the income tax is applied by the same fiscal authority and when there is a legal right of compensation. The deferred tax assets and liabilities are determined with the fiscal rates that are expected to be applied, in accordance with the regulations of the countries in which the Group operates, in the years in which the temporary differences will be realised or extinguished.

2.21 Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit or loss of the Group, adjusted by the

quota attributable to the preference shareholders, by the weighed average number of ordinary shares outstanding during the year, excluding treasury shares.

Diluted

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

2.22 Use of estimates

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

- Goodwill: in accordance with the accounting standards adopted for the preparation of the financial statements, the company annually verifies the goodwill in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the verification results in the determination of the fair value allocated to the financial cash-generating units. This value is determined according to their current value in use. The allocation of the goodwill to the cash-generating units and the determination of their value requires estimates which depend on factors that may change over time with consequent effects, which may be significant, compared to the valuations made by the Directors.
- Write-down of fixed assets: in accordance with the accounting standards applied by the Group, the fixed assets are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the above-mentioned difficulties requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is determined that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential loss in value as well as the estimates for the determination depends on factors which may vary over time, impacting upon the valuations and estimates made by the Directors.

> Deferred taxes: the accounting of the deferred tax assets is made on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred taxes depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.

2.23 Estimates of the fair value

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

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

- > The fair value of the interest rate swaps is calculated on the basis of the current value of the future cash flows;
- > The fair value of the forward currency hedging contracts is determined on the basis of the current value of the differences between the contracted forward exchange rate and the spot market rate at the balance sheet date;
- > The fair value of the advanced repayment option included in the bond issued by the subsidiary Capital International S.A. is valued using models applied by primary financial institutions;
- > The fair value of the stock option is calculated using the Black & Scholes model.

3. Financial risks

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

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

Market risks

The market risks can be divided into the following categories:

Exchange risk

The Group operates at international level and is therefore exposed to exchange rate risks, especially in relation to the US dollar as a large part of sales are made in the USA. The Group has constantly attempted to reduce the impact from the movements in the US dollar by procuring suppliers in areas where it is possible to buy in US dollars. For transactions not covered by purchases in US dollars, the Group uses hedging instruments such as forward foreign currency contracts on US dollars. The information on the fair value and accounts methods for the derivative financial instruments is given in the notes to the financial statements.

Changes in fair value risk

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

Interest rate risk

The debt to the banking system exposes the Group to the risk of changes in interest rates. In particular, variable rate loans create a risk of changes in cash flow, while those at fixed rate create a potential variation in the fair value of the loans.

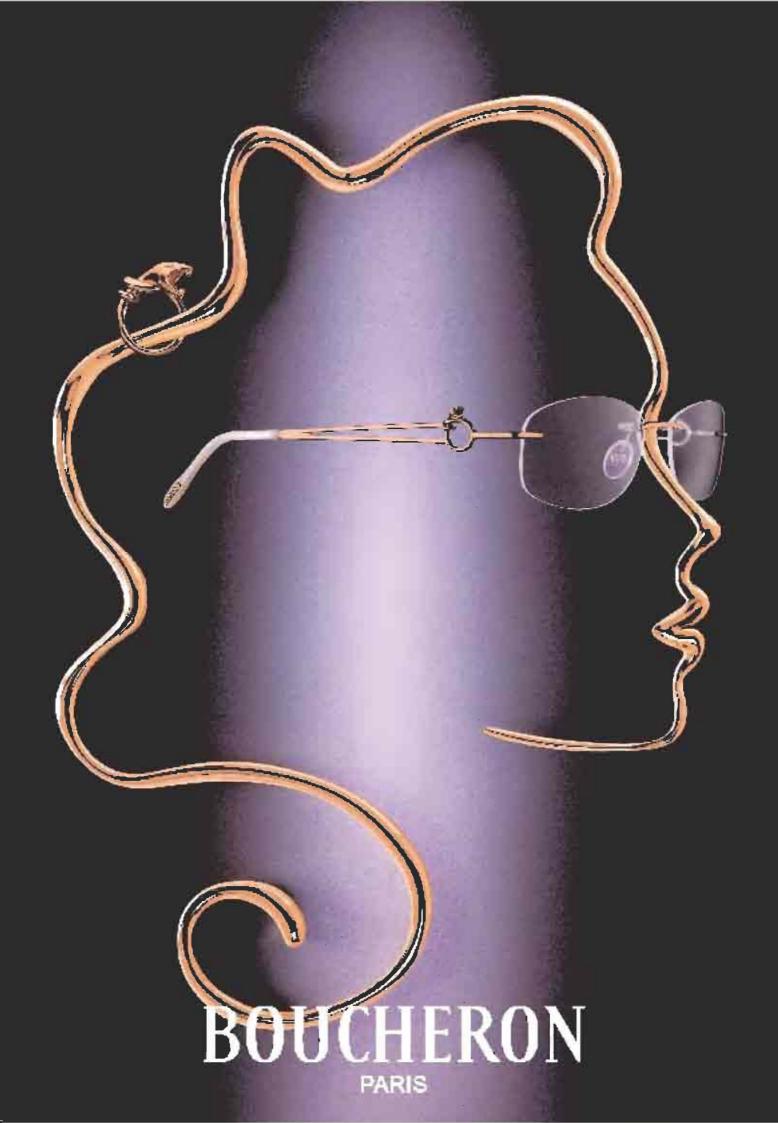
The Group assesses on a regular basis its risk to exposure to changes in interest rates and manages this risk through recourse to derivative financial instruments called interest rate swaps (IRS), which are used exclusively to hedge the cash flows. The counterparts are primary financial institutions and for the contracts in question, at the beginning of the hedge operation, there is the formal designation and documentation relative to the hedge. We should underline that the Group does not use financial instruments for speculative purposes.

Credit risk

The Group strives to reduce as far as possible the risk relating to the insolvency of its customers through rules that ensure the sales are made to customers who are reliable and solvent. These rules, based on information about the customers' solvency and historical data, are associated with exposure limits of individual clients, and permit a reduced concentration of the receivable and therefore minimises the retained risk. The credit risk is divided over a high number of counterparts and clients.

Cash flow risk

This risk could generate the inability to find the necessary financial resources at good terms to back up the operating activities in the right time. The cash flows, needs for finance and liquidity of the company are constantly monitored at central level by Group treasury, to guarantee effective and efficient management of the financial resources.



4. Notes on the consolidated balance sheet

4.1 Cash in hand and at bank

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

The important decrease compared to the previous year is due to the use during 2006 of the liquidity deriving from the stock exchange listing of the parent company, for:

- > the repayment of 35% of the bond (High Yield) for nominal Euro 105,000 thousand issued during 2003 by the Luxembourg subsidiary Safilo Capital International S.A., and for the payment of the higher charges on advanced repayment for an amount of Euro 10,106 thousand;
- > the payment of the costs relating to the IPO process;
- > the payment of Euro 3,534 thousand for interest on the Convertible Bond issued by the parent company and converted on December 9th, 2005.

The non-recurring operating and financial events in the income statement had an impact on the net financial position for Euro 16,692 thousand.

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

(Euro/000)	December 31, 2006	December 31, 2005
	42,422	472.222
Cash in hand and at bank	43,433	173,232
Bank overdrafts and short-term loans	(36,444)	(10,046)
Bank deposit for interests on C. B. payment	-	(3,534)
Bank deposit for High Yield reimbursement	-	(115,106)
Total	6,989	44,546

4.2. Trade receivables, net

The account is comprised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
Gross value Allowance for doubtful accounts	342,485 (22,968)	328,928 (21,370)
Net value	319,517	307,558

At constant exchange rates, the net trade receivables increased by Euro 20,505 thousand due in particular to the increase in sales in the fourth quarter of 2006 (+12.0%) 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.

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

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

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

(Euro/000)	Balance at January, 1 2005	Posted to income statement	Use	Translation difference	Balance at December 31, 2005
Allowance for doubtful acc. Sales return provision	13,894 6,481	1,904 7,660	(3,750) (6,311)	438 1,054	12,486 8,884
Total	20,375	9,564	(10,061)	1,492	21,370

(Euro/000)	Balance at January, 1 2006	Posted to income statement	Use	Translation difference	Balance at December 31, 2006
Allowance for doubtful acc. Sales return provision	12,486 8,884	4,356 8,011	(1,977) (7,663)	(182) (947)	14,683 8,285
Total	21,370	12,367	(9,640)	(1,129)	22,968

4.3 Inventories

This account is comprised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
Raw materials	50,491	43,784
Work in progress	7,868	8,123
Finished products	235,482	176,272
Gross	293,841	228,179
Obsolescence provision (-)	(22,268)	(19,377)
Total	271,573	208,802

The growth in raw materials is directly related to the increased production levels in the Group factories and is aimed at supporting the forecast increase on internal production.

The increase in finished products compared to the previous year is further to sales policies aimed at improving the customer service levels. The development of the Solstice chain stores and the acquisition of the Spanish chain Loop have helped increase the value of finished product stock.

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

The movements in the obsolescence provision are as follows:

(Euro/000)	Balance at January 1, 2005	Posted to income statement	Translation difference	Balance at December 31, 2005
Obsolescence provision	14,572	3,256	1,549	19,377
Total	14,572	3,256	1,549	19,377
(Euro/000)	Balance at January 1, 2006	Posted to income statement	Translation difference	Balance at December 31, 2006
Obsolescence provision	19,377	4,321	(1,430)	22,268
	19,377	4,321	(1,430)	22,268

The high posting was due to the prudential valuation of the risk of obsolescence of finished "Polo Ralph Lauren" products, which may be sold, further to the licence contract in being, until June 30th, 2007.

4.4 Assets held for sale

At December 31st, 2005, the 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 time period. The sale took place during the second quarter of 2006 with a capital gain of Euro 272 thousand.



4.5 Derivative financial instruments

The following table gives a summary of the derivative financial instruments in the balance sheet:

(Euro/000)	December 31, 2006	December 31, 2005
Current assets:		
- Forward contracts in currency	1,205	-
- Interest rate swaps - cash flow hedge	266	-
- Interest rate swaps - at fair value through income statement	126	-
Total	1,597	-
Non-current assets:		
- Interest rate swaps - cash flow hedge	361	1,238
- Options	1,560	1,268
Total	1,921	2,506
Current liabilities:		
- Forward contracts in currency	-	878
- Interest rate swaps - at fair value through income statement	-	-
Total	-	878
Non-current liabilities:		
- Interest rate swaps - cash flow hedge	-	4,509
- Interest rate swaps - at fair value through income statement	1,336	-
Total	1,336	4,509

Below is a summary of the features and fair values of the forward contracts in currency in being on December 31st, 2006 and December 31st, 2005:

	December Contract	31, 2006	December 3 Contract	31, 2005	
Forward contracts	countervalue	Fair value	countervalue	Fair value	
	(USD/000)	(Euro/000)	(USD/000)	(Euro/000)	
Expiry 2006	-	-	\$34,000	(878)	
Expiry 2007	\$39,000	1,205	-	-	
Total	39,000	1,205	34,000	(878)	

The gains and losses directly posted to shareholders' equity at the end of a financial period are then posted to the income statement when the hedge contract is closed.

Below is a summary of the features and fair values of the interest rate swap contracts in being on December 31st, 2006 and December 31st, 2005:

Interest rate swaps	December Contract	31, 2006	December Contract	31, 2005
(Euro/000)	countervalue	Fair value	countervalue	Fair value
Expiry 2007	170,361	392	191,614	537
Expiry 2010	25,000	(522)	25,000	(1,681)
Expiry 2011	85,000	(453)	25,000	(2,127)
Total	280,361	(583)	241,614	(3,271)

The market value of the interest rate swaps contracts is calculated by specialised financial institutions on the basis of normal market conditions.

Further to the refinancing operation which was concluded on June 26th, 2006 (see note 4.14 for more details), some of the interest rate swaps contracts, initially designated to hedge the cash flows derived from the previous Senior Loan, took on a different function. In particular, some interest rate swaps contracts have been reallocated by the Group to hedge the cash flow from the new financing operation.

The derivative financial instruments which are no longer used for hedging have been reclassified from "interest rate swaps – cash flow hedge" to "interest rate swaps – fair value recorded in the income statement", with allocation of the variation in fair value between the financial income/charges instead of to the shareholders' equity.

The non-current assets include the fair value of the advance repayment option included in the bond issued by the subsidiary Safilo Capital International S.A.. The valuation was made using the models applied by primary financial institutions, recognising a fair value to the option of Euro 1,560 thousand.

4.6 Other current assets

The account is comprised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
VAT receivables	9,218	5,208
Tax credits and payments on account	9,515	11,454
Prepayments and accrued income	7,505	5,281
Receivables from agents	4,483	4,943
Other receivables	15,843	4,793
Total	46,564	31,679

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

Prepayments and accrued income at December 31st, 2006 amount to Euro 7,505 thousand against Euro 5,281 thousand at December 31st, 2005 and include:

- > prepaid advertising costs of Euro 2,268 thousand;
- > prepaid insurance premiums of Euro 263 thousand;
- > prepaid rent and operating leases of Euro 1,181 thousand;
- > prepaid costs for the part of the financing operation called "Revolving Facility" for Euro 1,451 thousand;
- > other prepaid costs, mainly of commercial nature, for Euro 2,342 thousand.

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

The other short-term receivables refer to:

- > advance royalties payments relative to 2007 for Euro 11,779 thousand;
- > insurance repayments and other receivables in the financial statements of some companies of the Group.

4.7 Tangible fixed assets

Below are the changes in the tangible fixed assets for the periods closed on December 31^{st} , 2005 and December 31^{st} , 2006:

(Euro/000)	Balance at January 1, 2005	Increases	Decreases	Reclass.	New acquisition	Translation difference	Balance at December 31, 2005
Gross value							
Land and buildings	109,527	4,510	(1,025)	(5,444)		535	108,103
Plant and machinery	151,195	6,989	(2,061)	(, ,		413	156,536
Equipment and other assets	105,784	18,339	(2,038)			4,540	126,625
Plant under construction	3,542	1,493	-	(2,268)		64	2,831
Total	370,048	31,331	(5,124)	(7,712)	-	5,552	394,095
Accumulated depreciation							
Land and buildings	20,472	3,440	(249)	(2,460)		99	21,302
Plant and machinery	80,406	11,265	(1,651)			172	90,192
Equipment and other assets	73, 4 02	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

(Euro/000)	Balance at January 1, 2006	Increases	Decreases	Reclass.	New acquisition	Translation difference	Balance at December 31, 2006
Gross value							
Land and buildings	108,103	2,555	(165)	(1,277)		(433)	108,783
Plant and machinery	156,536	8,256	(1,308)	319		(397)	163,406
Equipment and other assets	126,625	25,347	(4,547)		10,998	(4,561)	153,862
Plant under construction	2,831	4,441		(1,197)		(56)	6,019
Total	394,095	40,599	(6,020)	(2,155)	10,998	(5,447)	432,070
Accumulated depreciation	1						
Land and buildings	21,302	3,242	(38)	(1,277)		(117)	23,112
Plant and machinery	90,192	11,621	(1,085)	78		(183)	100,623
Equipment and other assets	88,998	15,673	(3,374)		7,524	(2,437)	106,384
Total	200,492	30,536	(4,497)	(1,199)	7,524	(2,737)	230,119
Net book value	193,603	10,063	(1,523)	(956)	3,474	(2,710)	201,951

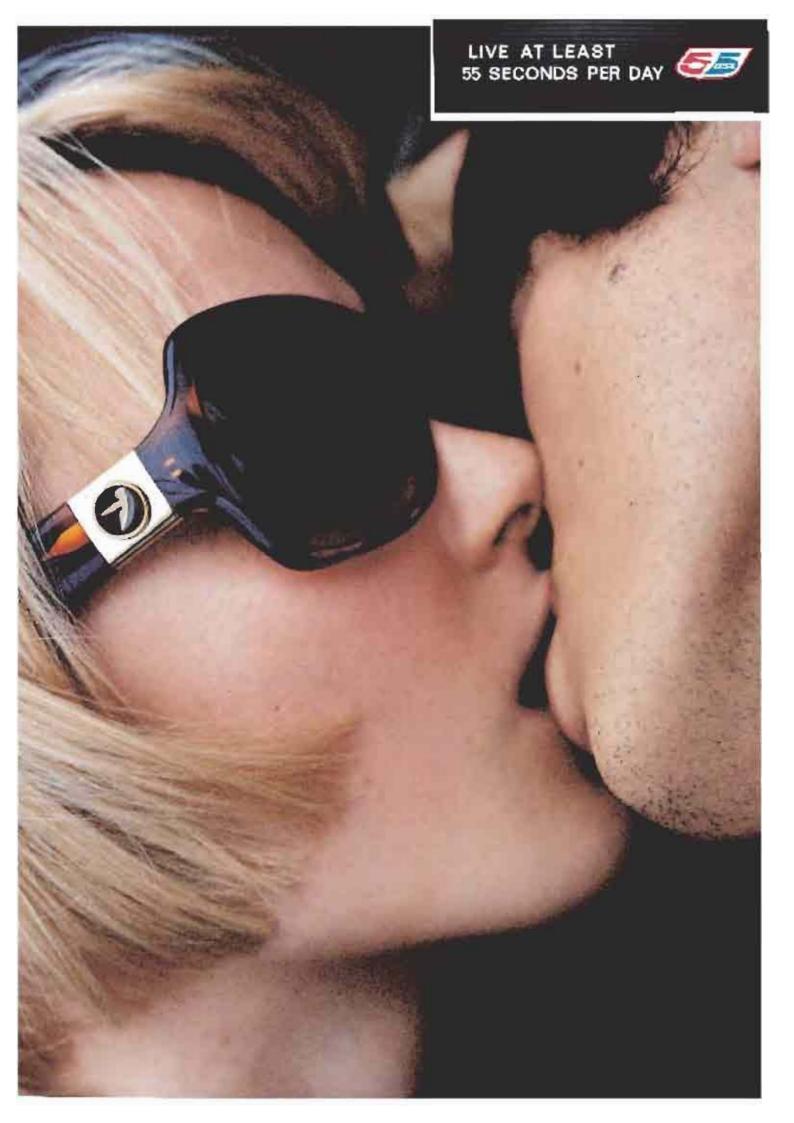
Investments in tangible and intangible fixed assets are mainly concentrated in the subsidiary Safilo S.p.A., which the Italian factories report to. These investments in 2006 were addressed mainly to renewing the plant and equipment for the new models. Investments in intangible fixed assets mainly referred to software and managing the brand portfolio.

The foreign investments were mainly addressed to managing the factory of the Slovenian subsidiary, and in the United States for the development of the Solstice chain stores.

Some of the Group companies have tangible fixed assets in leasing. The following table shows the gross value and the related accumulated depreciation fund, while the information related to the leasing contracts is given in paragraph 4.14 "Payables to banks and loans".

(Euro/000)	December 31, 2006	December 31, 2005
Land and buildings	14.261	14.261
Land and buildings	14,261	14,261
Accumulated depreciation (-)	(573)	(230)
Net book value	13,688	14,031
Plant and machinery	3,248	3,248
Accumulated depreciation (-)	(1,931)	(1,499)
Net book value	1,317	1,749
Equipment and other assets	635	555
Accumulated depreciation (-)	(286)	(285)
Net book value	349	270
Net book value	15,354	16,050





4.8 Intangible fixed assets

Below are the changes in the intangible fixed assets for the periods closed on December 31^{st} , 2005 and December 31^{st} , 2006:

(Euro/000)	Balance at January 1, 2005	Increases	Decreases and write- downs	Other changes	Translation difference	Balance at December 31, 2005
Gross value						
Software	6,972	1,709	(739)	-	197	8,139
Trademarks and licences	33,826	7,618	-	-	65	41,509
Other intangible fixed assets	6,404	416	_	_	342	7,162
Intangible fixed assets in progress	162	-	-	(141)	12	33
Total	47,364	9,743	(739)	(141)	616	56,843
Accumulated amortisation						
Software	5,257	1,304	(739)	-	120	5,942
Trademarks and licences	14,818	3,986	-	-	14	18,818
Other intangible fixed assets	6,063	288	-	-	152	6,503
Total	26,138	5,578	(739)		- 286	31,263
Net book value	21,226	4,165	-	(141)	330	25,580

(Euro/000)	Balance at January 1, 2006	Increases	Decreases and write- downs	Other changes	Translation difference	Balance at December 31, 2006
Gross value						
Software	8,139	2,264	(19)	308	(170)	10,522
Trademarks and licences	41,509	367	-	33	(52)	41,857
Other intangible fixed assets	7,162	753	(2,014)	686	(174)	6,413
Intangible fixed assets in progress	33	-	(16)	-	(2)	15
Total	56,843	3,384	(2,049)	1,027	(398)	58,807
Accumulated amortisation						
Software	5,942	1,592	(19)	287	(108)	7,694
Trademarks and licences	18,818	4,268	-	19	(39)	23,066
Other intangible fixed assets	6,503	442	(1,616)	537	(93)	5,773
Total	31,263	6,302	(1,635)	843	(240)	36,533
Net book value	25,580	(2,918)	(414)	184	(158)	22,274

Amortisation and depreciation costs related to tangible and intangible fixed assets for the 2006 and 2005 financial years are divided in these income statement lines:

(Euro/000)	note	2006	2005
Cost of sales	<i>5.2</i>	20,126	25,382
Sales and marketing costs	5.3	3,227	2,545
General and administrative costs	<i>5.4</i>	13,485	7,270
Net book value		36,838	35,197

4.9 Goodwill

(Euro/000)	Balance at January 1, 2005	Increase/ decrease	Translation difference	Balance at December 31, 2005
Goodwill	795,774	-	1,960	797,734
Net book value	795,774	-	1,960	797,734
(Euro/000)	Balance at January 1, 2006	Increase/ decrease	Translation difference	Balance at December 31, 2006
(Euro/000) Goodwill	January 1,	•		December 31,

The changes in goodwill with respect to the previous year refer to the purchase of the Loop Vision chain stores and the exchange rate differences; reference should be made to the paragraph "enterprise groups" for more details about the acquisition.

For impairment tests, the Group has identified its cash-generating units (CGUs), that substantially match with the entities operating in each country.

Goodwill divided by groups of CGUs is as follows:

Goodwill				
	Italy and	America	Asia	Total
(Euro/000)	Europe			
December 31, 2006	296,666	230,771	277,474	804,911
December 31, 2005	270,349	234,410	292,976	797,734

The recoverable amount of the CGUs is based on their value of use determined on estimated cash flow projections. This computation derives from five-year financial budgets, approved by management considering its expectations for market and Group development. To determine the terminal value, the cash flow projections that were obtained were actualised at a discount rate that considers the specific nature and risks of each area where the Group operates.

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

Key assumptions	"WACC" discount rate		Growth rate "g"	
	2006	2005	2006	2005
Euro area	6.4%	6.5%	1.0%	1.0%
USA area	7.2%	7.5%	1.0%	1.0%
Far East area	8.5%	8.8%	2.6%	2.0%
Australia	8.3%	8.3%	1.0%	1.0%
Japan	4.4%	4.7%	1.0%	1.0%
South Africa	10.4%	10.4%	4.5%	4.7%
India	11.1%	11.7%	5.0%	3.6%
Brazil	12.4%	13.2%	4.0%	4.9%

Enterprise groups

On November 9th, 2006 the Group took over the Loop Vision chain stores, with 63 stores throughout Spain. The overall cost for the purchase by the Group company Safint B.V. is Euro 2,721 thousand (including accessory costs) for the purchase of 100% of the shares of the Luxembourg company Luxury Trade S.A., which holds the entire capital of the Spanish trading company Fashion Optic S.A. which, in turn, holds 100% of the shares in the trading company Navoptik S.A.

The transaction was posted using the acquisition method, and the difference between the purchase price and the fair value of the purchased net assets was entirely allocated to goodwill. In accordance with the provisions of IFRS n. 3, paragraph 62, the initial value for the enterprise group was determined temporarily, determining just the fair value to assign to the assets, liabilities and potential liabilities in the acquired companies. The adjustments of these provisional values, in accordance with paragraph 62 above, will be determined within twelve months from the date of acquisition.

The assets and liabilities acquired on November 9th, 2006 are as follows:

Acquired assets and liabilities	Fair value
Cash in hand and at banks	400
Trade receivables, net	431
Stock	4,173
Other current assets	466
Net tangible fixed assets	3,474
Net intangible fixed assets	184
Other non-current assets	1,215
Trade payables	(10,735)
Other current liabilities	(3,414)
Long-term loans	(20,170)
Provisions for risks	(142)
Total net assets	(24,118)
Goodwill	26,839
Price paid	2,721

Goodwill is entirely attributable to the excess income that is expected from distributing Group products through the retail chains and from the synergies that will result from the grouping. The goodwill was submitted to impairment test on both the date of purchase and at the end of the financial year, and further to the test no needs emerged to account for any reduction in value.

Despite the fact the transaction took place near to the end of the period, it was considered best to consolidate the costs and income of the companies for the period between the purchase date of the subsidiaries and the end of the 2006 financial year. Since the purchase date, there has been net sales of Euro 3.642 thousand and a loss of Euro 565 thousand. If the acquisition had been made on January 1st, 2006 the Group net sales would have been higher by Euro 21,923 thousand, and the net profit for the year lower by Euro 4,502 thousand.

No acquisitions were made in the previous financial year.

4.10 Investments in associates

Investments in associated companies refer to:

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

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

(Euro/000)	Gross value	Revaluation (write-down)	Value at December	s for the year Share of results and write-down of divid. of assoc. comp.	Translation difference	Value at December 31, 2006
TBR Inc. Elegance Ltd Optifashion As	437 5,406 353	456 6,887 (47)	893 12,293 306	146 434 (104)	(100) (1,333)	939 11,394 202
Total	6,196	7,296	13,492	476	(1,433)	12,535

There were no new acquisitions in associated companies in 2006. The changes compared to December 31st, 2005 are principally due to the gains realised in the year, net of dividends distributed. The table below shows the principal data relating to the last approved financial statements of the above-mentioned companies:

December 31, 20	05						
(Euro/000)	Assets	Liabilities	Net equity	Net sales	Profit (loss)	% Group	Group net equity
Elegance Ltd Optifashion As TBR Inc.	66,254 613 5,396	14,671 170 2,717	51,583 443 2,679	41,902 1,161 1,107	3,684 85 368	23.05% 50.00% 33.33%	11,889 222 893
Total	72,263	17,558	54,706	44,170	4,137		13,004
December 31, 20					D (1)	24.0	
December 31, 20((Euro/000))	06 Assets	Liabilities	Net equity	Net sales	Profit (loss)	% Group	Group net equity
		17,337 87 2,435				% Group 23.05% 50.00% 33.33%	•

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

4.11 Financial assets available for sale

This account represents the financial assets which may be sold. They are measured at fair value with the fair value reserve of the shareholders' equity as counterbalance. With reference to Banca Popolare Italiana S.p.A. and Unicredit S.p.A., the value is determined referring to the prices quoted on the official markets on the balance sheet date.

(Euro/000)	Relationship	Value at December 31, 2006	Value at December 31, 2005
Banca Popolare Italiana S.p.A.	Other equity investment	3,238	5,589
Safilens Srl	Other equity investment	-	209
Unicredit S.p.A.	Other equity investment	191	168
Others	Other equity investment	43	43
Total		3,472	6,009

The movements in the above assets were as follows:

 (Euro/000)	Gross Value	31.12.2005 Revaluation (write-down)	Value at Dec, 31 2005	Movements fo Incr./Decr.		Value at Dec, 31 2006
Banca Pop. Italiana S.p.A.	10,198	(4,609)	5,589	(3,343)	992	3,238
Safilens Srl	209	-	209	(209)	-	-
Unicredit S.p.A.	48	120	168	-	23	191
Others	43	-	43	-	-	43
Total	10,498	(4,489)	6,009	(3,552)	1,015	3,472

In April 2006 the investment in Safilens S.r.l., recorded in the financial statement at 31.12.2005 for a value of Euro 209 thousand, was sold for Euro 66 thousand.

Also during 2006, the subsidiary Safilo S.p.A. sold no. 446,500 of the 746,250 shares of the investment in Banca Popolare Italiana with a corresponding income, net of costs and bank charges, of Euro 4,368 thousand.

4.12 Deferred tax assets and deferred tax liabilities

(Euro/000)	2006	2005
Deferred tax assets		
- recoverable within 1 year	27,998	24,257
- recoverable beyond 1 year	53,888	57,006
Total	81,886	81,263
Deferred tax liabilities		
- recoverable within 1 year	2,199	533
- recoverable beyond 1 year	10,883	10,436
Total	13,082	10,969
Net position	68,804	70,294

Deferred tax assets

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

		impa	ct on			
	lance at nuary 1, 2006	Income statement	Equity	Credits/debts due to Group tax consolidation		Balance at December 31, 2006
Fiscal losses ICO profit on inventories	36.642	2,082	-	(1,890)	-	36,834
and obsol.	15,866	4,801	-	-	(1,921)	18,747
Receivables adjustments	5,641	1,320	-	-	(390)	6,571
Contingent liabilities	2,278	(318)	-	-	(16)	1,944
Employee benefit liability	2,101	61	(994)	-	(32)	1,136
Intangible fixed assets	6,804	(1,852)	-	-	(2)	4,950
IPO costs	5,972	-	-	-	-	5,972
Tangible fixed assets	(1,190)	2,214	-	-	52	1,077
Unrealised exchange diff.	2,150	(1,989)	-	-	-	160
Derivative instruments fair value	1,369	(229)	(1,140)	-	-	-
Equity investments	513	(130)	-	-	(39)	344
Goodwill amortisation	1,609	221	-	-	(84)	1,746
Other payables	(57)	722	-	-	-	666
Other temporary changes	1,565	48	441	-	(314)	1,741
Total	81,263	6,950	(1,692)	(1,890)	(2,745)	81,886

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

Financial year	Expiring date	Tax losses (Euro/000)	Def. taxes (Euro/000)
2003	2008	1,711	565
2004	2009	30,602	10,099
2005	2010	74,785	24,679
2006	2011	4,519	1,491
Total		111,617	36,834

Deferred tax liabilities

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

The most important line item included in deferred tax liabilities principally derives from the different calculation of the depreciation for the financial statements of Safilo S.p.A. compared to the depreciation computed for fiscal purposes. In particular, in 2003 the estimates of the useful life of some assets were revised with particular reference to plant and machinery. The effects of this revision, both for fiscal purposes and for Italian Accounting Standards purposes, were adjusted in 2003, while in compliance with IFRS 1, paragraph 7, they were calculated as if the assets were always depreciated in accordance with the re-determined useful life.

	_	impact	on	_	
	Balance at				Balance at
	January 1,	Income		Translation	December 31,
(Euro/000)	2006	statement	Equity	difference	2006
Tangible assets					
depreciation differences	6,230	(562)	_	(139)	5,529
Goodwill	1,959	662	_	(133)	2,625
Equity investments	1,650	56	_	(175)	1,532
Derivative instruments fair value	418	(248)	179	(1/3)	349
		, ,	1/9	_	462
Dividends	99	363	-	-	
Translation difference	-	1,388	-	-	1,388
Other temporary differences	613	387	262	(65)	1,197
Total	10,969	2,046	441	(375)	13,082

4.13 Other non-current assets

At December 31st, 2006 the other non-current assets amount to Euro 1,974 thousand and mainly refer to down payments and other long-term receivables in the balance sheets of the Group companies. The increase compared to the previous year is mainly due to down payments for rental contracts for the stores of the new Spanish subsidiary Navoptik.

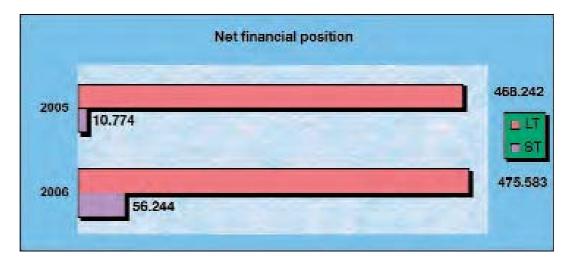
4.14 Payables to banks and loans

The account is comprised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
Payables to banks and short-term loans		
Bank overdrafts	6,631	5,046
Short-term bank loans	29,813	5,000
Short-term portion of long-term bank loans	22,523	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 lo	oans 1,121	3,944
Other short-term loans	39,589	28,296
Total current liabilities	99,677	184,006
Payables to banks and medium and long-term loar	ns 465,103	456,763
Payables for financial leasing	9,708	10,616
Other medium long-term loans	772	863
Total non-current liabilities	475,583	468,242
Total homovines and book large	F7F 260	CF2 240
Total borrowings and bank loans	575,260	652,248

The net financial position of the Group on December 31^{st} , 2006 compared to December 31^{st} , 2005 is as follows:

(Euro/000)	December 31, 2006	December 31, 2005	Change
Current portion of medium long-term loans	(23,644)	(135,558)	111,914
Short term bank borrowings	(36,444)	(10,046)	(26,398)
Other short-term loans and financial borrow	vings (39,589)	(38,402)	(1,187)
Cash in hand and at bank (-)	43,433	173,232	(129,799)
Short-term net financial position	(56,244)	(10,774)	(45,470)
Medium long-term borrowings	(475,583)	(468,242)	(7,341)
Net financial position	(531,827)	(479,016)	(52,811)



Legend: LT= long-term ST= short-term

As already stated in the management report, on June 26th, 2006 the Group completed an important financing operation by signing a new contract to replace the Senior Loan issued in 2002. The banking pool that coordinated the refinancing operation is formed of Banca Intesa S.p.A., Sanpaolo IMI S.p.A. and UniCredit Banca Mobiliare S.p.A.

On December 31st, 2006 the new loan showed a short-term portion of Euro 18,886 thousand, a portion of Euro 272,301 thousand included in medium long-term borrowings, expires on December 31st, 2011 and is divided in the following credit lines:

- Euro 200 million, for "Facility A", with six monthly amortisation starting from December 2006 until December 2011. Facility A is in turn divided in three tranches, one in Euro (tranche A1, for nominal Euro 80 million) at Euribor rate plus a spread of 0.60%; and two in US dollars (Tranche A2 and Tranche A3, for nominal USD 70.4 million and USD 80.5 million respectively) at Libor rate plus a spread of 0.60%.
- Euro 200 million for the "Revolving Facility" formed of two tranches which can also be paid in US dollars (Tranche B1 for nominal Euro 170 million, Tranche B2 for nominal Euro 30 million) used at December $31^{\rm st}$, 2006 for Euro 110 million.

This operation offers better conditions than the previous loan both in terms of guarantees and repayment terms, and with regards to the margins applied to the interest parameter (EURIBOR or LIBOR), with an initial spread of 0.60% yearly with respect to the previous spread which, depending on the tranches, ranged from a minimum of 2.25% to a maximum of 3.25%.

With the income from the new contract, the Group repaid the previous Senior Loan with an overall payment of Euro 300,340 thousand. The settlement of the loan brought about posting non-recurring financial charges to the income statement for an overall amount of Euro 7,749 thousand further to speeding up amortisation of the charges relative to the extinguished loan, and Euro 1,210 thousand for the fair value of the interest rate swaps contracts, that were not addressed to hedge cash flows from the new loan (see note 4.5 for further details).

The agreements relative to loans granted to some companies of the Group by Banca Intesa S.p.A., San Paolo IMI S.p.A. and UniCredit Banca Mobiliare S.p.A. include a series of operational and

financial obligations. In particular, predefined levels must be respected relative to certain covenants, which are calculated on the basis of figures at the balance sheet date on a half-year basis. If these covenants are not respected, conditions will be negotiated with the lenders to be able to continue with the loan agreement, or rather the opportune waivers or adjustment changes to the covenants. Otherwise, there is risk of an event of default which could result in the forced advanced repayment of the loaned sums.

The covenants in the current medium long-term loan contract are calculated as the ratio between the net financial position and EBITDA and between EBITDA and the relative financial interests.

With regards to the High Yield bond, the short-term portion at December 31st, 2005 was repaid on January 13th, 2006 by the Luxembourg subsidiary Safilo Capital International S.A. for 35% of the nominal value of Euro 300 million. The outstanding portion of the bond of nominal Euro 195 million is included in the account medium long-term borrowings. The debt for advance payment of the High Yield bond in the balance sheet at December 31st, 2005 refers to the additional charges paid in January 2006 to the bondholders further to the above advance repayment.

The above loans are valued with the amortised cost method and are mainly guaranteed by security on shares in Safilo S.p.A. and guarantees from the directly financed companies.

The expiry dates for the medium and long-term loans are as follows:

(Euro/000)	December 31, 2006	December 31, 2005
Within 2 years	38,693	30,464
Within 3 years	39,656	33,564
Within 4 years	39,822	20,471
Within 5 years	163,739	131,068
Beyond 5 years	193,673	252,675
Total	475,583	468,242

Below the bank loans and borrowings is given divided by currency:

(Euro/000)	December 31, 2006	December 31, 2005
Short term		
Euro	84,857	162,641
US Dollars	11,160	19,205
Brasilian Real	2,265	-
Hong Kong Dollars	1,395	2,160
Total	99,677	184,006
Medium long-term		
Euro	383,359	402,980
US Dollars	90,950	65,262
Yen	1,274	-
Total	475,583	468,242
Total borrowings	575,260	652,248

The following table shows the bank credit lines granted to the Group, the usage and credit lines available on December 31st, 2006, net of factoring and leasing operations:

	Credit lines	Uses	Credit lines
(Euro/000)	granted		available
Credit lines on bank accounts and short-term bank loans	149,540	34,179	115,361
Credit lines on long-term bank loans	391,687	301,687	90,000
Total	541,227	335,866	205,361

Below is a summary of the main features of the more significant medium long-term borrowings in being on December 31^{st} , 2006 and December 31^{st} , 2005:

December 31, 2006					
(Euro/000)		Nominal interest rate	Internal interest rate	Current value	Expiry
Facility A1 Facility A2 Facility A3	EURO USD USD	Euribor + 0.60% Libor + 0.60% Libor + 0.60%	4.8704% 6.6615% 6.4706%	79,078 47,522 54,588	31/12/2011 31/12/2011 31/12/2011
Revolving facility	EURO	Euribor +0.60%	4.4094%	110,000	31/12/2011
High Yield	EURO	9.625%	10.6887%	215,381	15/05/2013

December 31, 2005					
(Euro/000)		Nominal interest rate	Internal interest rate	Current value	Expiry
Senior Loan - Term B Senior Loan - Term C Senior Loan - Term A1 - T2 Senior Loan - Term A2	EURO EURO USD USD	Euribor + 2.75% Euribor + 3.25% Libor + 2.25% Libor + 2.25%	6.2402% 6.7288% 8.4636% 8.2889%	134,400 61,226 40,670 45,890	31/12/2010 31/12/2011 31/12/2009 31/12/2009
Capex line Capex line	EURO EURO	Euribor + 2.50% Euribor + 2.50%	4.6460% 4.6426%	7,000 14,000	31/12/2009 31/12/2009
High Yield	EURO	9.625%	10.6887%	337,013	15/05/2013
Loan in YEN	YEN	Tibor + 0.54%	Γibor + 0.54%	2,148	27/03/2006

The current value of the loans is represented by the remaining nominal value at the balance sheet date, except for the High Yield loan which has the current value represented by the market value on December 31*, 2006.

The debts for financial leasing refer to tangible fixed assets purchased through leasing contracts by some companies of the Group. The residual life of the leasing contracts is around 8.5 years. All the leasing contracts in being at the date of this report should be repaid through a constant instalment plan and no changes are forecast to the original plan.

The following table shows the short-term shares and medium long-term shares relative to financial leasing contracts in being on December 31st, 2006:

(Euro/000)	December 31, 2006	December 31, 2005
Financial leasing payables (short-term share) Financial leasing payables (long-term share)	1,121 9,708	3,436 10,616
Total payables	10,829	14,052

Some companies in the Group have stipulated operational leasing contracts. The relative instalments are recorded in the income statement under "Cost of sales" (note 5.2), "Selling and marketing expenses" (note 5.3) and "General and administrative costs" (note 5.4).

The other medium and long-term loans mainly refer to a loan granted to the subsidiary Safilo S.p.A. valid under law 46/82 at a rate of 0.705%.

With regards to bank borrowings and short-term loans, it is noteworthy to be mentioned that the account "Other short-term loans" includes Euro 38,096 thousand for a payable to a primary factoring company derived from a contract stipulated by the subsidiary Safilo S.p.A.

4.15 Trade payables

The account is comprised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
Trade payables for:		
Purchase of raw materials	51,295	42,098
Purchase of finished products and subcontractors	93,438	71,299
Commissions and royalties	25,524	26,725
Advertising and promotional costs	24,058	20,309
Services	30,575	28,556
Purchase of fixed assets	3,912	3,299
Total	228,802	192,286

The increase in trade payables for "purchases of raw materials" reflects the higher internal production levels; the increase in "purchase of finished products and subcontractors" reflects the greater supplies of finished products to back up the sales in the last quarter of the financial year and to increase warehouse stocks in view of the forecast increase in sales in 2007.

4.16 Tax payables

Tax payables at December 31^{s} , 2006 amount to Euro 20,716 thousand and refer for Euro 10,363 thousand to income taxes for the year, for Euro 3,008 thousand to VAT payables and for the remainder to advanced and various tax liabilities and local taxes. The accrual for current income taxes is disclosed in the note relative to income taxes (5.10).

4.17 Other short-term liabilities

The account is comprised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
Payables to personnel and social security institutions	32,064	44,921
Provision for credit notes and premiums	20,541	17,195
Payables to agents	2,202	2,962
Accrued advertising & sponsorship costs	520	2,746
Accrued interest on long term payables	7,302	3,628
Other accruals and deferred income	3,314	2,897
Payables to minority shareholders for dividends	3,553	2,170
Payable for interest on the convertible bond	-	3,534
Other current liabilities	3,337	1,957
Total	72,833	82,010

Payables to personnel and social security institutions principally refer to salaries and wages for December and for holidays matured and not taken.

Payables to minority shareholders refer to dividends approved by the Shareholders' Meetings and not paid on the balance sheet date.

4.18 Provisions for risks and charges

The account is comprised as follows:

(Euro/000)	Balance at January 1, 2005	Increases	Decreases	New acquisition	Translation difference	Balance at December 31, 2005
Product guarantee provision	3,119	312	(312)	_	_	3,119
Agent's indemnity provision	2,861	416	(116)	-	3	3,119
Litigation	2,001	2,000	(110)		J -	2,000
Other provisions for risks and charges	376	191	(251)	-	45	361
Provisions for risks - long term	6,356	2,919	(679)	-	48	8,644
Provisions for risks - short term	136	-	(8)	-	-	128
Total	6,492	2,919	(687)		48	8,772

(Euro/000)	Balance at January 1, 2006	Increases	Decreases	New acquisition	Translation difference	Balance at December 31, 2006
Product guarantee provision	3,119	682	-	-	-	3,801
Agent's indemnity provision	3,164	612	(87)	-	-	3,689
Litigation	2,000	-	(812)	-	-	1,188
Other provisions for risks and charges	361	1,373	-	117	(51)	1,800
Provisions for risks - long term	8,644	2,667	(899)	117	(51)	10,478
Provisions for risks - short term	128	675	-	25	-	828
Total	8.772	3.342	(899)	142	(51)	11.306

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

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

4.19 Employee benefit liability

The account shows the following movements:

(Euro/000)	Balance at January 1, 2005	Posted to income statement	Actuarial difference	Use	Translation difference	Balance at December 31, 2005
Employee benefit liability	34,607	4,027	3,207	(2,417)	-	39,424
Total	34,607	4,027	3,207	(2,417)	-	39,424

(Euro/000)	Balance at January 1, 2006	Posted to income statement	Actuarial difference	Use	Translation difference	Balance at December 31, 2006
Employee benefit liability	39,424	7,429	(3,012)	(2,801)	(88)	40,952
Total	39,424	7,429	(3,012)	(2,801)	(88)	40,952

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

The amounts posted to the income statement (operating and financial components) and to net equity (actuarial differences) are divided as follows:

(Euro/000)	2006	2005
Operating component	6,319	3,371
Financial component	1,110	656
Actuarial gain (loss)	(3,012)	3,207
Total	4,417	7,234

Actuarial estimates used for calculating the Staff Severance Fund are based on a system of probable factors based on:

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

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

Economic parameters principally refer to long-term inflation rates and financial yield rate, crucial for the revaluation of amounts accrued in the Staff Severance Fund.

Economic parameters also include compensation dynamics of the workforce in question. Personnel compensation average increase has been taken into account considering the employee's service life and the professional qualification (blue collars, white collars and intermediaries, middle management and executives).

The most important financial parameter is the discount rate. For the present value of the discount rate, the structure of the zero coupon rate terms has been used derived from the swap rates interest on December 31st, 2006.

On January 1st, 2007 the new Financial bill and implementing decrees introduced changes to the discipline governing Staff Severance Funds (TFR), including the choice of the worker as to how his or her accruing TFR should be allocated. In particular, the new flows of TFR can be allocated by the worker to selected pension funds or kept in the company reserves (in which case the company pays the TFR contributions into a treasury account set up with INPS). At the moment, the uncertain interpretation of this new law, the various different interpretations of the qualification according to IAS n. 19 of the accruing TFR and the subsequent changes to the actuarial calculation of the accrued TFR, and the total impossibility of begin able to estimate how the employees will decide to allocate their accruing TFR (each employee has until June 30th, 2007 to make his or her choice), would make any idea of changing the actuarial calculation of the TFR that had accrued at December 31st, 2006 rather premature.

4.20 Other non-current liabilities

The other non-current liabilities at December 31st, 2006 amount to Euro 5,171 thousand and include:

- > Euro 4,416 thousand for the medium long-term portion of payables to licensors further to current contracts for the production and marketing of designer products;
- > Other long-term payables for the difference in the balance sheets of Group companies.

4.21 Share capital

On December 31st, 2006 the share capital of the parent company Safilo Group S.p.A. stood at Euro 70,843,213, divided in 283,372,852 shares with a nominal value of Euro 0.25 each. Therefore no changes were made in the capital since December 31st, 2005.

4.22 Share premium reserve

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

- > Euro 406,217 thousand, the higher value attributed in 2002 on the conferment of shares by the subsidiary Safilo S.p.A. compared to the nominal value of the corresponding increase in share capital;
- > Euro 345,059 thousand (i) the higher price paid compared to the nominal value of the shares, at the moment of placing the shares on the Italian Stock Market, 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.

4.23 Retained earnings (losses) and other reserves

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

(Euro/000)	January 1, 2005	Previous year's profit allocation	Impact on equity	Impact on P&L	Dividends distribution	Change in consolid. area	December 31, 2005
Group translation differen Translation difference - Min	. , ,		9,946 207	-	-	-	5,208 102
Total	(4,843)	-	10,153	-	-	-	5,310
Other reserves - Group Other reserves - Minority	(22,905) 2,055	18,866 3,123	(2,506)	1,695 62	(3,025)	-	(4,850) 2,215
Total	(20,850)	21,989	(2,506)	1,757	(3,025)		(2,635)
Total Group Total Minority	(27,643) 1,950	18,866 3,123	7,440 207	1,695 62	(3,025)	-	358 2,317
Total	(25,693)	21,989	7,647	1,757	(3,025)	-	2,675
(Euro/000)	January 1, 2006	Previous year's profit allocation	Impact on equity	Impact on P&L	Dividends distribution	Change in consolid. area	December 31, 2006
Group translation differen Translation difference - Min		-	(27,934) (104)	-	-	-	(22,726) (2)
Total	5,310		(28,038)	-	-	-	(22,728)
Other reserves - Group Other reserves - Minority	(4,850) 2,215	3,097 3,220	1,501 (34)		(3,063)	294 (294)	42 2,044
Total	(2,635)	6,317	1,467	-	(3,063)	•	2,086
Total Group Total Minority	358 2,317	3,097 3,220	(26,433) (138)	-	(3,063)	294 (294)	(22,684) 2,042
Total	2,675	6,317	(26,571)		(3,063)		(20,642)

4.24 Fair value and cash flow reserves

The account is comprised as follows:

	Balance at January	Impact on	Impact on	Balance at December 31,
(Euro/000)	1, 2005	equity	P&L	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)

	Balance at			Balance at
	January	Impact on	Impact on	December 31,
(Euro/000)	1, 2006	equity	P&L	2006
Cash flow reserve	(2,780)	2,533	1,468	1,221
Fair value reserve	(1,119)	1,016	741	638
Total	(3,899)	3,549	2,209	1,859

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

4.25 Stock option plans

On March 25th, 2003, the Extraordinary shareholders' Meeting of Safilo Holding S.p.A. (now Safilo Group S.p.A.) approved the "Stock Option Plans of Safilo Holding S.p.A. and Safilo S.p.A. for 2003-2007" (in short 2003 Plan), which provides for the free vesting of rights for the subscription of new shares issued at the current value of the company, to some employees and consultants of the companies of the Group.

On November 24th, 2004, the Extraordinary shareholders' Meeting of Safilo Group S.p.A. approved a new plan, the "Stock Option Plan of Safilo Group S.p.A. and Safilo S.p.A. 2004–2008" (in short 2004 Plan), which provides for the free vesting of rights for the subscription of new shares issued at the current value of the company, to some employees and consultants of the companies of the Group.

Further to the mandate granted by the Extraordinary shareholders' Meeting on October 24^{th} , 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31^{st} , 2006 to a maximum nominal figure of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares of a value of Euro 0.25 each, with a share premium of Euro 4.16. These shares had been and will be available for subscription by the beneficiaries listed in the new "Stock Option Plan of Safilo Group S.p.A. 2006-2010" that was approved by the above Board (in short 2006 Plan). This plan is valid for 4 financial periods (2006 – 2010) and, like the previous ones, is addressed to certain directors, executives and consultants of the Safilo Group and provides accruing option rights equal to 1/4 for each financial period in the Plan. The accrual criteria for the options is based on reaching certain conventional EBITDA consolidated levels in the balance sheet of Safilo Group S.p.A., that have been fixed 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 on an "equity-settled" type. In compliance with the requirements of IFRS 2, irrespective of which company issues the new shares, the stock option costs 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 (2003 Plan), the Group has decided to apply the exemption for share-based payments. In substance, IFRS 2 is applied from January 1st, 2004 for all the options issued after November 7th, 2002 but not matured ("vested") before January 1st, 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.

In December 2005 the holders of the options relative to the 2003 Plan and 2004 Plan, in consideration of the quotation of Safilo Group S.p.A. on the Italian Stock Market, exercised 50% of the rights in their possession. The beneficiaries can exercise the remaining rights in the possession respectively within June 20th, 2007 and September 20th, 2008.

The total of the costs allocated to the income statement in 2006 and 2005 can be summarised as follows:

(Euro/000)	December 31, 2006	December 31, 2005
2003 Plan	-	79
2004 Plan	389	1,635
2006 Plan	138	-
Total	527	1,714

The following table shows the main elements relative to the stock option plans in force:

SOP 2003-2007		2006			2005	
	Strike	No. shares	No. rights	Strike	No. shares	No. rights
At January 1,	2.5325	909,400	227,350	2.5325	3,932,540	983,135
Issued	-	-		-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	-	-	-	-	(0.000.4.40)	-
Exercised	-	-	-	2.5325	(3,023,140)	(755,785)
At December 31,	2.5325	909,400	227,350	2.5325	909,400	227,350
- Tot. exercisable - Max res. life (years)	2.5325	909,400	227,350 0.5	2.5325	909,400	227,350
SOP 2004-2008		2006			2005	
SOP 2004-2008	Strike	2006 No. shares	No. rights	Strike	2005 No. shares	No. rights
SOP 2004-2008 At January 1,	Strike 3.5438		No. rights 759,458	Strike 3.5438		No. rights
		No. shares			No. shares	
At January 1, Issued Granted		No. shares			No. shares	
At January 1, Issued Granted Cancelled		No. shares		3.5438 - - -	No. shares 4,016,316	1,004,079 - - -
At January 1, Issued Granted Cancelled Forfeited		No. shares		3.5438 3.5438	4,016,316 (54,372)	1,004,079 - - - (13,593)
At January 1, Issued Granted Cancelled		No. shares		3.5438 - - -	No. shares 4,016,316	1,004,079 - - -
At January 1, Issued Granted Cancelled Forfeited		No. shares		3.5438 3.5438	4,016,316 (54,372)	1,004,079 - - - (13,593)
At January 1, Issued Granted Cancelled Forfeited Exercised	3.5438 - - - -	No. shares 3,037,832	759,458 - - - - - -	3.5438 - - - 3.5438 3.5438	4,016,316 (54,372) (924,112)	1,004,079 - - - (13,593) (231,028)

SOP 2006-2010		2006			2005	
	Strike	No. shares	No. rights	Strike	No. shares	No. rights
At January 1,				-		
Issued	4.4100	8.501.185	8,501,185	-	-	-
Granted	4.4100	3.548.817	3,548,817	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	4.4100	(34.014)	(34,014)	-	-	-
Exercised	-	-	-	-	-	-
At December 31,	4.4100	3.514.803	3,514,803	-	-	-
- Tot. exercisable	-	-	-	-	-	-
- Max res. life (years)			4.0			

TOTAL	Strike	2006 No. shares	No. rights	Strike	2005 No. shares	No. rights
At January 1,	3.3108	3.947.232	986,808	3.0435	7,948,856	1,987,214
Issued	4.4100	8.501.185	8,501,185	-	· · ·	-
Granted	4.4100	3.548.817	3,548,817	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	4.4100	(34.014)	(34,014)	3.5438	(54,372)	(13,593)
Exercised	-	-	-	2.7693	(3,947,252)	(986,813)
At December 31,	4.1690	7.462.035	4,501,611	3.3108	3,947,232	986,808
- Tot. exercisable	3,3108	3.947.232	986,808		3,947,232	986,808
- Strike range (min)	2,5325		200/200		· /- · · /	
- Strike range (max)	4.4100					
- Max avg. res. life (years)			3.4			



5. Notes on the consolidated statement of operations

5.1 Net sales

Group sales in 2006 amounted to Euro 1,121,983 thousand and report an increase of 9.4% compared to Euro 1,025,274 thousand the previous year. The slight change in the average Euro/US dollar exchange rate in 2006 compared to 2005 did not result in any significant changes: the increase at constant exchange rates would have been 9.8%.

Refer to note 5.13 "Segment Information" for further details regarding the sales trend compared to the previous year.

5.2 Cost of sales

The account is comprised as follows:

(Euro/000)	2006	2005
Purchase of materials and finished products	368,522	282,892
Capitalisation of costs for increase in fixed assets (-)	(10,002)	(9,851)
Change in inventories	(68,411)	(7,770)
Salaries and contributions	100,500	91,278
External processing	37,313	23,275
Industrial depreciation	20,126	25,382
Rental and operating leases	789	766
Other industrial costs	9,676	10,533
Total	458,513	416,505

The increase in the cost of materials and finished products, associated with the increase in inventories compared to December 31st, 2005, is more than proportional with respect to the sales trends. This increase is the consequence of the high product demand from the market and the need to increase raw material stocks to back up the increased production levels.

The changes in inventories are comprised as follows:

(Euro/000)	2006	2005
Finished products	(61,170)	(913)
Work in progress	(119)	1,321
Raw materials	(7,122)	(8,178)
Total	(68,411)	(7,770)

With respect to the previous year, salaries and contributions increased for the production staff of the Group increased due to the additional employees in the production departments and due to the normal trend in labour costs.

The total workforce of the Group at December 31st, 2006 and 2005 is broken down as follows:

	December 31, 2006	December 31, 2005
Headquarters in Padua	849	766
Production facilities	4,573	4,192
Commercial companies	1,083	1,053
Retail	854	374
Total	7,359	6,385

The average number of employees per category is summarised as follows:

	2006	2005
Executives	77	76
Clerks and middle management	2,265	1,967
Factory workers	4,461	4,280
Total	6,803	6,323

Costs for external processing which, while being burdensome in economic terms, guaranteed rapid increase in production capacity and good future flexibility, increased considerably compared to 2005. The other industrial costs include energy, industrial services, and maintenance and consultancy services relating to the production area.

5.3 Selling and marketing costs

The account is comprised as follows:

(Euro/000)	2006	2005
Salaries and contributions	90,830	81,817
Commissions to independent agents	79,080	74,725
Royalties	98,517	91,040
Advertising and promotional costs	88,818	78,493
Amortisation & depreciation	3,227	2,545
Logistics and transport	18,009	14,259
Consultancies	3,731	3,849
Rental and operating leases	7,614	5,873
Utilities	1,276	713
Provisions for risks	1,941	2,919
Other sales and marketing costs	22,215	23,186
Total	415,258	379,419

The increase in salaries and contributions is due to the increase in the after-sales structure, to the development of the chain of American stores and to the normal salary increases.

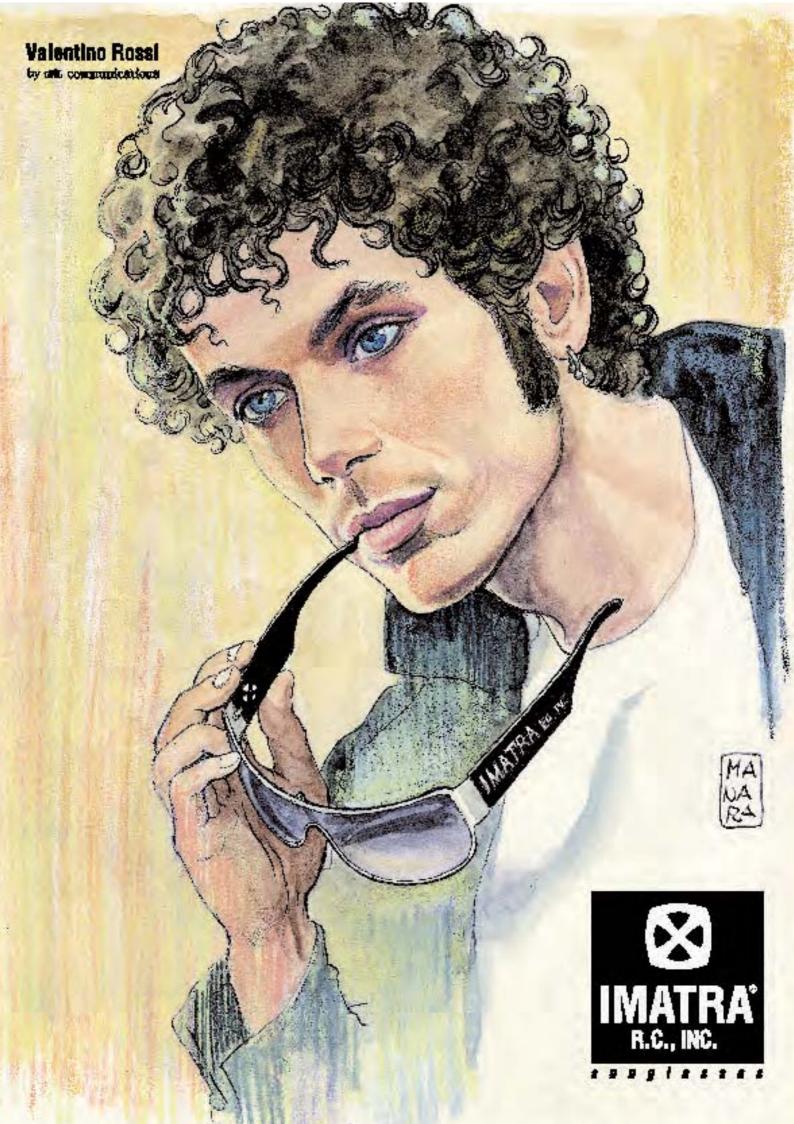
The increase in commissions is directly related to the increased sales, while the marketing costs increased over 2005 due to higher advertising costs to develop the sales of brands that will replace those that have expired licences, and to reinforce the image of the brands belonging to the Group.

5.4 General and administrative expense

The account is comprised as follows:

(Euro/000)	2006	2005
Salaries and contributions	54,465	49,986
Allowance for doubtful accounts provision	4,356	1,904
Amortisation & depreciation	13,485	7,270
Consultancies	11,148	8,970
Rental and operating leases	6,811	6,226
EDP costs	3,743	3,543
Insurance costs	2,497	2,091
Utilities, security and cleaning	6,172	5,595
Taxes other than on income	2,136	2,228
Other general and administrative costs	13,292	14,759
Total	118,105	102,572

The increase in personnel costs is due to the normal salary trends and increased number of employees in the Padua headquarters.



5.4.1 Remuneration (including all possible and deferred remuneration) and benefits in kind received by Directors and Statutory Auditors, and Directors with strategic responsibilities (Consob Resolution n. 15520)

All forms of remuneration paid by the Parent Company to Statutory Auditors and Directors with strategic responsibilities for the year ended December 31st, 2006 who were in office at the balance sheet date and also carried out their activities for the subsidiaries, are reported below:

Name and Surname	Office	Period covered	Expiring	Compensation related to the company drawing up the financial statements (Euro/000)	Other (Euro/000)
Directors					
Vittorio Tabacchi	Chairman	2006	Approval of 2007 financial statement	10	2,077
Giannino Lorenzon	Vice Chairman	2006	Approval of 2007 financial statement	10	1,170
Claudio Gottardi	CEO (*)	From 3/8 to 31/12/2006	Approval of 2007 financial statement	4	828
Massimiliano Tabacchi	Co-CEO (*)	From 3/8 to 31/12/2006	Approval of 2007 financial statement	10	478
Roberto Vedovotto	CEO	From 1/1 to 31/7/2006		6	7,400
Ennio Doris	Director	2006	Approval of 2007 financial statement	10	40
Carlo Gilardi	Director	2006	Approval of 2007 financial statement	35	40
Riccardo Ruggiero	Director	2006	Approval of 2007 financial statement	10	40
Charles Paul Pieper	Director	From 1/1 to 15/2/2006			7
Julian Masters	Director	From 1/1 to 15/2/2006			7
Colin Taylor	Director	From 1/1 to 15/2/2006			7
Thompson Dean	Director	From 1/1 to 15/2/2006			7
Statutory Auditors					
Franco Corgnati	Chairman	2006	Approval of 2007 financial statement	27	36
Nicola Gianese	Regular auditor	2006	Approval of 2007 financial statement	18	18
Paolo Mazzi	Regular auditor	2006	Approval of 2007 financial statement	18	24
Directors with strategic responsibilities					

^(*) On August 3rd, 2006 the Board of Directors co-opted to replace Dr. Roberto Vedovotto, CEO who had resigned for personal reasons, with Ing. Claudio Gottardi, who will remain in office under the terms of law until the shareholders' Meeting to approve the 2006 financial statement which will be held on the first date on April 24th, 2007 and possible second date on May 14th, 2007. The meeting will be called upon to confirm the appointment of Ing. Claudio Gottardi who will then remain in office until the current Board of Directors expires, on the date the shareholders' Meeting will be called to approve the Financial Statement at December 31st, 2007. The Board of Directors meeting of August 3rd, 2006, also confirmed the office and powers that had been granted on October 24th, 2005 to the Chairman and Vice Chairman, and assigned the office of CEO to the Director Claudio Gottardi and Co-CEO to the Director Massimiliano Tabacchi.

5.4.2 Stock options attributed to Directors, Statutory Auditors and Directors with strategic responsibilities (Consob resolution n. 15520)

Name and surname	Office		Options at the beginning of the financial year (Note 1)			ns granted (the year (No	
		No. of options	Average strike price	Average expiring date	No. of options	Average strike price	Average expiring date (in years)
Directors							
Vittorio Tabacchi	Chairman	-	-	-	-	-	-
Giannino Lorenzon	Vice Chairman	134,909	2.8147	1.82	-	-	-
Claudio Gottardi	Managing Director	110,422	3.5438	2.72	1,047,614	4.4100	4.00
Massimiliano Tabacchi	Managing Director	19,015	3.5438	2.72	306,121	4.4100	4.00
Ennio Doris	Director	-	-	-	-	-	-
Carlo Gilardi	Director	-	-	-	-	-	-
Riccardo Ruggiero	Director	-	-	-	-	-	-
Board of Statutory Au	ditors						
Franco Corgnati	Chairman	-	-	-	-	-	-
Nicola Gianese	Regular Auditor	-	-	-	-	-	-
Paolo Mazzi	Regular Auditor	-	-	-	-	-	-
Directors with strateg	ic responsibilities						
Aggregate		62,695	3.3717	2.51	258,503	4.4100	4.00

(Note 1) These options relate to the 2003-2007 and 2004-2008 Stock Option Plans; each option gives the beneficiary the right to subscribe 4 shares at the average strike price.

(Note 2) These options relate to the 2006-2010 Stock Option Plan; each option gives the beneficiary to subscribe 1 share at the average strike price.

Name and surname	e Office	Options exercised during the year		Options expired during the year		is at the e ial year	nd of the	
		No. of options	Average strike price	Average expiring date	No. of options	No. of options	strike	
Directors								
Vittorio Tabacchi	Chairman	-	-	-	-	-	-	
Giannino Lorenzon	Vice Chairman	-	-	-	-	134,909	2.8147	0.82
Claudio Gottardi	Managing Director	-	-	-	-	1,158,036		3.78
Massimiliano Tabacchi	Managing Director	-	-	-	-	325,136	4.3593	3.87
Ennio Doris	Director	-	-	-	-	-	-	-
Carlo Gilardi	Director	-	-	-	-	-	-	-
Riccardo Ruggiero	Director	-	-	-	-	-	-	-
Board of Statutory A	uditors							
Franco Corgnati	Chairman	-	-	-	-	-	-	-
Nicola Gianese	Regular Auditor	-	-	-	-	-	-	-
Paolo Mazzi	Regular Auditor	-	-	-	-	-	-	-
Directors with strate	gic responsibilities							
Aggregate		-	-	-	-	321,198	4.2073	3.51

5.5 Other income and expenses, net

The account is comprised as follows:

(Euro/000)	2006	2005
Losses on asset disposals	(306)	(621)
Other operating expenses	(1,091)	(974)
Gains on asset disposals	368	159
Other operating income	2,496	2,505
Total	1,467	1,069

The gains on assets disposals includes the gain of Euro 272 thousand by the Austrian subsidiary Carrera Brillen (Traun), being wound up, further to selling the building where the company operated (see note 4.4).

The other operating income mainly comes from casual profits and gains on insurance repayments.

5.6 Non-recurring operating expenses

This item amounts to Euro 6,000 thousand and mainly refers to the "extraordinary" costs further to the resignation of the former CEO; the non-recurring operating expenses in the income statement for the previous year for Euro 9,978 thousand, were mainly due to costs sustained for remuneration assigned to company directors and external consultants for the IPO process.

5.7 Share of income (losses) of associates

The account amounts to Euro 1,513 thousand and consists of the profits and losses deriving from the equity valuation of the holdings in associated companies (note 4.10).

5.8 Financial charges, net

The account is comprised as follows:

(Euro/000)	2006	2005
Interest on loans	22,044	34,954
Interest and charges on High Yield	18,651	29,773
Interest on convertible bonds	-	3,517
Bank charges	3,884	4,820
Exchange losses	10,268	21,125
Financial discounts	5,312	5,262
Losses from disposal and write-downs of fin. assets	138	3,370
Other financial charges	2,081	243
Total financial charges	62,378	103,064
Interest income	1,276	848
Exchange gains	13,111	11,740
Gains from disposal of financial assets	282	-
Dividends	6	229
Other financial income	647	1,480
Total financial income	15,322	14,297
Total financial charges, net	47,056	88,767

Financial expenses are considerably lower than 2005 further to lower Group debts and reduced negative effects caused by the fluctuations in foreign currency that had greatly affected the previous year.

During 2005, the impairment of the value of the investment held in Banca Popolare Italia S.p.A., to adjust the book value to its current fair value, was recorded in the income statement for a total amount of Euro 3,370 thousand.

5.9 Non-recurring financial charges

(Euro/000)	2006	2005
Accelerated fees for advance repayment	7,749	9,401
Fair value of non-hedging IRS	1,210	-
Penalty on High Yield advance repayment	-	10,106
Total	8,959	19,507

As already stated in note 4.14, the refinancing operation concluded by the Group on June 26th, 2006 involved, pursuant to the IFRS provisions, the recording in the income statement of non-recurring financial charges for a total of Euro 7,749 thousand for accelerated fees for the advance payment of the redeemed loan.

Furthermore, as stated in notes 4.5 and 4.14, due to the same refinancing operation, some derivative contracts to hedge the cash flows for interest charges on the previous Senior Loan were not reallocated by the Group to hedge the flows derived from the new loan, with their fair value recorded in the income statement under "non recurring financial charges".

The advance repayment of the Senior Loan and a third of the High Yield convertible bond, by using the proceeds from the Stock Exchange listing of the Group, had the following effect on the 2005 income statement:

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

5.10 Income tax expenses

(Euro/000)	2006	2005
Comment	(22.050)	(25.266)
Current taxes	(32,960)	(35,366)
Deferred taxes	2,701	30,556
Total	(30,259)	(4,810)

The year ended December 31st, 2006 was characterised by a significant increase in the amount of fiscal charges compared to the previous year, due to increased profits during 2006. Both financial periods were marked by a largely higher percentage than the theoretical tax rates.

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

(Euro/000)	%	2006	%	2005
Profit before taxation	100.0%	71,072	100.0%	11,127
Theoretical taxes	33.0%	23,454	33.0%	3,672
IRAP and other taxes	10.6%	7,544	62.2%	6,926
Effect of foreign tax rates	-4.0%	(2,820)	-27.3%	(3,034)
Non taxable income	-0.5%	(355)	-5.2%	(575)
Non deductible costs	2.1%	1,528	12.3%	1,370
Advance taxes not earmarked	0.6%	420	9.6%	1,069
Use of tax losses carried forward	0.0%	(18)	-42.2%	(4,692)
Other permanent differences	0.7%	506	0.7%	74
Effective tax charge	42.6%	30,259	43.2%	4,810

5.11 Earnings per share

(Euro)	2006	2005
Basic earnings per share	0.13	0.02
Diluted earnings per share	0.13	0.02

The calculation of the basic and diluted earnings per share is given in the following tables:

Total	284,139		223,226
- stock options	766		2,414
- preferred shares	-		27,060
- convertible bonds	-		16,798
Dilution effects:	-		-
Average number of ordinary shares (thousands)	283,373		176,954
Total earnings by diluted calculation	37,467		5,453
Interest expense on convertible bonds (net of fiscal effect	-		2,356
Profit in income statement	37,467		3,097
Profit for preferred shares	-		411
Profit for ordinary shares	37,467		2,686
(Euro/000)	2006		2005
Basic earnings per share		0.13	0.02
Average number of ordinary shares (in thousands)		,	•
Profit for ordinary shares Avorage number of ordinary shares (in thousands)		37,467 283,373	2,686 176,954
(Euro/000)			2005

5.12 Dividends

During the current and previous financial years, the holding company Safilo Group S.p.A. did not pay any dividends to its shareholders.

5.13 Segment information

The following information is provided with reference to the geographical areas where the Group operates. The geographical area has been identified as the primary segment. The criteria used in identifying the primary segment have been based on the modality of which management operates the Group and the way it attributes managerial responsibilities. In particular, such criteria are based on the grouping by geographical areas which are defined by the location of the registered office of

each Group Company. Therefore, the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

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

December 31, 2006							
(F (000)	Italy	Europe	America	Asia	Corporate	Eliminat.	Total
(Euro/000)	(1)	(2)	(3)	(4)	(5)	Eliminat.	Total
Net sales							
-to other segments	342,674	48,238	1,925	45	420	(393,301)	-
-to third parties	268,625	312,462	411,721	129,175	-		1,121,983
Total net sales	611,299	360,700	413,646	129,220	420	(393,301)	1,121,983
Gross profit	245,065	144,541	214,131	61,932	-	(2,199)	663,470
Operating profit	44,237	26,799	37,196	18,899	(255)	(1,301)	125,574
Interest expense							(71,199)
Interest income							15,184
Share (losses) of inv equity method	-	(1)	-	-	(104)		(105)
Share income / (loss) of associates	-	-	146	1,046	426		1,618
Income taxes							(30,259)
Net profit							40,813
Cross profit marain	40%	40%	52%	48%			59%
Gross profit margin	40% 7%	40% 7%	52% 9%	48% 15%			59% 11%
Operating profit margin Other information	7%	7 %0	9%	15%			11%
Other information							
Segment assets	494,278	452,776	456,406	333,339	11,015		1,747,813
Investment in equity method assoc.	-	-	939	11,393	202		12,535
Unallocated corporate assets							53,260
Consolidated total assets							1,813,608
Segment liabilities	233,628	45,057	49,891	16,750	2,112		347,436
Unallocated corporate liabilities	233,020	13,037	15,051	10,750	2,112		622,022
Consolidated total liabilities							969,458
	20.00-	4 465	44.0==				40 ====
Capital expenditures	20,385	6,633	14,372	1,369	27		42,786
Depreciation & Amortisation	25,584	5,526	4,664	1,068	21		36,861
Non-cash expenses other than depreciation	8,835	5,681	1,723	834	-		17,073

Operating companies with registered office in Italy;
 operating companies based in European countries other than Italy, in India and South Africa;
 companies based in USA, Canada and Brazil;
 companies based in the Far East and Australia;
 non-operating companies.

December 31, 2005							
(Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
· / /	()	()	. ,	. ,	. ,		
Net sales							
-to other segments	280,865	37,540	1,833	977		(321,215)	-
-to third parties	240,196	288,389	376,899	119,786	4		1,025,274
Total net sales	521,061	325,929	378,732	120,763	4	(321,215)	1,025,274
Gross profit	207,167	143,100	199,029	60,930	4	(1,461)	608,769
Operating profit	33,777	51,341	40,996	20,960	(9,687)	(19,518)	117,869
Interest expense							(119,687)
Interest income							14,783
Share (losses) of inv equity method	(3,370)	-	-	-	-		(3,370)
Share income / (loss) of associates	-	-	123	1,398	11		1,532
Income taxes							(4,810)
Net profit							6,317
Gross profit margin	40%	44%	53%	50%			59%
Operating profit margin	6%	16%	11%	17%			11%
Other information							
Segment assets	549,219	402,573	411,351	340,174	26,472		1,729,789
Investment in equity method assoc.			893	12,293	306		13,492
Unallocated corporate assets							102,464
Consolidated total assets							1,845,745
Segment liabilities	213,626	34,783	39,947	16,699	15,057		320,112
Unallocated corporate liabilities							698,421
Consolidated total liabilities							1,018,533
Capital expenditures	26,406	5,688	5,544	1,027	-		38,665
Depreciation & Amortisation	24,999	5,615	3,601	961	21		35,197
Non-cash expenses other than depreciation	5,666	2,793	457	887	-		9,803

Operating companies with registered office in Italy;
 operating companies based in European countries other than Italy, in India and South Africa;
 companies based in USA, Canada and Brazil;
 companies based in the Far East and Australia;
 non-operating companies.





6. Transactions with related parties

The nature of the related party transactions is given in the following table:

Related parties (Euro/000)	Relationship	December 31, 2006	December 31, 2005
(=4.5,000)			
<u>Receivables</u>			
Elegance International Holdings Ltd	(a)	-	750
Optifashion As	(b)	4	-
Safilens S.r.l. (*)	(a)	-	207
Total		4	957
<u>Payables</u>			
Elegance International Holdings Ltd	(a)	10,360	8,533
Safilens S.r.l. (*)	(a)	-	22
Total		10,360	8,555

Related parties	Relationship		
(Euro/000)		2006	2005
<u>Revenues</u>			
Elegance International Holdings Ltd	(a)	611	578
Optifashion As	(b)	221	179
Safilens S.r.l. (*)	(a)	-	2
Total		832	759
<u>Costs</u>			
Elegance International Holdings Ltd	(a)	27,192	20,673
Safilens S.r.l. (*)	(a)	-	81
TBR Inc.	(a)	1,152	1,107
Total		28,344	21,861

These transactions relate to commercial relationships on the basis of prices defined at normal market conditions, similar to transactions with third parties.

Safilo USA rents its headquarters and distribution centre in the USA (New Jersey), based on a rental contract with TBR Inc., a company one third owned by Vittorio Tabacchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., one third by a subsidiary 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 2006 the Group paid rent of Euro 1,152 thousand to TBR Inc. The price and other conditions of the rental contract are in line with market conditions for similar contracts.

⁽a) associated companies(b) unconsolidated subsidiaries;

^(*) investment transferred during 2006 (see note 4.11).

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, to which the Group assigns part of its production. The price and 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 less than 0.5%.

7. Contingent liabilities

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

Nevertheless, at the balance sheet date, various claims and legal actions that involve companies of the Group are pending. The company considers that these claims and actions are groundless, nevertheless a negative outcome of them beyond estimates could have adverse effects on the financial results of the Group.

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 various companies in the Group from 1999 to 2001 related to the OPA; (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) 2 companies, (having the same owner) that are clients of the Group, filed two claims seeking damages for breach of contract. We filed a claim against the same two companies, seeking payment owed to us for products sold.

8. Commitments

At the balance sheet date, the Group had no significant purchase commitments.

9. Significant events after December 31st, 2006

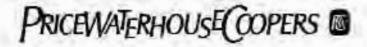
In the period subsequent to December 31st, 2006, there were no events that could be considered to significantly affect the data contained in this report.



REPORT OF INDEPENDENT AUDITORS



MARC JACOBS EYEWEAR



PricewaterhouseCoopers SuA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 158 OF LAW DECREE Nº 58 DATED 24 FEBRUARY 1998

To the Shareholders of Safilo Group S.p.A.

- We have audited the consolidated financial statements, which comprise the balance sheet, statement of operations, statement of recognized income and expense, cash flow statement and the related notes of Safilo Group S.p.A. and its subsidiaries as of 31 December 2006. These consolidated financial statements are the responsibility of Safilo Group S.p.A.'s directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present for comparative purposes the corresponding data for the prior year. For the opinion on the prior year's consolidated financial statements, reference should be made to our report dated 12 April 2006.

In our opinion, the consolidated financial statements of Safilo Group S.p.A. as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, and with the resolutions issued in conformity with the article 9 of the Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position, the results of operations, the statement of recognized income and expense and the cash flows of Safilo Group S.p.A. for the year then ended

Padova, 6 April 2007

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

PricewaterhouseCoopers SpA signed by

Antonio Taverna (Partner)

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Safilo S.p.A. - Italy

Safilo Australia - Sydney

Safilo Austria - Linz

Safilo Benelux - Bruxelles

Safilo do Brasil - São Paulo

Safilo Canada - Montreal

Safilo China - Shenzhen

Safilo España - Madrid

Safilo Far East - Hong Kong

Safilo France - Paris

Safilo Germany - Köln

Safilo Hellas - Athens

Safilo Hong Kong - Hong Kong

Safilo India - Mumbai

Safilo Japan - Tokyo

Safilo Korea - Seoul

Safilo Latin America - Miami

Safilo Malaysia - Kuala Lumpur

Safilo Nederland - Utrecht

Safilo Nordic - Stockholm Denmak, Sweden, Finland, Norway, Baltic

Safilo Portugal - Lisbon

Safilo Singapore - Singapore

Safilo South Africa - Johannesburg

Safilo Switzerland - Basel

Safilo U.K. - Harrogate (North Yorkshire)

Safilo U.S.A. - New Jersey

Carrera Optyl - Ormoz (Slovenia)

Smith Sport Optics - Sun Valley (U.S.A.)

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