

10Q

as of March 31st, 2007

Sàfilo S.p.A.



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www.safilo.com

SAFILO S.P.A.

Settima Strada, 15

35129 Padua - Italy

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CORPORATE OFFICERS AS OF MARCH 31st, 2007

Board of Directors

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

Board of Statutory Auditors

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

Independent Auditors

PricewaterhouseCoopers S.p.a.

DIRECTORS' REPORT ON OPERATIONS

General information and activities of the Group

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

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

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

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

The Group has built and manages a brand portfolio of both licensed and house brands, selected according to competitive positioning and international prestige criteria and in order to implement a clear segmentation strategy of customers. Safilo has extensively integrated its house brand portfolio with numerous brands from the luxury and fashion industry, building long-term relationships with the licensors through license agreements of 5 to 8 years, most of which are repeatedly renewed.

The Group's brands include *Safilo, Oxydo, Carrera, Smith* and *Blue Bay* while the licensed brands include *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* and *Yves Saint Laurent*.

Key consolidated performance indicators

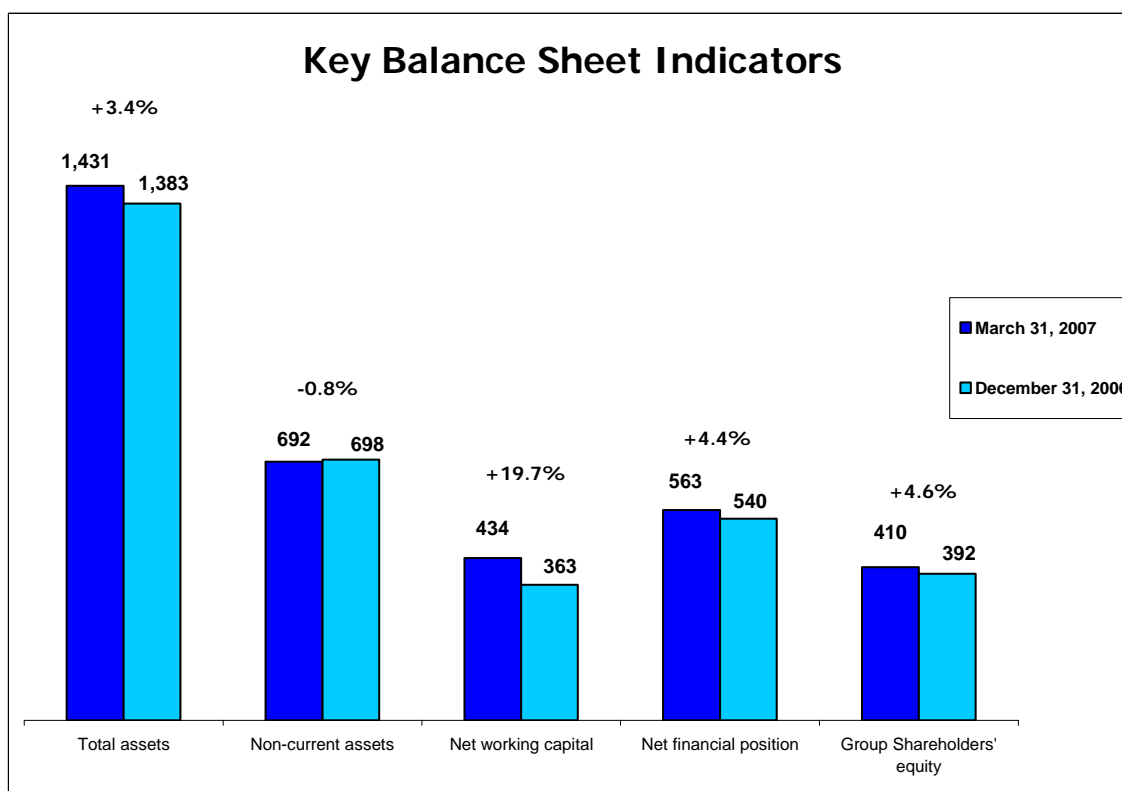
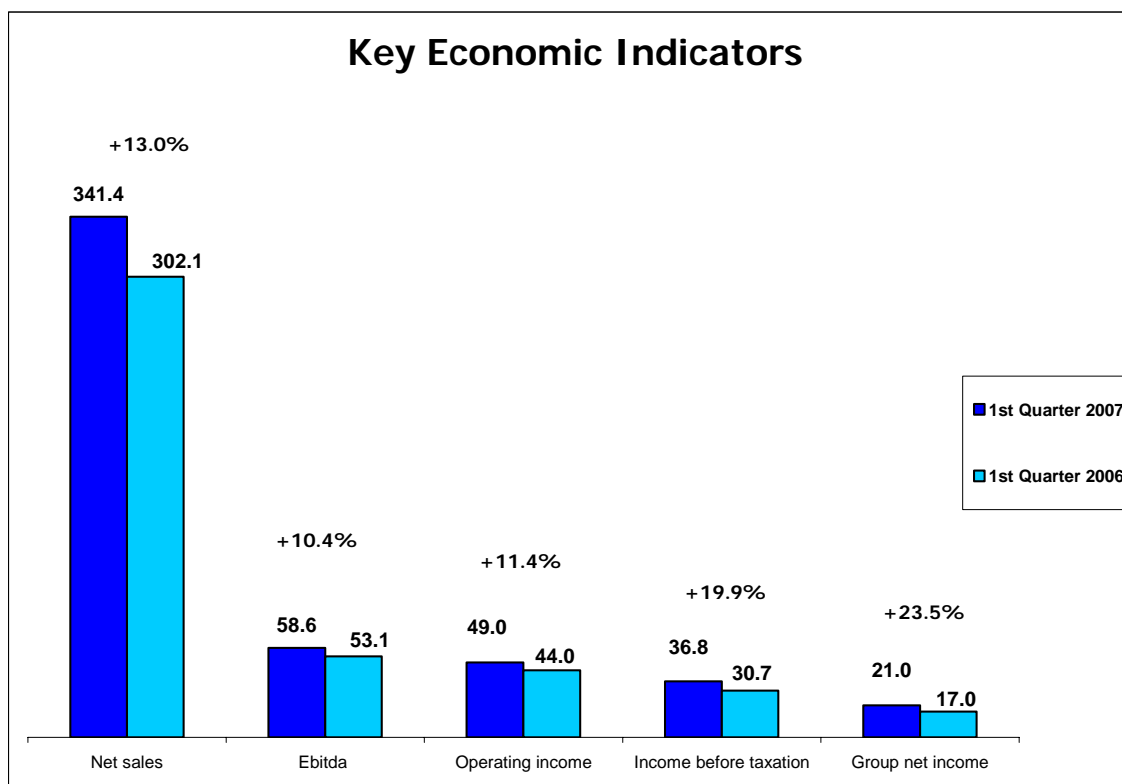
| Economic data (Euro in millions) | 1 st Quarter 2007 | % | 1 st Quarter 2006 | % |
|----------------------------------|---------------------------------|-------|---------------------------------|-------|
| Net sales | 341,4 | 100,0 | 302,1 | 100,0 |
| Cost of sales | (136,8) | 40,1 | (117,0) | 38,7 |
| Gross profit | 204,6 | 59,9 | 185,1 | 61,3 |
| Ebitda (*) | 58,6 | 17,2 | 53,1 | 17,6 |
| Operating profit | 49,0 | 14,4 | 44,0 | 14,6 |
| Income before taxation | 36,8 | 10,8 | 30,7 | 10,2 |
| Group net income | 21,0 | 6,2 | 17,0 | 5,6 |

| Balance sheet data (Euro in millions) | March 31, 2007 | % | December 31, 2006 | % |
|---------------------------------------|-------------------|-------|----------------------|-------|
| Total assets | 1.430,9 | 100,0 | 1.383,2 | 100,0 |
| Non-current assets | 692,1 | 48,4 | 697,8 | 50,4 |
| Net working capital (*) | 434,4 | 30,4 | 362,8 | 26,2 |
| Net financial position (*) | (563,4) | 39,4 | (539,6) | 39,0 |
| Group Shareholders' equity | 409,8 | 28,6 | 391,9 | 28,3 |

| Financial data (Euro in millions) | 1 st Quarter 2007 | 1 st Quarter 2006 |
|---------------------------------------|---------------------------------|---------------------------------|
| Cash flows operating activities | (14,5) | (4,1) |
| Cash flows investing activities | (10,5) | (7,6) |
| Cash flows financing activities | 17,9 | 10,6 |
| Closing net cash and cash equivalents | (7,6) | 24,5 |

(*) We underline that:

- "Ebitda" means operating profit before amortization and depreciation.
- "Net working capital" means the algebraic sum of inventories, trade receivables and trade payables.
- "Net financial position" means the sum of bank borrowings, short, medium and long-term borrowings, net of cash held in hand and at bank.



Introduction

The 2007 first quarter results confirm the Group's growth trend both in terms of turnover, with a remarkable performance in all the markets the Group operates in, and profitability, despite the negative impact deriving from the exit of some brands from the Group's portfolio and the strengthening of the Euro against the US dollar.

Operating profit, although significantly increased in absolute terms, does not achieve a proportional growth when considered as a percentage on turnover, due to both the negative effect of the weak US dollar and to the higher impact of marketing investments which will support further future development of sales. From an industrial point of view, the Group is now focused on reducing working capital, which had grown considerably in recent quarters, now that constraints which had limited production capacity have been overcome and that the industrial reorganization program is continuing.

The impressive commercial trend and the significant reduction in financial expenses, largely due to the re-negotiation of the Senior Loan concluded in June 2006, positively impacted the Group's net profit, which grew considerably (+23.5%) when compared to the same period of the previous year.

Cash flow in the period reflects the same trend recorded in 2006 even considering the significant commercial growth in the quarter which may have led to expectations of a higher cash absorption. It should be remembered that the seasonal trend of working capital usually leads to cash absorption during the first half of the year, which is largely compensated in the second semester.

Sales Analysis

The first quarter of 2007 further confirms the Group's commercial strength, with significant increases in sales in all the worldwide markets where the Group operates. Consolidated turnover, despite the negative impact deriving from exchange rate effects, has grown by 13.0% compared to the same period of previous year (+16.8% at constant exchange rates), thanks mainly to the excellent results achieved in Italy (+13.4%) and, in general, in the European market (+35.0%). The American and the Far Eastern markets, at constant exchange rates, would have achieved a +0.9% and a +19.4% increase, respectively.

In addition to the constant strong growth trend in the sales of sunglasses (+15.1%) noteworthy performance has been also achieved in the prescription frames segment (+10.3%), confirmation of the recovery trend shown by this category of products in the last quarters.

The excellent results recorded in the first three months of the 2007 have been achieved thanks to the positive performance in the sales of licensed brands and to the remarkable recovery of the sales of the house brands (+10.1%), demonstrating the success of the re-launch of the house brands marketing strategy.

The remarkable commercial results confirm the effectiveness of the Group's portfolio strategies, particularly in relation to the launch of the new collections that are replacing those brands which are no longer in the Group's portfolio.

| Net sales by geographical region (Euro in millions) | 1 st Quarter | | | | Change% |
|--|-------------------------|--------------|--------------|--------------|--------------|
| | 2007 | % | 2006 | % | |
| Italy | 45.2 | 13.3 | 39.9 | 13.2 | +13.4 |
| Europe (excluding Italy) | 127.3 | 37.3 | 94.3 | 31.2 | +35.0 |
| The Americas | 110.6 | 32.4 | 119.3 | 39.5 | -7.3 |
| Asia Pacific | 39.4 | 11.5 | 35.8 | 11.9 | +10.1 |
| Other | 18.8 | 5.5 | 12.8 | 4.2 | +47.0 |
| Total | 341.4 | 100.0 | 302.1 | 100.0 | +13.0 |

| Net sales by product (Euro in millions) | 1 st Quarter | | | | Change% |
|--|-------------------------|--------------|--------------|--------------|--------------|
| | 2007 | % | 2006 | % | |
| Prescription frames | 118.5 | 34.8 | 107.4 | 35.6 | +10.3 |
| Sunglasses | 204.2 | 59.8 | 177.5 | 58.7 | +15.1 |
| Sport products | 13.5 | 3.9 | 13.2 | 4.4 | +2.1 |
| Other | 5.2 | 1.5 | 4.0 | 1.3 | +30.6 |
| Total | 341.4 | 100.0 | 302.1 | 100.0 | +13.0 |

| Net sales by distribution channel (Euro in millions) | 1 st Quarter | | | | Change% |
|---|-------------------------|--------------|--------------|--------------|--------------|
| | 2007 | % | 2006 | % | |
| Wholesale | 325.7 | 95.4 | 294.1 | 97.4 | +10.7 |
| Retail | 15.7 | 4.6 | 8.0 | 2.6 | +96.8 |
| Total | 341.4 | 100.0 | 302.1 | 100.0 | +13.0 |

Italy. The sales in the Italian market continue their growth trend (+13.4% compared to the same period of the previous year) with double-digit growth rates in both sunglasses and prescription frames. Excellent results were achieved by the *Armani*, *Gucci* and *Max Mara* brands as well as by the house brands *Safilo* and *Oxydo*. The latter benefited, as stated above, from the coordinated action taken to relaunch their image.

Europe (excluding Italy). Improved delivery times and high level of customer service led the European market to strong growth (+35.0%), both in the sales of sunglasses and prescription frames. The breakdown by country registers excellent results in France (+29.6%), Great Britain (+53.0%) and Germany (+11.8%). The analysis of turnover by brand shows good performances by *Armani*, *Diesel*, *Dior*, and *Gucci*, and among the house brands, *Safilo*, *Carrera* and *Oxydo*, as well as the emerging brand *Marc Jacobs* (+64.7%). Without including the acquisition of the Spanish chain Loop Vision, sales in the European market would have grown by +28.6%.

America. The American market is strongly affected by the negative impact of the exchange rate effect, caused by the 9.0% devaluation of the US dollar against the Euro. At constant exchange rates, turnover reported a +0.9% increase

compared to the same period in 2006. In a difficult situation due to the exit of the most successful brand, the performance in the sport products segment (+5.9%) is worthy of note and, among the brands, *Armani*, *Dior*, *J.Lo by Jennifer Lopez* and *Marc Jacobs*. Amongst the house brands, the growth in sales of *Carrera* branded products is particularly significant. Finally, the retail chain Solstice, that counted 89 points of sale at March 31st 2007 (6 new openings during 2007), reported a strong sales increase in the quarter (+32.0%).

Asia. The turnover in the Far East confirms the satisfactory growth recorded in previous quarters (+10.1% at current exchange rates and +19.4% at constant exchange rates), mainly as a result of the performance achieved in the sunglasses business segment. The *Armani*, *Dior* and *Max Mara* brands have been particularly well received and, by geographical area, impressive results were registered in China (+74.5%), Thailand (+67.8%) Indonesia (+82.5%) and the Philippines, where turnover has more than doubled compared to the first quarter of the previous year.

Group economic results

| Consolidated statement of operations <i>(Euro in millions)</i> | 1st Quarter 2007 | % | 1st Quarter 2006 | % | Change % |
|--|--|-------------|--|-------------|---------------------------|
| Net sales | 341,4 | 100,0 | 302,1 | 100,0 | 13,0 |
| Cost of sales | (136,8) | (40,1) | (117,0) | (38,7) | 16,9 |
| Gross profit | 204,6 | 59,9 | 185,1 | 61,3 | 10,5 |
| Selling and marketing expenses | (123,6) | (36,2) | (111,8) | (37,0) | 10,6 |
| General and administrative expenses | (32,3) | (9,5) | (29,5) | (9,8) | 9,5 |
| Other operating income/(expenses), net | 0,3 | 0,1 | 0,2 | 0,1 | 50,0 |
| Operating income | 49,0 | 14,4 | 44,0 | 14,6 | 11,4 |
| Share of income/(loss) of associates | - | - | - | - | - |
| Interest expense and other financial charges, net | (12,2) | (3,6) | (13,3) | (4,4) | (8,3) |
| Income before taxation | 36,8 | 10,8 | 30,7 | 10,2 | 19,9 |
| Income taxes | (14,1) | (4,1) | (12,6) | (4,2) | 11,9 |
| Net income | 22,7 | 6,6 | 18,1 | 6,0 | 25,4 |
| Net income attributable to minority interests | 1,7 | 0,5 | 1,1 | 0,4 | 54,5 |
| Net income attributable to the Group | 21,0 | 6,2 | 17,0 | 5,6 | 23,5 |
| EBITDA | 58,6 | 17,2 | 53,1 | 17,6 | 10,4 |

At a gross profit level, the decrease in profitability is exclusively due to the negative impact of the devaluation of the US dollar and to the sale of Polo stock which have negatively impacted on the Group's profitability. The positive effects deriving from the industrial reorganization programme are in line with expectations.

Marketing expenses have slightly increased, as a percentage on sales, when compared to the first quarter of previous year as a result of the marketing activities aimed at supporting above all the relaunch of the housebrands. The other commercial costs and the general and administrative expenses increased at a lower rate compared to the sales' growth, benefiting from the weakness of the US dollar.

Group operating income improved from Euro 44.0 million in 2006 to Euro 49.0 million in the first quarter of 2007, as a result of the positive commercial trend already described.

Despite the increase of the average financial debt position, financial expenses have been significantly reduced as a result of the refinancing operation completed at the end of the first half of 2006.

The positive effects deriving from financing activities combined with a lower impact of income taxes, have further improved the net income, which has grown by 23.5%, from Euro 17.0 million in 2006 to Euro 21.0 million in 2007.

Balance sheet and financial situation

| Condensed balance sheet (Euro in millions) | March 31, 2007 | December 31, 2006 | Change |
|--|-------------------|----------------------|--------------|
| Cash in hand and at bank | 46.3 | 35.6 | 10.7 |
| Trade receivables, net | 370.0 | 319.5 | 50.5 |
| Inventory, net | 273.5 | 271.6 | 1.9 |
| Other current assets | 49.0 | 58.7 | (9.7) |
| Total current assets | 738.8 | 685.4 | 53.4 |
| Property, plant and equipment, net | 201.4 | 201.9 | (0.5) |
| Intangible assets | 22.6 | 22.3 | 0.3 |
| Goodwill | 380.8 | 382.8 | (2.0) |
| Other non-current assets | 87.3 | 90.8 | (3.5) |
| Total non current assets | 692.1 | 697.8 | (5.7) |
| Total assets | 1,430.9 | 1,383.2 | 47.7 |
| Short-term borrowings | 117.5 | 99.7 | 17.8 |
| Trade payables | 209.1 | 228.3 | (19.2) |
| Other current liabilities | 125.3 | 111.3 | 14.0 |
| Total current liabilities | 451.9 | 439.3 | 12.6 |
| Long-term borrowings | 492.2 | 475.6 | 16.6 |
| Employee benefit liability | 41.7 | 40.9 | 0.8 |
| Other non-current liabilities | 28.3 | 30.1 | (1.8) |
| Total non current liabilities | 562.2 | 546.6 | 15.6 |
| Group Shareholders' equity | 409.8 | 391.9 | 17.9 |
| Minority interests | 7.0 | 5.4 | 1.6 |
| Total liabilities and Shareholders' eq. | 1,430.9 | 1,383.2 | 47.7 |

| Condensed consolidated statement of cash flow <i>(Euro in millions)</i> | 1st Quarter 2007 | 1st Quarter 2006 | Change |
|---|--|--|---------------|
| Opening net cash and cash equivalents | (0.8) | 25.9 | (26.7) |
| Cash flow operating activities | (14.5) | (4.1) | (10.4) |
| Cash flow investing activities | (10.5) | (7.6) | (2.9) |
| Cash flow financing activities | 17.9 | 10.6 | 7.3 |
| Translation exchange differences | 0.3 | (0.3) | 0.6 |
| Closing net cash and cash equivalents | (7.6) | 24.5 | (32.1) |

Cash flow for operating activities

The management of operating cash flow in the first quarter of 2007 was impacted by the normal seasonality in working capital which leads to a cash erosion during the first semester which is then compensated for in the second part of the year.

In particular, the first quarter of 2007 has been heavily affected, at a working capital level, by the strong increase in sales and the cash outflows needed to pay for the supplies which contributed to the expansion of the inventory levels in the fourth quarter of 2006.

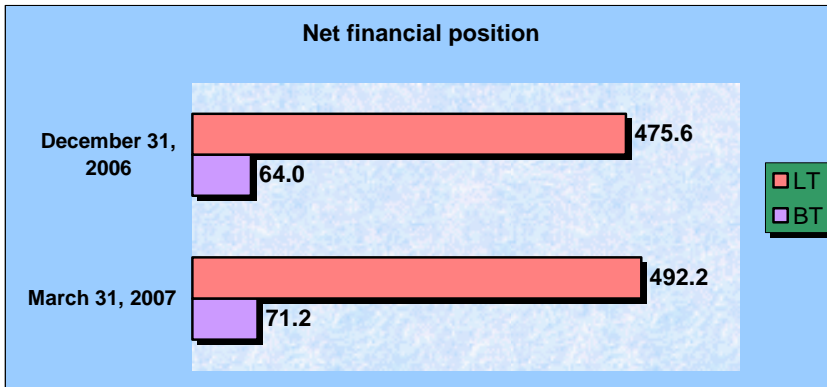
Cash flow for investing activities

The higher cash flow absorbed by the investing activities, during the first quarter of 2007 when compared to the same period of previous year, mainly reflects a different timing for projects in progress which, on a yearly basis, are not expected to involve higher expenditures than in the previous year.

Cash flow from financing activities

The cash flow from financing activities is the consequence of efforts aimed at optimising treasury planning and short-term financial needs.

| Net financial position <i>(Euro in millions)</i> | March 31, 2007 | December 31, 2006 | Change |
|--|---------------------------|------------------------------|---------------|
| Current portion of long term borrowings | (22.4) | (22.5) | 0.1 |
| Bank overdrafts and short term bank borrowings | (54.0) | (36.4) | (17.6) |
| Other short term borrowings | (41.1) | (40.7) | (0.4) |
| Cash and cash equivalents | 46.3 | 35.6 | 10.7 |
| Short-term net financial position | (71.2) | (64.0) | (7.2) |
| Long term borrowings | (492.2) | (475.6) | (16.6) |
| Long-term net financial position | (492.2) | (475.6) | (16.6) |
| Net financial position | (563.4) | (539.6) | (23.8) |



Legend:

ST: short-term

LT: long-term

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

| <i>(Euro in millions)</i> | Equity as of March 31, 2007 | Net income/ (loss) 3 months 2007 | Equity as of December 31, 2006 |
|---|-----------------------------------|---|--------------------------------------|
| Balances per Safilo Group S.p.A. statutory financial statements | 461,3 | 30,1 | 434,1 |
| Shareholders' equity of consolidated companies | 957,3 | 40,8 | 977,0 |
| Write-off of the book value of consolidated subsidiaries | (1.326,5) | - | (1.340,2) |
| Goodwill | 339,8 | - | 342,2 |
| Fair value attributable to tangible assets | 10,4 | (0,1) | 10,5 |
| Elimination of dividends paid within the Group | - | (43,2) | - |
| Elimination of intercompany gains within the Group | (15,4) | 0,2 | (15,6) |
| Elimination of intercompany profit included in inventory | (18,2) | (0,1) | (18,6) |
| Investments in associates - equity method | 6,2 | - | 6,3 |
| Other consolidation entries | 1,9 | (5,0) | 1,6 |
| Total Shareholders' equity | 416,8 | 22,7 | 397,3 |
| Shareholders' equity attributable to minority shareholders | 7,0 | 1,7 | 5,4 |
| Total Shareholders' equity attributable to the Group | 409,8 | 21,0 | 391,9 |

Personnel

Group personnel as at March 31st, 2007, December 31st, 2006 and March 31st, 2006 is shown in the following table:

| | March 31, 2007 | December 31, 2006 | March 31, 2006 |
|-----------------------|----------------|-------------------|----------------|
| Padua headquarters | 861 | 845 | 798 |
| Production facilities | 4,872 | 4,573 | 4,210 |
| Commercial companies | 1,146 | 1,083 | 1,071 |
| Retail | 854 | 854 | 341 |
| Total | 7,733 | 7,355 | 6,420 |

The workforce of the Group has increased by 378 units when compared to December 31st, 2006, mainly as a result of the decision by the subsidiary Smith Sport Optics Inc. to internalize part of the production, which involved an increase of 229 workers.

Significant events after March 31st

In the period subsequent to March 31st, 2007 there were no events that can be considered to have significantly affected the data contained in this report.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

| <i>(Euro/000)</i> | <i>Note</i> | 31/3/2007 | 31/12/2006 |
|-------------------------------------|-------------|------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash in hand and at bank | <i>2.1</i> | 46,321 | 35,643 |
| Trade receivables, net | <i>2.2</i> | 369,972 | 319,517 |
| Inventory, net | <i>2.3</i> | 273,450 | 271,573 |
| Derivative financial instruments | <i>2.4</i> | 1,133 | 1,597 |
| Other current assets | <i>2.5</i> | 47,898 | 57,027 |
| Total current assets | | 738,774 | 685,357 |
| Non-current assets | | | |
| Property, plant and equipment, net | <i>2.6</i> | 201,377 | 201,951 |
| Intangible assets | <i>2.7</i> | 22,634 | 22,274 |
| Goodwill | <i>2.8</i> | 380,812 | 382,759 |
| Investments in associates | <i>2.9</i> | 12,381 | 12,535 |
| Financial assets available-for-sale | <i>2.10</i> | 3,756 | 3,472 |
| Deferred tax assets | <i>2.11</i> | 47,987 | 51,172 |
| Derivative financial instruments | <i>2.4</i> | 1,272 | 1,921 |
| Other non-current assets | <i>2.12</i> | 21,856 | 21,731 |
| Total non-current assets | | 692,075 | 697,815 |
| Total assets | | 1,430,849 | 1,383,172 |

| <i>(Euro/000)</i> | <i>Note</i> | 31/03/2007 | 31/12/2006 |
|---|-------------|-------------------|-------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Short-term borrowings | <i>2.13</i> | 117,494 | 99,677 |
| Trade payables | <i>2.14</i> | 209,115 | 228,346 |
| Tax payables | <i>2.15</i> | 31,912 | 20,676 |
| Other current liabilities | <i>2.16</i> | 92,510 | 89,788 |
| Provisions for risks and charges | <i>2.17</i> | 848 | 828 |
| Total current liabilities | | 451,879 | 439,315 |
| Non-current liabilities | | | |
| Long-term borrowings | <i>2.13</i> | 492,204 | 475,583 |
| Employee benefits liability | <i>2.18</i> | 41,699 | 40,880 |
| Provisions for risks and charges | <i>2.17</i> | 10,531 | 10,478 |
| Deferred tax liabilities | <i>2.11</i> | 11,326 | 13,082 |
| Derivative financial instruments | <i>2.4</i> | 992 | 1,336 |
| Other non-current liabilities | <i>2.19</i> | 5,412 | 5,172 |
| Total non-current liabilities | | 562,164 | 546,531 |
| Total liabilities | | 1,014,043 | 985,846 |
| Shareholders' equity | | | |
| Share capital | <i>2.20</i> | 35,000 | 35,000 |
| Share premium reserve | <i>2.21</i> | 53,350 | 53,350 |
| Retained earnings and other reserves | <i>2.22</i> | 298,311 | 264,086 |
| Fair value and cash flow reserves | <i>2.23</i> | 2,076 | 1,859 |
| Income attributable to the Group | | 21,068 | 37,642 |
| Total Shareholders' equity attributable to the Group | | 409,805 | 391,937 |
| Shareholders' equity attributable to minority Shareholders | | 7,001 | 5,389 |
| Total Shareholders' equity | | 416,806 | 397,326 |
| Total liabilities and Shareholders' equity | | 1,430,849 | 1,383,172 |

Consolidated Statement of Operations

| <i>(Euro/000)</i> | <i>Note</i> | Q1 2007 | Q1 2006 |
|---|-------------|--------------------|--------------------|
| Net sales | <i>3.1</i> | 341,395 | 302,125 |
| Cost of sales | <i>3.2</i> | (136,833) | (117,008) |
| Gross profit | | 204,562 | 185,117 |
| Selling and marketing expenses | <i>3.3</i> | (123,630) | (111,846) |
| General and administrative expenses | <i>3.4</i> | (32,175) | (29,538) |
| Other operating income/(expenses), net | <i>3.5</i> | 278 | 247 |
| Operating income | | 49,035 | 43,980 |
| Share of income/(loss) of associates | <i>3.6</i> | 39 | 38 |
| Interest expense and other financial charges, net | <i>3.7</i> | (12,245) | (13,317) |
| Income before taxation | | 36,829 | 30,701 |
| Income taxes | <i>3.8</i> | (14,107) | (12,589) |
| Net income | | 22,722 | 18,112 |
| Net income attributable to minority interests | | 1,654 | 1,110 |
| Net income attributable to the Group | | 21,068 | 17,002 |

Consolidated Statement of Cash Flow

| (Euro/000) | Q1 2007 | Q1 2006 |
|--|-----------------|----------------|
| A - Opening net cash and cash equivalents (net financial indebtedness - short term) | (801) | 25.866 |
| B - Cash flow from (for) operating activities | | |
| Net income for the period (including minority interests) | 22.722 | 18.112 |
| Stock option | 139 | 389 |
| Depreciation and amortization | 9.632 | 9.078 |
| Share income/(loss) on equity investments | (39) | (38) |
| Net movements in the employee benefits liability | 821 | 816 |
| Net movements in other provisions | 79 | 83 |
| Interest expenses | 9.510 | 11.063 |
| Income tax expenses | 14.107 | 12.589 |
| Income from operating activities prior to movements in working capital | 56.971 | 52.092 |
| Change in operating assets and liabilities | | |
| (Increase) Decrease in trade receivables and other current receivables | (38.703) | (33.298) |
| (Increase) Decrease in inventory, net | (3.007) | (5.967) |
| Increase (Decrease) in trade payables and other current payables | (21.677) | (5.366) |
| Interest expenses paid | (3.382) | (6.546) |
| Income tax paid | (4.705) | (5.020) |
| Total (B) | (14.503) | (4.105) |
| C - Cash flow from (for) investing activities | | |
| Purchase of property, plant and equipment (net of disposals) | (9.091) | (7.084) |
| Purchase of intangible assets and increase in goodwill | (1.417) | (481) |
| Total (C) | (10.508) | (7.565) |
| D - Cash flow from (for) financing activities | | |
| Proceeds from borrowings | 18.325 | 11.423 |
| Repayment of borrowings | (300) | (542) |
| Dividends paid | (103) | (249) |
| Total (D) | 17.922 | 10.632 |
| E - Cash flow for the period (B+C+D) | (7.089) | (1.038) |
| Translation exchange differences | 254 | (341) |
| Total (F) | 254 | (341) |
| G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F) | (7.636) | 24.487 |

Consolidated Statement of recognised income and expense

| <i>(Euro/000)</i> | <i>Note</i> | Q1 2007 | Q1 2006 |
|--|----------------------|----------------|---------------|
| Profit (loss) attributable to the cash flow reserve | 2.23 | 912 | 1.504 |
| Profit (loss) attributable to the fair value reserve | 2.23 | 284 | 930 |
| Actuarial gains/(losses) | 2.22 | - | 478 |
| Profit (loss) attributable to the conversion fund | 2.22 | (3.576) | (2.250) |
| Profit (loss) attributable to Shareholders' equity | 2.22 | 217 | (287) |
| Total | | (2.163) | 375 |
| Net income for the period | | 22.722 | 18.112 |
| Total recognized income for the period | | 20.559 | 18.487 |
| Attributable to: | | | |
| Group | | 18.845 | 17.317 |
| Minority Shareholders | | 1.714 | 1.170 |
| Total recognized income for the period | | 20.559 | 18.487 |

Statement of changes in Shareholders' Equity

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

| (Euro/000) | Share capital | Share premium reserve | Shareholders' stock account payment | Treasury shares | Translation differences | Fair value and cash flow reserves | Change in consolidation scope | Retained earnings | Net income | Total equity |
|--|---------------|-----------------------|-------------------------------------|-----------------|-------------------------|-----------------------------------|-------------------------------|-------------------|---------------|----------------|
| Group Shareholders' equity at January 1, 2007 | 35,000 | 53,350 | 299,523 | (80,988) | (12,265) | 1,859 | 294 | 57,522 | 37,642 | 391,937 |
| Previous year's profit allocation | - | - | - | - | - | - | - | 37,642 | (37,642) | - |
| Changes in other reserves | - | - | - | - | (3,545) | 217 | - | 128 | - | (3,200) |
| Net income for the period | - | - | - | - | - | - | - | 21,068 | - | 21,068 |
| Group Shareholders' equity at March 31, 2007 | 35,000 | 53,350 | 299,523 | (80,988) | (15,810) | 2,076 | 294 | 116,360 | - | 409,805 |
| Minority interests at January 1, 2007 | - | - | - | - | (2) | - | (294) | 2,339 | 3,346 | 5,389 |
| Previous year's profit allocation | - | - | - | - | - | - | - | 3,346 | (3,346) | - |
| Retained earnings | - | - | - | - | - | - | - | 91 | - | 91 |
| Dividend distribution | - | - | - | - | (30) | - | - | (103) | - | (133) |
| Net income for the period | - | - | - | - | - | - | - | - | 1,654 | 1,654 |
| Minority interests at March 31, 2007 | - | - | - | - | (32) | - | (294) | 5,673 | 1,654 | 7,001 |
| Consolidated net equity at March 31, 2007 | 35,000 | 53,350 | 299,523 | (80,988) | (15,842) | 2,076 | - | 122,033 | 1,654 | 416,806 |

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

1.1 General information

These consolidated financial statements, expressed in thousands of Euro, refer to the financial period from January 1st, 2007 to March 31st, 2007. Economic and financial information is provided with reference to the first three months of 2007 and 2006, whilst balance sheet information is provided with reference to March 31st, 2007 and December 31st, 2006.

The consolidated financial information reported for the period ended March 31st, 2007 has been prepared in accordance with the IFRS issued by the *International Accounting Standards Board* and approved by the European Commission as of March 31st, 2007. In particular, this interim financial report has been prepared in accordance with IAS 34 – *Interim Financial Reporting*.

Accounting policies adopted for the preparation of this interim consolidated financial report have been applied in a comparative manner for the financial periods presented. They are also consistent with those applied for the Group IFRS annual consolidated financial statements as of December 31st, 2006.

The date of approval of these consolidated financial statements by the Board of Directors is May 10th, 2007.

1.2 Consolidation method and consolidation area

The direct and indirect holdings, included in the consolidation scope under the line-by-line method, and other than the holding company Safilo S.p.A., are the following:

| | Value | Share capital | Quota held % |
|---|-------|---------------|--------------|
| ITALIAN COMPANIES | | | |
| Oxsol S.p.A. - Pieve di Cadore (BL) | EUR | 121,000 | 100.0 |
| Lenti S.r.l. – Bergamo | EUR | 500,000 | 75.6 |
| Smith Sport Optics S.r.l. (in liquidation) – Padova | EUR | 102,775 | 100.0 |
| FOREIGN COMPANIES | | | |
| Safilo International B.V. - Rotterdam (NL) | EUR | 24,165,700 | 100.0 |
| Safint B.V. - Rotterdam (NL) | EUR | 18,200 | 100.0 |
| Safilo Capital Int. S.A. - Luxembourg (L) | EUR | 31,000 | 100.0 |
| Luxury Trade S.A - Luxembourg (L) | EUR | 1,650,000 | 100.0 |
| Safilo Benelux S.A. - Zaventem (B) | EUR | 560,000 | 100.0 |
| Safilo Espana S.A. - Madrid (E) | EUR | 390,650 | 100.0 |
| Fashion Optic S.L. - Madrid (E) | EUR | 1,126,845 | 100.0 |
| Navoptik S.L. - Madrid (E) | EUR | 664,118 | 100.0 |
| Safilo France S.a.r.l. - Paris (F) | EUR | 960,000 | 100.0 |
| Safilo Gmbh - Cologne (D) | EUR | 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 |
| 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 Eyewear (Suzhou) Industries Limited | USD | 1,000,000 | 100.0 |
| Safilo Korea Ltd – Seoul (K) | KRW | 300,000,000 | 100.0 |
| Safilo Hellas Ottica S.a. – Athens (GR) | EUR | 489,990 | 70.0 |
| Safilo Nederland B.V. - Bilthoven (NL) | EUR | 18,200 | 100.0 |
| Safilo South Africa (Pty) Ltd. – Bryanston (ZA) | ZAR | 3,383 | 100.0 |
| Safilo Austria Gmbh -Traun (A) | EUR | 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) | EUR | 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 |
| 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 |
| Safilo Canada Inc. - Montreal (CAN) | CAD | 2,470,425 | 100.0 |
| Canam Sport Eyewear Inc. - Montreal (CAN) | CAD | 300,011 | 100.0 |

1.3 Translation of financial statements in currencies other than the Euro

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

| | Year end March 31, 2007 | Year end December 31, 2006 | Year end March 31, 2006 | Average 1st Q 2007 | Average 1st Q 2006 |
|------------------|-------------------------------|----------------------------------|-------------------------------|-----------------------|-----------------------|
| USD | 1.3318 | 1.3170 | 1.2104 | 1.3106 | 1.2023 |
| HKD | 10.4070 | 10.2409 | 9.3923 | 10.2334 | 9.3273 |
| CHF | 1.6247 | 1.6069 | 1.5801 | 1.6162 | 1.5590 |
| CAD | 1.5366 | 1.5281 | 1.4084 | 1.5357 | 1.3894 |
| JPY | 157.3200 | 156.9300 | 142.4200 | 156.4322 | 140.5132 |
| GBP | 0.6798 | 0.6715 | 0.6964 | 0.6706 | 0.6862 |
| SEK | 9.3462 | 9.0404 | 9.4315 | 9.1894 | 9.3525 |
| AUD | 1.6484 | 1.6691 | 1.6997 | 1.6671 | 1.6274 |
| ZAR | 9.7005 | 9.2124 | 7.5066 | 9.4919 | 7.4113 |
| SIT ¹ | - | 239.6400 | 239.5600 | - | 239.5088 |
| BRL | 2.7158 | 2.8133 | 2.6437 | 2.7633 | 2.6409 |
| IND | 58.0066 | 58.2975 | 54.0109 | 57.8585 | 53.3708 |
| SGD | 2.0204 | 2.0202 | 1.9582 | 2.0073 | 1.9552 |
| MYR | 4.6047 | 4.6490 | 4.4580 | 4.5842 | 4.4814 |
| CNY | 10.2951 | 10.2793 | 9.7038 | 10.1688 | 9.6793 |
| KRW | 1,253.0200 | 1,224.8100 | 1,176.0900 | 1,230.7847 | 1,173.7765 |

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

1.4 Use of estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions which are from time to time considered reasonable and realistic according to the prevailing circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the various accounts in the financial statements, which uses the above-mentioned estimates and assumptions, may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

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

¹ Slovenia has adopted Euro as legal currency starting from January 1st, 2007.

2. Notes on the Consolidated Balance Sheet

2.1 Cash in hand and at bank

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

| <i>(Euro/000)</i> | March 31, 2007 | December 31, 2006 |
|--------------------------|----------------|-------------------|
| Cash in hand and at bank | 46,321 | 35,643 |
| Total | 46,321 | 35,643 |

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

| <i>(Euro/000)</i> | March 31, 2007 | March 31, 2006 |
|--------------------------|----------------|----------------|
| Cash in hand and at bank | 46.321 | 34.400 |
| Bank overdrafts | (53.957) | (9.913) |
| Total | (7.636) | 24.487 |

2.2 Trade receivables, net

This account is comprised as follows:

| <i>(Euro/000)</i> | March 31, 2007 | December 31, 2006 |
|---------------------------------|----------------|-------------------|
| Gross value | 394,996 | 342,485 |
| Allowance for doubtful accounts | (25,024) | (22,968) |
| Net value | 369,972 | 319,517 |

At constant exchange rates, net trade receivables increased by Euro 51,881 thousand, due to the increase in sales in the first quarter of 2007 compared to the fourth quarter of the previous year.

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

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

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

2.3 Inventory, net

This account is comprised as follows:

| <i>(Euro/000)</i> | March 31, 2007 | December 31, 2006 |
|----------------------------|----------------|-------------------|
| Raw materials | 44,287 | 50,491 |
| Work-in-progress | 8,076 | 7,868 |
| Finished products | 245,246 | 238,743 |
| Gross | 297,609 | 297,102 |
| Obsolescence provision (-) | (24,159) | (25,529) |
| Total | 273,450 | 271,573 |

The increase in finished products inventory level when compared to the end of 2006 is directly related to the necessity to ensure an optimal level of customer service to support sales, which reach their peak during the middle of the first half of the year.

For obsolete and slow moving items, a specific accrual, based on their possible future sale or use, has been accounted for. The accrual impacted upon the income statement at the line "cost of sales" (note 3.2).

The movements in the obsolescence provision were as follows:

| <i>(Euro/000)</i> | Balance at January 1, 2007 | Increase | Decrease | Transl. diff. | Balance at March 31, 2007 |
|------------------------|----------------------------|------------|----------------|---------------|---------------------------|
| Obsolescence provision | 25.529 | 554 | (1.851) | (73) | 24.159 |
| Total | 25.529 | 554 | (1.851) | (73) | 24.159 |

2.4 Derivative financial instruments

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

| <i>(Euro/000)</i> | March 31, 2007 | December 31, 2006 |
|---|----------------|-------------------|
| Current assets: | | |
| - Foreign currency contracts | 1,133 | 1,205 |
| - Interest rate swaps - cash flow hedge | - | 266 |
| - Interest rate swaps - at fair value through P&L | - | 126 |
| Total | 1,133 | 1,597 |
| Non-current assets: | | |
| - Interest rate swaps - cash flow hedge | 589 | 361 |
| - Options | 683 | 1,560 |
| Total | 1,272 | 1,921 |
| Non-current liabilities: | | |
| - Interest rate swaps - cash flow hedge | - | - |
| - Interest rate swaps - at fair value through P&L | 992 | 1,336 |
| Total | 992 | 1,336 |

A summary of the characteristics and the fair value of the derivative contracts in force at March 31st, 2007 and December 31st, 2006 is shown below:

| Foreign currency contracts | March 31, 2007 | | December 31, 2006 | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Contractual value | Fair value | Contractual value | Fair value |
| | <i>(USD/000)</i> | <i>(Euro/000)</i> | <i>(USD/000)</i> | <i>(Euro/000)</i> |
| Expiry year 2007 | \$29,000 | 1,133 | \$39,000 | 1,205 |
| Total | 29,000 | 1,133 | 39,000 | 1,205 |

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

A summary of the characteristics and the fair value of interest rate swap contracts in force at March 31st, 2007 and December 31st, 2006 is shown below:

| Interest rate swaps <i>(Euro/000)</i> | March 31, 2007 | | December 31, 2006 | |
|---|-------------------|--------------|-------------------|--------------|
| | Contractual value | Fair value | Contractual value | Fair value |
| Expiry year 2007 | - | - | 170,361 | 392 |
| Expiry year 2010 | 25,000 | (371) | 25,000 | (522) |
| Expiry year 2011 | 105,000 | (32) | 85,000 | (453) |
| Total | 130,000 | (403) | 280,361 | (583) |

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

The fair value of the advanced repayment option included in the notes issued by the subsidiary Safilo Capital International S.A. is reported among non current assets. The valuation was made using models applied by primary

financial institutions and resulted in the recognition of a fair value of the option of Euro 683 thousand.

2.5 Other current assets

This account is comprised as follows:

| <i>(Euro/000)</i> | March 31, 2007 | December 31, 2006 |
|--|----------------|-------------------|
| Receivables from the holding company Safilo Group S.p.A. | 15,307 | 14,595 |
| VAT receivable | 3,170 | 5,306 |
| Tax credits and payments on account | 7,671 | 9,515 |
| Prepayments and accrued income | 13,775 | 7,505 |
| Receivables from agents | 4,205 | 4,483 |
| Other current receivables | 3,770 | 15,623 |
| Total | 47,898 | 57,027 |

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

Prepayments and accrued income at March 31st, 2007 include:

- prepaid advertising costs of Euro 4,889 thousand;
- prepaid insurance premiums of Euro 746 thousand;
- prepaid rent and operating leases of Euro 1,365 thousand;
- prepaid costs incurred for the "Revolving Facility" loan of Euro 1,378 thousand;
- other prepaid costs, mainly commercial, for the remaining part.

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

The decrease in "other current receivables" is mainly due to the offsetting of the advance payment made in the previous year on 2007 royalties with the trade payables for royalties matured during the first quarter of 2007. The account "other current receivables" is mainly composed of receivables for insurance reimbursements and other short term receivables related to various Group companies.

2.6 Property, plant and equipment, net

| (Euro/000) | Balance at January 1, 2006 | Increase | Decrease | Reclass. | New acquisition | Transl. diff. | 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 |
| Assets under constructions | 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 | | | | | | | |
| 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 |

| (Euro/000) | Balance at January 1, 2007 | Increase | Decrease | Reclass. | New acquisition | Transl. diff. | Balance at March 31, 2007 |
|---------------------------------|----------------------------|--------------|--------------|----------------|-----------------|---------------|---------------------------|
| Gross value | | | | | | | |
| Land and buildings | 108,783 | 111 | (34) | - | - | (42) | 108,818 |
| Plant and machinery | 163,406 | 1,796 | (179) | - | - | (50) | 164,973 |
| Equipment and other assets | 153,862 | 6,399 | (501) | (1,520) | - | (507) | 157,733 |
| Assets under constructions | 6,019 | 1,138 | - | (62) | - | (9) | 7,086 |
| Total | 432,070 | 9,444 | (714) | (1,582) | - | (608) | 438,610 |
| Accumulated depreciation | | | | | | | |
| Land and buildings | 23,112 | 810 | (27) | - | - | (15) | 23,880 |
| Plant and machinery | 100,623 | 2,993 | (146) | - | - | (25) | 103,445 |
| Equipment and other assets | 106,384 | 4,285 | (250) | (269) | - | (242) | 109,908 |
| Total | 230,119 | 8,088 | (423) | (269) | - | (282) | 237,233 |
| Net book value | 201,951 | 1,356 | (291) | (1,313) | - | (326) | 201,377 |

The investments in property, plant and equipment during the first quarter of 2007 amount to Euro 9,382 thousand (compared to Euro 7,173 thousand during the first quarter of the previous year) and refer to:

- the Italian factories, for Euro 3,587 thousand, concerning the renewal of machinery and equipment relating to new models;
- the American subsidiaries, for Euro 3,811 thousand, mainly relating to the acquisition of a business unit by the subsidiary Smith Sport Optics Inc. and the expenditures related to the development of the Solstice retail chain;
- Europe, for Euro 1,688 thousand, mainly in relation to the the Slovenian production site;
- Far East, for Euro 296 thousand.

2.7 Intangible assets

| | Balance at January 1, 2006 | Increase | Decrease and write-down | New acquisition | Transl. diff. | Balance at December 31, 2006 |
|--|----------------------------------|----------|----------------------------|--------------------|---------------|------------------------------------|
|--|----------------------------------|----------|----------------------------|--------------------|---------------|------------------------------------|

(Euro/000)

Gross value

| | | | | | | |
|-------------------------------|---------------|--------------|----------------|--------------|--------------|---------------|
| Software | 8,139 | 2,264 | (19) | 308 | (170) | 10,522 |
| Trademarks and licenses | 41,509 | 367 | - | 33 | (52) | 41,857 |
| Other intangible assets | 7,162 | 753 | (2,014) | 686 | (174) | 6,413 |
| Intangible assets in progress | 33 | - | (16) | - | (2) | 15 |
| Total | 56,843 | 3,384 | (2,049) | 1,027 | (398) | 58,807 |

Accumulated depreciation

| | | | | | | |
|-------------------------|---------------|--------------|----------------|------------|--------------|---------------|
| Software | 5,942 | 1,592 | (19) | 287 | (108) | 7,694 |
| Trademarks and licenses | 18,818 | 4,268 | - | 19 | (39) | 23,066 |
| Other intangible 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 |
|-----------------------|---------------|----------------|--------------|------------|--------------|---------------|

| | Balance at January 1, 2007 | Increase | Decrease and write-down | Reclass. | Transl. diff. | Balance at March 31, 2007 |
|--|----------------------------------|----------|----------------------------|----------|---------------|---------------------------------|
|--|----------------------------------|----------|----------------------------|----------|---------------|---------------------------------|

(Euro/000)

Gross value

| | | | | | | |
|-------------------------------|---------------|------------|-------------|--------------|-------------|---------------|
| Software | 10,522 | 634 | (32) | 1,859 | (49) | 12,934 |
| Trademarks and licenses | 41,857 | 47 | - | - | (5) | 41,899 |
| Other intangible assets | 6,413 | 4 | (7) | (339) | 4 | 6,075 |
| Intangible assets in progress | 15 | - | - | - | - | 15 |
| Total | 58,807 | 685 | (39) | 1,520 | (50) | 60,923 |

Accumulated depreciation

| | | | | | | |
|-------------------------|---------------|--------------|-------------|------------|-------------|---------------|
| Software | 7,694 | 397 | (32) | 603 | (17) | 8,645 |
| Trademarks and licenses | 23,066 | 1,036 | - | - | (5) | 24,097 |
| Other intangible assets | 5,773 | 111 | - | (334) | (3) | 5,547 |
| Total | 36,533 | 1,544 | (32) | 269 | (25) | 38,289 |

| | | | | | | |
|-----------------------|---------------|--------------|------------|--------------|-------------|---------------|
| Net book value | 22,274 | (859) | (7) | 1,251 | (25) | 22,634 |
|-----------------------|---------------|--------------|------------|--------------|-------------|---------------|

Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the three months ended March 31st, 2007 and 2006 are divided into the following income statement accounts:

| (Euro/000) | Note | Q1 2007 | Q1 2006 |
|----------------------------------|------|--------------|--------------|
| Cost of sales | 3.2 | 5,240 | 5,673 |
| Selling and marketing expenses | 3.3 | 1,026 | 683 |
| General and administrative costs | 3.4 | 3,366 | 2,722 |
| Total | | 9,632 | 9,078 |

2.8 Goodwill

| (Euro/000) | Balance at January 1, 2006 | Increase / (Decrease) | Transl. diff. | Balance at December 31, 2006 |
|-----------------------|----------------------------|-----------------------|----------------|------------------------------|
| Goodwill | 365,121 | 26,839 | (9,201) | 382,759 |
| Net book value | 365,121 | 26,839 | (9,201) | 382,759 |

| (Euro/000) | Balance at January 1, 2007 | Increase / (Decrease) | Transl. diff. | Balance at March 31, 2007 |
|-----------------------|----------------------------|-----------------------|----------------|---------------------------|
| Goodwill | 382,759 | 739 | (2,686) | 380,812 |
| Net book value | 382,759 | 739 | (2,686) | 380,812 |

The change compared to the end of 2006 relates to the acquisition of a business unit from DFG Inc. by the American subsidiary Smith Sport Optics Inc. and to the translation differences which occurred in the period.

2.9 Investments in associates

Investments in associates refer to the following:

| Company | Registered office or headquarters | % of share capital | Type of investment | Main activity |
|--------------------------|-----------------------------------|--------------------|-----------------------------|---------------|
| Elegance I. Holdings Ltd | Hong Kong | 23.05% | Associated company | Commercial |
| Optifashion As | Turchia | 50.0% | Non consolidated subsidiary | Commercial |
| TBR Inc. | USA | 33.3% | Associated company | Real estate |

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

| (Euro/000) | 31.12.2006 | | | Movements for the period | | Value at March 31, 2007 |
|--------------------------|--------------|--------------------------|----------------------------|---|---------------|-------------------------|
| | Gross value | Revaluation/(write-down) | Value at December 31, 2006 | Share of results and write-down of divid. of assoc. comp. | Transl. diff. | |
| TBR Inc. | 437 | 502 | 939 | 39 | (11) | 967 |
| Elegance I. Holdings Ltd | 5,406 | 5,988 | 11,394 | - | (182) | 11,212 |
| Optifashion As | 353 | (151) | 202 | - | - | 202 |
| Total | 6,196 | 6,339 | 12,535 | 39 | (193) | 12,381 |

There were no acquisitions during the first three months of 2007. The changes compared to December 31st, 2006 are mainly due to the gains realized in the quarter and to exchange rate effects.

The company Optifashion A.s., with its registered office in Istanbul (Turkey), a 50% held subsidiary of the Group, is

not included in the consolidation scope as the amounts are considered insignificant in relation to the true and fair view of the consolidated assets and liabilities, financial position and results of operations of the Group.

2.10 Financial assets available-for-sale

This account represents the financial assets which may be sold. They are measured at current value with a corresponding entry in the fair value equity reserve. This value is calculated with reference to official listed market prices at the interim balance sheet date.

| (Euro/000) | Relationship | Value at March 31, 2007 | Value at December 31, 2006 |
|--------------------------------|-------------------------|-------------------------|----------------------------|
| Banca Popolare Italiana S.p.A. | Other equity investment | 3,507 | 3,238 |
| Unicredit S.p.A. | Other equity investment | 206 | 191 |
| Others | Other equity investment | 43 | 43 |
| Total | | 3,756 | 3,472 |

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

| (Euro/000) | 31.12.2006 | | | Movements for the period | | Value at March 31, 2007 |
|----------------------------|--------------|--------------------------|--------------|--------------------------|--------------------------|-------------------------|
| | Gross value | Revaluation/(write-down) | Net value | Incr./Decr. | Revaluation/(write down) | |
| Banca Pop. Italiana S.p.A. | 6,855 | (3,617) | 3,238 | - | 269 | 3,507 |
| Unicredit S.p.A. | 48 | 143 | 191 | - | 15 | 206 |
| Others | 43 | - | 43 | - | - | 43 |
| Total | 6,946 | (3,474) | 3,472 | - | 284 | 3,756 |

2.11 Deferred tax assets and deferred tax liabilities

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|--------------------------|----------------|-------------------|
| Deferred tax assets | 47,987 | 51,172 |
| Deferred tax liabilities | (11,326) | (13,082) |
| Total net | 36,661 | 38,090 |

Deferred tax assets

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

The following table shows the Group's 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 | Loss (Euro/000) | Taxes (Euro/000) | Transfer to holding company | Total def. Tax assets |
|----------------|---------------|--------------------|---------------------|-----------------------------|-----------------------|
| 2004 | 2009 | 27.883 | 9.201 | - | 9.201 |
| 2005 | 2010 | 57.572 | 18.999 | (18.999) | - |
| 2006 | 2011 | 2.300 | 759 | (759) | - |
| Total | | 87.755 | 28.959 | (19.758) | 9.201 |

Deferred tax liabilities

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

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

2.12 Other non-current assets

The account is comprised as follows:

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|--|----------------|-------------------|
| Receivables from holding company Safilo Group S.p.A. | 19,758 | 19,758 |
| Other non-current assets | 2,098 | 1,973 |
| Total | 21,856 | 21,731 |

The receivables from the parent company Safilo Group S.p.A. relate to the fiscal losses realized by Safilo S.p.A. during the financial years 2005 and 2006 and transferred to Safilo Group S.p.A. further to the “national tax consolidation”. In accordance with it, Safilo Group S.p.A. is the consolidating company and Safilo S.p.A., Oxsol S.p.A., Lenti S.r.l. and Smith Sport Optics S.r.l. are the consolidated companies; thanks to the agreements subscribed, the fiscal losses realized by Safilo S.p.A. are hence transferred to the consolidating company. The receivables from the parent company are the counterbalance for the fiscal benefits transferred to the consolidating company.

At March 31st, 2007, the “other non-current assets” amount to Euro 2,098 thousand and mainly refer to guarantee deposits and other long-term receivables due to various Group companies.

2.13 Bank loans and borrowings

This account is comprised as follows:

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|---|----------------|-------------------|
| Payables to banks and short-term loans | | |
| Bank overdrafts | 5,621 | 6,631 |
| Short-term bank loans | 48,336 | 29,813 |
| Short-term portion of long-term bank loans | 22,404 | 22,523 |
| Short-term portion of financial leasing and other loans | 1,092 | 1,121 |
| Other short-term loans | 40,041 | 39,589 |
| Total | 117,494 | 99,677 |
| Payables to banks and medium and long-term loans | | |
| Medium long-term loans | 481,890 | 465,103 |
| Payables for financial leasing | 9,549 | 9,708 |
| Other medium long-term loans | 765 | 772 |
| Total | 492,204 | 475,583 |
| Total borrowings and bank loans | 609,698 | 575,260 |

The senior loan, which at March 31st, 2007 had a short-term portion equal to Euro 18,770 thousand and a medium/long-term portion equal to Euro 288,933 thousand, matures on December 31, 2011 and is subdivided into the following credit lines:

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

- Euro 200 million, relating to the "Revolving Facility" composed of two Tranches also provided in US Dollars (Tranche B1 Euro 170 million, Tranche B2 Euro 30 million) utilised at March 31st, 2007 for Euro 120 million and USD 10 million.

The margin applied on "Facility A" and "Revolving Facility" decreased from 0,60% to 0,55% as a result of the calculation, as prescribed by the new loan agreement, of the ratio between net financial position and EBITDA as of December 31st, 2006.

The High Yield bond equal to a nominal value of Euro 195 million as at March 31st, 2007 is included in the account "Long-term borrowings".

The above loans, valued under the amortised cost method, are principally guaranteed by pledges on the shares of Safilo S.p.A. and by guarantees provided by the directly financed companies.

The payables for financial leases refer to property, plant and equipment acquired under leasing contracts by companies belonging to the Group. The average residual life of leasing contracts is 8.5 years. All leasing contracts at the interim balance sheet date are repayable through equal installments and the contracts do not include any option for reviewing the original contract.

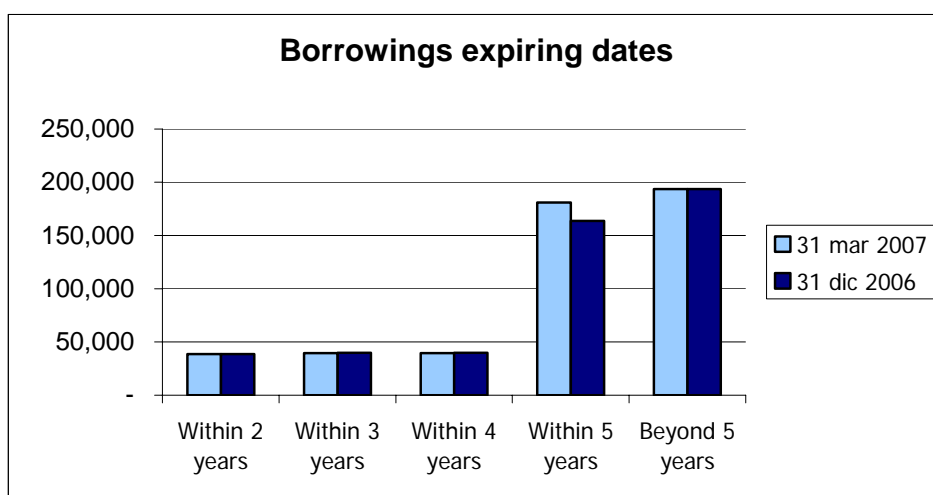
Some Group companies have entered into operating lease contracts. Costs related to operating lease contracts are recorded in the income statement in the accounts "cost of sales" (note 3.2), "selling and marketing expenses" (note 3.3) and "general and administrative expenses" (note 3.4).

Other short-term loans include, for an amount of Euro 38,570 thousand, a payable to a primary factoring company

deriving from the contract signed by Safilo S.p.A..

The repayment dates of medium long-term loans are as follows:

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|----------------|----------------|-------------------|
| Within 2 years | 38,529 | 38,693 |
| Within 3 years | 39,443 | 39,656 |
| Within 4 years | 39,610 | 39,822 |
| Within 5 years | 181,094 | 163,739 |
| Beyond 5 years | 193,528 | 193,673 |
| Total | 492,204 | 475,583 |



Borrowings by currency are as follows:

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|-------------------------|----------------|-------------------|
| Short term | | |
| Euro | 102,745 | 84,857 |
| US Dollars | 11,040 | 11,160 |
| Brasilian Real | 2,336 | 2,265 |
| Hong Kong Dollars | 1,373 | 1,395 |
| Total | 117,494 | 99,677 |
| Medium long-term | | |
| Euro | 393,416 | 383,359 |
| US Dollars | 97,517 | 90,950 |
| Yen | 1,271 | 1,274 |
| Total | 492,204 | 475,583 |
| Total borrowings | 609,698 | 575,260 |

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

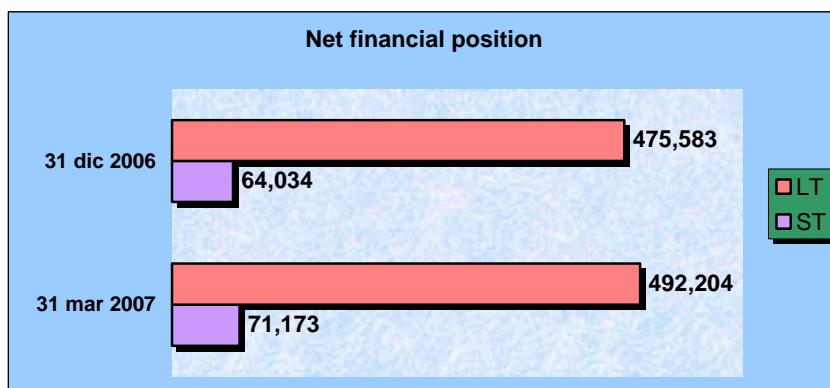
| <i>(Euro/000)</i> | Credit lines granted | Uses | Credit lines available |
|---|-----------------------------|----------------|-------------------------------|
| Credit lines on bank accounts and short-term bank loans | 160,091 | 51,972 | 108,119 |
| Credit lines on long-term bank loans | 390,537 | 318,046 | 72,491 |
| Total | 550,628 | 370,018 | 180,610 |

The contractual agreements relating to the loans granted include a series of obligations which concern the operating and financial aspects of said loans. In particular, it is requested that pre-determined levels related to certain parametric indices (covenants), calculated based on the data of the final statements at the end of every six month period, are respected. The possibility cannot be excluded that such parameters may not be complied with. Should such parameters not be complied with, the conditions with which the loan relationship is to be continued must be negotiated with the financiers, that is appropriate waivers or modifications to adapt the above-mentioned parameters. If this does not happen, an "Event of Default" could take place, that may involve obligatory early repayment of the loans granted.

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

The Group net financial position as of March 31st 2007 compared with the same as of December 31st, 2006 is the following:

| <i>(Euro/000)</i> | March 31, 2007 | December 31, 2006 | Change |
|--|-----------------------|--------------------------|-----------------|
| Current portion of long term borrowings | (22,404) | (22,523) | 119 |
| Bank overdrafts and short t. bank borrowings | (53,957) | (36,444) | (17,513) |
| Other short term borrowings | (41,133) | (40,710) | (423) |
| Cash and cash equivalents | 46,321 | 35,643 | 10,678 |
| Short term net financial position | (71,173) | (64,034) | (7,139) |
| Long term borrowings | (492,204) | (475,583) | (16,621) |
| Long term net financial position | (492,204) | (475,583) | (16,621) |
| Net financial position | (563,377) | (539,617) | (23,760) |



Legenda:

- LT: long-term.

- ST: short-term.

[2.14 Trade payables](#)

The decrease in trade payables for purchase of raw materials and finished goods reflects the cash outflows needed to pay the suppliers which contributed to the expansion of the inventory levels in the fourth quarter of 2006. The reduction in payables for royalties mainly refers to the offsetting of the advance payment made in previous year on 2007 royalties with the trade payables for royalties matured during the first quarter of 2007.

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|---|----------------|-------------------|
| Purchase of raw materials | 47,179 | 51,295 |
| Purchase of finished goods | 77,468 | 83,536 |
| Suppliers from subcontractors | 9,104 | 9,902 |
| Commissions | 8,095 | 5,304 |
| Royalties | 13,676 | 20,220 |
| Advertising and marketing costs | 22,815 | 24,054 |
| Services received from third parties | 27,865 | 30,123 |
| Purchase of property, plant and equipment and intangible assets | 2,913 | 3,912 |
| Total | 209,115 | 228,346 |

[2.15 Tax payables](#)

Tax payables as of March 31st, 2007 amount to Euro 31,912 thousand compared to Euro 20,676 thousand as at December 31st, 2006 and relate for Euro 17,689 thousand to income taxes, for Euro 8,330 thousand to VAT payables and for the remainder to advanced and various tax liabilities and local taxes. The accrual for current income tax expenses is disclosed in the note related to income taxes (3.8).

2.16 Other current liabilities

| (Euro/000) | March 31, 2007 | December 31, 2006 |
|--|----------------|-------------------|
| Payables to personnel and social security institutions | 36,133 | 31,935 |
| Premiums to clients | 17,257 | 20,541 |
| Agent fee payables | 2,806 | 2,202 |
| Accrued advertising and sponsorship costs | 1,444 | 520 |
| Accrued interests on long-term payables | 8,426 | 7,302 |
| Other accruals and deferred income | 2,953 | 3,314 |
| Payable to the holding company Safilo Group S.p.A. | 1,039 | 1,085 |
| Due to minority Shareholders for dividends | 19,511 | 19,553 |
| Other current liabilities | 2,941 | 3,336 |
| Total | 92,510 | 89,788 |

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

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

The increase in “accrued interests on long-term payables” relates to the interests matured on the new credit facility as of March 31st, 2007.

2.17 Provisions for risks and charges

This account is comprised as follows:

| (Euro/000) | Balance at January 1, 2006 | Increase | Decrease | New acquisition | Trans. diff. | Balance at December 31, 2006 |
|--|----------------------------------|--------------|--------------|--------------------|-----------------|------------------------------------|
| Product warranty provision | 3,119 | 682 | - | - | - | 3,801 |
| Agents' severance indemnity | 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 |

| (Euro/000) | Balance at January 1, 2007 | Increase | Decrease | New acquisition | Trans. diff. | Balance at March 31, 2007 |
|--|----------------------------|------------|--------------|-----------------|--------------|---------------------------|
| Product warranty provision | 3,801 | 142 | - | - | - | 3,943 |
| Agents' severance indemnity | 3,689 | 155 | - | - | - | 3,844 |
| Litigation | 1,188 | - | - | - | - | 1,188 |
| Other provisions for risks and charges | 1,800 | 50 | (288) | - | (6) | 1,556 |
| Provisions for risks - long term | 10,478 | 347 | (288) | - | (6) | 10,531 |
| Provisions for risks - short term | 828 | 20 | - | - | - | 848 |
| Total | 11,306 | 367 | (288) | - | (6) | 11,379 |

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

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

The accrual for the period has been recorded in the income statement in the line "selling and marketing expenses" (note 3.3).

2.18 Employee benefit liability

This account shows the following movements:

| (Euro/000) | Balance at January 1, 2006 | Posted to income statement | Actuarial differences | Use | Translation differences | Balance at December 31, 2006 |
|----------------------------|----------------------------|----------------------------|-----------------------|----------------|-------------------------|------------------------------|
| Employee benefit liability | 39,365 | 7,395 | (3,006) | (2,786) | (88) | 40,880 |
| Total | 39,365 | 7,395 | (3,006) | (2,786) | (88) | 40,880 |

| (Euro/000) | Balance at January 1, 2007 | Posted to income statement | Actuarial differences | Use | Translation differences | Balance at March 31, 2007 |
|----------------------------|----------------------------|----------------------------|-----------------------|----------------|-------------------------|---------------------------|
| Employee benefit liability | 40,880 | 2,002 | - | (1,181) | (2) | 41,699 |
| Total | 40,880 | 2,002 | - | (1,181) | (2) | 41,699 |

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

[2.19 Other non current liabilities](#)

The other non-current liabilities as of March 31st, 2007 amount to Euro 5,412 thousand and include liabilities deriving from existing contracts with licensors for the production and distribution of licensed products.

[2.20 Share capital](#)

Safilo's capital stock as of March 31st, 2007 amounted to Euro 35,000 thousand and consisted of 35,000,000 ordinary shares having a nominal value of Euro 1 per share.

[2.21 Share premium reserve](#)

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

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

[2.22 Retained earnings and other reserves](#)

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

[2.23 Fair value and cash flow reserves](#)

This account is comprised as follows:

| <i>(Euro/000)</i> | Balance at January 1, 2006 | Impact on equity | Impact on P&L | Balance at December 31, 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 |

| <i>(Euro/000)</i> | Balance at January 1, 2007 | Impact on equity | Impact on P&L | Balance at March 31, 2007 |
|--------------------|----------------------------------|---------------------|------------------|---------------------------------|
| Cash flow reserve | 1,221 | (67) | - | 1,154 |
| Fair value reserve | 638 | 284 | - | 922 |
| Total | 1,859 | 217 | - | 2,076 |

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

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

2.24 Stock option plans

On March 25th, 2003, the Extraordinary Shareholders' Meetings 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 24th, 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31st, 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 ¼ 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 of an "equity-settled" type. In compliance with the requirements of IFRS 2, irrespective of which company issues the new shares, the stock option costs are 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 the first three months of 2007 and 2006 can be summarised as follows:

| <i>(Euro/000)</i> | March 31, 2007 | March 31, 2006 |
|-------------------|----------------|----------------|
| 2004 plan | - | 389 |
| 2006 plan | 139 | - |
| Total | 139 | 389 |

3. Notes on the Consolidated Statement of Operations

3.1 Net sales

Group sales in the first three months of 2007 amount to Euro 341,395 thousand and report an increase of 13.0% compared to the same period of the previous year.

Reference should be made to the paragraphs “Sales analysis” in “Directors’ report on operations” for further details regarding the sales trend of the first three months of 2007 compared to the same period of the previous year.

3.2 Cost of sales

This account is comprised as follows:

| <i>(Euro/000)</i> | Q1 2007 | Q1 2006 |
|---|----------------|----------------|
| Purchase of raw materials and finished goods | 97,862 | 85,149 |
| Capitalisation of costs for increase in property, plant and equipment (-) | (2,510) | (2,407) |
| Change in inventory | (3,007) | (5,963) |
| Payroll and social security contributions | 27,962 | 24,058 |
| Subcontracting costs | 8,583 | 8,396 |
| Depreciation | 5,240 | 5,673 |
| Rental and operating leases | 201 | 146 |
| Other industrial costs | 2,502 | 1,956 |
| Total | 136,833 | 117,008 |

The increase in the cost of materials and finished products is a direct consequence of the strong request of products from the market which led to higher production levels and purchase volumes.

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

| <i>(Euro/000)</i> | Q1 2007 | Q1 2006 |
|-------------------|----------------|----------------|
| Finished products | (8,806) | (5,634) |
| Work-in-progress | (226) | (154) |
| Raw materials | 6,025 | (175) |
| Total | (3,007) | (5,963) |

Compared to the same period in the previous year, cost for the Group’s production personnel have increased by 16.2% as a consequence of the normal labour increases and a higher average number of employees at the production plants, following the decision by the American subsidiary Smith Sport Optics Inc. to internalize part of the production.

The total average workforce of the Group for the first three months of 2007 and 2006 is broken down as follows:

| | Q1 2007 | Q1 2006 |
|-----------------------|--------------|--------------|
| Padua headquarters | 856 | 789 |
| Production facilities | 4,662 | 4,206 |
| Commercial companies | 1,368 | 1,067 |
| Retail | 846 | 350 |
| Total | 7,732 | 6,412 |

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

3.3 Selling and marketing expenses

This account is comprised as follows:

| (Euro/000) | Q1 2007 | Q1 2006 |
|---|----------------|----------------|
| Payroll and social security contributions | 25,910 | 22,291 |
| Commissions to sales agents | 22,496 | 21,690 |
| Royalty expenses | 28,629 | 27,130 |
| Advertising and promotional costs | 29,633 | 24,849 |
| Amortization and depreciation | 1,026 | 683 |
| Logistic costs | 4,943 | 3,961 |
| Consultants fees | 1,433 | 2,118 |
| Rental and operating leases | 2,857 | 1,703 |
| Utilities | 379 | 181 |
| Provision for risks | 316 | 429 |
| Other sales and marketing expenses | 6,008 | 6,811 |
| Total | 123,630 | 111,846 |

The increase in labor costs is the result of the development of the American retail chain Solstice, as well as of the acquisition, at the end of 2006, of the Spanish chain Loop Vision.

The marketing costs increased compared to 2006, as a consequence of higher advertising investments aimed at developing the communication, and so the sales, of the Group's housebrands.

3.4 General and administrative expenses

This account is comprised as follows:

| <i>(Euro/000)</i> | Q1 2007 | Q1 2006 |
|---|----------------|----------------|
| Payroll and social security contributions | 15,506 | 15,422 |
| Allowance for doubtful accounts | 597 | 566 |
| Amortization and depreciation | 3,366 | 2,722 |
| Consultants fees | 3,193 | 1,391 |
| Rental and operating leases | 1,719 | 1,700 |
| EDP costs | 981 | 895 |
| Insurance costs | 657 | 718 |
| Utilities, security and cleaning | 1,624 | 1,468 |
| Taxes (other than on income) | 625 | 551 |
| Other general and administrative expenses | 3,907 | 4,105 |
| Total | 32,175 | 29,538 |

Some costs, in particular wages and salaries, benefited from the weakness of the US dollar which compensated the regular labor cost evolution.

3.5 Other income/(expenses), net

This account is comprised as follows:

| <i>(Euro/000)</i> | Q1 2007 | Q1 2006 |
|------------------------------|----------------|----------------|
| Losses on disposal of assets | (9) | (31) |
| Other operating expenses | (129) | (59) |
| Gains on disposal of assets | 7 | 8 |
| Other operating incomes | 409 | 329 |
| Total | 278 | 247 |

Other operating incomes mainly include extraordinary income and insurance reimbursements.

3.6 Share of income/(loss) of associates

This account amounts to Euro 39 thousand and consists of the income deriving from the equity valuation of the holdings in associated companies.

3.7 Interest expense and other financial charges, net

This account is comprised as follows:

| <i>(Euro/000)</i> | Q1 2007 | Q1 2006 |
|--|---------------|---------------|
| Interest expense on loans | 4,939 | 5,928 |
| Interest expense and charges on High Yield | 4,850 | 5,354 |
| Bank commissions | 843 | 985 |
| Foreign exchange rate differences | 1,783 | 3,438 |
| Financial discounts | 1,105 | 1,465 |
| Other financial charges | 1,012 | 300 |
| Total financial charges | 14,532 | 17,470 |
| Interest income | 280 | 219 |
| Foreign exchange rate differences | 1,980 | 3,250 |
| Other financial income | 27 | 684 |
| Total financial income | 2,287 | 4,153 |
| Total financial charges, net | 12,245 | 13,317 |

Interest expenses significantly decreased when compared to the first three months of 2006 as a consequence of the better conditions under the new credit agreement compared to the previous Senior Loan.

3.8 Income tax expenses

| <i>(Euro/000)</i> | Q1 2007 | Q1 2006 |
|-------------------|-----------------|-----------------|
| Current taxes | (12,113) | (9,609) |
| Deferred taxes | (1,994) | (2,980) |
| Total | (14,107) | (12,589) |

3.9 Seasonality and unusual items

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

During the first three months of 2007, there were no unusual or extraordinary items affecting assets, liabilities, equity, net income or cash flows.

3.10 Dividends

During the first nine months of 2007 the holding company Safilo S.p.A. did not pay any dividends to its Shareholders.

3.11 Segment information

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

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

| March 31, 2007 (Euro/000) | Italy (1) | Europe (2) | America (3) | Asia (4) | Corporate (5) | Eliminat. | Total |
|--------------------------------------|----------------|----------------|----------------|---------------|------------------|------------------|----------------|
| Net sales | | | | | | | |
| -to other segments | 100,155 | 13,645 | 317 | 8 | - | (114,125) | - |
| -to third parties | 83,650 | 109,414 | 108,901 | 39,430 | - | - | 341,395 |
| Total net sales | 183,805 | 123,059 | 109,219 | 39,438 | - | (114,125) | 341,395 |
| Gross profit | 73,045 | 56,651 | 54,731 | 20,629 | - | (493) | 204,562 |
| Operating income | 17,600 | 17,168 | 7,280 | 7,360 | 58 | (431) | 49,035 |
| Interest expense | | | | | | | (14,532) |
| Interest income | | | | | | | 2,287 |
| Share losses of inv. - equity method | - | - | - | - | - | - | - |
| Share income/(loss) of associates | - | - | 39 | - | - | - | 39 |
| Income taxes | | | | | | | (14,107) |
| Net income | | | | | | | 22,722 |
| <i>Gross profit margin</i> | <i>40%</i> | <i>46%</i> | <i>50%</i> | <i>52%</i> | | | <i>60%</i> |
| <i>Operating profit margin</i> | <i>10%</i> | <i>14%</i> | <i>7%</i> | <i>19%</i> | | | <i>14%</i> |
| Other information | | | | | | | |
| Depreciation & Amortization | 6,387 | 1,623 | 1,323 | 299 | - | - | 9,632 |

- (1) Includes operating companies with registered office in Italy.
(2) Includes operating companies based in European countries other than Italy, in India and South Africa.
(3) Includes operating companies based in USA, Canada and Brazil.
(4) Includes operating companies based in the Far East and Australia.
(5) Non-operating companies.

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

- (1) Includes operating companies with registered office in Italy.
- (2) Includes operating companies based in European countries other than Italy, in India and South Africa.
- (3) Includes operating companies based in USA, Canada and Brazil.
- (4) Includes operating companies based in the Far East and Australia.
- (5) Non-operating companies.

RELATED PARTY TRANSACTIONS

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

| Related parties transactions (Euro/000) | Relationship | March 31, 2007 | December 31, 2006 |
|--|--------------|-------------------|----------------------|
| <i>Receivables</i> | | | |
| Optifashion As | (b) | 31 | 4 |
| Total | | 31 | 4 |

| | | | |
|-------------------------------------|-----|---------------|---------------|
| <i>Payables</i> | | | |
| Elegance International Holdings Ltd | (a) | 10,773 | 10,360 |
| Total | | 10,773 | 10,360 |

| Related parties transactions (Euro/000) | Relationship | Q1 2007 | Q1 2006 |
|--|--------------|--------------|---------------|
| <i>Revenues</i> | | | |
| Optifashion As | (b) | 38 | 158 |
| Total | | 38 | 158 |
| <i>Costs</i> | | | |
| Elegance International Holdings Ltd | (a) | 7,489 | 12,646 |
| TBR Inc. | (a) | 290 | 299 |
| Total | | 7,779 | 12,945 |

(a) Associated company.

(b) Unconsolidated subsidiaries.

These transactions relate to commercial relationships and are based on prices defined at normal market conditions for similar transactions with third parties.

Safilo USA rents its headquarters and distribution centre in the USA (New Jersey), based on a rental contract with TBR Inc., a company one-third owned by Vittorio Tabacchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., one third by a subsidiary company of the Safilo Group S.p.A. and one third by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for Euro 629 thousand. In the first three months of 2007, the Group paid rent of Euro 290 thousand to TBR Inc. The terms and conditions of the rental contract are in line with market conditions for similar contracts.

Safilo Far East Limited, a subsidiary of Safilo S.p.A, holds 23.05% of Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange. Elegance is a producer of eyewear products in Asia, and to which the Group assigns part of its production. The price and the other conditions of the production contract between Safilo Far East Limited and Elegance are in line with those applied by Elegance to its other clients. Massimiliano Tabacchi, Co-Chief Executive Officer 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 lower than 0.50%.

CONTINGENT LIABILITIES

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

Nevertheless, at March 31st, 2007, we are currently party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, are groundless. However, a negative outcome of them beyond that estimated, could have a material adverse effect on our business, financial condition or on results of operations.

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

COMMITMENTS

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

FORWARD-LOOKING STATEMENTS

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

These factors include, among other things:

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

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

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

FURTHER INFORMATION

For further information:

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