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as of June 30th, 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 JUNE 30th, 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, Balenciaga, 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, Jimmy Choo, 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)	Six months ended June 30,			
	2007	%	2006	%
Net sales	667.8	100.0	605.4	100.0
Cost of sales	(274.3)	41.1	(240.4)	39.7
Gross profit	393.5	58.9	365.0	60.3
Ebitda	101.1	15.1	94.7	15.6
Operating profit	81.7	12.2	76.4	12.7
Profit before taxation	59.5	8.9	40.1	6.7
Group net profit	33.9	5.1	21.8	3.7

Economic data (Euro in millions)	Second Quarter			
	2007	%	2006	%
Net sales	326.4	100.0	303.3	100.0
Cost of sales	(137.5)	42.1	(123.4)	40.7
Gross profit	188.9	57.9	179.9	59.3
Ebitda	42.4	13.0	41.6	13.7
Operating profit	32.7	10.0	32.5	10.7
Profit before taxation	22.7	6.9	9.5	3.1
Group net profit	12.9	3.9	4.8	1.6

Balance sheet data (Euro in millions)	June 30,		December 31,	
	2007	%	2006	%
Total assets	1,413.4	100.0	1,383.2	100.0
Non-current assets	694.4	49.1	697.8	50.4
Net working capital	409.2	28.9	362.8	26.2
Net financial position	(528.4)	37.4	(539.6)	39.0
Group shareholders' equity	403.6	28.6	391.9	28.3

Financial data (Euro in millions)	Six months ended June 30,	
	2007	2006
Cash flows operating activities	33.4	18.4
Cash flows investing activities	(22.7)	(13.2)
Cash flows financing activities	10.9	(1.2)
Closing net cash and cash equivalents	20.5	31.9

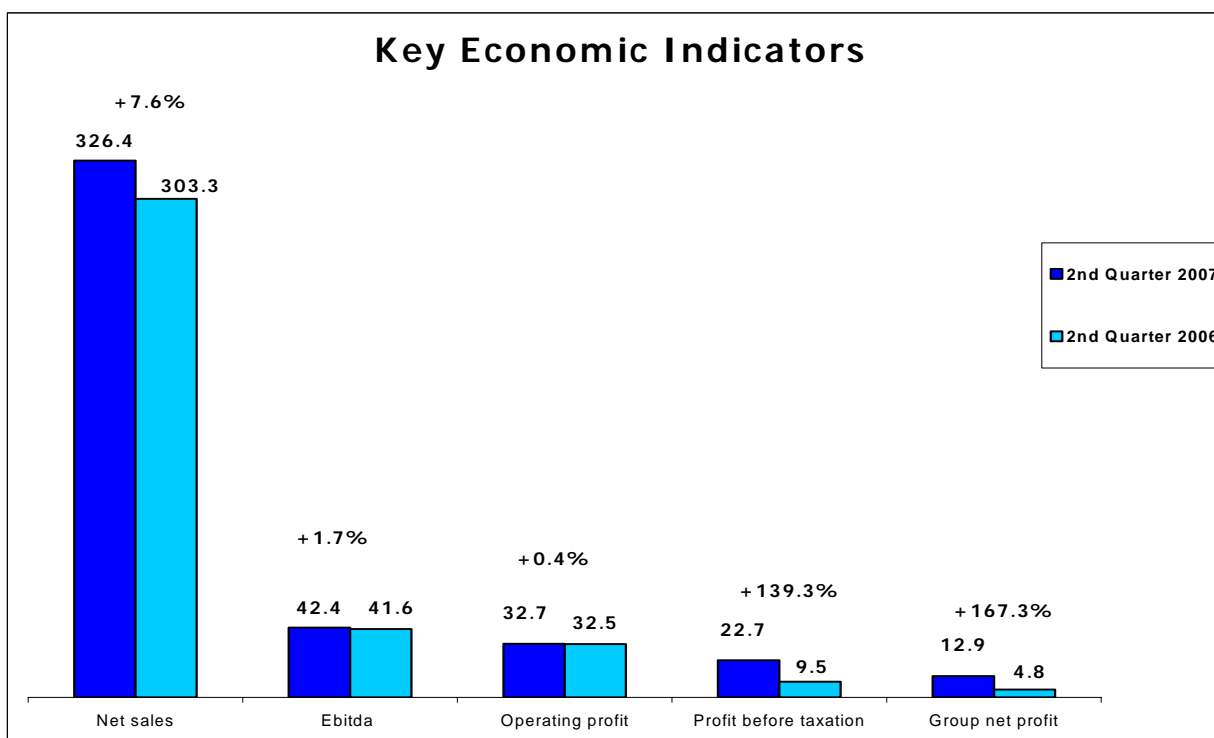
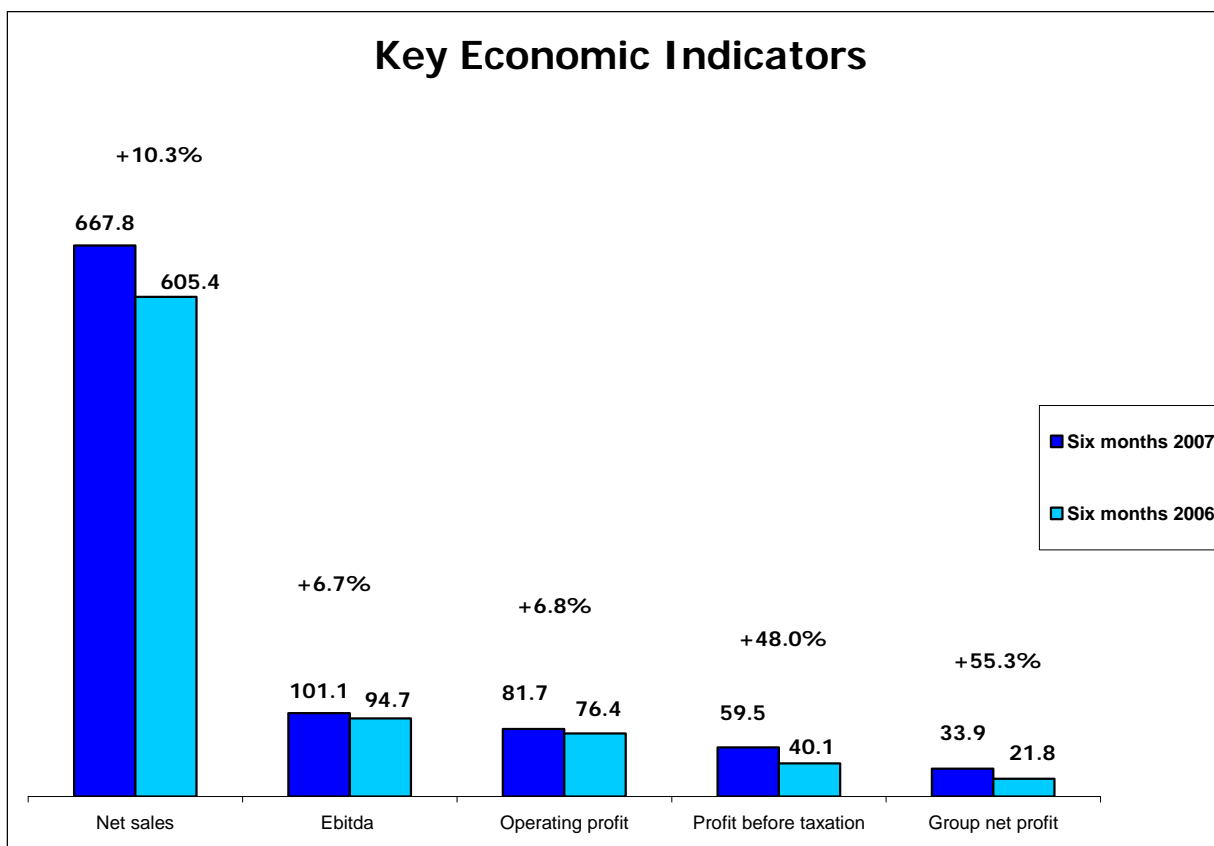
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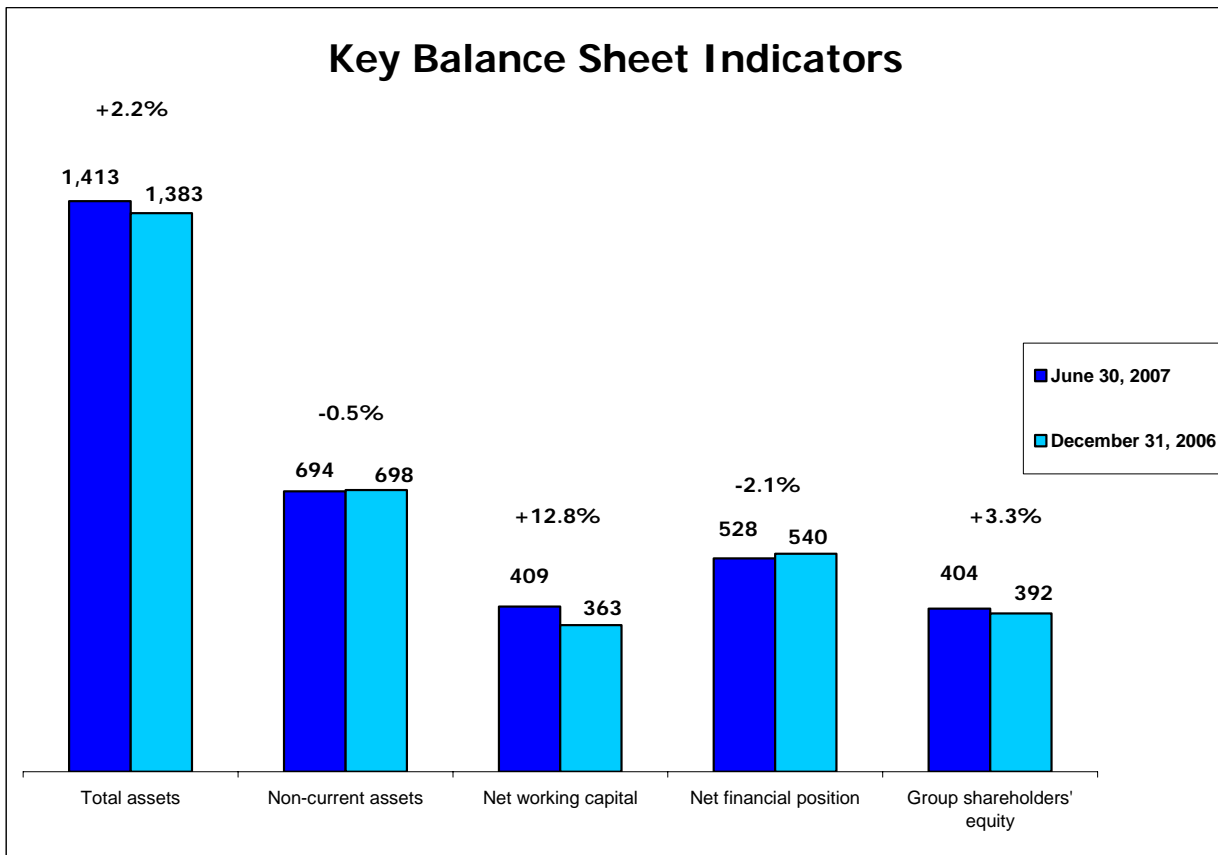
- certain figures in the Directors' Report on Operations, including percentage amounts, have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them;

- "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 first semester of 2007 confirms the positive trend shown by the Group in recent years, strengthening the leadership position the Group holds in the luxury segment of the eyewear industry.

Also in this first part of the year, an increase in turnover, operating profit and net profit has been recorded, despite some unforeseeable events, including the weakness of the US currency, which limited the growth in profitability.

Sales in the first semester reached Euro 667,8 million, a strong increase (+10.3%) compared to 2006, and despite the further weakening of the US dollar. This persistent weakness of the US currency, associated with unforeseeable events, such as the significant volume of Polo products returned on the last day of the license agreement, hindered a proportional increase in the operating profit, which has nonetheless grown by 6.8% compared to the first semester of 2006.

Particularly positive was the treasury management which was impacted, in the second quarter of 2006, by extraordinary costs relating to the renegotiation of the senior loan.

More efficient tax management contributed to the improvement of the net profit, which posted a strong increase both on a half-year basis (+55.3%) and specifically on a quarterly basis, more than doubling its value.

Cash management was positive too, when compared to the same period of 2006, thanks to an improved management of the working capital and specifically the inventory levels, which do not require further increases.

Sales Analysis

Turnover targets achieved in the first six months of 2007 confirm once more the efficiency of the commercial policies put in place by the Group. Consolidated revenues of the first semester have grown by +10.3%, despite a negative impact deriving from the persistent weakness of the US Dollar (at constant exchange rates growth would have reached +14.2%), thanks to substantial sales increases in the wholesale channel and to the constant expansion of the retail channel which now represents 5.4% of the Group's turnover.

The second quarter recorded a +7.6% increase in revenues (+10.9% at constant exchange rates).

By geographic area, positive performances must be underlined in the European and Asian markets which, in the first semester, improved respectively by +25.4% and +13.1%. The American market, which at first sight might seem to have achieved less encouraging results, is in fact the most impacted by the non-renewal of the Polo licence and by the weakness of the American currency (at constant exchange rates there would have been a +2.7% growth).

The retail business is being further developed and saw, during the month of June, the opening of the 100th store of the Solstice chain in the United States. The store chain Loop in Spain, which is in a restructuring phase, will most likely increase its points of sales in the second semester of 2007.

The positive recovery of the house brands sales continues in the second quarter of 2007 with double digit growth rates and, at the same time, prescription frames revenues are constantly increasing, with growth rates even higher than the already positive performance of sunglasses.

Net sales by geographical region (Euro in millions)	Six months ended June 30,					Second Quarter				
	2007	%	2006	%	Change%	2007	%	2006	%	Change%
Italy	92.3	13.8	85.5	14.1	+8.0	47.1	14.4	45.6	15.0	+3.2
Europe (excluding Italy)	243.7	36.5	194.4	32.1	+25.4	116.4	35.7	100.1	33.0	+16.3
The Americas	220.6	33.0	231.5	38.2	-4.7	110.0	33.7	112.2	37.0	-1.9
Asia Pacific	77.8	11.6	68.8	11.4	+13.1	38.4	11.8	33.0	10.9	+16.2
Other	33.4	5.1	25.2	4.2	+32.5	14.6	4.4	12.4	4.1	+17.5
Total	667.8	100.0	605.4	100.0	+10.3	326.4	100.0	303.3	100.0	+7.6

Net sales by product (Euro in millions)	Six months ended June 30,					Second Quarter				
	2007	%	2006	%	Change%	2007	%	2006	%	Change%
Prescription frames	239.8	35.9	213.8	35.3	+12.2	121.4	37.2	106.4	35.1	+14.1
Sunglasses	394.0	59.0	358.7	59.3	+9.8	189.8	58.1	181.2	59.7	+4.7
Sport products	24.0	3.6	24.0	4.0	+0.2	10.6	3.2	10.8	3.6	-2.2
Other	9.9	1.5	8.9	1.4	+11.2	4.7	1.5	4.9	1.6	-4.5
Total	667.8	100.0	605.4	100.0	+10.3	326.4	100.0	303.3	100.0	+7.6

Net sales by distribution channel (Euro in millions)	Six months ended June 30,					Second Quarter				
	2007	%	2006	%	Change%	2007	%	2006	%	Change%
Wholesale	631.9	94.6	586.1	96.8	+7.8	306.2	93.8	292.0	96.3	+4.9
Retail	35.9	5.4	19.3	3.2	+86.4	20.2	6.2	11.3	3.7	+79.0
Total	667.8	100.0	605.4	100.0	+10.3	326.4	100.0	303.3	100.0	+7.6

Italy. The domestic market continues to register positive performances, with sales in further increase compared to 2006 (+3.2% in the quarter, +8.0% from the beginning of the year), which had already recorded excellent results compared to the year before. It is important to highlight in particular that in the second quarter prescription frames have performed very well (+8.3% in the quarter compared to 2006), along with the general success of the last collections presented, mainly Armani, Diesel and the house brands.

Europe (excluding Italy). The European market has registered impressive results compared to 2006. An important factor contributing to this is the seasonality which last year privileged deliveries in the second semester, on the contrary to what is happening in 2007; this will probably lead to a containment in sales growth in the second part of the year. However, figures from the first six months, and from the last quarter in particular, point to a positive commercial growth in all European countries with double digit increases in all the main markets, and particularly in France, Germany and the UK.

The Americas. As previously mentioned, comparison with 2006 results in the American area are indicative only to a certain extent as, in addition to the exchange rate impact, sales for the Polo products were still at normal speed in the first semester of last year. During the first semester of 2007 these sales were fully replaced by sales of other brands, allowing this market to grow, at constant exchange rates, by +2.7% in the semester and by +4.5% in the second quarter of the year.

The development of the Solstice chain, which has reached 100 stores, has contributed to this target by increasing the presence of top level stores managed directly by the Group.

From a brand point of view, house brands are in strong expansion, the Smith brand in particular, while among the licensed brands excellent performances have been achieved by Dior and Marc Jacobs.

Asia Pacific. Sales in the Asian market have recorded, also in the second quarter, extremely positive growth rates.

Turnover for the region has increased, at constant exchange rates, by +22.0% in the semester and by +24.8% in the second quarter of the year. As already noted in the past the developing markets, such as China and South Korea, have contributed significantly to the commercial success of the area which should continue in the future.

Among the main brands distributed in the area impressive results have been achieved by Armani, Dior and Gucci.

Group economic results

Consolidated statement of operations (Euro in millions)	Six months ended June 30,					Second Quarter				
	2007	% ^(*)	2006	%	Ch. % ^(*)	2007	% ^(*)	2006	%	Ch. % ^(*)
Net sales	667.8	100.0	605.4	100.0	10.3	326.4	100.0	303.3	100.0	7.6
Cost of sales	(274.3)	(41.1)	(240.4)	(39.7)	14.1	(137.5)	(42.1)	(123.4)	(40.7)	11.4
Gross profit	393.5	58.9	365.0	60.3	7.8	188.9	57.9	179.9	59.3	5.1
Selling and marketing expenses	(242.6)	(36.3)	(223.6)	(36.9)	8.5	(119.0)	(36.4)	(112.8)	(37.2)	5.5
General and administrative expenses	(69.1)	(10.3)	(66.1)	(10.9)	4.6	(36.8)	(11.3)	(35.5)	(11.7)	4.0
Other operating income/(expenses), net	(0.1)	0.0	1.1	0.2	n.s.	(0.4)	(0.1)	0.9	0.3	n.s.
Operating profit	81.7	12.2	76.4	12.7	6.8	32.7	10.0	32.5	10.7	0.4
Share of income/(loss) of associates	0.2	0.0	-	(0.0)	n.s.	0.2	0.1	-	(0.0)	n.s.
Interest expense and other financial charges, net	(22.4)	(3.4)	(36.3)	(6.0)	(38.2)	(10.2)	(3.1)	(23.0)	(7.6)	(55.6)
Profit before taxation	59.5	8.9	40.1	6.7	48.0	22.7	6.9	9.5	3.1	n.s.
Income taxes	(23.0)	(3.5)	(16.5)	(2.7)	39.2	(8.9)	(2.7)	(4.0)	(1.3)	n.s.
Net profit	36.5	5.5	23.6	4.0	54.2	13.8	4.2	5.5	1.8	n.s.
Net profit attributable to minority interests	2.6	0.4	1.8	0.3	41.2	0.9	0.3	0.7	0.2	29.1
Net profit attributable to the Group	33.9	5.1	21.8	3.7	55.3	12.9	3.9	4.8	1.6	n.s.
EBITDA	101.1	15.1	94.7	15.6	6.7	42.4	13.0	41.6	13.7	1.7

(*) Percentage impacts and changes have been calculated on figures in thousand.

The positive revenues trend has allowed the Group to substantially increase its profitability, thanks also to a lower impact of financial charges.

Net profit in the semester has grown by 55.3% compared to the same period of 2006, while the second quarter has brought an even more important increase.

The analysis of the reasons of this improvement, less evident from an operating profit point of view, are to be found when considering the unforeseen events of 2006 and 2007, both at a cost and a financial level.

In particular, it is important to remember that the second quarter 2006 had recorded extraordinary costs for a total amount of Euro 16 million, both as financial charges relating to the refinancing of the senior loan and as personnel costs.

Profitability of the first semester of 2007 was instead penalized by the following issues:

- further weakness of the US dollar;
- strong development of the retail project;
- impact of the closing of the Polo licence;
- settlement of a legal dispute with an American company, holder of an industrial patent.

Net of these issues, operating profitability in the semester would have been slightly higher compared to the figure achieved in the same period of 2006.

In terms of value, operating profit has grown in the semester by 6.8% due to the increase in revenues and to the cost cutting policies which have resulted in a decrease in the percentage impact of both selling and marketing and general and administrative expenses.

Financial charges are significantly lower than in the first semester of 2006, when recurring costs for Euro 9.3 million were sustained. Nonetheless, thanks to a lower impact of interest expenses and to an improved management of impacts from fluctuations in currencies, the Group has achieved a better result in the treasury management.

Tax rate has also improved, from 41.2% in the first semester of 2006 to 38.8% in the same period of this year.

Balance sheet and financial situation

Condensed balance sheet (Euro in millions)	June 30, 2007	December 31, 2006	Change
Cash in hand and at bank	48.4	35.6	12.8
Trade receivables, net	367.0	319.5	47.5
Inventory, net	263.0	271.6	(8.6)
Other current assets	40.6	58.7	(18.1)
Total current assets	719.0	685.4	33.6
Property, plant and equipment, net	202.7	201.9	0.8
Intangible assets	23.4	22.3	1.1
Goodwill	378.5	382.8	(4.3)
Other non-current assets	89.8	90.8	(1.0)
Total non current assets	694.4	697.8	(3.4)
Total assets	1,413.4	1,383.2	30.2
Short-term borrowings	100.8	99.7	1.1
Trade payables	220.8	228.3	(7.5)
Other current liabilities	138.8	111.3	27.5
Total current liabilities	460.4	439.3	21.1
Long-term borrowings	476.0	475.6	0.4
Employee benefit liability	37.8	40.9	(3.1)
Other non-current liabilities	28.8	30.1	(1.3)
Total non current liabilities	542.6	546.6	(4.0)
Group shareholders' equity	403.6	391.9	11.7
Minority interests	6.8	5.4	1.4
Total liabilities and shareholders' eq.	1,413.4	1,383.2	30.2

Condensed consolidated statement of cash flow <i>(Euro in millions)</i>	Six months ended June 30,		Change
	2007	2006	
Opening net cash and cash equivalents	(0.8)	25.9	(26.7)
Cash flow operating activities	33.4	18.4	15.0
Cash flow investing activities	(22.7)	(13.2)	(9.5)
Cash flow financing activities	10.9	(1.2)	12.1
Translation exchange difference	(0.3)	2.0	(2.3)
Closing net cash and cash equivalents	20.5	31.9	(11.4)

Cash flow for operating activities

The first semester of 2007 highlighted a significant improvement in cash flow generated by the operating activity. This result was achieved thanks mainly to the net working capital management which, even though it increased due to the normal business growth and the seasonality in sales, nonetheless showed improved cash collection from creditors and slightly lower inventory levels. The decrease in trade payables is a consequence of the reduced inventories.

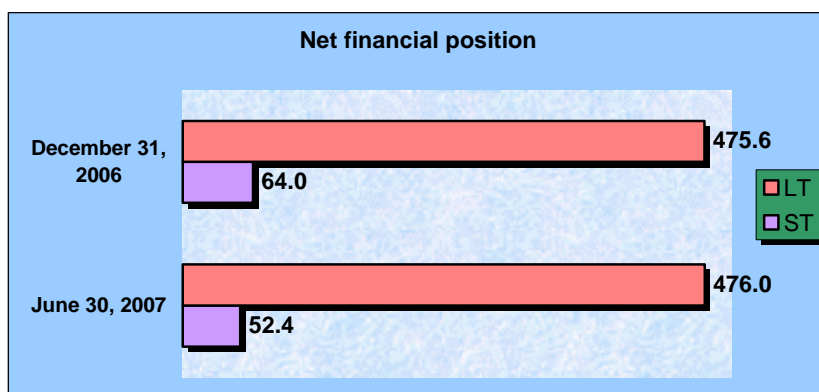
Cash flow for investing activities

Investments of the Group, which increased slightly compared to 2006, reflects the development activities in the retail sector, which led to 100 points of sales of the American chain Solstice. The Italian plants and the Slovenian production unit invested in ordinary maintenance activities and/or in substitution of non-efficient machinery.

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 (Euro in millions)	June 30, 2007	March 31, 2007	Change Jun - Mar	December 31, 2006	Change Jun - Dec
Current portion of long-term borrowings	(25.7)	(22.4)	(3.3)	(22.5)	(3.2)
Bank overdrafts and short-term bank borrowings	(27.9)	(54.0)	26.1	(36.4)	8.5
Other short-term borrowings	(47.3)	(41.1)	(6.2)	(40.7)	(6.6)
Cash and cash equivalents	48.4	46.3	2.1	35.6	12.8
Short-term net financial position	(52.4)	(71.2)	18.8	(64.0)	11.6
Long-term borrowings	(476.0)	(492.2)	16.2	(475.6)	(0.4)
Long-term net financial position	(476.0)	(492.2)	16.2	(475.6)	(0.4)
Net financial position	(528.4)	(563.4)	35.0	(539.6)	11.2



Legend:

ST = short-term

LT = long-term

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

<i>(Euro in millions)</i>	Equity as of June 30, 2007	Net profit 6 months 2007	Equity as of December 31, 2006
Balances per Safilo S.p.A. statutory financial statements	446.6	32.4	434.1
Shareholders' equity of consolidated companies	968.5	83.5	977.0
Elimination of the book value of consolidated subsidiaries	(1,326.0)	-	(1,340.2)
Goodwill	336.2	-	342.2
Fair value attributable to tangible assets	10.3	(0.1)	10.5
Elimination of dividends paid within the Group	-	(72.9)	-
Elimination of intercompany gains within the Group	(13.8)	0.5	(15.6)
Elimination of intercompany profit included in inventory	(19.8)	(1.9)	(18.6)
Investments in associates - equity method	6.3	0.2	6.3
Other consolidation entries	2.1	(5.2)	1.6
Total shareholders' equity	410.4	36.5	397.3
Shareholders' equity attributable to minority shareholders	6.8	2.6	5.4
Total shareholders' equity attributable to the Group	403.6	33.9	391.9

Personnel

Group personnel as at June 30th, 2007, December 31st, 2006 and June 30th, 2006 is shown in the following table:

	June 30, 2007	December 31, 2006	June 30, 2006	Ch. Jun '07 -Dec '06
Padua headquarters	871	845	842	26
Production facilities	4,893	4,573	4,398	320
Commercial companies	1,230	1,083	1,075	147
Retail	1,066	854	417	212
Total	8,060	7,355	6,732	705

The workforce of the Group has increased by 705 units when compared to December 31st, 2006, with a significant growth in production facilities as a result of the decision taken by the subsidiary Smith Sport Optics Inc. to internalize part of the production. This has involved an increase of 244 workers. The increase of the workforce in commercial companies mainly relates to the opening of the new subsidiary in Korea, whilst the retail area is impacted by the opening of new stores of the US chain Solstice.

Significant events after June 30th

In the period subsequent to June 30th, 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>	30/06/2007	31/12/2006
ASSETS			
Current assets			
Cash in hand and at bank	<i>2.1</i>	48,392	35,643
Trade receivables, net	<i>2.2</i>	366,999	319,517
Inventory, net	<i>2.3</i>	262,962	271,573
Derivative financial instruments	<i>2.4</i>	385	1,597
Other current assets	<i>2.5</i>	40,292	57,027
Total current assets		719,030	685,357
Non-current assets			
Property, plant and equipment, net	<i>2.6</i>	202,684	201,951
Intangible assets	<i>2.7</i>	23,353	22,274
Goodwill	<i>2.8</i>	378,500	382,759
Investments in associates	<i>2.9</i>	12,391	12,535
Financial assets available-for-sale	<i>2.10</i>	3,657	3,472
Deferred tax assets	<i>2.11</i>	52,399	51,172
Derivative financial instruments	<i>2.4</i>	2,254	1,921
Other non-current assets	<i>2.12</i>	19,115	21,731
Total non-current assets		694,353	697,815
Total assets		1,413,383	1,383,172

<i>(Euro/000)</i>	<i>Note</i>	30/06/2007	31/12/2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	<i>2.13</i>	100,805	99,677
Trade payables	<i>2.14</i>	220,799	228,346
Tax payables	<i>2.15</i>	26,245	20,676
Other current liabilities	<i>2.16</i>	111,637	89,788
Provisions for risks and charges	<i>2.17</i>	963	828
Total current liabilities		460,449	439,315
Non-current liabilities			
Long-term borrowings	<i>2.13</i>	475,980	475,583
Employee benefit liability	<i>2.18</i>	37,814	40,880
Provisions for risks and charges	<i>2.17</i>	11,325	10,478
Deferred tax liabilities	<i>2.11</i>	12,546	13,082
Derivative financial instruments	<i>2.4</i>	48	1,336
Other non-current liabilities	<i>2.19</i>	4,893	5,172
Total non-current liabilities		542,606	546,531
Total liabilities		1,003,055	985,846
Shareholders' equity			
Share capital	<i>2.20</i>	35,000	35,000
Share premium reserve	<i>2.21</i>	2,305	53,350
Retained earnings and other reserves	<i>2.22</i>	330,350	264,086
Fair value and cash flow reserves	<i>2.23</i>	2,086	1,859
Income attributable to the Group		33,819	37,642
Total shareholders' equity attributable to the Group		403,560	391,937
Minority interests		6,768	5,389
Total shareholders' equity		410,328	397,326
Total liabilities and shareholders' equity		1,413,383	1,383,172

Consolidated statement of operations

(Euro/000)	Note	Six months ended June 30,		Second Quarter	
		2007	2006	2007	2006
Net sales	3.1	667,812	605,405	326,417	303,280
Cost of sales	3.2	(274,322)	(240,446)	(137,489)	(123,438)
Gross profit		393,490	364,959	188,928	179,842
Selling and marketing expenses	3.3	(242,605)	(223,598)	(118,975)	(112,778)
General and administrative expenses	3.4	(69,108)	(66,064)	(36,933)	(35,500)
Other operating income/(expenses), net	3.5	(121)	1,169	(399)	922
Operating profit		81,656	76,466	32,621	32,486
Share of income/(loss) of associates	3.6	224	(24)	185	(62)
Interest expense and other financial charges, net	3.7	(22,438)	(27,010)	(10,193)	(13,693)
Non-recurring financial charges	3.8	-	(9,282)	-	(9,282)
Profit before taxation		59,442	40,150	22,613	9,449
Income taxes	3.9	(23,042)	(16,549)	(8,935)	(3,960)
Net profit		36,400	23,601	13,678	5,489
Net profit attributable to minority interests		2,581	1,828	927	718
Net profit attributable to the Group		33,819	21,773	12,751	4,771

Consolidated statement of cash flow

(Euro/000)	Six months ended June 30,	
	2007	2006
A - Opening net cash and cash equivalents (net financial indebtedness - short term)	(801)	25,866
B - Cash flow from (for) operating activities		
Net profit for the period (including minority interests)	36,400	23,601
Stock option	279	389
Depreciation and amortization	19,367	18,231
Share income/(loss) on equity investments	(224)	101
Net movements in the employee benefit liability	(3,024)	1,942
Net movements in other provisions	995	571
Interest expenses, net	18,864	31,712
Income tax expenses	23,042	16,549
Income from operating activities prior to movements in working capital	95,699	93,096
Change in operating assets and liabilities		
(Increase) Decrease in trade receivables and other current receivables	(30,247)	(49,360)
(Increase) Decrease in inventory, net	6,270	(14,095)
Increase (Decrease) in trade payables and other current payables	(3,864)	24,631
Interest expenses paid	(18,304)	(20,503)
Income tax paid	(16,169)	(15,414)
Total (B)	33,385	18,355
C - Cash flow from (for) investing activities		
Purchase of property, plant and equipment (net of disposals)	(18,940)	(12,307)
Disposal of investments and bonds	-	209
Purchase of intangible assets	(3,717)	(1,119)
Total (C)	(22,657)	(13,217)
D - Cash flow from (for) financing activities		
Proceeds from borrowings	24,192	304,447
Repayment of borrowings	(12,090)	(304,209)
Dividends paid	(1,240)	(1,478)
Total (D)	10,862	(1,240)
E - Cash flow for the period (B+C+D)	21,590	3,898
Translation exchange difference	(261)	2,071
Total (F)	(261)	2,071
G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)	20,528	31,835

Consolidated statement of recognised income and expense

(Euro/000)	Note	Six months ended June 30,		Second Quarter	
		2007	2006	2007	2006
Profit (loss) attributable to the cash flow reserve	2.23	1,021	2,790	109	1,286
Profit (loss) attributable to the fair value reserve	2.23	185	(78)	(99)	(1,008)
Actuarial gains/(losses)	2.22	-	(483)	-	(961)
Profit (loss) attributable to the conversion fund	2.22	(5,706)	(6,120)	(2,130)	(3,870)
Profit (loss) attributable to shareholders' equity	2.22	321	(373)	104	(86)
Total		(4,179)	(4,264)	(2,016)	(4,639)
Net income for the period		36,400	23,601	13,678	5,489
Total recognized income for the period		32,221	19,337	11,662	850
Attributable to:					
Group		29,602	17,613	10,757	296
Minority interests		2,619	1,724	905	554
Total recognized income for the period		32,221	19,337	11,662	850

Statement of changes in shareholders' equity

First semester 2006

<i>(Euro,000)</i>	Share capital	Share premium	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserve	Retained earnings	Net profit	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 profit allocation	-	-	-	-	-	-	10,442	(10,442)	-
Retained earnings	-	-	-	-	(6,033)	3,739	(449)	-	(2,743)
Net profit for the period	-	-	-	-	-	-	-	21,773	21,773
Group shareholders' equity at June 30, 2006	35,000	53,350	299,523	(80,988)	(825)	(160)	71,576	21,773	399,249
Minority interests at January 1, 2006	-	-	-	-	102	-	2,215	3,220	5,537
Previous year's profit allocation	-	-	-	-	-	-	3,220	(3,220)	-
Retained earnings	-	-	-	-	(87)	-	(17)	-	(104)
Dividends distribution	-	-	-	-	-	-	(1,478)	-	(1,478)
Net profit for the period	-	-	-	-	-	-	-	1,828	1,828
Minority interests at June 30, 2006	-	-	-	-	15	-	3,940	1,828	5,783
Consolidated net equity at June 30, 2006	35,000	53,350	299,523	(80,988)	(810)	(160)	75,516	23,601	405,032

First semester 2007

(Euro/000)	Share capital	Share premium reserve	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserves	Change in consolidation scope	Retained earnings	Net profit	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	-	(51,045)	-	-	(5,759)	227	336	51,045	-	(5,196)
Dividends distribution	-	-	-	-	-	-	-	(17,000)	-	(17,000)
Net profit for the period	-	-	-	-	-	-	-	-	33,819	33,819
Group shareholders' equity at June 30, 2007	35,000	2,305	299,523	(80,988)	(18,024)	2,086	630	129,209	33,819	403,560
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	-	-	-	-	53	-	(15)	-	-	38
Dividend distribution	-	-	-	-	-	-	-	(1,240)	-	(1,240)
Net profit for the period	-	-	-	-	-	-	-	-	2,581	2,581
Minority interests at June 30, 2007	-	-	-	-	51	-	(309)	4,445	2,581	6,768
Consolidated net equity at June 30, 2007	35,000	2,305	299,523	(80,988)	(17,973)	2,086	321	133,654	36,400	410,328

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 June 30th, 2007. Economic and financial information is provided with reference to the first six months of 2007 and 2006, whilst balance sheet information is provided with reference to June 30th, 2007 and December 31st, 2006.

The consolidated financial information reported for the period ended June 30th, 2007 has been prepared in accordance with the IFRS issued by the *International Accounting Standards Board* and approved by the European Commission as of June 30th, 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 July 31st, 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)	EUR	563,767	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
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:

	As of			Average for the six months ended	
	June 30, 2007	December 31, 2006	June 30, 2006	June 30, 2007	June 30, 2006
USD	1.3505	1.3170	1.2713	1.3291	1.2293
HKD	10.5569	10.2409	9.8745	10.3829	9.5394
CHF	1.6553	1.6069	1.5672	1.6318	1.5610
CAD	1.4245	1.5281	1.4132	1.5078	1.3999
JPY	166.6300	156.9300	145.7500	159.6122	142.1245
GBP	0.6740	0.6715	0.6921	0.6746	0.6870
SEK	9.2525	9.0404	9.2385	9.2228	9.3269
AUD	1.5885	1.6691	1.7117	1.6446	1.6548
ZAR	9.5531	9.2124	9.1848	9.5297	7.7996
SIT ¹	-	239.6400	239.6300	-	239.5672
BRL	2.5972	2.8133	2.7575	2.7186	2.6965
IND	55.0153	58.2975	58.5514	56.7239	55.2594
SGD	2.0664	2.0202	2.0137	2.0314	1.9766
MYR	4.6626	4.6490	4.6714	4.5815	4.5321
CNY	10.2816	10.2793	10.1648	10.2567	9.8756
KRW	1,247.7300	1,224.8100	1,206.0800	1,241.2481	1,183.8146

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>	June 30, 2007	December 31, 2006
Cash in hand and at bank	48,392	35,643
Total	48,392	35,643

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

<i>(Euro/000)</i>	June 30, 2007	June 30, 2006
Cash in hand and at bank	48,392	34,867
Bank overdrafts	(27,864)	(3,032)
Total	20,528	31,835

2.2 Trade receivables, net

This account is comprised as follows:

<i>(Euro/000)</i>	June 30, 2007	December 31, 2006
Gross value	394,998	342,485
Allowance for doubtful accounts	(27,999)	(22,968)
Net value	366,999	319,517

Net trade receivables increased as a result of the growth in sales in the second 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>	June 30, 2007	December 31, 2006
Raw materials	42,864	50,491
Work-in-progress	7,504	7,868
Finished products	239,794	238,743
Gross	290,162	297,102
Obsolescence provision (-)	(27,200)	(25,529)
Total	262,962	271,573

Finished product inventory levels did not undergo significant changes when compared to the end of 2006 as they are considered in line with the need to ensure an optimal level of customer service to support sales. Raw materials inventory instead significantly decreased, as seasonality in the production activity normally leads to the reduction of the inventories before the summer season.

For obsolete and slow moving items, a specific accrual has been accounted for, based on their possible future sale or use. 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	Impact on income statement	Transl. diff.	Balance at June 30, 2007
Obsolescence provision	25,529	1,857	(186)	27,200
Total	25,529	1,857	(186)	27,200

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>	June 30, 2007	December 31, 2006
Current assets:		
- Foreign currency contracts	385	1,205
- Interest rate swaps - cash flow hedge	-	266
- Interest rate swaps - at fair value through P&L	-	126
Total	385	1,597
Non-current assets:		
- Interest rate swaps - cash flow hedge	1,571	361
- Options	683	1,560
Total	2,254	1,921

Current liabilities:			
- Foreign currency contracts		-	-
- Interest rate swaps - at fair value through P&L		-	-
Total		-	-
Non-current liabilities:			
- Interest rate swaps - cash flow hedge		-	-
- Interest rate swaps - at fair value through P&L		48	1,336
Total		48	1,336

A summary of the characteristics and the fair value of the derivative contracts in force at June 30th, 2007 and December 31st, 2006 is shown below:

Foreign currency contracts	June 30, 2007		December 31, 2006	
	Contractual value (USD/000)	Fair value (Euro/000)	Contractual value (USD/000)	Fair value (Euro/000)
Expiry year 2007	\$9,000	385	\$39,000	1,205
Total	9,000	385	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 June 30th, 2007 and December 31st, 2006 is shown below:

Interest rate swaps (Euro/000)	June 30, 2007		December 31, 2006	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2007	-	-	170,361	392
Expiry year 2010	25,000	72	25,000	(522)
Expiry year 2011	102,500	1,451	85,000	(453)
Total	127,500	1,523	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:

(Euro/000)	June 30, 2007	December 31, 2006
Receivables from the holding company Safilo Group S.p.A.	11,873	14,595
VAT receivable	2,127	5,306
Tax credits and payments on account	7,644	9,515
Prepayments and accrued income	10,773	7,505
Receivables from agents	4,158	4,483
Other current receivables	3,717	15,623
Total	40,292	57,027

On September 15th, 2006 the parent company Safilo Group S.p.A. stipulated an interest-bearing loan with its subsidiary Safilo S.p.A. for a maximum amount of Euro 20,000,000 at the 3-month Euribor rate with a spread of 0.10% per year, which will expire on December 31st, 2007. In relation to this contract, on September 15th, 2006 Safilo S.p.A. granted its parent company a loan of Euro 14,200,000 at the Euribor rate on that date, equal to 3.162%. As at June 30th, 2007 the account balance "receivables from the holding company Safilo Group S.p.A." includes an amount equal to Euro 14,000,000 related to the above loan.

The remaining part of the account balance mainly relates to an intercompany payable related to VAT. Starting from January 1st, 2007 Safilo Group S.p.A., as the holding company, and Safilo S.p.A. and Smith Sport Optics S.r.l., as subsidiaries, have adhered to the VAT write-off procedure provided by Ministerial Decree dated December 13th, 1979 (so-called "Group VAT"). Further to this adhesion and the mechanism allowed by the procedure, Safilo S.p.A. VAT payables have been reclassified as a reduction of intercompany receivables towards the holding company Safilo Group S.p.A..

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

Pre-payments and accrued income at June 30th, 2007 include:

- prepaid advertising costs of Euro 3,005 thousand;
- prepaid insurance premiums of Euro 568 thousand;
- prepaid rent and operating leases of Euro 1,450 thousand;
- prepaid costs incurred for the "Revolving Facility" loan of Euro 1,306 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 account "other current receivables" is currently composed of receivables for insurance reimbursements and other short-term receivables related to various Group companies. The decrease in the above account balance is mainly due to the off-setting of the advance payment on royalties made in the previous year with the trade payables for royalties matured during the first half of 2007.

2.6 Property, plant and equipment, net

	Balance at January 1, 2006	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at December 31, 2006
<i>(Euro/000)</i>							
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

	Balance at January 1, 2007	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at June 30, 2007
<i>(Euro/000)</i>							
Gross value							
Land and buildings	108,783	503	(316)	-	-	(87)	108,883
Plant and machinery	163,406	4,212	(2,776)	-	-	(111)	164,731
Equipment and other assets	153,862	13,544	(1,227)	(1,833)	-	(1,167)	163,179
Assets under constructions	6,019	3,466	-	(1,941)	-	(11)	7,533
Total	432,070	21,725	(4,319)	(3,774)	-	(1,376)	444,326
Accumulated depreciation							
Land and buildings	23,112	1,623	(50)	-	-	(30)	24,655
Plant and machinery	100,623	5,876	(2,307)	-	-	(54)	104,138
Equipment and other assets	106,384	8,754	(1,116)	(595)	-	(578)	112,849
Total	230,119	16,253	(3,473)	(595)	-	(662)	241,642
Net book value	201,951	5,472	(846)	(3,179)	-	(714)	202,684

The investments in property, plant and equipment during the first half of 2007 amount to Euro 19,784 thousand (compared to Euro 15,421 thousand during the first semester of the previous year) and have been made in:

- the production sites of the Group for Euro 10,056 thousand, mainly for the substitution of obsolete machinery and the acquisition and/or internal production of machinery and equipment relating to new models;
- the American subsidiaries, for Euro 7,853 thousand, mainly due to expenditures for the development of the Solstice retail chain and to the acquisition of a business unit by the subsidiary Smith Sport Optics Inc.;
- the European subsidiaries, for Euro 1,484 thousand;
- Far East, for Euro 391 thousand.

2.7 Intangible assets

(Euro/000)	Balance at	Increase	Decrease and	New	Transl. diff.	Balance at
	January 1,					December
	2006		write-down	acquisition		31, 2006

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
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(Euro/000)	Balance at	Increase	Decrease and	Reclass.	Transl. diff.	Balance at
	January 1,					June 30,
	2007		write-down			2007

Gross value

Software	10,522	891	(36)	1,833	(67)	13,143
Trademarks and licenses	41,857	1,714	-	-	(3)	43,568
Other intangible assets	6,413	90	(434)	-	18	6,087
Intangible assets in progress	15	349	-	-	-	364
Total	58,807	3,044	(470)	1,833	(52)	63,162

Accumulated depreciation

Software	7,694	877	(32)	595	(26)	9,108
Trademarks and licenses	23,066	2,004	(3)	-	(2)	25,065
Other intangible assets	5,773	233	(379)	-	9	5,636
Total	36,533	3,114	(414)	595	(19)	39,809

Net book value	22,274	(70)	(56)	1,238	(33)	23,353
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Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the six months ended June 30th, 2007 and 2006 are divided into the following income statement accounts:

(Euro/000)	Note	Six months ended June 30,	
		2007	2006
Cost of sales	3.2	10,438	11,395
Selling and marketing expenses	3.3	2,094	1,525
General and administrative costs	3.4	6,835	5,311
Total		19,367	18,231

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 June 30, 2007
Goodwill	382,759	728	(4,987)	378,500
Net book value	382,759	728	(4,987)	378,500

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 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		
	Gross value	Revaluation/(write-down)	Value at December 31, 2006	Share of results and write-down of divid. of assoc. comp.	Transl. diff.	Value at June 30, 2007
TBR Inc.	437	502	939	76	(24)	991
Elegance I. Holdings Ltd	5,406	5,988	11,394	106	(344)	11,156
Optifashion As	353	(151)	202	42	-	244
Total	6,196	6,339	12,535	224	(368)	12,391

There were no acquisitions during the first six months of 2007. The changes compared to December 31st, 2006 are mainly due to the net profits realized in the semester by the associated companies and to translation differences.

The company Optifashion A.s., a 50% held subsidiary of the Group with registered office in Istanbul (Turkey), 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 June 30, 2007	Value at December 31, 2006
Banca Popolare Italiana S.p.A.	Other equity investment	3,423	3,238
Unicredit S.p.A.	Other equity investment	191	191
Others	Other equity investment	43	43
Total		3,657	3,472

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

(Euro/000)	31.12.2006			Movements for the period		Value at June 30, 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	-	185	3,423
Unicredit S.p.A.	48	143	191	-	-	191
Others	43	-	43	-	-	43
Total	6,946	(3,474)	3,472	-	185	3,657

2.11 Deferred tax assets and deferred tax liabilities

(Euro/000)	June 30, 2007	December 31, 2006
Deferred tax assets	52,399	51,172
Deferred tax liabilities	(12,546)	(13,082)
Total net	39,853	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.

Deferred tax assets relating to fiscal losses carried forward amount to Euro 6,430 thousand, expiring in 2009.

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.. During 2003, the useful life of some assets, mainly pertaining to “plant and machinery”, was revised. The effects of this revision, both for fiscal purposes and according to the Italian GAAP, had been recorded prospectively in 2003 while, according to IFRS 1 – paragraph 7, they had been re-determined as if the assets had always been amortised according to the re-determined useful life.

Another significant line item on which deferred tax liabilities have been calculated is the goodwill amortisation.

2.12 Other non-current assets

The account is comprised as follows:

(Euro/000)	June 30, 2007	December 31, 2006
Receivables from holding company Safilo Group S.p.A.	16,079	19,758
Other non-current assets	3,036	1,973
Total	19,115	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, 2006 and first half of 2007 and transferred to Safilo Group S.p.A. further to the “national tax consolidation”. In accordance with it, the fiscal losses realized by Safilo S.p.A. are hence transferred to the consolidating company, Safilo Group S.p.A.. The receivables from the parent company are the counterbalance for the fiscal benefits transferred.

At June 30th, 2007, the “other non-current assets” amount to Euro 3,036 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)	June 30, 2007	December 31, 2006
Payables to banks and short-term loans		
Bank overdrafts	24	6,631
Short-term bank loans	27,840	29,813
Short-term portion of long-term bank loans	25,657	22,523
Short-term portion of financial leasing and other loans	1,077	1,121
Other short-term loans	46,207	39,589
Total	100,805	99,677
Payables to banks and medium and long-term loans		
Medium long-term loans	466,018	465,103
Payables for financial leasing	9,291	9,708
Other medium long-term loans	671	772
Total	475,980	475,583
Total borrowings and bank loans	576,785	575,260

The short-term portion of long-term bank loans includes for Euro 22,628 thousand the share of the senior loan, stipulated at the end of June 2006, which is payable by the end of this year. The long-term portion, equal to Euro 274,129 thousand, is included in the “Medium long-term loans”. The loan above is structured as follows:

- 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%, expiring on December 31st, 2011.

- Euro 200 million, relating to the “Revolving Facility” composed of two tranches also provided in US Dollars (Tranche B1 Euro 170 million, Tranche B2 Euro 30 million) utilised at June 30th, 2007 for Euro 120 million and USD 10 million. Effective from July 1st 2007, the lenders have conceded a one-year extension of the Revolving facility, the expiry date of which, originally dated December 31st, 2011, is now December 31st, 2012.

The margin applied on “Facility A” and “Revolving Facility” was 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 account “Medium long-term loans” also include the High Yield bond, equal to a nominal value of Euro 195 million.

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.

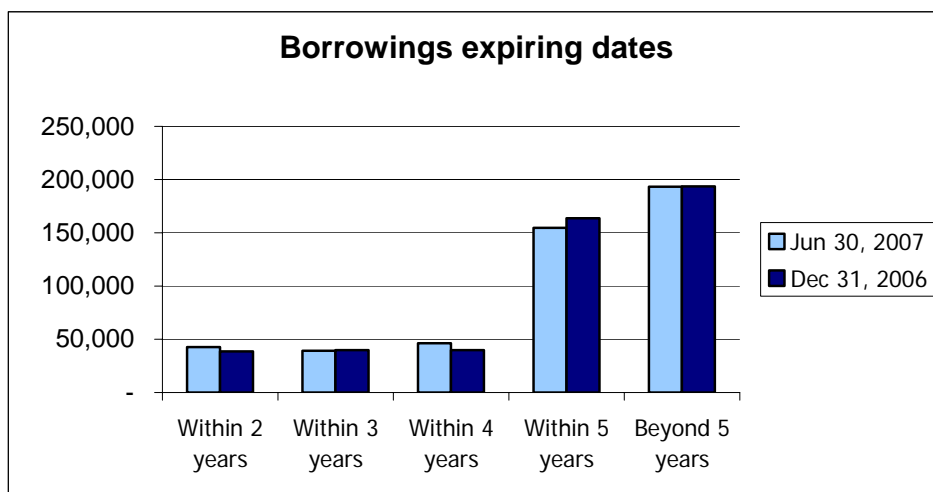
The payables for financial leases refer to property, plant and equipment acquired under leasing contracts by companies belonging to the Group. The average residual life of leasing contracts is 8 years. All leasing contracts at the interim balance sheet date are repayable through equal instalments and the contracts do not include any option for reviewing the original contract.

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

Other short-term loans include, for Euro 44,753 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:

<i>(Euro/000)</i>	June 30, 2007	December 31, 2006
Within 2 years	42,657	38,693
Within 3 years	39,175	39,656
Within 4 years	46,136	39,822
Within 5 years	154,657	163,739
Beyond 5 years	193,355	193,673
Total	475,980	475,583



Borrowings by currency are as follows:

<i>(Euro/000)</i>	June 30, 2007	December 31, 2006
Short-term		
Euro	85,519	84,857
US Dollars	10,893	11,160
Brasilian Real	1,840	2,265
Yen	1,200	-
Hong Kong Dollars	1,353	1,395
Total	100,805	99,677
Medium long-term		
Euro	385,332	383,359
US Dollars	90,648	90,950
Yen	-	1,274
Total	475,980	475,583
Total borrowings	576,785	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:

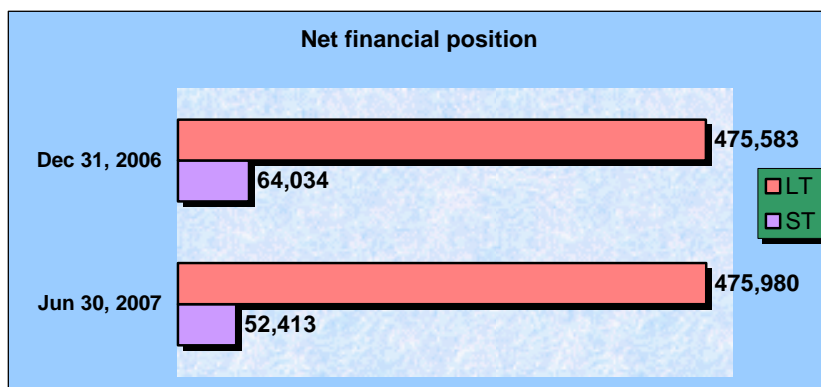
<i>(Euro/000)</i>	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	159,854	26,000	133,854
Credit lines on long-term bank loans	379,466	306,871	72,595
Total	539,320	332,871	206,449

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. At this moment, all parameters have been met; should they not be complied with in the future, 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", that may involve obligatory early repayment of the loans granted, could take place.

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 June 30th 2007 compared with the same as of March 31st, 2007 and December 31st, 2006 is the following:

Net financial position (Euro/000)	June 30, 2007	March 31, 2007	Change Jun - Mar	December 31, 2006	Change Jun - Dec
Current portion of long-term borrowings	(25,657)	(22,404)	(3,253)	(22,523)	(3,134)
Bank overdrafts and short-t. bank borrowings	(27,864)	(53,957)	26,093	(36,444)	8,580
Other short-term borrowings	(47,284)	(41,133)	(6,151)	(40,710)	(6,574)
Cash and cash equivalents	48,392	46,321	2,071	35,643	12,749
Short-term net financial position	(52,413)	(71,173)	18,760	(64,034)	11,621
Long-term borrowings	(475,980)	(492,204)	16,224	(475,583)	(397)
Long-term net financial position	(475,980)	(492,204)	16,224	(475,583)	(397)
Net financial position	(528,393)	(563,377)	34,984	(539,617)	11,224



Legend:

- 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 at the end of 2006.

<i>(Euro/000)</i>	June 30, 2007	December 31, 2006
Purchase of raw materials	42,954	51,295
Purchase of finished goods	76,548	83,536
Suppliers from subcontractors	6,736	9,902
Commissions	8,614	5,304
Royalties	25,599	20,220
Advertising and marketing costs	27,856	24,054
Services received from third parties	29,416	30,123
Purchase of property, plant and equipment and intangible assets	3,076	3,912
Total	220,799	228,346

2.15 Tax payables

Tax payables as of June 30th, 2007 amount to Euro 26,245 thousand compared to Euro 20,676 thousand as at December 31st, 2006 and relate for Euro 14,301 thousand to income taxes, for Euro 5,942 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 (3.9).

2.16 Other current liabilities

<i>(Euro/000)</i>	June 30, 2007	December 31, 2006
Payables to personnel and social security institutions	37,626	31,935
Premiums to clients	21,493	20,541
Agent fee payables	3,059	2,202
Accrued advertising and sponsorship costs	2,300	520
Accrued interests on long-term payables	3,422	7,302
Other accruals and deferred income	3,249	3,314
Payables to the holding company Safilo Group S.p.A.	1,034	1,085
Due to the holding company Safilo Group S.p.A. for dividends	33,000	16,000
Due to minority shareholders for dividends	3,440	3,553
Other current liabilities	3,014	3,336
Total	111,637	89,788

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

The accounts “due to the holding company Safilo Group S.p.A. for dividends” and “due to minority shareholders for dividends” relate to the dividends approved at the shareholders’ Meetings and not yet paid at the interim balance sheet date.

2.17 Provisions for risks and charges

This account is comprised as follows:

<i>(Euro/000)</i>	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

<i>(Euro/000)</i>	Balance at January 1, 2007	Increase	Decrease	New acquisition	Trans. diff.	Balance at June 30, 2007
Product warranty provision	3,801	757	-	-	-	4,558
Agents' severance indemnity	3,689	310	-	-	-	3,999
Litigation	1,188	-	-	-	-	1,188
Other provisions for risks and charges	1,800	101	(308)	-	(13)	1,580
Provisions for risks - long term	10,478	1,168	(308)	-	(13)	11,325
Provisions for risks - short term	828	135	-	-	-	963
Total	11,306	1,303	(308)	-	(13)	12,288

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 agents' 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 difference	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 difference	Balance at June 30, 2007
Employee benefit liability	40,880	3,402	(4,517)	(1,909)	(42)	37,814
Total	40,880	3,402	(4,517)	(1,909)	(42)	37,814

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.

Following the changes to the discipline governing the “employee benefit liability” (TFR) made by the law n. 296 dated December 27th, 2006 (“Finance bill 2007”) and subsequent Decrees and Regulations issued during the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- with reference to the amounts of employee benefit liability that will mature after January 1st, 2007 the above liability, both in the case of the option for selected pension funds or destination to the treasury account set up with INPS, represents a “defined contribution plan”;
- with reference to the amounts matured as of December 31st, 2006 the employee benefit liability represents a “defined benefit plan” requiring actuarial valuations that exclude future salaries increases.

The difference arising from the comparison between the new and the old actuarial calculations has been accounted for by Safilo Group as a “curtailment” in accordance with paragraph n. 109 of IAS n. 19. The above delta has been reported as a reduction of payroll costs recorded in the income statement for the first semester 2007. Actuarial losses recorded in a specific reserve in equity as of December 31st, 2006 have been reclassified in retained earnings.

2.19 Other non-current liabilities

The other non-current liabilities as of June 30th, 2007 amount to Euro 4,893 thousand and include liabilities deriving from existing contracts with licensors for the production and distribution of licensed products and the liability deriving from the settlement agreement reached by an American subsidiary in relation to an action pending for the use of a patent.

2.20 Share capital

Safilo's capital stock as of June 30th, 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 2,305 thousand and refers to:

- 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;
- 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.

The reduction compared to December 31st, 2006, for Euro 51,045 thousand, represents the amount allocated by the shareholders' Meeting on April 24th, 2007 to cover the losses carried forward from the previous financial years.

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 June 30, 2007
Cash flow reserve	1,221	1,021	(979)	1,263
Fair value reserve	638	185	-	823
Total	1,859	1,206	(979)	2,086

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

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

Further to the mandate granted by the Extraordinary shareholders' Meeting on October 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 were 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 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 relating to the "2003 Plan" and "2004 Plan", in consideration of the listing of Safilo Group S.p.A. on the Italian Stock Market, exercised 50% of the rights in their possession.

During June 2007, the beneficiaries of the "Plan 2003" and some beneficiaries of the "Plan 2004" respectively exercised n. 227,350 and n. 277,969 of the rights in their possession, thus leading to the issue of n. 909,400 and n. 1,111,876 ordinary shares with a total amount of cash in for the parent company Safilo Group S.p.A. equal to Euro 505,319 in terms of nominal value of the shares and Euro 5,738,003 in terms of share premium. As a result of the above exercise, the "2003 Plan" reached full completion and extinction whilst beneficiaries of "Plan 2004" may exercise the remaining rights in their possession until September 20th, 2008.

The total of the costs allocated to the income statement in the first six months of 2007 and 2006 can be summarised as follows:

(Euro/000)	June 30, 2007	June 30, 2006
2004 plan	-	389
2006 plan	279	-
Total	279	389

3. Notes on the consolidated statement of operations

3.1 Net sales

Group sales in the first six months of 2007 amount to Euro 667,812 thousand and report an increase of 10.3% 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 six months of 2007 compared to the same period of the previous year.

3.2 Cost of sales

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Purchase of raw materials and finished goods	190,703	176,230	92,841	91,081
Capitalisation of costs for increase in property, plant and equipment (-)	(5,470)	(4,844)	(2,960)	(2,437)
Change in inventories	6,275	(14,092)	9,282	(8,129)
Payroll and social security contributions	53,021	49,709	25,059	25,651
Subcontracting costs	14,210	17,788	5,627	9,392
Depreciation	10,438	11,395	5,198	5,722
Rental and operating leases	466	289	265	143
Other industrial costs	4,679	3,971	2,177	2,015
Total	274,322	240,446	137,489	123,438

The increase in the cost of materials and finished products, together with the negative change in inventories, has been substantially driven by the increased volumes of sales.

The change in inventories is broken down as follows:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Finished products	(1,593)	(12,667)	7,213	(7,033)
Work-in-progress	324	(299)	550	(145)
Raw materials	7,544	(1,126)	1,519	(951)
Total	6,275	(14,092)	9,282	(8,129)

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

	Six months ended June 30,	
	2007	2006
Padua headquarters	864	808
Production facilities	4,898	4,268
Commercial companies	1,171	1,070
Retail	910	379
Total	7,843	6,525

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)	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Payroll and social security contributions	48,944	45,601	23,034	23,310
Commissions to sales agents	43,472	43,102	20,976	21,412
Royalty expenses	56,406	53,859	27,777	26,729
Advertising and promotional costs	59,884	50,925	30,251	26,076
Amortization and depreciation	2,094	1,525	1,068	842
Logistic costs	9,061	8,066	4,118	4,105
Consultants fees	2,644	2,260	1,211	1,168
Rental and operating leases	5,789	3,563	2,932	1,860
Utilities	657	410	278	229
Provision for risks	1,202	874	886	445
Other sales and marketing expenses	12,452	13,413	6,444	6,602
Total	242,605	223,598	118,975	112,778

The increase in labor costs is the result of the development of the American retail chain Solstice, of the acquisition, at the end of 2006, of the Spanish chain Loop Vision, and the kick-off of the subsidiary Safilo Korea at the beginning of 2007.

Marketing costs increased when compared to the same period of 2006, as a consequence of higher sales of branded products, which determine contractual commitments to increasing advertising expenses, and to the higher advertising investments aimed at developing the communication of the Group's housebrands.

3.4 General and administrative expenses

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Payroll and social security contributions	31,860	36,190	16,354	20,768
Allowance for doubtful accounts	1,778	1,111	1,181	545
Amortization and depreciation	6,835	5,311	3,469	2,589
Consultants fees	6,984	4,623	3,791	2,206
Rental and operating leases	3,537	3,269	1,818	1,569
EDP costs	1,908	1,773	927	878
Insurance costs	1,290	1,450	633	732
Utilities, security and cleaning	3,302	2,970	1,678	1,502
Taxes (other than on income)	1,225	1,031	600	479
Other general and administrative expenses	10,389	8,336	6,482	4,232
Total	69,108	66,064	36,933	35,500

Compared to the same period of the previous year, payroll costs decreased by about 12%. It should be noted that this account included extraordinary charges, as of June 30th, 2006; hence, this account balance, net of the impact of these charges on the previous year, would have increased by 5.5%. "Other general and administrative expenses" include charges of about Euro 2 million, relating to the settlement of the legal proceeding instituted against an American commercial subsidiary.

3.5 Other income/(expenses), net

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Losses on disposal of assets	(365)	(128)	(356)	(97)
Other operating expenses	(348)	(247)	(219)	(188)
Gains on disposal of assets	20	282	13	274
Other operating incomes	572	1,262	163	933
Total	(121)	1,169	(399)	922

3.6 Share of income/(loss) of associates

This account amounts to Euro 224 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:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Interest expense on loans	9,476	13,593	4,537	7,665
Interest expense and charges on High Yield	9,752	8,837	4,902	3,483
Bank commissions	1,861	2,132	1,018	1,147
Negative exchange rate differences	3,673	7,356	1,890	3,918
Financial discounts	2,624	3,294	1,519	1,829
Losses on financial assets disposal	-	138	-	138
Other financial charges	1,168	1,027	156	727
Total financial charges	28,554	36,377	14,022	18,907
Interest income	697	461	417	242
Positive exchange rate differences	5,182	8,041	3,202	4,791
Dividends	7	6	7	6
Other financial income	230	859	203	175
Total financial income	6,116	9,367	3,829	5,214
Total financial charges, net	22,438	27,010	10,193	13,693

Financial charges significantly decreased when compared to the first six months of 2006 as a consequence of the improved conditions under the new credit agreement compared to the previous Senior Loan.

[3.8 Non-recurring financial charges](#)

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Accelerated amortization of fees on borrowings	-	7,749	-	7,749
Fair value of non-hedging IRS	-	1,533	-	1,533
Total	-	9,282	-	9,282

Non recurring financial charges for the first semester of 2006 refer to:

- the refinancing operation concluded by the Group on June 26th, 2006 which involved the recording in the income statement of non-recurring financial charges for a total of Euro 7,749 thousand for accelerated fees for the advance payment of the redeemed loan, pursuant to the IFRS provisions;
- some derivative contracts to hedge the cash flows for interest charges on the previous Senior Loan, which were not reallocated by the Group to hedge the flows derived from the new loan, with their fair value recorded in the income

statement for a total amount of Euro 1,533 thousand.

3.9 Income tax expenses

<i>(Euro/000)</i>	Six months ended June 30,		Second Quarter	
	2007	2006	2007	2006
Current taxes	(20,046)	(18,628)	(7,933)	(9,019)
Deferred taxes	(2,996)	2,079	(1,002)	5,059
Total	(23,042)	(16,549)	(8,935)	(3,960)

3.10 Seasonality

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

3.11 Dividends

During the first half of 2007 the holding company Safilo S.p.A. did not pay any dividends to its shareholders.

3.12 Segment information

The following information is provided with reference to the geographical areas in which the Group operates. The geographical area has been identified as the primary segment. The criteria used in identifying the primary segment are based on the 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 "distribution channel". 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.

Six months ended June 30, 2007 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-to other segments	190,743	26,755	994	180	-	(218,671)	-
-to third parties	161,132	212,777	216,117	77,786	-	-	667,812
Total net sales	351,874	239,532	217,110	77,966	-	(218,671)	667,812
Gross profit	141,081	107,404	106,940	38,969	-	(905)	393,490
Operating profit	32,380	28,656	9,621	11,872	136	(1,009)	81,656
Interest expense							(28,554)
Interest income							6,116
Share income/(loss) of associates	-	-	76	105	42		224
Income taxes							(23,042)
Net profit							36,400
<i>Gross profit margin</i>	40%	45%	49%	50%			59%
<i>Operating profit margin</i>	9%	12%	4%	15%			12%
Other information							
Depreciation & Amortization	12,728	3,306	2,745	582	6		19,367

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

Second Quarter 2007 <i>(Euro/000)</i>	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-to other segments	90,587	13,110	676	172	-	(104,546)	-
-to third parties	77,483	103,363	107,215	38,356	-	-	326,417
Total net sales	168,070	116,473	107,892	38,529	-	(104,546)	326,417
Gross profit	68,036	50,754	52,209	18,341	-	(411)	188,928
Operating profit	14,780	11,487	2,342	4,512	77	(578)	32,621
Interest expense							(14,022)
Interest income							3,829
Share income/(loss) of associates	-	-	38	105	42		185
Income taxes							(8,935)
Net profit							13,678
<i>Gross profit margin</i>	<i>40%</i>	<i>44%</i>	<i>48%</i>	<i>48%</i>			<i>58%</i>
<i>Operating profit margin</i>	<i>9%</i>	<i>10%</i>	<i>2%</i>	<i>12%</i>			<i>10%</i>
Other information							
Depreciation & Amortization	6,341	1,683	1,422	283	6		9,735

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

(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	December 31,	
		June 30, 2007	2006
<i>Receivables</i>			
Optifashion As	(a)	196	4
Elegance International Holdings Ltd	(b)	443	-
Total		639	4

<i>Payables</i>			
Elegance International Holdings Ltd	(b)	10,771	10,360
Total		10,771	10,360

Related parties transactions (Euro/000)	Relationship	Six months ended June 30,	
		2007	2006
<i>Revenues</i>			
Optifashion As	(a)	55	188
Total		55	188

<i>Costs</i>			
Elegance International Holdings Ltd	(b)	14,267	11,961
TBR Inc.	(b)	571	588
Total		14,838	12,549

(a) Unconsolidated subsidiary.

(b) Associated company.

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 six months of 2007, the Group paid rent of Euro 571 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 June 30th, 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 and both subsequently filed bankruptcy), 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

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