

**10Q**  
**as of September 30<sup>th</sup>, 2007**  
**Sàfilo S.p.A.**

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Date of issue: November 6<sup>th</sup>, 2007

This nine-month report is available on the website:

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

**SAFILO S.P.A.**

Settima Strada, 15

35129 Padua - Italy

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## **CORPORATE OFFICERS AS OF SEPTEMBER 30<sup>th</sup>, 2007**

### **Board of Directors**

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

### **Board of Statutory Auditors**

Chairman	Franco Corgnati
Regular Auditor	Lorenzo Lago
Regular Auditor	Paolo Mazzi
Alternate member	Ornella Rossi
Alternate member	Giampietro Sala

### **Independent Auditors**

PricewaterhouseCoopers S.p.a.

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## **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)	Nine months ended September 30,			
	2007	%	2006	%
Net sales	903.9	100.0	843.6	100.0
Cost of sales	(371.8)	41.1	(334.9)	39.7
Gross profit	532.1	58.9	508.7	60.3
Ebitda	130.9	14.5	128.3	15.2
Operating profit	102.3	11.3	101.1	12.0
Profit before taxation	70.0	7.7	55.1	6.5
Group net profit	39.5	4.4	29.3	3.4

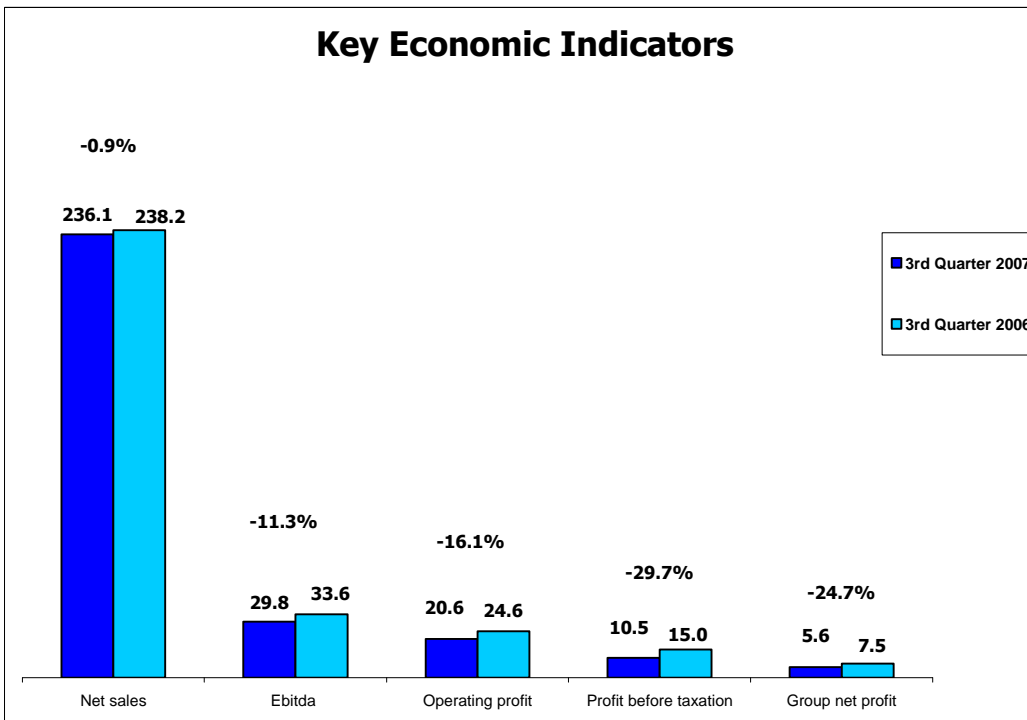
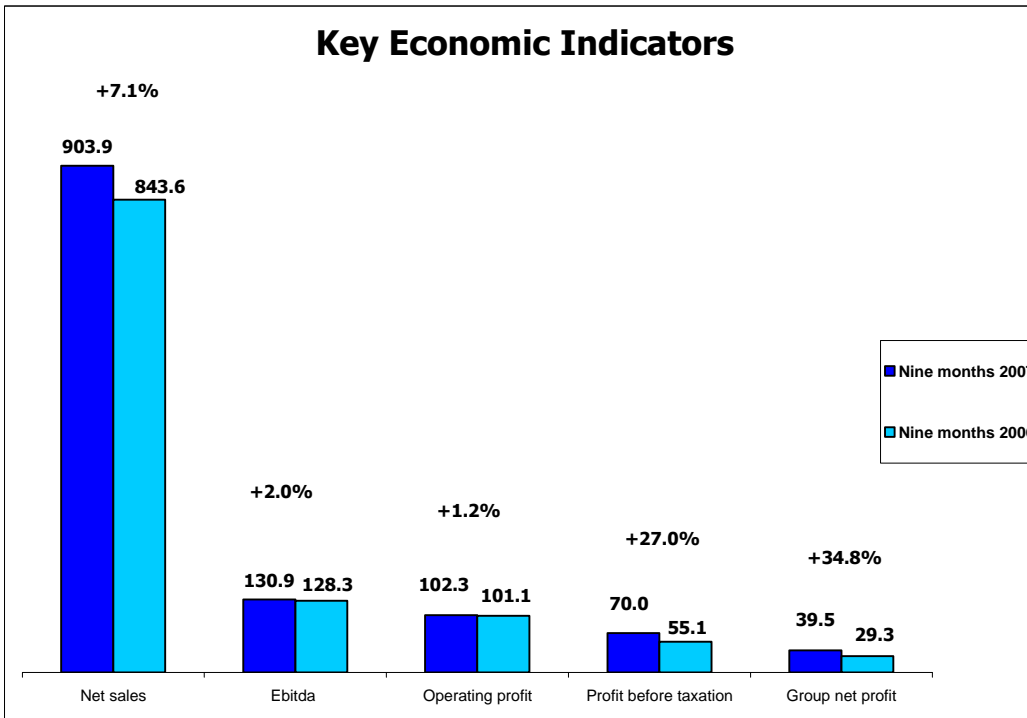
Economic data (Euro in millions)	Third Quarter			
	2007	%	2006	%
Net sales	236.1	100.0	238.2	100.0
Cost of sales	(97.5)	41.3	(94.4)	39.6
Gross profit	138.6	58.7	143.8	60.4
Ebitda	29.8	12.6	33.6	14.1
Operating profit	20.6	8.7	24.6	10.4
Profit before taxation	10.5	4.5	15.0	6.4
Group net profit	5.6	2.4	7.5	3.3

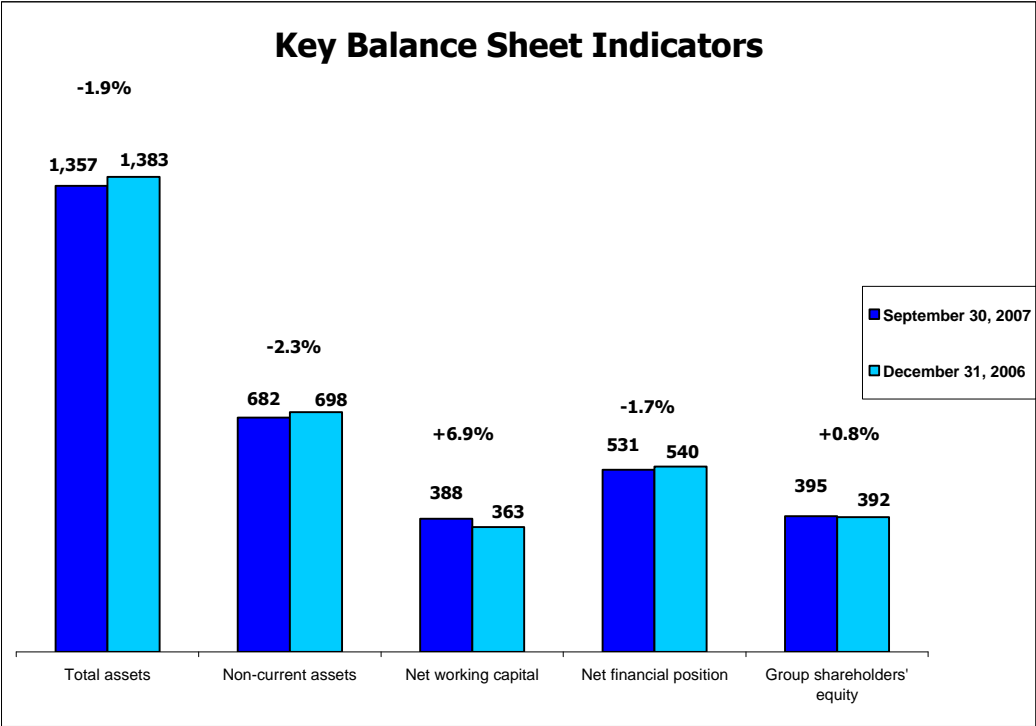
Balance sheet data (Euro in millions)	September 30,		December 31,	
	2007	%	2006	%
Total assets	1,357.4	100.0	1,383.2	100.0
Non-current assets	682.0	50.2	697.8	50.4
Net working capital	387.6	28.6	362.8	26.2
Net financial position	(530.6)	39.1	(539.6)	39.0
Group shareholders' equity	395.2	29.1	391.9	28.3

Financial data (Euro in millions)	Nine months ended September 30,	
	2007	2006
Cash flows operating activities	52.5	9.2
Cash flows investing activities	(31.1)	(21.3)
Cash flows financing activities	(48.0)	(15.3)
Closing net cash and cash equivalents	(27.4)	(0.5)

We underline that:

- 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 Group's growth in turnover, already evident in the first six months of the year, is again seen at the end of the first nine months, although a further improvement in the third quarter of 2007 has not been registered due to the progressive devaluation of the US dollar.

Net turnover at the end of the first nine months reached 903.9 million Euro, an increase of 7.1% compared to the same period of 2006 (+11.0% at constant exchange rates). It should be noted that a comparative analysis with 2006, in particular for the third quarter, is difficult, owing to the particularly pronounced seasonality which characterised 2006, when the gradual development of production capacity allowed the second semester to benefit significantly from turnover related to orders placed in the first half of the year.

The reduction of the operating margin already seen in the first six months of the year, continued also in the third quarter.

The causes of this performance lie in the persistent weakness of the US dollar, the greater proportion of sales in less profitable markets, the effects of the investments made by the Group to develop the retail sector and, at a production level, in the lesser use of production capacity following the policies aimed at limiting inventory levels.

Financial expenses in the quarter have remained generally unvaried thanks to the debt structure which has been only minimally affected by the general increase in interest rates.

The reduction of fiscal costs, already evident in the preceding quarters, continued in the third quarter and resulted from a better balancing of taxable profits between the company's various geographical areas.

As a result of the above mentioned factors, net profit, although lower in the third quarter, still displays considerable growth compared to the first nine months of 2006 (+34.8%) and reached a value of 39.5 million Euro.

Great improvements have been seen in the management of working capital and cash flow in general compared to the same period of 2006. The net financial position, at 30<sup>th</sup> September 2007, settled around 531 million Euro, an improvement of 9 million Euro compared to a cash erosion of 19 million Euro in the same period of 2006.

## Sales Analysis

The general climate of the market, and the present volume of orders, allow for a positive evaluation of the current sales situation, despite the weakness of the US dollar and the unusual seasonal nature of sales in 2006 resulting in turnover of the third quarter of 2007 being slightly lower than the same period of the previous year.

The Group's turnover in the first nine months of the year increased by 7.1% (11.0% at constant exchange rates), thanks to a positive performance in sales in the majority of worldwide markets and to the continued development of the number of directly managed shops which, at the end of September, reached 171 in USA and Spain.

As expected, the analysis of the quarterly data and its comparison with the same period of 2006 registers a slight fall in turnover which is due however, to the unusual division of deliveries in the course of 2006. During the first six months of 2006 certain production capacity constraints negatively affected deliveries and consequently turnover, but were overcome in the second half of the year. Any quarterly comparison is therefore of little significance.

In consideration of this and with reference to sales in the first nine months of the year, an analysis of sales at a geographical level highlights positive sales performances in Europe (+15.2%), as well as in Italy although with a lower growth rate, while the increase in sales in Asia continues to be considerable. Analysis of sales in America warrants greater commentary given that this area has been particularly effected by the weakness of the local currency and the

loss of its most important brand through its non-renewal in 2006. Despite this, the results achieved are encouraging and allow for considerable confidence for the future.

With regards to product type, the balanced growth of prescription frames and sunglasses continues, and the positive performance of the house brands, in particular Carrera and Oxydo, progresses.

Net sales by geographical region (Euro in millions)	Nine months ended September 30,					Third quarter				
	2007	%	2006	%	Change%	2007	%	2006	%	Change%
Italy	117.8	13.0	115.5	13.7	+2.0	25.5	10.8	30.0	12.6	-14.9
Europe (excluding Italy)	312.2	34.5	271.1	32.1	+15.2	68.5	29.0	76.7	32.2	-10.7
The Americas	323.3	35.8	326.2	38.7	-0.9	102.7	43.5	94.7	39.8	+8.4
Asia Pacific	111.3	12.3	95.5	11.3	+16.5	33.5	14.2	26.7	11.2	+25.4
Other	39.3	4.4	35.3	4.2	+11.2	5.9	2.5	10.1	4.2	-41.9
<b>Total</b>	<b>903.9</b>	<b>100.0</b>	<b>843.6</b>	<b>100.0</b>	<b>+7.1</b>	<b>236.1</b>	<b>100.0</b>	<b>238.2</b>	<b>100.0</b>	<b>-0.9</b>

Net sales by product (Euro in millions)	Nine months ended September 30,					Third quarter				
	2007	%	2006	%	Change%	2007	%	2006	%	Change%
Prescription frames	350.6	38.8	329.9	39.1	+6.3	110.8	46.9	116.1	48.7	-4.6
Sunglasses	492.9	54.5	457.0	54.2	+7.9	98.9	41.9	98.3	41.3	+0.6
Sport products	43.6	4.8	42.6	5.0	+2.4	19.6	8.3	18.6	7.8	+5.3
Other	16.7	1.9	14.1	1.7	+18.6	6.8	2.9	5.2	2.2	+31.2
<b>Total</b>	<b>903.9</b>	<b>100.0</b>	<b>843.6</b>	<b>100.0</b>	<b>+7.1</b>	<b>236.1</b>	<b>100.0</b>	<b>238.2</b>	<b>100.0</b>	<b>-0.9</b>

Net sales by distribution channel (Euro in millions)	Nine months ended September 30,					Third quarter				
	2007	%	2006	%	Change%	2007	%	2006	%	Change%
Wholesale	850.3	94.1	814.8	96.6	+4.4	218.4	92.5	228.7	96.0	-4.5
Retail	53.6	5.9	28.8	3.4	+86.3	17.7	7.5	9.5	4.0	+86.1
<b>Total</b>	<b>903.9</b>	<b>100.0</b>	<b>843.6</b>	<b>100.0</b>	<b>+7.1</b>	<b>236.1</b>	<b>100.0</b>	<b>238.2</b>	<b>100.0</b>	<b>-0.9</b>

Italy. Sales in the Italian market, aside from the considerations regarding the seasonal nature of sales discussed above, has registered a slowing down in the third quarter compared to the preceding ones, although an improvement over 2006 is registered when the first nine months of the year are considered collectively. Sales of the house brands were particularly positive and confirm that the re-launch strategy, initially focused on the internal market through specific communication activities, has succeeded even in the short term of achieving positive results.

Europe (excluding Italy). Sales in the European market, although very positive in the first nine months of the year, show a contrasting performance if analysed according to each single country. In general the performance in France and in the North European markets has been extremely good, while sales in Mediterranean countries have been more contained. An analysis of the sales of those brands with better growth rates highlights the excellent results of licensed brands positioned in the high end of the market, and a particularly positive reaction of European clients to the new

Hugo Boss license.

America. The growth in turnover in the American market is increasingly evident despite the weakness of the US dollar which has penalised the data reported in Euro. At constant exchange rates wholesale sales would have increased in the first nine months by 4.1% (13.8% in the last quarter), despite there being no contribution from the Polo License this year. The considerable success of the recently launched new collections – to which Banana Republic will be added during the last quarter of 2007 and whose first collection is currently being presented to our North American clients – can therefore be confirmed.

With regards to the licensed brands, the sale of the top brands, and in particular Armani, Dior and Gucci, are increasingly positive, as is the double digit growth of the house brand Smith.

Asia. The sales performance in Asia confirms a trend which has been evident for several years. Other than the contribution deriving from the Korean subsidiary, opened during the course of 2007, excellent sales results have been achieved in all the emerging countries of the area, in particular China. The turnover of the area has grown, at constant exchange rates, by 27.3% in the first nine months and by 29.5% in the last quarter, with double digit growth for almost all the brands distributed in the area.

## Group economic results

Consolidated statement of operations (Euro in millions)	Nine months ended September 30,					Third Quarter				
	2007	% <sup>(*)</sup>	2006	% Ch.	% <sup>(**)</sup>	2007	% <sup>(*)</sup>	2006	% Ch.	% <sup>(**)</sup>
Net sales	903.9	100.0	843.6	100.0	7.1	236.1	100.0	238.2	100.0	(0.9)
Cost of sales	(371.8)	(41.1)	(334.9)	(39.7)	11.0	(97.5)	(41.3)	(94.4)	(39.6)	3.3
<b>Gross profit</b>	<b>532.1</b>	<b>58.9</b>	<b>508.7</b>	<b>60.3</b>	<b>4.6</b>	<b>138.6</b>	<b>58.7</b>	<b>143.8</b>	<b>60.4</b>	<b>(3.6)</b>
Selling and marketing expenses	(336.2)	(37.2)	(316.1)	(37.5)	6.4	(93.6)	(39.6)	(92.5)	(38.8)	1.2
General and administrative expenses	(93.4)	(10.3)	(92.3)	(10.9)	1.2	(24.3)	(10.3)	(26.3)	(11.0)	(7.5)
Other operating income/(expenses), net	(0.2)	(0.0)	0.8	0.1	n.s.	(0.1)	(0.0)	(0.4)	(0.2)	(88.1)
<b>Operating profit</b>	<b>102.3</b>	<b>11.3</b>	<b>101.1</b>	<b>12.0</b>	<b>1.2</b>	<b>20.6</b>	<b>8.7</b>	<b>24.6</b>	<b>10.4</b>	<b>(16.1)</b>
Share of income/(loss) of associates	0.3	0.0	0.4	0.0	(37.2)	0.1	0.0	0.4	0.0	(93.8)
Interest expense and other financial charges, net	(32.6)	(3.6)	(46.4)	(5.5)	(29.7)	(10.2)	(4.3)	(10.0)	(4.0)	0.7
<b>Profit before taxation</b>	<b>70.0</b>	<b>7.7</b>	<b>55.1</b>	<b>6.5</b>	<b>27.0</b>	<b>10.5</b>	<b>4.5</b>	<b>15.0</b>	<b>6.4</b>	<b>(29.7)</b>
Income taxes	(27.2)	(3.0)	(23.5)	(2.8)	15.4	(4.2)	(1.7)	(7.0)	(2.9)	(41.0)
<b>Net profit</b>	<b>42.8</b>	<b>4.7</b>	<b>31.6</b>	<b>3.7</b>	<b>35.6</b>	<b>6.3</b>	<b>2.7</b>	<b>8.0</b>	<b>3.5</b>	<b>(19.8)</b>
Net profit attributable to minority interests	3.3	0.4	2.3	0.3	45.2	0.7	0.3	0.5	0.2	61.1
<b>Net profit attributable to the Group</b>	<b>39.5</b>	<b>4.4</b>	<b>29.3</b>	<b>3.4</b>	<b>34.8</b>	<b>5.6</b>	<b>2.4</b>	<b>7.5</b>	<b>3.3</b>	<b>(24.7)</b>
<b>EBITDA</b>	<b>130.9</b>	<b>14.5</b>	<b>128.3</b>	<b>15.2</b>	<b>2.0</b>	<b>29.8</b>	<b>12.6</b>	<b>33.6</b>	<b>14.1</b>	<b>(11.3)</b>

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

The Group's economic results in the first nine months of the year highlight sustained growth in terms of turnover and net profit, both in absolute terms and percentage. In particular, income reached 903.9 million Euro (+7.1% compared to 2006), with the profit relating to the Group settled at 39.5 million Euro (+34.8% compared to 2006).

If the results for the first nine months of the year can be considered satisfactory, particular attention should be paid to an analysis of the performance in the third quarter which is slightly worse compared to the same period of 2006.

The reduction of operating profit, due mainly to a lower gross industrial profit, is a result of the combined effect of a series of different circumstances which can be summarised as follows:

- development of the retail project: the greater incidence of the recently opened stores of the American chain Solstice, together with an operating profit close to break-even for the Spanish shops, create a dilution of the total marginality;
- weakness of the US dollar associated with a different sales mix between the markets: the quarter has highlighted a greater incidence of sales in North American markets, less profitable today because of the effect of the persistent devaluation of the American currency;
- Reduced production capacity: while the third quarter of 2006 saw the Company's plants producing at full capacity in order to recover un-delivered orders and increase warehouse inventory, during the course of 2007 several measures aimed at limiting working capital, and in particular the inventory levels, have lead to a reduction of the production requirement for finished products.

In financial management, the hedging policies in place against interest rate fluctuations allowed the effects of the increase in interest rates recorded in the last months to be minimized, significantly limiting the increase in financial charges.

Hence, the net profit of the Group records strong improvement (34.8%), with an outlook of growth also for the last quarter of the year.

## Balance sheet and financial situation

<b>Condensed balance sheet</b> (Euro in millions)	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>Change</b>
Cash in hand and at bank	42.5	35.6	6.9
Trade receivables, net	290.0	319.5	(29.5)
Inventory, net	273.5	271.6	1.9
Other current assets	69.4	58.7	10.7
<b>Total current assets</b>	<b>675.4</b>	<b>685.4</b>	<b>(10.0)</b>
Property, plant and equipment, net	200.8	201.9	(1.1)
Intangible assets	22.9	22.3	0.6
Goodwill	369.7	382.8	(13.1)
Other non-current assets	88.6	90.8	(2.2)
<b>Total non-current assets</b>	<b>682.0</b>	<b>697.8</b>	<b>(15.8)</b>
<b>Total assets</b>	<b>1,357.4</b>	<b>1,383.2</b>	<b>(25.8)</b>
Short-term borrowings	136.9	99.7	37.2
Trade payables	175.9	228.3	(52.4)
Other current liabilities	137.9	111.3	26.6
<b>Total current liabilities</b>	<b>450.7</b>	<b>439.3</b>	<b>11.4</b>
Long-term borrowings	436.3	475.6	(39.3)
Employee benefit liability	38.8	40.9	(2.1)
Other non-current liabilities	29.3	30.1	(0.8)
<b>Total non-current liabilities</b>	<b>504.4</b>	<b>546.6</b>	<b>(42.2)</b>
<b>Group shareholders' equity</b>	<b>395.2</b>	<b>391.9</b>	<b>3.3</b>
<b>Minority interests</b>	<b>7.1</b>	<b>5.4</b>	<b>1.7</b>
<b>Total liabilities and shareholders' eq.</b>	<b>1,357.4</b>	<b>1,383.2</b>	<b>(25.8)</b>

<b>Condensed consolidated statement of cash flow</b> (Euro in millions)	<b>Nine months ended September 30,</b>		<b>Change</b>
	<b>2007</b>	<b>2006</b>	
<b>Opening net cash and cash equivalents</b>	<b>(0.8)</b>	<b>25.9</b>	<b>(26.7)</b>
<b>Cash flow operating activities</b>	<b>52.5</b>	<b>9.2</b>	<b>43.2</b>
<b>Cash flow investing activities</b>	<b>(31.1)</b>	<b>(21.3)</b>	<b>(9.8)</b>
<b>Cash flow financing activities</b>	<b>(48.0)</b>	<b>(15.3)</b>	<b>(32.7)</b>
Translation exchange difference	0.0	1.0	(0.9)
<b>Closing net cash and cash equivalents</b>	<b>(27.4)</b>	<b>(0.5)</b>	<b>(26.9)</b>

#### Cash flows from operating activity

A clear improvement in the management of cash flows compared to the same period of the previous year is again evident at the end of the third quarter. In the first nine months of 2007 the Group generated, with its operating activity, 34.8 million Euro compared to 9.2 million Euro in the corresponding period of 2006, thanks to a reduction of working capital above all for the part relating to trade receivables. This improvement is a direct consequence of the sales trend, particularly wholesale sales, which has grown at a lower rate compared to the same period of 2006.

The positive results achieved by the measures aimed at limiting inventory levels, compared to the growth experienced during the previous year, will show more significant effects in the quarters to come, as these variations are compensated by the reduction of trade payables in the short-term.

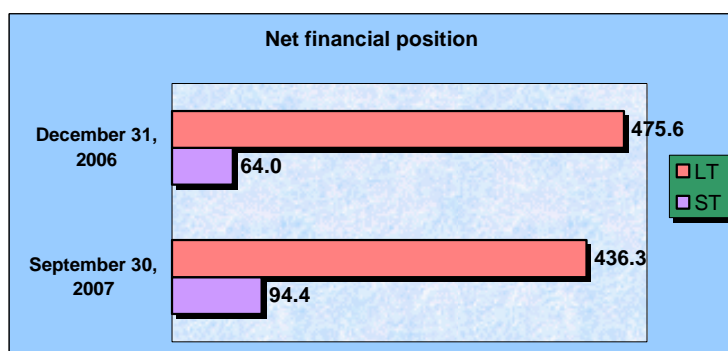
#### Cash flows from investment activity

Investments have grown significantly compared to the same period of 2006 and are above all a consequence of the development of the retail chains, both in Europe and the United States. Intangible investments have been effected by the implementation of new software in some of the Group's subsidiaries.

#### Cash flows from financing activity

The cash flow absorbed from the financial management is a consequence of the repayment of the revolving facility and of short-term lines.

<b>Net financial position</b> (Euro in millions)	<b>September 30, 2007</b>	<b>June 30, 2007</b>	<b>Change Sep - Jun</b>	<b>December 31, 2006</b>	<b>Change Sep - Dec</b>
Current portion of long-term borrowings	(27.0)	(25.7)	(1.3)	(22.5)	(4.5)
Bank overdrafts and short-term bank borrowings	(69.9)	(27.9)	(42.0)	(36.4)	(33.5)
Other short-term borrowings	(40.0)	(47.3)	7.3	(40.7)	0.7
Cash and cash equivalents	42.5	48.4	(5.9)	35.6	6.9
<b>Short-term net financial position</b>	<b>(94.4)</b>	<b>(52.4)</b>	<b>(41.9)</b>	<b>(64.0)</b>	<b>(30.4)</b>
Long-term borrowings	(436.3)	(476.0)	39.7	(475.6)	39.3
<b>Long-term net financial position</b>	<b>(436.3)</b>	<b>(476.0)</b>	<b>39.7</b>	<b>(475.6)</b>	<b>39.3</b>
<b>Net financial position</b>	<b>(530.6)</b>	<b>(528.4)</b>	<b>(2.2)</b>	<b>(539.6)</b>	<b>9.0</b>



Legend:

ST = short-term

LT = long-term

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

(Euro in millions)	Equity as of September 30, 2007	Net profit 9 months 2007	Equity as of December 31, 2006
Balances per Safilo S.p.A. statutory financial statements	455.9	43.9	434.1
Shareholders' equity of consolidated companies	954.7	93.3	977.0
Elimination of the book value of consolidated subsidiaries	(1,325.2)	-	(1,340.2)
Goodwill	329.4	-	342.2
Fair value attributable to tangible assets	11.2	(0.4)	10.5
Elimination of dividends paid within the Group	-	(90.8)	-
Elimination of intercompany gains within the Group	(14.9)	(3.8)	(15.6)
Elimination of intercompany profit included in inventory	(16.5)	0.2	(18.6)
Investments in associates - equity method	6.0	0.1	6.3
Other consolidation entries	1.7	0.3	1.6
<b>Total shareholders' equity</b>	<b>402.3</b>	<b>42.8</b>	<b>397.3</b>
Shareholders' equity attributable to minority shareholders	7.1	3.3	5.4
<b>Total shareholders' equity attributable to the Group</b>	<b>395.2</b>	<b>39.5</b>	<b>391.9</b>

## Personnel

Group personnel as at September 30<sup>th</sup>, 2007, December 31<sup>st</sup>, 2006 and September 30<sup>th</sup>, 2006 is shown in the following table:

	September 30, 2007	December 31, 2006	September 30, 2006	Ch. Sep '07 -Dec '06
Padua headquarters	853	845	856	8
Production facilities	4,825	4,573	4,563	252
Commercial companies	1,155	1,083	1,072	72
Retail	1,226	854	507	372
<b>Total</b>	<b>8,059</b>	<b>7,355</b>	<b>6,998</b>	<b>704</b>

The workforce of the Group, when compared to December 31<sup>st</sup>, 2006, has increased by 704 units, of which 240 come from a former supplier acquired by the subsidiary Smith Sport Optics Inc. in order to ensure better control on production. In the commercial area, the increase of the workforce mainly relates, in the wholesale branch, to the opening of the new subsidiary in Korea, whilst the retail companies, due to the development of new stores, have consequently increased the number of employees.

## Significant events after September 30<sup>th</sup>

In the period subsequent to September 30<sup>th</sup>, 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

(Euro/000)	Note	30/09/2007	31/12/2006
<b>ASSETS</b>			
<b>Current assets</b>			
Cash in hand and at bank	2.1	42,502	35,643
Trade receivables, net	2.2	290,045	319,517
Inventory, net	2.3	273,546	271,573
Derivative financial instruments	2.4	35	1,597
Other current assets	2.5	69,287	57,027
<b>Total current assets</b>		<b>675,415</b>	<b>685,357</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	2.6	200,847	201,951
Intangible assets	2.7	22,918	22,274
Goodwill	2.8	369,686	382,759
Investments in associates	2.9	11,822	12,535
Financial assets available-for-sale	2.10	2,237	3,472
Deferred tax assets	2.11	47,219	51,172
Derivative financial instruments	2.4	1,656	1,921
Other non-current assets	2.12	25,656	21,731
<b>Total non-current assets</b>		<b>682,041</b>	<b>697,815</b>
<b>Total assets</b>		<b>1,357,456</b>	<b>1,383,172</b>

(Euro/000)	Note	30/09/2007	31/12/2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	2.13	136,857	99,677
Trade payables	2.14	175,934	228,346
Tax payables	2.15	24,880	20,676
Other current liabilities	2.16	111,386	89,788
Provisions for risks and charges	2.17	1,629	828
<b>Total current liabilities</b>		<b>450,686</b>	<b>439,315</b>
<b>Non-current liabilities</b>			
Long-term borrowings	2.13	436,268	475,583
Employee benefit liability	2.18	38,767	40,880
Provisions for risks and charges	2.17	10,764	10,478
Deferred tax liabilities	2.11	13,292	13,082
Derivative financial instruments	2.4	414	1,336
Other non-current liabilities	2.19	4,926	5,172
<b>Total non-current liabilities</b>		<b>504,431</b>	<b>546,531</b>
<b>Total liabilities</b>		<b>955,117</b>	<b>985,846</b>
<b>Shareholders' equity</b>			
Share capital	2.20	35,000	35,000
Share premium reserve	2.21	2,305	53,350
Retained earnings and other reserves	2.22	318,633	264,086
Fair value and cash flow reserves	2.23	(199)	1,859
Income attributable to the Group		39,477	37,642
<b>Total shareholders' equity attributable to the Group</b>		<b>395,216</b>	<b>391,937</b>
<b>Minority interests</b>		<b>7,123</b>	<b>5,389</b>
<b>Total shareholders' equity</b>		<b>402,339</b>	<b>397,326</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,357,456</b>	<b>1,383,172</b>

## Consolidated statement of operations

(Euro/000)	Note	Nine months ended September 30,		Third quarter	
		2007	2006	2007	2006
Net sales	3.1	903,886	843,601	236,074	238,196
Cost of sales	3.2	(371,804)	(334,858)	(97,482)	(94,412)
<b>Gross profit</b>		<b>532,082</b>	<b>508,743</b>	<b>138,592</b>	<b>143,784</b>
Selling and marketing expenses	3.3	(336,201)	(316,111)	(93,596)	(92,513)
General and administrative expenses	3.4	(93,412)	(92,335)	(24,304)	(26,271)
Other operating income/(expenses), net	3.5	(166)	792	(45)	(377)
<b>Operating profit</b>		<b>102,303</b>	<b>101,089</b>	<b>20,647</b>	<b>24,623</b>
Share of income/(loss) of associates	3.6	250	398	26	422
Interest expense and other financial charges, net	3.7	(32,594)	(37,100)	(10,156)	(10,090)
Non-recurring financial charges	3.8	-	(9,282)	-	-
<b>Profit before taxation</b>		<b>69,959</b>	<b>55,105</b>	<b>10,517</b>	<b>14,955</b>
Income taxes	3.9	(27,168)	(23,539)	(4,126)	(6,990)
<b>Net profit</b>		<b>42,791</b>	<b>31,566</b>	<b>6,391</b>	<b>7,965</b>
Net profit attributable to minority interests		3,314	2,283	733	455
<b>Net profit attributable to the Group</b>		<b>39,477</b>	<b>29,283</b>	<b>5,658</b>	<b>7,510</b>

**Consolidated statement of cash flow**

(Euro/000)	Nine months ended September 30,	
	2007	2006
<b>A - Opening net cash and cash equivalents (net financial indebtedness - short term)</b>	<b>(801)</b>	<b>25,866</b>
<b>B - Cash flow from (for) operating activities</b>		
Net profit for the period (including minority interests)	42,791	31,566
Stock option	418	443
Depreciation and amortization	28,558	27,252
Share income/(loss) on equity investments	(151)	66
Net movements in the employee benefit liability	(2,081)	4,356
Net movements in other provisions	1,096	740
Interest expenses, net	28,525	39,822
Income tax expenses	27,168	23,539
<b>Income from operating activities prior to movements in working capital</b>	<b>126,324</b>	<b>127,784</b>
<b>Change in operating assets and liabilities</b>		
(Increase) Decrease in trade receivables and other current receivables	11,780	(30,702)
(Increase) Decrease in inventory, net	(7,992)	(41,754)
Increase (Decrease) in trade payables and other current payables	(33,346)	(3,916)
Interest expenses paid	(23,764)	(22,082)
Income tax paid	(20,523)	(20,104)
<b>Total (B)</b>	<b>52,479</b>	<b>9,226</b>
<b>C - Cash flow from (for) investing activities</b>		
Purchase of property, plant and equipment (net of disposals)	(26,556)	(20,091)
Disposal of investments and bonds	-	557
Purchase of intangible assets	(4,549)	(1,751)
<b>Total (C)</b>	<b>(31,105)</b>	<b>(21,285)</b>
<b>D - Cash flow from (for) financing activities</b>		
Proceeds from borrowings	17,736	302,637
Repayment of borrowings	(47,164)	(316,105)
Dividends paid	(18,537)	(1,872)
<b>Total (D)</b>	<b>(47,965)</b>	<b>(15,340)</b>
<b>E - Cash flow for the period (B+C+D)</b>	<b>(26,591)</b>	<b>(27,399)</b>
Translation exchange difference	(3)	1,027
<b>Total (F)</b>	<b>(3)</b>	<b>1,027</b>
<b>G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)</b>	<b>(27,395)</b>	<b>(506)</b>

**Consolidated statement of recognised income and expense**

(Euro/000)	Note	Nine months ended Sep. 30,		Third quarter	
		2007	2006	2007	2006
Profit (loss) attributable to the cash flow reserve	2.23	1,068	1,921	47	(869)
Profit (loss) attributable to the fair value reserve	2.23	(1,235)	1,526	(1,420)	1,604
Actuarial gains/(losses)	2.22	-	(484)	-	(1)
Profit (loss) attributable to the conversion fund	2.22	(17,624)	(7,120)	(11,918)	(1,000)
Profit (loss) attributable to shareholders' equity	2.22	23	(797)	(298)	(424)
<b>Total</b>		<b>(17,769)</b>	<b>(4,954)</b>	<b>(13,590)</b>	<b>(690)</b>
Net income for the period		42,791	31,566	6,391	7,965
<b>Total recognized income for the period</b>		<b>25,022</b>	<b>26,612</b>	<b>(7,199)</b>	<b>7,275</b>
<b>Attributable to:</b>					
Group		21,751	24,435	(7,851)	6,822
Minority interests		3,271	2,177	652	453
<b>Total recognized income for the period</b>		<b>25,022</b>	<b>26,612</b>	<b>(7,199)</b>	<b>7,275</b>

## Statement of changes in shareholders' equity

First nine months 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
<b>Group shareholders' equity at January 1, 2006</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>5,208</b>	<b>(3,899)</b>	<b>61,583</b>	<b>10,442</b>	<b>380,219</b>
Previous year's profit allocation	-	-	-	-	-	-	10,442	(10,442)	-
Retained earnings	-	-	-	-	(7,037)	4,702	(326)	-	(2,661)
Net profit for the period	-	-	-	-	-	-	-	29,283	29,283
<b>Group shareholders' equity at September 30, 2006</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(1,829)</b>	<b>803</b>	<b>71,699</b>	<b>29,283</b>	<b>406,841</b>
<b>Minority interests at January 1, 2006</b>	-	-	-	-	<b>102</b>	-	<b>2,215</b>	<b>3,220</b>	<b>5,537</b>
Previous year's profit allocation	-	-	-	-	-	-	3,220	(3,220)	-
Retained earnings	-	-	-	-	(83)	-	(510)	-	(593)
Dividends distribution	-	-	-	-	-	-	(1,872)	-	(1,872)
Net profit for the period	-	-	-	-	-	-	-	2,283	2,283
<b>Minority interests at September 30, 2006</b>	-	-	-	-	<b>19</b>	-	<b>3,053</b>	<b>2,283</b>	<b>5,355</b>
<b>Consolidated net equity at September 30, 2006</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(1,810)</b>	<b>803</b>	<b>74,752</b>	<b>31,566</b>	<b>412,196</b>

First nine months 2007

<i>(Euro/000)</i>	Share capital	Share premium reserve	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserves	Retained earnings	Net profit	Total equity
<b>Group shareholders' equity at January 1, 2007</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(12,265)</b>	<b>1,859</b>	<b>57,816</b>	<b>37,642</b>	<b>391,937</b>
Previous year's profit allocation	-	-	-	-	-	-	37,642	(37,642)	-
Changes in other reserves	-	(51,045)	-	-	(17,596)	(2,058)	51,501	-	(19,198)
Dividends distribution	-	-	-	-	-	-	(17,000)	-	(17,000)
Net profit for the period	-	-	-	-	-	-	-	39,477	39,477
<b>Group shareholders' equity at September 30, 2007</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(29,861)</b>	<b>(199)</b>	<b>129,959</b>	<b>39,477</b>	<b>395,216</b>
<b>Minority interests at January 1, 2007</b>	-	-	-	-	(2)	-	2,045	3,346	5,389
Previous year's profit allocation	-	-	-	-	-	-	3,346	(3,346)	-
Retained earnings	-	-	-	-	(28)	-	(15)	-	(43)
Dividend distribution	-	-	-	-	-	-	(1,537)	-	(1,537)
Net profit for the period	-	-	-	-	-	-	-	3,314	3,314
<b>Minority interests at September 30, 2007</b>	-	-	-	-	(30)	-	3,839	3,314	7,123
<b>Consolidated net equity at September 30, 2007</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(29,891)</b>	<b>(199)</b>	<b>133,798</b>	<b>42,791</b>	<b>402,339</b>

## **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 1<sup>st</sup>, 2007 to September 30<sup>th</sup>, 2007. Economic and financial information is provided with reference to the first nine months of 2007 and 2006, whilst balance sheet information is provided with reference to September 30<sup>th</sup>, 2007 and December 31<sup>st</sup>, 2006.

The consolidated financial information reported for the period ended September 30<sup>th</sup>, 2007 has been prepared in accordance with the IFRS issued by the International Accounting Standards Board and approved by the European Commission as of September 30<sup>th</sup>, 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 31<sup>st</sup>, 2006.

The date of approval of these consolidated financial statements by the Board of Directors is November 6<sup>th</sup>, 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 %
<b>ITALIAN COMPANIES</b>			
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
<b>FOREIGN COMPANIES</b>			
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.L. - Madrid (E)	EUR	3,343,960	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 Company Limited- Shenzhen (RC)	CNY	2,481,000	51.0
Safilo Eyewear (Shenzhen) Company Limited	USD	700,000	51.0
Safilo Eyewear (Suzhou) Industries Limited	USD	3,000,000	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 Pvt. 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
Optifashion Australia Pty Ltd. - Sydney (AUS)	AUD	100,000	100.0
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 nine months ended	
	September 30, 2007	December 31, 2006	September 30, 2006	September 30, 2007	September 30, 2006
USD	1.4179	1.3170	1.2660	1.3443	1.2445
HKD	11.0055	10.2409	9.8640	10.4993	9.6649
CHF	1.6601	1.6069	1.5881	1.6371	1.5663
CAD	1.4122	1.5281	1.4136	1.4839	1.4095
JPY	163.5500	156.9300	149.3400	160.3901	144.1436
GBP	0.6968	0.6715	0.6777	0.6765	0.6846
SEK	9.2147	9.0404	9.2797	9.2368	9.2943
AUD	1.6073	1.6691	1.6992	1.6372	1.6644
ZAR	9.7562	9.2124	9.8277	9.6096	8.2430
SIT <sup>1</sup>	-	239.6400	239.5900	-	239.5849
BRL	2.6148	2.8133	2.7429	2.6898	2.7199
IND	56.4064	58.2975	58.1631	56.3682	56.5576
SGD	2.1066	2.0202	2.0076	2.0493	1.9887
MYR	4.8315	4.6490	4.6684	4.6425	4.5817
CNY	10.6429	10.2793	10.0066	10.2997	9.9687
KRW	1,297.5900	1,224.8100	1,198.0200	1,252.5463	1,222.0826

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.

<sup>1</sup> Slovenia has adopted Euro as legal currency starting from January 1<sup>st</sup>, 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.

(Euro/000)	September 30, 2007	December 31, 2006
Cash in hand and at bank	42,502	35,643
<b>Total</b>	<b>42,502</b>	<b>35,643</b>

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

(Euro/000)	September 30, 2007	September 30, 2006
Cash in hand and at bank	42,502	38,725
Bank overdrafts	(69,897)	(39,231)
<b>Total</b>	<b>(27,395)</b>	<b>(506)</b>

### 2.2 Trade receivables, net

This account is comprised as follows:

(Euro/000)	September 30, 2007	December 31, 2006
Gross value	314,717	342,485
Allowance for doubtful accounts	(24,672)	(22,968)
<b>Net value</b>	<b>290,045</b>	<b>319,517</b>

Net trade receivables decreased as a result of the reduced sales trend in the third 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:

(Euro/000)	September 30, 2007	December 31, 2006
Raw materials	43,690	50,491
Work-in-progress	8,066	7,868
Finished products	241,598	238,743
<b>Gross</b>	<b>293,354</b>	<b>297,102</b>
Obsolescence provision (-)	(19,808)	(25,529)
<b>Total</b>	<b>273,546</b>	<b>271,573</b>

Raw materials inventory decreased when compared to December 31<sup>st</sup> 2006, in expectation of lower production levels compared to the previous financial year when activities aimed at increasing finished products inventories were in place.

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.

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

### [2.4 Derivative financial instruments](#)

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

(Euro/000)	September 30, 2007	December 31, 2006
<b>Current assets:</b>		
- Foreign currency contracts	35	1,205
- Interest rate swaps - cash flow hedge	-	266
- Interest rate swaps - at fair value through P&L	-	126
<b>Total</b>	<b>35</b>	<b>1,597</b>
<b>Non-current assets:</b>		
- Interest rate swaps - cash flow hedge	974	361
- Options	682	1,560
<b>Total</b>	<b>1,656</b>	<b>1,921</b>
<b>Current liabilities:</b>		
- Foreign currency contracts	-	-
- Interest rate swaps - at fair value through P&L	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities:</b>		
- Interest rate swaps - cash flow hedge	414	-
- Interest rate swaps - at fair value through P&L	-	1,336
<b>Total</b>	<b>414</b>	<b>1,336</b>

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

Foreign currency contracts	September 30, 2007		December 31, 2006	
	Contractual value (USD/000)	Fair value (Euro/000)	Contractual value (USD/000)	Fair value (Euro/000)
Expiry year 2007	\$1,000	35	\$39,000	1,205
<b>Total</b>	<b>1,000</b>	<b>35</b>	<b>39,000</b>	<b>1,205</b>

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

A summary of the characteristics and the fair value of interest rate swap contracts in force at September 30<sup>th</sup>, 2007 and December 31<sup>st</sup>, 2006 is shown below:

Interest rate swaps (Euro/000)	September 30, 2007		December 31, 2006	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2007	-	-	170,361	392
Expiry year 2010	25,000	(121)	25,000	(522)
Expiry year 2011	102,500	681	85,000	(453)
<b>Total</b>	<b>127,500</b>	<b>560</b>	<b>280,361</b>	<b>(583)</b>

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 682 thousand.

## [2.5 Other current assets](#)

This account is comprised as follows:

(Euro/000)	September 30, 2007	December 31, 2006
Receivables from the holding company Safilo Group S.p.A.	15,494	14,595
VAT receivable	3,968	5,306
Tax credits and payments on account	11,098	9,515
Prepayments and accrued income	16,670	7,505
Receivables from agents	3,861	4,483
Other current receivables	18,196	15,623
<b>Total</b>	<b>69,287</b>	<b>57,027</b>

On September 15<sup>th</sup>, 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 31<sup>st</sup>, 2007. In relation to this contract, on September 15<sup>th</sup>, 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 September 30<sup>th</sup>, 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, for a total amount of Euro 1,494 thousand, relates to:

- intercompany receivables towards Safilo Group S.p.A. related to VAT for a total amount of Euro 707 thousand, of which Euro 673 thousand pertaining to Safilo S.p.A. and Euro 34 thousand to Smith Sport Optics S.r.l.. In fact starting from January 1<sup>st</sup>, 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 13<sup>th</sup>, 1979 (so-called "Group VAT"). Further to this adhesion and the mechanism allowed by the procedure, Safilo S.p.A. and Smith Sport Optics S.r.l. VAT receivables have been reclassified as intercompany receivables towards the holding company Safilo Group S.p.A.;
- an intercompany receivable for a total amount of Euro 500 thousand deriving from the transfer of a corporate income tax (IRES) receivable of Safilo S.p.A. to the holding company Safilo Group S.p.A.;
- other miscellaneous intercompany receivables with 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 September 30<sup>th</sup>, 2007 include:

- prepaid advertising costs of Euro 11,601 thousand;
- prepaid insurance premiums of Euro 456 thousand;
- prepaid rent and operating leases of Euro 1,432 thousand;
- prepaid costs incurred for the "Revolving Facility" loan of Euro 1,233 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" as of September 30<sup>th</sup>, 2007 includes:

- an advance payment on 2008 royalties for a total amount of Euro 14,672 thousand;
- receivables for insurance reimbursements and other short-term receivables related to various Group companies.

## 2.6 Property, plant and equipment, net

(Euro/000)	Balance at January 1, 2006	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at December 31, 2006
<b>Gross value</b>							
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
<b>Total</b>	<b>394,095</b>	<b>40,599</b>	<b>(6,020)</b>	<b>(2,155)</b>	<b>10,998</b>	<b>(5,447)</b>	<b>432,070</b>

**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
<b>Total</b>	<b>200,492</b>	<b>30,536</b>	<b>(4,497)</b>	<b>(1,199)</b>	<b>7,524</b>	<b>(2,737)</b>	<b>230,119</b>

<b>Net book value</b>	<b>193,603</b>	<b>10,063</b>	<b>(1,523)</b>	<b>(956)</b>	<b>3,474</b>	<b>(2,710)</b>	<b>201,951</b>
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(Euro/000)	Balance at January 1, 2007	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at September 30, 2007
<b>Gross value</b>							
Land and buildings	108,783	639	(1,194)	506	-	(294)	108,440
Plant and machinery	163,406	5,683	(2,478)	-	-	(332)	166,279
Equipment and other assets	153,862	20,251	(5,148)	(2,317)	-	(3,327)	163,321
Assets under constructions	6,019	3,899	-	(1,986)	-	(40)	7,892
<b>Total</b>	<b>432,070</b>	<b>30,472</b>	<b>(8,820)</b>	<b>(3,797)</b>	<b>-</b>	<b>(3,993)</b>	<b>445,932</b>

**Accumulated depreciation**

Land and buildings	23,112	2,453	(30)	268	-	(127)	25,676
Plant and machinery	100,623	8,774	(1,960)	-	-	(169)	107,268
Equipment and other assets	106,384	13,061	(4,793)	(963)	-	(1,548)	112,141
<b>Total</b>	<b>230,119</b>	<b>24,288</b>	<b>(6,783)</b>	<b>(695)</b>	<b>-</b>	<b>(1,844)</b>	<b>245,085</b>

<b>Net book value</b>	<b>201,951</b>	<b>6,184</b>	<b>(2,037)</b>	<b>(3,102)</b>	<b>-</b>	<b>(2,149)</b>	<b>200,847</b>
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The investments in property, plant and equipment during the first nine months of 2007 amount to Euro 28,486 thousand (compared to Euro 23,355 thousand during the first nine months of the previous year) and have been made in:

- the headquarter in Padua for Euro 1,579 thousand;
- the production sites of the Group for Euro 14,485 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 10,682 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 trading subsidiaries, for Euro 1,222 thousand;
- Far East, for Euro 518 thousand.

## 2.7 Intangible assets

(Euro/000)	Balance at January 1, 2006	Increase	Decrease and write-down	New acquisition	Transl. diff.	Balance at December 31, 2006
<b>Gross value</b>						
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
<b>Total</b>	<b>56,843</b>	<b>3,384</b>	<b>(2,049)</b>	<b>1,027</b>	<b>(398)</b>	<b>58,807</b>

### 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
<b>Total</b>	<b>31,263</b>	<b>6,302</b>	<b>(1,635)</b>	<b>843</b>	<b>(240)</b>	<b>36,533</b>

<b>Net book value</b>	<b>25,580</b>	<b>(2,918)</b>	<b>(414)</b>	<b>184</b>	<b>(158)</b>	<b>22,274</b>
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(Euro/000)	Balance at January 1, 2007	Increase	Decrease and write-down	Reclass.	Transl. diff.	Balance at September 30, 2007
<b>Gross value</b>						
Software	10,522	1,260	(41)	1,876	(217)	13,400
Trademarks and licenses	41,857	1,821	(17)	-	(21)	43,640
Other intangible assets	6,413	103	(35)	(444)	-	6,037
Intangible assets in progress	15	656	-	-	-	671
<b>Total</b>	<b>58,807</b>	<b>3,840</b>	<b>(93)</b>	<b>1,432</b>	<b>(238)</b>	<b>63,748</b>

### Accumulated depreciation

Software	7,694	1,265	(32)	646	(80)	9,493
Trademarks and licenses	23,066	2,884	(15)	-	(8)	25,927
Other intangible assets	5,773	121	(35)	(444)	(5)	5,410
<b>Total</b>	<b>36,533</b>	<b>4,270</b>	<b>(82)</b>	<b>202</b>	<b>(93)</b>	<b>40,830</b>

<b>Net book value</b>	<b>22,274</b>	<b>(430)</b>	<b>(11)</b>	<b>1,230</b>	<b>(145)</b>	<b>22,918</b>
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Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the nine months ended September 30<sup>th</sup>, 2007 and 2006 are divided into the following income statement accounts:

(Euro/000)	Note	Nine months ended September 30,	
		2007	2006
Cost of sales	3.2	15,616	15,029
Selling and marketing expenses	3.3	3,300	2,263
General and administrative costs	3.4	9,642	9,960
<b>Total</b>		<b>28,558</b>	<b>27,252</b>

## 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
<b>Net book value</b>	<b>365,121</b>	<b>26,839</b>	<b>(9,201)</b>	<b>382,759</b>

(Euro/000)	Balance at January 1, 2007	Increase / (Decrease)	Transl. diff.	Balance at September 30, 2007
Goodwill	382,759	720	(13,793)	369,686
<b>Net book value</b>	<b>382,759</b>	<b>720</b>	<b>(13,793)</b>	<b>369,686</b>

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 in 2006 and during the first nine months 2007 were as follows:

(Euro/000)	31.12.2006			Movements for the period		Value at September 30, 2007
	Gross value	Revaluation/ (write-down)	Value at December 31, 2006	Share of results and write-down of divid. of assoc. comp.	Transl. diff.	
TBR Inc.	452	488	940	114	(73)	981
Elegance I. Holdings Ltd	5,589	5,804	11,393	6	(791)	10,608
Optifashion As	353	(151)	202	31	-	233
<b>Total</b>	<b>6,394</b>	<b>6,141</b>	<b>12,535</b>	<b>151</b>	<b>(864)</b>	<b>11,822</b>

There were no acquisitions during the first nine months of 2007. The changes compared to December 31<sup>st</sup>, 2006 are mainly due to the net profits realized in the period, net of the dividends distributed, 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 September 30, 2007	Value at December 31, 2006
Gruppo Banco Popolare	Other equity investment	2,021	3,238
Unicredit S.p.A.	Other equity investment	173	191
Others	Other equity investment	43	43
<b>Total</b>		<b>2,237</b>	<b>3,472</b>

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

(Euro/000)	31.12.2006			Movements for the period		Value at September 30, 2007
	Gross value	Revaluation/ (write-down)	Net value	Increase/ (Decrease)	Revaluation/ (write-down)	
Gruppo Banco Popolare	6,855	(3,617)	3,238	-	(1,217)	2,021
Unicredit S.p.A.	48	143	191	-	(18)	173
Others	43	-	43	-	-	43
<b>Total</b>	<b>6,946</b>	<b>(3,474)</b>	<b>3,472</b>	<b>-</b>	<b>(1,235)</b>	<b>2,237</b>

### 2.11 Deferred tax assets and deferred tax liabilities

(Euro/000)	September 30, 2007	December 31, 2006
Deferred tax assets	47,219	51,172
Deferred tax liabilities	(13,292)	(13,082)
<b>Total net</b>	<b>33,927</b>	<b>38,090</b>

#### Deferred tax assets

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

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

Financial year	Expiring date	Loss (Euro/000)	Taxes (Euro/000)
2003	2008	28,485	9,400
2004	2009	14	5
<b>Total</b>		<b>28,499</b>	<b>9,405</b>

#### Deferred tax liabilities

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

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

Goodwill represents another significant line item on which deferred tax liabilities have been calculated; this account balance continues to be amortized only from a fiscal point of view.

### 2.12 Other non-current assets

The account is comprised as follows:

(Euro/000)	September 30, 2007	December 31, 2006
Receivables from holding company Safilo Group S.p.A.	19,991	19,758
Other non-current assets	5,664	1,973
<b>Total</b>	<b>25,656</b>	<b>21,731</b>

The receivables from the parent company Safilo Group S.p.A. relate to the fiscal losses realized by Safilo S.p.A. during the financial years 2005 and 2006 and transferred to Safilo Group S.p.A. further to the "national tax consolidation". In accordance with it, 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 September 30<sup>th</sup>, 2007, the "other non-current assets" amount to Euro 5,664 thousand and mainly refer:

- for Euro 2,000 thousand to the receivable relating to the quotas of employment benefit liability that the holding company Safilo S.p.A. has transferred to the Treasury Fund founded by the Italian Social Security Institution (INPS) further to the modifications introduced by the Finance Bill no. 296 of 2006;
- for Euro 2,404 thousand to receivables for guarantee deposits;
- for the remaining part to other long-term receivables due to various Group companies.

### 2.13 Bank loans and borrowings

This account is comprised as follows:

(Euro/000)	September 30, 2007	December 31, 2006
<b>Payables to banks and short-term loans</b>		
Bank overdrafts	2,725	6,631
Short-term bank loans	67,173	29,813
Short-term portion of long-term bank loans	27,002	22,523
Short-term portion of financial leasing and other loans	1,223	1,121
Other short-term loans	38,734	39,589
<b>Total</b>	<b>136,857</b>	<b>99,677</b>
<b>Payables to banks and medium and long-term loans</b>		
Medium long-term loans	426,735	465,103
Payables for financial leasing	8,868	9,708
Other medium long-term loans	665	772
<b>Total</b>	<b>436,268</b>	<b>475,583</b>
<b>Total borrowings and bank loans</b>	<b>573,125</b>	<b>575,260</b>

The short-term portion of long-term bank loans includes for Euro 22,125 thousand the share of the senior loan, stipulated at the end of June 2006, which is payable by the end of this year, while the remaining part refers to the short-term portion of other bank loans granted to some companies of the Group. The long-term portion of the senior loan, equal to Euro 236,415 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 31<sup>st</sup>, 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 September 30<sup>th</sup>, 2007 for Euro 90 million and USD 5

million. Effective from July 1<sup>st</sup> 2007, the lenders have conceded a one-year extension of the Revolving Facility, the expiry date of which was originally dated December 31<sup>st</sup>, 2011.

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 31<sup>st</sup>, 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.

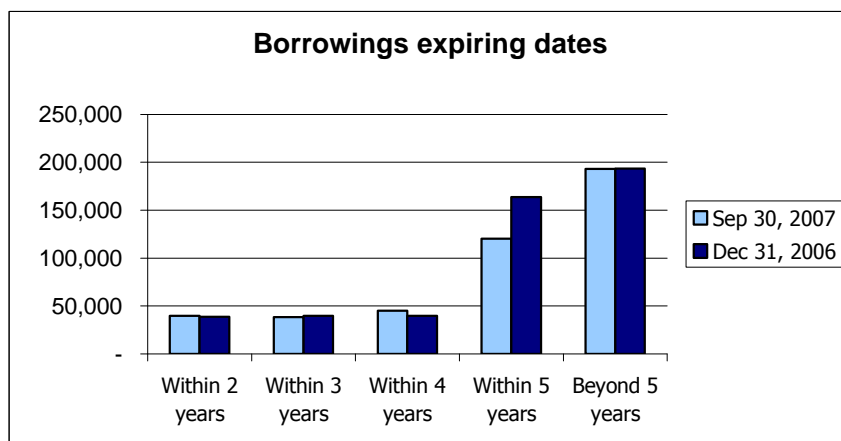
The payables for financial leases refer to property, plant and equipment acquired under leasing contracts by companies belonging to the Group. The average residual life of leasing contracts is 8 years. All leasing contracts at the interim balance sheet date are repayable through equal instalments and 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 37,336 thousand, a payable to a primary factoring company deriving from the contract signed by Safilo S.p.A..

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

(Euro/000)	September 30, 2007	December 31, 2006
Within 2 years	39,820	38,693
Within 3 years	38,161	39,656
Within 4 years	44,995	39,822
Within 5 years	120,117	163,739
Beyond 5 years	193,175	193,673
<b>Total</b>	<b>436,268</b>	<b>475,583</b>



Borrowings by currency are as follows:

(Euro/000)	September 30, 2007	December 31, 2006
<b>Short-term</b>		
Euro	121,783	84,857
US Dollars	10,380	11,160
Brasilian Real	2,173	2,265
Yen	1,223	-
Hong Kong Dollars	1,298	1,395
<b>Total</b>	<b>136,857</b>	<b>99,677</b>
<b>Medium long-term</b>		
Euro	353,392	383,359
US Dollars	82,876	90,950
Yen	-	1,274
<b>Total</b>	<b>436,268</b>	<b>475,583</b>
<b>Total borrowings</b>	<b>573,125</b>	<b>575,260</b>

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

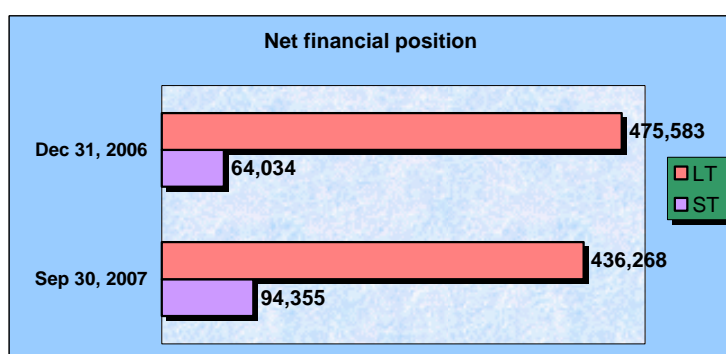
(Euro/000)	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	214,963	67,463	147,500
Credit lines on long-term bank loans	373,150	266,676	106,474
<b>Total</b>	<b>588,113</b>	<b>334,139</b>	<b>253,974</b>

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 September 30<sup>th</sup> 2007 compared with the same as of June 30<sup>th</sup>, 2007 and December 31<sup>st</sup>, 2006 is the following:

Net financial position (Euro/000)	September 30, 2007	June 30, 2007	Change Sep - Jun	December 31, 2006	Change Sep - Dec
Current portion of long-term borrowings	(27,002)	(25,657)	(1,345)	(22,523)	(4,479)
Bank overdrafts and short-t. bank borrowings	(69,898)	(27,864)	(42,034)	(36,444)	(33,454)
Other short-term borrowings	(39,957)	(47,284)	7,327	(40,710)	753
Cash and cash equivalents	42,502	48,392	(5,890)	35,643	6,859
<b>Short-term net financial position</b>	<b>(94,355)</b>	<b>(52,413)</b>	<b>(41,942)</b>	<b>(64,034)</b>	<b>(30,321)</b>
Long-term borrowings	(436,268)	(475,980)	39,712	(475,583)	39,315
<b>Long-term net financial position</b>	<b>(436,268)</b>	<b>(475,980)</b>	<b>39,712)</b>	<b>(475,583)</b>	<b>39,315)</b>
<b>Net financial position</b>	<b>(530,623)</b>	<b>(528,393)</b>	<b>(2,230)</b>	<b>(539,617)</b>	<b>8,994)</b>



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.

(Euro/000)	September 30, 2007	December 31, 2006
Purchase of raw materials	35,423	51,295
Purchase of finished goods	62,836	83,536
Suppliers from subcontractors	6,042	9,902
Commissions	3,957	5,304
Royalties	11,864	20,220
Advertising and marketing costs	26,361	24,054
Services received from third parties	26,638	30,123
Purchase of property, plant and equipment and intangible assets	2,813	3,912
<b>Total</b>	<b>175,934</b>	<b>228,346</b>

[2.15 Tax payables](#)

Tax payables as of September 30<sup>th</sup>, 2007 amount to Euro 24,880 thousand compared to Euro 20,676 thousand as at December 31<sup>st</sup>, 2006 and relate for Euro 13,691 thousand to income taxes, for Euro 5,873 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](#)

(Euro/000)	September 30, 2007	December 31, 2006
Payables to personnel and social security institutions	33,908	31,935
Premiums to clients	23,231	20,541
Agent fee payables	2,354	2,202
Accrued advertising and sponsorship costs	515	520
Accrued interests on long-term payables	7,611	7,302
Other accruals and deferred income	3,355	3,314
Payables to the holding company Safilo Group S.p.A.	804	1,085
Due to the holding company Safilo Group S.p.A. for dividends	33,000	16,000
Due to minority shareholders for dividends	3,460	3,553
Other current liabilities	3,148	3,336
<b>Total</b>	<b>111,386</b>	<b>89,788</b>

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

The 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:

(Euro/000)	Balance at January 1, 2006	Increase	Decrease	New acquisition	Transl. 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
<b>Provisions for risks - long term</b>	<b>8,644</b>	<b>2,667</b>	<b>(899)</b>	<b>117</b>	<b>(51)</b>	<b>10,478</b>
<b>Provisions for risks - short term</b>	<b>128</b>	<b>675</b>	<b>-</b>	<b>25</b>	<b>-</b>	<b>828</b>
<b>Total</b>	<b>8,772</b>	<b>3,342</b>	<b>(899)</b>	<b>142</b>	<b>(51)</b>	<b>11,306</b>

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	New acquisition	Transl. diff.	Balance at September 30, 2007
Product warranty provision	3,801	91	-	-	-	3,892
Agents' severance indemnity	3,689	464	-	-	-	4,153
Litigation	1,188	-	(125)	-	-	1,063
Other provisions for risks and charges	1,800	152	(258)	-	(38)	1,656
<b>Provisions for risks - long term</b>	<b>10,478</b>	<b>707</b>	<b>(383)</b>	<b>-</b>	<b>(38)</b>	<b>10,764</b>
<b>Provisions for risks - short term</b>	<b>828</b>	<b>807</b>	<b>(35)</b>	<b>-</b>	<b>29</b>	<b>1,629</b>
<b>Total</b>	<b>11,306</b>	<b>1,514</b>	<b>(418)</b>	<b>-</b>	<b>(9)</b>	<b>12,393</b>

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	Transl. diff.	Balance at December 31, 2006
Employee benefit liability	39,365	7,395	(3,006)	(2,786)	(88)	40,880
<b>Total</b>	<b>39,365</b>	<b>7,395</b>	<b>(3,006)</b>	<b>(2,786)</b>	<b>(88)</b>	<b>40,880</b>

(Euro/000)	Balance at January 1, 2007	Posted to income statement	Actuarial differences	Use	Transl. diff.	Balance at September 30, 2007
Employee benefit liability	40,880	6,809	(5,062)	(3,828)	(32)	38,767
<b>Total</b>	<b>40,880</b>	<b>6,809</b>	<b>(5,062)</b>	<b>(3,828)</b>	<b>(32)</b>	<b>38,767</b>

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 27<sup>th</sup>, 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 1<sup>st</sup>, 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 31<sup>st</sup>, 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 nine months of 2007. Actuarial losses recorded in a specific reserve in equity as of December 31<sup>st</sup>, 2006 have been reclassified in retained earnings.

#### 2.19 Other non-current liabilities

The other non-current liabilities as of September 30<sup>th</sup>, 2007 amount to Euro 4,926 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 September 30<sup>th</sup>, 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 30<sup>th</sup>, 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 19<sup>th</sup>, 2004.

The reduction compared to December 31<sup>st</sup>, 2006, for Euro 51,045 thousand, represents the amount allocated by the shareholders' Meeting on April 24<sup>th</sup>, 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:

(Euro/000)	Balance at January 1, 2006	Impact on equity	Impact on income statement	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
<b>Total</b>	<b>(3,899)</b>	<b>3,549</b>	<b>2,209</b>	<b>1,859</b>

(Euro/000)	Balance at January 1, 2007	Impact on equity	Impact on income statement	Balance at September 30, 2007
Cash flow reserve	1,221	156	(979)	398
Fair value reserve	638	(1,235)	-	(597)
<b>Total</b>	<b>1,859</b>	<b>(1,079)</b>	<b>(979)</b>	<b>(199)</b>

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

Further to the mandate granted by the Extraordinary shareholders' Meeting on October 24<sup>th</sup>, 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31<sup>st</sup>, 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 1<sup>st</sup>, 2004 for all the options issued after November 7<sup>th</sup>, 2002 but not matured ("vested") before January 1<sup>st</sup>, 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, on June 26<sup>th</sup> 2007, 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 20<sup>th</sup>, 2008.

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

(Euro/000)	September 30, 2007	September 30, 2006
2004 plan	-	389
2006 plan	418	54
<b>Total</b>	<b>418</b>	<b>443</b>

### 3. Notes on the consolidated statement of operations

#### 3.1 Net sales

Group sales in the first nine months of 2007 amount to Euro 903,886 thousand and report an increase of 7.1% 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 nine 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)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Purchase of raw materials and finished goods	268,266	260,471	77,563	84,241
Capitalisation of costs for increase in property, plant and equipment (-)	(8,658)	(7,160)	(3,188)	(2,316)
Change in inventories	(7,990)	(41,753)	(14,265)	(27,661)
Payroll and social security contributions	73,292	74,792	20,271	25,083
Subcontracting costs	23,643	27,021	9,433	9,233
Depreciation	15,616	15,029	5,178	3,634
Rental and operating leases	710	403	244	114
Other industrial costs	6,925	6,055	2,246	2,084
<b>Total</b>	<b>371,804</b>	<b>334,858</b>	<b>97,482</b>	<b>94,412</b>

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

The change in inventories is broken down as follows:

(Euro/000)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Finished products	(14,345)	(37,909)	(12,752)	(25,242)
Work-in-progress	(300)	(781)	(624)	(482)
Raw materials	6,655	(3,063)	(889)	(1,937)
<b>Total</b>	<b>(7,990)</b>	<b>(41,753)</b>	<b>(14,265)</b>	<b>(27,661)</b>

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

	Nine months ended September 30,	
	2007	2006
Padua headquarters	864	822
Production facilities	4,883	4,355
Commercial companies	1,184	1,071
Retail	996	412
<b>Total</b>	<b>7,927</b>	<b>6,660</b>

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)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Payroll and social security contributions	74,971	66,733	26,027	21,132
Commissions to sales agents	58,226	60,464	14,754	17,362
Royalty expenses	75,106	74,170	18,700	20,311
Advertising and promotional costs	79,045	68,512	19,161	17,587
Amortization and depreciation	3,300	2,263	1,206	738
Logistic costs	13,969	13,001	4,908	4,935
Consultants fees	3,397	3,037	753	777
Rental and operating leases	8,843	5,847	3,054	2,284
Utilities	910	802	253	392
Provision for risks	1,228	1,607	26	733
Other sales and marketing expenses	17,206	19,675	4,754	6,262
<b>Total</b>	<b>336,201</b>	<b>316,111</b>	<b>93,596</b>	<b>92,513</b>

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:

(Euro/000)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Payroll and social security contributions	41,631	46,761	9,771	10,571
Allowance for doubtful accounts	2,653	1,761	875	650
Amortization and depreciation	9,642	9,960	2,807	4,649
Consultants fees	9,309	6,836	2,325	2,213
Rental and operating leases	5,397	4,651	1,860	1,382
EDP costs	2,924	2,617	1,016	844
Insurance costs	1,888	2,102	598	652
Utilities, security and cleaning	5,117	4,578	1,815	1,608
Taxes (other than on income)	1,943	1,599	718	568
Other general and administrative expenses	12,908	11,470	2,519	3,134
<b>Total</b>	<b>93,412</b>	<b>92,335</b>	<b>24,304</b>	<b>26,271</b>

Compared to the same period of the previous year, payroll costs decreased by about 11%. It should be noted that this account included extraordinary charges, as of September 30<sup>th</sup>, 2006; hence, this account balance, net of the impact of these charges on the previous year, would have increased by 2.1%.

“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:

(Euro/000)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Losses on disposal of assets	(452)	(201)	(87)	(73)
Other operating expenses	(648)	(616)	(300)	(369)
Gains on disposal of assets	201	306	181	24
Other operating incomes	733	1,303	161	41
<b>Total</b>	<b>(166)</b>	<b>792</b>	<b>(45)</b>	<b>(377)</b>

### 3.6 Share of income/(loss) of associates

This account amounts to Euro 250 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)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Interest expense on loans	14,922	17,521	5,446	3,928
Interest expense and charges on High Yield	14,693	13,791	4,941	4,954
Bank commissions	2,904	2,980	1,043	848
Negative exchange rate differences	8,023	7,756	4,350	400
Financial discounts	2,888	3,949	264	655
Losses on financial assets disposal	-	121	-	(17)
Other financial charges	1,297	2,023	129	996
<b>Total financial charges</b>	<b>44,727</b>	<b>48,141</b>	<b>16,173</b>	<b>11,764</b>
Interest income	1,090	772	393	311
Positive exchange rate differences	9,801	8,805	4,619	764
Dividends	985	6	978	-
Other financial income	257	1,458	27	599
<b>Total financial income</b>	<b>12,133</b>	<b>11,041</b>	<b>6,017</b>	<b>1,674</b>
<b>Total financial charges, net</b>	<b>32,594</b>	<b>37,100</b>	<b>10,156</b>	<b>10,090</b>

Financial charges significantly decreased when compared to the first nine 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)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Accelerated amortization of fees on borrowings	-	7,749	-	-
Fair value of non-hedging IRS	-	1,533	-	-
<b>Total</b>	<b>-</b>	<b>9,282</b>	<b>-</b>	<b>-</b>

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

- the refinancing operation concluded by the Group on June 26<sup>th</sup>, 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](#)

(Euro/000)	Nine months ended September 30,		Third quarter	
	2007	2006	2007	2006
Current taxes	(23,719)	(22,661)	(3,673)	(4,033)
Deferred taxes	(3,449)	(878)	(453)	(2,957)
<b>Total</b>	<b>(27,168)</b>	<b>(23,539)</b>	<b>(4,126)</b>	<b>(6,990)</b>

### [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 nine 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 nine months 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.

<b>Nine months ended Sep. 30, 2007</b> (Euro/000)	<b>Italy</b> <b>(1)</b>	<b>Europe</b> <b>(2)</b>	<b>America</b> <b>(3)</b>	<b>Asia</b> <b>(4)</b>	<b>Corporate</b> <b>(5)</b>	<b>Eliminat.</b>	<b>Total</b>
<b>Net sales</b>							
-to other segments	257,060	38,299	2,014	281	-	(297,653)	-
-to third parties	205,978	271,043	317,891	108,974	-	-	903,886
<b>Total net sales</b>	<b>463,038</b>	<b>309,342</b>	<b>319,905</b>	<b>109,255</b>	<b>-</b>	<b>(297,653)</b>	<b>903,886</b>
<b>Gross profit</b>	<b>181,810</b>	<b>133,883</b>	<b>161,675</b>	<b>56,868</b>	<b>-</b>	<b>(2,153)</b>	<b>532,082</b>
<b>Operating profit</b>	<b>38,090</b>	<b>27,045</b>	<b>20,912</b>	<b>18,074</b>	<b>182</b>	<b>(2,001)</b>	<b>102,303</b>
Interest expense							(44,727)
Interest income							12,133
Share income/(loss) of associates	-	-	114	104	32		250
Income taxes							(27,168)
<b>Net profit</b>							<b>42,791</b>
Gross profit margin	39%	43%	51%	52%			59%
Operating profit margin	8%	9%	7%	17%			11%
<b>Other information</b>							
Depreciation & Amortization	19,007	4,431	4,275	836	9		28,558

<b>Nine months ended Sep. 30, 2006</b> (Euro/000)	<b>Italy</b> <b>(1)</b>	<b>Europe</b> <b>(2)</b>	<b>America</b> <b>(3)</b>	<b>Asia</b> <b>(4)</b>	<b>Corporate</b> <b>(5)</b>	<b>Eliminat.</b>	<b>Total</b>
<b>Net sales</b>							
-to other segments	249,780	35,000	1,632	11	-	(286,423)	-
-to third parties	192,709	233,709	321,703	95,480	-	-	843,601
<b>Total net sales</b>	<b>442,489</b>	<b>268,709</b>	<b>323,335</b>	<b>95,491</b>	<b>-</b>	<b>(286,423)</b>	<b>843,601</b>
<b>Gross profit</b>	<b>182,091</b>	<b>110,664</b>	<b>171,773</b>	<b>45,488</b>	<b>-</b>	<b>(1,273)</b>	<b>508,743</b>
<b>Operating profit</b>	<b>37,736</b>	<b>17,919</b>	<b>32,919</b>	<b>12,651</b>	<b>643</b>	<b>(779)</b>	<b>101,089</b>
Interest expense							(57,423)
Interest income							11,041
Share income/(loss) of associates	-	-	110	362	(74)		398
Income taxes							(23,539)
<b>Net profit</b>							<b>31,566</b>
Gross profit margin	41%	41%	53%	48%			60%
Operating profit margin	9%	7%	10%	13%			12%
<b>Other information</b>							
Depreciation & Amortization	19,328	3,790	3,322	796	16		27,252

- (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.

<b>Third quarter 2007</b> (Euro/000)	<b>Italy</b> <b>(1)</b>	<b>Europe</b> <b>(2)</b>	<b>America</b> <b>(3)</b>	<b>Asia</b> <b>(4)</b>	<b>Corporate</b> <b>(5)</b>	<b>Eliminat.</b>	<b>Total</b>
<b>Net sales</b>							
-to other segments	66,317	11,544	1,020	101	-	(78,982)	-
-to third parties	44,845	58,266	101,775	31,188	-	-	236,074
<b>Total net sales</b>	<b>111,163</b>	<b>69,810</b>	<b>102,795</b>	<b>31,288</b>	<b>-</b>	<b>(78,982)</b>	<b>236,074</b>
<b>Gross profit</b>	<b>40,730</b>	<b>26,478</b>	<b>54,734</b>	<b>17,898</b>	<b>-</b>	<b>(1,249)</b>	<b>138,592</b>
<b>Operating profit</b>	<b>5,710</b>	<b>(1,611)</b>	<b>11,290</b>	<b>6,202</b>	<b>47</b>	<b>(992)</b>	<b>20,647</b>
Interest expense							(16,173)
Interest income							6,017
Share income/(loss) of associates	-	-	38	(1)	(10)		26
Income taxes							(4,126)
<b>Net profit</b>							<b>6,391</b>
Gross profit margin	37%	38%	53%	57%			59%
Operating profit margin	5%	-2%	11%	20%			9%
<b>Other information</b>							
Depreciation & Amortization	6,278	1,125	1,530	254	5		9,191

<b>Third quarter 2006</b> (Euro/000)	<b>Italy</b> <b>(1)</b>	<b>Europe</b> <b>(2)</b>	<b>America</b> <b>(3)</b>	<b>Asia</b> <b>(4)</b>	<b>Corporate</b> <b>(5)</b>	<b>Eliminat.</b>	<b>Total</b>
<b>Net sales</b>							
-to other segments	76,528	11,072	1,570	1	-	(89,171)	-
-to third parties	51,881	66,337	93,262	26,716	-	-	238,196
<b>Total net sales</b>	<b>128,409</b>	<b>77,409</b>	<b>94,832</b>	<b>26,717</b>	<b>-</b>	<b>(89,171)</b>	<b>238,196</b>
<b>Gross profit</b>	<b>50,893</b>	<b>26,338</b>	<b>54,119</b>	<b>12,982</b>	<b>-</b>	<b>(548)</b>	<b>143,784</b>
<b>Operating profit</b>	<b>9,208</b>	<b>(802)</b>	<b>12,612</b>	<b>3,334</b>	<b>555</b>	<b>(284)</b>	<b>24,623</b>
Interest expense							(11,765)
Interest income							1,675
Share income/(loss) of associates	-	-	35	387	-		422
Income taxes							(6,990)
<b>Net profit</b>							<b>7,965</b>
Gross profit margin	40%	34%	57%	49%			60%
Operating profit margin	7%	-1%	13%	12%			10%
<b>Other information</b>							
Depreciation & Amortization	6,472	1,185	1,137	221	6		9,021

**RELATED PARTY TRANSACTIONS**

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

<b>Related parties transactions</b> (Euro/000)	<b>Relationship</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<u>Receivables</u>			
Optifashion As	(a)	20	4
Elegance International Holdings Ltd	(b)	425	-
<b>Total</b>		<b>445</b>	<b>4</b>
<u>Payables</u>			
Elegance International Holdings Ltd	(b)	8,265	10,360
<b>Total</b>		<b>8,265</b>	<b>10,360</b>

<b>Related parties transactions</b> (Euro/000)	<b>Relationship</b>	<b>First nine months</b>	
		<b>2007</b>	<b>2006</b>
<u>Revenues</u>			
Optifashion As	(a)	89	193
<b>Total</b>		<b>89</b>	<b>193</b>
<u>Costs</u>			
Elegance International Holdings Ltd	(b)	19,587	20,419
TBR Inc.	(b)	847	872
<b>Total</b>		<b>20,434</b>	<b>21,291</b>

(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 nine months of 2007, the Group paid rent of Euro 847 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 September 30<sup>th</sup>, 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**

For further information:

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