Safilo®
GROUP

2007 Annual Report

GIORGIO ARMANI

EMPORIO ARMANI

A|X

ALEXANDER MCQUEEN

BALENCIAGA

BANANA REPUBLIC

BOSS

HUGO

BOTTEGA VENETA

BOUCHERON

claiborne

liz claiborne

Dior

GUCCI

JIMMY CHOO

kate spade
NEW YORK

MARC BY MARC JACOBS

MARC JACOBS

MAX&Co.

MaxMara

NINE WEST

pierre cardin
PARIS

Safilo

SAKS FIFTH AVENUE

STELLA McCARTNEY

VALENTINO

YVES SAINT LAURENT

SAFILO GROUP S.p.A.
Registered office: Piazza Tiziano n. 8
32044 Pieve di Cadore (BL)
Share Capital:
Euro 71,348,532.00 fully paid-up.

Belluno Company's Office and Tax number:
03032950242
Belluno Chamber of Commerce no. 90811

Safilo®
GROUP

THE SAFILO UNIVERSE

SAFILO AMERICA

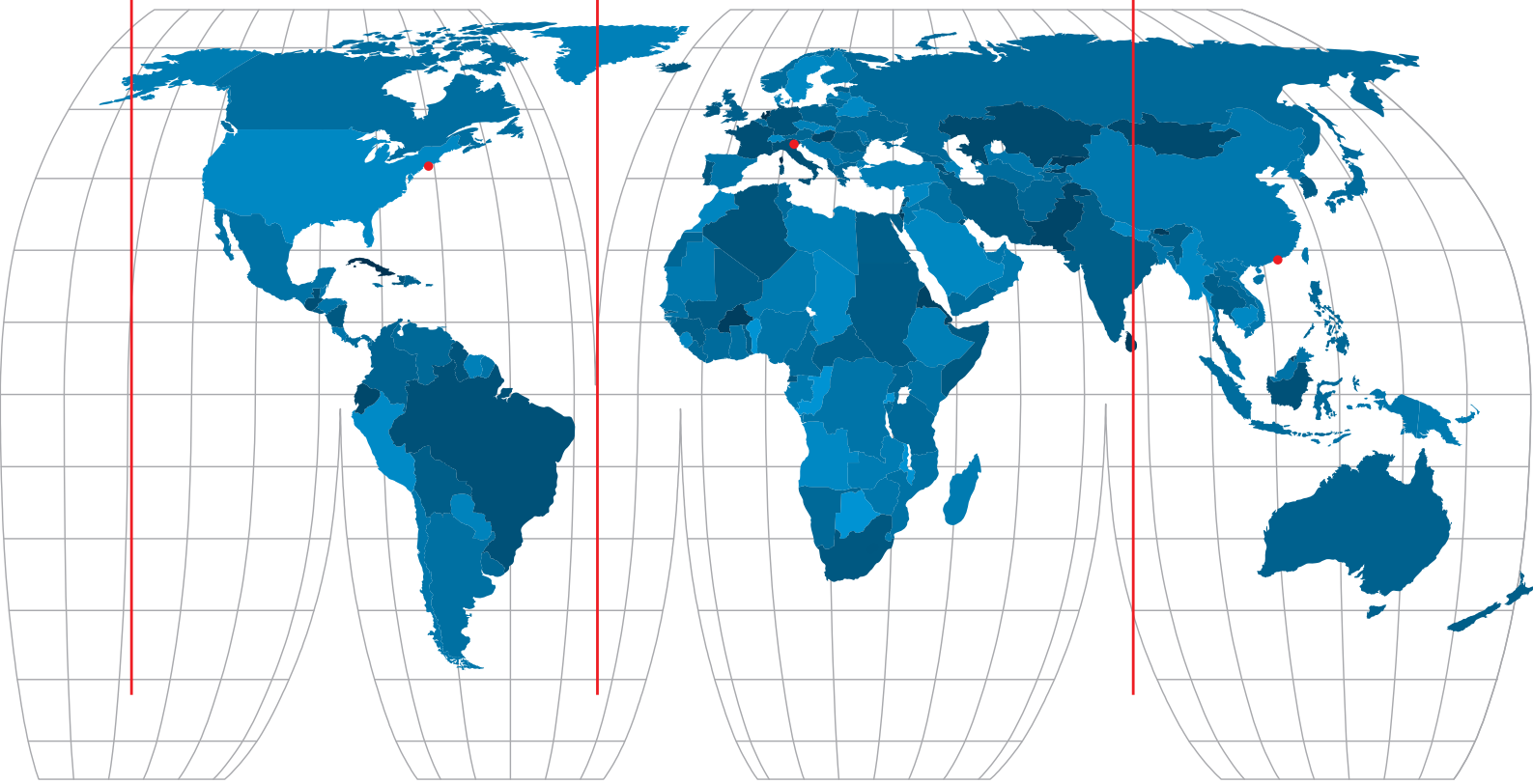
BRAZIL
CANADA
LATIN AMERICA
USA

SAFILO EUROPE & R.o.W

AUSTRIA
BELGIUM
DENMARK
ESTONIA
FINLAND
FRANCE
GERMANY
GREECE
INDIA
ITALY
LATVIA
LITHUANIA
NETHERLANDS
NORWAY
PORTUGAL
SLOVENIA
SOUTH AFRICA
SPAIN
SWEDEN
SWITZERLAND
UK
MEXICO

SAFILO FAR EAST

AUSTRALIA
CHINA
KOREA
HONG KONG
JAPAN
MALAYSIA
SINGAPORE



PRODUCTION PLANTS

LONGARONE
MARTIGNACCO
ORMOZ
PRECENICCO
S. MARIA DI SALA
R&D DIVISION
SALT LAKE CITY

SPORT

ITALY
CANADA
USA

The Safilo Group has 30 commercial subsidiaries and a network of 170 independent distributors able to reach 130,000 selected sales outlets all over the world.

THE HOMES OF STYLE

Safilo showrooms can be found in the most prestigious international fashion capitals: New York, London, Paris, Barcelona and Madrid. Two further showrooms were recently opened in New Delhi and Milan.


Milan


Barcelona


Paris

New York


London

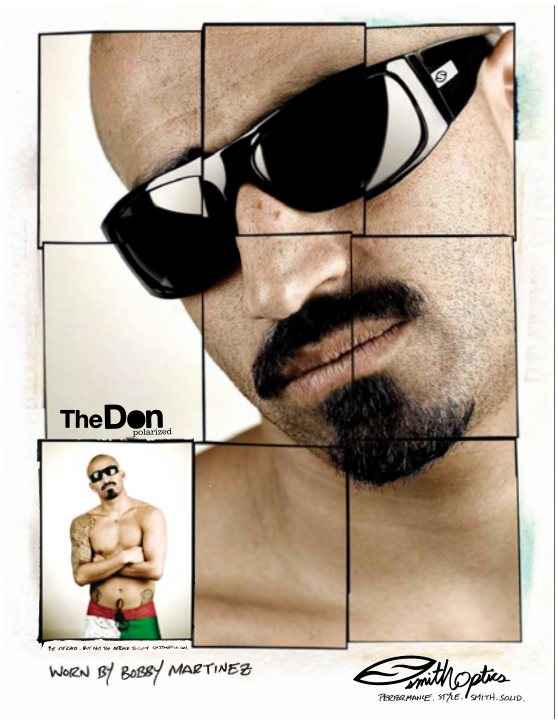

New Delhi

LEADER IN HIGH-END EYEWEAR

The Safilo Group, one of the world's leaders in the high-end accessories sector, manufactures and distributes optical frames and sunglasses for major international fashion designer names.

The company also has five brand names of its own: Safilo, Blue Bay, Oxydo, Carrera, Smith.

Carrera



Smith

OUR SHOWCASES

The Group owns the following exclusive chains: Solstice in the USA, Loop Vision in Spain, Sunglass Island in Mexico and Just Spectacles in Australia.

SAFILO VALUES

COMMITTED TO DO BETTER

Loyalty, quality, respect. These are the values that strengthen all aspects of Safilo life, both inside and outside the company.

The Safilo Group has also adopted a Code of Ethics, which brings together the principles of loyalty, integrity, transparency and correctness in behaviour and in conducting relations, both within the company and towards third parties.

Summary

Chairman's letter to the shareholders

Dear Shareholders,
Once again 2007 ended with an improvement of all the main financial indicators and a positive result of all our strategic brands. It is with great personal satisfaction that I must emphasise how the Group has distinguished itself in all the markets it operates in and how the activities performed during the course of the year have enabled Safilo to consolidate its position in the eyewear market, overcoming the commercial risks associated with the non-renewal of an important licence, flanking clients more closely and confirming our ability to valorise both the licensed brands and our own, valorising the existing collections and, at the same time, successfully presenting new ones (Armani Exchange, Banana Republic, Hugo Boss and Marc by Marc Jacobs).
Despite widespread concern about the economy of the more developed countries, 2007 once again saw an increase in sales in all the main world markets and, perhaps even more importantly, of all the main brands of the Group, both its own and those under licence. The consolidated turnover of the financial year 2007 exceeded 1,190 million Euro with an increase of 6.1% compared to the previous financial year (at equal exchange rates the increase would have been approx. 10.2% compared to 2006).
The takeover of the Spanish group Loop, at the end of 2006, led to a considerable increase of the retail segment within the Group's business. In February 2008, with the acquisition of the retail chains Sunglass Island in Mexico and Just Spectacles in Australia, Safilo has given further impetus to its high-end retail project, definitively launching its international strategy, begun with the expansion of the Solstice chain in the USA at the beginning of 2002.
In relation to the wholesale business, still largely predominant in terms of total turnover, 2007 ended with an increase of about 3.8% (+7.6% at equal exchange rates), with particularly brilliant results in south-east Asia.
The brand portfolio remains well balanced and relations with licensors remain excellent, especially with the top designer names, in part thanks to the excellent commercial results. All the licences deemed of interest due to expire during the year were renewed without any worsening of the economic conditions.
In the production area, 2007 was characterised by the completion of a series of activities which had begun to be implemented the previous year and by the contemporary launching of a project for the construction of a new production site in China, forecast to start operations by the end of this year.
The economic results of the Group in 2007 were decidedly better than 2006. Operating profit was around 137 million euro compared to 126 million in 2006 with a margin on sales of 11.5% (11.2% in 2006). The net profit of the Group was 51 million euro compared to 37 million euro in 2006, up by 36.2%. From a financial perspective, the Group witnessed a progressive reduction of its net debt, thanks to shrewd financial policies and an improved cash flow, this fell to Euro 515 million.
The investments in the productive area and development of the retail segment are changing the face of the Group, which we are organising in such a way that, while strengthening its relations with the end user, it also maintains full control of the industrial process.
2008 has started in a generally difficult context but I am firmly convinced that the force of our Company and the expansion plans that we are implementing will lead us to improve on the results of 2007.

The Chairman
Vittorio Tabacchi


A POINT OF YOU
CARRERA
RACING SUNGLASSES SINCE 1956

Corporate Officers as of December 31st, 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	Nicola Gianese
Regular auditor	Paolo Mazzi
Alternate member	Ornella Rossi
Alternate member	Giampietro Sala

Internal Control Committee

Chairman	Carlo Gilardi
	Ennio Doris
	Riccardo Ruggiero

Remuneration Committee

Chairman	Carlo Gilardi
	Giannino Lorenzon
	Riccardo Ruggiero

Independent Auditors

PricewaterhouseCoopers S.p.a.


See the fun
Blue Bay
for dreamers only

Summary of key consolidated performance indicators

Economic data *(Euro in millions)*	2007	%	2006	%
Net sales	1,190.4	100.0	1,122.0	100.0
Cost of sales	(492.6)	41.4	(458.5)	40.9
Gross profit	697.8	58.6	663.5	59.1
Ebitda	175.3	14.7	162.4	14.5
Operating profit	137.2	11.5	125.6	11.2
Profit before taxation	93.6	7.9	71.1	6.3
Group net profit	51.0	4.3	37.5	3.3

Earnings per share *(in Euro)*	2007	2006
EPS - Base	0.18	0.13
EPS - Diluted	0.18	0.13
No. of shares in share capital	285,394,128	283,372,852

Balance sheet data *(Euro in millions)*	Dec 31, 2007	%	Dec 31, 2006	%
Total assets	1,772.0	100.0	1,813.6	100.0
Non-current assets	1,080.8	61.0	1,130.9	62.4
Net working capital	395.4	22.3	362.3	20.0
Net financial position	(514.6)	29.0	(531.8)	29.3
Group shareholders' equity	836.0	47.2	838.8	46.3

Financial data *(Euro in millions)*	2007	2006
Cash flows operating activities	53.3	6.3
Cash flows investing activities	(43.8)	(36.9)
Cash flows financing activities	(45.7)	(10.1)
Closing net cash and cash equivalents	(28.5)	7.0

(*) 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.*

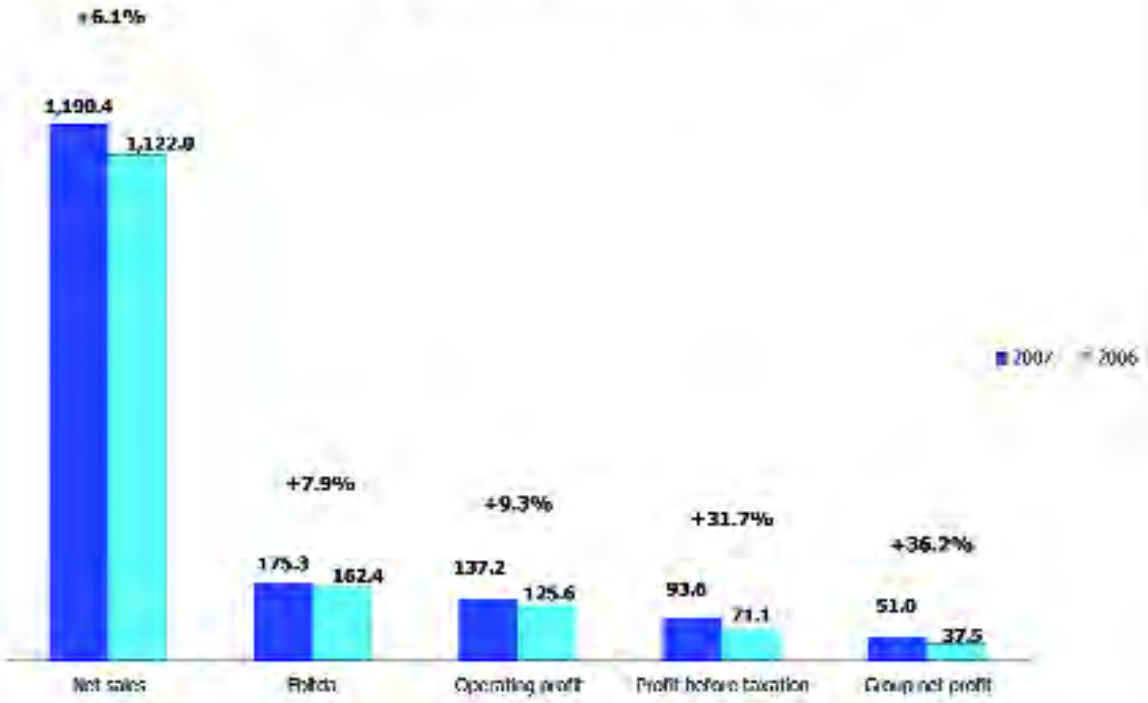
Have protected sex

oXYOO
remark your identity

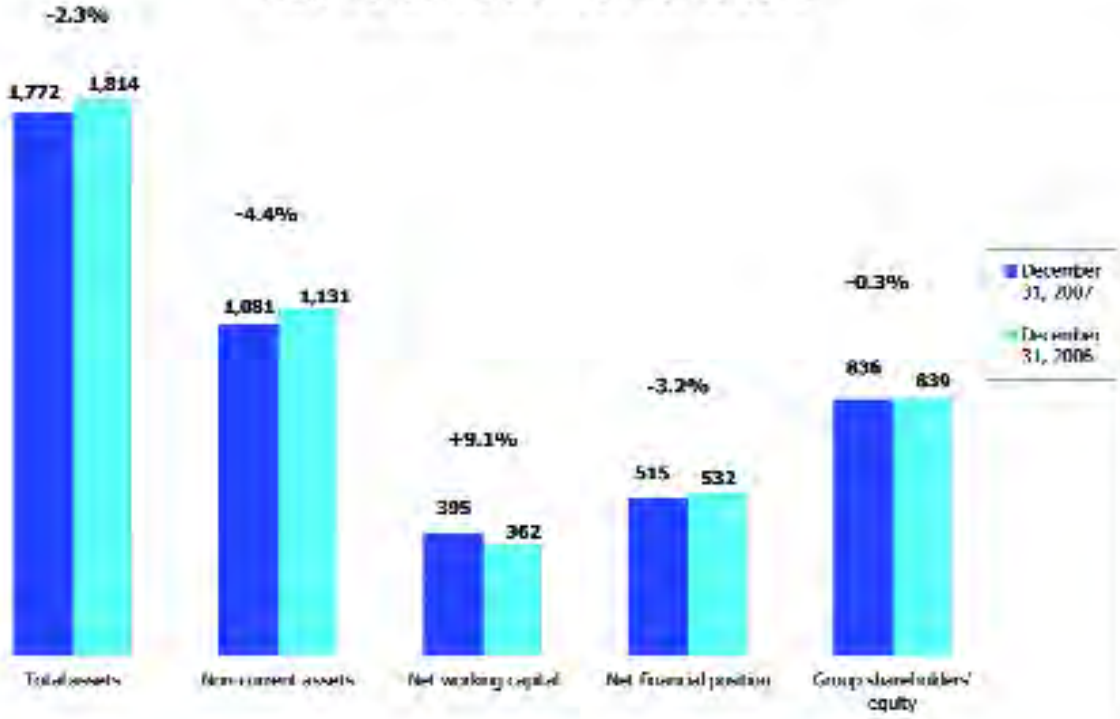
www.oxydo.net

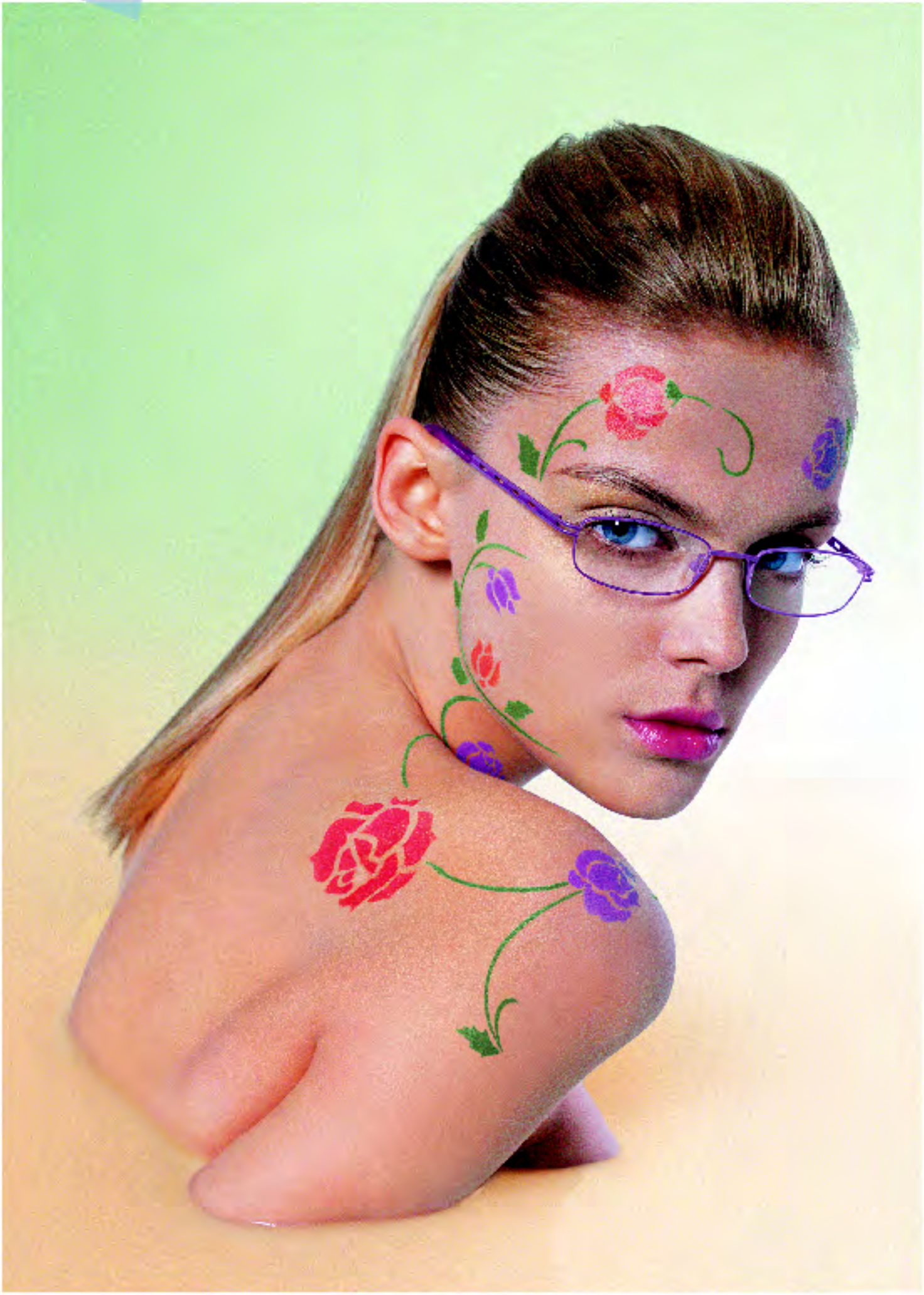
Oxydo supports Aids prevention

Key economic indicators



Key balance sheet indicators





SEVENTH STREET

DIRECTORS' REPORT ON OPERATIONS


RACE
Pure race.
CARRERA
PROTECT YOUR INSTINCT
www.carrerasport.com
Rainer Schoenfelder - Austrian Sk Champion

DIRECTORS' REPORT ON OPERATIONS

The Group activity

Safilo Group, present in the eyewear market for over 70 years, is the second largest manufacturer worldwide in terms of turnover, in the creation, production and wholesale distribution of eyewear products. The Group is also the world leader in the luxury eyewear segment and one of the top three sports eyewear manufacturers and distributors worldwide.

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

The Group is the world leader in the high-end market and has built up and manages a portfolio of own and licensed brands selected on the basis of competitive positioning and international prestige, in order to implement a specific customer segmentation strategy. Safilo has progressively expanded its housebrand portfolio to include several brands from the luxury and fashion sectors, setting up long-lasting partnerships with its licensors, through license contracts lasting from 5 to 8 years, most of which have been repeatedly renewed.

The Group's own brands include *Sàfilo, 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, Jimmy Choo, J. Lo by Jennifer Lopez, Juicy Couture, Kate Spade, Liz Claiborne, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max & Co., Nine West, Pierre Cardin, Saks Fifth Avenue, Stella McCartney, Valentino and Yves Saint Laurent.*

The licenses for *Imatra* and *Oliver* will not be renewed, as not deemed strategic in terms of future potential or geographic distribution.

The Group directly controls the entire production-distribution process, divided into the following phases: research and technological innovation, product design and development, planning, programming and purchases, production, quality, marketing and communications, sales, distribution and logistics. Safilo is strongly oriented towards product development and design, conducted by a team of designers able to ensure the continual stylistic and technical innovation which has always been a distinguishing feature of the Company.

In-house production is performed in five plants owned by the Company, four of which located in Italy and one in Slovenia. For products purchased from third parties, a dedicated team has been formed to test that their quality is in line with the best standards set by the Group.

Selective distribution takes place through three main distribution centres - based in Padua, Parsippany (New Jersey, USA) and Hong Kong – and by other minor distribution centres, thus ensuring an excellent level of customer service. Safilo Group sells its products in about 130 countries, in many of which it operates directly through its 30 commercial branches, while in the remaining countries distribution takes place through over 170 independent distributors. Each subsidiary of the Group co-ordinates a consolidated network of local sales agents who operate mainly on an exclusive basis, reaching a clientele of over 130,000 retail sales points, composed of opticians, optometrists, ophthalmologists, distribution chains, department stores and other specialised retailers. The Group maintains a high level of customer relations and the reputation of its clientele ensures appropriate positioning of Group and licensed brands.

Specifically, the strategic choice of selecting the retailers for its products and their positioning inside the point of sale is a key factor in the relationships with prestigious brand licensors and a distinguishing feature compared to its major competitors.

Main strong points

The group owes its success to a number of strengths which, taken together, distinguish it in the worldwide eyewear industry:

- portfolio of prestigious brands, with a leading position in the luxury and high-end segment;
- excellence in design, innovation and quality of the product;
- worldwide distribution platform and presence in the markets;
- excellent customer service;
- diversified revenues.

The products

Safilo Group operates in the development, production and wholesale and retail sale of eyewear. Specifically, the products offered, marketed under its own or licensed brands, include optical frames, sunglasses, sports goggles and other accessories.

The various lines produced are aimed at different consumer targets, through products with retail price at the high-end of the market.

The products offered by the Company are characterised by their complementary nature, the sunglasses being a product more linked to fashion trends, whilst eyeglasses are more associated with demographic dynamics.

The Group's constant attention to consumers' tastes, fashion trends and technological innovations is embodied in the constant introduction of new models and a continual updating of existing ones.

In particular, for products targeted to the Asian market, the Group is able to develop frames aimed to suit the specific somatic characteristics of such populations (Asian fitting), with particular focus on the Japanese market.

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

The brands and the licences

The brand portfolio of the Group is composed of its own brands, used for prescription frames, sunglasses and sports goggles and of licensed brands for the collections of frames and sunglasses. The latter are mainly positioned at the high-end of the market with a strong presence in the luxury segment.

In order to minimise the risk associated with the volatility of consumers' tastes, the Group pursues a policy aimed at constituting a brand portfolio diversified in terms of geographic position, age, gender and income targets and requirements of the end user.

Own brands are of extreme strategic importance for the expansion objectives of the Group in the medium/high end of the market for the Fashion and Casual-Sport segments in all product categories (frames, sunglasses and sports goggles such as, for example, ski masks and helmets and technical goggles for various sports).

Safilo Group's portfolio of licensed brands is one of the most important and diversified in the eyewear market. Numerous fashion houses rely on the Group, many of them world famous brands such as *Armani, Dior, Gucci*, and others associated solely with some specific countries, such as for example *Kate Spade*, *Nine West* and *Saks Fifth Avenue*. The Group's licences with these brands are regulated by exclusive contracts lasting from a minimum of five years to a maximum of eight. These contracts provide for the recognition to the licensors of royalties, calculated as a percentage of the net sales deriving from the collections, with minimum annual guaranteed amounts. In many cases such guaranteed annual royalties are based on a percentage of the turnover achieved by the licensed brand in the previous year while, in a few cases, they consist of sums defined in advance.

As of December 31st, 2006 the licensing contract for the production and commercialisation of products under the *Polo Ralph Lauren* brand ended. In 2006, this license accounted for 6% of turnover. The specific measures undertaken by the Group aimed at minimising the impact of such non-renewal on 2007 turnover produced results beyond the most optimistic expectations.

In May 2007, Balenciaga and Safilo Group reached an agreement for a licensing contract for the worldwide production and distribution of Balenciaga eyewear, a top-ranking fashion brand of excellence, belonging to the Gucci Group, showing the consolidation of relations with the PPR Group.

Also during 2007, Jimmy Choo, the iconic accessories brand, became part of the Group's brand portfolio, with a worldwide licensing agreement lasting until 2015 for the production and distribution of sunglasses and frames under the *Jimmy Choo brand*.

During the course of 2007, the Group also signed for the extension, until the end of 2012, of the licensing contract with Liz Claiborne for the development, production and distribution on the American market of the eyewear collections branded *Liz Claiborne* and *Claiborne*. The agreement also foresees collaboration for other brands owned by Liz Claiborne Inc. produced by Safilo Group. Lastly, the duration of the licensing contract with the American brand *Kate Spade* was also extended.

Research, development and design activities

The Research & Development department focuses mainly on two types of activity:

- product design;
- research and development of new materials, technologies, production processes and instruments/machinery.

Product design is carried out by three internal styling departments (in Italy, USA and Hong Kong) focused on the specific design requirements of the different markets they operate in, while the research and development on materials, production processes and machinery is performed by an internal department called "The Research and Technological Innovation Division".

Product design

In relation to the development of products positioned at the high-end of the market, the Group has, for over a decade, identified the design of the product as a strategic feature.

Research and development of the design consists, among others, of developing forms and combinations of colours/materials for the creation of new models. This division is organised in three departments known as Style Centres and composed of designers and staff responsible for producing the prototypes. The main Style Centre is in Italy, while the other two, situated in the United States and Hong Kong, perform specific

stylistic activities for collections suited to their respective areas. The product design function, given its strategic nature, has been constantly strengthened over the years.

The Style Centres of the Group develop, on average, over 2,500 new models a year.

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

Research and development into materials and production processes aims, on one hand, to improve the technical characteristics of the products and, on the other, to develop innovations of the production process which increase its efficacy, efficiency and quality.

During the course of 2007, the Research and Technological Innovation Division focused on:

- research of new materials in order to improve the characteristics of resistance and duration of the products;
- innovation of the sport products;
- innovation of the lenses, both as aesthetic and a protective factor;
- study of new solutions aimed at achieving increasingly lightweight, comfortable to wear and variable fit frames;
- design and construction of new machinery which could improve the efficiency and quality of the production process.

Such activity, over recent years, has led to the registration of numerous patents, such as for example the elastic frames, the fixtures for the nose and face, the "base" of the lenses, the nose pads, the internal and external protection of ski goggles.

Research and development activity into instruments/machinery is aimed at internally designing and developing precision instruments and moulds with the purpose of improving the efficacy, efficiency and quality of the production process. Management believes that the organisation of this activity within the Company allows the reduction of the products' time-to-market, thus obtaining a constant saving in production costs.

Marketing and communication

Marketing and advertising activities supporting the housebrands, licensed brands and products is one of the key factors to the successful achievement of the Group's profitable growth.

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

- to ensure that the right image of the brands in its portfolio is perceived, confirming the position at the high-end of the market, especially in the fashion and luxury segments;
- to communicate the distinctive characteristics in terms of design and technology of the products in the various categories (optical frames, sunglasses, sport).

The Group develops its marketing and advertising strategies at a worldwide level by means of a medium-long term (3 year) and short-term (annual) marketing plan. The plans consider market indications, the requirements and tastes of the end customers and clients as well as factors related to competitiveness such as price, product type and advertising and promotional investments.

The Group develops a specific marketing plan for each of the brands in its portfolio, adopting differentiated strategies and measures in order to achieve an optimal position for each of them and avoid

overlapping images. As far as licensed brands are concerned, the Group develops strategies in close collaboration with the licensors.

In 2007 the Group's total investment in marketing and advertising activities amounted to Euro 96.6 million (compared to Euro 88.8 million in 2006) equal to approximately 8.1% of the consolidated revenues of the Group (compared to 7.9% in 2006).

The marketing and advertising activities are divided mainly between activities directed towards consumers and trade marketing activities centred around the clients' points of sale.

Activities aimed at consumers account for about two-thirds of the advertising and promotion investment of the Group; the main media used is the press (weeklies and monthlies), billboards, sponsorship (mainly in the world of sport for the Carrera and Smith brands), public relations with journalists and opinion leaders in the fashion, entertainment and sports sectors.

The trade marketing activities centred around the points of sale of the main clients account for about one-third of the advertising and promotion investment of the Group and are of fundamental importance both as regards directing the choice of the final consumer to the brands and products of the Group and in building up customer loyalty. The main instruments used are sample materials inside the point of sale (shop displays, banners, counter displays, duratrans), special window displays, consumer promotion activities developed specifically for the buyers of the more important optical clients, training courses and demonstration materials on the characteristics of the Group brands and products, addressed to the sales staff of the optical clients.

The creative strategic communication and the choice of media used, while maintaining the maximum consistency with the Group guidelines, is adapted to specific market needs to ensure maximum efficiency in reaching the targets set.

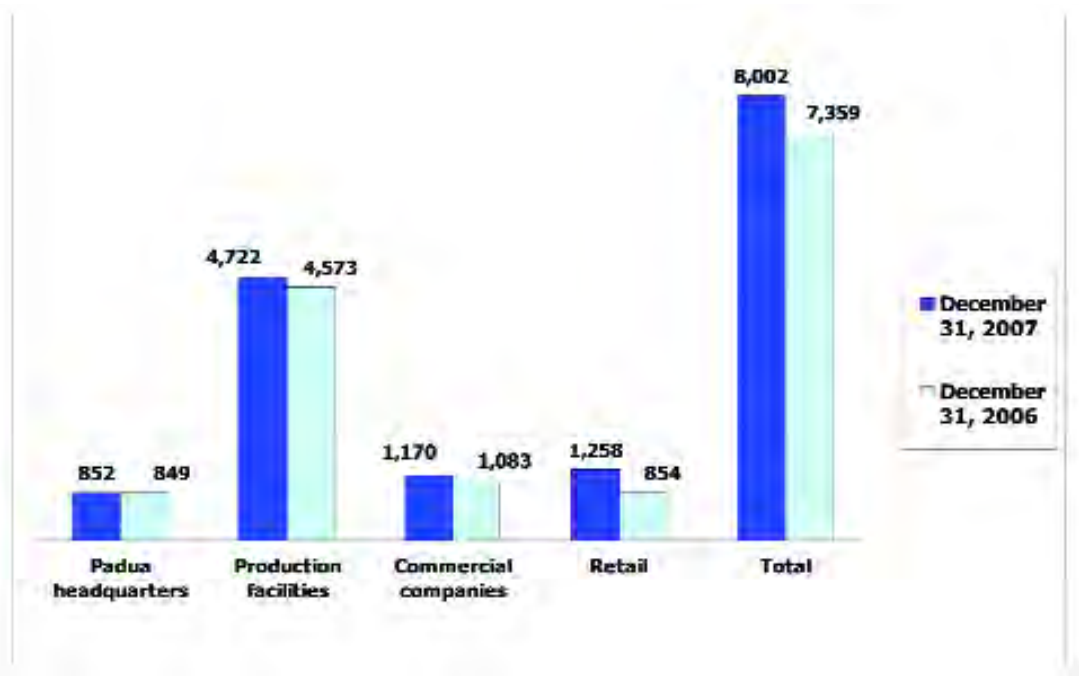
Information regarding human resources and the environment

Human Resources

At the end of 2007 the Group had 8,002 employees compared to 7,359 at the end of 2006. The workforce, compared to December 31st, 2006, thus increased by no. 643 people, of whom no. 247 worked for a previous supplier which has been taken over by the subsidiary Smith Sport Optics Inc., in order to improve control of production.

In the commercial area, the increase in personnel is due mainly, on the wholesale side, to the opening of the Korean branch while the retail companies, by increasing the number of points of sale, have consequently increased their number of employees.

The total workforce of the Group is summarised in the following graph:



Environment

Safilo Group is aware of its social responsibility and of the performance of relevant duties in relation to the development and wellbeing of the communities where it operates.

Safilo pays continual attention to the environment and to running its activities in strict observance of the principles of conservation and protection of the environment. The Group, thanks in part to collaboration agreements and memorandums of intent with leading public institutions and university bodies, places great importance on the identification and use of technologies compatible with respect for the environment, further investigating innovative elements able to lead to greater environmental sustainability. One of the most important Group's initiative is the memorandum of intent which it signed in July 2007 in collaboration with the professionals and technicians of Arpa, University of Udine, aimed at experimenting innovative techniques designed to reduce the use of solvents in the coating of eyewear.

Financial risk management

The Group constantly monitors the financial risk it is exposed to in order to assess in advance any possible negative impact and to undertake corrective measures aimed at mitigating or correcting the risks in question.

The Group is exposed to a variety of risks of a financial nature: credit risk, market risks and cash flow risks, which are managed centrally on the basis of hedging policies which also include the use of derivatives in order to minimise the effects deriving from fluctuations in the exchange rate (especially of the American dollar) and interest rates.

Credit risk

The Group strives to reduce the risk deriving from insolvency of its customers through rules ensuring that sales are made to reliable and soluble clients. Such rules, based on the available information on client solubility and reliable historic data, combined with exposure limits per individual client, allow a limited concentration of credit and thus minimise the relative risk. Credit exposure is, moreover, divided among a large number of counterparties and clients.

Significant positions in terms of amounts for which the Group identifies situations of objective, total or partial, non-recoverability, taking into consideration any guarantees obtained and the costs and expenses of recovery, are written off individually. Against credits which have not been written off individually, the Group allocates sufficient funds, taking into consideration the historic record and statistical data.

It is deemed that the maximum theoretical exposure to credit risk is represented by the book value of the financial assets present in the financial statement.

Market risks

Market risks can be divided into the following categories:

Exchange risk. The Group operates at international level and is therefore exposed to exchange risk.

The Group holds shares in subsidiaries in countries not belonging to the Euro area; as a result, the variations of shareholders' equity deriving from fluctuations in the exchange rates between local currency and Euro are identified in a reserve of the consolidated shareholders' equity denominated "translation difference reserve".

Some companies operate in currencies other than the local currency and this regards the American dollar above all, as a significant part of the transactions of these companies are conducted in the United States dollars.

The Group constantly tries to reduce the effects deriving from oscillations in the American currency by getting its supplies from local suppliers in areas where purchases are made in American dollars and thus implementing a sort of "natural hedging". For incomes in dollars not compensated by the expenditures for purchases, the Group policy is to use hedging instruments such as forward contracts in dollars. Exposure is thus covered by simple forward contracts ("plain vanilla") the duration of which is always less than twelve months. Information on the fair value and on the method of accounting of derivatives is given in the notes to the financial statements.

Changes in fair value risk. The Group holds some assets and liabilities subject to changes in value over time depending on the fluctuations of the market where they are traded.

Interest rate risk. Borrowing from banks exposes the Group to the risk of variations in the interest rates. Specifically, loans at variable rates determine the risk of a change in cash flow whereas fixed rate loans entail a potential variation of the fair value of the said loans.

The Group regularly assesses its exposure to the risk of variation of the interest rates and manages such risk through the use of derivatives, denominated interest rate swaps (I.R.S.) which are used solely with the purpose of hedging cash flows. The counterparties are primary financial institutions and, for these contracts, at the beginning of the hedge operation, there is a formal designation and documentation relative to the hedge.

It must be emphasised that the Group never uses financial instruments for speculative purposes.

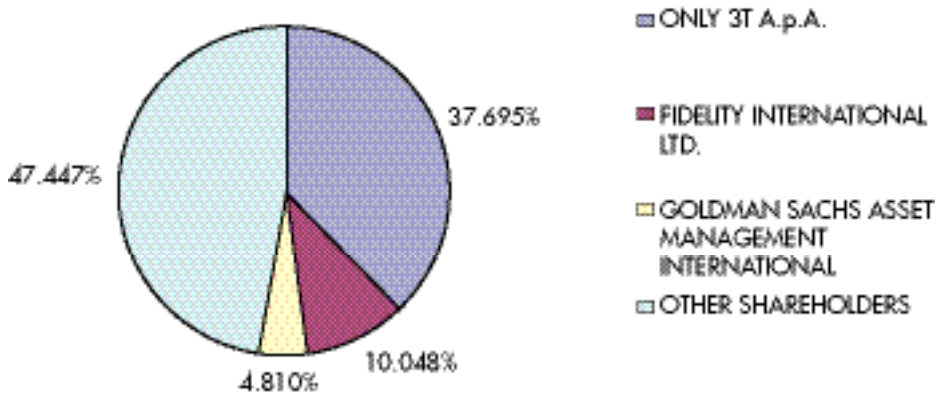
Liquidity risk

This risk could generate the inability to find, at economic conditions, the financial resources needed to sustain operations in the necessary time. Cash flows, the need for borrowings and company liquidity are constantly monitored at a central level by the Group treasury in order to ensure effective and efficient management of the financial resources.

The Group has therefore adopted a series of policies and processes aimed at optimising the handling of financial resources and management believes that the funds and lines of credit currently available, as well as those generated by the operating and financing activities, will enable the Group to satisfy its requirements deriving from investing activities, working capital management and reimbursement of debts at their natural expiry date.

Control of the Company and corporate governance

At December 31st, 2007 the share capital of Safilo Group S.p.A. was composed of 285,394,128 ordinary shares, 37.695% of which were held by Only 3T S.p.A., with headquarters in Vicenza, Stradella dell'Isola n.1.
Holders of ordinary shares in Safilo Group at December 31st, 2007 were as follows:



At December 31st, 2007 no restrictions on the transfer of shares or the shareholders' right to vote exist, and as far as the company knows no shareholders syndicate, in accordance to article 122 of Italy's Financial Markets Consolidation Act, exists.

Safilo Group S.p.A. in the second half of 2005, and in view of the admission process to trading in the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A., updated its corporate governance system to the principles contained in the "Self Governance Code of Listed Companies" prepared by the Corporate Governance Committee of Listed Companies issued by Borsa Italiana S.p.A. in its unedited version in 1999 and revised in 2002.

During the financial year 2007, as foreseen by the legislation currently in force, the Board of Directors aligned the Company's and the Group's corporate governance system with the principles and application criteria introduced by the New Self Governance Code of Listed Companies revised in March 2006 by Borsa Italiana S.p.A, and for this purpose adopted the provisions considered necessary and/or appropriate, and integrated and extended its powers and duties.

More specifically, the Board of Directors, while maintaining unchanged its corporate government structure for that unchanged part and pursuant to the reforms introduced by the New Code, has made provisions to:

- amend the company by-laws, introducing a procedure for the election of the members of the Board of Directors based on lists of candidates, in order to ensure that the appointments take place according to a transparent procedure and such to guarantee a prompt and appropriate synopsis of the personal and professional characteristics of the candidates for the position;

- fix the maximum number of duties of directors or auditors in other companies listed in regulated markets, even overseas, or in financial, banking or insurance companies, or companies of a significant size, compatible with the position as director of the Company, defining furthermore the

criteria for the identification of the directors or auditors as indicated in the Corporate Governance report;

- integrate and update the powers and duties of the Internal Control Committee and the Board of Auditors, formalising also the appointment, as the head of internal control, of the person responsible for the Group's Internal audit position;

- amend the company by-laws with regards to the appointment of the members of the Board of Auditors, updating it according to the regulatory rules introduced by the Law of December 28th, 2005 n. 262 and the Legislative decree December 29th, 2006 n. 303;

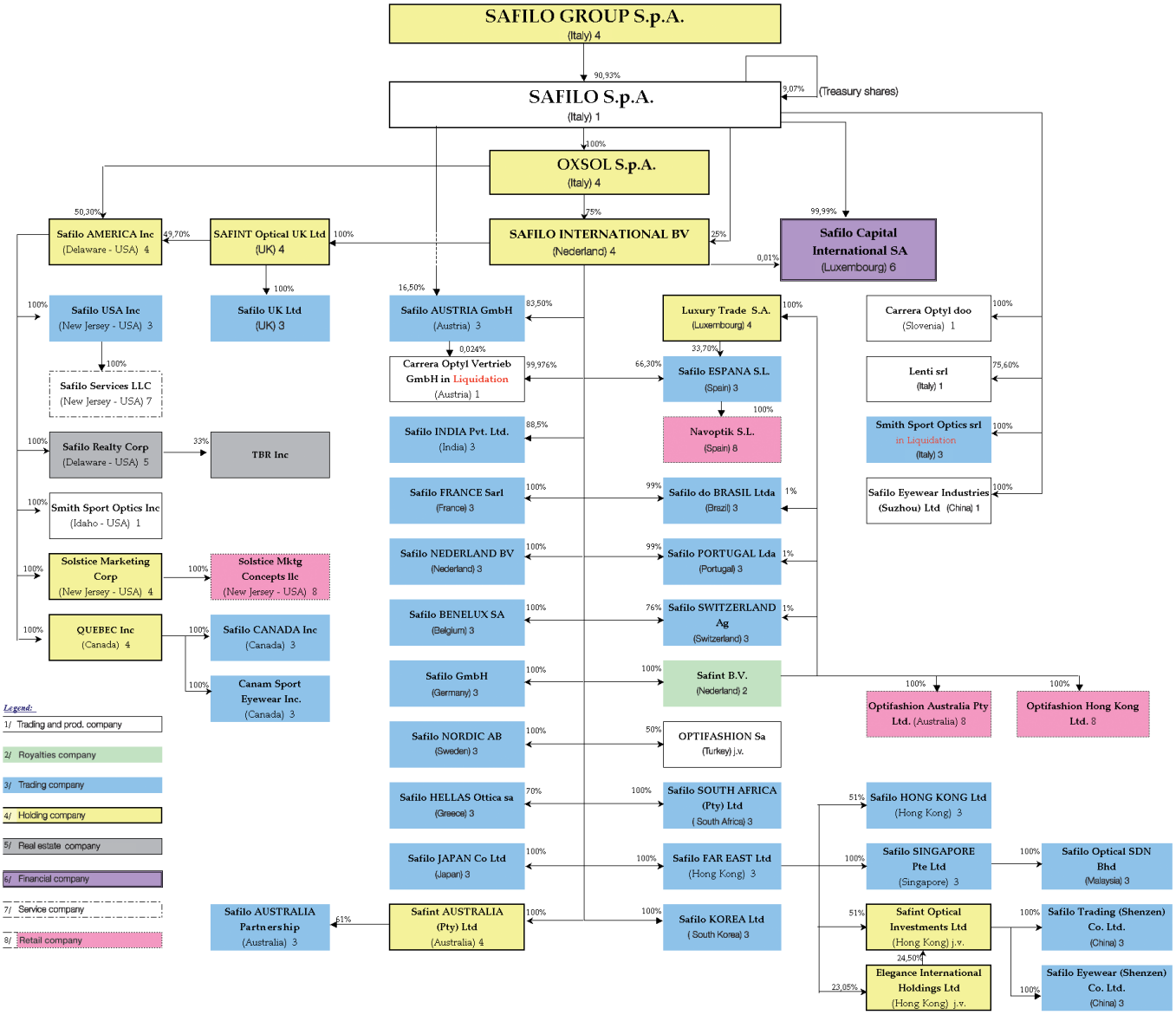
- adopt the "Guide lines for the implementation of Significant Transactions and Transactions with Related Parties", in which transactions of significant importance and transactions with related parties are defined, as well as the procedure to be followed for their approval;

- adopt the "Internal regulations for company information", which replaces and groups together the single procedures previously adopted by the Company with separate documents and which regulates: (1) the management of company information, with particular reference to privileged or price sensitive information; (2) the internal dealing procedure and (3) the creation, the keeping and the updating of the "insiders registry";

- adopt measures aimed at improving relations with shareholders.

In fulfilment of the prescribed obligations of Borsa Italiana S.p.A., the Company draws up every year, on occasion of the shareholders' Meeting to approve the financial statements, a Corporate Governance Report, made public in accordance with the terms foreseen by article 89 bis of the Consob Regulations and available on the web site www.safilo.com, and which should be referred to for more detailed information relating to the Company's corporate governance system in accordance with article 123 bis of Italy's Financial Markets Consolidation Act.

The Group structure



During the course of 2007 Safilo Group strengthened its presence both on the Asian and European markets.

In January 2007 in fact, it began direct distribution in the Baltic countries (Latvia, Estonia, Lithuania) through individual local branches while, as regards the Asian continent, again in January 2007 the company Safilo Korea Ltd began its operations with the aim of increasing the Group's market shares in the Country through the distribution of its products in the retail channel, both in optics stores and department stores. The new wholly-owned Seoul-based legal entity joins the other subsidiaries already present in the Asian continent.

In January 2007 Safilo Eyewear Industries (Suzhou) Ltd, wholly-owned by Safilo S.p.A., was founded. The subsidiary, located in the Shanghai area, is destined to host part of the Group's production of components and semi-finished products over the next two years.

During the course of 2007 another two legal entities were founded, both entirely controlled by Safint BV, which will be dedicated to the management of initiatives in the retail business:

- Optifashion Hong Kong, with headquarter in Hong Kong and share capital of 300,000 HKD;

- Optifashion Australia Pty Ltd, with headquarter in Sydney and a share capital as of December 31st, 2007 of 900,000 AUD.

As specified in the paragraph "significant events after the year-end and outlook", on February 5th, 2008 Optifashion Australia Pty Ltd took over the Australian retail chain "Just Spectacles".

Safilo in the Stock Exchange and investor relations

Safilo in the Stock Exchange

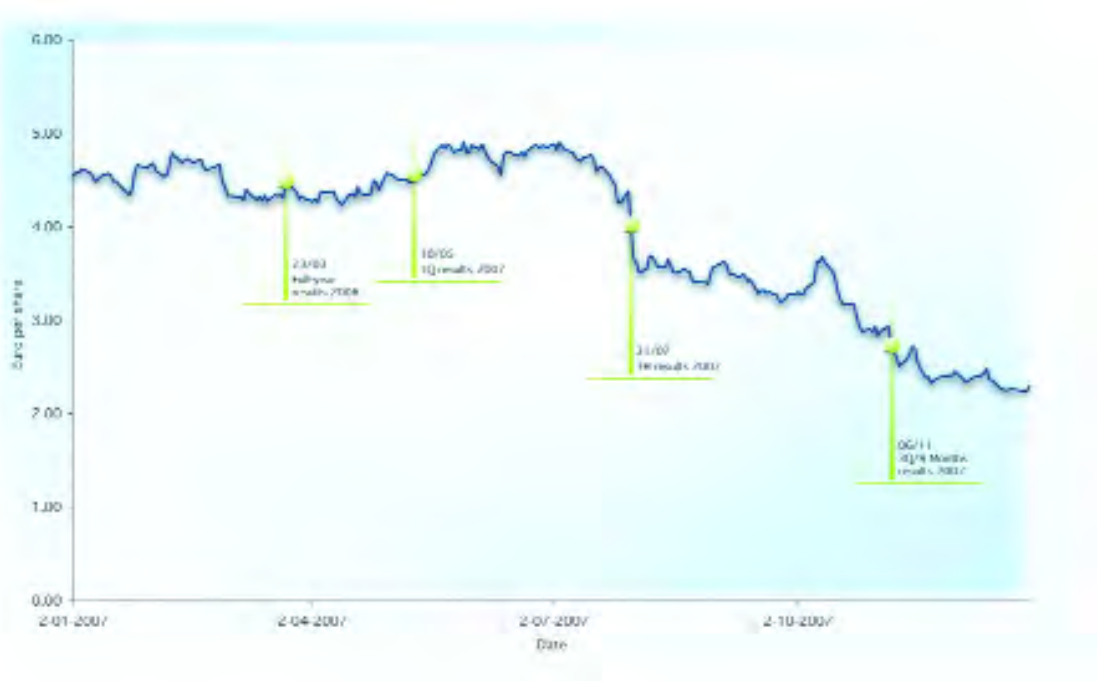
2007 has been a two speed year for Safilo in the Stock Exchange.

During the first six months of the year the share value gained around 8% compared to the value at which the previous year was closed, with average daily trading of around 1.1 million shares. At the beginning of June, the maximum price of the year was reached at 4.91 Euro per share.

The second semester was instead characterised by the review of the income targets for the whole year, announced during the presentation of the six-monthly results at the end of July, while in November the third quarter results and the results for the first nine months of the year were presented.

The performance of the shares in the second half of the year was determined by these two announcements to the financial market. At the end of 2007, Safilo stock had a posted price of 2.29 Euro per share, a decrease of 49% compared to the closure at 4.5 Euro recorded at the end of 2006. The second half of the year saw a considerable increase in the trading of the shares with the average daily trading amount reaching 1.8 million shares. More than 10 million Safilo shares were traded on November 6th, 2007, the day in which the third quarter results were announced, the highest level of trading after the first day of the share's trading at the end of 2005.

The progressive deterioration of worldwide financial markets towards the end of the year also negatively affected the company's stock exchange performance, with the Italian stock exchange registering the worst European performance with a fall of the Mibtel index of nearly 8%. The companies which suffered most were those, such as Safilo, with average capitalization, with a decrease of nearly 14% of the Midex reference index compared to the previous year.



Investor relations

Safilo continued in 2007 its Investor Relations activities involving analysts and institutional investors. It also engaged in intense dialogue with retail investors to whom it intends to pay increasing attention also through new communication projects planned for 2008 (for example the new Investor Relations web site).

During the year the company organised 4 conference calls with the financial market to present the results of the related period, and participated in the 8th edition of the "Italian conference" organised in Milan by Deutsche Bank.

The coverage of Safilo shares by financial brokers was enriched during the year by numerous leading international houses such Citigroup, Santander, Banca Leonardo, Cazenove, HSBC, and Unicredit, which, together with the coverage begun during the first quarter of 2008 by Banca Imi, Centrobanca and Berengerg Bank, brings to 20 the study offices which carry out research on the Company (the complete list is available on the web site www.safilo.com/ir, in the section Share Coverage).

At the end of 2007, 13 brokers gave Safilo shares a "buy" rating, and 5 a "hold" rating.

From a review of the official data and the direct verifications carried out by the Company it was possible to outline the composition of Safilo's shareholders. Excluding the significant positions, listed in the section of this Report entitled "Control of the Company and corporate governance" at page 27, the freely-negotiable shares of the company (around 50% of the share capital) are predominantly concentrated in Europe with Italy, England and Germany holding the greatest shares.

For the year in course the company intends to intensify and add value to its investor related activities through the use of new human resources and work tools.

Information on the operations

The financial year 2007 confirmed the growth trend which has always characterised Safilo Group. The increase in wholesale sales, despite the penalising effects caused by the weakness of the American dollar, and the entrance to the European retail segment through the acquisition of the chain Loop, and further expansion of the directly-managed network Solstice in the United States enabled an increase in turnover of over 6% compared to the previous year.

Relations with the main licensors were further strengthened during the course of the year, especially with the Group PPR-Gucci which also appointed Safilo to develop and commercialise Balenciaga sunglasses, an emerging brand positioned at the top level of the market. In addition, a licensing contract with the accessories manufacturer Jimmy Choo, extremely well-known in England and the United States, was signed which will complete the operation of fully replacing a license not renewed during 2006.

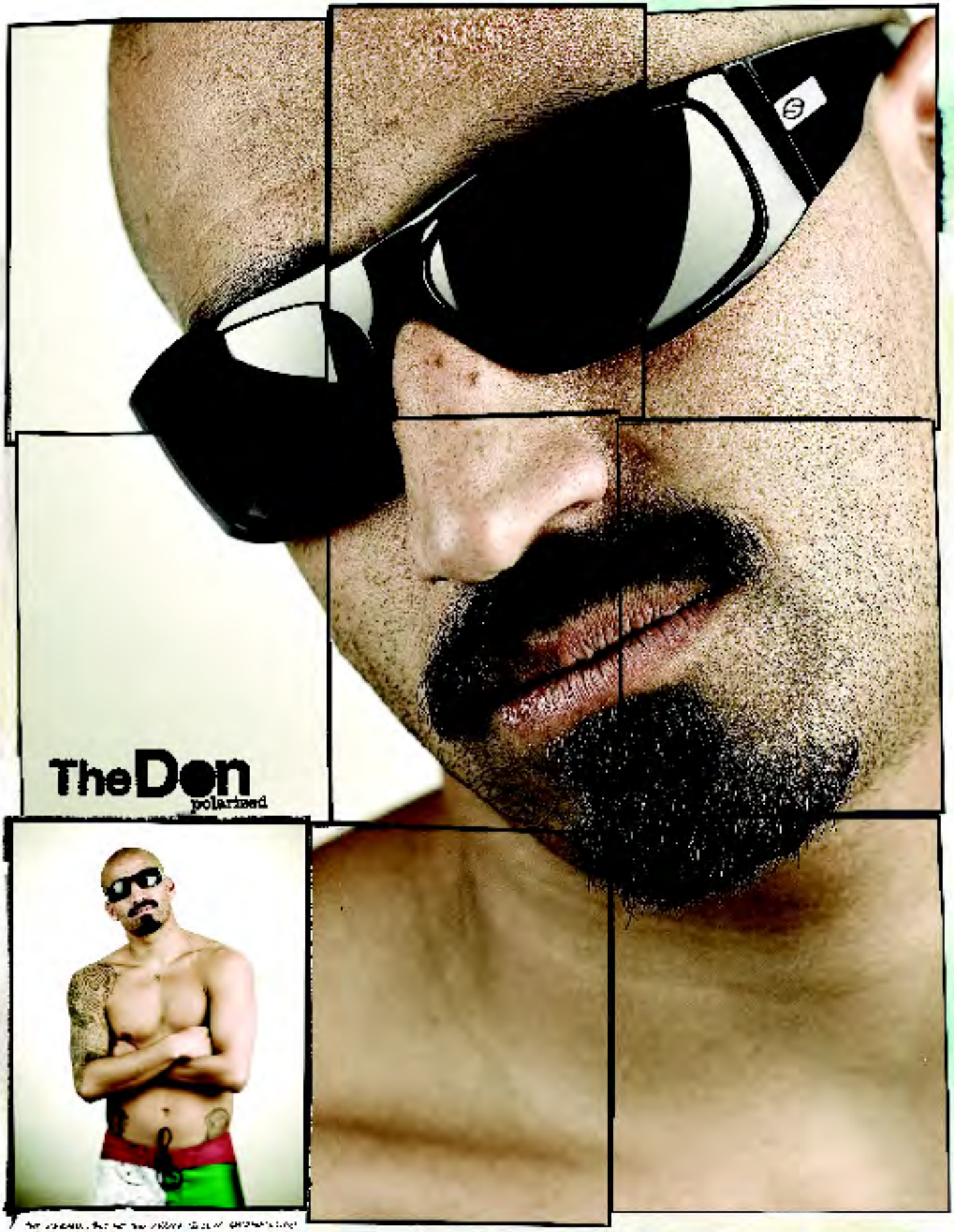
At a commercial level, as well as the normal expansion of sales in the wholesale channel, it is worth noting the direct management of over 65 points of sale in Spain, acquired at the end of 2006 and partially reorganised during last year in order to position them in a segment of the market more in line with the luxury features of the brands produced by the Group. Furthermore, opening of the Solstice stores on the American market continued and, by the end of the year, already it had a network of 114 points of sale.

In the industrial sphere, 2007 witnessed the construction of a new industrial unit located in China, which will add to the production capacity, today exclusively European. Completion of the construction of this new plant is scheduled for the end of 2008.

The economic results showed a net improvement compared to the previous year despite several unexpected events having affected the period. In addition to the increase in sales, already mentioned above, an improvement in operating profits of 9.3% was achieved and financial expenses were limited which, combined with a reduction of the tax charge, led to an increase in net profit of over 36%.

Cash flow management also benefited from this improved economic performance. At the end of 2007 the operating cash flow generated by the Group was almost 10 million Euro against an absorption in 2006 of approximately 30 million Euro, despite the increased investments made to support the expansion of the Group.

The overall net debt of the Group at the end of the financial year thus improved at around 515 million Euro, almost 17 million Euro less than the previous year.



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Group economic results

Consolidated statement of operations *(Euro in millions)*	2007	% (*)	2006	%	Ch. % (*)
Net sales	1,190.4	100.0	1,122.0	100.0	6.1
Cost of sales	(492.6)	(41.4)	(458.5)	(40.9)	7.4
Gross profit	**697.8**	**58.6**	**663.5**	**59.1**	**5.2**
Selling and marketing expenses	(439.6)	(36.9)	(415.3)	(37.0)	5.9
General and administrative expenses	(122.4)	(10.3)	(124.1)	(11.1)	(1.4)
Other operating income/(expenses), net	1.4	0.1	1.5	0.1	(7.8)
Operating profit	**137.2**	**11.5**	**125.6**	**11.2**	**9.3**
Interest expense and other financial charges, net	(43.6)	(3.7)	(54.5)	(4.9)	(19.9)
Profit before taxation	**93.6**	**7.9**	**71.1**	**6.3**	**31.7**
Income taxes	(39.0)	(3.3)	(30.3)	(2.7)	29.0
Net profit	**54.5**	**4.6**	**40.8**	**3.6**	**33.6**
Net profit attributable to minority interests	3.5	0.3	3.3	0.3	5.3
Net profit attributable to the Group	**51.0**	**4.3**	**37.5**	**3.3**	**36.2**
EBITDA	**175.3**	**14.7**	**162.4**	**14.5**	**7.9**
Earnings per share - base (Euro)	0.18		0.13		
Earnings per share - diluited (Euro)	0.18		0.13		

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

The Group's **net sales** reached 1,190.4 million Euro, an increase of 6.1% (+10.2% at constant exchange rates) compared to 2006. The improvement in turnover regarded all the main markets, with particularly good results in the Asian continent where the increase in sales in 2007 was 15.7% (+24.1% at constant exchange rates). Net of exchange rate effects, sales in the American market were extremely positive, up by 9.9% (+1.2% at current exchange rates) on the previous year despite in-depth commercial reorganisation following the loss of a particularly important licence from the brand portfolio. The constant growth of the Solstice chain contributed to the good performance in the area confirming that the retail presence of the Group in the United States is progressively increasing its strategic value. Turnover in European countries (including Italy) grew, at the end of 2007, by 9.5% compared to the previous year thanks to the good results achieved in France, Germany and Eastern European countries, followed by England and Italy (the latter up by 2.3% on the previous year).

The last quarter showed an increase in net sales of +2.9% (+7.9% at constant exchange rates), despite the hard to beat figure for the last quarter of 2006, up by 12%.

Net sales by geographical region (Euro in millions)	2007	%	2006	%	Change %
Italy	163.3	13.7	159.7	14.2	+2.3
Europe (excluding Italy)	407.3	34.2	361.3	32.2	+12.7
The Americas	423.8	35.6	418.6	37.3	+1.2
Asia	149.5	12.6	129.2	11.5	+15.7
Other	46.5	3.9	53.2	4.8	-12.6
Total	**1,190.4**	**100.0**	**1,122.0**	**100.0**	**+6.1**

Net sales by product (Euro in millions)	2007	%	2006	%	Change %
Prescription frames	456.3	38.3	419.5	37.4	+8.8
Sunglasses	641.4	53.9	617.1	55.0	+3.9
Sport products	67.9	5.7	66.1	5.9	+2.6
Other	24.8	2.1	19.3	1.7	+28.7
Total	**1,190.4**	**100.0**	**1,122.0**	**100.0**	**+6.1**

Net sales by distribution channel (Euro in millions)	2007	%	2006	%	Change %
Wholesale	1,120.7	94.1	1,079.6	96.2	+3.8
Retail	69.7	5.9	42.4	3.8	+64.4
Total	**1,190.4**	**100.0**	**1,122.0**	**100.0**	**+6.1**

In the wholesale/retail segment the increase in the retail channel was particularly strong (overall turnover of 69.7 million Euro, +64.4%) thanks to the contribution of the Spanish chain Loop taken over at the end of 2006, and to the continual expansion of the American chain Solstice. At the end of the year, the retail organisation had a total of about 180 points of sale between Europe and the United States.

As regards analysis per brand, at equal exchange rates, all the Group's major licensed brands, Armani, Boss, Dior and Gucci, showed steady growth and there was a strong comeback in sales of the housebrand with Carrera standing out thanks to an increase in turnover of over 20% compared to 2006.

Gross profit reached 697.8 million, +5.2% compared to 2006, guaranteeing a margin on sales of 58.6%. Gross profit was penalised compared to the previous year, by unforeseen costs connected with the distribution of a licensed brand not renewed, which led to additional expenses during the first half-year.

In the fourth quarter of 2007, gross profit came in at 165.7 million Euro, with a percentage on sales of 57.8% compared to 55.6% in 2006.

EBITDA reached 175.3 million Euro, with a margin on sales of 14.7% (14.5% in 2006). In addition to the dynamics of the gross profit described, the greater impact of advertising expenses linked to the launch of the new licensed brands and the renewed focus on some own brands, activities fully compensated in

any case by the limitation of general and administrative costs, should be added. In relation to the retail segment, the significant costs incidental to the new openings of the American chain and the reorganisation of the stores taken over in Spain led to a reduction of profitability of the segment and a dilution of the total margin.

In the last quarter of 2007, EBITDA reached 45.1 million Euro, with a margin on sales of 15.7% compared to 12.3% for the same period in the previous year.

Net profit attributable to the Group in 2007 reached 51.0 million Euro, up by 36.2% compared to the previous year thanks to a significant reduction of the net financial charges, worsened in the financial year 2006 by non-recurring costs linked to the refinancing operation of the prior Senior Loan. The tax rate, on a whole constant compared to 2006, actually improved compared to the previous year thanks to the increased profitability of the Group. The reform of the tax rates in Italy, approved in the last quarter of the year, entailed a cost relative to the tax losses of previous years which offset the improvements achieved. Presumably such a situation will not be repeated over the next few years, enabling the Group to benefit from the lower rates recently introduced.

The net profit of the fourth quarter was 12.3 million Euro, compared to 8.4 million Euro in 2006, with a margin moving from 3.0% to 4.3%.

Condensed balance sheet

Condensed balance sheet *(Euro in millions)*	December 31, 2007	December 31, 2006	Change
Cash in hand and at bank	56.9	43.4	13.5
Trade receivables, net	315.8	319.5	(3.7)
Inventories, net	274.3	271.6	2.7
Other current assets	44.3	48.2	(3.9)
Total current assets	**691.2**	**682.7**	**8.5**
Property, plant and equipment, net	201.9	201.9	-
Intangible assets	23.5	22.3	1.2
Goodwill	754.9	804.9	(50.0)
Other non-current assets	100.5	101.8	(1.3)
Total non current assets	**1,080.8**	**1,130.9**	**(50.1)**
Total assets	**1,772.0**	**1,813.6**	**(41.6)**
Short-term borrowings	161.7	99.7	62.0
Trade payables	194.7	228.8	(34.1)
Other current liabilities	95.1	94.3	0.8
Total current liabilities	**451.5**	**422.8**	**28.7**
Long-term borrowings	409.8	475.6	(65.8)
Employee benefit liability	37.8	41.0	(3.2)
Other non-current liabilities	31.9	30.0	1.9
Total non current liabilities	**479.5**	**546.6**	**(67.1)**
Group shareholders' equity	**836.0**	**838.8**	**(2.8)**
Minority interests	**4.9**	**5.4**	**(0.5)**
Total liabilities and shareholders' eq.	**1,772.0**	**1,813.6**	**(41.6)**

Financial situation

Below the main items of the statement of cash flow and net financial position as of December 31st, 2007 are shown compared to the same figures for the previous financial year:

Free cash flow *(Euro in millions)*	**2007**	**2006**	**Change**
Cash flow operating activities	53.3	6.3	47.0
Cash flow investing activities	(43.8)	(36.9)	(6.9)
Free cash flow	**9.5**	**(30.6)**	**40.1**

The free cash flow generated by the Group at the end of 2007 has improved substantially compared to 2006 (generation of about 10 million Euro against erosion of about 30 million Euro the previous year) thanks to the increased profitability of the Group and to improved management of the net working capital. Investments in tangible fixed assets were essentially stable, whereas the expenditure for intangible fixed assets increased.

Net working capital

The value of the net working capital increased by Euro 33.1 million compared to December 31st, 2006, slightly increasing the ratio to turnover for the year.

Net working capital *(Euro in millions)*	**December 31, 2007**	**December 31, 2006**	**Ch. dec 07-dec 06**	**Ch.% dec 07-dec 06**
Trade receivables, net	315.8	319.5	(3.7)	-1.2%
Inventories	274.3	271.6	2.7	1.0%
Trade payables	(194.7)	(228.8)	34.1	-14.9%
Net working capital	**395.4**	**362.3**	**33.1**	**9.1%**
% net sales	*33.2%*	*32.3%*		

As shown in the table above, net working capital increased by 9.1% compared to 2006, influenced by the following dynamics:

- the reduced incidence of trade receivables, essentially in line with those of the previous year, despite the increase in revenue. The improvement in days of sales outstanding is explained by the greater contribution to turnover of some countries with particularly short collection times;
- the limited increase in stocks after the large increase made in the second half of 2006 aimed at guaranteeing a better service to clients;
- the considerable reduction of trade payables, during the course of the first half-year, following the payment of the suppliers who had contributed to raising stock levels at the end of 2006.

Investments in tangible and intangible fixed assets

The investments in tangible and intangible fixed assets made by the Group amount to Euro 45.0 million against Euro 42.8 million of the previous financial year and are divided as follows:

Capex *(Euro in millions)*	**2007**	**2006**	**Change**
Headquarters	3.0	8.2	(5.2)
Production facilities	19.1	16.0	3.0
Europe	5.1	2.8	2.3
The Americas	15.9	14.4	1.5
Far East	1.9	1.4	0.5
Total	**45.0**	**42.8**	**2.2**

Almost half the total investments are destined for normal renewal and improvement of plants, machinery and equipment of the production sites located in Italy and Slovenia. The slight increase in 2007 relates to the expenses incurred for the software for managing the new industrial plant in China in the future.

The investments in Europe and America relate mainly to the retail area and are earmarked for opening new stores (31 new points of sale in the USA through Solstice) or refurbishing existing stores (especially in Spain). The increase registered in Europe is a consequence of the takeover of the Spanish chain Loop.

The net financial position

Net financial position *(Euro in millions)*	**December 31, 2007**	**December 31, 2006**	**Change**
Current portion of long-term borrowings	(34.5)	(22.5)	(12.0)
Bank overdrafts and short-term bank borrowings	(85.4)	(36.4)	(49.0)
Other short-term borrowings	(41.8)	(40.7)	(1.1)
Cash and cash equivalents	56.9	43.4	13.5
Short-term net financial position	**(104.8)**	**(56.2)**	**(48.6)**
Long-term borrowings	(409.8)	(475.6)	65.8
Long-term net financial position	**(409.8)**	**(475.6)**	**65.8**
Net financial position	**(514.6)**	**(531.8)**	**17.2**

The net financial position fell to Euro 514.6 million from the 531.8 million Euro as of December 31st, 2006, showing the first effects of the activities aimed at improving the cash generation. The increase in short term borrowings derives exclusively from the decision to make greater use of short term credit lines, which are less expensive, compared to the (still existing) possibility of using the revolving credit provided by the Senior loan which is classified under medium to long term.


GIORGIO ARMANI

EMPORIO ARMANI

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

(Euro in millions)	Equity as of December 31, 2007	Net profit 2007	Equity as of December 31, 2006	Net profit 2006
Balances per Safilo Group S.p.A. statutory financial statements	846.8	14.8	831.2	15.8
Shareholders' equity of consolidated companies	1,420.3	161.0	1,411.1	104.3
Write-off of the book value of consolidated subsidiaries	(2,131.5)	-	(2,146.8)	0.6
Goodwill	716.2	(0.2)	764.4	-
Fair value attributable to tangible assets	11.0	(0.5)	10.5	(0.3)
Elimination of dividends paid within the Group	-	(116.9)	-	(75.2)
Elimination of intercompany gains within the Group	(12.9)	(3.3)	(15.6)	0.5
Elimination of intercompany profit included in inventory	(16.6)	(0.8)	(18.6)	(4.6)
Investments in associates - equity method	6.6	1.1	6.3	0.5
Other consolidation entries	0.8	(0.7)	1.7	(0.9)
Total shareholders' equity	**840.9**	**54.5**	**844.2**	**40.8**
Shareholders' equity attributable to minority interests	4.9	3.5	5.4	3.3
Total shareholders' equity attributable to the Group	**836.0**	**51.0**	**838.8**	**37.5**

Shares held by Directors, Statutory Auditors and managers with strategic responsibilities (Art. 79 Consob Deliberation no. 11971 dated 14.5.1999)

Name and surname	Office	Company	No. of shares as of Dec 31, 2006	No. of shares purchased	No. of shares sold	No. of shares as of Dec 31, 2007	Title
Directors							
Vittorio Tabacchi	Chairman	Safilo Group S.p.A.	-	-	-	-	
Giannino Lorenzon	Vice Chairman	Safilo Group S.p.A.	30,000	457,624	37,624	450,000	property
Claudio Gottardi	Chief Exec. Officer	Safilo Group S.p.A.	-	441,688	441,688	-	
Massimiliano Tabacchi	Co-Chief Exec. Officer	Safilo Group S.p.A.	63,100	3,700	-	66,800	property
Ennio Doris	Director	Safilo Group S.p.A.	-	-	-	-	
Carlo Gilardi	Director	Safilo Group S.p.A.	-	14,000	3,000	11,000	property
Riccardo Ruggiero	Director	Safilo Group S.p.A.	-	-	-	-	
Board of Statutory Auditors							
Franco Corgnati	Chairman	Safilo Group S.p.A.	-	-	-	-	
Nicola Gianese	Regular auditor	Safilo Group S.p.A.	-	-	-	-	
Paolo Mazzi	Regular auditor	Safilo Group S.p.A.	-	-	-	-	
Managers with strat. resp.							
Aggregated amount		Safilo Group S.p.A.	-	42,680	-	42,680	property
Other							
Tatiana Amboni	V. Tabacchi's wife	Safilo Group S.p.A.	37,400	63,100	-	100,500	property

Furthermore, the company Only 3T. S.p.A., jointly controlled by Vittorio Tabacchi, Massimiliano Tabacchi and Samantha Tabacchi, on December 31st, 2007 held no. 107,578,160 shares of Safilo Group S.p.A.

Stock option plans

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

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

Further to the mandate granted by the Extraordinary shareholders' Meeting on October 24th, 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31st, 2006 to a maximum nominal figure of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares of a value of Euro 0.25 each, with a share premium of Euro 4.16. These shares were and will be available for subscription by the beneficiaries listed in the new "Stock Option Plan of Safilo Group S.p.A. 2006-2010" that was approved by the above Board (in short "2006 Plan"). This plan is valid for 4 financial periods (2006–2010) and, like the previous ones, is addressed to certain directors, executives and consultants of Safilo Group and provides accruing option rights equal to 1/4 for each financial period in the Plan. The accrual criteria for the options is based on reaching certain conventional EBITDA consolidated levels in the financial statements of Safilo Group S.p.A., that have been fixed by the Board of Directors.

The fair value of the options, in accordance with the requirements of IFRS, is recorded under personnel costs with a corresponding increase in a specific equity reserve over the duration of the maturity period, as the stock option plans are of an "equity-settled" type. In compliance with the requirements of IFRS 2, irrespective of which company issues the new shares, the stock option costs are recorded in the company in which the employees carry out their employment. The amount received, net of the costs directly attributable to the transaction, will be credited to the share capital (nominal value) and the share premium reserve, when the options are exercised.

With reference to the first stock option plan ("2003 Plan"), the Group has decided to apply the exemption for share-based payments. In substance, IFRS 2 is applied from January 1st, 2004 for all the options issued after November 7th, 2002 but not matured ("vested") before January 1st, 2005. The application of this exemption results in the recording of only the third tranche of the 2003-2007 Stock Option Plan as a cost in the income statement of the Group.

In December 2005 the holders of the options relating to the "2003 Plan" and "2004 Plan", in consideration of the listing of Safilo Group S.p.A. on the Italian Stock Market, exercised 50% of the rights in their possession.

During June 2007, the beneficiaries of the "Plan 2003" and some beneficiaries of the "Plan 2004" respectively exercised n. 227,350 and n. 277,969 of the rights in their possession, thus leading to the issue, on June 26th 2007, of n. 909,400 and n. 1,111,876 ordinary shares with a total amount of cash in for the parent company Safilo Group S.p.A. equal to Euro 505,319 in terms of nominal value of the shares and Euro 5,738,003 in terms of share premium. As a result of the above exercise, the "2003 Plan" reached full completion and extinction whilst beneficiaries of "Plan 2004" may exercise the remaining rights in their possession until September 20th, 2008.

Significant events after the year-end and outlook

On February 5th, 2008 the Group further strengthened its position by taking over the retail chains Sunglass Island in Mexico and Just Spectacles in Australia.

The Mexican retail chain, 60% of which was taken over, runs 38 Sunglass Island stores and 7 Island Optica stores, two of the main luxury brands on the prescription frames and sunglasses market. The 45 stores, in top locations and with a high quality range of products and service, are present today in the main tourist resorts of the country, from Cancun to Playa del Carmen, Acapulco and Los Cabos. The turnover of the chain amounted to approximately 26 million Dollars (about 19 million Euro) at the end of 2007. The acquisition cost was about 22 million Dollars (about 15 million Euro).

The Australian retail chain Just Spectacles manages 44 points of sale (of which 12 in franchising) located mainly in the territories of Western and South Australia. Just Spectacles has been on the market for over 20 years and in the financial year 2007 recorded a turnover of about 24 million Australian Dollars (about 15 million Euro). The cost of the acquisition was about 21 million Australian Dollars (about 13 million Euro).

No events occurred subsequent to the end of the financial year which might significantly influence the data contained in this document.

In 2008 Safilo forecasts an increase in turnover of between 4% and 5%, assuming an average exchange rate of €/USD of 1.47. EBITDA margin should come in at around 15%, while net profit is forecast around 4.5%-5% of sales. The financial position is forecast essentially in line with 2007 despite the increased investments and dividends forecast through the year.

For the Board of Directors
The Chairman
Vittorio Tabacchi


BOTTEGA VENETA


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CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31ST, 2007


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Consolidated financial statements as of and for the years ended December 31st, 2007 and December 31st, 2006

Consolidated balance sheet

(Euro/000)	Note	December 31, 2007	of which related parties (note 6)	December 31, 2006	of which related parties (note 6)
ASSETS					
Current assets					
Cash in hand and at bank	4.1	56,882		43,433	
Trade receivables, net	4.2	315,792	-	319,517	4
Inventory, net	4.3	274,283		271,573	
Derivative financial instruments	4.4	271		1,597	
Other current assets	4.5	44,009	603	46,564	-
Total current assets		**691,237**		**682,684**	
Non-current assets					
Tangible assets	4.6	201,858		201,951	
Intangible assets	4.7	23,526		22,274	
Goodwill	4.8	754,920		804,911	
Investments in associates	4.9	12,279		12,535	
Financial assets available-for-sale	4.10	2,443		3,472	
Deferred tax assets	4.11	75,495		81,886	
Derivative financial instruments	4.4	1,608		1,921	
Other non-current assets	4.12	8,628		1,974	
Total non-current assets		**1,080,757**		**1,130,924**	
Total assets		**1,771,994**		**1,813,608**	

(Euro/000)	Note	December 31, 2007	of which related parties (note 6)	December 31, 2006	of which related parties (note 6)
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	4.13	161,709		99,677	
Trade payables	4.14	194,714	8.259	228,802	10,360
Tax payables	4.15	20,568		20,716	
Other current liabilities	4.16	73,725	622	72,833	
Provisions for risks and charges	4.17	803		828	
Total current liabilities		**451,519**		**422,856**	
Non-current liabilities					
Long-term borrowings	4.13	409,827		475,583	
Employee benefit liability	4.18	37,840		40,952	
Provisions for risks and charges	4.17	12,789		10,478	
Deferred tax liabilities	4.11	11,080		13,082	
Derivative financial instruments	4.4	359		1,336	
Other non-current liabilities	4.19	7,642		5,171	
Total non-current liabilities		**479,537**		**546,602**	
Total liabilities		**931,056**		**969,458**	
Shareholders' equity					
Share capital	4.20	71,349		70,843	
Share premium reserve	4.21	747,471		751,276	
Retained earnings and other reserves	4.22	(33,540)		(22,684)	
Fair value and cash flow reserve	4.23	(280)		1,859	
Income attributable to the Group		51,018		37,467	
Total shareholders' equity attributable to the Group		**836,018**		**838,761**	
Minority interests		**4,920**		**5,389**	
Total shareholders' equity		**840,938**		**844,150**	
Total liabilities and shareholders' equity		**1,771,994**		**1,813,608**	

Consolidated statement of operations

(Euro/000)	Note	2007	of which related parties (note 6)	2006	of which related parties (note 6)
Net sales	5.1	1,190,424	223	1,121,983	832
Cost of sales	5.2	(492,593)	(24,459)	(458,513)	(27,192)
Gross profit		**697,831**		**663,470**	
Selling and marketing expenses	5.3	(439,612)		(415,258)	
General and administrative expenses	5.4	(122,360)	(1,108)	(118,105)	(1,152)
Other op. income/(expenses), net	5.5	1,352		1,467	
Non-recurring operating costs	5.6	-		(6,000)	
Operating profit		**137,211**		**125,574**	
Share of income/(loss) of associates	5.7	1,772		1,513	
Int. expenses and other fin. charges, net	5.8	(45,409)		(47,056)	
Non-recurring financial charges	5.9	-		(8,959)	
Profit before taxation		**93,574**		**71,072**	
Income taxes	5.10	(39,031)		(30,259)	
Net profit		**54,543**		**40,813**	
Net profit attributable to minority interests		3,525		3,346	
Net profit attributable to the Group		**51,018**		**37,467**	
Earnings per share - base (Euro)	5.11	0.18		0.13	
Earnings per share - diluted (Euro)	5.11	0.18		0.13	

Consolidated statement of recognized profit and loss

(Euro/000)	Note	2007	2006
Profit (loss) attributable to the cash flow reserve	4.23	151	2,533
Profit (loss) attributable to the fair value reserve	4.23	(1,311)	1,016
Actuarial gains/(losses)	4.22	886	2,017
Profit (loss) attributable to the conversion fund	4.22	(53,224)	(28,038)
Profit (loss) attributable to shareholders' equity	4.22	(579)	(550)
Total		**(54,077)**	**(23,022)**
Net profit for the period		54,543	40,813
Total recognized profit for the period		**466**	**17,791**
Attributable to:			
Group		(2,898)	14,877
Minority interests		3,364	2,914
Total recognized profit for the period		**466**	**17,791**

Consolidated statement of cash flow

(Euro/000)	2007	2006
A - Opening net cash and cash equivalents (net financial indebtedness - short term)	**6,989**	**44,546**
B - Cash flow from (for) operating activities		
Net profit for the period (including minority interests)	54,543	40,813
Depreciation and amortization	38,044	36,838
Stock options	557	527
Share income/(loss) on equity investments	(1,145)	(1,491)
Net movements in the employee benefit liability	(1,819)	4,622
Net movements in other provisions	238	2,444
Interest expenses, net	41,494	49,654
Income tax expenses	39,031	30,259
Income from operating activities prior to movements in working capital	**170,943**	**163,666**
(Increase) Decrease in trade receivables and other current receivables	1,272	(41,021)
(Increase) Decrease in inventory, net	(12,332)	(68,548)
Increase (Decrease) in trade payables and other current payables	(34,095)	28,085
Interest expenses paid	(43,466)	(45,284)
Income tax paid	(29,034)	(30,559)
Total (B)	**53,288**	**6,339**
C - Cash flow from (for) investing activities		
Purchase of tangible fixed assets (net of disposals)	(36,690)	(35,137)
Acquisition of subsidiaries (net of cash acquired)	-	(2,321)
Disposal of investments and bonds	(85)	3,553
Purchase of intangible assets	(7,052)	(2,969)
Total (C)	**(43,827)**	**(36,874)**
D - Cash flow from (for) financing activities		
Proceeds from borrowings	5,279	320,390
Repayment of borrowings	(49,304)	(327,427)
Share capital increase	6,243	-
Dividends paid	(7,920)	(3,063)
Total (D)	**(45,702)**	**(10,100)**
E - Cash flow for the period (B+C+D)	(36,241)	(40,635)
Translation exchange difference	783	3,078
Total (F)	**783**	**3,078**
G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)	**(28,469)**	**6,989**

Statement of changes in consolidated shareholders' equity

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

(Euro/000)	Share Capital	Share premium reserve	Translat. difference	Fair value and cash flow reserves	Retained earnings	Net profit	Total equity
Group shareholders' equity at January 1, 2007	**70,843**	**751,276**	**(22,726)**	**1,859**	**42**	**37,467**	**838,761**
Previous year's profit allocation	-	-	-	-	37,467	(37,467)	-
Cover of losses carried forward	-	(9,544)	-	-	9,544	-	-
Share capital increase	506	5,739	-	-	-	-	6,245
Changes in other reserves	-	-	(53,079)	(2,139)	879	-	(54,339)
Dividends distribution	-	-	-	-	(5,667)	-	(5,667)
Net profit for the year	-	-	-	-	-	51,018	51,018
Group shareholders' equity at December 31, 2007	**71,349**	**747,471**	**(75,805)**	**(280)**	**42,265**	**51,018**	**836,018**
Minority interests at January 1, 2007	**-**	**-**	**(2)**	**-**	**2,045**	**3,346**	**5,389**
Previous year's profit allocation	-	-	-	-	3,346	(3,346)	-
Retained earnings	-	-	(145)	-	(1,596)	-	(1,741)
Dividends distribution	-	-	-	-	(2,253)	-	(2,253)
Net profit for the year	-	-	-	-	-	3,525	3,525
Minority interests at December 31, 2007	**-**	**-**	**(147)**	**-**	**1,542**	**3,525**	**4,920**
Consolidated net equity at December 31, 2007	**71,349**	**747,471**	**(75,952)**	**(280)**	**43,807**	**54,543**	**840,938**


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1. General information

1.1 General information

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

These consolidated financial statements are presented in thousands of Euro and cover the financial period from January 1st, 2007 to December 31st 2007. They also include information relating to the financial period from January 1st, 2006 to December 31st 2006 for comparison purposes.

These financial statements were approved by the Board of Directors on March 28th, 2008.

The companies included in the consolidation area are listed in paragraph 2.3 "Consolidation area and methodology".

2. Summary of accounting principles adopted

2.1 General information

The accounting principles described here below have been applied during the preparation of these consolidated financial statements in a comparative manner for both financial years presented.

Consolidated financial information relating to the financial years ended December 31st, 2007 and December 31st, 2006 was prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Commission as at December 31st 2007. The application of the amended accounting principles or interpretations issued by IFRIC and applicable to the financial statements at December 31st 2007 did not have any significant impact on results.

These consolidated financial statements are presented in Euro. The majority of the economies in which the Group operates are within the Euro area, and for this reason the Group has chosen to adopt the Euro as official currency.

These consolidated financial statements were prepared in accordance with "cost" criteria with the exception of financial assets available-for-sale and some financial assets and liabilities, including derivative instruments.

The preparation of the financial statements in accordance with IFRS accounting principles requires the management to make estimates and assumptions that may affect the amounts reported in the tables and explanatory notes. Actual results may differ from these estimates. The areas of the financial statements that are most affected by such estimates and assumptions are listed in section 2.20 "Use of estimates".

<u>Accounting principles, amendments and interpretations applied in 2007</u>

In August 2005, the IASB issued the new accounting principle IFRS 7 – *Financial instruments additional information* – that came into effect on 1st January 2007 – this principle requires the person that draws up the financial statements to provide sufficient information regarding the impact of financial instruments on the performance and financial situation of the company. This new accounting principle requires information relating to the level of risk exposure deriving from the use of financial instruments and a

description of objectives, policies and procedures implemented by the management in order to deal with such risks. The Safilo Group adopted this principle for the 2007 financial year.

In addition, in August 2005, the IASB also issued a complementary amendment to IAS 1 - *Presentation of financial statements: additional information regarding share capital* – that came into effect on January 1st, 2007. This amendment introduced requirements relating to information to be provided regarding the share capital of a company and does not have any effect from the point of view of the evaluation or classification of such entries. This amendment was applied by the Group from 1st January 2007.

On March 3rd, 2006, IFRIC issued the interpretation IFRIC 9 – *Reassessment of embedded derivatives* that specifies that an entity must reassess whether embedded derivatives must be separated from primary contracts and reported as derivative instruments at the moment in which the company stipulates the contract. Subsequently, unless the contract conditions are subject to changes that have a significant effect on the cash flow that otherwise would be entailed by the contract, this assessment cannot be repeated. The adoption of this interpretation has not led to the recognition of significant accounting effects.

On July 20th, 2006, IFRIC issued the interpretation IFRIC 10 – *Interim financial reporting and impairment* – according to which any loss of value identified on goodwill and on certain financial assets during the course of an interim period cannot be recovered in a subsequent interim period or in the annual financial statements. The adoption of this interpretation did not apply to the financial statements of the Group.

Non-relevant interpretation applicable from January 1st, 2007

The following interpretation, applicable from January 1st, 2007, governs situations and scenarios that are not present within the Group:

- IFRIC 7 – Application of the redetermination method according to IAS 29 – Financial reporting in Hyperinflationary economies;

- IFRIC 8 – Context of application of IFRS 2 – Share-based payments.

Accounting principles, amendments and interpretations not yet applicable and not adopted in advance by the Group

On November 30th, 2006, the IASB issued accounting principle IFRS 8 – *Operating segments* – that will be applicable from January 1st, 2009 and will replace IAS 14 – *Segment reporting*. This new accounting principle requires companies to base segment information on elements that the management uses for operational decision-making, and therefore requires operating segments to be identified on the basis of internal reporting used by the management to allocate resources to various segments and for performance analysis. The adoption of this principle does not produce any effect from the point of view of the evaluation of financial statement items.

On March 29th, 2007, the IASB issued a reviewed version of IAS 23 – *Financial charges* – that will be applicable from January 1st, 2009. The main change from the previous version is the removal of the option by which companies can immediately recognize financial charges relating to assets that take a substantial period of time to get available for use or sale. At the date of this financial statements, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this principle.

On November 2nd, 2006, IFRIC issued an Interpretation - IFRIC 11 – IFRS 2 – *Group and treasury share transactions* – that aims to define the accounting procedures for share based payments which requires the company to acquire own equity instruments to be fulfilled, as well as share based payments of another entity in the same Group (for example the parent company), attributable to employees of other companies of the Group.

On July 5th, 2007, IFRIC issued an Interpretation – IFRIC 14 on IAS 19 – *Defined benefit pension assets and their minimum funding requirements* – that is applicable from January 1st, 2008. The interpretation provides general guidelines on how to determine the limit established by IAS 19 for the recognition of assets for plans and provides an explanation of the accounting effects caused by the presence of a clause regarding the minimum funding requirements of the plan. At the date of these financial statements, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this interpretation.

On September 6th, 2007, the IASB issued a revised version of IAS 1 – *Presentation of financial statements* - that will be applicable from January 1st, 2009. This new version of the accounting principle requires the company to provide information of all the variations generated by transactions with shareholders in a statement of shareholders' equity. All transactions generated with third parties ("*comprehensive income*") must be presented in a single statement of comprehensive income or in two separate statements (a separate income statement followed by a statement of comprehensive income). In any case, the variations generated by transactions with third parties cannot be presented in the statement of variations in shareholders' equity. At the date of this financial statements, the competent bodies of the European Union had not yet defined the approval process necessary for the application of this principle.

The Group has decided not to apply the new accounting principles, amendments and interpretations in advance and is currently evaluating any potential impact caused by such changes.

2.2 Format of financial statements

Safilo Group presents the income statement by function (so-called "cost of sales"). This is considered to be more representative with respect to presentation by type of expenses, as it greater conforms to the internal reporting methods and business management and is in line with international practice in the eyewear sector.

For the balance sheet, a distinction is made in the assets and liabilities between current and non-current, as described in paragraph 51 and in accordance with IAS no.1. The indirect method for the statement of cash flow was used.

2.3 Consolidation area and methodology

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

	Value	Share capital	Quota held %
ITALIAN COMPANIES			
Safilo S.p.A. – Pieve di Cadore (BL)	EUR	35,000,000	100.0
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) – Padua	EUR	102,775	100.0
FOREIGN COMPANIES			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100.0
Safint B.V. - Rotterdam (NL)	EUR	18,200	100.0
Safilo Capital International 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) [1]	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 - Koln (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 - Shenzen (RC)	CNY	2,481,000	51.0
Safilo Eyewear (Shenzen) Company Limited - (RC)	USD	700,000	51.0
Safilo Eyewear (Suzhou) Industries Limited - (RC)	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 – Lisbona (P)	EUR	500,000	100.0
Safilo Switzerland AG – Liestal (CH)	CHF	1,000,000	77.0
Safilo India Pvt. Ltd - Mumbai (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	900,000	100.0
Optifashion Hong Kong Ltd - Hong Kong (RC)	HKD	300,000	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] *During 2007, the subsidiary Safilo Espana S.A. has been incorporate into Fashion Optic S.L.. At that time, the latter changed its company name to Safilo Espana S.L.*

Investments in subsidiaries

The companies in which the Group exercises control ("subsidiary companies"), as defined in IAS27, either due to direct shareholdings or by indirectly holding the majority of the voting rights, having the power to determine even indirectly the financial and managerial choices of the companies and thus obtaining the relative benefits regardless of the relationships deriving from the share ownership, are consolidated using the line-by-line method. The existence of potential exercisable voting rights at the balance sheet date are considered in order to determine control. The subsidiary companies are consolidated from the date on which control is assumed and are deconsolidated from the date when control ceases.

The business combinations, in which the control of a company is acquired, are accounted for by applying the purchase method where the assets and liabilities acquired are initially measured at their current market value at the acquisition date. If the difference between the market value and the purchase cost is positive, this amount is allocated to goodwill, otherwise, it is recorded on the income statement. The acquisition cost is defined on the basis of the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and of any other accessory charges.

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

The accounting principles adopted by the subsidiary companies have been modified where necessary, to comply with those adopted by the parent company.

The share of the shareholders' equity and the result of the period attributable to minority shareholders are indicated separately in the line items "Minority interests" and "Net profit of the period attributable to minority interests" that can be found in the consolidated balance sheet and statement of operations, respectively.

Investments in associated companies

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

2.4 Segment information

The segment information is provided with reference to the geographic areas in which the Group operates. The geographic areas were identified as the primary segments of activity. The criteria applied for the identification of the primary segments of activity were inspired, among others, by the manner in which the management directs the Group and attributes managerial responsibility. In particular, this criteria is based on the regrouping by geographical area of the headquarters of the companies belonging to the Group; therefore, the sales identified in accordance with this segmentation are determined by origin of invoicing

and not by target market.

Finally, it should be noted that at the date of the present report no secondary segments were identified. In particular, the secondary segments could be related, also in consideration of market practices, to the "distribution" system. In the circumstances, however, the distribution of the products is almost exclusively wholesale; in fact, distribution through retail stores directly controlled by the Group (retail sales) is marginal at December 31st, 2007.

2.5 Conversion of financial statements and transactions into currencies other than Euro

Foreign currency transactions are converted into the functional currency using the actual exchange rates at the date of the transaction. Gains and losses on exchange rates resulting from the close of such transactions and from the translation of the monetary assets and liabilities in foreign currencies at the exchange rates at end of the year are accounted for in the income statement.

The rules for the conversion of financial statements of companies expressed in currencies different from the Euro are the following:

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

The exchange rates applied in the conversion of financial statements prepared in currencies other than Euro at December 31st, 2007 and December 31st, 2006 are the following:

	As of	As of	Average for the twelve months ended	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
USD	1.4721	1.3170	1.3705	1.2554
HKD	11.4800	10.2409	10.6912	9.7544
CHF	1.6547	1.6069	1.6428	1.5729
CAD	1.4449	1.5281	1.4679	1.4237
JPY	164.9300	156.9300	161.2526	146.0153
GBP	0.7334	0.6715	0.6843	0.6817
SEK	9.4415	9.0404	9.2501	9.2549
AUD	1.6757	1.6691	1.6348	1.6668
ZAR	10.0298	9.2124	9.6596	8.5402
SIT[1]	-	239.6400	-	239.5961
BRL	2.6178	2.8133	2.6638	2.7331
IND	58.0210	58.2975	56.5716	56.9098
SGD	2.1163	2.0202	2.0636	1.9938
MYR	4.8682	4.6490	4.6974	4.6040
CNY	10.7524	10.2793	10.4178	10.0096
KRW	1,377.9600	1,224.8100	1,273.0192	1,214.6900

(1) *Slovenia has adopted Euro as legal currency starting from January 1, 2007.*


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2.6 Tangible fixed assets

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

Charges incurred for the maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the statement of operations of the period in which the costs are incurred. The capitalisation of costs relating to the expansion, modernisation or improvement of proprietary structural assets or of those use by third parties, is made only when they satisfy the requirements to be separately classified as an asset or part of an asset. The book value is adjusted for depreciation on a systematic basis, over its useful life.

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

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

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

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

Buildings	20 - 33 years
Plant, machinery and equipment	5 - 15 years
Furniture, office equipment and vehicles	4 - 8 years

Land is not depreciated.

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

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

2.7 Intangible fixed assets

Intangible fixed assets consist of clearly identifiable non-monetary assets, without any physical substance, and capable of generating future economic benefits. These assets are assessed at purchase and/or

production cost, including the costs of bringing the asset to its current use, net of accumulated depreciation and of any possible loss in value. Amortisation begins when the asset is available for use and is recorded on a systematic basis over the course of its useful life.

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

The amounts paid for the control of real estate located in prestigious areas (key money) are indicated under "intangible fixed assets", when such assets satisfy the requirements of IAS 38. These assets are depreciated on the basis of the duration of the leasing contract.

Goodwill

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

Goodwill and fair value adjustments generated from the acquisition of a foreign company are recorded in the relative foreign currencies and are converted at the exchange rate at the close of the period.

Trademarks and licenses

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

Software

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

The costs associated with the development and maintenance of software programs are posted to the income statement of the period in which they were incurred. The costs which are directly associated with the production of unique and identifiable software products controlled by the Group are recorded as intangible fixed assets on the balance sheet only if the following conditions are respected: the costs can be reliably calculated, the Group has the technical and financial resources to complete the products and intends to conclude such activities, the technical feasibility of the product is guaranteed and the use of the products will generate probable future economic benefits for more than one year.

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

2.8 Impairment of non financial assets

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

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

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

A reversal of loss in value is calculated according to the revaluation model and recorded in the income statement in accordance with the provisions of IAS 16.

2.9 Financial instruments

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

Financial assets

Financial assets are classified according to the following categories:

- financial assets measured at fair value through income statement: this category includes financial assets acquired primarily for sale in the short-term or those designated as such by the management, in addition to derivative instruments that are not designated as hedges (in relation to the treatment of derivatives, reference should be made to the following paragraph). The fair value of these instruments is determined with reference to the market value (offer price) at the balance sheet date; in case of non-quoted instruments they are determined through technical financial valuation methods commonly used. Fair value variations of the instruments belonging to this category are recognised in the income statement. Financial instruments of this category are classified in the short-term if they are "held for trading" or if it is expected that they will be sold within twelve months from the balance sheet date. The only financial assets of this category held by the Group and recorded in the financial statements are derivative financial instruments.

- Loans and receivables: they are non-derivative financial instruments, with fixed or determinable payments, not quoted in an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. These latter are classified as non-current assets. These assets are measured at amortised cost on the basis of the effective interest rate method. Any loss in value determined through an impairment test is recognised in the

income statement. In particular, trade receivables are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions of the allowance for doubtful accounts are recorded in the income statement.

- Investments held to maturity: they are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed in accordance with the amortised cost method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.

- Financial assets available-for-sale: they are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset is dependent on the intentions of the management and of the real liquidity of the security; they are recorded under current assets when they are expected to be realised within twelve months.

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

Loans

Loans are initially recorded at fair value less any transaction costs. After initial recognition, they are assessed at amortised cost; all differences between the amount financed (net of initial transaction costs) and the nominal value are recognised in the income statement over the duration of the loan using the effective interest method. In case there is a variation in the expected cash flow that can be reliably estimated by the management, the value of the loans is recalculated to reflect the expected change in the cash flow. The value of the loans is recalculated on the basis of the current value of the new expected cash flow and the internal rate of return.

Loans are classified under current liabilities unless the company has an unconditional right to defer the payment for at least twelve months after the balance sheet date, and are removed from the balance sheet when they expire and the Group has transferred all risks and obligations relating to the instrument.

Derivative instruments

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

- at the beginning of the hedge, a formal designation and documentation relating to the hedge exists,

- it is presumed that the hedge is highly effective,
- the effectiveness can be reliably measured and the hedge is highly effective over the different financial periods for which it was designated.

All derivative financial instruments are measured at fair value, in accordance with IAS 39. When the financial instruments possess the characteristics required to be recorded according to the hedge accounting, the following accounting procedures are applied:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge to the exposure of changes in the current value of an asset or liability in the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognised in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognised in the income statement. In the financial periods described herein there were no fair value hedges.

- *Cash flow hedge* - if a derivative financial instrument is designated as a hedge to the exposure of changes in the cash flows of an asset or liability recorded in the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or losses of the financial instrument is recognised in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated to a hedge or to that part of the hedge that has become ineffective, are immediately recorded to the income statement. If a hedge instrument or a relation of a hedge is closed, but the hedged operation has not yet been realised, the cumulative profits and losses, up to that moment recorded in equity, are recognised in the income statement when the relative operation is realised. If the operation hedged is no longer considered probable, the profits or losses not yet realised in equity are recognised immediately in the income statement.

If hedge accounting cannot be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognised in the income statement.

2.10 Inventory

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

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

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

2.11 Trade receivables

Trade receivables are initially classified in the financial statements at their current value and subsequently recalculated with the amortised cost method, net of any write-downs for loss in value. An allowance for

doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions of the allowance for doubtful accounts are recorded in the income statement.

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

2.12 Cash in hand and at bank

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

2.13 Employee benefits

Pension plans

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

The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year.

The defined benefit plans are based on the working life of the employees and on the remuneration received by the employee during a predetermined period of employment.

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

The employee severance fund of Italian companies ("TFR") has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of December 27th, 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in 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 matured from January 1st, 2007, whether transferred to selected pension funds or transferred to the treasury account set-up with Italian Social Security Institute (INPS), represents a "defined contribution plan";

- with reference to the amounts of employee benefit liability matured as of December 31st, 2006, the employee benefit liability represents a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

For an analysis of the accounting effects deriving from this decision, please refer to paragraph 4.18 "employee benefit liability".

Remuneration plans under the form of share capital participation

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

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

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

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

2.14 Provisions for risks and charges

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

2.15 Revenue recognition

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognises the revenues from the sale of goods sold at the shipment date, when all the risks and rewards relating to the ownership of the goods have been transferred to the client, or on delivery to the client, in accordance with the sales terms agreed. If the sale includes the right for the client to return unsold goods (generally these clauses are only applied in the United States), the revenue is recognised on the date of shipment to the client, net of a provision which represents the best estimate of the products to be returned by the client and which the Group will no longer be able to place on the market. This provision is based on specific historical data and on the specific knowledge of the clients; historically there have not been significant differences between the estimates made and the products actually returned.

2.16 Public contributions

The Group recognises public contributions when there is reasonable certainty that they will be received and that the conditions required for the contribution have been or will be respected.

The contributions received are recorded in the income statement for the time required to relate them to the relative costs and they are considered as deferred income.

2.17 Royalties

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

2.18 Dividends

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

2.19 Income taxes

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

The deferred taxes are calculated on fiscal losses that can be carried forward and all the timing differences between the assessable income of an asset or liability and the relative book value. The deferred tax assets are recognised only for those amounts for which it is probable there will be future assessable income to recover the amounts.

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

2.20 Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit or loss of the Group, adjusted by the quota attributable to the preference shareholders, by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

Diluted

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


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

- *Goodwill*: in accordance with the accounting standards adopted for the preparation of the financial statements, the company annually verifies the goodwill in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the verification results in the determination of the fair value allocated to the financial cash-generating units. This value is determined according to their current value in use. The allocation of the goodwill to the cash-generating units and the determination of their value requires estimates which depend on factors that may change over time with consequent effects, that may be significant, compared to the valuations made by the Directors.

- *Write-down of fixed assets*: in accordance with the accounting standards applied by the Group, the fixed assets are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the above-mentioned difficulties requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is determined that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential loss in value as well as the estimates for the determination depends on factors which may vary over time, impacting upon the valuations and estimates made by the Directors.

- *Allowance for bad or doubtful debts*: the allowance for bad or doubtful debts reflects the best estimate of the management regarding losses concerning credit portfolio towards the final client. This estimate is based on the losses expected by the Group, determined on the basis of past experience for similar credits, current and historic overdue, careful monitoring of credit quality and projections regarding the economic and market conditions.

- *Allowance for inventory obsolescence*: the inventory of finished products with characteristics of obsolescence or of slow moving are regularly subjected to specific assessment tests, that take into consideration past experience, historic results and the probability of selling them under normal market conditions. If the necessity to reduce the value of the stock should arise following these analyses, the management shall proceed with the appropriate write-downs.

- *Product warranty provision*: at the time of sale of a good the Group estimates the relative costs of performing operations under guarantee and sets aside a fund on the basis of historic information and a series of statistical data regarding the nature, frequency and the average cost of operations

under guarantee. The Group operates constantly to minimize charges deriving from operations under guarantee and the quality of its products.

- *Contingent liabilities*: the Group is subject to legal and fiscal actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when it is considered probable that a financial outflow will be required and the extent of this expenditure can be reasonably estimated, adequate funds are set aside.

- *Pension plans*: the companies of the Group participate in pension plans whose charges are calculated by the management, supported by actuarial consultants of the Group, on the basis of statistical assumptions and evaluative factors that regard in particular the discount rate to be used, together with relative mortality and resignation rates.

- *Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future assessable income. The valuation of the expected assessable income in order to record the deferred taxes depends upon factors which may change over time and result in significant effects on the valuation of the deferred tax assets.

2.22 Estimates of the fair value

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

The fair value of the financial instruments not traded in an active market is calculated in accordance with valuation techniques, by applying models and techniques that are widely used in financial sectors and in particular:

- the fair value of the interest rate swaps is calculated on the basis of the current value of future cash flows;

- the fair value of the forward currency hedging contracts is determined on the basis of the current value of the differences between the contracted forward exchange rate and the spot market rate at the balance sheet date;

- the fair value of the advanced repayment option included in the bond issued by the subsidiary Capital International S.A. is valued using models applied by primary financial institutions;
  the fair value of the stock option is calculated using the *Black & Scholes* model.

3. Risk management

The operations of the Safilo Group are subject to various financial risks, in particular:

- credit risks, relating to normal business relations with clients as well as to other financial assets present on the financial statements;
- market risks (predominantly relating to interest and exchange rates), as the Group operates internationally and uses financial instruments that generate interests;
- cash flow risks, in particular with regard to the ability to find resources on financial markets under normal market conditions and in a timely manner.

The Group constantly monitors the financial risks to which it is exposed, in order to assess potentially negative impacts in advance and undertake appropriate corrective measures with the aim of eliminating or, at the least containing, the negative effects deriving from the risks in question.

The risks to which the Group is exposed are managed centrally on the basis of hedging policies that may also include the use of derivative instruments with the aim of minimizing the effects deriving from exchange rate (especially in relation to the US dollar) and interest rate fluctuations.

Credit risks

The Group strives to reduce as far as possible the risk relating to the insolvency of its customers through rules that ensure that sales are made to customers who are reliable and solvent. These rules are based on information regarding the solvency of customers and statistical historical data, and set limits to the exposure of each single client. However, the credit risk is mitigated by the fact that credit exposure is divided over a high number of clients.

Positions of a significant amount for which the Group recognizes situations of bad debts, either totally or partially, taking into consideration any guarantees obtained together with charges and expenses that shall be incurred for credit recovery, are subject to individual write-down. With regard to those receivables that are not subject to individual write-down, the Group shall allocate adequate funds calculated on the basis of past experience and statistical data.

The theoretical maximum exposure to credit risks for the Group at the date of the balance sheet is represented by the book value of the financial assets.

As required by IFRS 7.36 the following table contains an analysis of the history of trade receivables due at December 31st, 2007 and December 31st, 2006, that have been subjected to total or partial write-down due to situations of bad debt:

(Euro/000)	**December 31, 2007**		**December 31, 2006**	
Trade receivables:	Nominal value of trade receivables	Allowance for bad or doubtful debts	Nominal value of trade receivables	Allowance for bad or doubtful debts
Overdue:				
Up to 6 months	5,515	(1,738)	3,951	(1,792)
from 6 to 12 months	2,674	(1,334)	2,613	(1,280)
from 12 to 24 months	2,103	(1,163)	1,570	(815)
more than 24 months	9,629	(7,003)	15,519	(10,797)
Total	**19,921**	**(11,238)**	**23,653**	**(14,683)**

At December 31st 2007, the receivables not covered by the allowance for bad or doubtful debts amounted to 2,743 thousand Euro; this is a clear improvement compared to the amount of 4,205 thousand Euro at December 31st 2006 due to the credit recovery efforts undertaken by the Group. The Group has not recorded any write-downs relating to these receivables as it is considered that such amounts may be entirely recovered in the future.

Market risks

Market risks can be divided into the following categories:

Exchange risk

The Group operates internationally and is therefore exposed to risks deriving from variations in exchange rates that may influence the value of the shareholders' equity and its financial results.

In particular, the Group is exposed to risks regarding the exchange rate between the Euro and the US Dollar, since some of the companies of the Group usually sell goods on the North American market and on other markets where the US dollar is the main currency used for business exchanges (Far-East).

The Group constantly attempts to reduce the impact deriving from variations in the US dollar by procuring suppliers located in areas where it is possible to buy in US dollars, thereby performing a sort of "natural hedging". For incomes in dollars that are not compensated by expenses in dollars, the Group policy advocates the use of hedging instruments such as foreign currency contracts in dollars. Any exposure is covered by plain vanilla contracts with a duration of no more than twelve months. Information regarding the fair value and the accounting methods of derivative financial instruments are detailed in a specific paragraph of the explanatory notes.

Furthermore, the Group possesses shareholdings in subsidiaries located in areas outside the European Monetary Union, and the variations of the shareholders' equity deriving from variations in the exchange rates of the local currency against the Euro are recorded in a reserve of the consolidated shareholders' equity named "conversion reserve".

As far as the sensitivity analysis is concerned, we highlight that an increase or decrease of 1% of the US dollar against the Euro would result respectively in an increase or a decrease of the 2007 operating profit of the Group of around 1 million Euro (1.1 million Euro for 2006).

Again in terms of the sensitivity analysis, it is necessary to point out that the variation in the fair value of derivative financial instruments of exchange risk management (currency forward) held by the Group at December 31st, 2007, as a consequence of a hypothetical and immediate depreciation of the US dollar by 10% compared to the Euro would be equal to approximately 1.1 million Euro (2.6 million Euro at December 31st, 2006). Alternatively, an appreciation of the US dollar by 10% would result in a negative variation of fair value, merely hypothetical and potential, equal to approximately 1.3 million Euro (3.2 million Euro at December 31st, 2006).

It should be noted that future receivables, payables and business flows against which the analysed hedging operations have been put in place and for which it can be reasonably assumed that variations in fair value may offset the hedged transactions have not been considered in the sensitivities reported above.

The tables below summarise the financial assets and liabilities of the Group per currency at December 31st, 2007 and December 31st, 2006:

(Euro/000)		**December 31, 2007**		
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	23,509	19,196	14,177	56,882
Trade receivables, net	202,922	62,984	49,886	315,792
Derivative financial instruments	222	-	49	271
Other current assets	33,482	6,473	4,054	44,009
Total	**260,135**	**88,653**	**68,166**	**416,954**
Derivative financial instruments	1,608	-	-	1,608
Other non-current assets	6,313	3,739	1,019	11,071
Total	**7,921**	**3,739**	**1,019**	**12,679**
Trade payables	116,617	65,946	12,151	194,714
Short-term borrowings	141,380	15,129	5,201	161,709
Derivative financial instruments	-	-	-	-
Tax payables and other current liabilities	71,211	7,684	15,398	94,293
Total	**329,208**	**88,759**	**32,750**	**450,716**
Long-term borrowings	343,588	66,239	-	409,827
Derivative financial instruments	359	-	-	359
Other non-current liabilities	6,406	1,062	174	7,642
Total	**350,353**	**67,301**	**174**	**417,828**

(Euro/000)		**December 31, 2006**		
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	24,442	6,734	12,257	43,433
Trade receivables, net	215,509	59,990	44,018	319,517
Derivative financial instruments	1,597	-	-	1,597
Other current assets	31,066	11,184	4,314	46,564
Total	**272,614**	**77,908**	**60,589**	**411,111**
Derivative financial instruments	1,921	-	-	1,921
Other non-current assets	4,731	303	412	5,446
Total	**6,652**	**303**	**412**	**7,367**
Trade payables	144,005	71,471	13,326	228,802
Short-term borrowings	84,857	11,160	3,660	99,677
Derivative financial instruments	-	-	-	-
Tax payables and other current liabilities	67,766	10,858	14,925	93,549
Total	**296,628**	**93,489**	**31,911**	**422,028**
Long-term borrowings	383,359	90,950	1,274	475,583
Derivative financial instruments	1,336	-	-	1,336
Other non-current liabilities	4,416	-	755	5,171
Total	**389,111**	**90,950**	**2,029**	**482,090**

Fair value variation risk

The Group holds some assets that are subject to variations in value over time according to the variations of the market where the exchange takes place. This risk is predominantly concentrated within the "available for sale" portfolio and is constantly monitored by the Group through real time information regarding the assets in question.

With regard to trade payables and receivables and other current and non-current assets, it is assumed that their book value is approximately equal to their fair value.

Interest rate risk

Borrowings payable to financial institutions exposes the Group to the risk of variations in interest rates. In particular, variable rate borrowings represent a risk of change in cash flow while fixed rate borrowings represent a potential variation in the fair value of the borrowings themselves.

The Group regularly assesses its exposure to the risk of variation of interest rates and manages this risk through recourse to derivative financial instruments called interest rate swaps (IRS), which are used exclusively to hedge the cash flows. The contracts of interest rate swaps are stipulated with primary financial institutions and, at the beginning of the hedge, the formal designation is made and the documentation relating to the hedge is prepared.

As far as the sensitivity analysis is concerned, we highlight that a positive (negative) variation of 50 b.p. in the level of the short-term interest rates applied to the variable rate financial liabilities not subject to hedging would represent a greater (lower) annual financial charge, gross of taxes, of around 1,468 thousand Euro (1,150 thousand Euro at December 31st 2006).

As far as the sensitivity analysis is concerned, we highlight that a reduction of 50 b.p. in the level of the short-term interest rates would represent a negative variation of the fair value of the IRS of 1,603 thousand Euro gross (2,115 thousand Euro at December 31st, 2006). On the other hand, an increase of 50 b.p. would represent a positive variation in the fair value of the IRS of 1,571 thousand Euro, gross of the fiscal effect (2,069 thousand Euro at December 31st, 2006).

The following table summarises the main characteristics of the most significant variable and fixed rate medium and long term borrowings, at December 31st, 2007 and December 31st, 2006:

December 31, 2007 *(Euro/000)*	**Currency**	**Nominal interest rate**	**Internal interest rate**	**Value recorded at BS**	**Expiry**
Facility A1	*EURO*	Euribor + 0.55%	5.9248%	71,351	31/12/2011
Facility A2	*USD*	Libor + 0.55%	6.0373%	37,889	31/12/2011
Facility A3	*USD*	Libor + 0.55%	5.8489%	43,478	31/12/2011
Revolving facility	*EURO*	Euribor + 0.55%	5.2414%	90,000	31/12/2012
High Yield	*EURO*	9.625%	10.6887%	188,731	15/05/2013

December 31, 2006 (Euro/000)	Currency	Nominal interest rate	Internal interest rate	Value recorded at BS	Expiry
Facility A1	*EURO*	Euribor + 0.60%	4.8704%	79,078	31/12/2011
Facility A2	*USD*	Libor + 0.60%	6.6615%	47,522	31/12/2011
Facility A3	*USD*	Libor + 0.60%	6.4706%	54,588	31/12/2011
Revolving facility	*EURO*	Euribor + 0.60%	4.4094%	110,000	31/12/2011
High Yield	*EURO*	9.625%	10.6887%	187,894	15/05/2013

Cash flow risk

This risk could generate the inability to find the necessary financial resources to back up the operating activities at good market terms within the timeframe available. The cash flow needs for finance and liquidity of the company are constantly monitored centrally by the Group treasury, to guarantee effective and efficient management of the financial resources.

The Group has therefore adopted a series of policies and processes with the aim of optimizing the management of financial resources and the management maintains that the funds and lines of credit currently available, in addition to those that will be generated by the operating and financing activities, will be sufficient to satisfy the requirements deriving from investments, working capital management and financial debts.

The following table details the lines of credits granted to the Group, the uses and the lines of credit available at December 31st, 2007, net of factoring and leasing operations:

(Euro/000)	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	233,338	81,395	151,943
Credit lines on long-term bank loans	358,743	248,743	110,000
Total	**592,081**	**330,138**	**261,943**

The tables below summarise the financial assets and liabilities of the Group at December 31st, 2007 and December 31st, 2006 according to expiry date:

(Euro/000)	December 31, 2007			
	Within 1 year	Between 2 and 5 years	Beyond 5 years	Total
Cash in hand and at bank	56,882	-	-	56,882
Trade receivables, net	315,792	-	-	315,792
Derivative financial instruments	271	-	-	271
Other current assets	44,009	-	-	44,009
Total	**416,954**	**-**	**-**	**416,954**
Derivative financial instruments	-	1,608	-	1,608
Other non-current assets	-	11,071	-	11,071
Total	**-**	**12,679**	**-**	**12,679**
Trade payables	194,693	21	-	194,714
Tax payables	20,567	1	-	20,568
Short-term borrowings	161,709	-	-	161,709
Derivative financial instruments	-	-	-	-
Other current liabilities	73,725	-	-	73,725
Total	**450,694**	**22**	**-**	**450,716**
Long-term borrowings	-	216,652	193,175	409,827
Derivative financial instruments	-	359	-	359
Other non-current liabilities	-	7,507	135	7,642
Total	**-**	**224,518**	**193,310**	**417,828**

(Euro/000)	December 31, 2006			
	Within 1 year	Between 2 and 5 years	Beyond 5 years	Total
Cash in hand and at bank	43,433	-	-	43,433
Trade receivables, net	319,175	342	-	319,517
Derivative financial instruments	1,597	-	-	1,597
Other current assets	46,564	-	-	46,564
Total	**410,769**	**342**	**-**	**411,111**
Derivative financial instruments	-	1,921	-	1,921
Other non-current assets	-	5,198	248	5,446
Total	**-**	**7,119**	**248**	**7,367**
Trade payables	228,802	-	-	228,802
Tax payables	20,716	-	-	20,716
Short-term borrowings	99,677	-	-	99,677
Derivative financial instruments	-	-	-	-
Other current liabilities	72,833	-	-	72,833
Total	**422,028**	**-**	**-**	**422,028**
Long-term borrowings	-	281,910	193,673	475,583
Derivative financial instruments	-	1,336	-	1,336
Other non-current liabilities	-	5,036	135	5,171
Total	**-**	**288,282**	**193,808**	**482,090**

Cash flows expected from the foreign forward currency contracts and interest rate swaps are described in paragraph 4.4 "derivative financial instruments".

Classification of financial instruments

Upon completion of the analyses requested by IFRS 7, the classes of financial instruments present in the balance sheet are indicated in the following table, with the indication of the assessment criteria applied and, in the case of "financial instruments measured at fair value", of the information on the income statement or the shareholders' equity. If appropriate, the last column of the table indicates the fair value at December 31st, 2007 of the financial instrument.

Financial instruments *(Euro/000)*	Financial instruments at fair value through income statement	Financial instruments at fair value through equity	Financial instruments at amortised cost	Investments at fair value	Investments and non-listed financial assets at cost	Current value at Dec. 31, 2007	Fair value at Dec. 31, 2007
ASSETS							
- Cash in hand and at bank	-	-	56,882	-	-	56,882	56,882
- Trade receivables, net	-	-	315,792	-	-	315,792	315,792
- Foreign currency contracts	271	-	-	-	-	271	271
- Interest rate swaps-cash flow hedge	-	926	-	-	-	926	926
- Options	682	-	-	-	-	682	682
- Financial assets available-for-sale	-	-	-	2,118	325	2,443	2,443
- Other current assets	-	-	44,009	-	-	44,009	44,009
- Other non-current assets	-	-	8,628	-	-	8,628	8,628
LIABILITIES							
- Short-term and long-term borrowings	-	-	382,805	-	-	382,805	382,805
- High Yield	-	-	188,731	-	-	188,731	206,521
- Interest rate swaps-cash flow hedge	-	359	-	-	-	359	359
- Other current assets	-	-	73,725	-	-	73,725	73,725
- Other non-current assets	-	-	7,642	-	-	7,642	7,642

Foreign currency contracts that were closed during the course of the 2007 financial period have resulted in positive income components on the income statement for a total of 1,758 thousand Euro, gross of taxes.

Furthermore, during 2007, the Group has recorded financial income equal to 1,490 thousand Euro (gross of taxes), in relation to the total amount of spreads between fixed rate and variable rate relating to the contracts of interest rate swaps "IRS".


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4. Notes to the consolidated balance sheet

4.1 Cash in hand and at bank

This item represents the temporary availability of liquidity held under conditions at market rates. The book value of the liquidity available is aligned with the fair value at the date of the balance sheet and the related credit risk is very limited as the counterparts are primary credit institutes.

The following table shows the reconciliation of the entry "Cash in hand and at bank" with the net financial position presented in the statement of cash flow:

(Euro/000)	**December 31, 2007**	**December 31, 2006**
Cash in hand and at bank	56,882	43,433
Bank overdrafts	(85,351)	(36,444)
Total	**(28,469)**	**6,989**

4.2. Trade receivables, net

This item is composed as follows:

(Euro/000)	**December 31, 2007**	**December 31, 2006**
Gross value	335,329	342,485
Allowance for doubtful accounts	(19,537)	(22,968)
Net value	**315,792**	**319,517**

At constant exchange rates, the trade receivables net of the allowance for bad or doubtful debts, increased by 3,378 thousand Euro due in particular to the increase in sales during the fourth quarter of 2007 compared to the same period of the previous year.

The Group does not have a significant concentration of credit risk as its credit exposure is divided between a large number of customers. Furthermore the book value of trade receivables is considered to be approximately equal to their fair value.

At December 31st 2007, the account balance trade receivables include receivables transferred to a major factoring company, that do not comply with the requirements provided by IAS 39 for their removal from the balance sheet, for a total amount of 58,449 thousand Euro (64,593 thousand Euro at December 31st, 2006).

The allowance for sales returns includes the provision for products delivered to clients which, in accordance with specific contractual clauses, may not be sold to final consumers and therefore may be returned in the future. This provision is accounted for in the income statement as a reduction of sales.

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

The movements of the allowance for bad and doubtful debts are as follows:

(Euro/000)	Balance at January 1, 2007	Posted to income statement	Use	Transl. diff.	Balance at December 31, 2007
Allowance for bad debts	14,683	2,913	(6,290)	(68)	11,238
Allowance for sales returns	8,285	854	-	(840)	8,299
Total	**22,968**	**3,767**	**(6,290)**	**(908)**	**19,537**

4.3 Inventories

This item is composed as follows:

(Euro/000)	December 31, 2007	December 31, 2006
Raw materials	49,176	50,491
Work-in-progress	7,313	7,868
Finished products	243,737	238,743
Gross	**300,226**	**297,102**
Obsolescence provision (-)	(25,943)	(25,529)
Total	**274,283**	**271,573**

The stock of raw materials and work-in-progress remains stable compared to the December 31st, 2006; the increase in the stock of finished products is due to the development of the Solstice retail chain and the acquisition of the Spanish chain Loop.

In order to deal with obsolete or slow-moving stock, a specific provision has been set aside, determined on the basis of the possibility for future sale or use. This provision is included in the item "cost of sales" of the income statement.

The movements of the aforementioned provision are displayed below:

(Euro/000)	Balance at January 1, 2006	Posted to income statement	Transl. diff.	Balance at December 31, 2006
Obsolescence provision	19,377	7,582	(1,430)	25,529
Total	**19,377**	**7,582**	**(1,430)**	**25,529**

(Euro/000)	Balance at January 1, 2007	Posted to income statement	Transl. diff.	Balance at December 31, 2007
Obsolescence provision	25,529	1,413	(999)	25,943
Total	**25,529**	**1,413**	**(999)**	**25,943**

The high provision relating to the previous financial period was due to the prudential evaluation of the risk of obsolescence of "Polo Ralph Lauren" finished products that, in accordance with the licensing contract, could be sold until June 30th, 2007. The variation on the income statement during 2007 has therefore returned to normal levels in relation to the risk of obsolescence of the Group.

4.4 Derivative financial instruments

The following table summarizes the total amount of financial instruments on the balance sheet:

(Euro/000)	**December 31, 2007**	**December 31, 2006**
Current assests:		
- Foreign currency contracts - at fair value through P&L	271	1,205
- Intersest rate swaps - cash flow hedge	-	266
- Intersest rate swaps - at fair value through P&L	-	126
Total	**271**	**1,597**
Non-current assets:		
- Interest rate swaps - cash flow hedge	926	361
- Options	682	1,560
Total	**1,608**	**1,921**
Current liabilites:		
- Forward contracts in currency	-	-
- Interest rate swaps - cash flow hedge	-	-
Total	**-**	**-**
Non-current liabilities:		
- Interest rate swaps - cash flow hedge	359	-
- Interest rate swaps - at fair value through P&L	-	1,336
Total	**359**	**1,336**

The characteristics and the fair value of the foreign currency contracts at December 31st, 2007 and December 31st, 2006 are summarized below:

Foreign currency contracts	**December 31, 2007**			**December 31, 2006**	
	Contractual value		**Fair value**	**Contractual value**	**Fair value**
	(USD/000)	*(Euro/000)*	*(Euro/000)*	*(USD/000)*	*(Euro/000)*
Expiry year 2007	-	-	-	39,000	1,205
Expiry year 2008	-	1,150	49	-	-
Expiry year 2008	18,000	-	222	-	-
Total	**18,000**	**1,150**	**271**	**39,000**	**1,205**

The fair value of the hedging contracts in foreign currency is determined on the basis of the current value of the differences between the contracted forward exchange rate and the forward market rate at the balance sheet date.

Any cash flows expected by the forward contracts can be summarized in the following tables:

Expected cash flows *(in USD/000)*	**2008**	**2007**
January	4,000	6,000
February	5,000	5,000
March	5,000	6,000
April	4,000	5,000
May	-	5,000
June	-	4,000
July	-	4,000
August	-	4,000
Total expected flows in USD	**18,000**	**39,000**

Expected cash flows *(in EUR/000)*	**2008**	**2007**
January	300	-
February	300	-
March	300	-
April	250	-
Total expected flows in EUR	**1,150**	**-**

The market value of the contracts of interest rate swaps is estimated by specialised financial institutions on the basis of normal market conditions. The Group policies relating to the management of the interest rate risk usually require the hedging of future financial flows that will have an effect on the future financial statements; it is therefore reasonable to maintain that the relative effect of the hedging suspended in the cash flow reserve will be recognised in the income statement in future financial periods in accordance with the results of the flows expected. At the time of the drafting of these financial statements there are no cases of overhedging.

The characteristics and fair values of the contracts of interest rate swaps in being on the December 31st, 2007 and 31st, December 2006 are summarized below:

	December 31, 2007		**December 31, 2006**	
Interest rate swaps *(Euro/000)*	**Contractual value**	**Fair value**	**Contractual value**	**Fair value**
Expiry year 2007	-	-	170,361	392
Expiry year 2010	25,000	(96)	25,000	(522)
Expiry year 2011	100,000	663	85,000	(453)
Total	**125,000**	**567**	**280,361**	**(583)**

Any cash flows expected by the contracts of interest rate swaps are summarized in the following table:

Expected cash flows *(in EUR/000)*	**2007**
2008	406
2009	67
2010	24
2011	70
Total expected flows in EUR	**567**

Among the non-current assets, the fair value of the advance repayment option included in the bond issued by the subsidiary Safilo Capital International S.A is shown. The assessment was made using the models applied by primary financial institutions, and recognised a fair value of the option of 682 thousand Euro.

4.5 Other current assets

This item is composed as follows:

(Euro/000)	**December 31, 2007**	**December 31, 2006**
VAT receivable	4,980	9,218
Tax credits and payments on account	10,175	9,515
Prepayments and accrued income	6,658	7,505
Receivables from agents	1,018	4,483
Other current receivables	21,178	15,843
Total	**44,009**	**46,564**

The decrease in VAT receivables compared to the previous financial year mainly relates to the procedure of VAT compensation, pursuant to Ministerial Decree date December 13th, 1979 (so-called "Group VAT for Italian companies") which Safilo Group S.p.A., as the holding company, Safilo S.p.A. and Smith Sport Optics S.r.l., as subsidiaries, adhere to.

The tax credits and prepayments principally relate to the income tax payments made in advance during the financial year which will be compensated against the relative tax payable.

Accrued income and deferred charges at December 31st, 2007 amount to 6,658 thousand Euro against 7,505 thousand Euro at December 31st, 2006 and include:

- prepaid advertising costs of 1,630 thousand Euro;
- prepaid rent and operating leases of 1,362 thousand Euro;
- prepaid costs for the financing operation called "Revolving Facility" for 1,187 thousand Euro;
- prepaid insurance premiums of 254 thousand Euro;
- other prepaid costs, mainly of commercial nature, of 2,225 thousand Euro.

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

The other short term receivables amount to 21,178 thousand Euro and refer to:

- advance payments relating to 2008 royalties for a total amount of 14,672 thousand Euro;
- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for 2,202 thousand Euro that refer to receivables due from bankrupt customers for the amount of credit relating to VAT, that in accordance with Italian tax legislation, should only be recovered when the distribution plan of the bankruptcy procedure is executed;
- deposit payments due within 12 months for 420 thousand Euro;
- receivables for insurance repayments and other receivables in the financial statements of some companies of the Group.

It is considered that the book value of the other current assets is approximately equal to their fair value.


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4.6 Tangible fixed assets

The movements in the tangible fixed assets for the financial years closed on December 31st, 2006 and December 31st, 2007 are presented below:

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

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2007
Gross value						
Land and buildings	108,783	3,105	(1,082)	5,666	(422)	116,050
Plant and machinery	163,406	8,351	(4,235)	(356)	(424)	166,742
Equipment and other assets	153,862	26,719	(7,366)	(7,089)	(5,105)	161,021
Assets under constructions	6,019	3,703	-	(3,365)	(69)	6,288
Total	**432,070**	**41,878**	**(12,683)**	**(5,144)**	**(6,020)**	**450,101**
Accumulated depreciation						
Land and buildings	23,112	4,504	(64)	3,154	(148)	30,558
Plant and machinery	100,623	11,148	(3,647)	(68)	(194)	107,862
Equipment and other assets	106,384	16,619	(7,201)	(3,610)	(2,369)	109,823
Total	**230,119**	**32,271**	**(10,912)**	**(524)**	**(2,711)**	**248,243**
Net book value	**201,951**	**9,607**	**(1,771)**	**(4,620)**	**(3,309)**	**201,858**

The investments in tangible fixed assets made during 2007 amount to a total of 38,513 thousand Euro and refer to:

- 15,854 thousand Euro by the subsidiary Safilo S.p.A. mainly for the renewal of plants in the Italian production sites and for the purchase and the production of equipment relating to new models;
- 13,620 thousand Euro in American companies mainly for the development of the Solstice chain of stores;
- 3,345 thousand Euro in the production facility of the Slovenian subsidiary Carrera d.o.o.;
- the remaining part in the other companies of the Group.

Several companies of the Group have purchased tangible fixed assets under leasing contracts. The following table shows the gross value and the related accumulated depreciation fund, while the information related to the leasing contracts is provided in paragraph 4.13 "Borrowings".

(Euro/000)	**December 31, 2007**	**December 31, 2006**
Land and buildings	14,261	14,261
Accumulated depreciation (-)	(917)	(573)
Net book value	**13,344**	**13,688**
Plant and machinery	3,249	3,248
Accumulated depreciation (-)	(2,364)	(1,931)
Net book value	**885**	**1,317**
Equipment and other assets	393	635
Accumulated depreciation (-)	(77)	(286)
Net book value	**316**	**349**
Total	**14,545**	**15,354**

4.7 Intangible fixed assets

The changes in the intangible fixed assets for the financial periods closed on December 31st, 2006 and December 31st, 2007 are presented below:

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

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	New acquisition	Transl. diff.	Balance at December 31, 2007
Gross value						
Software	10,522	3,101	(410)	1,841	(359)	14,695
Trademarks and licenses	41,857	513	-	(18)	(39)	42,313
Other intangible assets	6,413	2,806	-	(34)	(146)	9,039
Intangible assets in progress	15	76	-	(7)	(1)	83
Total	**58,807**	**6,496**	**(410)**	**1,782**	**(545)**	**66,130**
Accumulated depreciation						
Software	7,694	1,727	(73)	632	(127)	9,853
Trademarks and licenses	23,066	3,441	(3)	(12)	(15)	26,477
Other intangible assets	5,773	605	(26)	(43)	(35)	6,274
Total	**36,533**	**5,773**	**(102)**	**577**	**(177)**	**42,604**
Net book value	**22,274**	**723**	**(308)**	**1,205**	**(368)**	**23,526**

Depreciation and amortisation expenses related to property, plant and equipment and intangible assets for the 2007 and 2006 financial years can be divided as follows:

(Euro/000)	note	2007	2006
Cost of sales	5.2	19,473	20,126
Selling and marketing expenses	5.3	4,511	3,227
General and administrative costs	5.4	14,060	13,485
Total		**38,044**	**36,838**

4.8 Goodwill

(Euro/000)	Balance at January 1, 2006	Increase	(Decrease)	Transl. diff.	Balance at December 31, 2006
Goodwill	797,734	26,839	-	(19,662)	804,911
Net book value	**797,734**	**26,839**	**-**	**(19,662)**	**804,911**

(Euro/000)	Balance at January 1, 2007	Increase	(Decrease)	Transl. diff.	Balance at December 31, 2007
Goodwill	804,911	858	(5,931)	(44,918)	754,920
Net book value	**804,911**	**858**	**(5,931)**	**(44,918)**	**754,920**

Variations during the financial period were mainly due to:

- the acquisition of a business unit of the company DFG Inc. managed by the American holding company Smith Sport Optics Inc.
- the reduction of goodwill relating to the acquisition of the chain of stores Loop Vision following the adjustment of the provisional values determined in the business combination as permitted by IFRS no. 3 paragraph 62 (reference should be made to the relevant paragraph in the section "business combinations" for further details);
- exchange rates differences.

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

The goodwill divided by groups of CGUs is illustrated below:

Goodwill *(Euro/000)*	**Italy and Europe**	**America**	**Asia**	**Total**
December 31, 2007	289,020	213,014	252,886	**754,920**
December 31, 2006	296,666	230,771	277,474	**804,911**

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

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

Key assumptions	**"WACC" discount rate**		**Growth rate "g"**	
	2007	**2006**	**2007**	**2006**
Euro area	6.9%	6.4%	1.0%	1.0%
USA area	7.0%	7.2%	1.0%	1.0%
Far East area	8.2%	8.5%	2.2%	2.6%
Australia	8.8%	8.3%	1.0%	1.0%
Japan	4.3%	4.4%	1.0%	1.0%
South Africa	10.6%	10.4%	5.5%	4.5%
India	10.7%	11.1%	5.2%	5.0%
Brazil	10.6%	12.4%	4.0%	4.0%

Business combinations

On November 9th, 2006 the Group purchased the retail chain Loop Vision that consisted of 63 stores throughout Spain.

The transaction was accounted for using the acquisition method, and the difference between the purchase price and the fair value of the purchased net assets was entirely allocated to goodwill. In accordance with the provisions of IFRS n. 3, paragraph 62, the initial value for the business combination was determined temporarily, by determining the provisional fair value to assign to the assets, liabilities and contingent liabilities of the acquired companies.

The adjustments of these provisional values, in accordance with paragraph 62 above, were determined within twelve months from the date of acquisition and resulted in a reduction of 5,931 thousand Euro of the goodwill originally determined and the identification of a deferred tax asset relating to fiscal losses generated by the chain Loop Vision until the purchase date of the chain by the Safilo Group.

4.9 Investments in associated companies

This account balance is composed of the following companies:

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	Turkey	50.00%	Non consolidated subsidiary	Commercial
TBR Inc.	USA	33.33%	Associated company	Real estate

The movements of shareholdings during the financial period are the following:

	31.12.2006			Movements for the period		
(Euro/000)	Gross value	Revaluation (write-down)	Value at Dec. 31, 2006	Share of results and write-down of divid. of assoc. comp.	Transl. diff.	Value at Dec. 31, 2007
TBR Inc.	452	488	940	150	(111)	979
Elegance Ltd	5,589	5,804	11,393	927	(1,261)	11,059
Optifashion As	353	(151)	202	39	-	241
Total	**6,394**	**6,141**	**12,535**	**1,116**	**(1,372)**	**12,279**

During 2007 no shareholdings in associated companies were purchased. The changes compared to December 31st, 2006 are primarily due to the gains realised in the year from the companies listed above, net of dividends distributed and exchange differences for the year. The table below shows the principal data relating to the last approved financial statements of the above-mentioned companies:

December 31, 2006 *(Euro/000)*	Assets	Liabilities	Equity	Sales	Net profit	% Group	Group shareholders' equity
Elegance Ltd	63,007	17,337	45,670	44,305	2,860	23.05%	10,526
Optifashion As	523	87	436	1,128	97	50.00%	218
TBR Inc.	5,253	2,435	2,818	1,152	439	33.33%	939
Total	**68,783**	**19,859**	**48,924**	**46,585**	**3,396**		**11,683**

December 31, 2007 *(Euro/000)*	Assets	Liabilities	Equity	Sales	Net profit	% Group	Group shareholders' equity
Elegance Ltd	59,214	14,829	44,385	53,546	5,736	23.05%	10,231
Optifashion As	910	413	497	1,092	38	50.00%	249
TBR Inc.	5,118	2,179	2,939	1,108	449	33.33%	980
Total	**65,242**	**17,421**	**47,821**	**55,746**	**6,223**		**11,459**

The associated company Elegance Ltd closes its financial period on March 31st, every year. In order to evaluate the shareholding with the shareholders' equity method, the quarterly balance sheet at December 31st, 2007 prepared for the Hong Kong stock exchange was used.

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

4.10 Financial assets available-for-sale

This item includes financial assets that may be sold. They are measured at fair value in accordance with the methods indicated in paragraph 2.9.

(Euro/000)	Relationship	Value at December 31, 2007	Value at December 31, 2006
Gruppo Banco Popolare	Other equity investment	1,954	3,238
Unicredit S.p.A.	Other equity investment	164	191
Others	Other equity investment	325	43
Total		**2,443**	**3,472**

The movements of the financial period of the item in question are reported below:

((Euro/000)	31.12.2006			Movements for the year		
	Gross value	Revaluation/ (write-down)	Net value	Increase/ (Decrease)	Revaluation/ (write-down)	Value at December 31, 2007
Gruppo Banco Popolare	10,198	(6,960)	3,238	-	(1,284)	1,954
Unicredit S.p.A.	48	143	191	-	(27)	164
Others	43	-	43	282	-	325
Total	**10,289**	**(6,817)**	**3,472**	**282**	**(1,311)**	**2,443**

The value referring to the Banca Popolare Italiana S.p.A. and Unicredit S.p.A., was determined with reference to the prices quoted on the official markets at the balance sheet date. Following the extraordinary operations involving the Banca Popolare Italiana and the Banco Popolare, shares of the Gruppo Banco Popolare have been allocated to the holding company Safilo S.p.A. in substitution of the shares of the Banca Popolare Italiana S.p.A.

4.11 Deferred tax assets and deferred tax liabilities

(Euro/000)	December 31, 2007	December 31, 2006
Deferred tax assets		
- recoverable within 1 year	34,133	27,998
- recoverable beyond 1 year	41,362	53,888
Total	**75,495**	**81,886**
Deferred tax liabilities		
- recoverable within 1 year	2,878	2,199
- recoverable beyond 1 year	8,202	10,883
Total	**11,080**	**13,082**
Total, net	**64,415**	**68,804**

Deferred tax assets

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

(Euro/000)	Balance at January 1, 2007	impact on income statemente	impact on equity	Reclass. to goodwill	Transl. diff.	Balance at December 31, 2007
- Fiscal losses	36,834	(4,152)	-	5,931	(68)	38,544
- ICO profit on inventories and obsolescence	18,747	(575)	-	-	(1,996)	16,176
- Adjustments on receivables	6,571	(1,231)	-	-	(381)	4,959
- Contingent liabilities	1,944	266	-	-	7	2,217
- Employee benefit liability	1,136	(147)	(3)	-	(15)	972
- Intangible assets	10,922	(3,239)	-	-	-	7,683
- Tangible assets	1,077	(757)	-	-	(37)	284
- Unrealised exchange differences	160	782	-	-	-	942
- Derivative instruments fair value	-		105	-	-	105
- Investment equity	344	(330)	-	-	(13)	-
- Goodwill amortisation	1,746	(379)	-	-	(65)	1,302
- Other payables	666	(54)	-	-	(93)	519
- Others	1,739	70	-	-	(19)	1,791
Total	**81,886**	**(9,745)**	**102**	**5,931**	**(2,679)**	**75,495**

Deferred tax assets have been calculated as there is a reasonable expectation that such amounts may be recovered through future assessable income. Group tax losses are the following:

Financial year	Expiring date	Tax losses (Euro/000)	Calculated deferred tax assets (Euro/000)
1998	2013	128	42
1999	2014	386	125
2000	2015	527	171
2001	2016	2,797	909
2002	2017	3,226	1,048
2003	2008	31,589	8,687
2003	2018	2,949	958
2004	2009	252	81
2005	2010	74,785	20,566
2005	2020	1,349	438
2006	2011	3,416	940
2006	2021	6,761	2,197
2007	2012	5,967	1,528
2007	2022	2,624	853
Total		**136,756**	**38,544**

Deferred tax liabilities

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

(Euro/000)	Balance at January 1, 2007 2007	Impact on income statement	Impact on equity	Transl. diff.	Balance at December 31, 2007
- Differences on tangible assets depreciation	5,529	(2,629)	-	17	2,917
- Goodwill	2,625	199	-	(3)	2,821
- Investments in equity	1,532	(318)	-	(139)	1,074
- Derivative instruments - Fair value	349	-	(357)	-	(8)
- Dividends	462	(108)	-	-	354
- Translation differences	1,388	980	-	-	2,368
- Employee benefit liability	-	806	348	-	1,154
- Other	1,197	(738)	-	(59)	400
Total	**13,082**	**(1,808)**	**(9)**	**(185)**	**11,080**

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

4.12 Other non-current assets

At December 31st, 2007 the other non-current assets amount to 8,628 thousand Euro against 1,974 thousand Euro during the previous period and refer to:

- 2,341 thousand Euro for deposits relating primarily to rental contracts for stores of the new Spanish subsidiary Navoptik;
- 3,475 thousand Euro for receivables towards agents for sales of samples;
- 2,668 thousand Euro for the receivables on the balance sheet of the subsidiary Safilo S.p.A. and relating to the shares of the severance pay transferred to the Treasury Fund set up by INPS (Italian Social Security Institute) following the modifications introduced by the Italian financial law no. 296/06;
- the remaining part for receivables present in the balance sheets of the companies of the Group.

It is considered that the book value of the other non-current assets is approximately equal to their fair value.

4.13 Borrowings

This item is composed as follows:

(Euro/000)	**December 31, 2007**	**December 31, 2006**
Short-term borrowings		
Bank overdrafts	2,395	6,631
Short-term bank loans	82,956	29,813
Short-term portion of long-term bank loans	34,516	22,523
Short-term portion of financial leasing	1,197	1,121
Debt to the factoring company	39,300	38,096
Other short-term loans	1,345	1,493
Total	**161,709**	**99,677**
Long-term borrowings		
Medium long-term loans	400,567	465,103
Debt for financial leasing	8,595	9,708
Other medium long-term loans	665	772
Total	**409,827**	**475,583**
Total borrowings and bank loans	**571,536**	**575,260**

The short term portion of the long-term bank loans corresponds to 30,882 thousand Euro of the "senior" loan stipulated at the end of June 2006 and for the difference of the reimbursable portion within 12 months of the bank loan obtained by the Spanish subsidiaries.

The long term portion of the above mentioned "senior" loan, equal to 211,836 thousand Euro, is included in the medium - long term loans. This loan is divided as follows:

- Euro 200 million, for "Facility A", with six monthly amortisation starting from December 2006 until December 2011. Facility A is in turn divided in three tranches, one in Euro (tranche A1, for nominal Euro 80 million) at Euribor rate plus a spread of 0.60%; and two in US dollars (Tranche A2 and Tranche A3, for nominal USD 70.4 million and USD 80.5 million respectively) at Libor rate plus an initial spread of 0.60% with expiry at 31st, December 2011. The spread applied is currently equal to 0.55%.

- Euro 200 million for the "Revolving Facility" formed of two tranches which can also be paid in US dollars (Tranche B1 for nominal Euro 170 million, Tranche B2 for nominal Euro 30 million) used at December 31st, 2007 for 90 million Euro. During 2007 the financing banks granted an extension of the expiry date of the Revolving line originally fixed at December 31st, 2011.

The contractual agreements relating to the aforementioned loan named "senior loan" granted to several companies of the Group by a pool of banks coordinated by Bayerische Hypo und Vereinsbank AG include a series of obligations that regard operational and financial aspects. In particular, predefined levels must be respected relating to certain covenants, which are calculated on the basis of figures at the balance sheet date on a half-year basis. If these covenants are not respected, conditions will be negotiated with the lenders to be able to continue with the loan agreement, or rather the opportune waivers or adjustment changes to the covenants. Otherwise, there is risk of an event of default which could result in the forced advanced repayment of the loaned sums.

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

In addition the outstanding portion of the High Yield bond with a nominal value of 195 million Euro is included in the medium and long term loan section.

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

The payables for financial leasing refer to tangible fixed assets purchased through leasing contracts by several companies of the Group. The average residual life of leasing contracts is approximately 7.5 years. All leasing contracts at the date of this report can be repaid via a fixed rate plan and no changes to the original plan are provided for by the contract.

The following table illustrates the short term and medium/long term portions relating to financial leasing contracts at December 31st, 2007 and December 31st, 2006:

(Euro/000)	December 31, 2007	December 31, 2006
Payables for financial leasing (ST portion)	1,197	1,121
Payables for financial leasing (LT portion)	8,595	9,708
Total payables for financial leasing	**9,792**	**10,829**

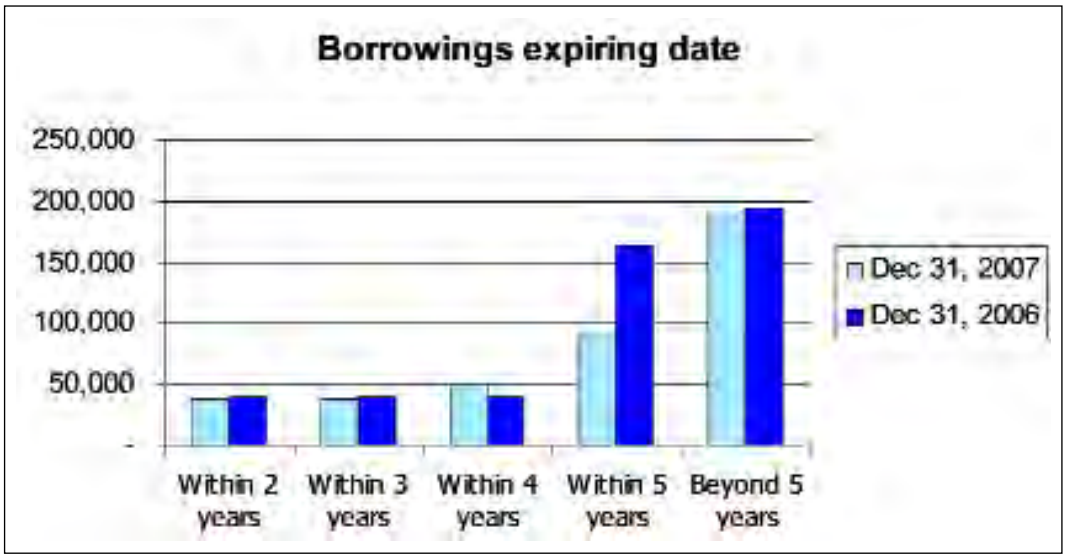
Several companies of the Group have stipulated operating leasing contracts. The relative instalments are recorded in the income statement under "Cost of sales" (note 5.2), "Selling and marketing expenses" (note 5.3) and "General and administrative costs" (note 5.4).

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

The short term debt towards factoring companies for 39,300 thousand Euro refers to a payable to a primary factoring company deriving from a contract stipulated by the subsidiary Safilo S.p.A.

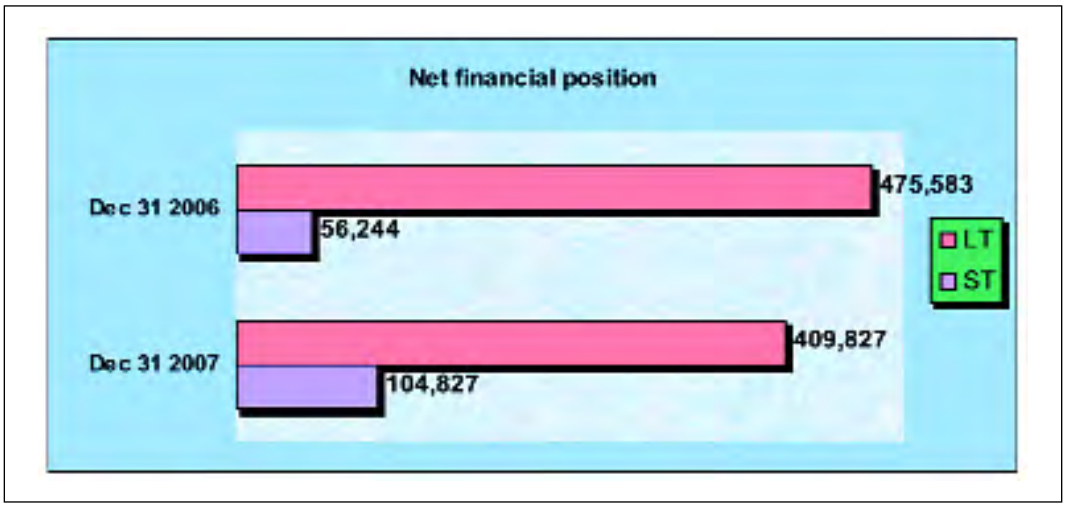
The expiry dates of medium and long term loans are the following:

(Euro/000)	December 31, 2007	December 31, 2006
Within 2 years	37,265	38,693
Within 3 years	37,423	39,656
Within 4 years	50,728	39,822
Within 5 years	91,237	163,739
Beyond 5 years	193,174	193,673
Total	**409,827**	**475,583**



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

Net financial position *(Euro/000)*	**December 31, 2007**	**December 31, 2006**	**Change**
Current portion of long-term borrowings	(34,516)	(22,523)	(11,993)
Bank overdrafts and short-t. bank borrowings	(85,351)	(36,444)	(48,907)
Other short-term borrowings	(41,842)	(40,710)	(1,132)
Cash and cash equivalents	56,882	43,433	13,449
Short-term net financial position	**(104,827)**	**(56,244)**	**(48,583)**
Long-term borrowings	(409,827)	(475,583)	65,756
Long-term net financial position	**(409,827)**	**(475,583)**	**65,756**
Net financial position	**(514,654)**	**(531,827)**	**17,173**



Legend:
LT= long term
ST= short term

The following table displays borrowings divided by currency:

(Euro/000)	December 31, 2007	December 31, 2006
Short-term		
Euro	141,380	84,857
US Dollars	15,129	11,160
Brasilian Real	2,744	2,265
Yen	1,213	-
Hong Kong Dollars	1,245	1,395
Total	**161,709**	**99,677**
Medium long-term		
Euro	343,588	383,359
US Dollars	66,239	90,950
Yen	-	1,274
Total	**409,827**	**475,583**
Total borrowings	**571,536**	**575,260**

4.14 Trade payables

This item is composed as follows:

(Euro/000)	December 31, 2007	December 31, 2006
Trade payables for:		
Purchase of raw materials	43,242	51,295
Purchase of finished goods	60,525	83,536
Suppliers from subcontractors	8,280	9,902
Purchase of tangible and intangible assets	3,683	3,912
Commissions	5,933	5,304
Royalties	20,318	20,220
Advertising and marketing costs	24,349	24,058
Services	28,384	30,575
Total	**194,714**	**228,802**

The reduction in trade payables for the purchase of raw materials and finished products is due to significant purchases during the last quarter of the previous financial year, with the aim of increasing the amount of stock and to support production, paid in the first 6 months of 2007. The book value of trade payables is considered to be approximately equal to their fair value.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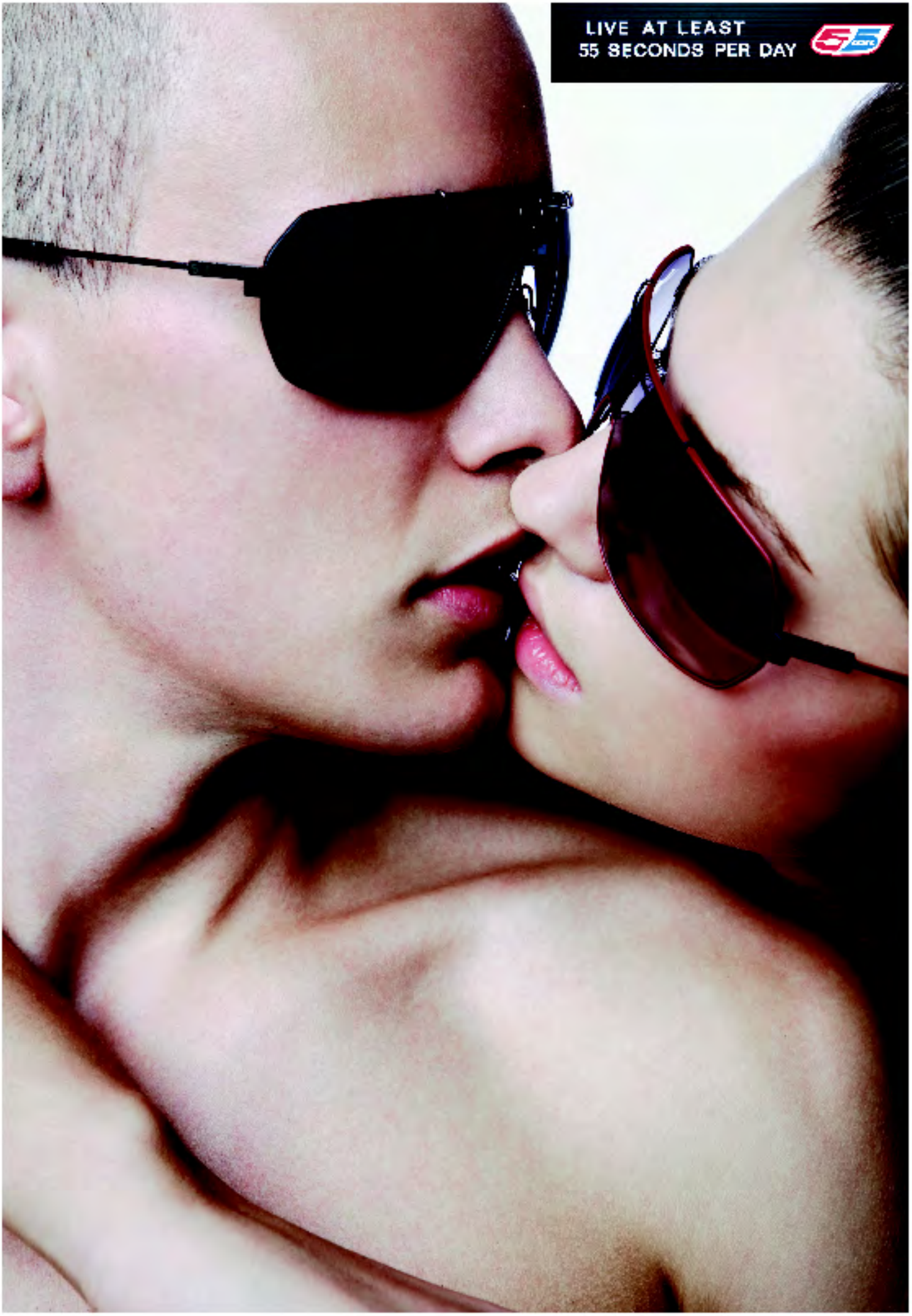
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4.15 Tax payables

Tax payables at December 31st, 2007 amount to 20,568 thousand Euro and refer for 11,467 thousand Euro to income taxes for the year and for 3,125 thousand Euro to VAT payables. The remaining portion refers to advanced and various tax payables and local taxes. The accrual for current income taxes is disclosed in the note relating to income taxes (5.10).

4.16 Other current liabilities

This item is composed as follows:

(Euro/000)	**December 31, 2007**	**December 31, 2006**
Payables to personnel and social security institutions	30,158	32,064
Premiums to clients	27,231	20,541
Agent fee payables	1,792	2,202
Payables to pension funds	881	-
Accrued advertising and sponsorship costs	484	520
Accrued interests on long-term loans	3,283	7,302
Other accruals and deferred income	3,519	3,314
Due to minority shareholders for dividends	3,726	3,553
Other current liabilities	2,651	3,337
Total	**73,725**	**72,833**

Payables to personnel and social security institutions principally refer to salaries and wages for December 2007 and for holidays matured and not taken as of December 31st, 2007.
Payables to minority shareholders refer to dividends that have already been deliberated by the shareholders' meetings but still need to be paid as of the balance sheet date.

It is considered that the book value of the "other current liabilities" is approximately equal to their fair value.

4.17 Provision for risks and charges

This item is composed 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
Provisions for risks - long term	**8,644**	**2,667**	**(899)**	**117**	**(51)**	**10,478**
Provisions for risks - short term	**128**	**675**	**-**	**25**	**-**	**828**
Total	**8,772**	**3,342**	**(899)**	**142**	**(51)**	**11,306**

(Euro/000)	Balance at January 1, 2007	Increase	Decrease	Reclass.a	Transl. diff.	Balance at December 31, 2007
Product warranty provision	3,801	949	(287)	-	-	4,463
Agents' severance indemnity	3,689	165	(55)	-	-	3,799
Litigation	1,188	82	(269)	-	-	1,001
Other provisions for risks and charges	1,800	128	(376)	2,026	(52)	3,526
Provisions for risks - long term	**10,478**	**1,324**	**(987)**	**2,026**	**(52)**	**12,789**
Provisions for risks - short term	**828**	**-**	**(99)**	**74**	**-**	**803**
Total	**11,306**	**1,324**	**(1,086)**	**2,100**	**(52)**	**13,592**

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

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

4.18 Employee benefit liability

During the financial periods in question, the item 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	39,424	7,429	(3,012)	(2,801)	(88)	40,952
Total	**39,424**	**7,429**	**(3,012)**	**(2,801)**	**(88)**	**40,952**

(Euro/000)	Balance at January 1, 2007	Posted to income statement	Actuarial differences	Use/ Payments	Transl. diff.	Balance at December 31, 2007
Defined contribution plan	-	5,081	-	(1,984)	-	3,097
Defined benefit plan	40,952	3,766	(6,299)	(3,620)	(56)	34,743
Total	**40,952**	**8,847**	**(6,299)**	**(5,604)**	**(56)**	**37,840**

This item refers to different forms of defined benefit and defined contribution pension plans, in line with the local conditions and practices in the countries in which the Group carries out its activities.
The employee severance fund of Italian companies ("TFR") has always been considered to be a defined benefit plan. However, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of December 27th, 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in 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 matured from January 1st, 2007, whether transferred to selected pension funds or transferred to the treasury account set-up with INPS, represents a "defined contribution plan";

- with reference to the amounts of employee benefit liability matured as of December 31st, 2006, the employee benefit liability represents a "defined benefit plan" requiring actuarial valuations that exclude future increases in salaries.

Consequently, the Group has treated the difference resulting from the new actuarial calculation compared to the previous evaluation as a "curtailment" in accordance with the provisions of paragraph 109 of IAS no. 19 and consequently has accounted for this difference in reduction of personnel costs recorded in the 2007 income statement for 5,062 thousand Euro. Actuarial losses that at December 31st, 2006 were attributed to a specific reserve of the shareholders' equity were reclassified in reduction of the retained earnings.

Actuarial estimates used for calculating the employee severance fund matured up to December 31st, 2006 are based on a system of probable factors based on:

a) demographic parameters;

b) economic parameters;

c) financial parameters.

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

Economic parameters principally refer to long-term inflation rates, dynamic remuneration of the collective employment agreements and financial yield rate, crucial for the revaluation of amounts accrued in the employee severance fund.

The main financial parameter is given by the discount rate. In order to calculate the discount rate, the structure of zero coupon bonds deducted from the swap rates at December 31st, 2007 was used.

The amounts recorded in the financial statements relating to the financial years 2007 and 2006 can be divided as follows:

(Euro/000)	**2007**	**2006**
Service cost	7,534	6,319
Interest cost	1,313	1,110
Actuarial gain/(loss)	(6,299)	(3,012)
Total	**2,548**	**4,417**

4.19 Other non-current liabilities

The other non-current liabilities at December 31st 2007 amount to 7,642 thousand Euro and include:

- 2,812 thousand Euro for the medium and long term portion of payables to licensors deriving from contracts for the production and marketing of branded products;
- 1,062 thousand Euro for the actual value of the debt deriving from the agreement reached by an American subsidiary for the settlement of a dispute that arose in relation to the use of a patent;
- 3,127 thousand Euro relating to the fair value of the put option on the shares of Safilo Hellas belonging to the minority shareholders;
- the remaining part in non-current liabilities recorded in the balance sheet of the companies of the Group.

4.20 Share capital

Parent company Safilo Group S.p.A.'s capital stock as of December 31st, 2007 amounted to Euro 71,348,532 and consisted of 285,394,128 ordinary shares having a nominal value of Euro 0.25 per share. As reported in the table below, on June 26th, 2007 the share capital increased by Euro 505,319 further to the exercise by part of the Group's employees of the stock option rights in their possession.

	No. share	Total shares	Nominal value (in Euro)	Capital value
Share capital as of Dec. 31, 2006	**283,372,852**	**283,372,852**	**0.25**	**70,843,213**
Share capital increase further to SOP exercise	2,021,276	2,021,276	0.25	505,319
Share capital as of Dec. 31, 2007	**285,394,128**	**285,394,128**	**0.25**	**71,348,532**

4.21 Share premium reserve

The share premium reserve amounts to Euro 747,471 thousand compared to Euro 751,276 thousand as of December 31st, 2006 and consists of:

- the higher value attributed on the conferment of shares by the subsidiary Safilo S.p.A. compared to the nominal value of the corresponding increase in share capital;
- the higher price paid compared to the nominal value of the shares, at the moment of placing the shares on the Italian Stock Market, less the quotation charges incurred;
- the higher amount deriving from the conversion of the convertible bonds;
- the higher value coming from stock options exercised.

During 2007, the above reserve underwent the following changes:

- a decrease by Euro 9,544 thousand, as a result of its partial use in order to cover the losses carried forward, as resolved on May 14th, 2007 by the shareholders' Meeting approving December 31st, 2006 financial statements;
- an increase by Euro 5,739 thousand, due to the exercise of the stock option plans.

4.22 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 area and the translation differences deriving from the translation into Euro of the financial statements of consolidated companies denominated in currencies other than Euro.

(Euro/000)	Balance at January 1, 2006	Previous year's profit allocation	Impact on equity	Impact on income statement	Dividends distribution	Change in consolidation scope	Balance at December 31, 2006
Translation differences - Group	5,208	-	(27,934)	-	-	-	(22,726)
Translation differences - Minority interest	102	-	(104)	-	-	-	(2)
Total	**5,310**	**-**	**(28,038)**	**-**	**-**	**-**	**(22,728)**
Other reserves - Group	(4,850)	3,097	1,501	-	-	294	42
Other reserves - Minority interest	2,215	3,220	(33)	-	(3,063)	(294)	2,045
Total	**(2,635)**	**6,317**	**1,467**	**-**	**(3,063)**	**-**	**2,087**
Total Group	(358)	3,097	(26,433)	-	-	294	(22,684)
Total minority interest	2,317	3,220	(138)	-	(3,063)	(294)	2,043
Total	**2,675**	**6,317**	**(26,571)**	**-**	**(3,063)**	**-**	**(20,641)**

(Euro/000)	Balance at January 1, 2007	Previous year's profit allocation	Impact on equity	Recl. from share premium reserve	Dividends distribution	Change in consolidation scope	Balance at December 31, 2007
Translation differences - Group	(22,726)	-	(53,079)	-	-	-	(75,805)
Translation differences - Minority interest	(2)	-	(145)	-	-	-	(147)
Total	**(22,728)**	**-**	**(53,224)**	**-**	**-**	**-**	**(75,952)**
Other reserves - Group	42	37,467	879	9,544	(5,667)	-	42,265
Other reserves - Minority interest	2,045	3,346	(16)	-	(2,253)	(1,580)	1,542
Total	**2,087**	**40,813**	**863**	**9,544**	**(7,920)**	**(1,580)**	**43,807**
Total Group	(22,684)	37,467	(52,200)	9,544	(5,667)	-	(33,540)
Total minority interest	2,043	3,346	(161)	-	(2,253)	(1,580)	1,395
Total	**(20,641)**	**40,813**	**(52,361)**	**9,544**	**(7,920)**	**(1,580)**	**(32,145)**

4.23 Fair value and cash flow reserves

This item is composed 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
Total	**(3,899)**	**3,549**	**2,209**	**1,859**

(Euro/000)	Balance at January 1, 2007	Impact on equity	Impact on income statement	Balance at December 31, 2007
Cash flow reserve	1,221	151	(979)	393
Fair value reserve	638	(1,311)	-	(673)
Total	**1,859**	**(1,160)**	**(979)**	**(280)**

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

During 2007, the Group deducted an amount of financial income, with a net worth of 979 thousand Euro, from the cash flow reserve that was recorded instead in the income statement.

4.24 Stock option plans

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

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

Further to the mandate granted by the Extraordinary shareholders' Meeting on October 24th, 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31st, 2006 to a maximum nominal figure of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares of a value of Euro 0.25 each, with a share premium of Euro 4.16. These shares had been and will be available for subscription by the beneficiaries listed in the new "Stock Option Plan of Safilo Group S.p.A. 2006-2010" that was approved by the above Board (in short "2006 Plan"). This plan is valid for 4 financial periods (2006 - 2010) and, like the previous ones, is addressed to certain directors, executives and consultants of Safilo Group and provides accruing option rights equal to 1/4 for each financial period in the Plan. The accrual criteria for the options is based on reaching certain conventional EBITDA consolidated levels in the balance sheet of Safilo Group S.p.A., that have been fixed by the Board of Directors.

It should be noted that the options relating to the Stock Option Plan 2003-2007 and 2004-2008 give the beneficiary the right to subscribe 4 shares at the average price of the financial period.

While, the Stock Option Plan 2006-2010 states that each option gives the right to subscribe a share at the average price of the financial period.

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 for the remaining part, when the options are exercised.

With reference to the first stock option plan ("2003 Plan"), the Group has decided to apply the exemption for share-based payments. In substance, IFRS 2 is applied from January 1st, 2004 for all the options issued after November 7th, 2002 but not matured ("vested") before January 1st, 2005. The application of this exemption results in the recording of only the third tranche of the 2003-2007 Stock Option Plan as a cost in the income statement of the Group.

In December 2005 the holders of the options relative to the "2003 Plan" and "2004 Plan", in consideration of the listing of Safilo Group S.p.A. on the Italian Stock Market, exercised 50% of the rights in their possession.

In June 2007 the beneficiaries of the "2003 Plan" and several beneficiaries of the "2004 Plan" exercised 227,350 and 277,969 rights in their possession respectively. This led to the issue of 909,400 and 1,111,876 shares respectively on June 26th, 2007 for a total income for the holding company Safilo Group S.p.A. of a nominal value of 505,319 Euro and a share premium of 5,738,003 Euro.

As a result of the above exercise, the "2003 Plan" reached full completion and extinction whilst beneficiaries of the "2004 Plan" may exercise the remaining rights in their possession until September 20th, 2008.

The total costs accounted for in 2007 and 2006 income statement can be summarised as follows:

(Euro/000)	**2007**	**2006**
2004 Plan	-	389
2006 Plan	557	138
Total	**557**	**527**

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

	2007			2006		
SOP 2003-2007	**Strike**	**no. shares**	**no. rights**	**Strike**	**no. shares**	**no. rights**
At January 1,	2.5325	909,400	227,350	2.5325	909,400	227,350
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	2.5325	(909,400)	(227,350)	-	-	-
At December 31,	-	-	-	2.5325	909,400	227,350
- Tot. exercisable	-	-	-	*2.5325*	*909,400*	*227,350*
- Max res. life (years)			-			*0.5*

	2007			2006		
SOP 2004-2008	**Strike**	**no. shares**	**no. rights**	**Strike**	**no. shares**	**no. rights**
At January 1,	3.5438	3,037,832	759,458	3.5438	3,037,832	759,458
Issued	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	3.5438	(1,111,876)	(277,969)	-	-	-
At December 31,	3.5438	1,925,956	481,489	3.5438	3,037,832	759,458
- Tot. exercisable	*3.5438*	*1,925,956*	*481,489*	*3.5438*	*3,037,832*	*759,458*
- Max res. life (years)			*0.7*			*1.7*

	2007			2006		
SOP 2006-2010	**Strike**	**no. shares**	**no. rights**	**Strike**	**no. shares**	**no. rights**
At January 1,	4.4100	3,514,803	3,514,803	-	-	-
Issued	-	-	-	4.4100	8,501,185	8,501,185
Granted	-	*59,735*	*59,735*	4.4100	3,548,817	3,548,817
Cancelled	-	-	-	-	-	-
Forfeited	-	(1,022,429)	(1,022,429)	4..4100	(34,014)	(34,014)
Exercised	-	-	-	-	-	-
At December 31,	4.4100	2,552,109	2,552,109	4.4100	3,514,803	3,514,803
- Tot. exercisable	-	-	-	-	-	-
- Max res. life (years)			*3.0*			*4.0*

	2007			2006		
TOTAL	**Strike**	**no. shares**	**no. rights**	**Strike**	**no. shares**	**no. rights**
At January 1,	4.1690	7,462,035	4,501,611	3.3108	3,947,232	986,808
Issued		-	-	4.4100	8,501,185	8,501,185
Granted	4.4100	*59,735*	*59,735*	4.4100	3,548,817	3,548,817
Cancelled	-	-	-	-	-	-
Forfeited	4.4100	(1,022,429)	(1,022,429)	4.4100	(34,014)	(34,014)
Exercised	3.0888	(2,021,276)	(505,319)	-	-	-
At December 31,	4.2725	4,478,065	3,033,598	4.1690	7,462,035	4,501,611
- Tot. exercisable	*3.5438*	*1,925,956*	*481,489*	*3.3108*	*3,947,232*	*986,808*
- Strike range (min)	*3.5438*			*2.5325*		
- Strike range (max)	*4.4100*			*4.4100*		
- Max avg. res. life (years)			*2.6*			*3.4*

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5. Notes to the consolidated statement of operations

5.1 Net sales

Group sales during 2007 totalled 1,190,424 thousand Euro and report an increase of 6.1% compared to the amount of 1,121,983 thousand Euro recorded during the previous financial year. The fluctuation in the average Euro/US dollar exchange rate during 2007 compared to 2006 had a negative impact on the sales of the period; the increase at constant exchange rates would have been 10.2%.

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

5.2 Cost of sales

This item is composed as follows:

(Euro/000)	**2007**	**2006**
Purchase of raw materials and finished goods	358,956	368,522
Capitalisation of costs for increase in property, plant and equipment (-)	(11,343)	(10,002)
Change in inventories	(12,329)	(68,411)
Payroll and social security contributions	102,872	100,500
Subcontracting costs	25,225	37,313
Depreciation	19,473	20,126
Rental and operating leases	971	789
Other industrial costs	8,768	9,676
Total	**492,593**	**458,513**

The reduction of the purchase of raw materials and finished products is partly due to the effect of the exchange rate, as the majority of the finished products are bought in US dollars, and partly due to the different dynamics of the inventories. In fact, it is clear in the line relating to the variation of inventories that, while in 2006 the company policy was to substantially increase the amount of stock in order to provide better customer service, in 2007 the amount of stock has been kept relatively stable apart from the stock used to support the development of the retail segment.
The changes in inventories consist of the following:

(Euro/000)	**2007**	**2006**
Finished products	(13,680)	(61,170)
Work-in-progress	402	(119)
Raw materials	949	(7,122)
Total	**(12,329)**	**(68,411)**

The cost of salaries and contributions relating to production staff increased by 2.4% compared to the previous year mainly due to market trends in labour costs.

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

	2007	2006
Executives	91	77
Clerks and middle management	2,964	2,265
Factory workers	4,894	4,461
Total	**7,949**	**6,803**

Subcontracting costs have undergone a significant decrease compared to the same period in 2006 due to the internalisation of several processing activities within production sites of the Group that had previously been processed externally.

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

5.3 Marketing and sales expenses

This item is composed as follows:

(Euro/000)	2007	2006
Payroll and social security contributions	102,795	90,830
Commissions to sales agents	77,671	79,080
Royalty expenses	97,710	98,517
Advertising and promotional costs	96,592	88,818
Amortization and depreciation	4,511	3,227
Logistic costs	19,468	18,009
Consultants fees	4,708	3,731
Rental and operating leases	12,119	7,614
Utilities	1,515	1,276
Provision for risks	809	1,941
Other sales and marketing expenses	21,714	22,215
Total	**439,612**	**415,258**

The increase in salaries is mainly due to the development of the American retail chain and to the consolidation of employees of the Spanish chain acquired at the end of 2006.
In comparison with the previous financial year, advertising costs increased due to the expenses related to the launch of new licensed brands and to a renewed focus on owned brands.

5.4 Administrative and general expenses

This item is composed as follows:

(Euro/000)	2007	2006
Payroll and social security contributions	54,175	54,465
Allowance for doubtful accounts	2,913	4,356
Amortization and depreciation	14,060	13,485
Consultants fees	11,813	11,148
Rental and operating leases	7,103	6,811
EDP costs	3,877	3,743
Insurance costs	2,336	2,497
Utilities, security and cleaning	6,609	6,172
Taxes (other than on income)	2,732	2,136
Other general and administrative expenses	16,742	13,292
Total	**122,360**	**118,105**

Payroll costs are mostly stable compared to 2006, as the normal trends in labour costs and the slight increase in the number of employees has been compensated by the devaluation of the US dollar, with the result that the structures present in the US branch are less of a burden. Other administrative and general expenses have increase greatly as they include the costs related to an out-of-court agreement with a competitor, in order to settle a legal dispute, for a total of approximately 2 million Euro.

5.4.1 Remuneration (including all possible and deferred remuneration) and benefits in kind received by Directors, Statutory Auditors and managers with strategic responsibilities (Consob resolution no. 15520)

The amount of remuneration paid to Directors, members of the Board of Statutory Auditors and managers with strategic responsibilities for the financial year closed on December 31st, 2007 in office at the date of the approval of the financial statements, for the execution of their roles and responsibilities, and also on behalf of the subsidiary companies, is as follows:

Name and surname	Office	Period covered	Expiring	Compensation related to the company drawing up the financial statements (Euro/000)	Other (Euro/000)
Directors					
Vittorio Tabacchi	Chairman	2007	Approval of 2007 financial statements	10	2,575
Giannino Lorenzon	Vice Chairman	2007	Approval of 2007 financial statements	10	1,190
Claudio Gottardi	Chief Exec. Officer	2007	Approval of 2007 financial statements	10	1,853
Massimiliano Tabacchi	Co-Chief Exec. Officer	2007	Approval of 2007 financial statements	10	796
Ennio Doris	Director	2007	Approval of 2007 financial statements	10	40
Carlo Gilardi	Director	2007	Approval of 2007 financial statements	35	40
Riccardo Ruggiero	Director	2007	Approval of 2007 financial statements	10	40
Board of Statutory auditors					
Franco Corgnati	Chairman	2007	Approval of 2007 financial statements	29	35
Nicola Gianese	Regular auditor	2007	Approval of 2007 financial statements	18	-
Paolo Mazzi	Regular auditor	2007	Approval of 2007 financial statements	18	24
Managers with strategic responsibilities				-	1,190

5.4.2 Stock option attributed to Directors, Statutory Auditors and managers with strategic responsibilities (Consob resolution no. 15520)

Name and surname	Office	Options at the beginning of the financial year			Options granted during the year		
		No. of options	Average strike price	Average expiring date	No. of options	Average strike price	Average expiring date
Directors							
Vittorio Tabacchi	Chairman	-	-	-	-	-	-
Giannino Lorenzon	Vice Chairman	134,909	2.8147	0.82	-	-	-
Claudio Gottardi	Chief Exec. Officer	1,158,036	4.3274	3.78	-	-	-
Massimiliano Tabacchi	Co-Chief Exec. Officer	325,136	4.3593	3.87	-	-	-
Ennio Doris	Director	-	-	-	-	-	-
Carlo Gilardi	Director	-	-	-	-	-	-
Riccardo Ruggiero	Director	-	-	-	-	-	-
Board of Statutory auditors							
Franco Corgnati	Chairman	-	-	-	-	-	-
Nicola Gianese	Regular auditor	-	-	-	-	-	-
Paolo Mazzi	Regular auditor	-	-	-	-	-	-
Managers with strategic responsibilities							
Aggregated amount		321,198	4.2073	3.51	-	-	-

Name and surname	Office	Options exercised during the year			Options expired during the year	Options at the end of the financial year		
		No. of options	Average strike price	Average expiring date	No. of options	No. of options	Average strike price	Average expiring date
Directors								
Vittorio Tabacchi	Chairman	-	-	-	-	-	-	-
Giannino Lorenzon	Vice Chairman	97,259	2.8147	-	-	37,650	3.5438	0.72
Claudio Gottardi	Chief Exec. Officer	110,422	3.5438	-	288,093	759,521	4.4100	3.00
Massimiliano Tabacchi	Co-Chief Exec. Officer	-	-	-	84,183	240,953	4.3416	2.82
Ennio Doris	Director	-	-	-	-	-	-	-
Carlo Gilardi	Director	-	-	-	-	-	-	-
Riccardo Ruggiero	Director	-	-	-	-	-	-	-
Board of Statutory auditors								
Franco Corgnati	Chairman	-	-	-	-	-	-	-
Nicola Gianese	Regular auditor	-	-	-	-	-	-	-
Paolo Mazzi	Regular auditor	-	-	-	-	-	-	-
Managers with strategic responsibilities								
Aggregated amount		10,670	2.5325	-	71,087	239,441	4.2218	2.51


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5.5 Other income and expenses, net

This item is composed as follows:

(Euro/000)	2007	2006
Losses on disposal of assets	(519)	(306)
Other operating expenses	(1,159)	(1,091)
Gains on disposal of assets	223	368
Other operating incomes	2,807	2,496
Total	**1,352**	**1,467**

Other operating expenses refer mainly to negative financial elements not directly related to ordinary activity carried out during the year, while other operating revenues mainly include insurance reimbursements.

5.6 Non-recurring operating costs

During 2007, the Group did not incur any non-recurring operating costs; in the previous financial period, this item concerned the payments related to the resignation of the CEO.

5.7 Share of income (losses) of associated companies

This item amounts to 1,772 thousand Euro and consists of the profits and losses deriving from the equity valuation of the holdings in associated companies (note 4.9).

5.8 Financial charges, net

This item is composed as follows:

(Euro/000)	2007	2006
Interest expense on loans	21,881	22,044
Interest expense and charges on High Yield	19,613	18,651
Bank commissions	3,678	3,884
Negative exchange rate differences	12,523	10,268
Financial discounts	2,968	5,312
Losses on financial assets disposal	-	138
Other financial charges	2,526	2,081
Total financial charges	**63,189**	**62,378**
Interest income	1,435	1,276
Positive exchange rate differences	13,833	13,111
Gains on financial assets disposal	3	282
Dividends	657	6
Other financial income	1,852	647
Total financial income	**17,780**	**15,322**
Total financial charges, net	**45,409**	**47,056**

Compared to the previous financial period, the net financial charges are mostly stable, as there has been no significant variation in the level of indebtedness of the Group.

5.9 Non recurring financial charges

(Euro/000)	**2007**	**2006**
Accelerated amortization of fees on borrowings	-	7,749
Fair value of non-hedging IRS	-	1,210
Total non-recurring financial charges	**-**	**8,959**

The payment of the senior loan concluded on June 26th, 2006 involved, pursuant to the IFRS provisions, the recording in the income statement of the 2006 financial period of non-recurring financial charges for a total amount of 7,749 thousand Euro. Furthermore, some derivative contracts to hedge the cash flows for interest charges on the Senior Loan were not reallocated by the Group to hedge the flows deriving from the new loan, with their fair value recorded in the income statement of the 2006 financial period under "non recurring financial charges" for a total amount of 1,210 thousand Euro.

5.10 Income tax expenses

(Euro/000)	**2007**	**2006**
Current taxes	(31,094)	(32,960)
Deferred taxes	(7,937)	2,701
Total	**(39,031)**	**(30,259)**

Tax expenses for the period can be reconciled with the theoretical tax rates as follows:

(Euro/000)	**%**	**2007**	**%**	**2006**
Profit before taxation	**100%**	**93,574**	**100,0%**	**71,072**
Theoretical taxes	33.0%	30,879	33.0%	23,454
IRAP and other taxes	6.5%	6,042	10.6%	7,544
Effect of foreign tax rates	-6.5%	(6,087)	-4.0%	(2,820)
Non taxable income	-0.6%	(541)	-0.5%	(355)
Non deductible costs	1.5%	1,381	2.1%	1,528
Advance taxes not earmarked	0.3%	317	0.6%	420
Use of tax losses carried forward	-0.2%	(217)	0.0%	(18)
Effect of change in tax rate on italian companies	7.8%	7,257	0.0%	-
Other permanent differences	0.0%	-	0.7%	506
Effective tax charge	**41.7%**	**39,031**	**42.6%**	**30,259**

Theoretical income taxes are calculated using a 33% rate on the estimated taxable income. The above percentage represents the tax rate (IRES) to which the income of the Italian holding company is subject to for the 2007 financial year.

5.11 Earnings per share

(Euro)	2007	2006
Basic earnings per share	0.18	0.13
Diluted earnings per share	0.18	0.13

The calculation of basic and diluted earnings per share is presented in the tables below:

(Euro)	2007	2006
Profit for ordinary shares (in Euro/000)	51,018	37,467
Average number of ordinary shares (in thousands)	284,417	283,373
Basic earnings per share	**0.18**	**0.13**

(Euro/000)	2007	2006
Profit for ordinary shares	51,018	37,467
Profit for preferred shares	-	-
Profit in income statement	**51,018**	**37,467**
Average number of ordinary shares (in thousands)	284,417	283,373
Dilution effects:		
- stock options (in thousands)	194	744
Total	**284,611**	**284,117**
Diluted earnings per share	**0.18**	**0.13**

5.12 Dividends

In May 2007, the holding company Safilo Group S.p.A. paid to the shareholders the dividends resolved by the shareholders' meeting that approved the financial statements as of December 31st, 2006 for a total amount of Euro 5,667 thousand, equal to Euro 0.02 per share.

5.13 Segment information

The following information is provided with reference to the geographic areas in which the Group operates. The geographic areas were identified as the primary segments of activity. The criteria applied for the identification of these segments of activity were inspired, among others, by the manner in which management runs the Group and attributes managerial responsibility. In particular, such criteria are based on the grouping of geographical areas which are defined by the location of the registered office

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

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

December 31, 2007 (Euro/000)	Italiy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-to other segments	337,141	54,503	2,426	444	-	(394,514)	-
-to third parties	278,229	353,755	416,908	141,532	-		1,190,424
Total net sales	**615,370**	**408,258**	**419,334**	**141,976**	**-**	**(394,514)**	**1,190,424**
Gross profit	**237,014**	**172,753**	**211,065**	**73,201**	**-**	**3,797**	**697,831**
Operating profit	**48,625**	**37,839**	**30,018**	**23,219**	**(21)**	**(2,470)**	**137,211**
Interest expense							(63,189)
Interest income							17,780
Share of income of associates	-	(1)	149	1,585	39		1,772
Income taxes							(39,031)
Net profit							**54,543**
Gross profit margin	*39%*	*42%*	*50%*	*52%*			*59%*
Operating profit margin	*8%*	*9%*	*7%*	*16%*			*12%*
Other information							
Segment assets	487,453	461,201	446,254	323,730	11,160		1,729,797
Investment in associates	-	-	980	11,058	241		12,279
Unallocated corporate assets							29,918
Consolidated total assets							**1,771,994**
Segment liabilities	203,693	51,687	43,912	13,450	3,490		316,232
Unallocated corporate liabilities							614,824
Consolidated total liabilities							**931,056**
Capital expenditure	17,110	8,486	15,906	3,386	120		45,009
Depreciation & amortization	24,036	6,721	6,179	1,051	59		38,044
Non-cash expenses other than depreciation	1,479	1,488	852	3,011	-		6,830

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

December 31, 2006 (Euro/000)	Italiy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
Net sales							
-to other segments	342,674	48,238	1,925	45	420	(393,301)	-
-to third parties	268,625	312,462	411,721	129,175	-		1,121,983
Total net sales	**611,299**	**360,700**	**413,646**	**129,220**	**420**	**(393,301)**	**1,121,983**
Gross profit	**245,065**	**144,541**	**214,131**	**61,932**	**-**	**(2,199)**	**663,470**
Operating profit	**44,237**	**26,799**	**37,196**	**18,899**	**(255)**	**(1,301)**	**125,574**
Interest expense							(71,199)
Interest income							15,184
Share of income of associates	-	(1)	146	1,046	322		1,513
Income taxes							(30,259)
Net profit							**40,813**
Gross profit margin	*40%*	*40%*	*52%*	*48%*			*59%*
Operating profit margin	*7%*	*7%*	*9%*	*15%*			*11%*
Other information							
Segment assets	494,278	452,776	456,406	333,339	11,015		1,747,813
Investment in associates	-	-	939	11,393	202		12,535
Unallocated corporate assets							53,260
Consolidated total assets							**1,813,608**
Segment liabilities	233,628	45,057	49,891	16,750	2,112		347,436
Unallocated corporate liabilities							622,022
Consolidated total liabilities							**969,458**
Capital expenditure	20,385	6,633	14,372	1,369	27		42,786
Depreciation & amortization	25,561	5,526	4,664	1,068	21		36,838
Non-cash expenses other than depreciation	8,835	5,681	1,723	834	-		17,073

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

MARC JACOBS
EYEWEAR

MARC BY MARC JACOBS
SUNGLASSES

6. Transactions with related parties

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

Related parties transactions (Euro/000)	Relationship	December 31, 2007	December 31, 2006
Receivables			
Optifashion As	(a)	-	4
Elegance International Holdings Ltd	(b)	603	-
Total		**603**	**4**
Payables			
Elegance International Holdings Ltd	(b)	8,881	10,360
Total		**8,881**	**10,360**

Related parties transactions (Euro/000)	Relationship	2007	2006
Revenues			
Elegance International Holdings Ltd	(b)	69	611
Optifashion As	(a)	155	221
Total		**223**	**832**
Costs			
Elegance International Holdings Ltd	(b)	24,459	27,192
TBR Inc.	(b)	1,108	1,152
Total		**25,567**	**28,344**

(a) Non consolidated subsidiary
(b) Associated company

The transactions with related parties, including infra-group transactions, relate to commercial relationships on the basis of prices defined at normal market conditions, similar to transactions with third parties.

Optifashion As is a production and commercial company based in Istanbul, Turkey, that is 50% owned by the Safilo Group.

Safilo Far East Limited, a subsidiary of Safilo Group S.p.A., holds 23.05% of Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange. Elegance is a producer of eyewear products in Asia, to which the Group assigns part of its production. The price and other conditions of the production contract between Safilo Far East Limited and Elegance are in line with those applied by Elegance to the other clients. Massimiliano Tabacchi, director of Safilo Group S.p.A., and Mario Pietribiasi, executive of the Group, are non-executive directors of Elegance. In addition, Mario Pietribiasi is a shareholder of the company with a holding of less than 0.5%.

Safilo USA Inc. rents its headquarters and distribution centre in the USA (New Jersey), based on a rental contract with TBR Inc., a company one third owned by Vittorio Tabacchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., one third by a subsidiary of the Safilo Group S.p.A. and one third by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for 629 thousand Euro. In 2007 the Group paid 1,108 thousand Euro to TBR Inc. in rental fees. The terms

and conditions of the rental contract, including the rental fee, are in line with market conditions for similar contracts.

7. Contingent liabilities

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

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

The most significant claims in monetary terms include the following: (i) a June 2005 claim against Safilo S.p.A. for the payment of legal fees allegedly owed to a law firm for legal and fiscal services provided to various companies of the Group from 1999 to 2001 in relation 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 the products sold.

8. Commitments

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

9. Significant events after December 31st, 2007

In the period subsequent to December 31st, 2007, no events occurred that could be considered to significantly affect the data contained in this report.
As reported in paragraph "Significant events after year-end and outlook" of the Directors' report on operations, on February 5th, 2008 the Group further strengthened its position by taking over the retail chains, Sunglass Island in Mexico and Just Spectacles in Australia, according to a long-term strategic plan aimed at strengthening the current position in the global eyewear market.

10. Significant non-recurring events

During 2007, the Group did not put in place any significant non-recurring events, as defined by Consob Communication issued July 28th, 2006.

11. Transactions resulting from unusual and/or abnormal operations

Pursuant to Consob Communication issued July 28th, 2006, we underline that, during 2007, the Group did not put in place any unusual and/or atypical operations, as defined in the communication itself.

APPENDIX

Information requested by art. 149-duodecies of the "Regolamento emittenti" issued by Consob

The following table, prepared in accordance with Art. 149-duodecies of the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2007 relating to the audit and other audit related services rendered by the same Audit company.

(Euro/000)	Service provider	Entity	2007 fees
Audit	PriceWaterhouseCoopers S.p.A.	Holding company - Safilo Group S.p.A.	48
	PriceWaterhouseCoopers S.p.A.	Subsidiaries	135
	PriceWaterhouseCoopers network	Subsidiaries	828
Attestation	PriceWaterhouseCoopers S.p.A.	Holding company - Safilo Group S.p.A.	-
	PriceWaterhouseCoopers S.p.A.	Subsidiaries	44
	PriceWaterhouseCoopers network	Subsidiaries	-
Other services	PriceWaterhouseCoopers S.p.A.	Holding company - Safilo Group S.p.A.	120
	PriceWaterhouseCoopers S.p.A.	Subsidiaries	-
	PriceWaterhouseCoopers network	Subsidiaries	378
Total			**1,553**

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of may 14th, 1999, as amended

The undersigned, Claudio Gottardi and Massimiliano Tabacchi, as Chief Executive Officers, and the undersigned Francesco Tagliapietra, as the manager responsible for preparing SAFILO GROUP S.p.A.'s financial reports, hereby certify, having also taken into consideration the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of February 24th, 1998:

- - the adequacy with respect to the company structure and
- - the effective application

of the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2007 fiscal year.

The undersigned also certify that the consolidated financial statements at December 31st, 2007:

- correspond to the results documented in the books, accounting and other records;
- have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005 and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the Group companies included in the scope of consolidation.

March 28th, 2008

The Chief Executive Officers

Claudio Gottardi
Massimiliano Tabacchi

The manager responsible for preparing the company's financial statements

Francesco Tagliapietra

REPORT OF INDEPENDENT AUDITORS


A|X
ARMANI EXCHANGE

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

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

1 We have audited the consolidated financial statements, which comprise the balance sheet, statement of operations, statement of recognized profit and loss, cash flow statement, statement of changes in shareholders' equity and the related notes of Safilo Group S.p.A. and its subsidiaries as of 31 December 2007. These consolidated financial statements are the responsibility of Safilo Group S.p.A.'s directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present for comparative purposes the corresponding data for the prior year. For the opinion on the prior year's consolidated financial statements, reference should be made to our report dated 6 April 2007.

3 In our opinion, the consolidated financial statements of Safilo Group S.p.A. as of 31 December 2007 comply with the International Financial Reporting Standards as adopted by the European Union, and with the resolutions issued in conformity with the article 9 of the Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position, the results of operations, the recognized profit and loss, the cash flows and the changes in shareholders' equity of Safilo Group S.p.A. for the year then ended.

Padova, 11 April 2008

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

PricewaterhouseCoopers SpA
signed by

Massimo Dal Lago
(Partner)

Safilo S.p.A. - Italy
Safilo Australia - Sydney
Safilo Austria - Linz
Safilo Benelux - Bruxelles
Safilo do Brasil - São Paulo
Safilo Canada - Montreal
Safilo Capital - Luxembourg
Safilo China - Shenzhen
Safilo España - Madrid
Safilo Eyewear Industries - Suzhou (China)
Safilo Far East - Hong Kong
Safilo France - Paris
Safilo Germany - Köln
Safilo Hellas - Athens
Safilo Hong Kong - Hong Kong
Safilo India - Mumbai
Safilo International BV - Rotterdam (Nederland)
Safilo Japan - Tokyo
Safilo Korea - Seoul
Safilo Latin America - Miami
Safilo Malaysia - Kuala Lumpur
Safilo Nederland - Utrecht
Safilo Nordic - Stockholm
Denmark, Sweden, Finland, Norway, Baltic
Safilo Portugal - Lisbon
Safilo Singapore - Singapore
Safilo South Africa - Johannesburg
Safilo Switzerland - Basel
Safilo U.K. - Harrogate (North Yorkshire)
Safilo U.S.A. - New Jersey
Carrera Optyl - Ormoz (Slovenia)
Lenti - Bergamo (Italy)
Navoptik - Madrid (Spain)
Optifashion Australia - Sydney
Safint BV - Rotterdam (Nederland)
Smith Sport Optics - Sun Valley (U.S.A.)
Solstice - Delaware (U.S.A.)

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