

**10Q**  
**as of June 30<sup>th</sup>, 2008**  
**Sàfilo S.p.A.**

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Date of issue: July 30<sup>th</sup>, 2008

This half-year report is available on the website:

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

**SAFILO S.P.A.**

Settima Strada, 15

35129 Padua - Italy

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## CORPORATE OFFICERS AS OF JUNE 30<sup>th</sup>, 2008

### Board of Directors

<i>Chairman</i>	Vittorio Tabacchi
<i>Vice Chairman and Chief Executive Officer</i>	Massimiliano Tabacchi
<i>Directors</i>	Claudio Gottardi Giannino Lorenzon Ennio Doris Riccardo Ruggiero

### Board of Statutory Auditors

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

### Independent Auditors

PricewaterhouseCoopers S.p.a.

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During the Board of Directors Meeting held on June 5<sup>th</sup> 2008, Mr. Claudio Gottardi resigned, for personal reasons, from the role of Chief Executive Officer but maintained his position as a Director of Safilo Group S.p.A.. During the same meeting the Executive Vice Chairman, Mr. Massimiliano Tabacchi, was appointed also to the role of Chief Executive Officer.

## **DIRECTORS' REPORT ON OPERATIONS**

### **General information and activities of the Group**

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

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

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

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

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

The Group's brands include Safilo, Oxydo, Carrera, Smith and Blue Bay while the licensed brands include Alexander McQueen, A/X Armani Exchange, Balenciaga, Banana Republic, BOSS - Hugo Boss, Bottega Veneta, Boucheron, Diesel, 55DSL, Dior, Emporio Armani, Fossil, Giorgio Armani, Gucci, HUGO - Hugo Boss, 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.

## Key consolidated performance indicators

Economic data (Euro in millions)	Six months ended June 30,			
	2008	%	2007	%
Net sales	637.0	100.0	667.8	100.0
Cost of sales	(264.0)	41.4	(274.3)	41.1
Gross profit	373.0	58.6	393.5	58.9
Ebitda	85.4	13.4	101.1	15.1
Operating profit	65.4	10.3	81.7	12.2
Profit before taxation	39.0	6.1	59.5	8.9
Group net profit	21.9	3.4	33.9	5.1

Economic data (Euro in millions)	Second quarter			
	2008	%	2007	%
Net sales	311.0	100.0	326.4	100.0
Cost of sales	(130.9)	(42.1)	(137.5)	(42.1)
Gross profit	180.1	57.9	188.9	57.9
Ebitda	38.6	12.4	42.4	13.0
Operating profit	28.4	9.1	32.7	10.0
Profit before taxation	15.6	5.0	22.7	6.9
Group net profit	8.4	2.7	12.9	3.9

Balance sheet data (Euro in millions)	June 30, 2008		December 31, 2007	
		%		%
Total assets	1,385.9	100.0	1,370.1	100.0
Non-current assets	715.0	51.6	675.6	49.3
Net working capital	386.7	27.9	395.7	28.9
Net financial position	(544.1)	39.3	(522.8)	38.2
Group shareholders' equity	363.1	26.2	398.9	29.1

Financial data (Euro in millions)	Six months ended June 30,	
	2008	2007
Cash flow operating activities	55.1	33.4
Cash flow investing activities	(57.4)	(22.7)
Cash flow financing activities	22.8	10.9
Closing net cash and cash equivalents	(17.6)	20.5

We underline that:

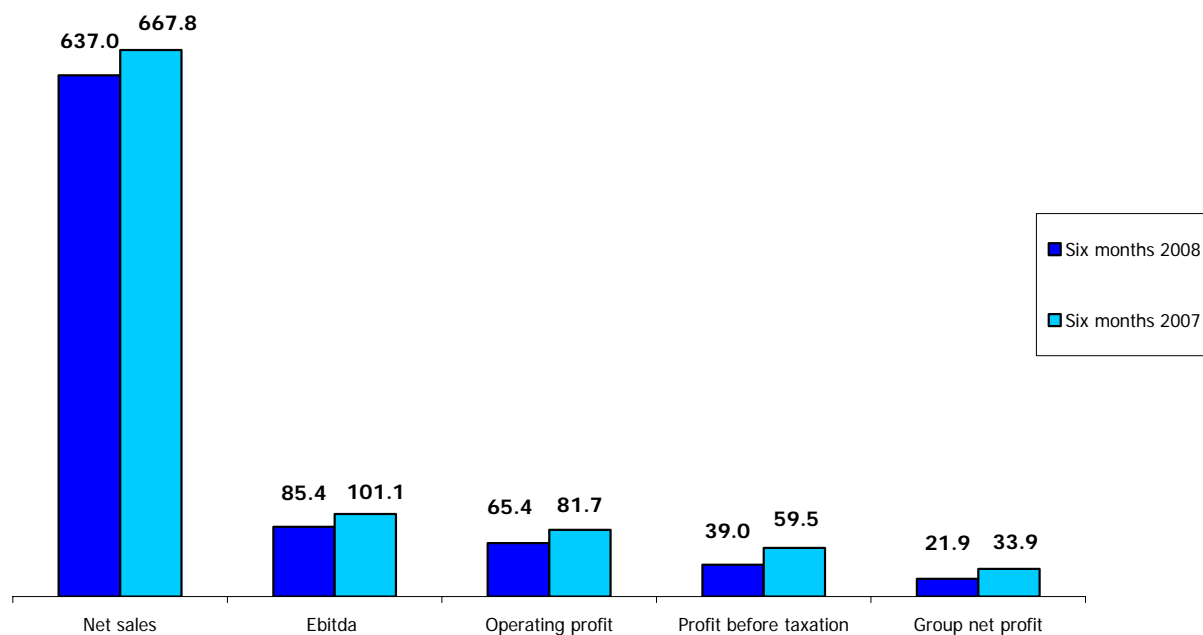
- certain figures in the Directors' Report on Operations, including percentage amounts, have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation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

- "Ebitda" means operating profit before amortization and depreciation;

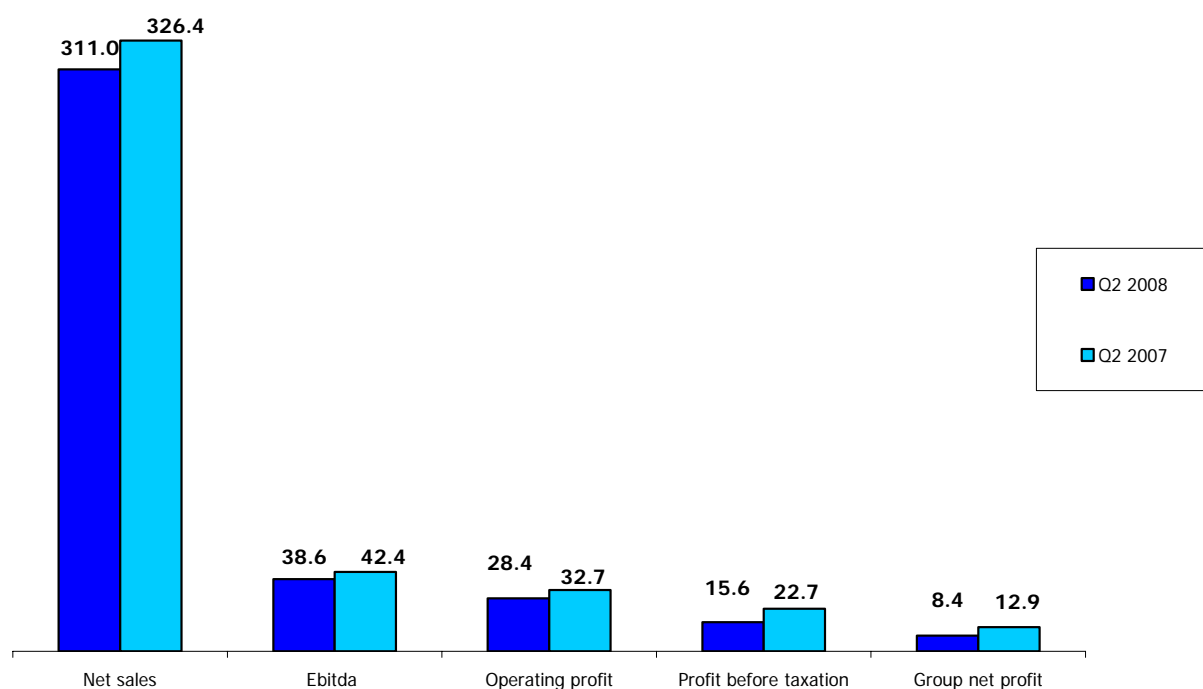
- "Net working capital" means the algebraic sum of inventories, trade receivables and trade payables;

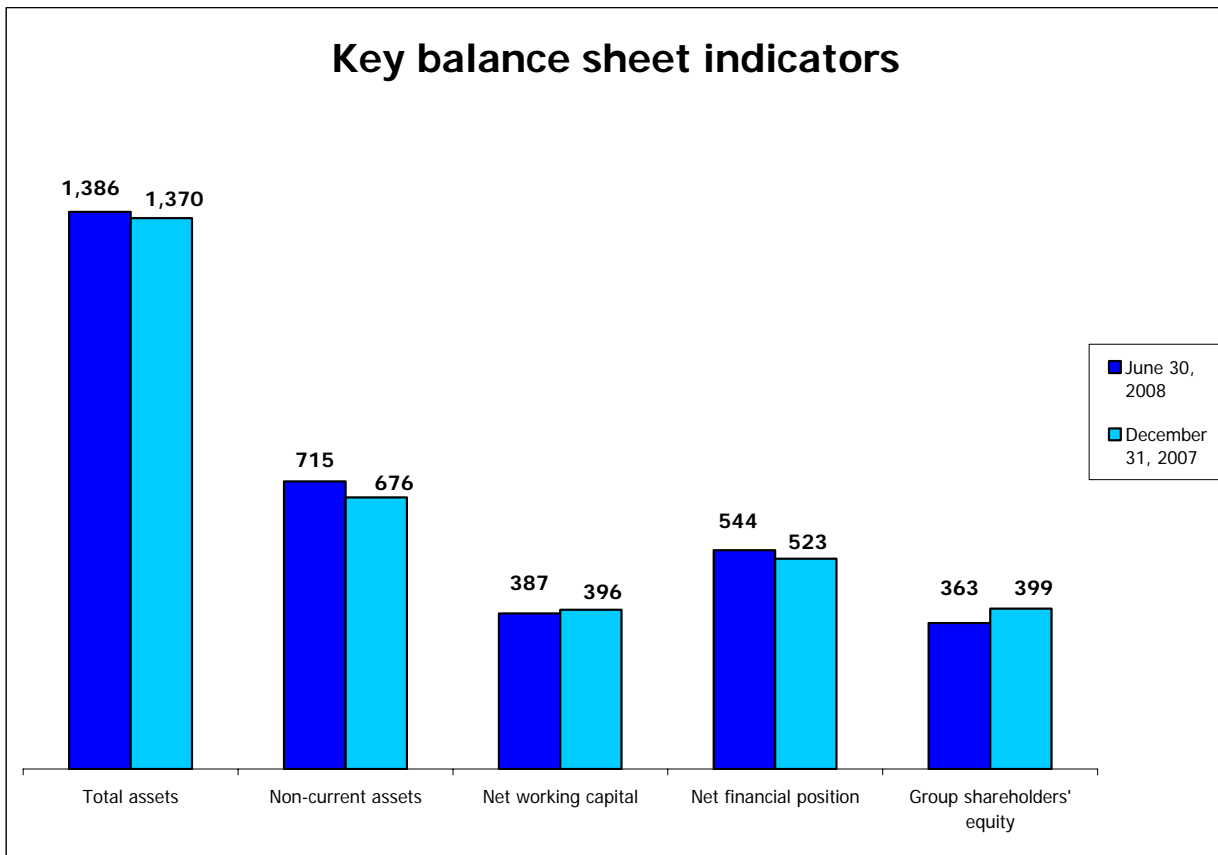
- "Net financial position" means the sum of bank borrowings, short, medium and long-term borrowings, net of cash held in hand and at bank.

### Key economic indicators - 1<sup>st</sup> semester



### Key economic indicators - 2<sup>nd</sup> quarter





## **Introduction**

The global context in which the Group has operated in the first six months of the year has largely been a difficult one. Despite this, thanks to the commercial strength of the Group's licensed brands and the growth of its house brands, the Group has been able to react positively to the general market situation and has managed to achieve, at constant exchange rates, a further growth in sales both in the United States and the Far East. A more challenging situation has been evident in Europe where, in certain countries, consumers are clearly concerned by the economic downturn which has led to a decrease in the tendency to buy many products, including eyewear.

The current uncertainty regarding short-term growth prospects has resulted in the company adopting a particularly cautious attitude, and considerable attention has been paid to the management of working capital and the inventory of finished products. If, on one hand, this policy has led to undeniable benefits in terms of cash flow generation and protection from future obsolescence risks, it has, on the other, impacted the profitability of the production sites through the reduced use of the "production machine", thereby penalising the gross profit for the six month period.

The retail development strategy is continuing. The acquisitions in Australia and Mexico in the first quarter of the year have been followed by the opening of the first shop in Asia, located in Hong Kong, and direct distribution in China will be further increased before the end of 2008.

The Group's consolidated turnover in the first six months of the year fell by 4.6% as a result of the further weakening of the US dollar. At constant exchange rates sales in the first six months of the year would in fact have increased by 1.3% compared to the same period of last year, with a slight acceleration in sales in the second quarter of the year compared to the first three months of the year.

The acquisition of the chains in Australia and Mexico has led to a strong growth in the retail channel while the wholesale business has seen a fall in the sale of both prescription frames and sunglasses, penalised by the end-customer's greater attention to the price positioning of the product. This general situation has caused clients to favour more simple product categories, often of the same brand, and resulting in a general decrease in the average retail price, with the exception of the Far East. The greater concentration of sales in a more economical product band has not led in itself to lower profitability, but industrial profitability has been more greatly affected by the repercussions resulting from the decision to greatly reduce inventory levels thereby not allowing fixed production costs to be fully absorbed.

Operating profit has fallen compared to the previous year (10.3% of revenues in the first six months of 2008 compared to 12.2% in the same period of 2007) as a direct result of the lower production volumes and a reduced capacity for absorption of administrative and sales costs.

The generation of operating cash has seen a marked improvement, despite the lower net profit, and thanks to which the net financial position has been contained despite the retail chain acquisitions and the significant investments made for the construction of the new production site in China.

## Group economic results

Consolidated statement of operations (Euro in millions)	Six months ended June 30,					Second quarter				
	2008	%	2007	%	Change %	2008	%	2007	%	Change %
Net sales	637.0	100.0	667.8	100.0	-4.6%	311.0	100.0	326.4	100.0	-4.7%
Cost of sales	(264.0)	(41.4)	(274.3)	(41.1)	-3.8%	(130.9)	(42.1)	(137.5)	(42.1)	-4.8%
<b>Gross profit</b>	<b>373.0</b>	<b>58.6</b>	<b>393.5</b>	<b>58.9</b>	<b>-5.2%</b>	<b>180.1</b>	<b>57.9</b>	<b>188.9</b>	<b>57.9</b>	<b>-4.7%</b>
Selling & marketing expenses	(243.0)	(38.1)	(245.9)	(36.8)	-1.2%	(121.0)	(38.9)	(122.3)	(37.5)	-1.1%
General & administrative expenses	(64.4)	(10.1)	(65.8)	(9.8)	-2.1%	(30.5)	(9.8)	(33.5)	(10.3)	-9.3%
Other operating income/(expenses), net	(0.3)	(0.0)	(0.1)	0.0	n.s.	(0.3)	(0.1)	(0.4)	(0.1)	-43.4%
<b>Operating profit</b>	<b>65.4</b>	<b>10.3</b>	<b>81.7</b>	<b>12.2</b>	<b>-19.9%</b>	<b>28.4</b>	<b>9.1</b>	<b>32.7</b>	<b>10.0</b>	<b>-12.9%</b>
Interest expenses and other financial charges, net	(26.4)	(4.1)	(22.2)	(3.4)	18.9%	(12.8)	(4.1)	(10.0)	(3.0)	28.1%
<b>Profit before taxation</b>	<b>39.0</b>	<b>6.1</b>	<b>59.5</b>	<b>8.9</b>	<b>-34.4%</b>	<b>15.6</b>	<b>5.0</b>	<b>22.7</b>	<b>6.9</b>	<b>-31.0%</b>
Income taxes	(15.1)	(2.4)	(23.0)	(3.5)	-34.3%	(6.5)	(2.1)	(8.9)	(2.7)	-26.6%
<b>Net profit</b>	<b>23.8</b>	<b>3.7</b>	<b>36.5</b>	<b>5.5</b>	<b>-34.5%</b>	<b>9.0</b>	<b>2.9</b>	<b>13.8</b>	<b>4.2</b>	<b>-33.8%</b>
Net profit attributable to minority interests	1.9	0.3	2.6	0.4	-26.2%	0.6	0.2	0.9	0.3	-36.8%
<b>Net profit attributable to the Group</b>	<b>21.9</b>	<b>3.4</b>	<b>33.9</b>	<b>5.1</b>	<b>-35.2%</b>	<b>8.4</b>	<b>2.7</b>	<b>12.9</b>	<b>3.9</b>	<b>-33.6%</b>
<b>EBITDA</b>	<b>85.4</b>	<b>13.4</b>	<b>101.1</b>	<b>15.1</b>	<b>-15.4%</b>	<b>38.6</b>	<b>12.4</b>	<b>42.4</b>	<b>13.0</b>	<b>-8.7%</b>

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

At the end of the first six months of the year, **net sales** reached 637 million Euro, an increase of 1.3% at constant exchange rates, but a decrease of 4.6% resulting from the devaluation of foreign currency. In the second quarter total sales grew by 1.8% at constant exchange rates but at current exchange rates fell by 4.7%.

The negative sales performance only concerns the wholesale channel and is also the result of a repositioning strategy for certain collections which anticipated the tendency of many consumers to purchase more simplistic styles belonging to a slightly lower price bracket. The prompt adjustment of the collections has allowed the Group to maintain, and in certain countries increase, its market share, even though the turnover value has suffered from this repositioning.

With regards to product type this market tendency has been evident for both sunglasses and prescription frames and the latter, due also to the exchange rate effect, have suffered from a fall in sales in the second quarter compared to a general stability in the first part of the year.

A geographical breakdown of sales highlights a reduction in the European market caused by the economic difficulties which several countries are experiencing and which are immediately reflected in a reduced tendency towards the purchase of consumer goods in important markets such as Spain, Germany and Great Britain.

Improvement in sales has been seen in North and East Europe while the Italian market, after a difficult first quarter, is making up the difference compared to the previous year thanks to the impressive results achieved by the re-launch of the house brands.

In America the results achieved are satisfactory, even more so considering the current performance of the American economy which is anything but brilliant. Sales in local currency have grown, all new brands recently introduced are reaching the expected results and, despite the weakness of the dollar leading to a fall in profitability, the continual growth of volumes sold leads to the presumption that the Group is strengthening its competitive position when compared to its competitors. The Group's direct presence in the market through its distribution network has grown

further in the second quarter and the total number of Solstice stores has now reached 137.

In the second quarter sales in the Far East once again grew at steady rates. Despite the fact that Japan, the first market in the area, continues to show signs of weakness, the growth of the other emerging countries has more than compensated the situation of the Japanese market and growth in the six month period, at constant exchange rates, was over 15%. China is set to become the primary market of the area and the opening of several directly managed stores in the second half of the year will represent an important step towards the further development of one of the strategic markets of the future. Sales in South Korea have also been very positive.

Net sales by geographical region (Euro in millions)	Six months ended June 30,					Second Quarter				
	2008	%	2007	%	Change%	2008	%	2007	%	Change%
Europe	319.3	50.1	336.0	50.3	-5.0	152.3	49.0	163.5	50.1	-6.9
The Americas	219.6	34.5	220.6	33.0	-0.5	106.4	34.2	110.0	33.7	-3.3
Asia	82.2	12.9	77.8	11.6	+5.7	44.0	14.1	38.4	11.8	+14.6
Other	15.9	2.5	33.4	5.1	-52.4	8.3	2.7	14.6	4.4	-43.4
<b>Total</b>	<b>637.0</b>	<b>100.0</b>	<b>667.8</b>	<b>100.0</b>	<b>-4.6</b>	<b>311.0</b>	<b>100.0</b>	<b>326.4</b>	<b>100.0</b>	<b>-4.7</b>

Net sales by product (Euro in millions)	Six months ended June 30,					Second Quarter				
	2008	%	2007	%	Change%	2008	%	2007	%	Change%
Prescription frames	231.9	36.4	239.8	35.9	-3.3	113.5	36.5	121.4	37.2	-6.5
Sunglasses	370.3	58.1	394.0	59.0	-6.0	183.2	58.9	189.8	58.1	-3.5
Sport products	22.5	3.5	24.0	3.6	-6.2	7.9	2.5	10.6	3.2	-25.5
Other	12.3	2.0	9.9	1.5	+23.8	6.4	2.1	4.7	1.5	+36.0
<b>Total</b>	<b>637.0</b>	<b>100.0</b>	<b>667.8</b>	<b>100.0</b>	<b>-4.6</b>	<b>311.0</b>	<b>100.0</b>	<b>326.4</b>	<b>100.0</b>	<b>-4.7</b>

**Gross profit** reached 58.6% of turnover, slightly lower than the first six months of 2007. In absolute value the reduction is more evident (-5.2%) and is a result of the fall in sales. In reality this slight percentage variation is the result of more wider reaching phenomena which better explain the difference between the gross profit in 2007 and in 2008. On one hand the first six months of 2007 were in fact characterised by exceptional costs and the sale of low profit Polo branded stock due to the termination of the licence agreement. On the other hand, in 2008, the lack of a recovery of profitability was due to the impossibility to fully recover fixed production costs at the moment in which the decision was made to considerably reduce the inventory in order to guarantee the maintenance of an improved future profitability.

The greater importance of the retail channel and certain cost containment activities have allowed the effects of the further weakening of the American currency and a sales mix which encouraged growth in less profitable countries to be minimised.

**EBITDA** in the first six months reached 85.4 million Euro, equal to 13.4% of sales, a considerable decrease compared to the same period of 2007 (15.1% of sales). The reduction of profitability, is a result not only of the factors described with reference to gross profit, but above all the greater incidence of sales costs, the increase in which is linked exclusively to the greater presence in the retail channel which generated considerable management costs (including

sales personnel and rental costs) which were not present in 2007. The most important factors which had led to a fall in operating profit can be reassumed as follows:

- the greater incidence of fixed industrial costs following the containment of production volumes;
- the negative exchange rate effect both in terms of conversion and reduced profitability in high growth markets;
- the dilution effect in the retail business, which is currently particularly concentrated in countries (Spain and USA) with stagnant economies.

**Net profit**, equal to 21.9 million Euro, is therefore lower than in the first six months of 2007, due also to an increase in the incidence of financial costs owing both to interest rates trends and the greater impact of exchange rate differences which has had a particularly wide reaching effect in a period of strong variations in currencies.

The greater tax burden of the period, in particular in the second quarter, is due exclusively to a different mix of profits generated in countries with different taxation levels and to the higher percentage of an Italian tax ("IRAP").

### Analysis by distribution channel – Wholesale/Retail

The main data per activity sector is shown in the table below:

<i>(Euro in millions)</i>	WHOLESALE				RETAIL			
	Six months ended June 30,				Six months ended June 30,			
	2008	2007	Change	Change %	2008	2007	Change	Change %
Sales	584.0	631.9	-47.9	-7.6%	53.0	35.9	17.1	47.6%
Ebitda	83.6	99.2	-15.6	-15.8%	1.8	1.9	-0.1	-6.5%
%	14.3%	15.7%			3.4%	5.3%		

<i>(Euro in millions)</i>	WHOLESALE				RETAIL			
	Second quarter				Second quarter			
	2008	2007	Change	Change %	2008	2007	Change	Change %
Sales	282.6	306.2	-23.6	-7.7%	28.4	20.2	8.1	40.3%
Ebitda	36.9	41.1	-4.2	-10.1%	1.7	1.3	0.4	32.4%
%	13.1%	13.4%			6.1%	6.4%		

The Group's revenues in the wholesale sector highlight a fall of 7.6% compared to the same period of the previous year, mainly resulting from the exchange rate effect (net of the devaluation of foreign currencies, the decrease would have been reduced to 2.1% compared to the first six months of 2007).

The fall in sales is a consequence of both a general (with the exclusion of the Far East) fall in consumers' favoured price ranges and to the fall in sales in certain European countries and Japan.

The retail channel, which counted 283 stores at the end of June, can instead be seen to be in strong expansion thanks to the acquisitions in Australia and Mexico and the new openings above all in the United States.

In terms of comparative sales, the chains in Australia and Mexico have achieved good sales, while in Spain and the United States sales for the same number of shops have fallen even in the second quarter, although with strong fluctuations, even though over the last few weeks they have shown signs of a modest recovery.

In this context, the profitability of both the segments has obviously been affected by a fall in sales. The same factors which have impacted the wholesale sector have affected the retail channel too, which has suffered also from the lack of growth of revenues considering that the majority of costs is fixed and independent of variations in turnover.

In a situation which has seen a lack of growth in sales at the level of the single shop, it is not surprising therefore that there has been no strong variation in the profitability of the retail chains, despite there having been and there continuing to be certain activities aimed at minimising management costs.

## Balance sheet and financial situation

Condensed balance sheet (Euro in millions)	June 30, 2008	December 31, 2007	Change
Cash in hand and at bank	55.1	48.7	6.4
Trade receivables, net	342.3	315.8	26.5
Inventories	241.9	274.3	(32.4)
Other current assets	31.7	55.7	(24.0)
<b>Total current assets</b>	<b>671.0</b>	<b>694.5</b>	<b>(23.5)</b>
Property, plant and equipment	215.0	201.9	13.1
Intangible fixed assets	22.5	23.4	(0.9)
Goodwill	377.2	357.8	19.4
Other non-current assets	100.3	92.5	7.8
<b>Total non-current assets</b>	<b>715.0</b>	<b>675.6</b>	<b>39.4</b>
<b>Total assets</b>	<b>1,386.0</b>	<b>1,370.1</b>	<b>15.9</b>
Short-term borrowings	157.5	161.7	(4.2)
Trade payables	197.5	194.3	3.2
Other current liabilities	136.6	130.8	5.8
<b>Total current liabilities</b>	<b>491.6</b>	<b>486.8</b>	<b>4.8</b>
Long-term borrowings	441.7	409.8	31.9
Employee benefit liability	39.4	37.8	1.6
Other non-current liabilities	45.2	31.9	13.3
<b>Total non-current liabilities</b>	<b>526.3</b>	<b>479.5</b>	<b>46.8</b>
<b>Group shareholders' equity</b>	<b>363.1</b>	<b>398.9</b>	<b>(35.8)</b>
<b>Minority interests</b>	<b>5.0</b>	<b>4.9</b>	<b>0.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,386.0</b>	<b>1,370.1</b>	<b>15.9</b>

### Financial situation

The following table reports the main items of the statement of cash flow as at 30<sup>th</sup>, June 2008 compared with the corresponding values of the same period of the previous year.

Free cash flow (Euro in millions)	Six months ended June 30,		Change
	2008	2007	
Cash flow operating activities	55.1	33.4	21.7
Cash flow investing activities	(57.4)	(22.7)	(34.7)
<b>Free cash flow</b>	<b>(2.3)</b>	<b>10.7</b>	<b>(13.0)</b>

The first six months of 2008 highlight a strong improvement in the management of the operating cash flow, despite the reduction of net profit. The strong attention paid to the management of working capital has allowed for an improvement in cash generation and to compensate for the expected increase in investments necessary for the construction of the production site in China. It should be remembered that the retail acquisitions in Australia and Mexico are included in the investment activities for a total amount of 26.3 million Euro.

### Net working capital

The value of net working capital related to commercial activity fell by 22.5 million Euro compared to 30<sup>th</sup> June 2007, and improving therefore its incidence on the turnover of the previous 12 months.

Net working capital (Euro in millions)	June 30, 2008	June 30, 2007	Change jun '08 - jun '07	December 31, 2007
Trade receivables, net	342.3	367.0	(24.7)	315.8
Inventories	241.9	263.0	(21.1)	274.3
Trade payables	(197.5)	(220.8)	23.3	(194.3)
<b>Net working capital</b>	<b>386.7</b>	<b>409.2</b>	<b>(22.5)</b>	<b>395.7</b>
<i>% net sales</i>	<i>33.3%</i>	<i>34.5%</i>		<i>33.2%</i>

The reduction in working capital was achieved thanks to the strong attention paid to the management of the finished product inventory, which was drastically reduced compared to the same period of the previous year in order to minimise the risk of future obsolescence and to obtain the improvement in cash flows. The reduction of trade receivables is due exclusively to the fall in sales in the last quarter, while significant variations in the trade receivable days are not evident.

### Investments in property, plant and equipment and intangible fixed assets

The investments in tangible and intangible fixed assets carried out by the Group amount to 31.0 million Euro against

22.8 million for the same period of the previous year and are divided as follows:

Capital expenditure (Euro in millions)	Six months ended June 30,		Change
	2008	2007	
Padua headquarters	2.8	3.5	(0.7)
Production facilities	13.8	8.4	5.4
Europe	1.8	1.7	0.1
The Americas	11.0	8.7	2.3
Asia Pacific	1.6	0.5	1.1
<b>Total</b>	<b>31.0</b>	<b>22.8</b>	<b>8.2</b>

The investments relating to the Group's production sites relate to the Chinese production site for a total value of around 7.2 million Euro. The difference is accounted for by the ordinary maintenance of the machinery and equipment at the production sites in Italy and Slovenia.

The investments made in America and the Far East relate mainly to the retail area and to the opening of new stores or the refurbishment of existing ones.

#### Net financial position

Net financial position (Euro in millions)	June 30,	March 31,	Change	December 31,	Change
	2008	2008	Jun - Mar	2007	Jun - Dec
Current portion of long-term borrowings	(34.8)	(30.1)	(4.7)	(34.5)	(0.2)
Bank overdrafts and short-term borrowings	(72.7)	(100.6)	27.9	(85.4)	12.6
Other short-term borrowings	(50.0)	(38.9)	(11.2)	(41.8)	(8.2)
Cash and cash equivalents	55.1	43.3	11.9	48.7	6.4
<b>Short-term net financial position</b>	<b>(102.4)</b>	<b>(126.3)</b>	<b>23.9</b>	<b>(113.0)</b>	<b>10.6</b>
Long-term borrowings	(441.7)	(433.7)	(8.0)	(409.8)	(31.8)
<b>Long-term net financial position</b>	<b>(441.7)</b>	<b>(433.7)</b>	<b>(8.0)</b>	<b>(409.8)</b>	<b>(31.8)</b>
<b>Net financial position</b>	<b>(544.1)</b>	<b>(560.0)</b>	<b>15.9</b>	<b>(522.8)</b>	<b>(21.3)</b>

The Group's net financial position increased compared to the end of 2007 as a result of the acquisitions concluded at the beginning of the current year, and to the normal seasonality of the working capital, and passed 522.8 million Euro at December 2007 to the current 544.1 million Euro. There are no significant changes to the timeframe structure of the total debt.

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

<i>(Euro in millions)</i>	Equity as of June 30, 2008	Net profit for the six months 2008	Equity as of December 31, 2007
Balances per Safilo S.p.A. statutory financial statements	411.9	(2.4)	451.7
Shareholders' equity of consolidated companies	1,007.8	54.5	968.7
Elimination of the book value of consolidated subsidiaries	(1,370.1)	-	(1,324.6)
Goodwill	324.3	(0.3)	319.1
Fair value attributable to property, plant and equipment	10.8	(0.3)	11.0
Elimination of dividends paid within the Group	-	(32.4)	-
Elimination of intercompany gains within the Group	(12.1)	0.8	(12.9)
Elimination of intercompany profit included in inventory	(12.9)	2.5	(16.6)
Investments in associates - equity method	6.2	0.1	6.6
Other consolidation entries	2.2	1.3	0.8
<b>Total shareholders' equity</b>	<b>368.1</b>	<b>23.8</b>	<b>403.8</b>
Shareholders' equity attributable to minority shareholders	5.0	1.9	4.9
<b>Shareholders' equity attributable to the Group</b>	<b>363.1</b>	<b>21.9</b>	<b>398.9</b>

## Personnel

Group personnel as at June 30<sup>th</sup>, 2008, December 31<sup>st</sup>, 2007 and June 30<sup>th</sup>, 2007 is shown in the following table:

	June 30, 2008	December 31, 2007	June 30, 2007
Padua headquarters	884	846	871
Production facilities	4,674	4,722	4,893
Commercial companies	1,415	1,170	1,230
Retail	1,779	1,258	1,066
<b>Total</b>	<b>8,752</b>	<b>7,996</b>	<b>8,060</b>

Compared with December 31<sup>st</sup>, 2007 the workforce has increased by 756 units, mostly due to the development of commercial companies and the new acquisitions in the retail sector.

## Significant events after June 30<sup>th</sup>, 2008

In the period subsequent to June 30<sup>th</sup>, 2008 there were no events that can be considered to have significantly affected the data contained in this report.

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated balance sheet

<i>(Euro/000)</i>	<i>Note</i>	June 30, 2008	December 31, 2007
<b>ASSETS</b>			
<b>Current assets</b>			
Cash in hand and at bank	2.1	55,124	48,713
Trade receivables, net	2.2	342,318	315,792
Inventory, net	2.3	241,859	274,283
Derivative financial instruments	2.4	635	271
Other current assets	2.5	31,019	55,448
<b>Total current assets</b>		<b>670,955</b>	<b>694,507</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	2.6	215,025	201,858
Intangible assets	2.7	22,539	23,430
Goodwill	2.8	377,203	357,765
Investments in associates	2.9	11,557	12,279
Financial assets available-for-sale	2.10	1,813	2,443
Deferred tax assets	2.11	54,234	50,793
Derivative financial instruments	2.4	3,281	1,608
Other non-current assets	2.12	29,315	25,388
<b>Total non-current assets</b>		<b>714,967</b>	<b>675,564</b>
<b>Total assets</b>		<b>1,385,922</b>	<b>1,370,071</b>

<i>(Euro/000)</i>	<i>Note</i>	June 30, 2008	December 31, 2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	2.13	157,530	161,709
Trade payables	2.14	197,498	194,336
Tax payables	2.15	21,919	20,535
Derivative financial instruments	2.4	32	-
Other current liabilities	2.16	113,799	109,447
Provisions for risks and charges	2.17	864	803
<b>Total current liabilities</b>		<b>491,642</b>	<b>486,830</b>
<b>Non-current liabilities</b>			
Long-term borrowings	2.13	441,659	409,827
Employee benefit liability	2.18	39,375	37,768
Provisions for risks and charges	2.17	12,855	12,789
Deferred tax liabilities	2.11	14,961	11,080
Derivative financial instruments	2.4	66	359
Other non-current liabilities	2.19	17,285	7,643
<b>Total non-current liabilities</b>		<b>526,201</b>	<b>479,466</b>
<b>Total liabilities</b>		<b>1,017,843</b>	<b>966,296</b>
<b>Shareholders' equity</b>			
Share capital	2.20	35,000	35,000
Share premium reserve	2.21	2,305	2,305
Retained earnings and other reserves	2.22	302,942	308,563
Fair value and cash flow reserves	2.23	940	(280)
Income attributable to the Group		21,924	53,267
<b>Total shareholders' equity attributable to the Group</b>		<b>363,111</b>	<b>398,855</b>
<b>Minority interests</b>		<b>4,968</b>	<b>4,920</b>
<b>Total shareholders' equity</b>		<b>368,079</b>	<b>403,775</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,385,922</b>	<b>1,370,071</b>

## Consolidated statement of operations

(Euro/000)	Note	Six months ended June 30,		Q2	
		2008	2007	2008	2007
Net sales	3.1	636,960	667,812	310,940	326,417
Cost of sales	3.2	(263,962)	(274,322)	(130,882)	(137,489)
<b>Gross profit</b>		<b>372,998</b>	<b>393,490</b>	<b>180,058</b>	<b>188,928</b>
Selling and marketing expenses	3.3	(242,952)	(245,948)	(120,931)	(122,318)
General and administrative expenses	3.4	(64,400)	(65,765)	(30,477)	(33,590)
Other op. income/(expenses), net	3.5	(261)	(121)	(226)	(399)
<b>Operating profit</b>		<b>65,385</b>	<b>81,656</b>	<b>28,424</b>	<b>32,621</b>
Share of income/(loss) of associates	3.6	75	224	37	185
Interest expenses and other financial charges, net	3.7	(26,491)	(22,438)	(12,855)	(10,193)
<b>Profit before taxation</b>		<b>38,969</b>	<b>59,442</b>	<b>15,606</b>	<b>22,613</b>
Income taxes	3.8	(15,141)	(23,042)	(6,556)	(8,935)
<b>Net profit</b>		<b>23,828</b>	<b>36,400</b>	<b>9,050</b>	<b>13,678</b>
Net profit attributable to minority interests		1,904	2,581	586	927
<b>Net profit attributable to the Group</b>		<b>21,924</b>	<b>33,819</b>	<b>8,464</b>	<b>12,751</b>

**Consolidated statement of cash flow**

(Euro/000)	Six months ended June 30,	
	2008	2007
<b>A - Opening net cash and cash equivalents (net financial indebtedness - short term)</b>	<b>(36,638)</b>	<b>(801)</b>
<b>B - Cash flow from (for) operating activities</b>		
Net profit for the period (including minority interests)	23,828	36,400
Depreciation and amortization	20,049	19,367
Stock option	279	279
Share income/(loss) on equity investments	(75)	(224)
Net movements in the employee benefit liability	1,644	(3,024)
Net movements in other provisions	148	995
Interest expenses, net	20,901	18,864
Income tax expenses	15,141	23,042
<b>Income from operating activities prior to movements in working capital</b>	<b>81,915</b>	<b>95,699</b>
(Increase) Decrease in trade receivables and other current receivables	(30,626)	(30,247)
(Increase) Decrease in inventory, net	34,861	6,270
Increase (Decrease) in trade payables and other current payables	8,518	(3,864)
Interest expenses paid	(18,643)	(18,304)
Income tax paid	(20,961)	(16,169)
<b>Total (B)</b>	<b>55,065</b>	<b>33,385</b>
<b>C - Cash flow from (for) investing activities</b>		
Purchase of property, plant and equipment (net of disposals)	(28,706)	(18,940)
Acquisition of subsidiaries (net of cash acquired)	(26,344)	-
Disposal of investments and bonds	78	-
Purchase of intangible assets	(2,475)	(3,717)
<b>Total (C)</b>	<b>(57,447)</b>	<b>(22,657)</b>
<b>D - Cash flow from (for) financing activities</b>		
Proceeds from borrowings	61,261	24,192
Reimbursement of loan given to parent company	14,000	-
Repayment of borrowings	(17,819)	(12,090)
Dividends paid	(34,594)	(1,240)
<b>Total (D)</b>	<b>22,848</b>	<b>10,862</b>
<b>E - Cash flow for the period (B+C+D)</b>	<b>20,466</b>	<b>21,590</b>
Translation exchange difference	(1,412)	(261)
<b>Total (F)</b>	<b>(1,412)</b>	<b>(261)</b>
<b>G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)</b>	<b>(17,584)</b>	<b>20,528</b>

**Consolidated statement of recognised profit and loss**

(Euro/000)	Note	Six months ended June 30,		Q2	
		2008	2007	2008	2007
Profit (loss) attributable to the cash flow reserve	2.23	1,772	1,021	2,464	109
Profit (loss) attributable to the fair value reserve	2.23	(552)	185	91	(99)
Profit (loss) attributable to the conversion fund	2.22	(19,289)	(5,706)	1,579	(2,130)
Profit (loss) attributable to shareholders' equity	2.22	(89)	321	140	104
<b>Total profit/(loss) attributable to shareholders' equity</b>		<b>(18,157)</b>	<b>(4,179)</b>	<b>4,275</b>	<b>(2,016)</b>
Net profit for the period		23,828	36,400	9,050	13,678
<b>Total recognized profit for the period</b>		<b>5,671</b>	<b>32,221</b>	<b>13,325</b>	<b>11,662</b>
<b>Attributable to:</b>					
Group		3,848	29,602	12,577	10,757
Minority interests		1,823	2,619	748	905
<b>Total recognized profit for the period</b>		<b>5,671</b>	<b>32,221</b>	<b>13,325</b>	<b>11,662</b>

## Statement of changes in shareholders' equity

First semester 2007

(Euro'000)	Share capital	Share premium reserve	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserves	Change in consolidation scope	Retained earnings	Net profit	Total equity
<b>Group shareholders' equity at January 1, 2007</b>	<b>35,000</b>	<b>53,350</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(12,265)</b>	<b>1,859</b>	<b>294</b>	<b>57,522</b>	<b>37,642</b>	<b>391,937</b>
Previous year's profit allocation	-	-	-	-	-	-	-	37,642	(37,642)	-
Changes in other reserves	-	(51,045)	-	-	(5,759)	227	336	51,045	-	(5,196)
Dividends distribution	-	-	-	-	-	-	-	(17,000)	-	(17,000)
Net profit for the period	-	-	-	-	-	-	-	-	33,819	33,819
<b>Group shareholders' equity at June 30, 2007</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(18,024)</b>	<b>2,086</b>	<b>630</b>	<b>129,209</b>	<b>33,819</b>	<b>403,560</b>
<b>Minority interests at January 1, 2007</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(294)</b>	<b>2,339</b>	<b>3,346</b>	<b>5,389</b>
Previous year's profit allocation	-	-	-	-	-	-	-	3,346	(3,346)	-
Retained earnings	-	-	-	-	53	-	(15)	-	-	38
Dividends distribution	-	-	-	-	-	-	-	(1,240)	-	(1,240)
Net profit for the period	-	-	-	-	-	-	-	-	2,581	2,581
<b>Minority interests at June 30, 2007</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>-</b>	<b>(309)</b>	<b>4,445</b>	<b>2,581</b>	<b>6,768</b>
<b>Consolidated net equity at June 30, 2007</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(17,973)</b>	<b>2,086</b>	<b>321</b>	<b>133,654</b>	<b>36,400</b>	<b>410,328</b>

First semester 2008

(Euro'000)	Share capital	Share premium reserve	Shareholders' stock account payment	Treasury shares	Translation difference	Fair value and cash flow reserves	Retained earnings	Net profit	Total equity
<b>Group shareholders' equity at January 1, 2008</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(40,347)</b>	<b>(280)</b>	<b>130,375</b>	<b>53,267</b>	<b>398,855</b>
Previous year's profit allocation	-	-	-	-	-	-	53,267	(53,267)	-
Retained earnings	-	-	-	-	(19,208)	1,220	191	-	(17,797)
Dividends approved	-	-	-	-	-	-	(39,871)	-	(39,871)
Net profit for the period	-	-	-	-	-	-	-	21,924	21,924
<b>Group shareholders' equity at June 30, 2008</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(59,555)</b>	<b>940</b>	<b>143,962</b>	<b>21,924</b>	<b>363,111</b>
<b>Minority interests at January 1, 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(147)</b>	<b>-</b>	<b>1,542</b>	<b>3,525</b>	<b>4,920</b>
Previous year's profit allocation	-	-	-	-	-	-	3,525	(3,525)	-
Retained earnings	-	-	-	-	(81)	-	(1,312)	-	(1,393)
Dividend distribution	-	-	-	-	-	-	(463)	-	(463)
Net profit for the period	-	-	-	-	-	-	-	1,904	1,904
<b>Minority interests at June 30, 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(228)</b>	<b>-</b>	<b>3,292</b>	<b>1,904</b>	<b>4,968</b>
<b>Consolidated net equity at June 30, 2008</b>	<b>35,000</b>	<b>2,305</b>	<b>299,523</b>	<b>(80,988)</b>	<b>(59,783)</b>	<b>940</b>	<b>147,254</b>	<b>23,828</b>	<b>368,079</b>

## **NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Basis of preparation**

#### **1.1 General information**

These consolidated financial statements, expressed in thousands of Euro, refer to the financial period from January 1<sup>st</sup>, 2008 to June 30<sup>th</sup>, 2008. Economic and financial information is provided with reference to the first six months of 2008 and 2007, whilst balance sheet information is provided with reference to June 30<sup>th</sup>, 2008 and December 31<sup>st</sup>, 2007.

The consolidated financial information reported for the period ended June 30<sup>th</sup>, 2008 has been prepared in accordance with the IFRS issued by the International Accounting Standards Board and approved by the European Commission as of June 30<sup>th</sup>, 2008. In particular, this interim financial report has been prepared in accordance with IAS 34 – Interim Financial Reporting.

Accounting policies adopted for the preparation of this interim consolidated financial report have been applied in a comparative manner for the financial periods presented. They are also consistent with those applied for the Group IFRS annual consolidated financial statements as of December 31<sup>st</sup>, 2007.

The date of approval of these consolidated financial statements by the Board of Directors is July 30<sup>th</sup>, 2008.

#### **1.2 Consolidation method and consolidation area**

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

	Value	Share capital	Quota held %
<b>ITALIAN COMPANIES</b>			
Oxsol S.p.A. - Pieve di Cadore (BL)	EUR	121,000	100.0
Lenti S.r.l. – Bergamo	EUR	500,000	75.6
Smith Sport Optics S.r.l. (in liquidation) – Padua	EUR	102,775	100.0
<b>FOREIGN COMPANIES</b>			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100.0
Safint B.V. - Rotterdam (NL)	EUR	18,200	100.0
Safilo Capital Int. S.A. - Luxembourg (L)	EUR	31,000	100.0
Luxury Trade S.A - Luxembourg (L)	EUR	1,650,000	100.0
Safilo Benelux S.A. - Zaventem (B)	EUR	560,000	100.0
Safilo Espana S.L. - Madrid (E)	EUR	3,343,960	100.0
Navoptik S.L. - Madrid (E)	EUR	664,118	100.0
Safilo France S.a.r.l. - Paris (F)	EUR	960,000	100.0
Safilo Gmbh - Cologne (D)	EUR	511,300	100.0
Safilo Nordic AB - Taby (S)	SEK	500,000	100.0
Safilo Far East Ltd. - Hong Kong (RC)	HKD	49,700,000	100.0
Safint Optical Investment Ltd - Hong Kong (RC)	HKD	10,000	51.0
Safilo Hong-Kong Ltd – Hong Kong (RC)	HKD	100,000	51.0
Safilo Singapore Pte Ltd - Singapore (SGP)	SGD	400,000	100.0
Safilo Optical Sdn Bhd – Kuala Lumpur (MAL)	MYR	100,000	100.0
Safilo Trading Company Limited- Shenzhen (RC)	CNY	2,481,000	51.0
Safilo Eyewear (Shenzhen) Company Limited - (RC)	USD	700,000	51.0
Safilo Eyewear (Suzhou) Industries Limited - (RC)	USD	3,000,000	100.0
Safilo Eyewear Retail Shanghai Co. Ltd - (RC)	USD	2,100,000	100.0
Safilo Korea Ltd – Seoul (K)	KRW	300,000,000	100.0
Safilo Hellas Ottica S.a. – Athens (GR)	EUR	489,990	70.0
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100.0
Safilo South Africa (Pty) Ltd. – Bryanston (ZA)	ZAR	3,383	100.0
Safilo Austria Gmbh -Traun (A)	EUR	217,582	100.0
Carrera Optyl D.o.o. - Ormoz (SLO)	EUR	563,767	100.0
Safilo Japan Co Ltd - Tokyo (J)	JPY	100,000,000	100.0
Safilo Do Brasil Ltda – San Paolo (BR)	BRL	8,077,500	100.0
Safilo Portugal Lda – Lisbon (P)	EUR	500,000	100.0
Safilo Switzerland AG – Liestal (CH)	CHF	1,000,000	100.0
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
Just Spectacles Pty Ltd - Perth (AUS)	AUD	2,000	100.0
Just Spectacles (Franchisor) Pty Ltd - Perth - (AUS)	AUD	200	100.0
Just Spectacles Direct Pty Ltd - Perth (AUS)	AUD	400	100.0
Just Protection Eyewear Pty Ltd - Perth (AUS)	AUD	2	100.0
Optifashion Hong Kong Ltd - Hong Kong (RC)	HKD	300,000	100.0
Safint Optical UK Ltd. - Londra (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
Tide Ti S.A. de CV - Cancun (MEX)	MXN	52,010,000	60.0
2844-2580 Quebec Inc. – Montreal (CAN)	CAD	100,000	100.0
Safilo Canada Inc. - Montreal (CAN)	CAD	2,470,425	100.0
Canam Sport Eyewear Inc. - Montreal (CAN)	CAD	300,011	100.0

### 1.3 Translation of financial statements in currencies other than the Euro

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

	As of June 30, 2008	As of December 31, 2007	As of June 30, 2007	Avg. for the 6 months ended	
				June 30, 2008	June 30, 2007
US Dollar	1.5764	1.4721	1.3505	1.5304	1.3291
Hong-Kong Dollar	12.2943	11.4800	10.5569	11.9332	10.3829
Swiss Franc	1.6056	1.6547	1.6553	1.6065	1.6318
Canadian Dollar	1.5942	1.4449	1.4245	1.5401	1.5078
Japanese Yen	166.4400	164.9300	166.6300	160.6186	159.6122
British Pound	0.7923	0.7334	0.6740	0.7752	0.6746
Swedish Krown	9.4703	9.4415	9.2525	9.3753	9.2228
Australian Dollar	1.6371	1.6757	1.5885	1.6515	1.6446
South-African Rand	12.3426	10.0298	9.5531	11.7263	9.5297
Brasilian Real	2.5112	2.6178	2.5972	2.5866	2.7186
Indian Rupee	67.7974	58.0210	55.0153	62.3900	56.7239
Singapore Dollar	2.1446	2.1163	2.0664	2.1228	2.0314
Malaysian Ringgit	5.1509	4.8682	4.6626	4.9269	4.5815
Chinese Reminbi	10.8051	10.7524	10.2816	10.7989	10.2567
Korean Won	1,652.2200	1,377.9600	1,247.7300	1,512.0983	1,241.2481
Mexican Peso	16.2298	n/a	n/a	16.2394	n/a

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

### 1.4 Use of estimates

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

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

## 2. Notes on the consolidated balance sheet

### 2.1 Cash in hand and at bank

The account above amounts to Euro 55,124 thousand, compared to Euro 48,713 thousand as of December 31<sup>st</sup>, 2007 and represents the temporary liquidity held, invested at market rates. The book value of cash in hand and at bank is in line with its fair value at the balance sheet date and the credit risk is very limited, being the counterparts primary financial institutions.

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

<i>(Euro/000)</i>	June 30, 2008	June 30, 2007
Cash in hand and at bank	55,124	48,392
Bank overdrafts	(72,708)	(27,864)
<b>Total</b>	<b>(17,584)</b>	<b>20,528</b>

### 2.2 Trade receivables, net

This account is comprised as follows:

<i>(Euro/000)</i>	June 30, 2008	December 31, 2007
Gross value	364,533	335,329
Allowance for doubtful accounts	(22,215)	(19,537)
<b>Net value</b>	<b>342,318</b>	<b>315,792</b>

Net trade receivables increased mainly as a result of the seasonality of the business; it should be noted that the Group does not have a significant concentration of its credit risk as its trade receivables are related to a large number of customers.

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

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

### 2.3 Inventory, net

This account is comprised as follows:

<i>(Euro/000)</i>	June 30, 2008	December 31, 2007
Raw materials	37,954	49,176
Work-in-progress	5,596	7,313
Finished products	222,738	243,737
<b>Gross</b>	<b>266,288</b>	<b>300,226</b>
Obsolescence provision (-)	(24,429)	(25,943)
<b>Total</b>	<b>241,859</b>	<b>274,283</b>

Raw materials inventory decreased when compared to December 31<sup>st</sup> 2007 in expectation of lower production levels compared to the previous financial year.

Finished product inventory levels decreased compared to the end of 2007, despite the semester of the year usually requires higher stocks. This inventory reduction is explained by slight increase in forecast turnover and the will of minimizing the risk of obsolescence in the future.

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

The following table shows the movements in the obsolescence provision:

<i>(Euro/000)</i>	Balance at January 1, 2008	Posted to income statement	Transl. diff.	Balance at June 30, 2008
Obsolescence provision	25,943	(954)	(560)	24,429
<b>Total</b>	<b>25,943</b>	<b>(954)</b>	<b>(560)</b>	<b>24,429</b>

#### 2.4 Derivative financial instruments

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

<i>(Euro/000)</i>	June 30, 2008	December 31, 2007
<b>Current assets:</b>		
- Foreign currency contracts - at fair value through P&L	239	271
- Foreign currency contracts - at fair value through shareholders' equity	371	-
- Interest rate swaps - cash flow hedge	25	-
<b>Total</b>	<b>635</b>	<b>271</b>
<b>Non-current assets:</b>		
- Interest rate swaps - cash flow hedge	2,712	926
- Options	569	682
<b>Total</b>	<b>3,281</b>	<b>1,608</b>
<b>Current liabilities:</b>		
- Interest rate swaps - cash flow hedge	32	-
<b>Total</b>	<b>32</b>	<b>-</b>
<b>Non-current liabilities:</b>		
- Interest rate swaps - cash flow hedge	66	359
<b>Total</b>	<b>66</b>	<b>359</b>

A summary of the characteristics and the fair value of the derivative contracts in force at June 30<sup>th</sup>, 2008 and December 31<sup>st</sup>, 2007 is shown below:

	June 30, 2008			December 31, 2007		
	Contractual value <i>(USD/000)</i>	Fair value <i>(Euro/000)</i>	Fair value <i>(Euro/000)</i>	Contractual value <i>(USD/000)</i>	Fair value <i>(Euro/000)</i>	Fair value <i>(Euro/000)</i>
<b>Foreign currency contracts</b>						
Expiry year 2008	-	3,804	204	-	1,150	49
Expiry year 2008	8,307	-	406	18,000	-	222
<b>Total</b>	<b>8,307</b>	<b>3,804</b>	<b>610</b>	<b>18,000</b>	<b>1,150</b>	<b>271</b>

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

The characteristics and the fair value of interest rate swap contracts in force at June 30<sup>th</sup>, 2008 and December 31<sup>st</sup>, 2007 are summarized in the following table:

<b>Interest rate swaps</b> <i>(Euro/000)</i>	June 30, 2008		December 31, 2007	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2008	20,000	(7)	-	-
Expiry year 2010	25,000	352	25,000	(96)
Expiry year 2011	146,459	2,294	100,000	663
<b>Total</b>	<b>191,459</b>	<b>2,639</b>	<b>125,000</b>	<b>567</b>

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

The fair value of the advanced repayment option included in the notes issued by the subsidiary Safilo Capital International S.A. is reported among non-current assets for a total amount of Euro 569 thousand.

## 2.5 Other current assets

This account is comprised as follows:

(Euro/000)	June 30, 2008	December 31, 2007
Receivables from the holding company Safilo Group S.p.A.	47	14,000
VAT receivable	5,468	3,539
Tax credits and payments on account	6,473	9,054
Prepayments and accrued income	11,103	6,658
Receivables from agents	490	1,018
Other current receivables	7,438	21,179
<b>Total</b>	<b>31,019</b>	<b>55,448</b>

On September 15<sup>th</sup>, 2006, the holding company Safilo Group S.p.A. stipulated a facility agreement with its subsidiary Safilo S.p.A. bearing interest at the 3-months Euribor rate, plus a spread of 0.10% on an annual basis. At December 31<sup>st</sup>, 2007, the account receivables towards the holding company Safilo Group S.p.A. included a total amount of 14,000 thousand Euro with regard to the aforementioned loan, that has been fully reimbursed during the first quarter of this year.

The tax credits and payments on account principally relate to the income tax payments on account and will be compensated against the related tax payables.

Pre-payments and accrued income at June 30<sup>th</sup>, 2008 include:

- prepaid advertising costs of Euro 4,024 thousand;
- prepaid insurance premiums of Euro 459 thousand;
- preapaid costs for royalties of Euro 34 thousand;
- prepaid rent and operating leases of Euro 1,528 thousand;
- prepaid costs incurred for the "Revolving Facility" loan of Euro 1,068 thousand;
- other prepaid costs, mainly commercial, for the remaining part.

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

The decrease in the account "other current receivables" as of June 30<sup>th</sup>, 2008 mainly derives from the offsetting of the advance payment made in the previous year on 2008 royalties with the trade payables for royalties matured during the first semester.

2.6 Property, plant and equipment, net

<i>(Euro/000)</i>	Balance at January 1, 2008	Increase	Decrease	Reclass.	New acquisition	Transl. diff.	Balance at June 30, 2008
<b>Gross value</b>							
Land and buildings	116,050	6,485	(686)	-	1,039	(232)	122,656
Plant and machinery	165,889	4,448	(564)	-	-	(255)	169,518
Equipment and other assets	161,006	16,013	(3,397)	440	4,847	(3,170)	175,739
Assets under constructions	6,288	3,350	-	(1,585)	-	(49)	8,004
<b>Total</b>	<b>449,233</b>	<b>30,296</b>	<b>(4,647)</b>	<b>(1,145)</b>	<b>5,886</b>	<b>(3,706)</b>	<b>475,917</b>
<b>Accumulated depreciation</b>							
Land and buildings	30,558	1,991	(602)	-	259	(94)	32,112
Plant and machinery	107,009	5,771	(450)	-	-	(120)	112,210
Equipment and other assets	109,808	9,468	(3,344)	340	1,754	(1,456)	116,570
<b>Total</b>	<b>247,375</b>	<b>17,230</b>	<b>(4,396)</b>	<b>340</b>	<b>2,013</b>	<b>(1,670)</b>	<b>260,892</b>
<b>Net book value</b>	<b>201,858</b>	<b>13,066</b>	<b>(251)</b>	<b>(1,485)</b>	<b>3,873</b>	<b>(2,036)</b>	<b>215,025</b>

The investments in property, plant and equipment during the first half of 2008 amount to Euro 28,711 thousand (compared to Euro 19,784 thousand of the first six months of the previous year) and relate:

- for Euro 7,162 thousand related to the new facility in China and for Euro 6,518 thousand mainly to the substitution of obsolete machinery and the acquisition or internal production of machinery and equipment relating to new models in the production sites of the Group;
- for Euro 10,038 thousand to the new openings of the retail chain, in particular the Solstice chain that increased its number of stores of 23 units during the first six months of 2008;
- for Euro 1,989 thousand to the headquarter in Padua;
- to capital expenditures in various Group subsidiaries for the difference.

## 2.7 Intangible assets

(Euro/000)	Balance at January 1, 2008	Increase	Decrease/write-down	New acquisitions	Transl. diff.	Balance at June 30, 2008
<b>Gross value</b>						
Software	14,695	1,066	(272)	35	(253)	15,271
Trademarks and licenses	42,313	124	-	12	(38)	42,411
Other intangible assets	8,919	822	(1,015)	-	(119)	8,607
Intangible assets in progress	83	254	(10)	-	(2)	325
<b>Total</b>	<b>66,010</b>	<b>2,266</b>	<b>(1,297)</b>	<b>47</b>	<b>(412)</b>	<b>66,614</b>
<b>Accumulated depreciation</b>						
Software	9,853	915	(271)	26	(102)	10,421
Trademarks and licenses	26,477	1,661	-	-	(14)	28,124
Other intangible assets	6,250	243	(914)	-	(49)	5,530
<b>Total</b>	<b>42,580</b>	<b>2,819</b>	<b>(1,185)</b>	<b>26</b>	<b>(165)</b>	<b>44,075</b>
<b>Net book value</b>	<b>23,430</b>	<b>(553)</b>	<b>(112)</b>	<b>21</b>	<b>(247)</b>	<b>22,539</b>

Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the six months ended June 30<sup>th</sup>, 2008 and 2007 are divided into the following income statement as follows:

(Euro/000)	note	Six months ended June 30,	
		2008	2007
Cost of sales	3.2	10,629	10,438
Selling and marketing expenses	3.3	2,845	2,094
General and administrative costs	3.4	6,575	6,835
<b>Total</b>		<b>20,049</b>	<b>19,367</b>

## 2.8 Goodwill

(Euro/000)	Balance at January 1, 2008	Increase	Decrease	Transl. diff.	Balance at June 30, 2008
Goodwill	357,765	31,740	-	(12,302)	377,203
<b>Net book value</b>	<b>357,765</b>	<b>31,740</b>	<b>-</b>	<b>(12,302)</b>	<b>377,203</b>

The change compared to the end of 2007 relates to the translation differences occurred in the period and the acquisition of the retail chains Sunglass Island in Mexico and Just Spectacles in Australia.

In January 2008 Safilo Group acquired 60% of the company Tide Ti located in Cancun (Mexico) for a total amount of

about 15 million Euro.

The following table reports the total fair value of assets and liabilities acquired by the Group and the portion of them used for the computation of the goodwill arising from the business combination:

<b>Assets and liabilities acquired (Euro/000)</b>	<b>Total fair value of assets and liabilities acquired</b>	<b>60% fair value of assets and liabilities acquired</b>
Trade receivables, net	339	203
Inventories	4,652	2,791
Other current assets	951	571
Property, plant and equipment, net	1,364	818
Other non-current assets	651	390
Trade payables	(3,629)	(2,177)
Tax payables	(109)	(65)
Other current liabilities	(99)	(59)
Bank borrowings	(1,192)	(715)
<b>Total net assets</b>	<b>2,928</b>	<b>1,757</b>
Goodwill		13,236
<b>Price paid</b>		<b>14,993</b>

Value given to the put options held by minorities on the remaining 40% of the common stock of the Mexican company, together with a slight adjustment of the original contractual price, has determined an increase in goodwill for Euro 6,655 thousand. The total goodwill deriving from the transaction equals Euro 19,891 thousand.

On January 31<sup>st</sup>, 2008 Safilo Group acquired 100% of the shares of the Australian companies Just Spectacles PTY Ltd, Just Spectacles Franchisor PTY Ltd, Just Spectacles Direct PTY and Just Protection Eyewear PTY Ltd located in Perth (Australia) for a total amount of approximately 12.6 million Euro. A portion of the price agreed between the parties, equal to Euro 0.6 million, will be paid only when certain contractual conditions are met. The Group, considering the high level of probability that the above conditions are met, has accounted for an increase in investments in equity and a payable towards the former shareholders.

The following table reports the total fair value of assets and liabilities acquired by the Group and the goodwill arising from the business combination:

Assets and liabilities acquired (Euro/000)	Totale fair value of assets and liabilities acquired
Cash in hand and at banks	1,126
Trade receivables, net	520
Inventories	1,058
Other current assets	524
Property, plant and equipment and intangible fixed assets, net	2,509
Trade payables	(2,722)
Other current liabilities	(533)
Payables for financial leasing	(1,444)
<b>Total net assets</b>	<b>1,037</b>
Goodwill	11,551
<b>Price paid</b>	<b>12,588</b>

The above transactions were accounted for according to 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 acquired entities was determined temporarily, therefore determining the fair value to assign to the assets, liabilities and potential liabilities in the acquired companies only on a temporary basis. Should any need of rectifying these values arise, in accordance with paragraph 62 above, adjustments will be determined within twelve months from the date of acquisition.

Goodwill recorded by Safilo Group is entirely attributable to the excess income that is expected from distributing Group products through the retail channel and from the synergies that will result from the grouping.

Since the acquisition date, the new Group subsidiaries reported a net turnover of Euro 17,388 thousand and a net aggregate profit of Euro 1,012 thousand.

## 2.9 Investments in associates

Investments in associates refer to the following:

Company	Registered office or headquarters	% of share capital	Type of investment	Main activity
Elegance I. Holdings Ltd	Hong Kong	23.05%	Associated company	Commercial
Optifashion As	Turkey	50.00%	Non consolidated subsidiary	Commercial
TBR Inc.	USA	33.3%	Associated company	Real estate

The movements in investments in associates during the first half of 2008 were as follows:

(Euro/000)	31.12.2007			Movements for the period		Value at June 30, 2008
	Gross value	Revaluation/(write-down)	Value at December 31, 2007	Share of results and write-down of divid. of assoc. comp.	Transl. diff.	
TBR Inc.	404	576	980	75	(68)	987
Elegance Ltd	4,986	6,072	11,058	-	(729)	10,329
Optifashion As	353	(112)	241	-	-	241
<b>Total</b>	<b>5,743</b>	<b>6,536</b>	<b>12,279</b>	<b>75</b>	<b>(797)</b>	<b>11,557</b>

The changes compared to December 31<sup>st</sup>, 2007 are mainly due to the net profits realized in the period and to translation differences.

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

#### 2.10 Financial assets available-for-sale

This account represents the financial assets which may be sold. Their value is calculated with reference to official listed market prices at the reporting date.

(Euro/000)	Relationship	Value at June 30, 2008	Value at December 31, 2007
Gruppo Banco Popolare	Other equity investment	1,454	1,954
Unicredit S.p.A.	Other equity investment	112	164
Others	Other equity investment	247	325
<b>Total</b>		<b>1,813</b>	<b>2,443</b>

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

(Euro/000)	31.12.2007			Movements for the year		Value at June 30, 2008
	Gross value	Revaluation/(write-down)	Net value	Increase/(Decrease)	Revaluation/(write-down)	
Gruppo Banco Popolare	4,096	(2,142)	1,954	-	(500)	1,454
Unicredit S.p.A.	48	116	164	-	(52)	112
Others	43	282	325	(78)	-	247
<b>Total</b>	<b>4,187</b>	<b>(1,744)</b>	<b>2,443</b>	<b>(78)</b>	<b>(552)</b>	<b>1,813</b>

## 2.11 Deferred tax assets and deferred tax liabilities

(Euro/000)	June 30, 2008	December 31, 2007
Deferred tax assets	54,234	50,793
Deferred tax liabilities	(14,961)	(11,080)
<b>Total, net</b>	<b>39,273</b>	<b>39,713</b>

### Deferred tax assets

Deferred tax assets refer to income taxes calculated on fiscal losses recoverable in future years and temporary differences between the tax basis of assets and liabilities and their book carrying amount. Deferred tax assets on Group losses carried forward have been calculated as there is the reasonable expectation of their recovery through future assessable incomes.

### Deferred tax liabilities

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

The most important account included in deferred tax liabilities mainly relates the property, plant and equipment and the goodwill amortization, calculated only for fiscal purposes.

## 2.12 Other non-current assets

The account is comprised as follows:

(Euro/000)	June 30, 2008	December 31, 2007
Receivables from the holding company Safilo Group S.p.A.	18,207	16,759
Other non-current assets	11,108	8,629
<b>Total</b>	<b>29,315</b>	<b>25,388</b>

Receivables from the parent company Safilo Group S.p.A. refer primarily to the fiscal losses realized by Safilo S.p.A. during the financial years 2005 and 2006 and transferred to Safilo Group S.p.A. in accordance with the mechanism of the so-called "national tax consolidation".

At June 30<sup>th</sup>, 2008 the account balance "other non-current assets" amount to Euro 11,108 thousand and mainly refer:

- for Euro 4,309 thousand to the receivable relating to the quotas of employment benefit liability that the holding company Safilo S.p.A. has transferred to the Treasury Fund founded by the Italian Social Security Institution (INPS) further to the modifications introduced by the Finance Bill no. 296 of 2006;
- for Euro 3,140 thousand to receivables for guarantee deposits;
- for the remaining part to other long-term receivables due to various Group companies.

### 2.13 Bank loans and borrowings

This account is comprised as follows:

(Euro/000)	June 30, 2008	December 31, 2007
<b>Short-term borrowings</b>		
Bank overdrafts	9,965	2,395
Short-term bank loans	62,743	82,956
Short-term portion of long-term bank loans	34,752	34,516
Short-term portion of financial leasing	1,526	1,197
Debt to the factoring company	47,280	39,300
Other short-term loans	1,264	1,345
<b>Total</b>	<b>157,530</b>	<b>161,709</b>
<b>Long-term borrowings</b>		
Medium long-term loans	429,870	400,567
Payables for financial leasing	11,229	8,595
Other medium long-term loans	560	665
<b>Total</b>	<b>441,659</b>	<b>409,827</b>
<b>Total borrowings</b>	<b>599,189</b>	<b>571,536</b>

The short-term portion of long-term bank loans includes for Euro 34,713 thousand the portion of the senior loan, stipulated at the end of June 2006, which is expiring by the end of this year, while the remaining part, for a total amount of Euro 39 thousand, refers to the short-term portion of other bank loans granted to some companies of the Group.

The long-term portion of the senior loan, equal to Euro 233,890 thousand, is included in the "Medium long-term loans". The loan above is structured as follows:

- Euro 200 million, relating to the "Facility A", with half yearly repayments starting from December 2006 until December 2011. The Facility A is in turn subdivided into three tranches, of which one in Euro (Tranche A1, Euro 80 million) at an interest rate of Euribor plus an initial margin of 0.60%, and two in US Dollars (Tranche A2 and Tranche A3, USD 70.4 million and USD 80.5 million respectively) at an interest rate of Libor plus an initial margin of 0.60%. The margin currently applied equals 0.50%.

- Euro 200 million, relating to the "Revolving Facility" composed of two tranches also provided in US Dollars (Tranche B1 Euro 170 million, Tranche B2 Euro 30 million) utilised at June 30<sup>th</sup>, 2008 for Euro 130 million and USD 6 million. Effective from July 1<sup>st</sup> 2007, the lenders have conceded a one-year extension of the Revolving Facility, the expiry date of which was originally dated December 31<sup>st</sup>, 2011.

The account "Medium long-term loans" also include the High Yield bond, equal to a nominal value of Euro 195 million.

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

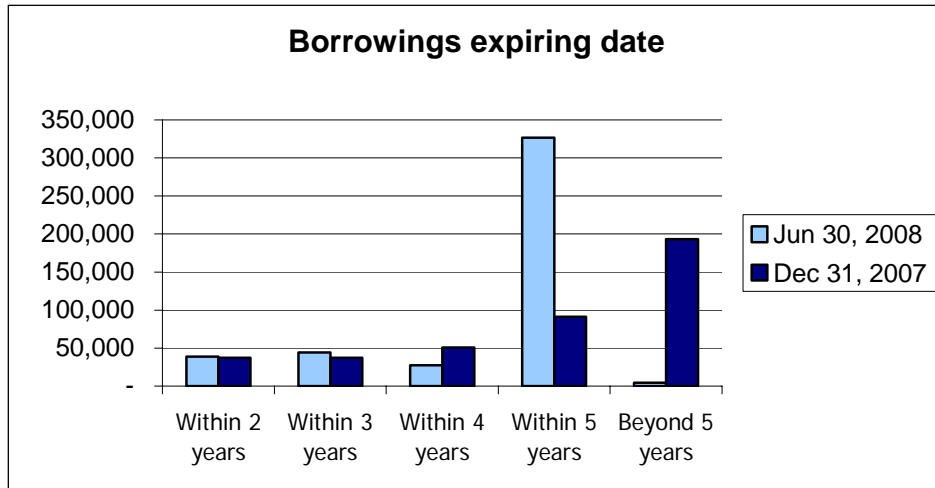
The payables for financial leases refer to property, plant and equipment acquired under leasing contracts by companies belonging to the Group. The average residual life of leasing contracts is 7 years. All leasing contracts at the interim balance sheet date are repayable through equal instalments and the contracts do not include any option for reviewing the original contract.

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

Other short-term loans include, for Euro 47,280 thousand, a payable to a primary factoring company deriving from the contract signed by Safilo S.p.A..

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

<i>(Euro/000)</i>	June 30, 2008	December 31, 2007
Within 2 years	38,816	37,265
Within 3 years	44,412	37,423
Within 4 years	27,226	50,728
Within 5 years	326,567	91,237
Beyond 5 years	4,638	193,174
<b>Total</b>	<b>441,659</b>	<b>409,827</b>



Borrowings by currency are as follows:

<i>(Euro/000)</i>	June 30, 2008	December 31, 2007
<b>Short-term</b>		
Euro	134,288	141,380
US Dollars	19,971	15,129
Brasilian Real	2,109	2,744
Yen	-	1,213
Hong Kong Dollars	1,162	1,245
<b>Total</b>	<b>157,530</b>	<b>161,709</b>
<b>Medium long-term</b>		
Euro	381,719	343,588
US Dollars	58,138	66,239
Yen	1,802	-
<b>Total</b>	<b>441,659</b>	<b>409,827</b>
<b>Total borrowings</b>	<b>599,189</b>	<b>571,536</b>

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

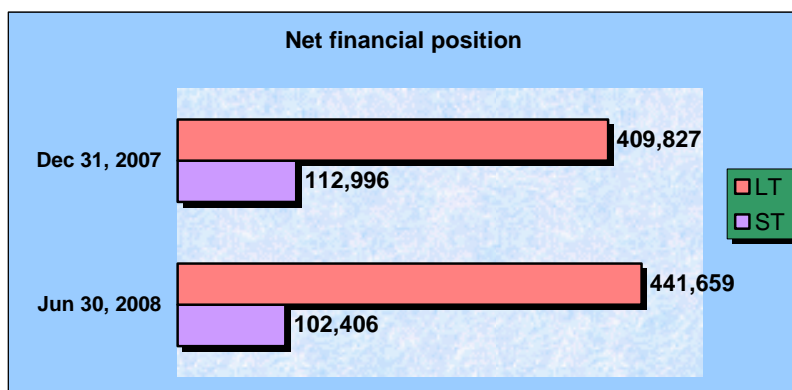
<i>(Euro/000)</i>	Credit lines granted	Uses	Credit lines available
Credit lines on bank accounts and short-term bank loans	238,504	69,860	168,644
Credit lines on long-term bank loans	342,607	276,413	66,194
<b>Total</b>	<b>581,111</b>	<b>346,273</b>	<b>234,838</b>

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

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

The Group net financial position as of June 30<sup>th</sup>, 2008 compared with the same as of March 31<sup>st</sup>, 2008 and December 31<sup>st</sup>, 2007 is the following:

<b>Net financial position</b> <i>(Euro/000)</i>	<b>June 30,</b> <b>2008</b>	<b>March 31,</b> <b>2008</b>	<b>Change</b> <b>Jun - Mar</b>	<b>December</b> <b>31, 2007</b>	<b>Change</b> <b>Jun - Dec</b>
Current portion of long-term borrowings	(34,752)	(30,125)	(4,627)	(34,516)	(236)
Bank overdrafts and short-t. bank borrowings	(72,708)	(100,566)	27,858	(85,351)	12,643
Other short-term borrowings	(50,070)	(38,861)	(11,209)	(41,842)	(8,228)
Cash and cash equivalents	55,124	43,268	11,856	48,713	6,411
<b>Short-term net financial position</b>	<b>(102,406)</b>	<b>(126,284)</b>	<b>23,878</b>	<b>(112,996)</b>	<b>10,590</b>
Long-term borrowings	(441,659)	(433,737)	(7,922)	(409,827)	(31,832)
<b>Long-term net financial position</b>	<b>(441,659)</b>	<b>(433,737)</b>	<b>(7,922)</b>	<b>(409,827)</b>	<b>(31,832)</b>
<b>Net financial position</b>	<b>(544,065)</b>	<b>(560,021)</b>	<b>15,956</b>	<b>(522,823)</b>	<b>(21,242)</b>



Legend:

- LT= long-term.

- ST= short-term.

## 2.14 Trade payables

(Euro/000)	June 30, 2008	December 31, 2007
Payables to the holding company Safilo Group S.p.A.	85	60
Trade payables for purchase of raw materials	41,140	43,242
Trade payables for purchase of finished goods	61,811	60,525
Suppliers from subcontractors	4,404	8,280
Trade payables for purchase of property, plant and equipment and intangible assets	4,019	3,683
Trade payables for commissions	8,636	5,933
Trade payables for royalties	18,540	20,318
Trade payables for advertising and marketing costs	29,519	24,346
Trade payables for services	29,344	27,949
<b>Total</b>	<b>197,498</b>	<b>194,336</b>

## 2.15 Tax payables

Tax payables as of June 30<sup>th</sup>, 2008 amount to Euro 21,919 thousand compared to Euro 20,535 thousand as at December 31<sup>st</sup>, 2007 and relate for Euro 10,343 thousand to income taxes, for Euro 8,175 thousand to VAT payables and for the remainder to advanced and various tax liabilities and local taxes.

The accrual for current income tax expenses is disclosed in the note related to income taxes (3.8).

## 2.16 Other current liabilities

(Euro/000)	June 30, 2008	December 31, 2007
Payables to the holding company Safilo Group S.p.A.	2,939	2,793
Payables to personnel and social security institutions	36,902	30,088
Premiums to clients	20,657	27,231
Agent fee payables	1,739	1,792
Payables to pension funds	1,357	880
Accrued advertising and sponsorship costs	885	484
Accrued interests on long-term loans	3,793	3,283
Other accruals and deferred income	2,327	3,519
Payables for dividends	41,804	36,726
Other current liabilities	1,396	2,651
<b>Total</b>	<b>113,799</b>	<b>109,447</b>

Payables to the holding company Safilo Group S.p.A. refers for Euro 1,712 thousand for the account balance of the V.A.T. debt transferred to Safilo Group S.p.A. by virtue of the Group V.A.T. which Safilo Group S.p.A., Safilo S.p.A. and Smith Sport Optics S.r.l. in liquidation adhere to from January 1<sup>st</sup>, 2007.

The account "payables to personnel and social security institutions" mainly refers to wages and salaries for June, the

accrual for Christmas bonuses and for vacation days matured and not taken.

The account “payables for dividends” relates to the dividends approved at the shareholders’ Meetings and not yet paid at the interim balance sheet date.

## 2.17 Provisions for risks and charges

This account is comprised as follows:

<i>(Euro/000)</i>	Balance at January 1, 2008	Increase	Decrease	Transl. diff.	Balance at June 30, 2008
Product warranty provision	4,463	731	(571)	(3)	4,620
Agents' severance indemnity	3,799	324	-	-	4,123
Other provisions for risks and charges	4,527	109	(506)	(18)	4,112
<b>Provisions for risks - long term</b>	<b>12,789</b>	<b>1,164</b>	<b>(1,077)</b>	<b>(21)</b>	<b>12,855</b>
<b>Provisions for risks - short term</b>	<b>803</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>864</b>
<b>Total</b>	<b>13,592</b>	<b>1,225</b>	<b>(1,077)</b>	<b>(21)</b>	<b>13,719</b>

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

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

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

## 2.18 Employee benefit liability

This liability refers to different forms of defined benefit and defined contribution pension plans, in line with the local conditions and practices in the countries where the Group carries out its activities. The movements occurred in the period are shown below:

<i>(Euro/000)</i>	Balance at January 1, 2008	Posted to income statement	Actuarial differences	Use/ Payments	Transl. diff.	Balance at June 30, 2008
Defined contribution plan	3,097	2,385	-	(108)	-	5,374
Defined benefit plan	34,671	327	-	(960)	(37)	34,001
<b>Total</b>	<b>37,768</b>	<b>2,712</b>	<b>-</b>	<b>(1,068)</b>	<b>(37)</b>	<b>39,375</b>

### 2.19 Other non-current liabilities

The other non-current liabilities as of June 30<sup>th</sup>, 2008 amount to Euro 17,285 thousand and mainly include:

- liabilities deriving from existing contracts with licensors for the production and distribution of licensed products;
- the liability deriving from the settlement agreement reached by an American subsidiary in relation to an action pending for the use of a patent;
- payables deriving from the put options held by minority shareholders in some Group companies.

### 2.20 Share capital

Safilo's capital stock as of June 30<sup>th</sup>, 2008 amounted to Euro 35,000 thousand and consisted of 35,000,000 ordinary shares having a nominal value of Euro 1 per share.

### 2.21 Share premium reserve

The share premium reserve amounts to Euro 2,305 thousand and refers to:

- the higher price paid by the parent company's shareholders above the nominal price, in relation to the decision to underwrite the share capital increase, approved in the Extraordinary shareholders' Meeting on April 30<sup>th</sup>, 2003;
- the higher price paid by the parent company's shareholders above the nominal value, in relation to underwriting the share capital increase, decided with the Extraordinary shareholders' Meeting on May 19<sup>th</sup>, 2004.

### 2.22 Retained earnings and other reserves

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

### 2.23 Fair value and cash flow reserves

This account is comprised as follows:

<i>(Euro/000)</i>	Balance at January 1, 2008	Impact on equity	Impact on income statement	Balance at June 30, 2008
Cash flow reserve	393	1,772	-	2,165
Fair value reserve	(673)	(552)	-	(1,225)
<b>Total</b>	<b>(280)</b>	<b>1,220</b>	<b>-</b>	<b>940</b>

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

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

#### 2.24 Stock option plans

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

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

Further to the mandate granted by the Extraordinary shareholders' Meeting on October 24th, 2005, the Board of Directors of Safilo Group S.p.A. resolved to increase the share capital on May 31st, 2006 to a maximum nominal figure of Euro 2,125,296.25 by issuing up to a maximum of 8,501,185 ordinary shares of a value of Euro 0.25 each, with a share premium of Euro 4.16. These shares 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  $\frac{1}{4}$  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 26<sup>th</sup>, 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 20<sup>th</sup>, 2008.

The total of the costs allocated to the income statement in the first semester of 2008 and 2007 can be summarised as follows:

<i>(Euro/000)</i>	Six months ended June 30,	
	2008	2007
2006 Plan	279	279
<b>Total</b>	<b>279</b>	<b>279</b>

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

#### 3.1 Net sales

Reference should be made to the "Directors' report on operations" for further details regarding the sales trend of the first three months of 2008 compared to the same period of the previous year.

#### 3.2 Cost of sales

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Purchase of raw materials and finished goods	160,192	190,703	79,489	92,841
Capitalisation of costs for increase in property, plant and equipment (-)	(5,762)	(5,470)	(3,461)	(2,960)
Change in inventories	29,843	6,275	16,467	9,282
Payroll and social security contributions	55,513	53,021	27,480	25,059
Subcontracting costs	8,499	14,210	3,202	5,627
Depreciation	10,629	10,438	5,295	5,198
Rental and operating leases	691	466	443	265
Other industrial costs	4,357	4,679	1,967	2,177
<b>Total</b>	<b>263,962</b>	<b>274,322</b>	<b>130,882</b>	<b>137,489</b>

The decrease in the cost of materials and finished goods is partly due to the effect of the exchange rate, as most of finished products are bought in US dollars, and partly due to the Group strategy aimed at reducing the levels of inventory.

The change in inventories is broken down as follows:

(Euro/000)	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Finished products	16,870	(1,593)	13,481	7,213
Work-in-progress	1,656	324	1,299	550
Raw materials	11,317	7,544	1,687	1,519
<b>Total</b>	<b>29,843</b>	<b>6,275</b>	<b>16,467</b>	<b>9,282</b>

The total average workforce of the Group for the first half of 2008 and 2007 is broken down as follows:

	Six months ended June 30,	
	2008	2007
Padua headquarters	867	864
Production facilities	4,665	4,898
Commercial companies	1,361	1,171
Retail	1,730	910
<b>Total</b>	<b>8,623</b>	<b>7,843</b>

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

### 3.3 Selling and marketing expenses

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Payroll and social security contributions	55,410	52,287	28,170	26,377
Commissions to sales agents	39,788	43,472	19,967	20,976
Royalty expenses	51,688	56,406	24,825	27,777
Advertising and promotional costs	58,844	59,884	28,963	30,251
Amortization and depreciation	2,845	2,094	1,786	1,068
Logistic costs	10,083	9,061	5,104	4,118
Consultants fees	2,358	2,644	1,096	1,211
Rental and operating leases	8,846	5,789	4,877	2,932
Utilities	748	657	299	278
Provision for risks	379	1,202	165	886
Other sales and marketing expenses	11,963	12,452	5,679	6,444
<b>Total</b>	<b>242,952</b>	<b>245,948</b>	<b>120,931</b>	<b>122,318</b>

The increase in payroll costs mainly derives from the development of the retail channel, whilst the reduction in commissions to sales agents and in royalties is linked to the decrease in turnover for the first half of 2008 when compared to the same period of 2007.

### 3.4 General and administrative expenses

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Payroll and social security contributions	29,746	28,517	13,334	13,011
Allowance for doubtful accounts	1,402	1,778	804	1,181
Amortization and depreciation	6,575	6,835	3,155	3,469
Consultants fees	6,657	6,984	3,538	3,791
Rental and operating leases	3,910	3,537	1,710	1,818
EDP costs	1,925	1,908	991	927
Insurance costs	1,475	1,290	663	633
Utilities, security and cleaning	3,614	3,302	1,753	1,678
Taxes (other than on income)	1,393	1,225	657	600
Other general and administrative expenses	7,703	10,389	3,872	6,482
<b>Total</b>	<b>64,400</b>	<b>65,765</b>	<b>30,477</b>	<b>33,590</b>

### 3.5 Other income/(expenses), net

This account is comprised as follows:

<i>(Euro/000)</i>	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Losses on disposal of assets	(74)	(365)	(71)	(356)
Other operating expenses	(880)	(348)	(593)	(219)
Gains on disposal of assets	5	20	-	13
Other operating incomes	688	572	438	163
<b>Total</b>	<b>(261)</b>	<b>(121)</b>	<b>(226)</b>	<b>(399)</b>

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

This account amounts to Euro 75 thousand (Euro 224 thousand for the same period of previous year) and consists of the income deriving from the equity valuation of the holdings in associated companies.

### 3.7 Interest expense and other financial charges, net

This account is comprised as follows:

(Euro/000)	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Interest expense on loans	11,686	9,476	6,212	4,537
Interest expense and charges on High Yield	9,831	9,752	4,932	4,902
Bank commissions	2,334	1,861	1,278	1,018
Negative exchange rate differences	9,767	3,673	417	1,890
Financial discounts	1,639	2,624	855	1,519
Other financial charges	436	1,168	418	156
<b>Total financial charges</b>	<b>35,693</b>	<b>28,554</b>	<b>14,112</b>	<b>14,022</b>
Interest income	616	697	276	417
Positive exchange rate differences	8,411	5,182	852	3,202
Dividends	85	7	85	7
Other financial income	90	230	44	203
<b>Total financial income</b>	<b>9,202</b>	<b>6,116</b>	<b>1,257</b>	<b>3,829</b>
<b>Total financial charges, net</b>	<b>26,491</b>	<b>22,438</b>	<b>12,855</b>	<b>10,193</b>

Net financial charges increased when compared to the first six months of 2007 mainly as a consequence of the increased interest rates on the market and of the strong fluctuations in the foreign currencies, which led to a higher impact of the negative exchange differences.

### [3.8 Income tax expenses](#)

(Euro/000)	Six months ended June 30,		Q2	
	2008	2007	2008	2007
Current taxes	(20,099)	(20,046)	(8,455)	(7,933)
Deferred taxes	4,958	(2,996)	1,899	(1,002)
<b>Total</b>	<b>(15,141)</b>	<b>(23,042)</b>	<b>(6,556)</b>	<b>(8,935)</b>

### [3.9 Seasonality](#)

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

During the first semester of 2008, there were no unusual or extraordinary items affecting assets, liabilities, equity, net income or cash flows.

### [3.10 Dividends](#)

During the first six months of 2008 the holding company Safilo S.p.A. has paid dividends for a total amount of Euro

33.0 million to its shareholder.

### 3.11 Segment information

Information by business (retail/wholesale) and geographical area is disclosed according to IAS 14 – Segment information.

Starting from financial year 2008, the primary reporting format is by business segment while geographical segments represent the secondary reporting format. This decision is based on the way in which management runs the Group and the manner in which it attributes managerial responsibilities.

It should be noted that the grouping of geographical areas is based on the location of the registered office of each Group company. Segment information is therefore determined by the invoices issued at country of origin and not by the country of destination.

Presented below are information according to the distribution channel:

June 30, 2008				
<i>(Euro/000)</i>	WHOLESALE	RETAIL	Elimin.	Total
<b>Net sales</b>				
-to other segments	6,290	-	(6,290)	-
-to third parties	583,989	52,971	-	636,960
<b>Total net sales</b>	<b>590,279</b>	<b>52,971</b>	<b>(6,290)</b>	<b>636,960</b>
<b>Operating profit</b>	<b>66,359</b>	<b>(974)</b>	<b>-</b>	<b>65,385</b>
Share of income of associates	75	-		75
Financial expenses and other charges, net				(26,491)
Income taxes				(15,141)
<b>Net profit</b>				<b>23,828</b>
<i>Operating profit margin</i>	<i>11%</i>	<i>-2%</i>		<i>10%</i>
<b>Other information</b>				
Depreciation & amortization	17,296	2,753		20,049

June 30, 2007 (Euro/000)	WHOLESALE	RETAIL	Elimin.	Total
<b>Net sales</b>				
-to other segments	6,423	-	(6,423)	-
-to third parties	631,912	35,900	-	667,812
<b>Total net sales</b>	<b>638,334</b>	<b>35,900</b>	<b>(6,423)</b>	<b>667,812</b>
<b>Operating profit</b>	<b>81,746</b>	<b>(90)</b>	<b>-</b>	<b>81,656</b>
Share of income of associates	224	-		224
Financial expenses and other charges, net				(22,438)
Income taxes				(23,042)
<b>Net profit</b>				<b>36,400</b>
<i>Operating profit margin</i>	<i>13%</i>	<i>0%</i>		<i>12%</i>
<b>Other information</b>				
Depreciation & amortization	17,374	1,993		19,367

Q2, 2008 (Euro/000)	WHOLESALE	RETAIL	Elimin.	Total
<b>Net sales</b>				
-to other segments	2,127	-	(2,127)	-
-to third parties	282,589	28,351	-	310,940
<b>Total net sales</b>	<b>284,716</b>	<b>28,351</b>	<b>(2,127)</b>	<b>310,940</b>
<b>Operating profit</b>	<b>28,262</b>	<b>162</b>	<b>-</b>	<b>28,424</b>
Share of income of associates	37	-		37
Financial expenses and other charges, net				(12,855)
Income taxes				(6,556)
<b>Net profit</b>				<b>9,050</b>
<i>Operating profit margin</i>	<i>10%</i>	<i>1%</i>		<i>9%</i>
<b>Other information</b>				
Depreciation & amortization	8,677	1,560		10,237

<b>Q2, 2007</b> (Euro/000)	<b>WHOLESALE</b>	<b>RETAIL</b>	<b>Elimin.</b>	<b>Total</b>
<b>Net sales</b>				
-to other segments	3,593	(13)	(3,580)	-
-to third parties	306,209	20,208	-	326,417
<b>Total net sales</b>	<b>309,802</b>	<b>20,195</b>	<b>(3,580)</b>	<b>326,417</b>
<b>Operating profit</b>	<b>32,368</b>	<b>253</b>	<b>-</b>	<b>32,621</b>
Share of income of associates	185	-		185
Financial expenses and other charges, net				(10,193)
Income taxes				(8,935)
<b>Net profit</b>				<b>13,678</b>
<i>Operating profit margin</i>	<i>10%</i>	<i>1%</i>		<i>10%</i>
<b>Other information</b>				
Depreciation & amortization	8,669	1,066		9,735

Below, information according to the geographical area:

<b>June 30, 2008</b> (Euro/000)	<b>Italy</b> (1)	<b>Europe</b> (2)	<b>America</b> (3)	<b>Asia</b> (4)	<b>Corporate</b> (5)	<b>Eliminat.</b>	<b>Total</b>
<b>Net sales</b>							
-to other segments	157,514	34,182	1,218	1,116	-	(194,030)	-
-to third parties	150,622	199,160	206,746	80,432	-	-	636,960
<b>Total net sales</b>	<b>308,136</b>	<b>233,342</b>	<b>207,964</b>	<b>81,548</b>	<b>-</b>	<b>(194,030)</b>	<b>636,960</b>
<b>Gross profit</b>	<b>110,003</b>	<b>102,071</b>	<b>115,182</b>	<b>43,454</b>	<b>-</b>	<b>2,288</b>	<b>372,998</b>
<b>Operating profit</b>	<b>10,405</b>	<b>21,180</b>	<b>23,988</b>	<b>11,492</b>	<b>82</b>	<b>(1,762)</b>	<b>65,385</b>
Interest expense							(35,693)
Interest income							9,202
Share of income of associates		-	-	75	-	-	75
Income taxes							(15,141)
<b>Net profit</b>							<b>23,828</b>
<i>Gross profit margin</i>	<i>36%</i>	<i>44%</i>	<i>55%</i>	<i>53%</i>			<i>59%</i>
<i>Operating profit margin</i>	<i>3%</i>	<i>9%</i>	<i>12%</i>	<i>14%</i>			<i>10%</i>
<b>Other information</b>							
Depreciation & amortization	12,386	3,517	3,407	738	1		20,049

- (1) Includes operating companies with registered office in Italy.
- (2) Includes operating companies based in European countries other than Italy, in India and South Africa.
- (3) Includes operating companies based in USA, Canada and Brazil.
- (4) Includes operating companies based in Asia, including subsidiaries located in Australia.
- (5) Holding companies.

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

Q2, 2008							
(Euro/000)	Italy	Europe	America	Asia	Corporate	Eliminat.	Total
	(1)	(2)	(3)	(4)	(5)		
<b>Net sales</b>							
-to other segments	69,082	17,581	895	781	-	(88,339)	-
-to third parties	75,052	92,098	101,140	42,650	-	-	310,940
<b>Total net sales</b>	<b>144,134</b>	<b>109,679</b>	<b>102,035</b>	<b>43,431</b>	<b>-</b>	<b>(88,339)</b>	<b>310,940</b>
<b>Gross profit</b>	<b>52,218</b>	<b>48,024</b>	<b>57,469</b>	<b>21,416</b>	<b>-</b>	<b>932</b>	<b>180,058</b>
<b>Operating profit</b>	<b>3,951</b>	<b>8,177</b>	<b>13,554</b>	<b>4,507</b>	<b>24</b>	<b>(1,789)</b>	<b>28,424</b>
Interest expense							(14,112)
Interest income							1,257
Share of income of associates	-	-	37	-	-		37
Income taxes							(6,556)
<b>Net profit</b>							<b>9,050</b>
<i>Gross profit margin</i>	36%	44%	56%	49%			58%
<i>Operating profit margin</i>	3%	7%	13%	10%			9%
<b>Other information</b>							
Depreciation & amortization	6,144	1,899	1,764	429	-		10,237

<b>Q2, 2007</b>							
<i>(Euro/000)</i>	<b>Italy</b>	<b>Europe</b>	<b>America</b>	<b>Asia</b>	<b>Corporate</b>	<b>Eliminat.</b>	<b>Total</b>
	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>		
<b>Net sales</b>							
-to other segments	90,587	13,110	676	172	-	(104,546)	-
-to third parties	77,483	103,363	107,215	38,356	-	-	326,417
<b>Total net sales</b>	<b>168,070</b>	<b>116,473</b>	<b>107,892</b>	<b>38,529</b>	<b>-</b>	<b>(104,546)</b>	<b>326,417</b>
<b>Gross profit</b>	<b>68,036</b>	<b>50,754</b>	<b>52,209</b>	<b>18,341</b>	<b>-</b>	<b>(411)</b>	<b>188,928</b>
<b>Operating profit</b>	<b>14,780</b>	<b>11,487</b>	<b>2,342</b>	<b>4,512</b>	<b>77</b>	<b>(578)</b>	<b>32,621</b>
Interest expense							(14,022)
Interest income							3,829
Share of income of associates	-	-	38	105	42		185
Income taxes							(8,935)
<b>Net profit</b>							<b>13,678</b>
<i>Gross profit margin</i>	<i>40%</i>	<i>44%</i>	<i>48%</i>	<i>48%</i>			<i>58%</i>
<i>Operating profit margin</i>	<i>9%</i>	<i>10%</i>	<i>2%</i>	<i>12%</i>			<i>10%</i>
<b>Other information</b>							
Depreciation & amortization	6,341	1,683	1,422	283	6		9,735

## RELATED PARTY TRANSACTIONS

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

Related parties transactions (Euro/000)	Relationship	June 30, 2008	December 31, 2007
<i>Receivables</i>			
Elegance International Holdings Ltd	(b)	381	603
<b>Total</b>		<b>381</b>	<b>603</b>

<i>Payables</i>			
Elegance International Holdings Ltd	(b)	7,786	8,881
<b>Total</b>		<b>7,786</b>	<b>8,881</b>

Related parties transactions (Euro/000)	Relationship	Six months ended June 30,	
		2008	2007
<i>Revenues</i>			
Elegance International Holdings Ltd	(b)	9	-
Optifashion As	(a)	50	55
<b>Total</b>		<b>59</b>	<b>55</b>
<i>Costs</i>			
Elegance International Holdings Ltd	(b)	8,883	14,267
TBR Inc.	(b)	521	571
<b>Total</b>		<b>9,404</b>	<b>14,838</b>

(a) Unconsolidated subsidiary;

(b) Associated company.

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

Safilo USA rents its headquarters and distribution centre in the USA (New Jersey), based on a rental contract with TBR Inc., a company one-third owned by Vittorio Tabacchi, Chairman of the Board of Directors and shareholder of Safilo Group S.p.A., one third by a subsidiary company of the Safilo Group S.p.A. and one third by a third party. Safilo Group S.p.A. indirectly acquired the holding in TBR Inc. in 2002 for Euro 629 thousand. In the first three months of 2008, the Group paid rent of Euro 521 thousand to TBR Inc. The terms and conditions of the rental contract are in line with market conditions for similar contracts.

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

executive of the Group, are non-executive directors of Elegance. In addition, Mario Pietribiasi is also a shareholder of the company with a holding lower than 0.50%.

## **CONTINGENT LIABILITIES**

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

Nevertheless, at June 30<sup>th</sup>, 2008, we are currently party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, are groundless. However, a negative outcome of them beyond that estimated, could have a material adverse effect on our business, financial condition or on results of operations.

Among the most important claims in monetary terms, we highlight: (i) a June 2005 claim against Safilo S.p.A. in legal fees allegedly owed to an Italian law firm for legal services provided to the defendants from 1999 to 2001 related to the IPO; (ii) a claim alleging unfair business practices against Safilo S.p.A. by one of our clients who later filed bankruptcy. The claim has been taken over by the plaintiff's receiver, who seeks damages; (iii) two companies (having the same owner and both subsequently filed bankruptcy), clients of the Group, filed two claims against Safilo S.p.A.; these claims are now over and no further actions against Safilo are expected.

## **COMMITMENTS**

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

## **FORWARD-LOOKING STATEMENTS**

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

These factors include, among other things:

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

- factors affecting our ability to obtain or maintain intellectual property protection for our products;
- uncertainties associated with general economic conditions;
- governmental factors, including the costs of compliance with regulations and the impact of regulatory changes; and
- other risks, uncertainties and factors inherent in our business.

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

#### **FURTHER INFORMATION**

For further information:

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