



*QUARTERLY REPORT*

*SAFILO GROUP S.p.A.*

*as of MARCH 31, 2006*

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This Quarterly Report is available on the website:

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

**SAFILO GROUP S.P.A.**

Settima Strada, 15

35129 Padua - Italy

## **Contents**

<b>CORPORATE OFFICERS .....</b>	<b>4</b>
<b>1. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION .....</b>	<b>5</b>
<b>2. SELECTED ECONOMIC AND FINANCIAL DATA .....</b>	<b>6</b>
<b>3. SUBSEQUENT EVENTS .....</b>	<b>11</b>
<b>4. CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>12</b>
<b>5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2006 AND DECEMBER 31, 2005 AND FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005. ....</b>	<b>17</b>
<b>6. NOTES TO THE CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2006 AND DECEMBER 31, 2005 .....</b>	<b>20</b>
<b>7. NOTES TO THE CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005 .....</b>	<b>37</b>
<b>8. RELATED PARTY TRANSACTIONS .....</b>	<b>43</b>
<b>9. CONTINGENT LIABILITIES.....</b>	<b>44</b>
<b>10. COMMITMENTS .....</b>	<b>45</b>

## Corporate Officers

### Board of Directors

<i>Chairman</i>	Vittorio Tabacchi
<i>Vice-Chairman</i>	Giannino Lorenzon
<i>Chief Executive Officer</i>	Roberto Vedovotto
<i>Directors</i>	Ennio Doris Carlo Gilardi Riccardo Ruggiero Massimiliano Tabacchi

### Board of Statutory Auditors

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

### Internal Control Committee

<i>Chairman</i>	Carlo Gilardi Ennio Doris Riccardo Ruggiero
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### Remuneration Committee

<i>Chairman</i>	Carlo Gilardi Riccardo Ruggiero Roberto Vedovotto
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### Independent Auditors

PricewaterhouseCoopers S.p.a.

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## 1. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### 1.1 General information

Safilo Group S.p.A., holding company, is a limited liability company registered in Italy with the Companies' Registry of Vicenza. Starting from April 27, 2006 it has transferred its registered office from Vicenza to Pieve di Cadore (Belluno). At the same date it has established an administrative office at the subsidiary Safilo S.p.A. at Padova – Industrial Zone VII strada 15.

Companies included in the consolidation area are reported in the paragraph 5.2 "Consolidation method and consolidation area".

### 1.2 Activities of the Group

Safilo is the second largest eyewear producer worldwide and the worldwide leader in the eyewear luxury segment and also one of the top three sports eyewear producers and distributors worldwide.

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

The products of the Group are sold in 130 countries and there are approximately 130,000 retail outlets worldwide. The Group directly distributes its products in 28 of its principal markets worldwide through its subsidiaries and thanks to a strong sales team of over 1,300 persons.

The Group brands include *Sàfilo*, *Oxydo*, *Carrera*, *Smith* and *Blue Bay* while the licensed brands include *Alexander McQueen*, *Bottega Veneta*, *Boucheron*, *Diesel*, *55DSL*, *Dior*, *Emporio Armani*, *Fossil*, *Giorgio Armani*, *Gucci*, *Imatra*, *Jennifer Lopez*, *Juicy Couture*, *Kate Spade*, *Liz Claiborne*, *Marc Jacobs*, *Max Mara*, *Nine West*, *Oliver*, *Pierre Cardin*, *Ralph Lauren*, *Saks Fifth Avenue*, *Stella McCartney*, *Valentino* and *Yves Saint Laurent*.

## **2. SELECTED ECONOMIC AND FINANCIAL DATA**

### **2.1 Introduction**

The first quarter 2006 results confirmed the growth trend, both in terms of turnover and operating profit, recently highlighted. A significant increase in net income occurred as a result of the lower incidence of interest expenses.

Net sales were extremely positive, particularly in the U.S. and the Far East, and thanks to a positive exchange rate effect. Europe, meanwhile, was penalized by a production capacity lower than market demand and could not fully develop its potential, yet managed to grow substantially in some important markets such as Italy and UK.

Operating income showed a slight increase as a consequence of the combined effect of different factors such as the first effects of the industrial reorganization with the grouping, during the first half of January, of the three industrial plants.

The net income more than doubled compared with the first quarter of 2005 thanks to the net sales increase and the lower incidence of interest expenses as a result of the improved financial position of the Group.

First quarter 2006 cash flows, even if negative as a consequence of the normal seasonality of turnover, however have improved when compared to the same period of the previous year, as a result of both increased profitability and better net working capital control.

### **2.2 Sales Analysis**

The net sales of the Group in the first 3 months of 2006 amounted to Euro 302.1 million, an increase of 7.5% compared to the Euro 281.0 million recorded in the same period of the previous year. At constant exchange rates the increase would have been 3.3%.

The strong growth of sunglasses sales was once again confirmed (+13.4%) while the sale of prescription frames remains stable (-0.7%).

An analysis of the turnover subdivided between licensed and house brands shows largely similar sales figures for these two segments, indicating the overall appreciation of the various collections presented by the Group.

From a geographical point of view the highest growth in sales was seen in America where turnover increased by 19.4% (also due to a positive exchange rate effect without which the increase would however have been approximately 9%). Impressive results were also seen in the Far East (+17.0%) and in Italy (+10.2%).

Net sales by Geographic region (millions of Euro)	Quarter 1 2006		Quarter 1 2005		Change
		%		%	%
Italy	39.9	13.2	36.2	12.9	10.2
Europe (excluding Italy)	94.3	31.2	103	36.7	(8.4)
The Americas	119.3	39.5	99.9	35.5	19.4
Asia Pacific	35.8	11.9	30.6	10.9	17.0
Other	12.8	4.2	11.3	4.0	13.3
<b>Total</b>	<b>302.1</b>	<b>100.0</b>	<b>281.0</b>	<b>100.0</b>	<b>7.5</b>

Net sales by Product (millions of Euro)	Quarter 1 2006		Quarter 1 2005		Change
		%		%	%
Prescription frames	107.4	35.6	108.2	38.5	(0.7)
Sunglasses	177.5	58.7	156.5	55.7	13.4
Sports products	13.2	4.4	12.3	4.4	7.3
Other	4.0	1.3	4.0	1.4	0.0
<b>Total</b>	<b>302.1</b>	<b>100.0</b>	<b>281.0</b>	<b>100.0</b>	<b>7.5</b>

*Italy:* The sales in the Italian market (+10.2%) continue the growth recorded in 2005 trend evident during the course of 2005, with a similar increase for both prescription frames and sunglasses. Brands which recorded particularly impressive performances were *Armani*, *Gucci*, *Valentino* and the house brand *Safilo*.

*Europe (excluding Italy):* The significant increase in production capacity has not allowed us to entirely satisfy market demand, however specific brands such as *Armani*, *Diesel*, *Valentino* and house brands in general have enjoyed considerable growth. At a national level good increases in sales were seen in Germany, the United Kingdom and the northern European countries in general.

*The Americas:* Sales in the American market are strong. Even without the positive exchange rate effect deriving from the strengthening of the US Dollar and the expansion of the Solstice retail chain, turnover in the U.S.A. would however have shown a 7% growth, with slightly better results in the sunglasses sector compared to the sales of prescription frames. As far as individual brands are concerned sales of *Armani*, *Dior*, *Gucci* and the own brand *Smith* in the sports sector were particularly impressive. The Solstice retail chain, at March 31<sup>st</sup>, numbered 55 stores.

*Asia Pacific:* The Asian market continues to provide the Group with impressive growth in sales (+17.0% at current exchange rates; +10.9% at constant exchange rates). Sales were strong both in the sunglass and prescription frame sectors. Particularly notable results were registered in Australia, China and Hong Kong. The growth in the brands *Armani*, *Dior* and *Gucci* was particularly strong.

## 2.3 Economic results

<b>Consolidated statement of operations</b> (millions of Euro)					
	Q1 2006	%	Q1 2005	%	Change %
Net sales	302.1	100.0	281.0	100.0	7.5
Cost of sales	(117.0)	(38.7)	(112.6)	(40.1)	3.9
<b>Gross profit</b>	<b>185.1</b>	<b>61.3</b>	<b>168.4</b>	<b>59.9</b>	<b>9.9</b>
Selling and marketing expenses	(111.8)	(37.0)	(102.3)	(36.4)	9.3
General and administrative expenses	(29.6)	(9.8)	(26.4)	(9.4)	12.1
Other income/(expenses), net	0.2	0.1	0.1	0.0	100.0
<b>Operating income</b>	<b>43.9</b>	<b>14.6</b>	<b>39.8</b>	<b>14.1</b>	<b>10.3</b>
Interest expense and other financial charges, net	(13.2)	(4.4)	(19.9)	(7.1)	(33.7)
<b>Income before taxation</b>	<b>30.7</b>	<b>10.2</b>	<b>19.9</b>	<b>7.0</b>	<b>54.3</b>
Income tax expenses	(12.6)	(4.2)	(12.2)	(4.3)	3.3
<b>Net income</b>	<b>18.1</b>	<b>6.0</b>	<b>7.7</b>	<b>2.7</b>	<b>135.1</b>
Net income attributable to minority interests	1.1	0.4	1.2	0.4	(8.3)
<b>Net income attributable to the Group</b>	<b>17.0</b>	<b>5.6</b>	<b>6.5</b>	<b>2.3</b>	<b>161.5</b>
<b>EBITDA</b>	<b>52.9</b>	<b>17.5</b>	<b>48.5</b>	<b>17.3</b>	<b>9.1</b>
Basic EPS (Euro)	0.06		0.03		
Diluted EPS (Euro)	0.06		0.03		

Group operating income improved more than 10% when compared to the same period of the previous year (from Euro 39.8 million in the first quarter of 2005 to Euro 43.9 million in the first quarter of 2006) as a result of turnover growth and a slight increase in margins.

EBITDA for the first quarter 2006 Group amounted Euro 52.9 million (equal to 17.5% of net sales) compared to Euro 48.5 million (equal to 17.3% of net sales) in the same period of 2005.

Profitability improvement was particularly significant at gross profit level driven by the positive effect deriving from U.S. Dollar strengthening and the first results of the Group industrial reorganization.

The increased incidence of selling and marketing and general and administrative expenses, both due to exchange rate effect and a rise in payroll costs as a result of a higher number of employees in the first quarter of 2006, contained operating income improvement.

Interest expenses reduced significantly due to the improved Group financial position and the lack of effects deriving from changes in foreign exchange rates which had negatively impacted the first quarter of 2005.

Group net income for the first quarter of 2006 increased by 161.5% from Euro 6.5 million in the first quarter of 2005 to Euro 17.0 million in the same period of 2006.



## 2.4 Balance sheet and financial situation

<b>Condensed consolidated balance sheet</b> <i>(millions of Euro)</i>	<b>March 31, 2006</b>	<b>December 31, 2005</b>	<b>Change</b>
Property, plant and equipment, net	192.7	193.6	(0.9)
Intangible assets	24.4	25.6	(1.2)
Goodwill	797.4	797.7	(0.3)
Other non current assets	104.9	103.3	1.6
<b>Total non current assets</b>	<b>1,119.4</b>	<b>1,120.2</b>	<b>(0.8)</b>
Net working capital	282.9	245.1	37.8
<b>Total capital invested</b>	<b>1,402.3</b>	<b>1,365.3</b>	<b>37.0</b>
Employee benefits liability and provision for risks	62.2	59.1	3.1
Net debt position	493.7	479.0	14.7
Shareholders' equity attributable to the Group	839.9	821.7	18.2
Shareholders' equity attributable to minority shareholders	6.5	5.5	1.0
<b>Total capital invested</b>	<b>1,402.3</b>	<b>1,365.3</b>	<b>37.0</b>

<b>Condensed consolidated statements of cash flows</b> <i>(millions of Euro)</i>	<b>Q1 2006</b>	<b>Q1 2005</b>	<b>Change</b>
<b>Cash and cash equivalent at the beginning of the period</b>	<b>44.5</b>	<b>18.2</b>	<b>26.3</b>
Net income	18.1	7.6	10.5
Depreciation and amortization	9.1	8.7	0.4
Other non monetary items	0.6	1.1	(0.5)
Interest expenses and income tax expense	12.3	16.7	(4.4)
Movements in working capital	(51.6)	(67.7)	16.1
<b>Cash flows from operating activity</b>	<b>(11.5)</b>	<b>(33.6)</b>	<b>22.1</b>
Cash flows used in investing activities	(7.6)	(5.6)	(2.0)
Dividends paid	(0.2)	(0.2)	0.0
Repayment of borrowings	(0.6)	(0.8)	0.2
Bank deposit for interests on convertible bonds payment	(3.5)	-	n.s.
Preceeds from borrowings	11.4	45.7	(34.3)
<b>Cash flows for investing and from financing activities</b>	<b>(0.5)</b>	<b>39.1</b>	<b>(39.6)</b>
Effect of exchange rates	(0.3)	1.4	(1.7)
Other movements in shareholders' equity	3.6	0.2	3.4
<b>Cash and cash equivalents at the end of the period</b>	<b>35.8</b>	<b>25.3</b>	<b>10.5</b>

### *Cash flows from operating activity*

Cash flows from operating activity during the first quarter of 2006, even if negative as a result of the seasonality of net sales, showed a significant improvement when compared to the same period of

the previous year. This positive effect derived, in addition to the increased net income, from a more efficient management of working capital. It is important to note that working capital, as a percentage of net sales, is consistently improving and particularly very positive results were achieved both for cash collections and for trade payables whilst inventory shows a slight increase in particular in some foreign subsidiaries.

*Cash flows for investing activities*

Cash outflows in investment activities increased by Euro 2.0 million when compared to the same period of the previous year and mainly refer to the replacements of equipment in the facilities and to the new opening of the Solstice stores.

*Cash flows from financing activities*

Financing activities generated lower cash flows as a consequence of a reduced level of liquidity borrowed during the first quarter of 2006. During the first three months of 2005 the Group, in order to support its temporary financial needs was granted a short term loan for a total amount of approximately Euro 45 million related to the revolving facility of the Senior Loan.

## 2.5 Personnel

Group personnel as of March 31, 2006, December 31, 2005 and March 31, 2005 is shown in the following table:

	As of March 31, 2006	As of December 31, 2005	As of March 31, 2005
Padua headquarters	799	766	734
Production plants	4,210	4,192	4,294
Commercial subsidiaries	1,071	1,053	1,031
Solstice	341	374	236
<b>Total</b>	<b>6,421</b>	<b>6,385</b>	<b>6,295</b>

### **3. SUBSEQUENT EVENTS**

On April 12, 2006 Safilo Group announced the extension to 2013 of the current licensing agreement with Max Mara. On the same date the two companies reached an important new agreement that foresees the development and distribution of glasses under the Max&Co. brand. The launch of the new Max&Co. collection, which will be primarily dedicated to a market with a young and fashionable target, is planned for 2007. This agreement will also expire in 2013.

There were no other events that could be considered to significantly affect the data contained in the present report.

#### 4. CONSOLIDATED FINANCIAL STATEMENTS

##### Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005

<b>(Euro/000)</b>	<b>Note</b>	<b>31/03/2006</b>	<b>31/12/2005</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash in hand and at banks	6.1	49,248	173,232
Trade receivables, net	6.2	340,994	307,558
Inventory, net	6.3	212,766	208,802
Assets held for sale	6.4	2,956	2,984
Derivative financial instruments	6.5	1,263	-
Other current receivables	6.6	29,551	31,679
<b>Total current assets</b>		<b>636,778</b>	<b>724,255</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	6.7	192,712	193,603
Intangible assets	6.8	24,368	25,580
Goodwill	6.9	797,365	797,734
Investments in associates	6.10	13,187	13,492
Financial assets available-for-sale	6.11	6,939	6,009
Deferred tax assets	6.12	81,521	81,263
Derivative financial instruments	6.5	1,950	1,268
Other non-current assets	6.13	1,348	1,303
<b>Total non-current assets</b>		<b>1,119,390</b>	<b>1,120,252</b>
<b>Total assets</b>		<b>1,756,168</b>	<b>1,844,507</b>

<b>(Euro/000)</b>	<b>Note</b>	<b>31/03/2006</b>	<b>31/12/2005</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	6.14	74,351	184,006
Trade payables	6.15	191,034	192,286
Tax payables	6.16	25,160	20,872
Derivative financial instruments	6.5	-	878
Other current liabilities	6.17	79,609	82,010
Provision for risks and charges	6.18	340	128
<b>Total current liabilities</b>		<b>370,494</b>	<b>480,180</b>
<b>Non-current liabilities</b>			
Long-term borrowings	6.19	468,586	468,242
Employee benefits liability	6.20	40,947	39,424
Provision for risks and charges	6.18	8,504	8,644
Deferred tax liabilities	6.12	12,453	10,969
Derivative financial instruments	6.5	2,322	3,271
Other non-current liabilities	6.21	6,531	6,565
<b>Total non-current liabilities</b>		<b>539,343</b>	<b>537,115</b>
<b>Total liabilities</b>		<b>909,837</b>	<b>1,017,295</b>
<b>Shareholders' equity</b>			
Share capital	6.22	70,843	70,843
Share premium reserve	6.23	751,276	751,276
Retained earnings and other reserves	6.24	1,725	358
Fair value and cash flow reserves	6.25	(929)	(3,899)
Income attributable to the Group		16,958	3,097
<b>Total shareholders' equity attributable to the Group</b>		<b>839,873</b>	<b>821,675</b>
<b>Shareholders' equity attributable to minority shareholders</b>		<b>6,458</b>	<b>5,537</b>
<b>Total shareholders' equity</b>		<b>846,331</b>	<b>827,212</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,756,168</b>	<b>1,844,507</b>

**Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005**

<b>(Euro/000)</b>	<b>Note</b>	<b>Q1 2006</b>	<b>Q1 2005</b>
Net sales	7.1	302,125	280,961
Cost of sales	7.2	(117,008)	(112,567)
<b>Gross profit</b>		<b>185,117</b>	<b>168,394</b>
Selling and marketing expenses	7.3	(111,846)	(102,274)
General and administrative expenses	7.4	(29,655)	(26,361)
Other income/(expenses), net	7.5	247	84
<b>Operating income</b>		<b>43,863</b>	<b>39,843</b>
Share of income/(loss) of associates	7.6	38	(9)
Interest expense and other financial charges, net	7.7	(13,244)	(19,944)
<b>Income before taxation</b>		<b>30,657</b>	<b>19,890</b>
Income tax expenses	7.8	(12,589)	(12,250)
<b>Net income</b>		<b>18,068</b>	<b>7,640</b>
Net income attributable to minority interests		1,110	1,182
<b>Net income attributable to the Group</b>		<b>16,958</b>	<b>6,458</b>
<b>Earnings per share - Basic (Euro)</b>	7.9	0.06	0.03
<b>Earnings per share - Diluted (Euro)</b>	7.9	0.06	0.03

**Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005**

<b>(Euro/000)</b>	<b>Q1 2006</b>	<b>Q1 2005</b>
<b>Cash flows from operating activities</b>		
Net income	18,068	7,640
Depreciation and Amortization	9,078	8,695
Share (income) on equity investments	(968)	(371)
Net movements in the employee benefits liability	1,541	1,082
Net movements in other provisions	83	411
Interest expenses	11,282	15,920
Income tax expense	12,588	12,250
<b>Income from operating activities prior to movements in working capital</b>	<b>51,672</b>	<b>45,627</b>
<b>Changes in operating Assets and Liabilities</b>		
(Increase) Decrease in trade receivables and other current receivables	(34,325)	(57,133)
(Increase) Decrease in inventory, net	(5,967)	8,930
Increase (Decrease) in trade payables and other current payables	(11,301)	(19,572)
Interest expenses paid	(6,546)	(6,718)
Income taxes paid	(5,020)	(4,754)
<b>A - Net Cash (used in) operating activities</b>	<b>(11,487)</b>	<b>(33,620)</b>
<b>Cash Flows from investing activities</b>		
Purchase of property, plant and equipment (net of disposals)	(7,084)	(5,171)
Purchase of intangible assets	(481)	(391)
<b>B - Net Cash (used in) investing activities</b>	<b>(7,565)</b>	<b>(5,562)</b>
<b>Cash Flows from Financing activities</b>		
Proceeds from borrowings	11,423	45,704
Repayment of borrowings	(542)	(806)
Bank deposit for interests on convertible bonds payment	(3,534)	-
Dividends paid	(249)	(220)
<b>C - Net Cash provided by financing activities</b>	<b>7,098</b>	<b>44,678</b>
Effect of exchange rates	(341)	1,354
Other movements in shareholders' equity	3,550	230
<b>Net increase in cash and cash equivalents</b>	<b>3,209</b>	<b>1,584</b>
<b>D - Cash and cash equivalents at the beginning of the period</b>	<b>44,546</b>	<b>18,191</b>
<b>E - Cash and cash equivalents at the end of the period</b>	<b>35,801</b>	<b>25,271</b>

**Consolidated Statement of recognised income and expense for the three months ended March 31, 2006 and 2005**

<b>(Euro/000)</b>	<b>Note</b>	<b>Q1 2006</b>	<b>Q1 2005</b>
Cash flow hedges	6.25	1,504	(151)
Financial assets available-for-sale	6.25	930	380
Actuarial gain/losses		478	-
Translation differences		(2,250)	2,088
Other movements		(287)	-
<b>Total</b>		<b>375</b>	<b>2,317</b>
Income for the period		18,068	7,640
<b>Total income</b>		<b>18,443</b>	<b>9,957</b>
Income attributable to the Group		16,958	6,458
Income and expense pertaining to the Group		315	2,289
<b>Total</b>		<b>17,273</b>	<b>8,747</b>
Income attributable to minority interests		1,110	1,182
Income and expense attributable to minority		60	28
<b>Total</b>		<b>1,170</b>	<b>1,210</b>
<b>Total profit (loss)</b>		<b>18,443</b>	<b>9,957</b>



## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2006 AND DECEMBER 31, 2005 AND FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005.

### 5.1 General information

Economic and financial information is provided with reference to the three months period ended March 31, 2006 and 2005, whilst balance sheet information is provided with reference to March 31, 2006 and December 31, 2005.

Accounting policies adopted for the preparation of this interim consolidated financial report have been applied in a comparative manner for both financial periods presented. They are also consistent with those applied for the Group IFRS annual consolidated financial statements as of December 31, 2005.

This Quarterly Report and the related consolidated financial data have been prepared in accordance with Consob regulations n. 11971 dated May 14, 1999 as modified by Consob resolution n. 14990 dated April 14, 2005.

The consolidated financial information reported for the period ended March 31, 2006 was prepared also in accordance with the IFRS issued by the *International Accounting Standards Board* and approved by the European Commission as at December 31, 2005. In particular, this interim financial report has been prepared in accordance with IAS 34 – *Interim Financial Reporting*.

### 5.2 Consolidation method and consolidation area

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

	value	Share capital	Quota held %
<b>ITALIAN COMPANIES</b>			
Safilo S.p.A. – Pieve di Cadore (BL)	EUR	35,000,000	100
Oxsol S.p.A. - Pieve di Cadore (BL)	EUR	121,000	100
Lenti Srl – Bergamo	EUR	500,000	54
Smith Sport Optics S.r.l. (in liquidation) – Florence	EUR	102,775	100
<b>FOREIGN COMPANIES</b>			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100
Safint B.V. - Rotterdam (NL)	EUR	18,200	100
Safilo Capital Int. S.A. (Luxembourg)	EUR	31,000	100
Safilo Benelux S.A. - Zaventem (B)	EUR	560,000	100
Safilo Espana S.A. - Madrid (E)	EUR	390,650	100
Safilo France S.a.r.l. - Paris (F)	EUR	960,000	100
Safilo GmbH - Cologne (D)	EUR	511,300	100
Safilo Nordic AB - Taby (S)	SEK	500,000	100
Safilo Far East Ltd. - Hong Kong	HKD	49,700,000	100
Safint Optical Investment Ltd -Hong Kong	HKD	10,000	51
Safilo Hong-Kong Ltd – Hong-Kong	HKD	100,000	51
Safilo Singapore Pte – Ltd - Singapore	SGD	400,000	100
Safilo Optical Sdn Bhd – Kuala Lumpur – Malaysia	MYR	100,000	100
Safilo Trading (Shenzhen) Co. Inc. China	CNY	2,481,000	51
Safilo Hellas Ottica S.a. – Atene (GR)	EUR	489,990	70
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100
Safilo South Africa – Bryanston (South Africa)	ZAR	3,383	100
Safilo Austria GmbH -Traun (A)	EUR	217,582	100
Carrera Optyl GmbH (in liquidation) –Traun (A)	EUR	7,630,648	100
Carrera Optyl D.o.o. - Ormoz (SLO)	SIT	135,101,000	100
Carrera Optyl Marketing GmbH – Traun (A)	EUR	181,683	100
Safilo Japan Co Ltd (Tokyo)	JPY	100,000,000	100
Safilo Do Brasil Ltda – San Paulo (Brazil)	BRL	8,077,500	100
Safilo Portugal Lda – Lisbona (P)	EUR	500,000	100
Safilo Switzerland – Liestal (Switzerland)	CHF	1,000,000	77
Safilo India Ltd	INR	42,000,000	88.5
Safint Australia Pty Ltd.- Sydney (Australia)	AUD	3,000,000	100
Safilo Australia Partnership – Sydney (Australia)	AUD	204,081	61
Safint Optical UK Ltd. (UK)	GBP	21,139,001	100
Safilo UK Ltd. - North Workshire (UK)	GBP	250	100
Safilo America Inc. - Delaware (USA)	USD	8,430	100
Safilo USA Inc.- New Jersey (USA)	USD	23,289	100
FTL Corp. - Delaware (USA)	USD	10	100
Safilo Realty Corp. Delaware (USA)	USD	10,000	100
Safilo Services LLC - New Jersey (USA)	USD	-	100
Smith Sport Optics Inc. - Idaho (USA)	USD	12,162	100
Solstice Marketing Corp. – (USA)	USD	1,000	100
2844-2580 Quebec Inc. – Montreal (CAN)	CAD	100,000	100
Safilo Canada Inc. - Montreal (CAN)	CAD	2,470,425	100
Canam Sport Eyewear Inc. Montreal (CAN)	CAD	300,011	100

### 5.3 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 March 31, 2006	As of December 31, 2005	As of March 31, 2005	Average for the three months ended March 31, 2006	Average for the three months ended March 31, 2005
USD	1.2104	1.1797	1.2964	1.2023	1.3113
HKD	9.3923	9.1474	10.111	9.3273	10.2257
CHF	1.5801	1.5551	1.5486	1.559	1.5488
CAD	1.4084	1.3725	1.5737	1.3894	1.6083
JPY	142.42	138.9	138.4	140.5132	137.0126
GBP	0.6964	0.6853	0.6885	0.6862	0.6936
SEK	9.4315	9.3885	9.143	9.3525	9.0736
AUD	1.6997	1.6109	1.6763	1.6274	1.691
ZAR	7.5066	7.4642	8.0898	7.4113	7.8793
SIT	239.56	239.5	239.73	239.5088	239.7361
BRL	2.6437	2.7432	3.4708	2.6409	3.4975
IND	54.0109	53.1679	56.733	53.3708	57.3218
SGD	1.9582	1.9628	2.1377	1.9552	2.1452
MYR	4.458	4.4584	4.9263	4.4814	5.1695
CNY	9.7038	9.5204	10.7341	9.6793	10.8575

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.

### 5.4 Use of estimates

The preparation of the consolidated financial statements require the Directors to apply accounting principles and methods that, in some circumstances, are based on difficulties and subjective valuations and estimates based on the 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.

## 6. NOTES TO THE CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2006 AND DECEMBER 31, 2005

### 6.1 Cash in hand and at banks

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

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Cash in hand and at banks	49,248	173,232
<b>Total</b>	<b>49,248</b>	<b>173,232</b>

The significant decrease compared to the previous year is due to the definitive use of IPO proceeds a portion of which, at December 31, 2005 was still present in Group current accounts. Such liquidity was used for the reimbursement of 35% of the bond (High Yield) and for the payment of the higher charges for a total amount of Euro 115,106 thousand in January 2006.

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

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>March 31, 2005</b>
Cash in hand and cash held at banks	49,248	25,671
Bank overdrafts	(9,913)	(400)
Current account for High Yield reimbursement	(3,534)	-
<b>Total</b>	<b>35,801</b>	<b>25,271</b>

### 6.2 Trade receivables, net

This account is comprised as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Gross value	363,869	328,928
Allowance for doubtful accounts	(22,875)	(21,370)
<b>Net value</b>	<b>340,994</b>	<b>307,558</b>

At parity of exchange rates, net trade receivables increased by Euro 35,471 thousand, due in particular to the increase in sales in the first quarter of 2006 compared to the same period of the previous year.

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

Allowance for doubtful accounts includes the accrual for products supplied to clients which, in

accordance with specific contractual clauses, are expected to be returned as not placed with the final customer. This accrual is accounted for as a reduction of sales in the income statement.

The allowance for doubtful accounts also includes the accrual for insolvency accounted for in the income statement under "general and administrative expenses" (note 7.4).

### 6.3 Inventory, net

This account is comprised as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Raw materials	44,000	43,784
Work-in-progress	8,219	8,123
Finished products	180,761	176,272
<b>Gross</b>	<b>232,980</b>	<b>228,179</b>
Obsolescence provision	(20,214)	(19,377)
<b>Total</b>	<b>212,766</b>	<b>208,802</b>

Finished products slightly increased, in particular in foreign subsidiaries, when compared to the end of 2005, as a result of the seasonality of net sales.

For obsolete and slow moving items, a specific accrual, based on their possible future sale or use, has been accounted for. The accrual impacted upon the income statement at the line "cost of sales" (note 7.2).

The movements in the obsolescence provision were as follows:

<b>(Euro/000)</b>	<b>Balance as of January 1, 2006</b>	<b>Increase</b>	<b>Translation difference</b>	<b>Balance as of March 31, 2006</b>
Obsolescence provision	19,377	1,113	(276)	20,214
<b>Totale</b>	<b>19,377</b>	<b>1,113</b>	<b>(276)</b>	<b>20,214</b>

### 6.4 Assets held for sale

This account amounts to Euro 2,956 thousand and refers to the net book value of the building of the Austrian subsidiary Carrera Brillen (Traun), which is classified under current assets, in view of the programmed sale of the assets over a short period time frame.

### 6.5 Derivative financial instruments

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

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
<b>Current Assets</b>		
- Foreign currency contracts	245	-
- Interest rate swaps	1,018	-
<b>Total</b>	<b>1,263</b>	<b>-</b>
<b>Non current Assets</b>		
- Options	1,950	1,268
<b>Total</b>	<b>1,950</b>	<b>1,268</b>
<b>Current liabilities</b>		
- Foreign currency contracts	-	878
<b>Total</b>	<b>-</b>	<b>878</b>
<b>Non current liabilities</b>		
- Interest rate swaps	2,322	3,271
<b>Total</b>	<b>2,322</b>	<b>3,271</b>

A summary of the characteristics and the fair value of the derivative contracts in force at March 31, 2006 and December 31, 2005 is shown below:

	March 31, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
	<i>(USD/000)</i>	<i>(Euro/000)</i>	<i>(USD/000)</i>	<i>(Euro/000)</i>
<b>Foreign currency contracts</b>				
Expiry year 2006	\$20,000	245	\$34,000	(878)
<b>Total</b>	<b>20,000</b>	<b>245</b>	<b>34,000</b>	<b>(878)</b>

Gains and losses recorded in the Cash flow reserve in equity at the balance sheet date will be reversed in the income statement over the coming financial periods.

A summary of the characteristics and the fair value of interest rate swap contracts in force at March 31, 2006 and December 31, 2005 is shown below:

<i>(Euro/000)</i>	March 31, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2007	189,886	1,018	-	-
<b>Total</b>	<b>189,886</b>	<b>1,018</b>	<b>-</b>	<b>-</b>

<i>(Euro/000)</i>	March 31, 2006		December 31, 2005	
	Contractual value	Fair value	Contractual value	Fair value
Expiry year 2007	-	-	164,080	537
Expiry year 2010	25,000	(1,002)	25,000	(1,681)
Expiry year 2011	25,000	(1,320)	25,000	(2,127)
<b>Total</b>	<b>50,000</b>	<b>(2,322)</b>	<b>214,080</b>	<b>(3,271)</b>

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

Gains and losses recorded in the Cash flow reserve in equity at the balance sheet date will be reversed in the income statement over the duration of the hedged loans.

The fair value of the advanced repayment option included in the notes issued by the subsidiary Safilo Capital International S.A.. is reported among non current assets. The valuation was made using models applied by primary financial institutions and resulted in the recognition of a fair value of the option of Euro 1,950 thousand.

## 6.6 Other current receivables

This account is comprised as follows:

(Euro/000)	March 31, 2006	December 31, 2005
VAT receivable	4,903	5,208
Tax credits and advance payments	7,239	11,454
Prepayments and accrued income	8,261	5,281
Receivables from sale agents	4,810	4,943
Other current receivables	4,338	4,793
<b>Total</b>	<b>29,551</b>	<b>31,679</b>

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

Prepayments and accrued income at March 31, 2006 include:

- Prepaid advertising costs of Euro 2,574 thousand;
- Prepaid insurance premiums of Euro 672 thousand;
- Prepaid rent and operating leases of Euro 978 thousand;
- Prepaid royalties of Euro 1,523;
- Other prepaid costs, mainly commercial, of Euro 2,514.

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

Other short-term receivables relate to the receivable from the Italian Ministry of Industry ("Ministry") for Euro 1,257 thousand in relation to grants approved but not yet paid by the Ministry on loans that were extinguished in 2002. The remaining part mainly refer to receivables for insurance reimbursements and other short term receivables related to various Group companies.

## 6.7 Property, plant and equipment, net

<b>(Euro/000)</b>	<b>Balance as of January 1, 2005</b>	<b>Increase</b>	<b>Decrease</b>	<b>Reclass.</b>	<b>Transl. Diff.</b>	<b>Balance as of December 31, 2005</b>
<b>Gross value</b>						
Land and buildings	109,527	4,510	(1,025)	(5,444)	535	108,103
Plant and machinery	151,193	6,989	(2,061)	-	413	156,534
Equipment and other assets	105,785	18,339	(2,038)	-	4,540	126,626
Assets under construction	3,542	1,493	-	(2,268)	64	2,831
<b>Total</b>	<b>370,048</b>	<b>31,331</b>	<b>(5,124)</b>	<b>(7,712)</b>	<b>5,552</b>	<b>394,095</b>
<b>Accumulated depreciation</b>						
Land and buildings	20,473	3,440	(249)	(2,460)	99	21,303
Plant and machinery	80,406	11,265	(1,651)	-	172	90,192
Equipment and other assets	73,400	14,913	(1,897)	-	2,580	88,996
<b>Total</b>	<b>174,280</b>	<b>29,618</b>	<b>(3,797)</b>	<b>(2,460)</b>	<b>2,851</b>	<b>200,492</b>
<b>Net Book Value</b>	<b>195,768</b>	<b>1,713</b>	<b>(1,327)</b>	<b>(5,252)</b>	<b>2,701</b>	<b>193,603</b>

<b>(Euro/000)</b>	<b>Balance as of January 1, 2006</b>	<b>Increase</b>	<b>Decrease</b>	<b>Reclass.</b>	<b>Transl. Diff.</b>	<b>Balance as of March 31, 2006</b>
<b>Gross value</b>						
Land and buildings	108,103	88	-	-	(112)	108,079
Plant and machinery	156,534	1,685	(136)	-	(89)	157,994
Equipment and other assets	126,626	4,994	(252)	-	(1,021)	130,347
Assets under construction	2,831	1,522	-	(1,116)	(13)	3,224
<b>Total</b>	<b>394,095</b>	<b>8,289</b>	<b>(388)</b>	<b>(1,116)</b>	<b>(1,235)</b>	<b>399,645</b>
<b>Accumulated depreciation</b>						
Land and buildings	21,303	819	-	(27)	(21)	22,074
Plant and machinery	90,192	2,921	(104)	-	(39)	92,970
Equipment and other assets	88,996	3,674	(195)	-	(587)	91,888
<b>Total</b>	<b>200,492</b>	<b>7,414</b>	<b>(299)</b>	<b>(27)</b>	<b>(647)</b>	<b>206,933</b>
<b>Net Book Value</b>	<b>193,603</b>	<b>875</b>	<b>(89)</b>	<b>(1,089)</b>	<b>(588)</b>	<b>192,712</b>

Part of the property, plant and equipment held by Group companies, for a total amount of approximately Euro 160 million, is pledged by mortgages and/or liens given in favor of credit institutes to guarantee the loans obtained.



## 6.8 Intangible assets

	Balance as of January 1, 2005	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of December 31, 2005
<i>(Euro/000)</i>						
<b>Gross value</b>						
Software costs	6,972	970	-	-	197	8,140
Trademarks and licenses	33,827	7,618	-	-	65	41,510
Other intangible assets	17,740	416	(11,337)	-	342	7,162
Intangible assets in progress	162	-	-	(141)	11	32
<b>Total</b>	<b>58,701</b>	<b>9,004</b>	<b>(11,337)</b>	<b>(141)</b>	<b>616</b>	<b>56,843</b>

### Accumulated amortization

Software costs	5,257	1,304	(739)	-	120	5,941
Trademarks and licenses	14,818	3,986	-	-	14	18,819
Other intangible assets	17,400	288	(11,337)	-	152	6,503
<b>Total</b>	<b>37,475</b>	<b>5,578</b>	<b>(12,076)</b>	<b>-</b>	<b>287</b>	<b>31,263</b>

<b>Net Book Value</b>	<b>21,226</b>	<b>3,426</b>	<b>739</b>	<b>(141)</b>	<b>330</b>	<b>25,580</b>
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	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Transl. Diff.	Balance as of March 31, 2006
<i>(Euro/000)</i>						

### Gross value

Software costs	8,139	409	(6)	-	(29)	8,513
Trademarks and licenses	41,509	31	-	-	(13)	41,527
Other intangible assets	7,162	41	(865)	-	(50)	6,288
Intangible assets in progress	33	-	-	-	-	33
<b>Total</b>	<b>56,842</b>	<b>481</b>	<b>(871)</b>	<b>-</b>	<b>(92)</b>	<b>56,360</b>

### Accumulated amortization

Software costs	5,942	455	(6)	-	(14)	6,377
Trademarks and licenses	18,818	1,069	-	-	(3)	19,884
Other intangible assets	6,502	140	(865)	-	(46)	5,731
<b>Total</b>	<b>31,262</b>	<b>1,664</b>	<b>(871)</b>	<b>-</b>	<b>(63)</b>	<b>31,992</b>

<b>Net Book Value</b>	<b>25,580</b>	<b>(1,183)</b>	<b>-</b>	<b>-</b>	<b>(29)</b>	<b>24,368</b>
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Amortization and depreciation expenses related to intangible assets and property, plant and equipment for the three months ended March 31, 2006 and 2005 are divided into the following income statement accounts:

<b>(Euro/000)</b>	<b>note</b>	<b>Three months ended March,</b>	
		<b>2006</b>	<b>2005</b>
Cost of sales	7.2	5,673	6,027
Selling and marketing expenses	7.3	683	556
General and administrative expenses	7.4	2,722	2,112
<b>Total</b>		<b>9,078</b>	<b>8,695</b>

## 6.9 Goodwill

<b>(Euro/000)</b>	<b>Balance as of January 1, 2005</b>	<b>Translation difference</b>	<b>Balance as of December 31, 2005</b>
Goodwill	795,774	1,960	797,734
<b>Net book value</b>	<b>795,774</b>	<b>1,960</b>	<b>797,734</b>

<b>(Euro/000)</b>	<b>Balance as of January 1, 2006</b>	<b>Translation difference</b>	<b>Balance as of March 31, 2006</b>
Goodwill	797,734	(369)	797,365
<b>Net book value</b>	<b>797,734</b>	<b>(369)</b>	<b>797,365</b>

As reported in paragraph 5.4 "use of estimates" some valuation processes, in particular the most complex such as the calculation of permanent impairments in values for property, plant and equipment, intangible assets and goodwill, are made in full only 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.

## 6.10 Investments in associates

Investments in associates refer to the following:

<b>Company</b>	<b>Registered office or headquarters</b>	<b>% of share capital</b>	<b>Type of investment</b>	<b>Main activity</b>
Elegance Int. Holdings Ltd	Hong Kong	23.05%	Associated company	Commercial
Optifashion As	Turkey	50.00%	Non consolidated subsidiary	Commercial
TBR Inc.	USA	33.33%	Associated company	Real Estate

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

(Euro/000)	31.12.2005		Movements of the period			Balance as of March 31, 2006
	Gross value	Reval. (Deval.)	Net book value	dividends (note 7.6)	Transl. diff.	
TBR Inc.	437	456	893	38	(23)	908
Elegance Ltd	5,406	6,887	12,293	-	(320)	11,973
Optifashion As	353	(47)	306	-	-	306
<b>Total</b>	<b>6,196</b>	<b>7,296</b>	<b>13,492</b>	<b>38</b>	<b>(343)</b>	<b>13,187</b>

There were no new acquisitions during the first three months of 2006. The changes compared to December 31, 2005 are mainly due to the gains realized in the quarter, net of the dividends distributed, and exchange rate effects.

The company Optifashion A.s., with its registered office in Istanbul (Turkey), a 50% held subsidiary of the Group, is not included in the consolidation scope as the amounts are considered insignificant.

#### 6.11 Financial assets available-for-sale

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

(Euro/000)	% of share capital	Relationship	March, 31 2006	December 31, 2005
Banca Popolare Italiana S.p.A.	==	Other equity inv.	6,515	5,589
Safilens Srl	17.50%	Other equity inv.	209	209
Unicredit S.p.A.	==	Other equity inv.	172	168
Other	==	Other equity inv.	43	43
<b>Total</b>			<b>6,939</b>	<b>6,009</b>

The movements for the period in the above-mentioned assets available-for-sale were as follows:

(Euro/000)	31.12.2005		Movements of the period		Balance as of March 31, 2006
	Gross value	Reval. (Deval.)	Net book value	Increase	
Banca Popolare Italiana S.p.A.	10,198	(4,609)	5,589	926	6,515
Safilens Srl	209	-	209	-	209
Unicredit S.p.A.	48	120	168	4	172
Other	43	-	43	-	43
<b>Total</b>	<b>10,498</b>	<b>(4,489)</b>	<b>6,009</b>	<b>930</b>	<b>6,939</b>

## 6.12 Deferred tax assets and deferred tax liabilities

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Deferred tax assets	<b>81,521</b>	<b>81,263</b>
Deferred tax liabilities	<b>12,453</b>	<b>10,969</b>
<b>Total, net</b>	<b>69,068</b>	<b>70,294</b>

### *Deferred tax assets*

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

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

<b>Financial year</b>	<b>Expiring date</b>	<b>Tax losses (Euro/000)</b>	<b>Total deferred tax assets (Euro/000)</b>
2004	2009	26,313	8,683
2005	2010	79,565	26,200
2006	2011	1,000	330
<b>Total</b>		<b>106,878</b>	<b>35,213</b>

### *Deferred tax liabilities*

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

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

## 6.13 Other non-current assets

At March 31, 2006, the other non-current assets amount to Euro 1,348 thousand and mainly relate to deposits and other long-term receivables due to various Group companies.

## 6.14 Short-term borrowings

This account is comprised as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Bank overdrafts	4,911	5,046
Short-term bank loans	15,002	5,000
Short-term portion of long-term loans	24,012	26,614
Short-term portion of High Yield bond	-	105,000
Payable for High Yield advance repayment	-	10,106
Short-term portion of financial leasing	2,411	3,436
Other short-term loans	28,015	28,804
<b>Total</b>	<b>74,351</b>	<b>184,006</b>

The short-term portion of the High Yield bond as of December 31, 2005 referred to the quota of debt which was repaid in advance on January 13, 2006 by the Luxembourg subsidiary Safilo Capital International S.A. for a total amount equal to 35% of the Euro 300 million nominal value; the payable for the High Yield advanced repayment refers to the charges paid as compensation to the bond holders following the advanced repayment.

Other short-term loans include, for an amount of Euro 27,713 thousand, a payable to a primary factoring company deriving from the contract signed by the subsidiary Safilo S.p.A..

Short-term loans by currency are as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Euro	55,589	162,641
U.S. Dollar	18,762	19,205
Yen	-	2,160
<b>Total</b>	<b>74,351</b>	<b>184,006</b>

Average interest rates applied on Group bank overdrafts amount to about 3.2%. Interest rates on long term loans are reported in the note 6.19 "long-term borrowings".

## 6.15 Trade payables

This account is comprised as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Purchase of raw materials	47,241	42,098
Purchase of finished products and subcontractors	67,048	71,299
Commissions and royalties	31,475	26,725
Advertising and marketing costs	19,277	20,309
Services received from third parties	22,871	28,556
Payables for purchase of property, plant and equipment and intangible assets	3,122	3,299
<b>Total</b>	<b>191,034</b>	<b>192,286</b>

Trade payables for purchases of raw materials reflect the higher purchases in the quarter to support production.

The reduction of payables for third party services represents a result of the payment, during the first quarter of 2006, of the costs related to the IPO process.

#### 6.16 Tax payables

Tax payables at March 31, 2006 amount to Euro 25,160 thousand and relate for Euro 13,060 thousand to income taxes, for Euro 6,238 thousand to VAT payables and for the remainder to various tax liabilities and local taxes.

The accrual for current income tax expenses is disclosed in the note related to income taxes (7.8).

#### 6.17 Other current liabilities

This account is comprised as follows:

(Euro/000)	March 31, 2006	December 31, 2005
Due to personnel and social security institutions	45,693	44,921
Premiums to clients	11,579	17,195
Agent fee payable	2,677	2,962
Advertising & sponsorship costs	1,258	2,746
Interest expense payables on long term payables	7,240	3,628
Other accrued expenses	3,787	2,897
Due to minority shareholders for dividends	1,330	2,170
Payable for interest on the convertible bond	3,534	3,534
Other current liabilities	2,511	1,957
<b>Total</b>	<b>79,609</b>	<b>82,010</b>

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

The account "Due to minority shareholders for dividends" relates to the dividends approved at the shareholders' meetings and not yet paid at the interim balance sheet date.

Payable for interest on the convertible bond has been reimbursed on April 28, 2006.

## 6.18 Provisions for risks and charges

<i>(Euro/000)</i>	Balance as of January 1, 2006	Increase	Decrease	Reclass.	Balance as of March 31, 2006
Product warranty provision	3,119	-	(7)	-	3,112
Agent's severance provision	3,164	147	(27)	-	3,284
Litigations	2,000	-	(652)	-	1,348
Other provisions for risks and charges	361	410	-	(11)	760
<b>Provisions for risks - long term</b>	<b>8,644</b>	<b>557</b>	<b>(686)</b>	<b>(11)</b>	<b>8,504</b>
<b>Provisions for risks - short term</b>	<b>128</b>	<b>242</b>	<b>(30)</b>	<b>-</b>	<b>340</b>
<b>Total</b>	<b>8,772</b>	<b>799</b>	<b>(716)</b>	<b>(11)</b>	<b>8,844</b>

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

The agent's severance provision was created against the risk deriving from the payment in the event of termination of the agency agreement. This provision has been calculated based on existing laws at the 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 7.3).

## 6.19 Long-term borrowings

This account is comprised as follows:

<i>(Euro/000)</i>	March 31, 2006	December 31, 2005
Long term borrowings	457,251	456,763
Payables for finance leases	10,472	10,616
Other medium/long term loans	863	863
<b>Total</b>	<b>468,586</b>	<b>468,242</b>

Medium/long-term loans mainly refer to the High Yield bond for a total amount of nominal Euro 195 million and to the Senior loan agreement granted by UniCredit Banca d'Impresa S.p.A. and San Paolo IMI S.p.A.

The bond and the Senior Loan agreement, in accordance with International Accounting Standards, were measured under the amortised cost method.

Payables for finance leases refer to property, plant and equipment which have been acquired in leasing by some Group companies. The average duration of leasing contracts is 10 years. All leasing contracts at the balance sheet date are reimbursable through constant instalments and the contracts

do not include any option for reviewing the original contract.

Some Group companies also entered into operating leasing contracts. Costs related to operating leasing contracts are recorded in the income statement in the line "cost of sales" (note 7.2), "selling and marketing expenses" (note 7.3) and "general and administrative expenses" (note 7.4).

The repayment dates of loans are as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Within 2 years	31,187	30,464
Within 3 years	32,955	33,564
Within 4 years	20,160	20,471
Within 5 years	131,249	131,068
Beyond 5 years	253,035	252,675
<b>Total</b>	<b>468,586</b>	<b>468,242</b>

The medium/long-term loans and short-term loans sub-divided by currency are as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Euro	403,402	402,980
U.S. Dollar	63,780	65,262
Yen	1,404	-
<b>Total</b>	<b>468,586</b>	<b>468,242</b>

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

<b>(Euro/000)</b>	<b>Granted Credit lines</b>	<b>Utilization</b>	<b>Available credit lines</b>
Credit lines on short term loans	161,996	20,972	141,024
Credit lines on long term loans	300,991	300,991	-
<b>Total</b>	<b>462,987</b>	<b>321,963</b>	<b>141,024</b>

## 6.20 Employee benefits liability

This account shows the following movements:

<b>(Euro/000)</b>	<b>Balance as of January 1, 2006</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance as of March 31, 2006</b>
Employee benefit liability	39,424	2,004	(481)	40,947
<b>Total</b>	<b>39,424</b>	<b>2,004</b>	<b>(481)</b>	<b>40,947</b>



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

#### **6.21 Other non current liabilities**

The other non-current liabilities as of March 31, 2006 amount to Euro 6,531 thousand and include liabilities deriving from existing contracts with licensors for the production and distribution of licensed products.

#### **6.22 Share capital**

At March 31, 2006, Safilo Group S.p.A.'s share capital equals Euro 70,843,213, consisting of 283,372,852 shares with a nominal value of Euro 0.25 each.

#### **6.23 Share premium reserve**

The share premium reserve amounts to Euro 751,276 thousand and consists of:

- for Euro 406,217 thousand, the higher value attributed on the conferment of shares by the subsidiary Safilo S.p.A. compared to the nominal value of the corresponding increase in share capital;
- for Euro 345,059 thousand (i) the higher price paid compared to the nominal value of the shares, at the moment of the placement of the shares on the Milan Stock Exchange, less the quotation charges incurred (ii) the higher value coming from stock options exercised and (iii) the higher amount deriving from the conversion of the convertible bonds.

#### **6.24 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 translation into Euro of the financial statements of the consolidated companies.

## 6.25 Fair value and cash flow reserves

This account is comprised as follows:

(Euro/000)	Balance as of January 1, 2005	Impact on equity	Impact on Income Statement	Balance as of December 31, 2005
-				
Cash flow reserve	(3,637)	(2,780)	3,637	(2,780)
Fair value reserve	(2,705)	(452)	2,038	(1,119)
<b>Total</b>	<b>(6,342)</b>	<b>(3,232)</b>	<b>5,675</b>	<b>(3,899)</b>

(Euro/000)	Balance as of January 1, 2006	Impact on equity	Impact on Income Statement	Balance as of March 31, 2006
-				
Cash flow reserve	(2,780)	1,504	536	(740)
Fair value reserve	(1,119)	930	-	(189)
<b>Total</b>	<b>(3,899)</b>	<b>2,434</b>	<b>536</b>	<b>(929)</b>

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

## 6.26 Consolidated changes in shareholders' equity

In accordance with IFRS 1, the table below sets forth the movements of equity for the periods ended March 31, 2006 and 2005.

<i>(Euro/000)</i>	Share capital	Share premium	Translation difference	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
<b>Group net equity as of January 1, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>(4,738)</b>	<b>(6,342)</b>	<b>(22,905)</b>	<b>18,866</b>	<b>440,298</b>
Previous year's income allocation	-	-	-	-	18,866	(18,866)	-
Retained earnings	-	-	2,060	229	-	-	2,289
2005 net income	-	-	-	-	-	6,458	6,458
<b>Group net equity as of March 31, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>(2,678)</b>	<b>(6,113)</b>	<b>(4,039)</b>	<b>6,458</b>	<b>449,045</b>
<b>Minority interests as of January 1, 2005</b>	<b>-</b>	<b>-</b>	<b>(105)</b>	<b>-</b>	<b>2,055</b>	<b>3,123</b>	<b>5,073</b>
Previous year's income allocation	-	-	-	-	3,123	(3,123)	-
Retained earnings	-	-	28	-	-	-	28
Dividends distribution	-	-	-	-	(220)	-	(220)
2005 net income	-	-	-	-	-	1,182	1,182
<b>Minority interests as of March 31, 2005</b>	<b>-</b>	<b>-</b>	<b>(77)</b>	<b>-</b>	<b>4,958</b>	<b>1,182</b>	<b>6,063</b>
<b>Consolidated net equity as of March 31, 2005</b>	<b>49,200</b>	<b>406,217</b>	<b>(2,755)</b>	<b>(6,113)</b>	<b>919</b>	<b>7,640</b>	<b>455,108</b>

  

<i>(Euro/000)</i>	Share capital	Share premium	Translation difference	Fair value and cash flow reserve	Retained earnings	Net income	Total equity
<b>Group net equity as of January 1, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>5,208</b>	<b>(3,899)</b>	<b>(4,850)</b>	<b>3,097</b>	<b>821,675</b>
Previous year's income allocation	-	-	-	-	3,097	(3,097)	-
Retained earnings	-	-	(2,310)	2,970	580	-	1,240
2006 net income	-	-	-	-	-	16,958	16,958
<b>Group net equity as of March 31, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>2,898</b>	<b>(929)</b>	<b>(1,173)</b>	<b>16,958</b>	<b>839,873</b>
<b>Minority interests as of January 1, 2006</b>	<b>-</b>	<b>-</b>	<b>102</b>	<b>-</b>	<b>2,215</b>	<b>3,220</b>	<b>5,537</b>
Previous year's income allocation	-	-	-	-	3,220	(3,220)	-
Retained earnings	-	-	60	-	-	-	60
Dividends distribution	-	-	-	-	(249)	-	(249)
2006 net income	-	-	-	-	-	1,110	1,110
<b>Minority interests as of March 31, 2006</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>-</b>	<b>5,186</b>	<b>1,110</b>	<b>6,458</b>
<b>Consolidated net equity as of March 31, 2006</b>	<b>70,843</b>	<b>751,276</b>	<b>3,060</b>	<b>(929)</b>	<b>4,013</b>	<b>18,068</b>	<b>846,331</b>

## **6.27 Stock options plans**

On March 25, 2003, the respective shareholders' meetings of Safilo Holding S.p.A. (now Safilo Group S.p.A.) and Safilo S.p.A. approved the "SOP I", which provides for the free vesting of rights for the subscription of new shares issued to some employees and consultants of the companies of the Group.

On November 24, 2004 and December 16, 2004 respectively, the shareholders' meetings of Safilo Group S.p.A. and Safilo S.p.A. approved a new plan, the "SOP II", which provides for the free vesting of rights for the subscription of new shares issued to some employees and consultants of the companies of the Group.

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 is obliged to issue the new shares, the stock option cost is recorded in the company in which the employees carry out their employment. The amount received, net of the costs directly attributable to the transaction, will be credited to the share capital (nominal value) and the share premium reserve, when the options are exercised.

With reference to the first stock option plan mentioned above, the Group has decided to apply the exemption for share based payments. In substance, IFRS 2 is applied from January 1, 2004 for all the options issued after November 7, 2004 but not matured ("vested") before January 1, 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.

The total costs recorded for the first quarter of 2006 and 2005 are summarised as follows:

<b>(Euro/000)</b>	<b>March 31, 2006</b>	<b>March 31, 2005</b>
SOP I	-	79
SOP II	389	-
<b>Total</b>	<b>389</b>	<b>79</b>

As reported in the Directors' Report, in December 2005 the holders of these options, in consideration of the quotation of the company Safilo Group S.p.A. on the Italian Stock Market, exercised 50% of the rights in their possession.

## 7. NOTES TO THE CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

### 7.1 Net sales

Group sales in the first quarter of 2006 amount to Euro 302,125 thousand and report an increase of 7.5% compared to the same period of the previous year.

Reference should be made to the paragraph 2.2 "sales analysis" for further details regarding the first quarter 2006 sales trend compared to the same period of the previous year.

### 7.2 Cost of sales

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Purchase of raw materials and finished products	85,149	70,068
Change in inventories	(5,963)	7,267
Payroll and social security contributions	24,058	22,674
Capitalization of costs for increase in property, plant and equipment	(2,407)	(2,217)
Subcontracting costs	8,396	6,364
Depreciation	5,673	6,027
Rental and operating leases	146	187
Other industrial costs	1,956	2,197
<b>Total</b>	<b>117,008</b>	<b>112,567</b>

The increase in purchases of raw materials and finished products relates mainly to the higher quantities of finished products acquired as a consequence of increased sales.

These changes in inventories are comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Finished products	(5,634)	5,377
Work-in-progress	(154)	(308)
Raw materials	(175)	2,198
<b>Total</b>	<b>(5,963)</b>	<b>7,267</b>

Salaries and contributions increased by approximately 6.1%, principally as a result of normal salary increases.

The total average workforce of the Group for the first quarter 2006 and 2005 is broken down as

follows:

	Q1 2006	Q1 2005
Padua headquarters	789	723
Production plants	4,206	4,372
Commercial subsidiaries	1,067	1,025
Solstice	350	226
<b>Total</b>	<b>6,412</b>	<b>6,346</b>

External processing increased by Euro 2,032 when compared to the same period of the previous year as a result of an increased utilization of external subcontractors in order to manage the increased production needs.

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

### 7.3 Selling and marketing expenses

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Payroll and social security contributions	22,291	20,906
Commissions to sales agents	21,690	20,248
Royalty expenses	27,130	25,869
Advertising and promotional costs	24,849	22,541
Amortisation & depreciation	683	556
Logistic costs	3,961	3,251
Rental and operating leases	1,703	1,346
Utilities	181	71
Provision for risks	429	510
Other sales and marketing expenses	8,929	6,976
<b>Total</b>	<b>111,846</b>	<b>102,274</b>

The increase of selling and marketing expenses is a result of the increase in the after-sales structure, of the development of the American retail chain Solstice and of normal salary increases.

The growth in commissions to sales agents and royalties expenses is directly related to the increase in sales. The amount of royalties has been impacted by having a mix of sales more focused on licensed products.

### 7.4 General and administrative expenses

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Payroll and social security contributions	15,462	13,293
Allowance for doubtful accounts	566	860
Amortisation & depreciation	2,722	2,112
Consultants fees	1,391	2,088
Rental and operating leases	1,700	1,514
EDP costs	895	886
Insurance costs	718	547
Utilities	1,014	645
Security and cleaning	454	468
Taxes (other than on income)	552	606
Other general and administrative expenses	4,181	3,342
<b>Total</b>	<b>29,655</b>	<b>26,361</b>

The growth in salaries is a result of the development of the headquarters in Padua and of normal salary increases.

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

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Losses on asset disposals	(31)	(2)
Other operating expenses	(59)	(190)
Gains on asset disposals	8	5
Other operating revenues	329	271
<b>Total</b>	<b>247</b>	<b>84</b>

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

This account amounts to Euro 38 thousand and consists of the income and losses deriving from the equity valuation of the holdings in associated companies (note 6.10).

## 7.7 Interest expense and other financial charges, net

This account is comprised as follows:

(Euro/000)	Three months ended March,	
	2006	2005
Interest expense on loans	5,928	7,521
Interest expense and charges on High Yield	5,354	7,374
Interest on convertible bonds	-	1,025
Bank commissions	985	1,013
Foreign exchange rate differences	3,438	6,880
Financial discounts	1,465	1,196
Other financial charges	300	17
<b>Total financial charges</b>	<b>17,470</b>	<b>25,026</b>
Interest income	327	72
Foreign exchange rate differences	3,215	5,008
Other financial income	684	2
<b>Total financial income</b>	<b>4,226</b>	<b>5,082</b>
<b>Total financial charges, net</b>	<b>13,244</b>	<b>19,944</b>

Interest expenses significantly decreased when compared to the first quarter of 2005 as a consequence of the Group's lower debt and the absence of the negative effects deriving from changes in foreign exchange rates that had impacted upon the first quarter of the previous year.

## 7.8 Income tax expenses

(Euro/000)	Three months ended March,	
	2006	2005
current taxes	(9,609)	(11,565)
deferred taxes	(2,980)	(685)
<b>Total</b>	<b>(12,589)</b>	<b>(12,250)</b>

## 7.9 Earnings per share

(Euro)	Three months ended March,	
	2006	2005
Basic EPS	0.06	0.03
Diluted EPS	0.06	0.03

Basic and diluted EPS computation is as follows:



<b>(Euro)</b>	<b>Three months ended March,</b>	
	<b>2006</b>	<b>2005</b>
Profit for ordinary shares	16,957,883	5,461,354
Average number of ordinary shares	283,372,852	167,280,000
<b>Basic EPS</b>	<b>0.06</b>	<b>0.03</b>

<b>(Euro)</b>	<b>Three months ended March,</b>	
	<b>2006</b>	<b>2005</b>
Profit for ordinary shares	16,957,883	5,461,354
Profit for preferred shares	-	996,055
<b>Profit at income statement</b>	<b>16,957,883</b>	<b>6,457,409</b>
Interest expense on convertible bonds	-	686,570
<b>Profit for EPS diluted computation</b>	<b>16,957,883</b>	<b>7,143,979</b>
Average number of ordinary shares:	283,372,852	167,280,000
Dilutive effects:		
- convertible bonds	-	29,520,000
- preferred shares	-	18,325,600
- stock options	1,220,183	2,804,315
<b>Total</b>	<b>284,593,035</b>	<b>217,929,915</b>
<b>Diluted EPS</b>	<b>0.06</b>	<b>0.03</b>

#### 7.10 Seasonality and unusual items

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

During the first quarter of 2006, there were no unusual or extraordinary items affecting assets, liabilities, equity, net income or cash flows.

#### 7.11 Dividends

During the first quarter of 2006 the holding company Safilo Group S.p.A. has not paid any dividends to its shareholders.

#### 7.12 Segment information

The following information is provided with reference to the geographical areas in which the Group

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

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

March 31, 2006 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	87,199	11,671	102	306	-	(99,278)	-
-to third parties	67,644	80,414	118,221	35,846	-	-	302,125
<b>Total Net Sales</b>	<b>154,843</b>	<b>92,085</b>	<b>118,323</b>	<b>36,152</b>	<b>-</b>	<b>(99,278)</b>	<b>302,125</b>
<b>Gross Profit</b>	<b>66,464</b>	<b>42,011</b>	<b>60,745</b>	<b>17,092</b>	<b>-</b>	<b>(1,195)</b>	<b>185,117</b>
<b>Operating income</b>	<b>17,970</b>	<b>10,639</b>	<b>10,574</b>	<b>5,448</b>	<b>(30)</b>	<b>(738)</b>	<b>43,863</b>
Interest expense							(17,470)
Interest income							4,226
Share income/(loss) of associates			38				38
Income taxes							(12,589)
<b>Net income</b>							<b>18,068</b>
<i>Gross profit margin</i>	<i>43%</i>	<i>46%</i>	<i>51%</i>	<i>47%</i>			<i>61%</i>
<i>Operating income margin</i>	<i>12%</i>	<i>12%</i>	<i>9%</i>	<i>15%</i>			<i>15%</i>
<b>Other information</b>							
Depreciation & Amortization	6,432	1,292	1,089	242	23		9,078

- (1) Operating companies based in Italy.  
(2) Operating companies based in European countries other than Italy, India and South Africa.  
(3) Operating companies based in USA, Canada and Brazil.  
(4) Operating companies based in the Far East, Australia, Singapore, Malaysia and China.  
(5) Non operating companies.

March 31, 2005 (Euro/000)	Italy (1)	Europe (2)	America (3)	Asia (4)	Corporate (5)	Eliminat.	Total
<b>Net sales</b>							
-to other segments	77,964	7,502	130	7	-	(85,603)	-
-to third parties	62,779	89,462	98,070	30,637	13		280,961
<b>Total Net Sales</b>	<b>140,743</b>	<b>96,964</b>	<b>98,200</b>	<b>30,644</b>	<b>13</b>	<b>(85,603)</b>	<b>280,961</b>
<b>Gross Profit</b>	<b>55,748</b>	<b>47,275</b>	<b>50,148</b>	<b>15,081</b>	<b>13</b>	<b>129</b>	<b>168,394</b>
<b>Operating income</b>	<b>9,864</b>	<b>32,683</b>	<b>9,011</b>	<b>5,300</b>	<b>222</b>	<b>(17,237)</b>	<b>39,843</b>
Interest expense							(25,026)
Interest income							5,082
Share income/(loss) of associates			(9)				(9)
Income taxes							(12,250)
<b>Net income</b>							<b>7,640</b>
<i>Gross profit margin</i>	<i>40%</i>	<i>49%</i>	<i>51%</i>	<i>49%</i>			<i>60%</i>
<i>Operating income margin</i>	<i>7%</i>	<i>34%</i>	<i>9%</i>	<i>17%</i>			<i>14%</i>
<b>Other information</b>							
Depreciation & Amortization	5,862	1,845	776	207	5		8,695

- (1) Operating companies based in Italy.  
(2) Operating companies based in European countries other than Italy, India and South Africa.  
(3) Operating companies based in USA, Canada and Brazil.  
(4) Operating companies based in the Far East, Australia, Singapore, Malaysia and China.  
(5) Non operating companies.

## 8. RELATED PARTY TRANSACTIONS

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

Related parties (Euro/000)	Relationship	March 31, 2006	December 31, 2005
<i>Receivables</i>			
Safilens s.r.l.	(a)	196	207
Optifashion As	(b)	17	-
Elegance International Holdings Ltd	(a)	500	750
<b>Total</b>		<b>713</b>	<b>957</b>
<i>Payables</i>			
Safilens s.r.l.	(a)	11	22
Elegance International Holdings Ltd	(a)	19,135	8,533
<b>Total</b>		<b>19,146</b>	<b>8,555</b>

Related parties (Euro/000)	Relationship	Q1 2006	Q1 2005
<i>Revenues</i>			
Optifashion As	(b)	158	53
Safilens s.r.l.	(a)	-	2
<b>Total</b>		<b>158</b>	<b>55</b>
<i>Costs</i>			
Safilens s.r.l.	(a)	-	42
Elegance International Holdings Ltd	(a)	12,646	11,301
TBR Inc.	(a)	299	263
<b>Total</b>		<b>12,945</b>	<b>11,606</b>

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 629,000. In the first quarter of 2006, the Group paid rent of Euro 299 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 Group S.p.A, holds 23.05% of Elegance International Holdings Limited ("Elegance"), a company listed on the Hong Kong Stock Exchange. Elegance is a producer of eyewear products in Asia, 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, director of Safilo Group S.p.A., and Mario Pietribiasi, executive of the Group, are non-executive directors of Elegance. In addition, Mario Pietribiasi is also a shareholder of the company with a holding of 0.30%.

## 9. CONTINGENT LIABILITIES

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

Nevertheless, at March 31, 2006, we are currently party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, are groundless. However, a negative outcome of them beyond that estimated, could have a material adverse effect on our business, financial condition or on results of operations.

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

## **10. COMMITMENTS**

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

For the Board of Directors

The Chairman

Vittorio Tabacchi