

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Safilo Group S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Safilo Group S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory provisioning

Description of the key audit matter

As disclosed in Note 4.3, as of December 31, 2018 the Group has inventories for Euro 238 million, net of an obsolescence reserve of Euro 92 million. The Group manufactures and sells goods which are subject to changes in market trends and in customers' demand: as a consequence a significant level of Management's judgement is required to determine the appropriate inventory provisioning, on the basis of sales forecasts.

We considered the relevance of the obsolescence reserve, even in terms of the economic impact, and the proportion compared to the gross inventory amount which, as of December 31, 2018, represents about 20% of consolidated assets; we also considered the subjectivity of the estimates and we assessed that the determination of the obsolescence reserve represents a key audit matter for the audit of Safilo Group's consolidated financial statements.

Audit procedures

We preliminary analyzed the principles and criteria applied by the Group to determine the obsolescence provision which mainly include considerations about commercial policies, sales forecasts and the hystorical usage of stock.

We performed, among others, the following audit procedures, supported by the information technology experts belonging to our network:

- understanding of the relevant controls designed and implemented by Safilo Group in the process of determining the inventory provisioning;
- analysis of the reasonableness of the main assumptions adopted by Safilo Group to classify the products on the basis of commercial strategies and their permanence in the production cycle, the related sales forecasts, and analysis of the algorithms and criteria applied in the calculation;
- test of the correct execution of the calculation of the provision based on the algorithms adopted by Group Management;
- analysis of integration of provision deriving from specific events (e.g. management of returned goods, interruption of licences);
- test of handling of provision through analysis of main dynamics by obtaining, where necessary, adequate supporting documentation.

Impairment of goodwill

Description of the key audit matter

As disclosed in Note 4.8, as of December 31, 2018 Safilo Group displays a goodwill of Euro 226 million, allocated to two different Cash Generating Units (CGU), named Emea and Americas referred to the geographical areas. As required by IAS 36 "Impairment of assets", goodwill is not subject to amortization but is subject to an impairment test at least on an annual basis which compares the recoverable value of the CGUs – based on the value in use methodology – and the carrying value which includes goodwill and other tangible and intangible assets allocated to the CGUs.

The impairment test as of December 31, 2018 is based on the business plan for the 5 years' period 2019 – 2023 deriving from the previous business plan 2018-2022 as quoted in Note 8.4, where the main assumptions regarding sales and cost reduction initiatives are referred to in the same note. The Directors disclosed that the impairment test has been influenced by the turnaround moment concerning Safilo Group and the underlying assumptions take into

consideration some possible uncertainties in achieving the objectives. The Directors have taken into consideration the most reliable information currently available and have analysed alternative scenarios in order to evaluate the nature of uncertainties. The same Note disclose also the Directors' considerations on the negative difference between the market capitalization of the Group as at the financial statements date and the equity value resulting from the consolidated financial statements.

The process of performing the impairment test is complex and is based on assumptions related, among others, to the expectations in term of cash flows for each CGU and the determination of appropriate discount rates (WACC) and long-term growth (g-rate). Those estimates depend on factors which may change in time, with possible effects which may be significant on Management's assessment.

We considered the relevance of the goodwill amount which, as of December 31, 2018, represents about 19% of consolidated assets; we considered the subjectivity of the estimates underlying the determination of the cash flows for each CGU and the key variables of the impairment test; we also took into account the negative results obtained by the Group in the last two years and the evolution of the business environment. As a result we assessed that the impairment of goodwill represents a key audit matter for the audit of Safilo Group's consolidated financial statements.

Audit procedures

We preliminarily analyzed the approach used by Management to determine the value in use for each CGU, analyzing the methodology and assumptions used by Management to perform the impairment test.

We performed, among others, the following audit procedures, supported by the experts belonging to our network:

- detection and understanding of the relevant controls designed and implemented by Safilo Group in the process of performing the impairment test;
- analysis of the main assumptions adopted to prepare the expectations in terms of cash flows, also using industry data with reference to the trend of sales and marginality, and obtaining information from Group Management;
- analysis of the actual results obtained by the Group compared to the expectations, in order to investigate the nature of the variations and evaluate the reliability of the planning process;
- analysis of the reasonableness of the discount rates (WACC) and long-term growth (g-rate);
- test of the clerical accuracy of the model used to calculate the value in use for each CGU;
- test of the accuracy of the determination of the carrying value of each CGU and comparison with the recoverable value resulting from the impairment test;
- analysis of the alternative scenarios prepared by Management and of the related sensitivity analysis;
- analysis of the Management's considerations about the difference between the market capitalization of the Group and the equity value.

Finally we verified the appropriateness and the compliance of the disclosure on the impairment test provided by the Group to the requirements of IAS 36.

Recoverability of deferred tax assets

Description of the key audit matter

As disclosed in Note 4.9, the consolidated financial statements as of December 31, 2018 presents deferred tax assets for Euro 63 million, mainly related to timing differences resulting from allowances and, prudently, to a part of the losses carried forward. The amount of deferred tax assets is presented net of a provision of Euro 94 million for potential tax benefits considered not recoverable based on the expected profitability, of which Euro 15 million accounted for in 2018.

As disclosed in the Notes to the financial statements, the valuation about the recoverability of deferred tax assets derives from specific assumption regarding the probability to obtain future taxable income and that they will be sufficient to allow the recoverability of the deferred tax assets. Those assumptions are based on hypotheses related to sales and cost reductions which may not be realized, or realized in an insufficient amount compared to what is needed to entirely recover the deferred tax assets.

We considered the relevance of the amount of the deferred tax assets. We also considered the subjectivity of estimates together with the negative economic trend of the Group. As a result we assessed that the recoverability of deferred tax assets represents a key audit matter for the audit of Safilo Group's consolidated financial statements.

Audit procedures

We performed, among others, the following audit procedures, supported by the Tax experts belonging to our network:

- detection and understanding of the relevant controls designed and implemented by Safilo Group in the process of evaluating the recoverability of deferred tax assets;
- test and recalculation of the timing differences and losses carried forward which caused the recognition of deferred tax assets;
- analysis of the criteria applied to determine the tax rate that will be effective in the countries and at the time in which the main timing differences will reverse, based on laws and regulation enforced at the closing date;
- analysis of of the reasonableness of the main assumptions used to prepare the expectations of future taxable income and evaluation of the probability that this taxable income will be sufficient to absorb the reversal of the deferred tax assets;
- analysis of the reliability of the planning process.

Finally we verified the appropriateness and the compliance of the disclosure on the recoverability of deferred tax assets provided by the Group to the requirements of IAS 12.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Safilo Group S.p.A. has appointed us on 15 April 2014 as auditors of the Company for the years from 31 December 2014 to 31 December 2022.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Safilo Group S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Safilo Group as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Safilo Group as at 31 December 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Safilo Group as at 31 December 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Safilo Group S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Moretto
Partner

Padova, Italy
March 22, 2019

This report has been translated into the English language solely for the convenience of international readers.