# Half year Financial Report

for the period ended June 30th, 2020

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This interim report is available on the Company's website:

www.safilogroup.com

**SAFILO GROUP S.p.A.**

**Registered Office**

Settima Strada, 15

35129 Padua - Italy

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## Corporate Bodies and Committees

| Board of Directors (1) | |
|---|---|
| *Chairman* | Eugenio Razelli |
| *Chief Executive Officer* | Angelo Trocchia |
| *Non-executive Director* | Jeffrey A. Cole |
| *Non-executive Director* | Melchert Frans Groot |
| *Non-executive Director* | Robert Polet |
| *Non-executive, Independent Director* | Ines Mazzilli |
| *Non-executive, Independent Director* | Guido Guzzetti |
| *Non-executive Director* | Katia Buja |
| *Non-executive, Independent Director* | Cinzia Morelli-Verhoog |

| Board of Statutory Auditors (2) | |
|---|---|
| *Chairman* | Carmen Pezzuto |
| *Regular Auditor* | Roberto Padova |
| *Regular Auditor* | Bettina Solimando |
| | |
| *Alternate Auditor* | Marzia Reginato |
| *Alternate Auditor* | Marco Prandin |

| Supervisory Committe (3) | |
|---|---|
| *Chairman* | Bettina Solimando |
| | Ines Mazzilli |
| | Carlotta Boccadoro |

| Control Risk and Sustainability Committee (4) | |
|---|---|
| *Chairman* | Ines Mazzilli |
| | Melchert Frans Groot |
| | Guido Guzzetti |

| Remuneration and Nomination Committe (5) | |
|---|---|
| *Chairman to be appointed* | Cinzia Morelli-Verhoog |
| | Jeffrey A. Cole |
| | Guido Guzzetti |

| Transactions with Related Parties Committee (3) | |
|---|---|
| *Chairman* | Ines Mazzilli |
| | Guido Guzzetti |
| | Cinzia Morelli Verhoog |

**Independent Auditors**

Deloitte & Touche S.p.A.

(1) Appointed by the Shareholders' Meeting held on April 24, 2018 and subsequently amended in its composition by the Shareholders' Meeting on April 28, 2020.
(2) Appointed by the Shareholders' Meeting held on April 28, 2020.
(3) Appointed by the Board of Directors' Meeting held on April 24, 2018 and subsequently amended in its composition on May 6, 2020.
(4) Appointed by the Board of Directors' Meeting held on April 24, 2018.
(5) Appointed by the Board of Directors' Meeting held on April 24, 2018 and subsequently amended in its composition respectively on March 13, 2019 and on May 6, 2020.

## REPORT ON OPERATIONS

### General information and activities of the Group

Safilo Group S.p.A., the holding company, is a limited liability company registered in Italy, with the legal seat in Padova, via Settima Strada no. 15.

Companies included in the consolidation area are reported in paragraph 1.3 "Consolidation method and consolidation area".

Safilo Group has been in the eyewear market for more than 80 years and is the second largest worldwide producer of sunglasses and prescription frames. Safilo is active in the design, manufacture and wholesale of eyewear products. Safilo is a global leader in the high-end eyewear segment of the market and also one of the leading sports eyewear producers and distributors worldwide.

Safilo designs, produces and distributes high quality optical eyewear, sunglasses, sports goggles and accessories. Safilo reaches points of sale all over the world including opticians, optometrists, ophthalmologists, distribution chains, department stores, specialised retailers, licensors' own stores, duty free shops and sports shops.

The entire production-distribution chain is directly controlled and is divided into the following phases: research and technological innovation, design and product development, planning, programming and purchasing, production, quality control, marketing and communication, sales, distribution and logistics. Safilo is strongly oriented towards the development and design of the product, carried out by a team of designers and product developers who ensure continued technical and stylistic innovation, which has always been one of the company's key strengths.

The Group manages a brand portfolio of both licensed and proprietary brands, selected according to their competitive positioning in the segmentation of the eyewear market. Safilo has extensively complemented its proprietary brand portfolio with numerous brands from the luxury and fashion industry, rooted in long-term relationships with licensors through license agreements.

Thanks to the acquisitions of Blenders and Privé Revaux in 2020, beyond acquiring two high potential growth brands, the Group is moving towards the digitalization strategy included in its 2020 – 2024 business plan.
Blenders Eyewear , founded in San Diego in 2012 , has built an advanced e-commerce platform, with unique digital and social media skills, achieving fast and profitable growth. The Company generates approximately 95% of its current business through its proprietary direct-to-consumer e-commerce platform.
Blenders Eyewear's value for money products are inspired by the California active and progressive lifestyle, particularly appealing to a broad range of consumers with a focus on Millennials and Generation Z, both female and male. The brand, profitable since its inception, has fuelled its rapid growth through highly effective social marketing strategies, partnering with influencers, athletes, lifestyle enthusiasts, and product collaborations which

have driven sales and brand awareness.

Privé Revaux, founded in Miami in 2017 was built on a shared passion for style and quality with the goal of disrupting the eyewear industry and making premium, quality eyewear products accessible to everyone. Gaining instant traction with consumers, the fast-growing US eyewear brand is fueled by a strategic celebrity ecosystem, merged in high caliber social media engagement and strong digital marketing capabilities.

Privé Revaux has extended its assortment of affordable and quality frames beyond traditional sunglasses into blue light blocking glasses to combat digital eye strain and has brought their unique, fashion-forward perspective to reading glasses. The company distributes through a broad set of channels and retail partners, both online and offline.

The Group's brands include Carrera, Polaroid, Safilo, Smith, and newly acquired Blenders and Privé Revaux, and the licensed brands Banana Republic, BOSS, David Beckham, Dior, Dior Homme, Elie Saab, Fendi, Fossil, Givenchy, havaianas, HUGO, Isabel Marant, Jimmy Choo, Juicy Couture, kate spade new york, Liz Claiborne, Marc Jacobs, Levi's, Missoni, M Missoni, Moschino, Love Moschino, Pierre Cardin, Ports, rag & bone, Rebecca Minkoff, Saks Fifth Avenue, Swatch, Tommy Hilfiger and Underarmour.

## Key consolidated performance indicators

| Economic data (*) (Euro in millions) | First semester 2020 | % | First semester 2019 | % |
|---|---|---|---|---|
| Net sales | 335.6 | 100.0 | 495.9 | 100.0 |
| Cost of sales | (187.0) | (55.7) | (229.8) | (46.3) |
| Gross profit | 148.6 | 44.3 | 266.2 | 53.7 |
| Ebitda | (38.6) | (11.5) | 36.3 | 7.3 |
| Ebitda pre non-recurring items | (28.3) | (8.4) | 41.2 | 8.3 |
| Operating profit/(loss) | (68.4) | (20.4) | (218.8) | (44.1) |
| Operating profit/(loss) pre non-recurring items | (55.2) | (16.5) | 13.3 | 2.7 |
| Group profit/(loss) before taxes | (80.0) | (23.8) | (221.7) | (44.7) |
| Profit/(Loss) attributable to the Group | (74.8) | (22.3) | (246.9) | (49.8) |
| Profit/(Loss) attributable to the Group pre non-recurring items | (63.7) | (19.0) | 8.5 | 1.7 |

| Economic data (*) (Euro in millions) | Second quarter 2020 | % | Second quarter 2019 | % |
|---|---|---|---|---|
| Net sales | 114.5 | 100.0 | 248.6 | 100.0 |
| Gross profit | 39.2 | 34.2 | 135.9 | 54.7 |
| Ebitda | (42.0) | (36.7) | 17.4 | 7.0 |
| Ebitda pre non-recurring items | (34.1) | (29.8) | 21.2 | 8.5 |

| Balance sheet data (Euro in millions) | June 30, 2020 | % | December 31, 2019 | % |
|---|---|---|---|---|
| Total assets | 986.5 | 100.0 | 829.3 | 100.0 |
| Total non-current assets | 438.1 | 44.4 | 292.2 | 35.2 |
| Capital expenditure | 9.3 | 1.0 | 31.8 | 3.8 |
| Net invested capital | 395.7 | 40.1 | 416.8 | 50.3 |
| Net working capital | 196.7 | 19.9 | 250.8 | 30.2 |
| Net financial position | (188.5) | (19.1) | (74.8) | (9.0) |
| Net financial position pre IFRS 16 | (138.7) | (14.1) | (27.8) | (3.4) |
| Group Shareholders' equity | 162.8 | 16.5 | 342.1 | 41.2 |

| Financial data (Euro in millions) | First semester 2020 | First semester 2019 |
|---|---|---|
| Cash flow from operating activities | 17.0 | 37.9 |
| Cash flow from investing activities | (120.9) | (15.8) |
| Cash flow from financing activities | 158.4 | (97.2) |
| Closing net financial indebtedness (short-term) | 107.0 | 100.6 |
| Free cash flow | (109.2) | 10.4 |

| Earnings/(Losses) per share (in Euro) | First semester 2020 | First semester 2019 |
|---|---|---|
| Earnings/(Losses) per share - basic | (0.271) | (0.991) |
| Earnings/(Losses) per share - diluted | (0.271) | (0.991) |
| No. shares in share capital | 275,703,846 | 275,703,846 |

| Group personnel | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Punctual at period end | 5,601 | 5,754 |

(*) The Group has reported in the previous period the Solstice retail business as discontinued operation disclosing the contribution in term of post tax result in a single item of the consolidated income statement. 2019 comparative data referred only to the income statement of the continuing operations related to the wholesale business.

The interim financial statements have been subject to limited review.

## Adjusted performance indicators

Adjusted performace indicators exclude the effect of items not related to the ordinary operations which may have an impact on the quality of earnings such as restructuring costs, non recurring costs and legal litigations, impairments when impairment is the result of a non-recurring event. Adjusted indicators exclude the following non-recurring items:

- In the first semester 2020, economic results pre non-recurring items exclude non-recurring costs for Euro 13.2 million (Euro 10.3 million on EBITDA), due to restructuring expenses related to the ongoing cost saving program. In Q2 2020, the adjusted EBITDA excludes non-recurring costs for Euro 7.9 million.

- In the first semester 2019, economic results pre non-recurring items excluded: (i) the impairment of the entire goodwill allocated to the Group's cash generating units for Euro 227.1 million, (ii) non-recurring costs for Euro 5 million (Euro 3.8 million in the second quarter 2019) due to restructuring expenses related to the ongoing cost saving program, and (iii) a write-down of deferred tax assets of Euro 23.3 million.

| | First semester 2020 | | | First semester 2019 | | |
|---|---|---|---|---|---|---|
| (Euro in millions) | **Ebitda** | **Operating profit/(loss)** | **Profit/(Loss) attributable to the Group** | **Ebitda** | **Operating profit/(loss)** | **Profit/(Loss) attributable to the Group** |
| **Economic indicators** | **(38.6)** | **(68.4)** | **(74.8)** | **36.3** | **(218.8)** | **(246.9)** |
| Restructuring costs and other non recurring costs | 10.3 | 13.2 | 13.2 | 4.9 | 5.0 | 5.0 |
| Impairment of goodwill | - | - | - | - | 227.1 | 227.1 |
| Write Down of Deferred Tax Assets | - | - | - | - | - | 23.3 |
| Tax effect on non recurring items | - | - | (2.2) | - | - | - |
| **Economic indicators pre non recurring items** | **(28.3)** | **(55.2)** | **(63.7)** | **41.2** | **13.3** | **8.5** |

## Alternative performance indicators definition

Certain "alternative performance indicators", which are not foreseen in the IFRS accounting principles have been used in this interim Report. Their meaning and content is given below:

- "EBITDA" stands for Earnings Before Interest, Taxes, Depreciation and Amortisation and is also stated before impairment losses to intangible assets such as goodwill;
- "EBITDA LTM adjusted" stands for EBITDA calculated for the prior 12 consecutive months ending on the date of measurement before non-recurring items;
- "EBIT" stands for Earnings Before Interest and Taxes and is also stated as "Operating profit/(Loss)";
- "Capital expenditure" refers to purchases of tangible and intangible fixed assets;
- "Net invested capital" refers to the algebraic sum of shareholders' equity of the Group and minority interests and the "Net financial position" (see below);
- "Free Cash Flow" means the algebraic sum of cash flow from/(for) operating activities, the cash flow from/(for) investing activities, and the cash payments for the principal portion of IFRS 16 lease liabilities;
- "Net working capital" means the algebraic sum of inventories, trade receivables and trade payables;
- "Net financial position" means the sum of bank borrowings, short, medium and long-term borrowings, net of cash held on hand and at bank. This indicator does not include the valuation of derivative financial instruments and the Put&Call Option liability on minority interests.

It should be noted that:

- certain figures in this report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be algebraic sums of the figures which precede them;
- the percentage variations and incidences in the tables have been calculated on the basis of data expressed in thousands and not those which are shown, rounded to the nearest million.

Following the entry into force on March 18, 2016 of the Italian Legislative Decree no. 25 of 15 February 2016, which eliminates, in accordance with the European Union's Transparency Directive, the obligation to publish interim management statements, the Group releases on a voluntary basis a trading update for first and third quarter showing only financial KPIs.

Disclaimer

This interim report and, in particular, the section entitled "Subsequent events and Outlook" contains forward looking statements based on current expectations and projects of the Group in relation to future events. Due to their specific nature, these statements are subject to inherent risks and uncertainties, as they depend on certain circumstances and facts, most of which are beyond the control of the Group. Therefore actual results could differ, even to a significant extent, with respect to those reported in the statements.

## Information on Group economic results

Since January 2020, the national and international scenario has been characterized by the spread of Covid-19 (Coronavirus), first in China and, since March, in Europe, the USA and in the rest of the world. For the containment of the virus, the public authorities of the affected countries have established, with varying degrees of severity, restrictive measures to people's mobility and to production and commercial activities (so-called Lockdown). In the months of May and June 2020, and previously in China, these measures were progressively eased, in different ways in the various countries, and manufacturing and commercial activities gradually resumed. However, important outbreaks of the virus remain in some regions of the world, such as Latin America, India and, partially, the United States. In parallel with the containment measures, the governments have approved economic-financial support measures for individuals and businesses, with characteristics and requirements that vary according to the countries.

Safilo Group first underwent the lockdown in its factory and commercial branches located in the Far East, and then in the plants located in Italy, commercial branches located all over the world had been similarly affected by closures for more or less prolonged periods.

From the outset, the Group's actions have been primarily focused on the health and safety of all its employees, for whom it had immediately and rigorously implemented the safety and prevention regulations provided by government protocols. Equally important for Safilo was to focus on maintaining business continuity, ensuring production and service levels which were finetuned on the different market scenarios, while quickly implementing smart working solutions for office staff. The Group has also reconverted some of its production lines for the manufacturing of protective masks and visors to support the fight against Covid-19.

Safilo was not significantly impacted on the supply side. Sufficient stock levels at the end of 2019 granted the Group the flexibility to face the temporary shutdown of its Chinese plant in Suzhou and the difficulties encountered by some Chinese suppliers. Starting from February, the Group's Chinese plant in Suzhou reopened, progressively recovering its workload, while most of the key Chinese suppliers' activity also recovered a normal level. The closure of the Italian plants, leveraging flexible social amortizers available enabled the Group to adapt supply to the new demand scenario, reducing it when markets were locked down and increasing it as markets opened again and demand increased.

On the demand side, in the first two months of 2020, the Group recorded a mid-single digit increase in net sales driven by the double-digit growths recorded by all its own core brands, Carrera, Polaroid and Smith, as well as by the core licensed brands in the portfolio. In March, the business was heavily impacted by the escalation of Covid-19 in Italy and, from the second half of the month, also in the other European countries and in the United States, consequently deteriorating the Group's first quarter 2020 sales and economic performance.

In the month of April, Safilo recorded a very significant decline of its sales activities, reflecting the almost complete shutdown of the various distribution channels and markets in which the Group sells its products, with the online business and the Chinese market having been the only positive exceptions.

In line with expectations, business trends just slightly improved in May, as the lifting and easing of lockdowns and restrictions started to be implemented in many countries, bringing with it the gradual reopening of stores for prescription frames and sunglasses. In June, while consumer traffic remained generally below previous year levels, a number of countries saw a significant improvement of conversion rates, which allowed for a business rebound compared to the previous two months. Such business dynamics were more evident in Europe, in Italy, France and Germany in particular, while business activities in North America reflected the slower pace of re-openings and social disruptions.

The Group's second-quarter and first-half results were heavily hit by the severe disruption of sales activities in April and May (approximately -70% compared to the prior year two months), resulting in an unprecedented operating deleverage and negative economic performance. In June, sales trends recorded a meaningful sequential improvement, which supported the return to a small operating profit.

As previously announced in March, Safilo set up a global crisis team to constantly update its assessment of the market and business evolution around the world, modulating accordingly its contingency and recovery plans.

The Group's Management has progressively implemented proactive initiatives to mitigate the economic and financial effects of the pandemic, focusing on:

- minimizing all discretionary expenditures;
- eliminating or reducing variable operating expenses;
- adjusting marketing plans to the new consumption scenarios;
- reducing personnel costs making use of applicable government relief programs across the world;
- reducing planned capital expenditures to approximately Euro 20 million in 2020 from approximately Euro 31 million in 2019.

The total impact of structural cost savings and the contingency measures initiated in March in relation to the Covid-19 emergency amounted to around Euro 28 million in the first semester (Euro 21 million in the second quarter). During the first semester, the Group continued with the implementation of its restructuring plan of its organization, as part of the 2020 - 2024 business plan presented in December 2019.

The Group implemented an effective working capital and cash protection management, which allowed Safilo to close the first six months of the year with a slightly positive Free Cash Flow generation, equal to Euro 2.5 million and a Group's net debt (post-IFRS 16) at Euro 188.5 million, a position substantially in line with what recorded at the end of December 2019, excluding the impact of the acquisitions of Privé Revaux, completed on February 10, 2020, and Blenders Eyewear, closed on June 1, 2020, which have been financed through available cash and credit facilities, and through a subordinated loan provided by Safilo's reference shareholder, Multibrands Italy B.V., controlled by HAL Holding N.V., for an amount of Euro 90 million.

The Group's net debt included liquidity of Euro 110.9 million, furthermore, at 30 June 2020 the Group had additional credit lines for Euro 14.7 million.

In the period, Safilo's cash flow from the change in working capital was temporarily positive, reflecting on one side a lower level of trade receivables, related to the sales reduction partially compensated by a slowdown in cash collections from customers and a higher credit exposure which followed the prolonged stores closure, on the other a tight control of inventories, including reducing inventory commitments and consolidating seasonal collections, as well as extended payment terms, either in negotiation with suppliers or where applicable under governments relief schemes.

At the end of June 2020, Safilo had fully drawn its Term and Revolving Credit Facility equal to Euro 150 million in order to maximize cash management flexibility and responsiveness.
At the end of June 2020, the financial covenants embedded in the existing debt have been surpassed due to the Group's operational performance during the period heavily impacted by the Covid-19 pandemic; as a consequence, given the contractual provisions and in line with prevailing accounting standards, the outstanding amount has been reclassified as a current financial liability as of June 30, 2020. Management is in active discussions with its lending banks, already involved in the existing financing agreement signed in 2018, in the definition of the specific additional financing options congruent with the Group's operational considerations in the current market environment. The Group is in the final stages of negotiations with its key relationship banks for an additional term loan under the framework of the Italian Liquidity Decree, and a new set of covenants which would provide also for the cancellation of the covenant test in the current debt at 30 June 2020, subject to the banks' and SACE's credit approval process over the coming weeks.

As the evolution of the current Covid-19 pandemic remains unpredictable, with the potential impacts and effects as of today not determinable, the Group is still unable to provide a new outlook for the full year 2020, remaining committed to continue to promptly update the market and all its stakeholders on the developments that the health emergency will have on the Group's economic and financial results. Safilo's management remains fully committed to accelerate the digital transformation the Group outlined in its 2020-2024 Business Plan presented on 10 December 2019, by fine tuning a series of actions and tools which will allow the Company to effectively address this new context, working better and more effectively with its clients and consumers throughout the world. In these days, Safilo continues working on several fronts to achieve these goals, in particular on the new business-to-business platform for clients and on new programs and initiatives to drive traffic in stores, and clearly on an ever greater focus on e-commerce, particularly for Smith and the newly acquired brands, Blenders Eyewear and Privé Revaux.

## FIRST SEMESTER ECONOMIC PERFORMANCE

| **Consolidated income statement** (Euro in millions) | **First semester 2020** | **%** | **First semester 2019** | **%** | **Change %** |
|---|---|---|---|---|---|
| Net sales | 335.6 | 100.0 | 495.9 | 100.0 | -32.3% |
| Cost of sales | (187.0) | (55.7) | (229.8) | (46.3) | -18.6% |
| **Gross profit** | **148.6** | **44.3** | **266.2** | **53.7** | **-44.2%** |
| Selling and marketing expenses | (150.0) | (44.7) | (192.9) | (38.9) | -22.3% |
| General and administrative expenses | (56.7) | (16.9) | (60.9) | (12.3) | -6.8% |
| Other operating income/(expenses) (*) | (10.3) | (3.1) | (4.2) | (0.8) | n.s. |
| Impairment loss on goodwill | - | - | (227.1) | (45.8) | -100.0% |
| **Operating profit/(loss)** | **(68.4)** | **(20.4)** | **(218.8)** | **(44.1)** | **-68.7%** |
| Financial charges, net | (11.6) | (3.5) | (2.9) | (0.6) | n.s. |
| **Profit/(Loss) before taxation** | **(80.0)** | **(23.8)** | **(221.7)** | **(44.7)** | **-63.9%** |
| Income taxes | 5.7 | 1.7 | (25.2) | (5.1) | n.s. |
| **Profit/(Loss) of the period** | **(74.3)** | **(22.1)** | **(246.9)** | **(49.8)** | **-69.9%** |
| Net profit/(loss) attributable to minority interests | 0.5 | 0.1 | 0.0 | 0.0 | n.s. |
| **Profit/(Loss) of the period attributable to the Group** | **(74.8)** | **(22.3)** | **(246.9)** | **(49.8)** | **-69.7%** |
| **EBITDA** | **(38.6)** | **(11.5)** | **36.3** | **7.3** | **n.s.** |

| **Economic indicators pre non-recurring items** | **First semester 2020** | **%** | **First semester 2019** | **%** | **Change** |
|---|---|---|---|---|---|
| **EBIT pre non-recurring items** | **(55.2)** | **(16.5)** | **13.3** | **2.7** | **n.s.** |
| **EBITDA pre non-recurring items** | **(28.3)** | **(8.4)** | **41.2** | **8.3** | **n.s.** |
| **Net profit/(loss) attributable to the Group pre non-recurring items** | **(63.7)** | **(19.0)** | **8.5** | **1.7** | **n.s.** |

*(*) The item includes operating non-recurring expenses for a total amount of Euro 10.3 million (Euro 5.0 million in 2019)*
*Percentage impacts and changes have been calculated on figures in thousands.*

## SECOND QUARTER ECONOMIC PERFORMANCE

| **Consolidated income statement** (Euro in millions) | **Second quarter 2020** | **%** | **Second quarter 2019** | **%** | **Change %** |
|---|---|---|---|---|---|
| Net sales | 114.5 | 100.0 | 248.6 | 100.0 | -54.0% |
| **Gross profit** | **39.2** | **34.2** | **135.9** | **54.7** | **-71.2%** |
| **EBITDA** | **(42.0)** | **(36.7)** | **17.4** | **7.0** | **n.s.** |
| **EBITDA pre non-recurring items** | **(34.1)** | **(29.8)** | **21.2** | **8.5** | **n.s.** |

*Percentage impacts and changes have been calculated on figures in thousands.*

The Group's second quarter and first half economic results were heavily impacted by the very limited sales activities recorded in April and May, resulting in a very negative and unprecedented deleveraging of industrial and operating expenses. This occurred notwithstanding a positive impact in the semester of around Euro 28 million (Euro 21 million in the second quarter) resulting from the extensive cost saving actions the management continued implementing in line with the Group Business Plan presented at the end of last year, coupled with the contingency measures initiated in March in relation to the Covid-19 emergency, including the use of applicable personnel relief programs in Italy and across the world.

**Second quarter 2020 gross profit** declined 71.2% to Euro 39.2 million compared to Euro 135.9 million in the same quarter of 2019, with the gross margin decreasing 20.5 percentage points to 34.2% of sales (54.7% in the second quarter of 2019). The industrial result was impacted by around Euro 7 million costs deriving from higher accruals for obsolescence, product returns, order cancellations and some fixed asset write offs.

**First semester 2020 gross profit** declined 44.2% to Euro 148.6 million compared to Euro 266.2 million recorded in the first half of 2019, with the gross margin decreasing 9.4 percentage points, to 44.3% of sales (53.7% in the first half of 2019).

Excluding depreciation and amortization, gross profit declined 16.5 percentage points in the quarter and 8.0 percentage points in the semester.

Below gross profit, in the second quarter, selling and general & administrative expenses declined 33.7% compared to the same period last year, with their incidence on sales drastically increasing from 48.9% to 70.4% (excluding depreciation and amortization). More specifically, selling expenses decreased by 40.4% compared to the second quarter of 2019, on the one hand benefiting from the strong adjustments made by the Group to all discretionary marketing and advertising plans and activities, on the other suffering from the fixed burden represented by the accruals for the guaranteed minima to licensors for royalties and marketing contributions.

In the quarter, general and administrative expenses decreased by only 7.5% over the previous year period, as they included the impact of higher prudential bad debt allowances, for an amount equal to about Euro 6 million. **Second quarter 2020 adjusted EBITDA** equaled a loss of 34.1 million compared to a profit of Euro 21.2 million in the second quarter of 2019, representing an adjusted EBITDA margin decline of 38.3 percentage points, to -29.8% of sales (8.5% in the second quarter of 2019).

**First semester 2020 adjusted EBITDA** equaled a loss of Euro 28.3 million compared to the profit of Euro 41.2 million recorded in the first half of 2019, representing an adjusted EBITDA margin decline of 16.7 percentage points, to -8.4% of sales (8.3% in the first half of 2019).

**First semester 2020 adjusted Operating result** equaled a loss of Euro 55.2 million compared to an adjusted Operating profit of Euro 13.3 million recorded in the first half of 2019. The adjusted Operating margin declined 19.2% percentage points, to -16.5% of sales (2.7% in the first half of 2019), also affected by the higher operating amortization recorded in the second quarter, in connection with the acquired assets of Blenders and Privé Revaux.

In the first semester, net financial charges increased to Euro 11.6 million compared to Euro 2.9 million in the first half of 2019, mainly due to negative exchange rate differences and to a lesser degree to the higher average gross debt.

**First semester 2020 adjusted Net result** equaled a loss of Euro 63.7 million compared to the adjusted net profit of 8.5 million recorded in the first half of 2019. The adjusted Net margin declined to -19.0% of sales (1.7% in the first half of 2019).

## Net sales by geographical area

| Net sales by geographical area (Euro in millions) | First semester 2020 | % | 2019 | % | Change % | Change % (*) |
|---|---|---|---|---|---|---|
| Europe | 165.0 | 49.2 | 246.3 | 49.7 | -33.0% | -32.9% |
| North America | 128.5 | 38.3 | 169.5 | 34.2 | -24.2% | -26.0% |
| Asia Pacific | 23.7 | 7.1 | 43.5 | 8.8 | -45.4% | -45.9% |
| Rest of the world | 18.4 | 5.5 | 36.7 | 7.4 | -49.8% | -46.4% |
| **Total** | **335.6** | **100.0** | **495.9** | **100.0** | **-32.3%** | **-32.7%** |

| Net sales by geographical area (Euro in millions) | Second quarter 2020 | % | 2019 | % | Change % | Change % (*) |
|---|---|---|---|---|---|---|
| Europe | 57.2 | 50.0 | 121.7 | 48.9 | -53.0% | -52.8% |
| North America | 44.1 | 38.5 | 80.6 | 32.4 | -45.3% | -46.1% |
| Asia Pacific | 8.8 | 7.7 | 25.7 | 10.3 | -65.7% | -65.5% |
| Rest of the world | 4.4 | 3.8 | 20.6 | 8.3 | -78.9% | -74.3% |
| **Total** | **114.5** | **100** | **248.6** | **100** | **-54.0%** | **-53.7%** |

*(*) Sales performance at constant exchange rates.*

**In the second quarter of 2020**, Safilo posted total net sales of Euro 114.5 million, down 54.0% at current exchange rates and 53.7% at constant exchange rates (-55.2% the wholesale business[1],) compared to Euro 248.6 million posted in the second quarter of 2019.

**In the first half of 2020**, Group's net sales equaled Euro 335.6 million, down 32.3% at current exchange rates and 32.7% at constant exchange rates (wholesale business[1] -33.2%) compared to Euro 495.9 million posted in the first half of 2019.

After the positive start in the year, with the months of January and February up mid-single digit, and the business decline recorded in March following the spread of the Covid-19 pandemic in Europe, the USA and in the rest of the world, net sales declined sharply in April given the almost complete shutdown of stores, with May remaining heavily subdued as a very gradual reopening phase initiated mainly in Europe. In June, sales almost doubled compared to the previous month, recording a more limited decline of around 35% (excluding acquisitions) over the same month of last year, with differing levels of recovery among countries, cities and business segments.

**In Europe, second quarter 2020 net sales** equaled Euro 57.2 million, down 53.0% at current exchange rates and 52.8% at constant exchange rates (-55.9% the wholesale business[1]) compared to the same period of last

[1] The wholesale business excludes the business of the production agreement with Kering, reported within the geographical area of Europe.

year. By the beginning of June, the majority of European markets, with the exception of UK and Ireland, reopened, with traffic and conversion rates starting to improve. In June, sales to independent optician stores turned slightly positive in the region, clearly driven by the business rebound recorded in the markets which had first been impacted by the outbreak of Covid-19, namely Italy, France and to a lesser extent Spain, where consumers favored the purchase of brands in the contemporary and mass cool segments. Within these markets, small and medium-size cities outperformed historical cities, outlets and shopping malls more affected by the lack of foreign tourists. Among the Northern European countries, Germany recorded in June the strongest improvement, driven among other things by the double-digit growth of online pure players.
**In Europe, first semester 2020 net sales** totaled Euro 165.0 million, down 33.0% at current exchange rates and 32.9% at constant exchange rates (wholesale business[1] -34.0%) compared to the first semester 2019.

**In North America, second quarter 2020 net sales** equaled Euro 44.1 million, down 45.3% at current exchange rates and 46.1% at constant exchange rates compared to the same quarter of last year. Safilo's wholesale revenues declined around 65% in quarter, reflecting the slower pace of re-openings which occurred in the region between May and the beginning of June, with the social turmoil affecting the country temporarily delaying the restart of commercial activities.
The newly acquired businesses of Privé Revaux and Blenders Eyewear, the latter completed on 1 June, 2020, added a total of Euro 15.7 million to the quarterly sales of North America, more than doubling their respective sales compared to their prior year business.
On the positive side, also the quarterly performance of the brand Smith, whose e-commerce business in US surged around 40% in the period, allowing for a more moderate total brand decline of approximately 9% at constant exchange rates. In June, the reopening of the brick and mortar sport customers contributed to Smith double-digit sales growth compared to the same month of last year.
**In North America, first semester 2020 net sales** totaled Euro 128.5 million, declining 24.2% at current exchange rates and 26.0% at constant exchange rates compared to the first semester 2019.

**In Asia Pacific, second quarter 2020 net sales** equaled Euro 8.8 million, down 65.7% at current exchange rates and 65.5% at constant exchange rates compared to the same period of last year, being the region heavily impacted in the quarter by the lack of business in the travel retail channel. On the other hand, sales in China confirmed the recovery trajectory initiated in April, closing the quarter slightly positive compared to the same period of last year. Business conditions remained instead tough in Hong Kong, Korea, Japan and in South Asian countries.
**In Asia Pacific, first semester 2020 net sales** equaled Euro 23.7 million, declining 45.4% at current exchange rates and 45.9% at constant exchange rates compared to the first half of 2019.

**In the Rest of the World, second quarter 2020 net sales** equaled Euro 4.4 million, down 78.9% at current exchange rates and 74.3% at constant exchange rates compared to the same period of last year, mainly due to the still high impacts deriving from the persistence of important virus outbreaks in key markets such as Brazil, Mexico and India.

**In the Rest of the World, first semester 2020 net sales** equaled Euro 18.4 million, down 49.8% at current exchange rates and 46.4% at constant exchange rates compared to the first half of 2019.

In the first six months of 2020, Safilo's online sales grew by around 31% at constant exchange rates, after gaining further acceleration in the second quarter, at +38%, driven by both the US e-commerce business and the Group's sales via its internet pure player customers. The channel sales grew strongly also in June even as stores reopened. At the end of June 2020, including the newly acquired brands, Blenders and Privé Revaux, total online sales represented around 11% of the Group's net sales, from around 4% in the same period of 2019.

After the double-digit growths recorded in January and February by Carrera, Polaroid and Smith, Safilo's own core brands sales declined around 53% in the second quarter and 27% in the first half of 2020. As previously mentioned, Smith's e-commerce business was a strong, positive driver, while Polaroid and Carrera were among the key drivers of the growth recorded in Italy and France.

## Balance sheet reclassified

The table below shows the highlights from the total balance sheet of the Group at June 30, 2020, compared with those of December 31, 2019.

| **Balance sheet** (Euro million) | **June 30, 2020** | **December 31, 2019** | **Change** |
|---|---|---|---|
| Trade receivables | 150.3 | 188.2 | (37.8) |
| Inventory, net | 228.4 | 235.8 | (7.4) |
| Trade payables | (182.1) | (173.1) | (9.0) |
| **Net working capital** | **196.7** | **250.8** | **(54.2)** |
| Tangible assets | 140.3 | 149.4 | (9.1) |
| Right of Use assets | 44.9 | 42.2 | 2.7 |
| Intangible assets | 163.0 | 49.0 | 114.1 |
| Goodwill | 33.2 | - | 33.2 |
| Non-current assets held for sale | 5.5 | 5.5 | - |
| **Net fixed assets** | **387.0** | **246.1** | **140.9** |
| Employee benefit liability | (26.8) | (27.1) | 0.3 |
| Other assets / (liabilities), net | (161.1) | (53.1) | (108.1) |
| **NET INVESTED CAPITAL** | **395.7** | **416.8** | **(21.1)** |
| Cash in hand and at bank | 110.9 | 64.2 | 46.6 |
| Short term borrowings | (249.6) | (19.2) | (230.4) |
| Short-term Lease liabilities | (10.4) | (9.7) | (0.7) |
| Long term borrowings | - | (72.9) | 72.9 |
| Long-term Lease liabilities | (39.4) | (37.3) | (2.1) |
| **NET FINANCIAL POSITION** | **(188.5)** | **(74.8)** | **(113.7)** |
| Group Shareholders' equity | (162.8) | (342.1) | 179.3 |
| Non-controlling interests | (44.4) | 0.1 | (44.5) |
| **TOTAL SHAREHOLDERS' EQUITY** | **(207.2)** | **(342.0)** | **134.8** |

## Cash flow

The summary statement of cash flows for the first six months ended June 30, 2020, with comparatives for the same period of the previous year, is provided below:

| Free cash flow (Euro million) | First semester 2020 | First semester 2019 | Change |
|---|---|---|---|
| Cash flow from operating activities | 17.0 | 37.9 | (20.9) |
| Cash flow from investing activities | (120.9) | (15.8) | (105.1) |
| Cash flow from repayment principal portion of IFRS 16 lease liabilities | (5.3) | (11.7) | 6.4 |
| **Free cash flow** | **(109.2)** | **10.4** | **(119.6)** |

In the first half of 2020, Safilo's management implemented a strict cash protection approach, which allowed the Group to close the period with a slightly positive Free Cash Flow generation (before the acquisitions), equal to Euro 2.5 million.
Cash flow for organic investment activities declined to Euro 9.3 million in the first six months (Euro 15.8 million in the first half of 2019) mainly related to maintenance Capex and the rollout of IT systems to support the Group's digital transformation strategy. In addition, net investments for acquisitions equal to Euro 111.7 million, was financed through available cash and credit facilities, and through a subordinated loan provided by Safilo's reference shareholder, Multibrands Italy B.V., controlled by HAL Holding N.V., for an amount of Euro 90 million.

## Net working capital

| Net working capital (Euro million) | June 30, 2020 | June 30, 2019 | Change vs June 2019 | December 31, 2019 | Change vs December 2019 |
|---|---|---|---|---|---|
| Trade receivables, net | 150.3 | 199.5 | (49.2) | 188.2 | (37.8) |
| Inventories | 228.4 | 236.1 | (7.7) | 235.8 | (7.4) |
| Trade payables | (182.1) | (178.3) | (3.8) | (173.1) | (9.0) |
| **Net working capital** | **196.7** | **257.4** | **(60.7)** | **250.8** | **(54.2)** |
| *% on net sales* | *25.3%* | *25.9%* | | *26.7%* | |

The company's operating cash requirements during the second quarter were driven by effective measures to maximize cash inflows while minimizing outflows, with the result of a temporarily positive flow from working capital. On one side, trade receivables decreased, due to continued, although subdued, cash collections from customers and the weak sales which followed the prolonged store closures, on the other side inventory levels were tightly under control, including reducing commitments and consolidating seasonal collections, and supplier payment terms were extended, either in negotiation or where applicable under governments relief schemes.

In the first six months of 2020, changes in working capital (excluding translation difference effect) thus led to a positive cash flow of Euro 56.3 million, which more than counterbalanced the negative cash flow for the economic results of the period.

## Investments in tangible and intangible fixed assets

The Group's capital expenditure breaks down as follows:

| (Euro in millions) | First semester 2020 | First semester 2019 | Change |
|---|---|---|---|
| Headquarters | 2.7 | 4.4 | (1.7) |
| Production factories | 4.3 | 5.9 | (1.6) |
| Europe | 0.1 | 0.1 | - |
| Americas | 2.1 | 5.2 | (3.1) |
| Far East | 0.1 | 0.5 | (0.4) |
| **Total investments** | **9.3** | **16.1** | **(6.8)** |

In the first six months of 2020 capital expenditures amounted to Euro 9.3 million compared with Euro 16.1 million in the same period of the previous year.

## Net financial position

| **Net financial position** (Euro million) | June 30, 2020 | December 31, 2019 | Change |
|---|---|---|---|
| Current portion of long-term borrowings | (143.2) | - | (143.2) |
| Bank overdrafts and short term bank borrowings | (3.9) | (10.3) | 6.4 |
| Other short-term borrowings | (102.5) | (8.8) | (93.6) |
| Short-term lease liability IFRS 16 | (10.4) | (9.7) | (0.7) |
| Cash and cash equivalents | 110.9 | 64.2 | 46.6 |
| **Short-term net financial position** | **(149.1)** | **35.4** | **(184.5)** |
| Bonds | - | - | - |
| Long-term borrowings | - | (72.9) | 72.9 |
| Long-term financial lease liability IFRS 16 | (39.4) | (37.3) | (2.1) |
| **Long-term net financial position** | **(39.4)** | **(110.2)** | **70.8** |
| **TOTAL NET FINANCIAL POSITION** | **(188.5)** | **(74.8)** | **(113.7)** |
| **TOTAL NET FINANCIAL POSITION PRE IFRS 16** | **(138.7)** | **(27.8)** | **(110.9)** |

At June 30, 2020, the Group's net debt (post-IFRS 16) stood at Euro 188.5 million, a position substantially in line with the one recorded at the end of December 2019, excluding the impact, equal to a total net investment of Euro

111.7 million, of the acquisitions of Privé Revaux, completed on February 10, 2020, and Blenders Eyewear, closed on June 1, 2020, which have been financed through available cash and credit facilities, and through a subordinated loan provided by Safilo's reference shareholder, Multibrands Italy B.V., controlled by HAL Holding N.V., for an amount of Euro 90 million.

In order to maximize cash management flexibility and responsiveness, Safilo had already in March fully drawn its Term and Revolving Credit Facility equal to Euro 150 million, of which Euro 5 million were repaid in June as part of the term loan's amortization schedule. As a result, at the end of June 2020, the Group had a cash position of Euro 110.9 million, compared to Euro 99.6 million at the end of March.

Given the high level of uncertainty still surrounding the future recovery of consumption in the different economies and in order to support the funding of current working capital and investments needs for activities located in Italy, Safilo is in the final stages of negotiations with its key relationship banks for an additional term loan under the framework of the Italian "Decreto Liquidità" adopted on April 8, 2020 by the Italian government and converted into law by the Parliament, in the context of the extraordinary measures promoted to deal with the economic and social impact of the Covid-19 outbreak.

The financial covenants embedded in the existing debt have been surpassed due to the Group's operational performance during the period heavily impacted by the Covid-19 pandemic, as a consequence, given the contractual provisions and in line with prevailing accounting standards, the outstanding amount has been reclassified as a current financial liability as of June 30, 2020. The new financing would also include a new set of covenants which would come together with the cancellation of the covenant test in the current debt at June 30, 2020.

The Group Net financial position reported in the above table does not include the valuation of derivative financial instruments and the Put&Call option liability on minority interests.

## Personnel

The Group's total workforce at 30 June 2020, 31 December 2019 and 30 June 2019 is summarized below:

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|---|---|---|---|
| Padua headquarters | 971 | 996 | 1,033 |
| Production factories | 3,400 | 3,607 | 3,851 |
| Trading companies | 1,230 | 1,151 | 1,196 |
| Retail | - | - | 559 |
| **Total** | **5,601** | **5,754** | **6,639** |

## Main critical risk factors for the Group

In consideration of the exceptional nature of the current economic context, it is considered useful to update the assessment of the risks to which the Group is subject. The Group takes appropriate measures to counteract the potential risks and uncertainties that characterize its business. As discolosed in the 2019 Group Annual Report the Group has an approach to business risk management to monitor key risks and put in place action plans to mitigate them.

The spread of the Covid 19 pandemic in the first half of 2020, as well as the acquisitions of Blenders and Privé Revaux, led to the a focus on the risk related to the business impacts coming from such pandemy and the redefinition of the scope of some risks already identified.

The main area of attention in term of risks managent related to the Covid-19 pandemic were the following ones:

- Operating & Business risks: after the spread of the Covid 19 pandemic the Group's actions have been primarily focused on the health and safety of all its employees, for whom it had immediately and rigorously implemented the safety and prevention regulations provided by government protocols. Equally important for Safilo was to focus on maintaining business continuity, ensuring production and service levels which were finetuned on the different market scenarios, while quickly implementing smart working solutions for office staff. The Group has also reconverted some of its production lines for the manufacturing of protective masks and visors to support the fight against Covid-19. Safilo was not significantly impacted on the supply side. Starting from February, the Group's Chinese plant in Suzhou reopened, progressively recovering its workload, while most of the key Chinese suppliers' activity also recovered a normal level. The closure of the Italian plants, leveraging flexible social amortizers available enabled the Group to adapt supply to the new demand scenario, reducing it when markets were locked down and increasing it as markets opened again and demand increased.

- Financial liquidity risk: the Group implemented an effective working capital and cash protection management, in this moment Management's best estimate is that the existing cash and the expected cash generation will allow the Group to fulfill its liquidity needs for the coming year. These estimates, based on the analysis of potential future hypotheses and scenarios related to the Covid-19 development, include strong and effective working capital management and other actions on investments/expenditures, which have so far helped the Group protect its cash position during the months in which the Group was strongly affected by the Covid-19 crisis. Nevertheless, considering the high degree of volatility and uncertainty in the market due to Covid-19 which renders precise predictions on operating and financial performance impossible, management believes that a stronger and safer liquidity position needs to be reached by obtaining additional financing and is in active discussions with its lending banks, already involved in the existing financing agreement signed in 2018, in the definition of the specific additional financing options congruent with the Group's operational considerations in the current market environment.

## Subsequent events and Outlook

### Subsequent events

No events have taken place after 30 June 2020 that could have a material impact on the results published in this report.

### Outlook

In July, preliminary net sales performance points to a business rebound, with total net sales expected to turn positive compared to the same month of last year. Business performance in North America became a clear driver of the monthly sales uplift, followed by a positive acceleration in Europe and Asia.
Looking at the third quarter, the Group's management remains vigilant about the reintroduction of localized lockdowns and the differing pace of the recovery across countries, estimating total net sales (including acquisitions) to decline moderately compared to the same period of last year.
As the evolution of the current Covid-19 pandemic remains unpredictable, with the potential impacts and effects as of today not determinable, the Group is still unable to provide a new outlook for the full year 2020, remaining committed to continue to promptly update the market and all its stakeholders on the developments that the health emergency will have on the Group's economic and financial results.

# Interim Condensed Consolidated Financial Statements

# and Notes

# as at and for the six months period ended

# June 30th, 2020

## Interim condensed consolidated balance sheet

| *(Euro/000)* | *Notes* | June 30, 2020 | of which related parties | December 31, 2019 | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | *2.1* | 110,875 | | 64,233 | |
| Trade receivables | *2.2* | 150,326 | 4,453 | 188,163 | 5,675 |
| Inventory | *2.3* | 228,417 | | 235,801 | |
| Derivative financial instruments | *2.4* | 207 | | 118 | |
| Other current assets | *2.5* | 53,060 | | 43,281 | |
| **Total current assets** | | **542,885** | | **531,597** | |
| **Non-current assets** | | | | | |
| Tangible assets | *2.6* | 140,287 | | 149,387 | |
| Right of Use assets | | 44,939 | | 42,219 | |
| Intangible assets | *2.7* | 163,044 | | 48,976 | |
| Goodwill | *2.8* | 33,208 | | - | |
| Deferred tax assets | *2.9* | 48,625 | | 41,723 | |
| Derivative financial instruments | *2.4* | - | | - | |
| Other non-current assets | *2.10* | 8,002 | | 9,906 | |
| **Total non-current assets** | | **438,105** | | **292,210** | |
| **Non-current assets held for sale** | | **5,531** | | **5,531** | |
| **TOTAL ASSETS** | | **986,521** | | **829,338** | |

| *(Euro/000)* | *Notes* | June 30, 2020 | of which related parties | December 31, 2019 | of which related parties |
|---|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | *2.11* | 249,589 | 90,963 | 19,159 | - |
| Lease liabilities | | 10,431 | | 9,720 | |
| Trade payables | *2.12* | 182,073 | 344 | 173,122 | 2,707 |
| Tax payables | *2.13* | 24,618 | | 18,771 | |
| Derivative financial instruments | *2.4* | 1,303 | | 1,121 | |
| Other current liabilities | *2.14* | 66,373 | | 54,024 | |
| Provisions | *2.15* | 26,998 | | 22,824 | |
| **Total current liabilities** | | **561,384** | | **298,742** | |
| **Non-current liabilities** | | | | | |
| Borrowings | *2.11* | - | | 72,864 | |
| Lease liabilities | | 39,389 | | 37,327 | |
| Employee benefit obligations | *2.16* | 26,798 | | 27,064 | |
| Provisions | *2.15* | 36,599 | | 39,264 | |
| Deferred tax liabilities | *2.9* | 11,836 | | 10,852 | |
| Derivative financial instruments | *2.4* | - | | - | |
| Other non-current liabilities | *2.17* | 103,314 | | 1,232 | |
| **Total non-current liabilities** | | **217,935** | | **188,604** | |
| **TOTAL LIABILITIES** | | **779,319** | | **487,346** | |
| **Shareholders' equity** | | | | | |
| Share capital | *2.18* | 349,943 | | 349,943 | |
| Share premium reserve | *2.19* | 594,277 | | 594,277 | |
| Retained earnings and other reserves | *2.20* | (706,698) | | (273,901) | |
| Cash flow hedge reserve | *2.21* | - | | - | |
| Income/(Loss) attributable to the Group | | (74,754) | | (328,260) | |
| **Total shareholders' equity attributable to the Group** | | **162,769** | | **342,059** | |
| **Non-controlling interests** | | **44,433** | | **(67)** | |
| **TOTAL SHAREHOLDERS' EQUITY** | | **207,202** | | **341,992** | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **986,521** | | **829,338** | |

## Interim condensed consolidated income statement

| *(Euro/000)* | *Notes* | First semester 2020 | of which related parties | First semester 2019 | of which related parties |
|---|---|---|---|---|---|
| Net sales | *3.1* | 335,590 | 27,326 | 495,921 | 36,747 |
| Cost of sales | *3.2* | (187,007) | | (229,764) | |
| **Gross profit** | | **148,583** | | **266,157** | |
| Selling and marketing expenses | *3.3* | (149,954) | (358) | (192,871) | (1,595) |
| General and administrative expenses | *3.4* | (56,715) | | (60,854) | |
| Other operating income/(expenses) | *3.5* | (10,323) | | (4,170) | |
| Impairment loss on goodwill | *2.8 - 3.6* | - | | (227,062) | |
| **Operating profit/(loss)** | | **(68,409)** | | **(218,800)** | |
| Financial charges, net | *3.7* | (11,580) | (1,085) | (2,898) | |
| **Profit/(Loss) before taxation** | | **(79,989)** | | **(221,698)** | |
| Income taxes | *3.8* | 5,693 | | (25,239) | |
| **Profit/(Loss) of the period from continuing operations** | | **(74,297)** | | **(246,938)** | |
| **Profit/(Loss) of the period from discontinued operations** | *3.9* | **-** | | **(26,217)** | |
| **Profit/(Loss) of the period** | | **(74,297)** | | **(273,155)** | |
| **Profit/(Loss) attributable to:** | | | | | |
| Owners of the parent | | (74,754) | | (273,175) | |
| Non-controlling interests | | 457 | | 21 | |
| Earnings/(Losses) per share - basic (Euro) | *3.10* | (0.271) | | (0.991) | |
| Earnings/(Losses) per share - basic from continuing operations (Euro) | *3.10* | (0.271) | | (0.896) | |
| Earnings/(Losses) per share - diluted (Euro) | *3.10* | (0.271) | | (0.991) | |
| Earnings/(Losses) per share - diluted from continuing operations (Euro) | *3.10* | (0.271) | | (0.896) | |

## Interim condensed consolidated statement of comprehensive income

| *(Euro/000)* | ***Notes*** | **First semester 2020** | **First semester 2019** |
|---|---|---|---|
| **Net profit (loss) for the period (A)** | | **(74,297)** | **(273,155)** |
| Gains/(Losses) that will not be reclassified subsequently to profit or loss: | | | |
| - Remeasurements of post employment benefit obligations | | - | - |
| - Other gains/(losses) | | - | - |
| Total gains/(Losses) that will not be reclassified subsequently to profit or loss: | | **-** | **-** |
| Gains/(Losses) that will be reclassified subsequently to profit or loss: | | | |
| - Gains/(Losses) on cash flow hedges | *2.21* | - | (47) |
| - Gains/(Losses) on exchange differences on translating foreign operations | *2.20* | (2,121) | 4,724 |
| Total gains/(losses) that will be reclassified subsequently to profit or loss: | | **(2,121)** | **4,677** |
| **Other comprehensive income/(loss), net of tax (B)** | | **(2,121)** | **4,677** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) (A)+(B)** | | **(76,417)** | **(268,477)** |
| **Attributable to:** | | | |
| Owners of the parent | | (76,185) | (268,516) |
| Non-controlling interests | | (232) | 39 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | | **(76,417)** | **(268,477)** |

## Interim condensed consolidated cash flow statement

| *(Euro/000)* | *Notes* | First semester 2020 | First semester 2019 |
|---|---|---|---|
| **A - Opening net cash and cash equivalents (net financial indebtedness - short term)** | *2.1* | **53,915** | **174,968** |
| **B - Cash flow from (for) operating activities** | | | |
| Net profit/(loss) for the period (including minority interests) | | (74,297) | (273,155) |
| Depreciation and amortization | *2.6 - 2.7* | 24,554 | 21,982 |
| Right of Use amortization IFRS 16 | *2.6* | 5,298 | 12,059 |
| Impairment loss on goodwill | *2.8 - 3.6* | - | 227,062 |
| Other items | | 9,205 | 12,074 |
| Interest expenses, net | *3.7* | 3,838 | 3,459 |
| Interest expenses on lease liabilities IFRS 16 | *3.7* | 924 | 1,320 |
| Income tax expenses | *3.8* | (5,692) | 26,729 |
| **Cash flow from operating activities prior to movements in working capital** | | **(36,169)** | **31,530** |
| (Increase) Decrease in trade receivables | | 37,931 | (14,225) |
| (Increase) Decrease in inventory, net | | 15,360 | 2,893 |
| Increase (Decrease) in trade payables | | (3,155) | 7,080 |
| (Increase) Decrease in other receivables | | (6,561) | 7,528 |
| Increase (Decrease) in other payables | | 12,680 | 8,111 |
| Interest expenses paid | | (1,854) | (1,475) |
| Interest expenses paid on lease liability IFRS 16 | | (924) | (1,320) |
| Income taxes paid | | (312) | (2,223) |
| **Total (B)** | | **16,996** | **37,900** |
| **C - Cash flow from (for) investing activities** | | | |
| Investments in property, plant and equipment | | (6,290) | (11,875) |
| Net disposals of property, plant and equipment and assets held for sale | | (66) | 256 |
| Purchase of subsidiary (net of cash acquired) | | (111,680) | - |
| Purchase of intangible assets, net of disposals | | (2,911) | (4,206) |
| **Total (C)** | | **(120,946)** | **(15,825)** |
| **D - Cash flow from (for) financing activities** | | | |
| Proceeds from borrowings | | 168,623 | 107,000 |
| Repayment of borrowings | | (5,000) | (210,000) |
| Repayment of principal portion of lease liabilities IFRS 16 | | (5,263) | (11,679) |
| Increase in share capital, net of transaction costs | | - | 17,489 |
| Dividends paid | | - | - |
| **Total (D)** | | **158,360** | **(97,190)** |
| **E - Cash flow for the period (B+C+D)** | | **54,410** | **(75,115)** |
| Translation exchange differences | | (1,345) | 725 |
| **Total (F)** | | **(1,345)** | **725** |
| **G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)** | *2.1* | **106,980** | **100,578** |

## Interim condensed consolidated statement of changes in equity

| *(Euro/000)* | Share capital | Share premium reserve | Translation diff. reserve | Cash flow hedge reserve | Retained earnings and other reserves | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Consolidated net equity at January 1, 2020** | **349,943** | **594,277** | **87,122** | **-** | **(689,283)** | **342,059** | **(67)** | **341,992** |
| Profit/(Loss) for the period | - | - | - | - | (74,754) | (74,754) | 457 | **(74,297)** |
| Other comprehensive income (loss) for the period | - | - | (1,432) | - | - | (1,432) | (689) | **(2,121)** |
| **Total comprehensive income (loss) for the period** | **-** | **-** | **(1,432)** | **-** | **(74,754)** | **(76,185)** | **(232)** | **(76,417)** |
| Non-controlling interests of subsidiaries acquired | - | - | - | - | | | 45,265 | **45,265** |
| Changes of non-controlling interests of subsidiaries acquired | - | - | - | - | 571 | 571 | (571) | **-** |
| Purchase option of subsidiaries non-controlling interests | - | - | - | - | (103,850) | (103,850) | - | **(103,850)** |
| Net increase in the Reserve for share-based payments | - | - | - | - | 85 | 85 | - | **85** |
| Changes in other reserves | - | - | - | - | 90 | 90 | 38 | **128** |
| **Consolidated net equity at June 30, 2020** | **349,943** | **594,277** | **85,690** | **-** | **(867,141)** | **162,769** | **44,433** | **207,202** |

| *(Euro/000)* | Share capital | Share premium reserve | Translation diff. reserve | Cash flow hedge reserve | Retained earnings and other reserves | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Consolidated net equity at January 1, 2019** | **345,610** | **581,121** | **78,205** | **-** | **(358,612)** | **646,324** | **-** | **646,324** |
| Change in accounting policy (*) | - | - | - | - | (600) | (600) | | **(600)** |
| **Consolidated net equity at January 1, 2019 restated** | **345,610** | **581,121** | **78,205** | **-** | **(359,212)** | **645,724** | **-** | **645,724** |
| Profit/(Loss) for the period | - | - | - | - | (273,176) | (273,176) | 21 | **(273,155)** |
| Other comprehensive income (loss) for the period | - | - | 4,706 | (47) | - | 4,659 | 18 | **4,677** |
| **Total comprehensive income (loss) for the period** | **-** | **-** | **4,706** | **(47)** | **(273,176)** | **(268,516)** | **39** | **(268,477)** |
| Increase in share capital, net of transaction costs | 4,333 | 13,156 | - | - | - | 17,490 | - | **17,490** |
| Net increase in the Reserve for share-based payments | - | - | - | - | 101 | 101 | - | **101** |
| **Consolidated net equity at June 30, 2019** | **349,944** | **594,277** | **82,910** | **(47)** | **(632,286)** | **394,799** | **39** | **394,838** |

(*) Restatement for the change in accounting policy related to the new IFRIC 23 “Uncertainty over Income Tax Treatments”.

# NOTES

## 1. Basis of preparation

### 1.1 General information

These interim condensed consolidated financial statements refer to the financial period from 1 January 2020 to 30 June 2020. Economic and financial information is provided with reference to the first six months of 2020 and 2019 whilst balance sheet information is provided with reference to 30 June 2020 and 31 December 2019.

The interim consolidated financial report of Safilo Group at June 30 2020, including condensed consolidated financial statements and interim Management report is prepared in accordance with provisions of art. 154 ter of Legislative Decree No. c.2 58/98 - T.U.F. - and subsequent amendments and additions. This interim financial report is prepared in accordance with IAS 34 "Interim Financial Reporting", issued by the International Accounting Standards Board (IASB). The notes, in accordance with IAS 34, are presented in summary form and do not include all information requested in the annual financial statements. They refer only to those components that, in amount, composition or variations, are essential for understanding the economic situation and financial position of the Group. Therefore, this interim financial report should be read in conjunction with the consolidated financial statements for the financial year ended 31 December 2019.

All values are shown in thousands of Euro unless otherwise indicated.

These financial statements were approved by the Board of Directors on 31 July 2020.

The interim condensed consolidated financial statements have been prepared based on the going concern assumption.

With reference to the going concern assumption, it has to be noted that on 30 June 2020, the Group exhibits a net financial position of Euro 188,533 thousand compared to Euro 74,836 thousand on 31 December 2019, and a cash position of Euro 110,875 thousand which compares to Euro 64,233 thousand on 31 December 2019. In the first half of 2020, Group management implemented a strict cash protection approach, thanks to which - excluding the investments done in the first semester of 2020 for the acquisitions of Blenders and Privé Revaux - Safilo's net financial position on 30 June 2020 remained substantially stable with the position recorded on 31 December 2019. Management's best estimate is that the existing cash and the expected cash generation will allow the Group to fulfill its liquidity needs for the coming year. These estimates, based on the analysis of potential future hypotheses and scenarios related to the Covid-19 development, include strong and effective working capital management and other actions on investments/expenditures, already described in the management's report on operations, which have so far helped the Group protect its cash position during the months in which the Group was strongly affected by the Covid-19 crisis. Nevertheless, as described further on, considering the high degree of volatility and uncertainty in the market due to Covid-19 which renders precise predictions on operating and financial performance impossible, management believes that a stronger and safer liquidity position needs to be reached by obtaining additional financing. The financial covenants embedded in the existing debt have been surpassed due to the Group's operational performance during the period heavily impacted by the Covid-19 pandemic; as a consequence, given the contractual provisions and in line with prevailing accounting standards, the outstanding amount has been reclassified as a current financial liability as of June 30, 2020. Management is in active discussions with its lending banks, already involved in the existing financing agreement signed in 2018, in the definition of the specific additional financing options congruent with the Group's operational considerations in the current market environment. The Group is in the final stages of negotiations with its key relationship banks for an additional term loan under the framework of the Italian Liquidity Decree, and a new set of covenants which would provide also for the cancellation of the covenant test in the current debt at 30 June 2020, subject to the banks' and SACE's credit approval process over the coming weeks. In its considerations, Management at this point believes that the Group will be able to continue to protect its liquidity position in the next months and to obtain the additionally required financial sources accordingly, estimated to be sufficient also to manage the uncertainties of the current market environment affected by the developments of Covid-19, which may cause significant negative changes, and therefore that no material uncertainties exist with reference to the going concern assumption in the foreseeable future.

### 1.2 Accounting standards, amendments and interpretations and impact of changes in accounting policies applied from 1 January 2020

Except for what is described below about those accounting policies which changed due to new accounting standards, in preparing these interim consolidated financial reports the same accounting principles and criteria of the consolidated balance sheet as at 31 December 2019 have been applied.

The European Union had completed its endorsement process for the following standards and amendments at the date of this interim report:

- Amendments to references to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (issued on 26 September 2019);
- Amendments to references to the Conceptual Framework in IFRS Standards (issued on 29 March 2018);
- Amendment to IAS 1 and IAS 8: definition of Material (issued on 31 October 2018);
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018).

The Group has complied with these new standards and amendments, the new amendments have been applied since 1 January 2020. The adoption of these amendments had no effect on the Group consolidated financial statements.

### Accounting standards, amendments and interpretations not yet completed and endorsed by the European Union

In addition, the European Union had not yet completed its endorsement process for the following standards and amendments at the date of this interim report:

Amendments to IFRS 16 Lease Covid 19-Related Rent Concessions (issued on 28 May 2020). The amendments apply for accounting periods beginning on or after 1 January 2020.

The Group will comply with these new amendments based on their relevant effective dates when endorsed by the European Union and it will evaluate their potential impacts on the Consolidated financial statements.

## 1.3 Consolidation method and consolidation area

During the first six months of 2020, the Group's consolidation area changed as follow:

- on 10 February 2020 Safilo America Inc. acquired a 61.34% equity interest in the Miami-based eyewear company Privé Goods LLC ("Privé Revaux") and its subsidiary Privé Capsules LLC. After the acquisition the Group ownership increased to 62.23% due to the reassignment of some outstanding shares owned by resigned Company employees;
- on 1 June 2020 Safilo America Inc. signed the closing of the acquisition of a 70% equity interest in the California eyewear company Blenders Eyewear LLC;
- in April 2020 PorSa Eyewear (Xiamen) Co. Ltd. was incorporated as a new company fully owned by Safilo Far East Ltd., to manage the business related to the new ten-year license agreement for the design, manufacture and distribution of Ports branded sunglasses and optical frames, set to initially cover the Mainland China market.

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

| | Currency | Share capital | % interest held |
|---|---|---|---|
| **ITALIAN COMPANIES** | | | |
| Safilo S.p.A. – Padua | EUR | 66,176,000 | 100.0 |
| Lenti S.r.l. – Bergamo | EUR | 500,000 | 100.0 |
| Safilo Industrial S.r.l. - Padua | EUR | 41,634,703 | 100.0 |
| **FOREIGN COMPANIES** | | | |
| Safilo International B.V. - Rotterdam (NL) | EUR | 24,165,700 | 100.0 |
| Safilo Benelux S.A. - Zaventem (B) | EUR | 560,000 | 100.0 |
| Safilo Espana S.L. - Madrid (E) | EUR | 3,896,370 | 100.0 |
| Safilo France S.a.r.l. - Paris (F) | EUR | 960,000 | 100.0 |
| Safilo Gmbh - Cologne (D) | EUR | 511,300 | 100.0 |
| Safilo Nordic AB - Taby (S) | SEK | 500,000 | 100.0 |
| Safilo CIS - LLC - Moscow (Russia) | RUB | 10,000,000 | 100.0 |
| Safilo Far East Ltd. - Hong Kong (RC) | HKD | 49,700,000 | 100.0 |
| Safint Optical Investment Ltd - Hong Kong (RC) | HKD | 10,000 | 100.0 |
| Safilo Hong-Kong Ltd – Hong Kong (RC) | HKD | 100,000 | 100.0 |
| Safilo Singapore Pte Ltd - Singapore (SGP) | SGD | 400,000 | 100.0 |
| Safilo Optical Sdn Bhd – Kuala Lumpur (MAL) | MYR | 100,000 | 100.0 |
| Safilo Trading Shenzen Limited- Shenzen (RC) | CNY | 2,481,000 | 100.0 |
| Safilo Korea Co. Ltd. - Seoul (K) | KRW | 50,000,000 | 51.0 |
| Safilo Eyewear (Shenzen) Company Limited - (RC) | CNY | 46,546,505 | 100.0 |
| Safilo Eyewear (Shanghai) Co Ltd - (RC) | CNY | 1,000,000 | 100.0 |
| Safilo Eyewear (Suzhou) Industries Limited - (RC) | CNY | 129,704,740 | 100.0 |
| Safilo Hellas Ottica S.a. – Athens (GR) | EUR | 489,990 | 100.0 |
| Safilo Nederland B.V. - Bilthoven (NL) | EUR | 18,200 | 100.0 |
| Safilo South Africa (Pty) Ltd. – Bryanston (ZA) | ZAR | 3,583 | 100.0 |
| Safilo Austria Gmbh -Traun (A) | EUR | 217,582 | 100.0 |
| Safilo d.o.o. Ormož - Ormož (SLO) | EUR | 563,767 | 100.0 |
| Safilo Japan Co Ltd - Tokyo (J) | JPY | 100,000,000 | 100.0 |
| Safilo Do Brasil Ltda – Sao Paulo (BR) | BRL | 197,135,000 | 100.0 |
| Safilo Portugal Lda – Lisbon (P) | EUR | 500,000 | 100.0 |
| Safilo Switzerland AG – Zurich (CH) | CHF | 1,000,000 | 100.0 |
| Safilo India Pvt. Ltd - Bombay (IND) | INR | 42,000,000 | 100.0 |
| Safilo Australia Pty Ltd.- Sydney (AUS) | AUD | 3,000,000 | 100.0 |
| Safilo UK Ltd. - London (GB) | GBP | 250 | 100.0 |
| Safilo America Inc. - Delaware (USA) | USD | 8,430 | 100.0 |
| Safilo USA Inc. - New Jersey (USA) | USD | 23,289 | 100.0 |
| Safilo Services LLC - New Jersey (USA) | USD | - | 100.0 |
| Smith Sport Optics Inc. - Idaho (USA) | USD | 12,087 | 100.0 |
| Solstice Marketing Corp. – Delaware (USA) | USD | 1,000 | 100.0 |
| Safilo de Mexico S.A. de C.V. - Distrito Federal (MEX) | MXP | 10,035,575 | 100.0 |
| Safilo Canada Inc. - Montreal (CAN) | CAD | 100,000 | 100.0 |
| Canam Sport Eyewear Inc. - Montreal (CAN) | CAD | 199,975 | 100.0 |
| Safilo Optik Ticaret Limited Şirketi - Istanbul (TR) | TRL | 1,516,000 | 100.0 |
| Safilo Middle East FZE - Dubai (UAE) | AED | 3,570,000 | 100.0 |
| Privé Goods LLC. - Delaware (USA) | USD | 19,919,335 | 62.2 |
| Privé Capsules LLC - Delaware (USA) | USD | - | 62.2 |
| Blenders Eyewear LLC - Delaware (USA) | USD | 1,000 | 70.0 |
| PorSa Eyewear (Xiamen) Co Ltd.- (RC) | CNY | - | 100.0 |

## 1.4 Business Combination

### Privé Revaux acquisition

On February 10, 2020 the Group announced, through the US holding company Safilo America Inc., the acquisition of a 61.34% equity interest in the Miami-based eyewear company Privé Goods, LLC ("Privé Revaux") through a simultaneous signing and closing.

Founded in 2017, Privé Revaux was built on a shared passion for style and quality with the goal of disrupting the eyewear industry and making premium, quality eyewear products accessible to everyone. Gaining instant traction with consumers, the fast-growing US eyewear brand is fueled by a strategic celebrity ecosystem, merged in high caliber social media engagement and strong digital marketing capabilities.

Detail of the purchase consideration is as follows:

| *(Euro/000)* | |
|---|---|
| Cash consideration paid | 61,638 |
| Contingent consideration | 1,826 |
| **Total purchase consideration** | **63,465** |

The overall consideration for the 61.34% controlling interest in the Company was 67,500 thousand USD, corresponding to 61,638 thousand Euro at the exchange rate on the acquisition date.

The contingent consideration refers to an amount of 1,826 thousand Euro (equal to 2 million USD), to be paid to certain selling shareholders upon the occurrence of certain conditions related to the cash balance of the Company acquired in the "verification period" from October 2019 to December 2020. Since the fulfillment of these conditions is considered probable, management considered this amount as an adjustment of the purchase price paid at the closing date.

The net cash outflow related to the acquisition is as follow:

| *(Euro/000)* | |
|---|---|
| Cash consideration paid | 61,638 |
| (-) Cash and cash equivalents acquired | (3,012) |
| **Net Cash-outflow for acquisition** | **58,627** |

The assets and liabilities recognised as a result of the acquisition are as follow:

| *(Euro/000)* | **Book value net assets acquired** | **Fair value net assets identified and IFRS adjustments** | **Total fair value net assets acquired** |
|---|---|---|---|
| Cash and cash equivalents | 3,012 | - | 3,012 |
| Trade receivables | 4,407 | - | 4,407 |
| Inventory | 4,542 | 481 | 5,023 |
| Other current assets | 665 | - | 665 |
| Right of Use | - | 100 | 100 |
| Tangible Assets | 96 | - | 96 |
| Intangible assets | 3 | - | 3 |
| Intangible assets: Trademark | - | 41,092 | 41,092 |
| Intangible assets: Distributor relationship | - | 14,611 | 14,611 |
| Intangible assets: Non-compete agreement | - | 3,196 | 3,196 |
| Other non-current assets | 10 | - | 10 |
| Lease liabilities | - | 100 | 100 |
| Trade payables | 7,514 | - | 7,514 |
| Tax payables | 236 | - | 236 |
| Other current liabilities | 246 | - | 246 |
| **NET IDENTIFICABLE ASSETS ACQUIRED** | **4,737** | **59,380** | **64,117** |
| **(-) Non-controlling interests** | **(1,831)** | **(22,956)** | **(24,788)** |
| **(+) Goodwill** | | **24,135** | **24,135** |
| **TOTAL NET ASSETS ACQUIRED** | **2,906** | **60,559** | **63,465** |

The Purchase Price Allocation has identified new assets with a total fair value equal to 59,380 thousand Euro, mainly related to Trademarks and other intangible assets. These new assets identified are amortized over the following useful life: trademark in 20 years, distribution relationship in 15 years and non-compete agreement in 3 years. Deferred taxes have not been recognized in relation to these new assets identified, since their values have been recognized also for tax purposes in the jurisdiction in which the acquisition was made. The valuation of these new assets and the related tax treatment was determined on the basis of an appraisal prepared by an independent third party.

The difference between the purchase price, the value of the non-controlling interests and the net assets acquired, equal to 24,135 thousands Euro, was attributed to goodwill.

| *(Euro/000)* | |
|---|---|
| Total purchase consideration | 63,465 |
| (-) Fair value net assets acquired | (64,117) |
| (+) Non-controlling interests of net assets acquired (proportionate method) | 24,788 |
| **Goodwill** | **24,135** |

The fair value of the assets acquired and the liabilities assumed, identified by the purchase price allocation, according to IFRS 3, have been provisionally determined at the date on which this financial report was approved for publication, being some minor details of the purchase price allocation still under discussion.

The Group has recognised a non-controlling interest in the acquired Company at the proportionate share of the acquired net identificable assets (proportionate method).

Pursuant to the contractual terms the non-controlling interests held by the minority equity holders are subject to customary reciprocal put and call options. More specifically, the put and call options may be exercised in each of the years 2023 and 2024 for one third of the minority interests and in 2025 for the remaining portion, at a price calculated as a function of a specific multiple applicable to the value of the EBITDA of the Company achieved in the fiscal year preceding that of exercise of the relative option and adjusted to take into account the net financial position of the Company.

These options were valued at their fair value at the acquisition date, using a discounted cash-flow approach based on the business plans underlying the acquisition, equal to 58,266 thousand Euro, and recorded as a liability. Considering that the risks and rewards of ownership remain with the non-controlling interest, this liability recognised has reduced the Group controlling interest equity. The non-controlling interest continues to be recognised and is allocated its share of profits and losses in the normal way.

The Group acquired the control of the Company starting from the acquisition date February 10, 2020, therefore, the related results were included in the consolidated financial statements starting from this date. The acquired business contributed revenues of 10,302 thousand Euro.

## Blenders Eyewear acquisition

On June 1, 2020 the Group announced the closing of the acquisition, through the US holding company Safilo America Inc., of a 70% stake in the equity of the California eyewear company Blenders Eyewear LLC.

Founded in San Diego in 2012, Blenders Eyewear has built an advanced e-commerce platform with unique digital and social media skills, which has achieved fast and profitable growth thanks to its world-class digital capabilities. The Company generates approximately 95% of its current business through its proprietary direct-to-consumer e-commerce platform.

Detail of the purchase consideration is as follow:

| *(Euro/000)* | |
|---|---|
| Cash consideration paid | 57,455 |
| Contingent consideration | - |
| **Total purchase consideration** | **57,455** |

The overall consideration for the 70% controlling interest in the Company is 63,867 thousand USD, corresponding to 57,455 thousand Euro at the exchange rate on the acquisition date.

The net cash outflow related to the acquisition is as follow:

| *(Euro/000)* | |
|---|---|
| Cash consideration paid | 57,455 |
| (-) Cash and cash equivalents acquired | (4,402) |
| **Net Cash-out for acquisition** | **53,053** |

The assets and liabilities recognised as a result of the acquisition are as follow:

| *(Euro/000)* | Book value net assets acquired | Fair value net assets identified and IFRS adjustments | Total fair value net assets acquired |
|---|---|---|---|
| Cash and cash equivalents | 4,402 | - | 4,402 |
| Trade receivables | 70 | - | 70 |
| Inventory | 3,918 | 580 | 4,498 |
| Other current assets | 3,440 | - | 3,440 |
| Right of Use | - | 583 | 583 |
| Tangible Assets | 681 | - | 681 |
| Intangible assets | 311 | - | 311 |
| Intangible assets: Trademark | - | 53,976 | 53,976 |
| Intangible assets: Distributor relationship | - | 225 | 225 |
| Intangible assets: Developed Technology | - | 3,149 | 3,149 |
| Intangible assets: Non-compete agreement | - | 5,398 | 5,398 |
| Other non-current assets | 9 | - | 9 |
| | | | |
| Lease liabilities | - | 610 | 610 |
| Trade payables | 5,232 | - | 5,232 |
| Tax payables | 2,372 | - | 2,372 |
| Other current liabilities | 271 | - | 271 |
| Other non-current liabilities | 27 | (27) | - |
| **NET IDENTIFICABLE ASSETS ACQUIRED** | **4,929** | **63,327** | **68,256** |
| **(-) Non-controlling interests** | **(1,479)** | **(18,998)** | **(20,477)** |
| **(+) Goodwill** | | **9,676** | **9,676** |
| **TOTAL NET ASSETS ACQUIRED** | **3,450** | **54,005** | **57,455** |

The Purchase Price Allocation has identified new assets with a total fair value equal to 63,327 thousand Euro, mainly related to trademark and other intangible assets. These new assets identified are amortized over the following useful life: trademark in 20 years, distribution relationship in 15 years, developed technology in 5 years and non-compete agreement in 3 years.

Deferred tax liabilities have not been recognized in relation to these new assets identified, since their values have been recognized also for tax purposes in the jurisdiction in which the acquisition was made. The valuation of these new assets and the related tax treatment was determined on the basis of an appraisal prepared by an independent third party.

The difference between the purchase price, the value of the non-controlling interests and the net assets acquired, equal to 9,676 thousands Euro, was attributed to goodwill.

| *(Euro/000)* | |
|---|---|
| Total purchase consideration | 57,455 |
| (-) Fair value net assets acquired | (68,256) |
| (+) Non-controlling interests of net assets acquired (proportionate method) | 20,477 |
| **Goodwill** | **9,676** |

The fair value of the assets acquired and the liabilities assumed, identified by the purchase price allocation, according to IFRS 3, have been provisionally determined at the date on which this financial report was approved for publication, being some minor details of the purchase price allocation still under discussion.

The Group has recognised non-controlling interest in the acquired Company at the proportionate share of the acquired net identifiable assets (proportionate method).

Pursuant to the contractual terms the non-controlling interests held by the minority equity holders are subject to customary reciprocal put and call options. More specifically, the put and call options may be exercised in each of the years 2023 and 2024 for one third of the minority interests and in 2025 for the remaining portion, at a price calculated as a function of a specific multiple applicable to the value of the arithmetic average of the EBITDA of the Company achieved over the last two consecutive fiscal years preceding that of exercise of the relative option and adjusted to take into account the net financial position of the Company.

These options were valued at their fair value at the acquisition date, using a discounted cash-flow approach based on the business plans underlying the acquisition, equal to 45,584 thousand Euro, and recorded as a liability. Considering that the risks and rewards of ownership remain with the non-controlling interest, this liability recognised has reduced the Group controlling interest equity. The non-controlling interest continues to be recognised and is allocated its share of profits and losses in the normal way.

The Group acquired the control of the Company starting from the acquisition date June 1, 2020, therefore, the related results were included in the consolidated financial statements starting from this date. The acquired business contributed revenues of 10,923 thousand Euro.

## 1.5 Translation of financial statement in currencies other than Euro

The exchange rates applied in the conversion of subsidiaries' financial statements prepared in currencies other than the Euro are given in the following table; appreciation (figures with a minus sign in the table below) indicates as increase in the value of the currency against the Euro.

| | | As of | | (Appreciation) /Depreciation | Average for | | (Appreciation)/Depreciation |
|---|---|---|---|---|---|---|---|
| **Currency** | **Code** | **June 30, 2020** | **December 31, 2019** | **%** | **June 30, 2020** | **June 30, 2019** | **%** |
| US Dollar | USD | 1.1198 | 1.1234 | -0.3% | 1.1021 | 1.1298 | -2.5% |
| Hong-Kong Dollar | HKD | 8.6788 | 8.7473 | -0.8% | 8.5531 | 8.8611 | -3.5% |
| Swiss Franc | CHF | 1.0651 | 1.0854 | -1.9% | 1.0642 | 1.1295 | -5.8% |
| Canadian Dollar | CAD | 1.5324 | 1.4598 | 5.0% | 1.5033 | 1.5069 | -0.2% |
| Japanese Yen | YEN | 120.6600 | 121.9400 | -1.0% | 119.2668 | 124.2836 | -4.0% |
| British Pound | GBP | 0.9124 | 0.8508 | 7.2% | 0.8746 | 0.8736 | 0.1% |
| Swedish Krown | SEK | 10.4948 | 10.4468 | 0.5% | 10.6599 | 10.5181 | 1.3% |
| Australian Dollar | AUD | 1.6344 | 1.5995 | 2.2% | 1.6775 | 1.6003 | 4.8% |
| South-African Rand | ZAR | 19.4425 | 15.7773 | 23.2% | 18.3112 | 16.0434 | 14.1% |
| Russian Ruble | RUB | 79.6300 | 69.9563 | 13.8% | 76.6692 | 73.7444 | 4.0% |
| Brasilian Real | BRL | 6.1118 | 4.5157 | 35.3% | 5.4104 | 4.3417 | 24.6% |
| Indian Rupee | INR | 84.6235 | 80.1870 | 5.5% | 81.7046 | 79.1240 | 3.3% |
| Singapore Dollar | SGD | 1.5648 | 1.5111 | 3.6% | 1.5411 | 1.5356 | 0.4% |
| Malaysian Ringgit | MYR | 4.7989 | 4.5953 | 4.4% | 4.6836 | 4.6545 | 0.6% |
| Chinese Renminbi | CNY | 7.9219 | 7.8205 | 1.3% | 7.7509 | 7.6678 | 1.1% |
| Korean Won | KRW | 1,345.8300 | 1,296.2800 | 3.8% | 1,329.5321 | 1,295.1984 | 2.7% |
| Mexican Peso | MXN | 25.9470 | 21.2202 | 22.3% | 23.8430 | 21.6543 | 10.1% |
| Turkish Lira | TRY | 7.6761 | 6.6843 | 14.8% | 7.1493 | 6.3562 | 12.5% |
| Dirham UAE | AED | 4.1125 | 4.1257 | -0.3% | 4.0473 | 4.1491 | -2.5% |

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, in the line "Financial charges, net".

## 1.6 Use of estimates

The preparation of the interim condensed consolidated financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions which are from time to time considered reasonable and realistic according to the prevailing circumstances. The application of these estimates and assumptions impact the amounts reported in the financial statements such as the balance sheet, the income statement and the cash flow statement and the disclosures in the notes to the accounts. Actual results may differ from previous estimates and assumptions 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.

The outbreak of Covid-19 (Coronavirus) at the beginning of 2020, represents an extraordinary circumstance that may have direct and indirect repercussions on economic activity and has created a general environment of uncertainty, the evolution and impact of which is not predictable.  Management's assumptions that may mostly be affected are, but not limited to, the ones requiring a high level of judgement, they relate mainly to: impairment of goodwill, tangible and intangible assets, valuation of inventory, allowance for expected credit losses, identification of potentially onerous contracts and provisions, recoverability of deferred tax assets.

The potential effects of this phenomenon on the estimates used by Management are also commented below.

- *Goodwill*: in accordance with the accounting standards adopted for the preparation of the financial statements, the company tests goodwill at least once a year in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the test results in the determination of the fair value allocated to the cash-generating units. This value is determined according to their current value in use. The assessment process of the impairment test is complex and is based on assumptions concerning, among other things, the forecast of expected cash flows of the CGUs, the determination of appropriate discounting rates (WACC) and long-term growth (g -rate). These estimates depend on factors that may change over time with consequent effects, which may be significant, compared to the Directors' assessments, this may be more evident in general environment of uncertainty following the outbreak of Covid-19. Consistent with the indications of the main regulators, in particular with the ESMA statement of 20 May 2020, the spread of Covid was considered a trigger event indicative of potential impairment losses; therefore, the impairment test was also performed on 30 June 2020. To meet the difficulties of making accurate estimates of future flows, the Directors carried out the test using different scenarios and carried out sensitivity analyzes relating to the main inputs of the calculation. As suggested by regulators and standard setters, the uncertainties have been reflected in the estimate of cash flows, rather than adding a risk premium to the discount rate.

- *Write-down of fixed assets*: in accordance with the accounting standards applied by the Group, the fixed assets are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulty in recovering the relative net book value through use. The verification of the existence of such difficulty requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is deemed that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. Proper identification of the indicators of contingent impairment as well as the estimates used to determine them depend on factors which may vary over time, influencing the Directors' measurements and estimates. The outbreak of Covid-19 may mainly affect the forecast of expected cash flows, the determination of the discount rates and the long term growth.

- *Allowance for bad or doubtful debts*: the allowance for bad or doubtful debts reflects the management's best estimate regarding losses concerning the credit portfolio towards the final client. This estimate is based on the losses expected by the Group, determined on the basis of past experience for similar credits, current and historic overdue, careful monitoring of credit quality and projections regarding the economic and market conditions. Despite the general respect of the accounting policies defined in past years, management considered Covid-19 in the review of its credit quality assessment and expectations regarding the economic conditions present in the various markets in which the Group operates and, lastly, in the estimate of expected future losses.

- *Allowance for inventory obsolescence*: the Group produces and sells goods subject to changes in market trends and consumer demand, consequently a significant level of judgment is required in determining the appropriate write-down of inventories based on sales forecasts. The inventory of finished products which are obsolete or slow moving are regularly subjected to specific assessment tests, which take into consideration past experience, historic results and the probability of sale under normal market conditions. If the need to reduce the value of the stock should arise following these analyses, management proceeds with the appropriate write-downs. The uncertainties described were exacerbated with the spread of Covid-19, which therefore mainly influenced the sales forecasts which are used as input for the evaluation. Management used sensitivities to address the uncertainties described.

- *(Contingent) liabilities*: the Group is subject to legal and tax actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when expenditure is considered probable and the amount can be reasonably estimated, adequate funds are allocated. The outbreak of Covid-19 may mainly generate contingent liabilities arising from onerous contracts, and may affect the probability assigned to certain facts and circumstances when estimating the value of contingent liabilities.

- *Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future taxable income. The assessment of the recoverability of deferred tax assets derives from specific assumptions about the probability that taxable income will be realized in future years and that these are sufficient to allow the recovery of deferred tax assets. These valuations are based on assumptions that may not even be realized, or are realized to an insufficient extent compared to what is necessary to fully recover the deferred tax assets recorded in the financial statements, and therefore their variation could have significant effects on the valuation of deferred tax assets. The ability of the entities of the Group to generate future taxable income, and therefore to recover its deferred tax assets, may be significantly affected by the uncertainties posed by the diffusion of Covid-19, with variable intensity depending on the geographical area.

- *Business combinations:* during the half year the Group made two significant acquisitions. The identification and assessment of the fair value of the assets acquired and the liabilities assumed, as well as the subsequent recognition of goodwill, involves a complex procedure that requires the application of different valuation techniques, which assume as input values historical data, elements forecasts based on estimates or market observation, such as, for example, the customer retention rate, the royalty rate for the use of comparable assets, the discount rate, the residual useful life of the assets acquired. In performing this valuation process, the Directors are supported by the advice of third party independent advisor. A change in the estimates applied in the process of allocating the price paid could lead to differences, even significant ones, with respect to the values recorded in the financial statements.

## 2. Notes to the condensed consolidated balance sheet

### 2.1 Cash and cash equivalents

At 30 June 2020 this account totals Euro 110,875 thousand, compared to Euro 64,233 thousand at 31 December 2019 and represents the momentary availability of cash invested at market rates. The book value of the available liquidity is aligned with its fair value at the reporting date. The related credit risk is very limited as the counterparties are leading banks.

The following table shows the reconciliation of the item "Cash and cash equivalents" with the cash balance (short term indebtness) presented on the cash flow statement:

| *(Euro/000)* | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|---|---|---|---|
| Cash and cash equivalents | 110,875 | 64,233 | 103,582 |
| Bank overdrafts | (166) | (316) | (2) |
| Current bank borrowings | (3,730) | (10,003) | (3,002) |
| **Net financial indebtedness - short term** | **106,980** | **53,915** | **100,578** |

The cash balance as of June 30, 2020 was more than 85% located in the Italian, other European and US entities of the Group, and Management has the ability to readily access to the cash balances located all over the Group if needed.

### 2.2 Trade receivables

This item breaks down as follows:

| *(Euro/000)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Gross value trade receivables | 165,820 | 200,883 |
| Allowance for doubtful accounts | (15,495) | (12,720) |
| **Net value** | **150,326** | **188,163** |

The allowance for doubtful accounts includes the provision for insolvency posted on the income statement under the item "general and administrative expenses" (note 3.4).

The following table shows changes in the allowance for doubtful accounts:

| *(Euro/000)* | Balance at January 1, 2020 | Addition | Use/Release (-) | Changes in the scope of consolid. | Transl. Diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|---|
| Allowance for doubtful accounts | 12,720 | 5,645 | (1,845) | 28 | (1,055) | 15,495 |

The Group has no particular concentration of credit risk, as its credit exposure is spread over a large number of clients and geographies. The carrying amount of the trade receivables, is considered to be approximately equal to their *fair value*.

As required by IFRS 7, paragraph 36, the table below analyses the age of gross receivables as of 30 June 2020 and 31 December 2019:

| ***Ageing of trade receivables*** *(Euro/000)* | **June 30, 2020** | **December 31, 2019** | **Change** |
|---|---|---|---|
| | | | |
| **Overdue and impaired** | **15,610** | **12,375** | **3,235** |
| up to 1 month | 14,100 | 13,494 | 606 |
| up to 3 months | 27,370 | 6,767 | 20,602 |
| 3 to 6 months | 17,546 | 1,286 | 16,260 |
| 6 to 9 months | 828 | 662 | 166 |
| from 9 to 12 months | 764 | 436 | 328 |
| from 12 to 24 months | 345 | 373 | (29) |
| over 24 months | 36 | 56 | (19) |
| **Overdue and not impaired** | **60,988** | **23,073** | **37,914** |
| | | | |
| **Not past due** | **89,223** | **165,435** | **(76,213)** |
| - | | | |
| **Grand total** | **165,820** | **200,883** | **(35,063)** |

At 30 June 2020 overdue receivables not impaired, amounted to 60,988 thousand Euro (compared to 23,073 thousand Euro at 31 December 2019). The increase, mainly related to the overdue between 1 and 6 months, was mainly due to the COVID-19 lockdown impact that affected the credit collection of the period.

In accordance with the requirements of IFRS 9, the Group has reviewed and assessed the overdue trade receivables for impairment and, according to the analysis performed, has accrued in the semester an allowance for doubtful accounts equal to 5,645 thousand Euro, also in consideration of the current and prospective risk on the global markets under the ongoing pandemic.

In further compliance to the applicable standards, the Group has assessed the existing trade receivables for impairment based on the model of expected losses, as at 30 June 2020 the provision for doubtful accounts include a credit loss allowance of 0.8 million Euro that covers the potential additional credit risk expected on the amount overdue and not impaired and on the amount not past due (0.6 million Euro as at 31 December 2019).

## 2.3 Inventory

This item breaks down as follows:

| *(Euro/000)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials | 80,461 | 75,837 |
| Work in progress | 6,404 | 6,883 |
| Finished goods | 243,003 | 233,745 |
| **Gross** | **329,867** | **316,465** |
| Provision for obsolete inventory (-) | (101,450) | (80,663) |
| **Total** | **228,417** | **235,801** |

In order to deal with obsolete or slow-moving stock, a specific provision has been allocated, calculated on the basis of the possibility for future sale of finished goods and use of raw materials and semi-finished products. This item is charged in the income statement in "cost of sales" (note 3.2).

The movements in the period are shown below:

| *(Euro/000)* | Balance at January 1, 2020 | Posted to income statement | Changes in the scope of consolid. | Transl. Diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|
| Inventory  gross value | 316,465 | 5,898 | 9,843 | (2,338) | 329,867 |
| Provision for obsolete inventory | (80,663) | (21,258) | (323) | 794 | (101,450) |
| **Total net** | **235,801** | **(15,361)** | **9,520** | **(1,544)** | **228,417** |

## 2.4 Derivative financial instruments

The following table summarises the total amount of derivative financial instruments:

| *(Euro/000)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Current assets:** | | |
| - Foreign currency contracts - Fair value through P&L | 207 | 118 |
| **Current liabilities:** | | |
| - Foreign currency contracts - Fair value through P&L | 1,303 | 1,121 |
| **Total Net** | **(1,097)** | **(1,003)** |

The market value of the forward hedge contracts is calculated using the present value of the differences between the contractual forward exchange rate and the market forward exchange rate. At the reporting date, the Group had outstanding contracts for the hedging against exchange rate fluctuations for a negative net market value of Euro 1,097 thousand.

## 2.5 Other current assets

This item breaks down as follows:

| *(Euro/000)* | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| VAT receivable | 7,569 | 9,019 |
| Income tax receivables | 12,019 | 14,069 |
| Prepayments and accrued income | 13,094 | 10,801 |
| Other receivables | 20,378 | 9,393 |
| **Total** | **53,060** | **43,281** |

Income tax receivables are mainly related to tax credits and advance payments made during the period which will be offset against the related tax payable.

Prepayments and accrued income amounted to 13,094 thousand Euro (10,801 thousand Euro at December 31, 2019) and mainly consisted of prepaid royalties for 5,976 thousand Euro, prepaid rent and operating lease costs, related to contracts outside the scope of IFRS 16, for 139 thousand Euro, prepaid insurance for 656 thousand Euro and other prepaid expenses for 6,323 thousand Euro.

Other current receivables amounted to 20,378 thousand Euro, compared to 9,393 thousand Euro of December 2019, the balance increase is affected by the acquistion balances of the two business combination for 3,276 thousand Euro. The balance include also receivables that some Italian subsidiaries have towards the social security institutions related to Covid government relief granted as employment support for a total amount of about 3.2 million Euro. This receivables are expected to be recovered in the coming months and are reasonably certain in term of fulfillment conditions.

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

## 2.6 Tangible assets and Right of Use assets

### Tangible assets

Changes in tangible assets in the first six months of 2020 are shown below:

| *(Euro/000)* | Balance at January 1, 2020 | Increase | Decrease | Reclass. | Changes in the scope of consolid. | Transl. diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Land and buildings | 132,584 | 142 | (32) | 70 | 518 | (546) | 132,735 |
| Plant and machinery | 207,579 | 30 | (2,045) | 591 | - | (268) | 205,887 |
| Equipment and other assets | 141,985 | 629 | (362) | 5,752 | 373 | (733) | 147,644 |
| Assets under constructions | 4,827 | 5,489 | (13) | (6,412) | - | 19 | 3,910 |
| **Total** | **486,975** | **6,289** | **(2,451)** | **-** | **891** | **(1,528)** | **490,176** |
| **Accumulated depreciation** | | | | | | | |
| Land and buildings | 59,618 | 2,073 | (142) | - | 72 | (193) | 61,428 |
| Plant and machinery | 165,051 | 5,921 | (2,104) | - | - | (91) | 168,776 |
| Equipment and other assets | 112,920 | 7,556 | (271) | - | 42 | (562) | 119,684 |
| **Total** | **337,589** | **15,550** | **(2,517)** | **-** | **114** | **(846)** | **349,889** |
| **Net value** | **149,387** | **(9,260)** | **66** | **-** | **777** | **(682)** | **140,287** |

Investments in tangible assets in the first six months amount to 6,289 thousand Euro (14,167 thousand Euro in 2019), and refer to:

- Euro 4,100 thousand in production facilities, mainly for the upgrade of plants and for the purchase and production of equipment for new models;
- Euro 1,555 thousand for the U.S. companies, mainly related to the distribution centre in Denver;
- Euro 408 thousand mainly for the upgrade of logistic equipment in the Italian Headquarter and the distribution centre;
- the remaining part in other companies of the Group.

The balance of "Changes in the scope of consolidation" is related to the new assets acquired with the business combinations incurred the period (for more details see the note 1.4).

### Right of Use assets

The table below summarises the changes in the Right of Use assets, mainly related to real estate rent contracts and to long term operating lease contracts for company cars.

| *(Euro/000)* | Balance at January 1, 2020 | Increase | Decrease | Changes in the scope of consolid. | Transl. diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|---|
| **Gross value** | | | | | | |
| Buildings Right of Use | 47,303 | 7,196 | (1,782) | 683 | (622) | 52,777 |
| Other assets Right of Use | 8,165 | 768 | (460) | - | (107) | 8,366 |
| **Total** | **55,468** | **7,964** | **(2,243)** | **683** | **(729)** | **61,143** |
| **Accumulated depreciation** | | | | | | |
| Buildings Right of Use | 10,218 | 3,891 | (1,674) | - | (208) | 12,226 |
| Other assets Right of Use | 3,031 | 1,408 | (418) | - | (43) | 3,978 |
| **Total** | **13,249** | **5,298** | **(2,091)** | **-** | **(252)** | **16,204** |
| **Net value** | **42,219** | **2,666** | **(151)** | **683** | **(477)** | **44,939** |

The increase in the Investments in Right of Use in the financial period amounts to 7,964 thousand Euro and is mainly related to the new lease contract amendment for the extension of the area related to the North American logistic centre in Denver.

## 2.7 Intangible assets

Changes in intangible assets in the first six months of 2020 are shown below:

| *(Euro/000)* | Balance at January 1, 2020 | Increase | Decrease | Reclass. | Changes in the scope of consolid. | Transl. diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|---|---|
| **Gross value** | | | | | | | |
| Software | 87,490 | 283 | (54) | 1,296 | 134 | (99) | 89,050 |
| Trademarks and licenses | 55,870 | - | - | 4 | 95,068 | (1,313) | 149,629 |
| Other intangible assets | 4,558 | 1 | (160) | 150 | 26,884 | (488) | 30,946 |
| Intangible assets in progress | 2,652 | 2,769 | (694) | (1,451) | - | (146) | 3,130 |
| **Total** | **150,570** | **3,053** | **(908)** | **-** | **122,087** | **(2,046)** | **272,755** |
| **Accumulated amortization** | | | | | | | |
| Software | 68,462 | 5,531 | (606) | - | 46 | (188) | 73,245 |
| Trademarks and licenses | 31,161 | 2,148 | - | - | - | (27) | 33,282 |
| Other intangible assets | 1,970 | 1,326 | (160) | - | 82 | (33) | 3,185 |
| **Total** | **101,594** | **9,005** | **(766)** | **-** | **127** | **(248)** | **109,711** |
| **Net value** | **48,976** | **(5,951)** | **(142)** | **-** | **121,959** | **(1,798)** | **163,044** |

Investments in intangible fixed assets made during the six months amount to 3,053 thousand Euro (4,202 thousand

Euro in the previous year). The increase in investments reported under "construction in progress" is mainly due to the continuing investments to implement the integrated information system (ERP) of the Group and to the Group's digital transformation strategy.

The reclassification from intangible assets in progress to software mainly refers to the portion of investments that have been completed and went live during the year.

The balance of "Changes in the scope of consolidation" is related to the new assets acquired with the business combinations incurred the period (for more details see the note 1.4).

Amortization and depreciation for tangible and intangible assets, are allocated over the following income statement items:

| *(Euro/000)* | *Notes* | First semester 2020 | First semester 2019 | Change |
|---|---|---|---|---|
| **Continuing Operations** | | | | |
| Cost of sales | *3.2* | 12,115 | 11,073 | 1,043 |
| Selling and marketing expenses | *3.3* | 1,543 | 1,327 | 216 |
| General and administrative expenses | *3.4* | 10,896 | 8,943 | 1,953 |
| **Amortization and depreciation** | | **24,554** | **21,343** | **3,211** |
| Cost of sales - Right of Use depreciation | *3.2* | 657 | 760 | (103) |
| Selling and marketing expenses - Right of Use depreciation | *3.3* | 2,262 | 2,442 | (180) |
| General and administrative expenses - Right of Use depreciation | *3.4* | 2,379 | 3,450 | (1,071) |
| **Depreciation Right of Use - IFRS 16** | | **5,298** | **6,652** | **(1,354)** |
| **Discontinued Operations** | | **-** | **6,046** | **(6,046)** |
| **Total** | | **29,852** | **34,041** | **(4,189)** |

The increase in the amortization and depreciation of the continuing operations equal to 3,211 thousand Euro is mainly due to non-recurring tangible assets write-downs related to the Group's restructuring plan for 2,893 thousand Euro reported in the item Cost of sales and for 1,978 thousand Euro to the amortization of the new intangible assets (mainly trademarks and distributor relationships) identified in Purchase Price Allocation of the two Business combination incurred in the period reported in the item general and administrative expenses.

## 2.8 Goodwill

The item refers to goodwill which arose from the acquisitions in 2020 of Privé Revaux and Blenders. A single CGU has been identified, representing the whole Group, to which the entire amount of goodwill has been allocated: this allocation is consistent with the strategy underlying the acquisitions, that, beyond the acquisition of two fast growing brands, the two acquisitions will enable the whole Group to compete more effectively in markets impacted by digitalization. The allocation to a single CGU is consistent with the approach adopted for the preparation of the December 31, 2019 financial statements, which was designed to appropriately reflect the Group's strategy and business model. The single CGU structure appropriately reflects the high level of interdependence of the functions of the Group. Specifically strategy, goal setting, operations management, as well as reporting and incentive systems are managed at a corporate level, leaving to the local units deployment and tailoring to the specific market.

The following table shows changes in Goodwill:

| *(Euro/000)* | Balance at January 1, 2020 | Increase | Decrease | Changes in the scope of consolidation | Translation. difference | Balance at June 30, 2020 |
|---|---|---|---|---|---|---|
| Goodwill | - | - | - | 33,812 | (603) | 33,208 |

During the current period, the item recorded an increase of 33.812 thousand Euro due to the initial recognition of the goodwill related to the acquisitions of Privé Revaux and Blenders and a reduction for 603 thousand Euro due to foreign currency translation.

*Impairment test*

As explained in detail in the Report on Operations, the first half of 2020 was influenced by the outbreak and worldwide spread of Covid 19. As described, this event significantly impacted Safilo's business and therefore, in the preparation of the half year report as of 30 June 2020, management assessed that impairment indicators have been triggered based on IAS 36, which requires performing an impairment test at the date of the interim half year financial statements, also in line with the Regulators' guidelines.

To determine the cash flow projections used in the half year impairment test, the Board of Directors has approved on 31 July 2020, a financial projection for the period 2020 – 2024 in order to enable the performance of the Impairment test (Preliminary Financial Projections). These Preliminary Financial Projections have been prepared, in their base case (the "Base scenario"), updating the year 2020 with management's current best estimate about the business trends, reflecting the significant decrease in revenue of the first six months and assuming the beginning of a recovery starting in the third quarter, after the end of the lockdown in the main markets in which the Group operates, and consolidating in the fourh quarter, with sales of the year assumed to still remain below the original plan. On the cost side, management assumed significant savings mainly related to sales and marketing expenses and personnel cost, leveraging social amortizers and tools in place worldwide. Cash flows are assumed to be supported also by actions on credit collection and payment terms to suppliers.

No adjustments were made to the projections for the subsequent period 2021 – 2024 compared to the plan used for the impairment test as of 31 December 2019, except for the consolidation of the newly acquired Blenders and Privé Revaux business.

As a reminder, the main objectives and strategies underlying Safilo's 2020-2024 business plan were:

- to develop a modern and successful customer-centric and consumer-oriented business model, powered by a new 360° digital transformation strategy;
- to deliver Sales Growth, by placing customers and consumers at the heart of the strategy, and accelerating initiatives to digitally transform the Company's business model. Over the coming 5 years, starting from 2020 in Europe, Safilo intends to strengthen and enlarge its client base by pursuing a customer-centric strategy,

redesigning its Customer Experience, Engagement and Customer Care activities through the adoption of the latest technologies in the B2B, CRM (Customer Relationship Management) and salesforce automation fields. The Group will continue developing a multi-segment and multi-channel portfolio strategy by also accelerating projects to build an even-closer connection with end consumers. Safilo is pursuing this strategic choice through a more decisive digital shift of its mix of capabilities and investments, from digital and social marketing to Direct-to-Consumer distribution, a channel in significant growth in which Safilo wants to accelerate both through strategic commercial partnerships and through the acquisition of new important capabilities;

- to deliver Margin Expansion, through an efficient cost structure, which responds to the requirement to realign the Group's current industrial capacity to the future production needs and to achieve further costs of goods sold and overheads efficiencies, guaranteeing the Group's economic and financial solidity and the pursuit, during the Plan's timeline, of a recovery of the levels of profitability to which Safilo aspires.

The acquisition of Privé Revaux, Blenders and the new licenses Ports and Isabel Marant had not previously been included in the Group business plan since the respective transactions were signed during the first semester of 2020, and they have now been included in the Preliminary Financial Projections. Safilo Group intends to leverage on the 2 new acquisitions to reach its target & goals and the relative enterprise value.

The Preliminary Financial Projections have been prepared including IFRS 16 effects.

The impairment test methodology used for the execution of the impairment test at the interim date of 30 June 2020 is consistent with the criteria used for the 2019 financial statements and considers the following factors:

• Management used the most recent information available to calculate the WACC (weighted average cost of capital), in particular: risk free rate, market risk premium, beta, specific risk premium for Safilo, cost of debt (including lease liabilties), debt / equity structure. As recommended by regulators, the WACC has not been adjusted for a Covid-related risk premium, being the uncertainty reflected in the cash flows.

• the growth rates for the years following the plan's horizon ("g" rate) have been analytically reviewed for each single country in which the Group operates in, and have been adapted to the rate of inflation expected by analysts for 2024.

To calculate the present value, the future cash flows thus obtained were discounted to their present value at a discount rate (WACC) as at the test's date of reference that took into account the specificities of each geography where the Group operates. The cash flows generated after the horizon considered were determined on the basis of perpetual growth rates considered adequate with reference to the economic conditions of the country of reference.

The following table summarizes the WACC and "g" rates used by the Group for the interim impairment test:

| **Key assumptions** | **"WACC" discount rate** | | **Growth rate "g"** | |
|---|---|---|---|---|
| | **June 2020** | **December 2019** | **June 2020** | **December 2019** |
| Safilo Group | 9,1% | 8,1% | 1,6% | 2,0% |

The execution of the interim impairment test resulted in a cover compared to the net invested capital as of 30 June 2020.

As a matter of fact, the break-even level of some key inputs to the impairment test has been estimated: in particular, EBITDA and related cash flows can be reduced by 20% or WACC can be increased by 1,5% to obtain an enterprise value equal to the net invested capital as of 30 June 2020, including goodwill.

Management performed sensitivity analyses, each showing a sufficient coverage of the net invested capital and goodwill of the Group. Management has furthermore considered the significant uncertainties facing the Group's business by Covid 19 and, as recommended by Regulators, has decided to further support the result of the impairment test by applying a "multi scenario approach". In addition to the Preliminary Financial Projections outlined above, a second, alternative scenario of projections has been developed starting from the same assumptions for the year 2020, while adjusting downwards the projections for the period 2021-2024 reflecting a potentially stronger negative impact from Covid-19 related risks, specifically assuming an average high single digit decrease in sales and related EBITDA over the horizon covered by the Preliminary Financial Projections. The financial inputs (WACC and g rate) have not been modified compared to the base case.

The two scenarios have been equally weighted, reflecting management's conservative approach in evaluating possible negative developments of the business, and as a result the impairment test still provides a positive cover, sufficient to sustain the Group's net invested capital and goodwill.

After completing the process described, management concluded that no impairment loss needs to be recognized at the interim date of 30 June 2020.

Management has used the most reliable information available at this moment. In monitoring the goodwill value, management has taken into consideration also exogenous factors, such as the stock market capitalization. The stock market valuation in general, and considering Safilo's situation, may be subject to different expectations and various fluctuations and hence in practice different valuation methods exist, such as those based on expected cash flows. The Directors however believe that the assumptions incorporated in the Preliminary Financial Projections underlying the impairment test are reasonable, and that the Group has the necessary skills and resources to meet planned goals considering that an appropriate execution risk of the plan has been embedded in the WACC used for the test.

## 2.9 Deferred tax assets and deferred tax liabilities

### *Deferred tax assets*

These assets refer to the taxes calculated on tax losses that may be recovered in future financial years and temporary differences between the carrying value of assets and liabilities and their tax value. Deferred taxes on tax losses accumulated by the Group are only booked on the companies' balance sheets if it is considered probable that they may be recovered through future taxable income.

### *Deferred tax liabilities*

This provision refers to taxes calculated on temporary differences between the carrying value of assets and liabilities and their tax value. The most significant items for which deferred tax liabilities have been calculated concern tangible assets and goodwill amortisation, calculated for tax purposes only.

### *Valuation allowance for deferred tax assets*

Deferred tax assets, net (where applicable) of deferred tax liabilities, in the financial statements of some companies of the Group, have not been recognised, in order to take into account the expectations of future recoverability.

The following table shows the amounts of deferred tax assets and liabilities, net of the write-down applied:

| *(Euro/000)* | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Net deferred tax assets | 48,625 | 41,723 |
| Deferred tax liabilities | (11,836) | (10,852) |
| **Total** | **36,789** | **30,871** |

The deferred tax assets, net of deferred tax liabilities, have been reviewed and reduced by a valuation allowance in relation to some Group companies to the extent it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax assets to be utilized.

To determine the projections of future taxable profit used for the half year valuation allowance of the Group companies deferred tax assets, reference to financial projections for the period 2020 – 2024 has been made by updating the year 2020 with management's current best estimate about the business trends; no adjustments were made to the projections for the subsequent period 2021 – 2024 compared to the plan used for the deferred tax assets recognition test as of 31 December 2019, except for the consolidation of the newly acquired Blenders and Privé Revaux businesses. Management performed sensitivity analyses, also based on the same alternative scenario used for the impairment test, on which the positions were confirmed.

This write-down can be reversed in future years to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

## 2.10 Other non-current assets

| *(Euro/000)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Long-term guarantee deposits | 1,761 | 1,990 |
| Other long-term receivables | 219 | 169 |
| Long-term tax receivables | 6,023 | 7,746 |
| **Total** | **8,002** | **9,906** |

Long-term guarantee deposits mainly refer to security deposits for leasing contracts related to buildings used by some of the Group’s companies. Long-term tax receivables mainly refer to VAT and other income tax receivables of some Group companies. It is considered that the book value of the other non-current assets is approximately equal to their fair value.

## 2.11 Bank loans and borrowings

This item breaks down as follows:

| (Euro/000) | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Bank overdrafts | 166 | 319 |
| Short-term bank loans | 3,730 | 10,000 |
| Short-term portion of long-term bank loans | 143,230 | - |
| Debt to the factoring company | 11,500 | 8,840 |
| Other short-term loans | 90,963 | - |
| **Short-term borrowings** | **249,589** | **19,159** |
| Long-term bank loans | - | 72,864 |
| **Long-term borrowings** | **-** | **72,864** |
| Short-term portion of financial lease liability IFRS 16 | 10,431 | 9,720 |
| Long-term portion of financial lease liability IFRS 16 | 39,389 | 37,327 |
| **Financial lease liability IFRS 16** | **49,820** | **47,047** |
| **Total** | **299,409** | **139,070** |

Borrowings

At 30 June 2020 the Group has long term bank loans for a total nominal amount of 145,000 thousands Euro (85,000 thousand Euro as at December 31, 2019) related to the "2018 TL&RCF", and specifically to the Term loan facility for 70,000 thousand Euro and to the Revolving Credit Facility for 75,000 thousand Euro (respectively 75,000 and 10,000 thousand Euro as at 31 December 2019).

On 6 February 2020, the Group has entered a financing contract with its reference shareholder, between Safilo S.p.A. and Multibrands Italy B.V, controlled by HAL Holding N.V., for a total amount of Euro 90 million. This single loan agreement was aimed at financing in part, for Euro 30 million, the acquisition of Privé Revaux, and at fully financing the acquisition of Blenders Eyewear LLC. This shareholder loan is subordinated to Safilo Group's existing financing "2018 TL&RCF" and has a bullet repayment, inclusing accrued interest, at the maturity date 31 December 2023.

This committed, unsubordinated and unsecured Term and Revolving Facility Agreement and also the subordinated shareholder loan are subject to operating and financial covenants.

At 30 June 2020 the financial covenants embedded in the existing debt have been surpassed due to the Group's operational performance during the period heavily impacted by the Covid-19 pandemic. As a consequence, given the contractual provisions and in line with prevailing accounting standards, all the outstanding amount has been reclassified as short-term borrowings. Management is in active discussions with its lending banks, already involved in the existing financing agreement signed in 2018, in the definition of the specific additional financing options congruent with the Group's operational considerations in the current market environment. The Group is in the final stages of negotiations with its key relationship banks for an additional term loan under the framework of the Italian Liquidity Decree, and a new set of covenants which would provide also for the cancellation of the covenant test in the current debt at 30 June 2020, subject to the banks' and SACE's credit approval process over the coming weeks.

The "2018 TL&RCF" is carried at amortized cost, the outstanding transaction costs amortized along the duration of the facility and reported as its reduction amount to 1,770 thousan Euro (2,136 thousand Euro as at December 31, 2019).

As mentioned above, given the covenants contractual provisions and in line with prevailing accounting standards, all the long term borrowings outstanding amount has been reclassified as short-term borrowings. Assuming the covenant breach will be overcome as discussed above, here below we report the original contractual maturity analysis of the nominal long term bank loans, gross of transaction costs:

| *(Euro/000)* | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Within 1 year | 15,000 | 10,000 |
| From 1 to 2 years | 20,000 | 20,000 |
| From 2 to 3 years | 110,000 | 20,000 |
| From 3 to 4 years | - | 35,000 |
| **Total** | **145,000** | **85,000** |

The following table details the credit lines granted to the Group, the uses and the net available amounts, net of factoring and leasing transactions:

| *(Euro/000)* | **Credit lines granted** | **Uses** | **Credit lines available** |
|---|---|---|---|
| Credit lines on bank accounts and short-term bank loans | 18,453 | 3,729 | 14,724 |
| Credit lines on long-term loans | 145,000 | 145,000 | - |
| **Total** | **163,453** | **148,729** | **14,724** |

The credit lines on long-term loans are related to the committed, unsubordinated and unsecured "2018 TL&RCF" with maturity June 2023.

The Group, as at 30 June 2020, has no financial borrowings in currencies other than Euro. Over 80% of the available credit lines as of 30 June 2020 are granted to the Italian Group subsidiaries.

### Financial Lease liability

The IFRS 16 financial lease liability, as at 30 June 2020, amounts to 49,820 thousand Euro of which 10,431 thousand Euro as short term, and 39,389 thousand Euro as long term.

### Net Financial Position

The following table shows the breakdown of net financial debt. This has been calculated consistently with Paragraph 127 of the CESR/05-054b recommendation implementing the European regulation CE 809/2004 and in line with the CONSOB (Italian securities & exchange commission) requirements of 26th July 2007.

| | **Net financial position** *(Euro/000)* | **June 30, 2020** | **December 31, 2019** | **Change** |
|---|---|---|---|---|
| A | Cash and cash equivalents | 110,875 | 64,233 | 46,642 |
| B | Cash and cash equivalents included as Assets held for sale | - | - | - |
| C | Current securities (securities held for trading) | - | - | - |
| **D** | **Liquidity (A+B+C)** | **110,875** | **64,233** | **46,642** |
| **E** | **Receivables from financing activities** | **-** | **-** | **-** |
| F | Bank overdrafts and short-t. bank borrowings | (3,895) | (10,319) | 6,423 |
| G | Current portion of long-term borrowings | (143,230) | - | (143,230) |
| G | Current portion of long-term lease liability IFRS 16 | (10,431) | (9,720) | (711) |
| H | Other short-term borrowings | (102,463) | (8,840) | (93,623) |
| **I** | **Debts and other current financial liabilities (F+G+H)** | **(260,020)** | **(28,879)** | **(231,141)** |
| **J** | **Current financial position, net (D)+(E)+(I)** | **(149,144)** | **35,355** | **(184,499)** |
| K | Long-term bank borrowings | - | (72,864) | 72,864 |
| L | Bonds | - | - | - |
| M | Other long-term borrowings | - | - | - |
| M | Long-term lease liability IFRS 16 | (39,389) | (37,327) | (2,062) |
| **N** | **Debts and other non current financial liabilities (K+L+M)** | **(39,389)** | **(110,191)** | **70,802** |
| **I** | **Net financial position (J)+(N)** | **(188,533)** | **(74,836)** | **(113,697)** |
| **I** | **Net financial position pre-IFRS 16** | **(138,714)** | **(27,789)** | **(110,924)** |

The Group Net financial position reported in the above table does not include the valuation of derivative financial instruments and the Put&Call option liability on minority interests described respectively in note 2.4 and 2.17 of this report.

## 2.12 Trade payables

This item breaks down as follows:

| *(Euro/000)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Trade payables for:** | | |
| Purchase of raw materials | 29,720 | 37,665 |
| Purchase of finished goods | 47,093 | 46,388 |
| Suppliers from subcontractors | 3,810 | 4,649 |
| Tangible and intangible assets | 2,590 | 5,137 |
| Commissions | 2,766 | 3,378 |
| Royalties | 20,008 | 13,451 |
| Advertising and marketing costs | 17,771 | 9,125 |
| Services | 46,281 | 43,822 |
| Sales returns liabilities (Refund Liability) | 12,037 | 9,507 |
| **Total** | **182,073** | **173,122** |

The book value of the trade payables is maintained as being approximately the same as their fair value.

Sales returns liabilities refer to the amount accrued against the risk of returns of products sold and delivered to customers that, based on the relevant sales terms, might be returned. This sum is charged to the income statement and is deducted directly from revenues. The refund liability refers to identified items and customers and management has elements to estimate the liability with a high reliability level.

## 2.13 Tax payables

This item breaks down as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Income tax payables | 8,042 | 9,742 |
| VAT payables | 5,245 | 2,646 |
| Other taxes payables | 11,330 | 6,384 |
| **Total** | **24,618** | **18,771** |

At 30 June 2020 tax payables amounted to Euro 24,618 thousand (compared to Euro 18,771 thousand at 31 December 2019). Of this sum Euro 8,042 thousand referred to income tax for the period, Euro 5,245 thousand to VAT payable and Euro 11,330 thousand to taxes withheld, current and local taxes.

The provision for the year's current income tax is shown in note 3.8 concerning income tax.

## 2.14 Other current liabilities

This item breaks down as follows:

| *(Euro/000)* | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Payables to personnel and social security institutions | 44,768 | 35,714 |
| Agent fee payables | 130 | 143 |
| Payables to pension funds | 1,188 | 1,590 |
| Accrued advertising and sponsorship costs | 2,627 | 2,149 |
| Accrued interests on long-term loans | 533 | 31 |
| Other accruals and deferred income | 12,210 | 10,535 |
| Other current liabilities | 4,916 | 3,862 |
| **Total** | **66,373** | **54,024** |

"Payables to personnel and social security institutions" mainly refer to salaries and wages, which are paid during the following month, the increase is mainly a seasonal effect due to the contractual supplemental salary and wages and holidays accrued but not taken at the reporting date.

It is considered that the book value of the "other current liabilities" approximates their fair value.

## 2.15 Provision for risks and charges

This item breaks down as follows:

| *(Euro/000)* | Balance at January 1, 2020 | Increase | Decrease | Transl. diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|
| Product warranty provision | 5,779 | 100 | - | - | 5,879 |
| Agents' severance indemnity | 3,037 | 56 | - | (6) | 3,086 |
| Provision for corporate restructuring | 20,831 | - | (120) | - | 20,711 |
| Other provisions for risks and charges | 9,617 | - | (2,463) | (231) | 6,923 |
| **Provisions for risks - long term** | **39,264** | **156** | **(2,583)** | **(238)** | **36,599** |
| Product warranty provision | 1,092 | - | (3) | (38) | 1,052 |
| Provision for corporate restructuring | 150 | - | (152) | - | (2) |
| Other provisions for risks and charges | 21,582 | 5,377 | (1,005) | (6) | 25,948 |
| **Provisions for risks - short term** | **22,824** | **5,377** | **(1,159)** | **(44)** | **26,998** |
| **Total** | **62,088** | **5,533** | **(3,742)** | **(282)** | **63,597** |

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

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

Provision for corporate restructuring includes the estimated liability arising from the reorganization projects under way. Given the temporary regulation on employment enforced by Italian Government as an extraordinary measure to help Covid-relief, the restructuring plan included in the 2020 – 2024 has been temporarily freezed. All the assumptions taken as of December 31, 2019 are confirmed for this interim reporting, and Management is committed to complete the plan as soon as allowed.

Provisions for other risks and charges refer to the best estimate made by the Management of the liabilities to be recognized in relation to proceedings arisen against suppliers, tax authorities and other counterparts. The increase of the period to is related to risks of litigation in place in some Group subsidieries.

The short term portion of the "Other provision for risks and charges" includes the provision of 17,000 thousand Euro related to the proceedings before the French Competition Authority ("FCA") accrued in 2015. Safilo's French subsidiary (Safilo France S.A.R.L.) together with other major competitors and a number of leading retailers in the French eyewear industry, has been the subject of an investigation conducted by the FCA relating to pricing and sales practices in the industry. In May 2015, Safilo France S.A.R.L. and Safilo S.p.A. in its capacity of parent-company received a Statement of Objections from the FCA. On 2 February 2016, Safilo reached an agreement with the FCA's Investigation Services limiting the Group's liability at 17,000 thousand Euro. Consequently, a provision was booked by the Group as the best estimate for the expected liability. On 24 February 2017, the FCA's Body decided to refer the entire case back for further investigation to the FCA's Investigation Services, without imposing any sanction on all the companies currently under investigation. On 19 April 2019, Safilo France S.A.R.L., Safilo S.p.A and, in its capacity of parent company, Safilo Group S.p.A received a new statement objections (the "Supplementary SO"), which supplements the Initial SO (the charges raised in the Initial SO being maintained). In July 2019, Safilo filed a brief in response to both the Initial SO and the Supplementary SO, in which it contested all the charges raised against it by the investigation services. The Group expects to receive further updates from the authorities in 2020.

The estimate of the above mentioned allowances takes into account, where applicable, the opinion of legal consultants and other experts, past company experience and others' in similar situations, as well as the intention of the company to take further actions in each case. The provision in the consolidated financial statements is the sum of the individual accruals made by each company of the Group.

The above mentioned allowances are considered sufficient to cover the existing risks.

## 2.16 Employees benefits liability

This item breaks down as follows:

| *(Euro/000)* | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Defined contribution plan | 341 | 10 |
| Defined benefit plan | 26,457 | 27,055 |
| **Total** | **26,798** | **27,064** |

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

The table below shows the movement in the item "defined benefit plan" during the period:

| *(Euro/000)* | **Balance at January 1, 2020** | **Addition** | **Actuarial (gains)/losses** | **Uses** | **Transl. diff.** | **Balance at June 30, 2020** |
|---|---|---|---|---|---|---|
| Defined benefit plan | 27,055 | 269 | - | (867) | - | 26,457 |

## 2.17 Other non-current liabilities

| *(Euro/000)* | Balance at January 1, 2020 | Increase | Decrease | Changes in the scope of consolid. | Transl. diff. | Balance at June 30, 2020 |
|---|---|---|---|---|---|---|
| Other non current liabilities | 1,232 | - | (154) | - | 4 | 1,083 |
| Put&Call option liability on minority interests | - | - | - | 103,850 | (1,619) | 102,231 |
| **Total** | **1,232** | **-** | **(154)** | **103,850** | **(1,615)** | **103,314** |

The "other non current liabilities" line is mainly related to the estimate of the tax liability equal to 810 thousand Euro accrued according to the new IFRIC 23, on the basis of the assessment of the limited uncertain tax treatment identified within the Group.

The amount equal to 103,850 thousand Euro reported in the item "Changes in the scope of consolidation" refers to the put and call options liability on the non controlling interests of the two busisness combination finalised in the period.

As explained in more detail in the previous paragraphs, the share purchase agreements related to these two new investments also state that the non-controlling interests held by the minority equity holders are subject to customary reciprocal put and call options. In line with the applicable accounting standards, these options were valued at their fair value, equal at the date of the closing of the transaction to a total amount of 103,850 thousand Euro. The main input to the determination of the fair value are the assumptions on the future performance of the new business acquired; these assumptions have not been changed since the acquisition date, therefore the fair value of the liability as of June 30, 2020 has not been modified, except for the impact of the currency conversion. Considering that the risks and rewards of ownership remain with the non-controlling interest, this liability recognised has reduced the Group controlling interest equity.

## SHAREHOLDERS' EQUITY

Shareholders' equity is the value contributed by the shareholders of Safilo Group S.p.A. (the share capital and the share premium reserve), plus the value generated by the Group in terms of profit gained from its operations (profit carried forward and other reserves). At 30 June 2020, shareholders' equity amounted to Euro 207,202 thousand, compared to Euro 341,992 thousand at 31 December 2019.

### 2.18 Share capital

At 30 June 2020 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 349,943,373 consisting of no. 275,703,846 ordinary shares with no par value.

### 2.19 Share premium reserve

At 30 June 2020 the share premium reserve of the Parent Company, Safilo Group S.p.A., amounts to Euro 594,277,350.

### 2.20 Retained earnings and other reserves

This item includes both the reserves of the subsidiary companies generated after their inclusion in the consolidation area and the translation differences deriving from the translation into Euro of the financial statements of consolidated companies denominated in other currencies.

During the first semester, the movements of the item "retained earnings and other reserve" mainly refer to:

- a decrease of 1,431 thousand Euro due to the positive translation differences coming from the translation of the subsidiaries' financial statements into Euro;
- an increase of 85 thousand Euro related to the cost of the period of the stock option plans in place;
- a decrease of 103,850 thousand Euro related to the Put & Call option liability on the non-controlling interests of the two subsidiaries acquired, that considering that the risks and rewards of ownership remain with the non-controlling interest, has been recognised reducing the Group controlling interest equity.

### 2.21 Cash flow hedge reserve

The cash flow hedge reserve mainly refers to the current value of derivative instruments currency forward contracts that cover the currency exchange rate risk on future highly probable transactions.

### 2.22 Stock options plans

As at 30 June 2020 the Group has in place two Stock Option Plans: 2014-2016 and 2017-2020 Plans.

These two Plans were deliberated by the Extraordinary Meetings respectively held on 15 April 2014 and 26 April 2017, in which the Shareholders approved the issue of respectively up to 1,500,000 and 2,500,000 (adjusted after the 2018 capital increase to 2,891,425) new ordinary shares to be offered to directors and/or employees of the Company and its subsidiaries.

These Plans, designed to incentivise and retain directors and/or employees, is carried out through the grant, in different tranches, of options entitling the beneficiary to subscribe to one of the foregoing ordinary Company share, issued for cash and without any all-or-none clause, excluding all pre-emptive rights pursuant to article 2441, paragraph four, second sentence of the Italian Civil Code.

The options attributed by those plans will mature when both the following vesting conditions are met: the continuation of the individual's employment relationship on the options' vesting date, and the achievement of differentiated performance objectives for the period of each tranche commensurate with consolidated EBIT.

The adoption of these plans has affected the income statement for the period for Euro 85 thousand (Euro 101 thousand at 30 June 2019).

## 3. Notes on the consolidated income statement

The Group has reported in the previous period the Solstice retail business as discontinued operation disclosing the contribution in term of post tax result in a single item of the consolidated income statement. The following tables referred only to the income statement of the continuing operations related to the wholesale business.

### 3.1 Net sales

The Group's primary revenue segment is the selling of eyewear products in the wholesale channel through its subsidiary network and a network of independent distribution partners.

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognizes the revenues when the control over goods sold is transferred to the customer, assumed at the shipment date, in accordance with the sales terms agreed. According to the standard contractual conditions applied by the Group, customers may have a right of return. If the sale includes the right for the client to return unsold goods, at the time of sale, a liability is recognized and a corresponding adjustment of revenues for the goods whose return is estimated.

In 2020 first semester sales amounted to 335,590 thousand Euro, showing a -32.3% decrease compared to the previous period (495,921 thousand Euro).

For a discussion on sales trends and the disaggregated sales by geographical regions, reference should be made to the report on operations, section on the Group's economic results.

## 3.2 Cost of sales

This item breaks down as follows:

| *(Euro/000)* | **First semester 2020** | **First semester 2019** |
|---|---|---|
| Purchase of raw materials and finished goods | 103,856 | 149,291 |
| Capitalisation of costs for increase in tangible assets (-) | (3,430) | (3,891) |
| Change in inventories | 15,360 | (1,936) |
| Wages and social security contributions | 47,251 | 59,068 |
| Subcontracting costs | 5,092 | 7,519 |
| Amortization and depreciation | 12,115 | 11,073 |
| Depreciation Right of Use - IFRS 16 | 657 | 760 |
| Rental and operating leases | 884 | 945 |
| Offset Rental and operating leases - IFRS 16 | (733) | (751) |
| Utilities, security and cleaning | 3,248 | 4,048 |
| Other industrial costs | 2,707 | 3,638 |
| **Total** | **187,007** | **229,764** |

Cost of sales decreased by Euro 42,757 thousand (or 18.6%), from Euro 229,764 thousand for the six months ended 30 June 2019, to Euro 187,007 thousand for the six months ended 30 June 2020. The cost of sales reduction was due to the significant reduction of industrial activity following the COVID-19 emergency and has mainly affected the purchases of raw material and finisched goods that, net of change in inventories, decreased by Euro 28,139 thousand (or -19%) from Euro 147,355 thousand for the six months ended 30 June 2019 to Euro 119,216 thousand for the six month ended 30 June 2020 and the Payroll and social security contribution by Euro 11,817 thousand (or 20.0%), from Euro 59,068 thousand to Euro 47,251 thousand for the six months ended 30 June 2020, benefitting also of the contingency measures in relation to the Covid-19 emergency including the use of applicable personnel relief programs in the Italian plants.

Amortization and depreciation increased by Euro 1,042 thousand from Euro 11,073 thousand in 2019 to Euro 12,115 thousand in 2020, affected by higher non-recurring write down of manufacturing assets recorded in connection with the Italian plant restructuring equal to Euro 2,893 thousand.

The change in inventories can be broken down as follows:

| *(Euro/000)* | **First semester 2020** | **First semester 2019** |
|---|---|---|
| Finished products | 13,989 | (9,650) |
| Work-in-progress | 464 | 588 |
| Raw materials | 908 | 7,126 |
| **Total** | **15,360** | **(1,936)** |

The average number of Group employees in the first six months of 2020 and 2019 can be summarised as follows:

| | First semester 2020 | First semester 2019 |
|---|---|---|
| Executives | 108 | 116 |
| Clerks and middle management | 2,327 | 2,407 |
| Factory workers | 3,228 | 3,597 |
| **Total** | **5,662** | **6,120** |

The comparative figures have been "restated" to exclude the Solstice retail discontinued operation, allowing a proper comparison with the current period ones.

## 3.3 Selling and marketing expenses

This item breaks down as follows:

| *(Euro/000)* | First semester 2020 | First semester 2019 |
|---|---|---|
| Payroll and social security contributions | 40,335 | 52,601 |
| Sales commissions | 17,372 | 25,436 |
| Royalty expenses | 29,208 | 36,399 |
| Advertising and promotional costs | 43,606 | 55,638 |
| Amortization and depreciation | 1,543 | 1,327 |
| Depreciation Right of Use - IFRS 16 | 2,262 | 2,442 |
| Logistic costs | 8,567 | 9,829 |
| Consultants fees | 424 | 989 |
| Rental and operating leases | 3,715 | 3,304 |
| Offset Rental and operating leases - IFRS 16 | (2,711) | (2,587) |
| Utilities, security and cleaning | 726 | 663 |
| Provision for risks | 11 | (387) |
| Other sales and marketing expenses | 4,896 | 7,217 |
| **Total** | **149,954** | **192,871** |

Selling and marketing expenses decreased by Euro 42,917 thousand (or 22.3%), from Euro 192,871 thousand for the six months ended 30 June 2019 to Euro 149,954 thousand for the six months ended 30 June 2020. This was due to the significant reduction of sales activity following the COVID-19 emergency with the consequent decrease of Payroll and social security contributions by Euro 12,266 thousand (or 23.3%), by Sales commissions Euro 8,064 thousand (or 31.7%), Royalty expenses and Advertising and promotional costs by respectively Euro 7,191 thousand (or 19.8%) and Euro 12,032 thousand (or 21.6%).

## 3.4 General and administrative expenses

This item breaks down as follows:

| *(Euro/000)* | **First semester 2020** | **First semester 2019** |
|---|---|---|
| Payroll and social security contributions | 21,498 | 26,745 |
| Allowance and write off of doubtful accounts | 5,462 | 1,473 |
| Amortization and depreciation | 10,896 | 8,943 |
| Depreciation Right of Use - IFRS 16 | 2,379 | 3,450 |
| Professional services | 4,985 | 6,452 |
| Rental and operating leases | 2,860 | 3,996 |
| Offset Rental and operating leases - IFRS 16 | (2,604) | (3,684) |
| EDP costs | 6,786 | 6,439 |
| Insurance costs | 1,028 | 1,123 |
| Utilities, security and cleaning | 1,519 | 1,814 |
| Taxes (other than on income) | 817 | 997 |
| Other general and administrative expenses | 1,089 | 3,105 |
| **Total** | **56,715** | **60,854** |

General and administrative expenses decreased by Euro 4,139 thousand (or 6.8%), from Euro 60,854 thousand for the six months ended June 30, 2019 to Euro 56,715 thousand for the six months ended 30 June 2020. This was mainly due to a decrease in Payroll and social security contributions by Euro 5,247 thousand (or 19.6%), from Euro 26,745 thousand for the six months ended 30 June 2019 to Euro 21,498 thousand for the six months ended 30 June 2020.

General and administrative expenses on the other side are also affected by the impact, compared to the previous period, of higher prudential bad debt allowances, for an amount equal to Euro 3,989 thousand and by higher depreciation and amortization for Euro 1,953 thousand related to the new intangible assets (mainly trademarks and distributor relationship) identified in the Purchase Price Allocation of the two Business Combination incurred in the period.

### 3.5 Other operating income (expenses)

This item breaks down as follows:

| *(Euro/000)* | **First semester 2020** | **First semester 2019** |
|---|---|---|
| Losses on disposal of assets | (27) | (74) |
| Other operating expenses | (10,729) | (5,394) |
| Gains on disposal of assets | 1 | 69 |
| Other operating incomes | 432 | 1,229 |
| **Total** | **(10,323)** | **(4,170)** |

Other operating income and expenses include cost and revenue components either not related to the Group's ordinary operations or that are considered by Management to be of non-recurring nature.

During the first six months of 2020 under "other operating expenses" non-recurring costs of Euro 10,300 thousand were accounted for mainly related to restructuring expenses for the ongoing cost saving program (Euro 5,032 thousand in the first six month of 2019).

### 3.6 Impairment loss on goodwill

As reported in note 2.8 "Goodwill", the Group has performed the impairment test on goodwill. The execution of the test, substantially confirmed that ther was no need to book any impairment loss.

## 3.7 Interest expenses and other financial charges, net

This item breaks down as follows:

| *(Euro/000)* | **First semester 2020** | **First semester 2019** |
|---|---|---|
| Nominal interest expenses on loans | 3,617 | 767 |
| Figurative interest expenses on loans | 366 | 89 |
| Nominal interest expenses on Bond | - | 735 |
| Figurative interest expenses on Bond | - | 2,151 |
| Interest expenses on operating leases - IFRS 16 | 924 | 652 |
| Bank commissions | 2,031 | 2,168 |
| Negative exchange rate differences | 27,014 | 6,654 |
| Other financial charges | 593 | 222 |
| **Total financial charges** | **34,545** | **13,438** |
| Interest income | 145 | 1,254 |
| Positive exchange rate differences | 21,469 | 6,931 |
| Other financial income | 1,351 | 2,355 |
| **Total financial income** | **22,965** | **10,540** |
| **Total financial charges, net** | **11,580** | **2,898** |

Total net financial charges increased by Euro 8,682 thousand from Euro 2,898 thousand for the six months ended 30 June 2019 to Euro 11,580 thousand for the six months ended 30 June 2020. Excluding the accounting effect of the IFRS 16 interest expenses equal to Euro 924 thousand, interest on loans and Bond increased by Euro 241 thousand, from Euro 3,742 thousand for the six months ended 30 June 2019 to Euro 3,983 thousand for the six months ended 30 June 2020. Net exchange rate differences are equal to a loss of Euro 5,545 thousand in the first six months ended 30 June 2020 (a gain of Euro 277 thousand in the first six months of 2019).

The items "figurative interest expenses on loans and Bond" is related to the additional figurative interest component calculated according to the amortised cost method on the basis of the effective interest rate including any transaction costs.

## 3.8 Income tax expenses

This item breaks down as follows:

| *(Euro/000)* | **First semester 2020** | **First semester 2019** |
|---|---|---|
| Current tax | (670) | (1,602) |
| Deferred tax | 6,362 | (23,638) |
| **Total** | **5,693** | **(25,239)** |

Income taxes record a positive effect for the six months ended 30 June 2020, primarily affected by the recognition of deferred tax assets for Euro 6 million related to the US entities for which the realization of sufficient future taxable profits is considered probable enough to support the recognition of the related deferred tax assets, and by Euro 1 million valuation allowance of the deferred tax assets of the Italian entities.

## 3.9 Discontinued operations

In 2019 the Discontinued operations result referred to the Solsice retail business, disposed on 1 July 2019, that generated a total loss of Euro 26,358 thousand, of which Euro 17,312 thousand related to the disposal loss, including Euro 3,725 thousand for the write down of deferred tax assets no longer recoverable after the disposal, and Euro 9,047 thousand to the net loss of the retail business in the period.

## 3.10 Earnings (Losses) per Share

The calculation of basic and diluted earnings (losses) per share is shown in the tables below:

*Basic*

| | First semester 2020 | First semester 2019 |
|---|---|---|
| Profit/(Loss) for ordinary shares (in Euro/000) | (74,754) | (273,175) |
| Profit/(Loss) for ordinary shares from continuing operations (in Euro/000) | (74,754) | (246,938) |
| Average number of ordinary shares (in thousands) | 275,704 | 275,565 |
| **Earnings/(Losses) per share - basic (in Euro)** | **(0.271)** | **(0.991)** |
| **Earnings/(Losses) per share - basic from continuing operations (in Euro)** | **(0.271)** | **(0.896)** |

*Diluted*

| | First semester 2020 | First semester 2019 |
|---|---|---|
| Profit/(Loss) for ordinary shares (in Euro/000) | (74,754) | (273,175) |
| Profit/(Loss) for ordinary shares from continuing operations (in Euro/000) | (74,754) | (246,938) |
| Average number of ordinary shares (in thousands) | 275,704 | 275,565 |
| *Dilution effects:* | | |
| - stock option (in thousands) | 62 | 97 |
| **Total** | **275,766** | **275,662** |
| **Earnings/(Losses) per share - diluted (in Euro)** | **(0.271)** | **(0.991)** |
| **Earnings/(Losses) per share - diluted from continuing operations (in Euro)** | **(0.271)** | **(0.896)** |

## 3.11 Seasonality

Group revenues are partially affected by seasonal factors, as demand is higher in the first half of the year as a result of sunglasses sales ahead of the summer. Revenues are historically at their lowest in the third quarter of the year, since the sales campaign for the second half is launched in autumn. The described trend in sales has related effects on trade receivables, inventory, trade payables and the liquidity of the Group. The outbreak of Covid 19 in the first semester 2020 has partially modified the pattern described, as the lockdown period delayed the procurement, manufacturing and selling processes or led to their revision.

## 3.12 Significant non-recurring transactions and atypical and/or unusual operations

In the first six months of 2020, the Group did not engage in significant non-recurring transactions or atypical and/or unusual operations pursuant to the CONSOB communication of July 28th 2006.

## 3.13 Dividends

In the first six months of 2020, the parent company Safilo Group S.p.A. did not pay any dividends to its shareholders.

## 3.14 Segment reporting

Following the disposal of the retail chain Solstice the operating segment disclosure usually reported in this note has been considered no longer relevant for the present Report.

## RELATED PARTIES TRANSACTIONS

The nature of transactions with related parties is set out in the following table:

| **Related parties transactions** *(Euro/000)* | **Relationship** | **June 30 2020** | **December 31 2019** |
|---|---|---|---|
| *Receivables* | | | |
| Companies controlled by HAL Holding N.V. | (a) | 4,453 | 5,649 |
| HAL Investments B.V. | (a) | - | 26 |
| **Total** | | **4,453** | **5,675** |
| *Payables* | | | |
| Companies controlled by HAL Holding N.V. | (a) | 344 | 2,697 |
| HAL Investments B.V. | (a) | - | 10 |
| *Loans* | | | |
| Multibrands Italy B.V. | (a) | 90,963 | - |
| **Total** | | **91,307** | **2,707** |

| **Related parties transactions** *(Euro/000)* | **Relationship** | **First semester 2020** | **First semester 2019** |
|---|---|---|---|
| *Revenues* | | | |
| Companies controlled by HAL Holding N.V. | (a) | 27,326 | 36,747 |
| **Total** | | **27,326** | **36,747** |
| *Operating expenses* | | | |
| Companies controlled by HAL Holding N.V. | (a) | 358 | 1,595 |
| *Financial expenses* | | | |
| Multibrands Italy B.V. | (a) | 1,085 | - |
| **Total** | | **1,443** | **1,595** |

*(a) Companies controlled by Group's reference Shareholder*

Transactions with related parties, including intercompany transactions, involve the purchase and sale of products and provision of services on an arm's length basis, similarly to what is done in transactions with third parties.
In regard to the table illustrated above, note that the companies of HAL Holding N.V., primary shareholder of Safilo Group, mainly refer to the retail companies belonging to the GrandVision Group, with which Safilo carries out commercial transactions in line with market conditions.

The balance reported with Multibrands Italy B.V. refers to the loan and the related interest accrued, entered into between Safilo S.p.A. and Multibrands Italy B.V. on 6 February 2020 for a total amount of Euro 90 million. This loan agreement was aimed at financing in part the acquisition of Privé Revaux and at fully financing the acquisition of Blenders Eyewear LLC. The loan is subordinated to the existing financing signed by the Group in October 2018 with its lending banks.

## CONTINGENT LIABILITIES

The Group does not have any significant contingent liabilities not covered by adequate provisions. Nevertheless, as of the balance sheet date, various legal actions involving the parent company and certain Group companies were pending. These actions are considered to be groundless and/or their eventual negative outcome cannot be determined at this stage.

## COMMITMENTS

At the balance sheet date, the Group had no significant purchase commitments. At the balance sheet date, however, the Group had contracts in force with licensors for the production and sale of sunglasses and frames bearing their trademarks. The contracts not only establish minimum guarantees, but also a commitment for advertising investments.

## SUBSEQUENT EVENTS

No events have taken place after 30 June 2020 that could have a material impact on the results published in this report.

For the Board of Directors
The Chief Executive Officer
Angelo Trocchia

## Attestation in respect of the Half-year condensed financial statements under Article 154-bis of Legislative Decree 58/98

The undersigned Angelo Trocchia, as the Chief Executive Officer, and Gerd Graehsler, as the officer responsible for the preparation of Safilo Group S.p.A. financial statements, hereby attest, pursuant to the provisions of Article 154-bis, clauses 3 and 4, of Legislative Decree February 24th 1998, no. 58, the adequacy of the administrative and accounting procedures with respect to the Company structure and their effective application in the preparation of the 2020 half-year condensed financial statements.

Administrative and accounting procedures used for the preparation of the condensed financial statements as of June 30th, 2020 were based and the evaluation of their adequacy has been made on a process defined by Safilo Group S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

Furthermore, the undersigned attest that the half-year condensed financial statements have been prepared in accordance with the international financial standards as endorsed by the European Union through Regulation (EC) no. 1606/2002 of the European Parliament and Counsel, dated 19th July 2002 and in particular IAS 34 – Interim Financial Reporting. This half-year report corresponds to the amounts shown in the Company's books and records and provides a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

Finally, the interim Management report contains references to the important events occurred in the first six months of the financial year and their impact on the half-year condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the year, together with the respective mitigation plan, along with a description of the transactions with related parties.

Padua, 31 July 2020

Angelo Trocchia
Chief Executive Officer

Gerd Graehsler
Chief Financial Officer
Manager responsible for the preparation of
the company's financial documents

# REPORT OF INDEPENDENT AUDITORS ON
# HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2020

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

## Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Safilo Group S.p.A. and subsidiaries (the "Safilo Group"), which comprise the balance sheet as of June 30, 2020 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the interim condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review.

## Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the interim financial statements under Resolution n° 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Safilo Group as at June 30, 2020 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

**Emphasis of Matter**

We draw the attention on the disclosure provided in the notes to the interim condensed consolidated financial statements and in the report on operations about the Group's economic and financial performance in the first semester of 2020, heavily impacted by the Covid 19 pandemic, which caused the financial covenants related to the existing financial debt not to be respected as of June 30, 2020, and the related amount to be reclassified as a current liability. In this regard, the Directors explain that negotiations are in their final stages for an additional term loan, under the framework of the Liquidity Decree passed by the Italian Government, and for a new set of covenants which would also provide for the cancellation of the covenant test as of June 30, 2020. The Directors explain that these agreements will be subject to the banks' and SACE's credit approval process over the coming weeks, and believe that the Group will be able to obtain the financial resources required, estimated to be sufficient to manage the uncertainties of the current market environment.

Our conclusion is not modified with reference to the matter described.

DELOITTE & TOUCHE S.p.A.

Signed by
**Giorgio Moretto**
Partner

Padova, Italy
August 6, 2020

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