

MARCOLIN
EYEWEAR

2019 ANNUAL REPORT

MARCOLIN
EYEWEAR

MARCOLIN

EYEWEAR

TOM FORD

BALLY


MONCLER
LUNETTES

SPORTMAX

Ermenegildo Zegna

LONGINES


OMEGA

VICTORIA'S SECRET
EYEWEAR

VICTORIA'S SECRET PINK
EYEWEAR

roberto cavalli
EYEWEAR

ATELIER
SWAROVSKI

BARTON PERREIRA



EMILIO PUCCI


SWAROVSKI

DSQUARED2

GUESS

DIESEL

Justcavalli
EYEWEAR

COVERGIRL
eyewear

KENNETH COLE

Timberland 

GANT
EYEWEAR

HARLEY-DAVIDSON.
EYEWEAR

MARCIANO

CATHERINE DENEUVE
LUNETTES

SKECHERS
EYEWEAR

Candie's
eyewear

RAMPAGE
EYEWEAR

VIVA
eyewear

MARCOLIN
EYEWEAR

W
WEB EYEWEAR

TABLE OF CONTENTS

GENERAL INFORMATION	3
CORPORATE BOARDS AND AUDITORS.....	5
SHARE CAPITAL AND OWNERSHIP	6
MARCOLIN GROUP STRUCTURE AS AT DECEMBER 31, 2019	7
THE MARCOLIN GROUP.....	9
THE GROUP'S FINANCIAL HIGHLIGHTS	10
MARCOLIN GROUP REPORT ON OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019.....	13
BUSINESS PERFORMANCE	13
INCOME STATEMENT HIGHLIGHTS	17
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS.....	20
MARCOLIN S.p.A. REPORT ON OPERATIONS FOR THE YEAR ENDED DECEMBER 31,2019.....	26
INCOME STATEMENT HIGHLIGHTS	26
SALES REVENUES	27
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS.....	29
INVESTMENTS IN SUBSIDIARIES	31
INVESTMENTS IN ASSOCIATES	33
MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP AND THE COMPANY ARE EXPOSED.....	34
OTHER INFORMATION.....	37
SUBSEQUENT EVENTS	43
NOTICE OF CALLING TO GENERAL MEETING	44
PROPOSED RESOLUTION.....	45
MARCOLIN GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31,2019	47
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	49
CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME	50
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	51
CONSOLIDATED STATEMENT OF CASH FLOWS	52
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	53
INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS	96
MARCOLIN S.P.A FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019.	99
STATEMENT OF FINANCIAL POSITION	101
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME.....	102
STATEMENT OF CHANGES IN EQUITY	103
STATEMENT OF CASH OF CASH FLOWS	104
NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF MARCOLIN S.P.A. FOR THE YEAR ENDED DECEMBER 31, 2019	105
INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS.....	145
BOARD OF STATUTORY AUDITORS' REPORT	150
SUMMARY OF GENERAL MEETING RESOLUTIONS	154

GENERAL INFORMATION

MARCOLIN S.p.A.
Headquarters, Executive and Business Offices in
Z.I. Villanova, 4
32013 Longarone (Belluno)
Share Capital Euro 35,902,749.82 Fully Paid In
R.E.A. N. 64334
Tax I.D. and Companies
Register n. BL 01774690273
VAT n. 00298010257

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www.marcolin.com

CORPORATE BOARDS AND AUDITORS

Board of Directors ¹

Vittorio Levi	Chairman
Massimo Renon	C.E.O. and General Manager
Giovanni Zoppas ⁴	Director
Antonio Abete	Director
Simone Cavallieri ⁵	Director
Jacopo Forloni	Director
Cirillo Coffen Marcolin	Director
Emilio Macellari	Director
Frédéric Jaques Mari Stévenin	Director
Franck Raymond Temam	Director
Raffaele Roberto Vitale	Director

Board of Statutory Auditors ¹

David Reali	Chairman
Mario Cognigni	Standing Auditor
Diego Rivetti	Standing Auditor
Alessandro Maruffi	Alternate Auditor
Rossella Porfido	Alternate Auditor

Internal Audit Committee ²

Vittorio Levi	Chairman
Jacopo Forloni	Supervisor
Cirillo Coffen Marcolin	Supervisor

Supervisory Body ²

Federico Ormesani	Chairman
David Reali	Supervisor
Cirillo Coffen Marcolin	Supervisor

Independent Auditors ³

PricewaterhouseCoopers S.p.A.

1) Term of office ends on the date of the General Meeting called to approve the annual financial statements for the year ended December 31, 2021 (pursuant to Shareholders' Resolution of March 28, 2019).

2) Pursuant to Board of Directors' appointment of March 28, 2019.

3) Term of engagement: 2019 - 2021 (pursuant to Shareholders' Resolution of March 28, 2019).

4) Giovanni Zoppas resigned from the office of Executive Deputy Chairman on May 30, 2019; he will stay on as a Director, pursuant to the Board of Director appointment of May 30, 2019.

5) Nicolas Brugère resigned from the office of Director on October 29, 2019. The Board of Directors co-opted Simone Cavallieri to replace him on October 29, 2019.

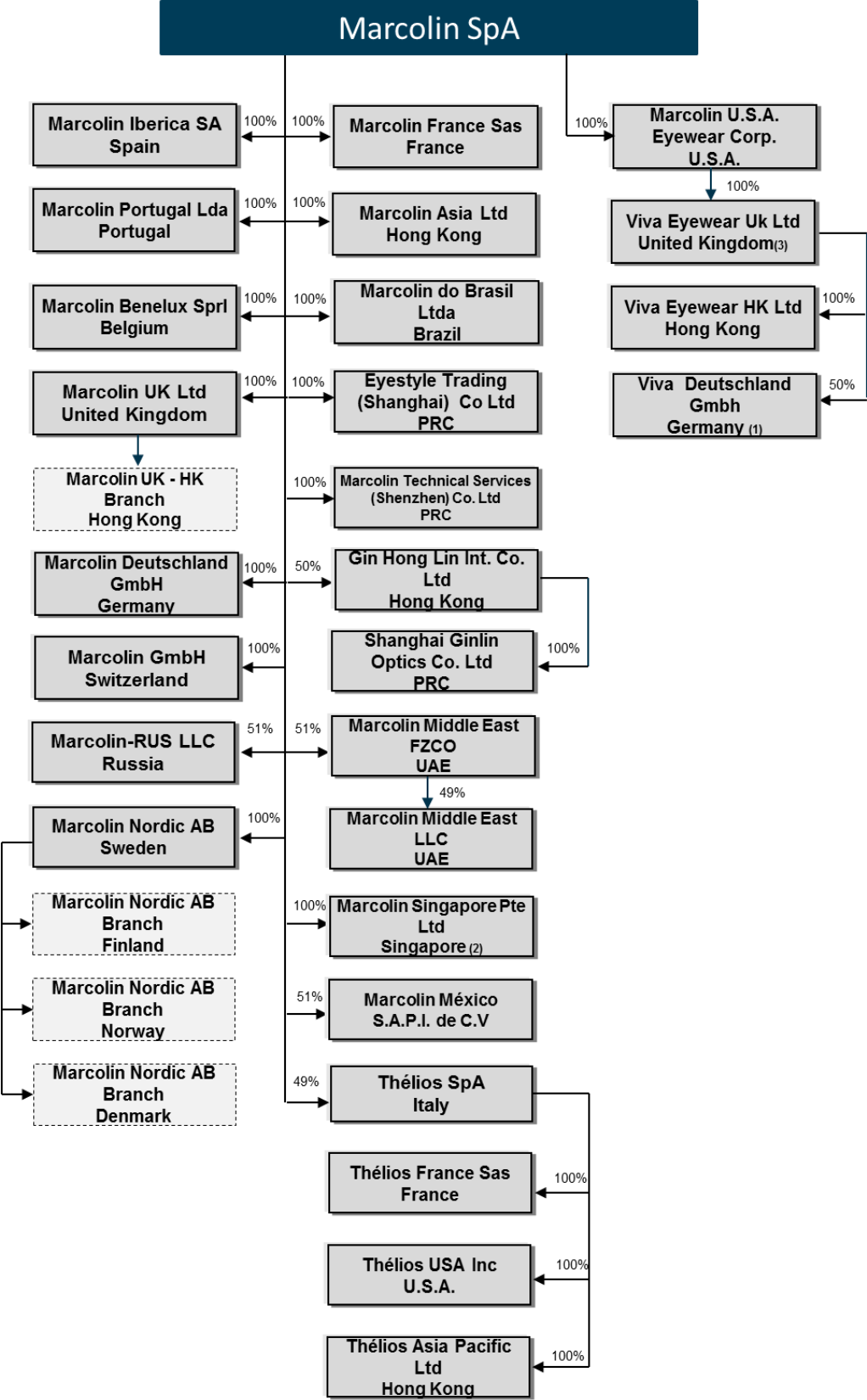
SHARE CAPITAL AND OWNERSHIP

The share capital of Marcolin S.p.A. is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to the shareholder, Vicuna Holding S.p.A., a company of the LVMH Group. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. The share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2019, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The Marcolin S.p.A. shares owned by 3 Cime S.p.A. are encumbered by liens stipulated when the bond notes were issued on February 10, 2017, secured by collateral for the same amount of the obligations assumed with the bondholders, including a lien on the shares of the Issuer, Marcolin.

MARCOLIN GROUP STRUCTURE AS AT DECEMBER 31, 2019



1) Company undergoing liquidation
 2) Company founded on March 27, 2019, wholly owned by Marcolin SpA.
 3) Company put into liquidation in January 2020.

THE MARCOLIN GROUP

Marcolin, a well-established company based in Longarone (Belluno) in the Italian eyewear district, is a designer, manufacturer and distributor of eyewear products. As a renowned leader in the global eyewear business, Marcolin stands out for its premium quality products, design skills, production capabilities, attention to detail and first-rate distribution.

In 2019 Marcolin Group (also referred to herein as the "Group") sold an estimated 14 million pairs of eyeglasses and sunglasses worldwide, achieving sales of euro 486.7 million.

Marcolin Group founded a new company in Singapore in 2019. By setting up a direct affiliate there, it aims to assist the Group's growth in the Asia-Pacific ("APAC") region and to enhance the marketing synergy with the regional office operating in Hong Kong. The objective is to strengthen the sales and marketing activities and offer a dedicated customer service to best meet the demands of Singapore, Malaysia and Southeast Asia.

Thanks to the important acquisition of the Viva Group in 2013 and to the stipulation of new partnership agreements with LVMH and other international businesses, Marcolin Group has become a highly global eyewear business in terms of its brand portfolio, products, geographic presence and markets.

In 2019, Marcolin Group had sales of euro 486.7 million and some 1,878 employees, plus a widespread, well-structured network of independent agents.

New, important licensing agreements were stipulated with some brands in 2019, such as the one in January 2019 with Barton Perreira, an independent eyewear brand based on Los Angeles (Barton Perreira will continue to design and produce the eyewear and will manage the sales in parts of Europe, the U.S.A., Canada and Japan, whereas Marcolin Group will look after the distribution with selected retailers and eyewear stores in locations not already covered by the producer). In February 2019 Marcolin Group signed a licensing agreement with the Max Mara Fashion Group for the Sportmax brand, and in September 2019 for the Max&Co brand, one of the most important international ready-to-wear apparel brands. In June 2019 an agreement was stipulated with adidas, a leading sportswear company in the global arena. In October licensing agreements were signed with Longines and Omega.

In November 2019, Marcolin Group and BMW Group, a leading manufacturer of premium automobiles and motorcycles, announced the stipulation of an exclusive international licensing agreement for the design, manufacturing and distribution of eyewear for the BMW, BMW M and BMW M Motorsport brands. In December 2019 an exclusive worldwide partnership between Marcolin Group and GCDS, a clothing and accessories brand founded by the Giordano brothers and Giuliano Calza, was announced.

During the year, in addition to stipulating new licensing agreements, the Group renewed important existing ones, including those with Harley-Davidson, Emilio Pucci and Kenneth Cole.

Today Marcolin has a strong portfolio of licensed brands balanced between the luxury and mainstream ("diffusion") segments and men's and women's segments, with a good balance between eyeglass frames and sunglasses.

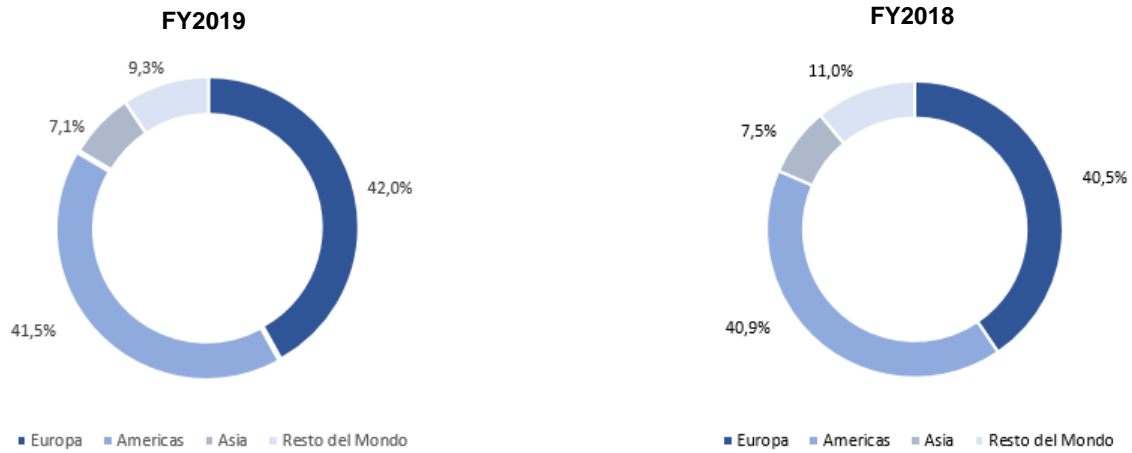
The luxury segment includes some of the most glamorous fashion brands such as Tom Ford, Tod's, Roberto Cavalli, Ermenegildo Zegna, Pucci, Moncler, Barton Perreira, Omega, Longines, Bally and Sport Max, and the diffusion segment includes Diesel, DSquared2, Guess, Guess by Marciano, Gant, Harley Davidson, Just Cavalli, Swarovski, Timberland, Cover Girl, Kenneth Cole New York, Victoria's Secret, Pink, and other brands targeted specifically to the U.S. market.

The house brands include WEB and Marcolin.

Geographically, the Group is present in all major countries across the world through direct affiliates, partnership agreements and exclusive distribution agreements with major players of the industry.

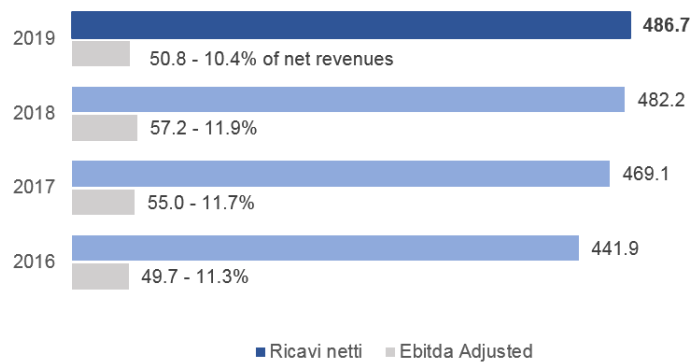
THE GROUP'S FINANCIAL HIGHLIGHTS

Sales by geographical area

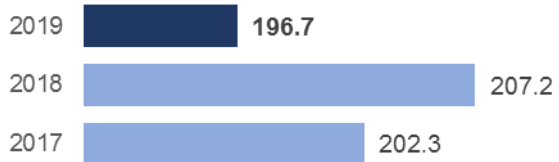


Sales and adjusted EBITDA (euro/millions)

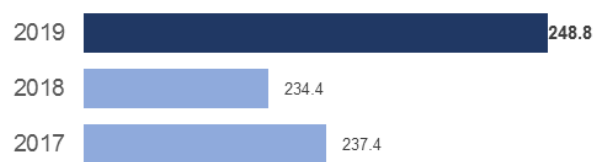
Adjusted EBITDA excluding non-recurring costs incurred for extraordinary transactions



Equity (euro/millions)



Net financial debt (euro/millions) *(before IFRS 16 adoption)*



MARCOLIN GROUP
REPORT ON OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

MARCOLIN GROUP REPORT ON OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019

Consistently with previous periods, the Annual Report for the year ended December 31, 2019 (which includes the consolidated financial statements of Marcolin Group, also referred to herein as simply the "Group" and the separate financial statements of Marcolin S.p.A., also referred to herein as the "Parent Company" or simply the "Company") was prepared in conformity with the valuation and measurement criteria established by the international accounting standards (IAS/IFRS) adopted by the European Commission with Regulation 1606/2002, Article 6, of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards, and with the measures enacting Legislative Decree n. 38/2005.

BUSINESS PERFORMANCE

The eyewear industry⁴

According to ANFAO, exports bounced back in 2019 after a sluggish previous year, despite uncertainty present in the global markets. The January-to-June 2019 data issued by ANFAO shows good performance for the international eyewear industry even with the continuation of the 2018 economic slowdown caused mainly by trade tensions with China and less lively trends in the United States and Germany.

In terms of geographical areas, the industry exports had positive results across all major markets, especially in the Americas, Europe and Asia, and had excellent recovery even in Africa. In the United States, which accounts for 27% of the market, Italian exports recovered and rose significantly. Results in the European area, Germany, Spain, France and Russia were good, whereas the United Kingdom suffered a decline. The performance of potentially interesting countries such as Poland, Sweden, Hungary and Croatia was encouraging. The Italian market reports a negative trend due to the adverse economic situation present there.

Emerging countries such as Mexico, the United Arab Emirates, Brazil, South Africa and Saudi Arabia had positive results but, although the potential is high, the markets shares are still not significant. China is another matter: apart from being a large catchment area, it now accounts for approximately 5% of Italian eyewear exports, and in the six-month period (January to June 2019), it showed growth over the prior period.

Introduction

Within the context described above, the sales of Marcolin Group rose by 0.9% (down by 1.5% at constant exchange rates), whereas the Parent Company's sales rose by 1.0% (down by 0.4% at constant exchange rates).

In 2019 the Group was engaged in developing the important investments made in new companies in 2017 with the LVMH Group and the Rivoli Group, and more recently with Moendi in 2018.

In addition, in 2019 the Group founded a new company in Singapore for the purpose of enhancing its growth in APAC.

The brand portfolio expanded thanks to important new licensing agreements that enabled to acquire the Max&Co, adidas, BMW, Sportmax and GCDS brands and to important license renewals stipulated during the year with Pucci, Harley-Davidson and Kenneth Cole.

Financial and corporate activities

On February 10, 2017 Marcolin S.p.A. issued on the international market non-convertible senior-secured bond notes for a total amount of euro 250 million, with a 6-year maximum term, maturing on February 15, 2023, at a variable interest rate equal to the three-month Euribor (with a zero-based floor) plus a 4.125% spread. This use of this instrument was an appropriate means to restructure the financial debt efficiently and to obtain access to, at a favorable cost, financial resources designed to cover working capital requirements. Within the scope of the bond issue, a euro 40 million super senior revolving credit facility was stipulated to provide access to funding for carrying out and developing short-term activities, of which euro 27 million had been used as at December 31,

⁴ Freely adapted from ANFAO – Associazione Nazionale Fabbrianti Articoli Ottici (Italian Association of Eyewear Article Manufacturers) – report on eyewear data for first six months of 2019.

2019. These new bond notes present similar features to the previous ones, subscribed in 2013 and extinguished prior to maturity pursuant to the new note issuance, but they have much better terms and conditions because of the market conditions present when the new notes were issued. The notes issued are backed by more restricted collateral from the Company, its controlling shareholder 3 Cime S.p.A., and some other Group companies than the guarantees given on the previous bond notes.

The notes are listed on the Italian stock market (ExtraMOT Pro3) and the Luxemburg stock market, and the offering was made available only to qualified investors in the United States within the meaning of Rule 144A of the U.S. Securities Act of 1933, and in Italy and in other countries outside the United States in accordance with Regulation S under the U.S. Securities Act, excluding any placement with the general public and those exempt from the EU and Italian regulations for public offerings as per Directive 2003/71/EC, and Italian Legislative Decree n. 58, Article 100 of February 24, 1998 and the related enactment regulations contained in Article 34-ter of the Issuer Regulations adopted by CONSOB with Resolution n. 11971 of May 14, 1999. The subscription of the notes was reserved solely for qualified investors due to the features of the instruments offered and the opportunity that placement with qualified investors on the market offers to complete the transaction successfully in a short time period.

Additional information is available on the Marcolin Group website in the document entitled "Offering Memorandum" prepared for the bond issue transaction.

In October 2017 the LVMH Group became an investor of Marcolin by way of a transaction within a broader plan for collaboration between the Marcolin Group and the LVMH Group that created Thélios S.p.A., a new eyewear company of which the Marcolin Group owns 49% and the LVMH Group owns 51%. The LVMH Group's shareholding was obtained, following approval secured from the antitrust authorities, through a capital increase for the issuance of 6,828,708 shares, with a different class of shares than those owned until then by the previously only shareholder, Marmolada S.p.A. (merged into its parent company 3 Cime S.p.A. with a deed dated November 27, 2017), representing 10% of share capital, with a contextual waiver by Marmolada S.p.A. of the pre-emption right under Civil Code Article 2441 and offered for subscription to Vicuna Holding S.p.A., a subsidiary of the LVMH Group. The capital increase had a total value of euro 21,900,000.00, including a share premium of euro 18,309,725.18. Some corporate changes took place within the scope of agreements with the new shareholder, including an increase in the maximum number of Marcolin S.p.A. Board of Director members to 13 members, the appointment as Director on October 18, 2017 of Massimo Renon, who had been with Marcolin Group since January 2017 as the General Manager of Marketing, Products, Licenses and Sales, and who then assumed the role of C.E.O. and General Manager, whereas Giovanni Zoppas took on the role of Executive Deputy Chairman. On the same date, Giovanni Zoppas also became C.E.O. of Thélios S.p.A. The purpose of the change was to contribute to the achievement of the two companies' best possible performance, and ensure the alignment of their interests.

Thélios S.p.A., a manufacturer, distributor and promoter of sunglasses and eyeglasses with some brands of the LVMH Group, has an important brand portfolio that included Celine, Kenzo, Loewe, Fred, Berluti, Rimowa and Fenty at December 31, 2019. Moreover, in 2019 the company stipulated with Dior an agreement for the creation, manufacturing and distribution of eyewear throughout the world. The first collection will be unveiled in January 2021. Over the next few years the company will step up eyewear production considerably, thanks in part to the construction of a second factory being completed in 2020.

Products and licenses

Within the scope of its brand portfolio consolidation and development, the following activities were carried out in 2019 concerning licensed brands:

- On January 23, 2019 Marcolin Group and Barton Perreira, an independent eyewear brand based on Los Angeles, announced the stipulation of an exclusive agreement for international distribution of Barton Perreira sunglasses and eyeglasses starting on February 1, 2019. Barton Perreira will continue to design and make eyewear and will manage sales in parts in Europe, the U.S.A., Canada and Japan. Marcolin Group will see to the distribution with selected retailers and eyewear stores in locations not already covered by Barton Perreira.
- On February 19, 2019 Marcolin Group and the Max Mara Fashion Group, one of the most important international fashion houses, renowned throughout the world as a forerunner of modern ready-to-wear apparel, announced the stipulation of an exclusive worldwide licensing agreement for the design, manufacturing and distribution of Sportmax brand women's and men's sunglasses and eyeglass frames. The agreement will remain in effect for 5 years, from January 1, 2019 until December 2023.

- On June 4, 2019, Marcolin Group announced the renewal of the licensing agreement for the design, manufacturing and worldwide distribution of sunglasses and eyeglass frames for Harley-Davidson Motor Company. The partnership regarding Harley-Davidson men's, women's and kids' eyewear was extended to December 31, 2021.
- On June 25, 2019, Marcolin Group and adidas, a global leading sportswear company, stipulated an eyewear licensing agreement. Under the partnership, in effect until 2024, the first products will be launched in 2020. Marcolin Group will handle the design, development, production, distribution and sales of the adidas Badge of Sport and Originals brand eyewear models.
- On September 17, 2019, Marcolin Group and Emilio Pucci, a Florentine fashion house traditionally synonymous with luxury, color, design and *joie de vivre*, announced the renewal of the exclusive worldwide licensing agreement for the design, manufacturing and distribution of Emilio Pucci brand sunglasses and eyeglass frames. The partnership was renewed for 5 more years, until December 31, 2024.
- On September 26, 2019, MAX&Co. one of the most important international ready-to-wear apparel brands, was added to Marcolin Group's brand portfolio. An exclusive worldwide licensing agreement for the design, manufacturing and distribution of MAX&Co. brand sunglasses and eyeglass frames was signed for the five-year period of 2020 to 2024.
- On October 8, 2019, in collaboration with Marcolin Group, Longines completed a collection of men's and women's eyeglasses and sunglasses. Developed meticulously following the strictest quality standards, this new line combines beauty with the brand's technical expertise to offer high-performance, elegant products that mirror the characteristics of the company's timepieces.
- On October 8, 2019, after launching its first collection of eyeglasses in 2016, OMEGA, the famous Swiss watchmaker, proudly presented its new line of men's and women's sunglasses and eyeglasses. Each detail of the collection was clearly inspired by the heritage of OMEGA's iconic luxury timepiece range. In terms of both the materials used in the frames and the features inspired by watch crowns and bezels, OMEGA enthusiasts will recognize the harmony between the eyewear and the watches they wear.
- On November 13, 2019, Marcolin Group and BMW Group, a leading manufacturer of premium automobiles and motorcycles, announced the stipulation of an exclusive international licensing agreement for the design, manufacturing and distribution of sunglasses and eyeglass frames for the BMW, BMW M and BMW M Motorsport brands. The agreement will remain in effect for five years, from January 1, 2020 until December 2024.
- On December 17, 2019, Marcolin Group, a top company in the global eyewear industry, and GCDS, a clothing and accessories brand founded by the Giordano brothers and Giuliano Calza, announced an exclusive worldwide partnership for the design, manufacturing and distribution of GCDS brand sunglasses and eyeglass frames for the five-year period from 2020 to 2024. The first eyewear collection created by Marcolin Group was shown off in the brand's fashion show last September 21.

Marcolin Group continued to rationalize and optimize its product collections in order to make them more attractive to its markets, with special attention to international (Asian-fitting) distribution, with stylish and exclusive designs while improving the capacity to produce new models and focusing on opportunities emerging from the availability of new, original materials.

Sales activities

Sales activities intended to strengthen relationships with the distribution network continued in 2019, with the objective of greater penetration into markets important for the Group's growth, through important projects aimed at ensuring an assortment of products better targeted to the market demands, with tangible benefits in terms of efficient management of sample collections and stock.

With respect to the American market, one of the Group's main outlets, the sales team is being reorganized especially for the optical segment, by strengthening the management and the sales agent network and resetting the marketing strategy in order to make the most of the opportunities of a market that is both significant and complex to manage.

In March 2019, Marcolin expanded its direct presence by opening a new affiliate in Singapore. The affiliate intends to step up the Group's growth in APAC and to enhance the marketing synergy with the regional office operating in Hong Kong, by acting as a sales hub for the entire network of wholesalers and handling the distribution of the brand portfolio in the area. The objective is to strengthen the sales and marketing activities and to offer dedicated customer service to best meet the demands of Singapore, Malaysia and Southeast Asia.

At the end of 2019 the Group started to set up an affiliate in Australia with the objectives of penetrating the Australian market both directly and through an agency network, and boosting the sales volumes and profits in that region. The affiliate is expected to start operating in the first half of 2020.

During 2019 the Group built up the management teams of its companies in the United Kingdom, France and Hong Kong. Moreover, in January 2019 Marcolin UK Ltd moved its headquarters to the heart of London, bringing clear advantages from a marketing point of view.

Logistics and organizational activities

Marcolin pursues efficiency vigorously in its logistics and organizational structures. In 2019 investments continued to be made in resources and systems in the production and sales planning area, strengthening the central organization under the Supply Chain Management in order to better handle integrated logistical flows. This has enabled better allocation of resources by way of more careful and more rational demand planning, exploiting upstream and downstream synergies.

Currently, the Group's logistical activities are centered at three large logistics hubs:

- the American hub, directed by Marcolin USA Eyewear Corp. (sole legal entity, which focuses on distribution to North American markets);
- the European hub, directed by Marcolin S.p.A. partly using its affiliates, which addresses the entire European rim, Middle East & Africa, and Central and South America;
- the Asian platform, directed by Marcolin UK Ltd – HK Branch partly using Marcolin Group affiliates, which addresses the Far East market, one that is distant and difficult to penetrate, so only structures operating there locally may serve it efficiently.

Marcolin considers the consolidation and development of its production capacity in Italy essential in order to benefit from:

- reduced dependence on external suppliers, which enables to shorten the manufacturing lead time, and thus to increase the ability to seize market opportunities (and improve the time to market);
- made in/made out realignment according to the eyewear industry standards (and those of the main competitors);
- expansion of the capacity to produce more Italian-made products, which are increasingly perceived as having added value by the Italian and international clientele;
- as an essential condition for managing the inflation risk in the Chinese sourcing market, production insourcing allows greater control of production factors, and not only in terms of cost-effectiveness.

INCOME STATEMENT HIGHLIGHTS

Where significant, the main changes of the year are reported herein by showing the impact of the extraordinary activities and thus of the non-recurring costs, also providing comparability, with a constant consolidation perimeter, of the 2019 data with that of the previous year, by presenting "normalized" income for both years. The past years have been affected by many new projects and activities of consolidation, development and global reorganization at all levels. The extraordinary activities carried out had an impact on the results of the various years, including 2019. This requires the results to be interpreted in the light of such extraordinary events.

The following table summarizes the Group's key performance indicators:

Year (euro/000.000)	Net revenues	YOY	EBITDA	% of net revenues	EBIT	% of net revenues	Net profit / (loss) for the year	% of net revenues	ROS	ROI	ROE
2017	469.1	6.2%	52.1	11.1%	34.0	7.3%	(14.5)	(3.1)%	7.3%	7.7%	(7.2)%
2018	482.2	2.8%	51.0	10.6%	28.9	6.0%	(0.8)	(0.2)%	6.0%	6.5%	(0.4)%
2019	486.7	0.9%	47.6	9.8%	19.5	4.0%	(14.8)	(3.0)%	4.0%	4.2%	(7.5)%

EBITDA: earnings before interest and taxation (EBIT), depreciation and amortization

ROS: Return on sales = EBIT/Net sales

ROI: Return on investment = EBIT /Cost of the investment

ROE: Return on equity = Net result/ Net Equity

The net revenues of 2019 were euro 486.7 million, compared with the euro 482.2 million of 2018.

EBITDA was euro 47.6 million, or 9.8% of sales (compared with the 2018 EBITDA of euro 51.0 million, corresponding to 10.6% of sales). For comparative purposes, EBITDA without the effects of IFRS 16 adoption is euro 42.3 million, corresponding to 8.7% of sales.

EBIT is euro 19.5 million, corresponding to 4.0% of sales (compared with the 2018 EBIT of euro 28.9 million, corresponding to 6.0% of sales). Excluding the effects of IFRS 16 adoption, EBIT is euro 19.4 million, equal to 4.0% of sales.

In 2019, the impact of non-recurring, extraordinary costs on EBITDA was euro 8.5 million, compared with the euro 6.3 million of 2018. In order to better understand the business performance, those effects -- consisting in 2019 mainly of non-recurring costs deriving from sales reorganization activities prevalently in Europe and America and the Board of Directors' succession plans -- should be eliminated.

Excluding the effects of such extraordinary transactions and of IFRS 16 adoption, the 2019 adjusted EBITDA is euro 50.8 million (10.4% of sales), against the 2018 amount of euro 57.2 million (11.9% of sales).

Excluding the same effects, the 2019 adjusted EBIT (operating income) is euro 28.2 million (5.8% of sales), against the 2018 amount of euro 36.1 million (7.5% of sales).

The adjusted key performance indicators, filtered of the effects of the non-recurring costs, are as follows.

Economic indicators - Adjusted (euro/000)	2019		2018	
	euro	% of net revenues	euro	% of net revenues
Ebitda adj	50,788	10.4%	57,225	11.9%
Operating income - Ebit adj	28,208	5.8%	36,143	7.5%

SALES REVENUES

The consolidated sales revenues for the year ended December 31, 2019 were euro 486.7 million, compared with euro 482.2 million for 2018. The euro 4.5 million increase corresponds to an increase of 0.9%. At constant exchange rates, the year-on-year difference is a decrease of 1.5% ⁵.

The Group continued to invest in brands and in its sales organization under a medium/long-term strategy, even in difficult markets, where it has decided to keep pace with demand in the short term instead of saturating customers with products, and to focus on credit quality.

The following table sets forth the sales revenues by geographical area.

Net Revenues by geographical area (euro/000)	2019		2018		Variazione	
	euro	% of total	euro	% of total	euro	% of total
Italy	35,033	7.2%	34,204	7.1%	829	2.4%
Rest of Europe	169,239	34.8%	161,171	33.4%	8,067	5.0%
Europe	204,271	42.0%	195,375	40.5%	8,896	4.6%
Americas	202,144	41.5%	197,466	40.9%	4,677	2.4%
Asia	34,783	7.1%	36,372	7.5%	(1,589)	(4.4)%
Rest of World	45,472	9.3%	53,006	11.0%	(7,533)	(14.2)%
Total	486,670	100.0%	482,219	100.0%	4,451	0.9%

Europe generated growth of euro 8.9 million (4.6%), having benefited from the positive effects of the sales reorganization carried out in previous years. Nearly all the European countries reported growth from the previous year, even in countries that had uneven trends in the prior year.

The sales performance was very positive for some geographic areas, such as Italy, which reported growth of 2.4%, Spain (+11.4%), Germany (+23.0%), the United Kingdom (+6.3%), Russia (+16.0%), the Nordic countries (+6.1%), and France (+6.2%).

Europe accounted for 42.0% of the Group's total net revenues in 2019.

Sales in America rose by 2.4% in 2019 (while they fell by 2.1% at constant exchange rates), having benefited from a favorable exchange rate. The sales channel of eyewear stores and department stores performed well, compensating for the slowdown of the Canadian market.

Sales in Asia, which account for 7.1% of Marcolin Group's total sales, show an annual decline of 4.4% attributable mainly to the performance in China and South Korea.

In the Rest-of-World segment, sales fell by 14.2%, or euro 7.5 million. That area is comprised mainly of the Mediterranean area, Africa and the Middle East. The annual decrease is attributable to the discontinuation of luxury brands Montbanc and Balenciaga in the Middle East.

⁵ The December 31, 2019 exchange rates and average exchange rates for 2019 are described in the Notes to the Consolidated Financial Statements under "Basis of consolidation".

OTHER INCOME STATEMENT COMPONENTS

The Consolidated Income Statement highlights are set forth below:

(euro/000)	2019		2018	
	euro	% of net revenues	euro	% of net revenues
Net revenues	486,670	100.0%	482,219	100.0%
Gross profit	279,206	57.4%	274,992	57.0%
Ebitda	47,562	9.8%	50,964	10.6%
Operating income - Ebit	19,527	4.0%	28,882	6.0%
Financial income and costs	(21,500)	(4.4)%	(24,073)	(5.0)%
(Loss)/Profit before taxes	(15,150)	(3.1)%	(4,202)	(0.9)%
Net (loss)/profit for the period	(14,826)	(3.0)%	(831)	(0.2)%

Economic indicators - Adjusted (euro/000)	2019		2018	
	euro	% of net revenues	euro	% of net revenues
Ebitda adj	50,788	10.4%	57,225	11.9%
Operating income - Ebit adj	28,208	5.8%	36,143	7.5%
Net (loss)/profit for the period adj	7,471	1.5%	14,432	3.0%

As shown by the key performance indicators, gross profit is 57.4% of sales, up slightly (in terms of percentage of sales) by 0.4% from the previous year (57.0% in 2018). The Group constantly pursues scrupulous management of manufacturing costs and sales policies aimed at enhancing the positioning of each brand in the respective market segments.

As noted in the previous sections, EBITDA and EBIT are affected by non-recurring events for both 2019 and 2018, so they have been adjusted in order to provide margins that disregard the effects of the discontinuous organizational and corporate rationalization activities.

Excluding the effects of the non-recurring costs and of IFRS 16 adoption, the 2019 adjusted EBITDA is euro 50.8 million (10.4% of sales), compared with the euro 57.2 million of 2018 (11.9% of sales). The 2019 adjusted EBIT is euro 28.2 million (5.8% of sales), against the 2018 amount of euro 36.1 million (7.5% of sales).

The net finance costs of euro 21.5 million for 2019 consist primarily of interest on the bond notes and on the reversal of the bond issue transaction costs (accounted for under IFRS with the method of amortized cost over the life of the bond notes), and finance costs on other short-term and medium/long-term borrowings.

With respect to the Group's currency exchange results, natural hedging occurs for the main foreign currencies in which the Group conducts business (primarily the U.S. dollar, British pound sterling and Hong Kong dollar) because of the similar amounts for transactions in the same currency, i.e. purchases from suppliers and sales to customers. The currency exchange losses of 2019, although less than those of the previous year, derive from the residual effects of other currencies having depreciated during the year.

The income taxes⁶ were a negative euro 0.4 million, compared with a negative euro 3.4 million for 2018. The Parent Company's current taxes amount to euro 1.1 million, consisting mainly of Marcolin S.p.A.'s IRAP (regional business tax) and IRES (corporate income tax). The foreign affiliates accounted for a net current tax expense of euro 1.2 million.

Marcolin S.p.A. recognized a tax benefit of euro 0.3 million for 2019 pursuant to the Patent Box regime (optional tax incentive regime for income deriving from the use of intangibles) under the agreement signed with the Italian Revenue Agency on July 31, 2018. The benefit was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

⁶ On March 31, 2017, Marcolin S.p.A. opted to renew its participation in the Italian tax consolidation regime for IRES purposes pursuant to Presidential Decree 917, Articles 117 *et seq.* of December 22, 1986 (Italian tax code or "TUIR" with the ultimate parent, 3 Cime S.p.A. for the three-year term of 2017-2019).

The net result for the year is a loss of euro 14.8 million, compared with a loss of euro 0.8 million for 2018. Such result was adversely affected by euro 13.2 million from the consolidation with the equity method of associate Thélíos S.p.A. and its subsidiaries, which generated operating losses in 2019 originating from their start-up phase.

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

The consolidated net financial position as at December 31, 2019 compared with the previous year is set forth below.

Net invested capital (euro/000)	12/31/2019	12/31/2018
Trade receivables	90,674	91,992
Inventories	122,777	126,061
Trade payables	(143,869)	(150,134)
Operating working capital	69,582	67,919
Other assets	27,396	31,162
Other liabilities	(42,542)	(47,500)
Net working capital	54,435	51,581
Non-current assets	43,478	42,385
Investments in subsidiaries and associates	451	1,377
Property, plant and equipment	48,547	29,941
Intangible assets	50,873	51,377
Goodwill	288,449	286,506
Fixed assets	431,797	411,587
Founds	(23,155)	(21,543)
Net invested capital	463,077	441,625
Current financial liabilities	60,735	40,214
Non-current financial liabilities	269,622	252,226
Gross financial indebtedness	330,357	292,439
Current financial assets and Cash and cash	(62,208)	(55,478)
Non-current financial assets	(1,813)	(2,513)
Net financial debt	266,336	234,449
Net equity	196,742	207,176

The net financial indebtedness at the reporting date is set forth below against the corresponding data of 2018:

Net financial debt	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Cash and cash equivalents	45,872	34,184
Current and non-current financial assets	18,149	23,807
Current financial liabilities	(58,409)	(37,197)
Current portion of non-current financial liabilities	(2,326)	(3,017)
Non-current financial liabilities	(269,622)	(252,226)
Total	(266,336)	(234,449)
IFRS16 effect	(17,566)	
Total net of IFRS16 effect	(248,770)	

The Group's net financial position is indebtedness of euro 266.3 million and includes the euro 17.6 million financial liability deriving from IFRS 16 application. Excluding such effect, the Group's net financial position at December 31, 2019 is indebtedness of euro 248.8 million, compared with the euro 234.4 million indebtedness of 2018, a year-on-year difference of euro 14.3 million. The main components of the Group's debt are the bond notes for a notional amount of euro 250 million, the super senior revolving credit facility of euro 40 million, of which euro 27 million had been used as at December 31, 2019, and short and medium-term loans granted by various banks. The current and non-current financial assets are composed prevalently of the loan granted to associate Thélios S.p.A. by Marcolin S.p.A. to provide it with sufficient funding for the start-up of its business.

The debt-to-equity ratio at December 31, 2019 is 1.33 (1.13 at December 31, 2018). Excluding the effect of IFRS 16 adoption, the December 31, 2019 debt-to-equity ratio is 1.24.

Marcolin Group's net financial indebtedness increased by euro 14.4 million, and it was affected by the following factors:

Net financial debt	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Adjusted EBITDA	50,788	57,225
Increase / decrease in net working capital	(5,363)	2,213
Other operative adjustments	394	(4,163)
Net cash from / (used in) operating activities	45,818	55,276
(Purchase) of property, plant and equipment	(9,666)	(8,645)
Proceed from the sale of property, plant and equipment	358	700
(purchase) of intangible assets	(10,923)	(10,480)
Net cash outflow on investments	(12,250)	(9,802)
Net cash from / (used in) investing activities	(32,481)	(28,227)
Net interest (paid) / cash in	(15,873)	(14,984)
Free Cash Flow	(2,536)	12,064
Non-recurring items not included on Free Cash Flow	(8,485)	(6,261)
Other financials items	(3,301)	(2,834)
Total change in net financial debt	(14,322)	2,968
Net financial debt as at December 31, 2018	(234,448)	(237,417)
Total change in net finance debt	(14,322)	2,968
Net financial debt as at December 31, 2019	(248,770)	(234,448)

The cash flow for the year was impacted by euro 8.5 million in non-recurring costs, as explained previously in the comments on EBITDA.

Additional outflows were incurred for capital expenditures totaling euro 20.6 million, referring largely to investments in new plant, machinery and equipment in the Parent Company's factories and logistical systems, and amounts referring to the renewal and upgrading of the Group's information systems.

The net financial position was also affected by capital increases totaling euro 12.3 million for Thélios S.p.A. (carried out through the waiver of financial receivables).

The composition of net working capital, in comparison with the previous year, is detailed in the following table.

Net working capital <i>(euro/000)</i>	12/31/2019	12/31/2018
Inventories	122,777	126,061
Trade receivables	90,674	91,992
Trade payables	(143,869)	(150,134)
Total	69,582	67,919

With reference to the main items that make up net working capital:

- net inventories fell by euro 3.5 thousand from the previous year;
- trade receivables remained in line with those of the previous year, demonstrating good "days sales outstanding" (DSO) management, a trend that has characterized the past few years;
- the trade payables at December 31, 2019 were affected by last-quarter purchases to support the substantial sales that typically take place in the first quarter of the year, and by year-end adjustments. The annual decrease is attributable primarily to a different composition of the trade payable balances.

The annual capital expenditures (excluding disposals) amounted to euro 22.4 million (euro 9.7 million for property, plant and equipment and euro 12.7 million for intangibles), compared with euro 19.1 million in 2018. The investments in tangible and intangible assets are described below:

Property, plant and equipment cash out <i>(euro/000)</i>	12/31/2019	12/31/2018
Land and buildings	660	1,010
Plant and machinery	3,703	2,134
Industrial equipment	1,112	1,690
Stand and commercial equipment	3,321	2,861
Hardware	474	611
Office furniture and furnishing	243	220
Other	152	119
Total	9,665	8,645

Intangible assets cash out <i>(euro/000)</i>	12/31/2019	12/31/2018
Software	2,960	2,539
Other	7,963	7,941
Total	10,922	10,480

The 2019 investments in tangibles regarded mainly new plant, machinery and equipment for the Parent Company's manufacturing facilities and other trade equipment. The investments in intangibles refer mainly to software to improve and upgrade the information systems assisting the Group.

Among the non-current assets, in line with the previous year, goodwill was euro 288.4 million (euro 186.2 million referring to the Parent Company, arising on the downstream merger with Cristallo S.p.A., and the remainder arising on the acquisition of Viva International in 2013 and the acquisition of Marcolin Middle East in 2017). Since it is considered an asset with an infinite useful life, it is not amortized. The increase in goodwill is attributable exclusively to translation differences emerging on the appreciation of the U.S. dollar in 2019. Goodwill was tested for impairment; the related assumptions and results are described in the Marcolin Group's Notes to the Consolidated Financial Statements.

Additional information and comments on the financial statement results are reported in the Notes to the Consolidated Financial Statements.

MARCOLIN S.P.A.
REPORT ON OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

MARCOLIN S.p.A.

As described in the section dedicated to the Marcolin Group, the Report on Operations of Marcolin S.p.A. provides information that excludes the impact of the non-recurring transactions, in order to provide comparability of the 2019 data with that of the prior year on the basis of the same consolidation perimeter, by presenting "normalized" income.

INCOME STATEMENT HIGHLIGHTS

The following table sets forth Marcolin S.p.A.'s key performance indicators:

Year (euro/000.000)	Net Revenues	YOY	EBITDA	% of net revenues	EBIT	% of net revenues	Net (loss)/profit	% of net revenues
2017	259.0	11.1%	26.1	10.1%	14.9	5.7%	(10.8)	(4.2)%
2018	273.0	5.4%	27.3	10.0%	13.3	4.9%	24.4	8.9%
2019	275.8	1.0%	27.0	9.8%	14.2	5.1%	19.1	6.9%

In summary, the income statement presents:

- Sales revenues of euro 275.8 million (euro 273.0 million in 2018);
- EBITDA of euro 27.0 million, corresponding to 9.8% of sales (euro 27.3 million in 2018, 10.0% of sales);
- EBIT of euro 14.2 million, corresponding to 5.1% of sales (euro 13.3 million in 2018, 4.9% of sales);
- A net profit of euro 19.1 million (compared with a net profit of euro 24.4 million for 2018);
- Net financial indebtedness of euro 193.7 million (compared with indebtedness of euro 144.3 million as at December 31, 2018). For comparative purposes, excluding the effects of IFRS 16 adoption the net financial indebtedness was euro 190.9 million;
- Equity of euro 243.7 million, against euro 224.7 million at the end of 2018.

The Parent Company reports 2019 sales revenues up by 1.0% (an increase of euro 2.7 million), with satisfactory results across all geographical areas.

The year-on-year sales growth was generated mainly by sales to Group affiliates present in Europe and America, which offset the declines in Asia and in the Rest of the World.

As explained for the Group, in order to better understand the 2019 business performance of Marcolin S.p.A., certain non-recurring events that impacted the margins should be taken into account.

The normalized (adjusted) key performance indicators, filtered of the effects of the non-recurring costs and the effects of applying the new accounting standard, IFRS 16, are shown below in order to provide comparability for the amounts on a year-on-year basis:

Economic indicators - Adjusted (euro/000)	2019		2018	
	euro	% of net revenues	euro	% of net revenues
Ebitda adj	31,630	11.5%	31,697	11.6%
Operating income - Ebit adj	19,719	7.2%	18,636	6.8%
Net (loss)/profit for the period adj	23,339	8.5%	24,409	8.9%

More in detail, in 2019 the non-recurring costs regarded primarily the costs deriving from the sales network reorganization and costs referring to the Board of Directors' succession plans, for a total amount of euro 5.6 million (euro 4.4 million in 2018).

Excluding the effects of the non-recurring transactions, the 2019 adjusted EBITDA is euro 31.6 million, corresponding to 11.5% of sales (euro 31.7 million, 11.6% of sales in 2018), whereas the adjusted EBIT is euro 19.7 million, corresponding to 7.2% of sales (euro 18.7 million and 6.8% of sales in 2018).

SALES REVENUES

The 2019 sales revenues were euro 275.8 million, compared with the euro 273.0 million revenues of 2018, an increase of euro 2.8 million (1.0%) from the prior year.

At constant exchange rates, the year-on-year difference is a decrease of 0.4%.

The Parent Company's sales to third parties were euro 116.9 million in 2019, compared with euro 117.4 million in 2018, a decrease of euro 0.4 million or 0.4%.

The following table sets forth Marcolin S.p.A.'s sales revenues by geographical segment:

Net Revenues by geographical area (euro/000)	2019		2018		Change	
	euro	% of total	euro	% of total	euro	%
<i>Italy</i>	35,033	12.7%	34,184	12.5%	849	2.5%
<i>Rest of Europe</i>	114,879	41.7%	89,479	32.8%	25,400	28.4%
Europe	149,911	54.4%	123,662	45.3%	26,249	21.2%
Americas	64,460	23.4%	62,904	23.0%	1,556	2.5%
Asia	24,056	8.7%	29,589	10.8%	(5,532)	(18.7)%
Rest of World	37,359	13.5%	56,842	20.8%	(19,483)	(34.3)%
Total	275,787	100.0%	272,997	100.0%	2,790	1.0%

The Company continued to invest in brands and in its sales organization under a medium-term strategy, even in difficult markets, where it has decided to keep pace with demand in the short term instead of saturating customers with products, and to focus on credit quality.

The sales revenues obtained in 2019 by Marcolin S.p.A. reflect important sales growth in Europe, which outbalanced the slowdown in Asia and in the Rest of the World.

The main markets in Europe generated an increase of euro 26.2 million (21.2%). Some geographic areas performed particularly well: Italy had year-on-year growth of 2.4%, Germany 28.4%, Spain 12.4%, France 5.8% and the United Kingdom 7.2%. Russia also reported good results, with 10.7% growth. Europe accounted for 54.4% of the Company's total net revenues in 2019.

Sales in America rose by 2.5% due mainly to positive results in the U.S.A. and Brazil. The Latin America region reported a slight decline after considerable growth in 2018.

Sales in Asia fell by 18.7% due primarily to the performance in China and South Korea. Sales to Asia account for 8.7% of Marcolin S.p.A.'s total sales.

The contraction in the Rest-of-World region is attributable largely to the discontinuation of luxury brands Montbanc and Balenciaga in the Middle East.

The Company's Income Statement highlights are reported hereunder.

EBITDA is euro 27.0 million (9.8% of sales), compared with the 2018 amount of euro 27.3 million (10.0% of sales); EBIT is euro 14.2 million, 5.1% of sales, compared with the euro 13.3 million for 2018 (4.9% of sales).

The adjusted EBITDA is euro 31.6 million, compared with the euro 31.7 million of 2018, and corresponds to 11.5% of sales (11.6% in 2018).

Adjusted EBIT is euro 19.7 million (7.2% of sales), compared with the euro 18.6 million of 2018 (6.8% of sales).

Income statement (euro/000)	2019		2018	
	euro	% of net revenues	euro	% of net revenues
Net revenues	275,787	100.0%	272,997	100.0%
Gross profit	120,851	43.8%	114,923	42.1%
Ebitda	27,021	9.8%	27,339	10.0%
Operating income - Ebit	14,160	5.1%	13,277	4.9%
Financial income and costs	(3,814)	(1.4)%	(515)	(0.2)%
(Loss)/Profit before taxes	23,133	8.4%	26,868	9.8%
Income tax expense	(4,049)	(1.5)%	(2,472)	(0.9)%
Net (loss)/profit for the period	19,085	6.9%	24,396	8.9%

According to the key performance indicators, the gross margin is 43.8% of sales, an improvement of 5.2% from 2018 (42.1%). The higher gross profit is attributable mainly to positive volumes and a good brand mix. It increased by euro 5.9 million.

Operating income is a positive euro 14.2 million (5.1% of sales), compared with the euro 13.3 million of 2018 (4.9% of sales).

The balance of financial costs and income is a net cost of euro 3.8 million for 2019. The costs include interest on the bond notes, reversal of the bond issuance transaction costs (accounted for under IFRS with the financial method of amortized cost over the life of the bond notes), and interest on other short-term and medium/long-term loans, including intercompany loans, totaling euro 14.7 million (down by euro 0.7 million from the previous year). The interest income is euro 9.3 million (down by euro 0.8 million from the previous year) and was accrued largely on intercompany financial assets.

Foreign currency exchange resulted in income of euro 1.7 million, deriving mainly from the translation of a USD 65 million loan granted to Marcolin USA Eyewear Corp., affected by the 2019 appreciation of the U.S. dollar against the euro. At the end of October 2019, the Company approved a partial waiver of the repayment of such loan for a principal amount of USD 60 million, in order to rebalance the American subsidiary's financial structure. The amount of the loan waived was recognized in Marcolin USA Eyewear Corp.'s equity as a capital reserve constituting an item of equity. The conditions, terms and clauses governed by the loan agreement and subsequent amendments are still in effect for the remainder of the loan excluded from the waiver.

The income tax expense⁷ is euro 4.0 million, compared with euro 2.5 million for 2018.

The current taxes amount to euro 1.1 million (compared with euro 1.2 million in 2018), and consist mainly of Marcolin S.p.A.'s IRAP (regional business tax) and IRES (corporate income tax).

Marcolin S.p.A. recognized a tax benefit of euro 0.3 million for 2019 pursuant to the Patent Box regime (optional tax incentive regime for income deriving from the use of intangibles) under the agreement signed with the Italian Revenue Agency on July 31, 2018. The benefit was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

The net result for the year is a profit of euro 19.1 million (6.9% of sales), compared with a net profit of euro 24.4 million for 2018.

⁷ On March 31, 2017 Marcolin S.p.A. opted to renew its participation in the Italian tax consolidation regime for IRES purposes pursuant to Presidential Decree 917, Articles 117 *et seq.* of December 22, 1986 (Italian tax code or "TUIR" with the ultimate parent, 3 Cime S.p.A. for the three-year term of 2017-2019).

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

The Parent Company's financial position as at December 31, 2019 is presented below in comparison with the corresponding results of the previous year:

Net invested capital (euro/000)	12/31/2019	12/31/2018
Trade receivables	87,835	92,137
Inventories	74,101	73,052
Trade payables	(116,998)	(124,504)
Operating working capital	44,938	40,685
Other assets	14,208	18,320
Other liabilities	(22,099)	(23,860)
Net working capital	37,047	35,145
Non-current assets	7,704	12,236
Investments in subsidiaries and associates and other financial assets	161,364	94,969
Property, plant and equipment	27,590	23,302
Intangible assets	27,382	27,105
Goodwill	186,227	186,227
Fixed assets	410,266	343,839
Founds	(9,940)	(9,961)
Net invested capital	437,374	369,023
Current financial liabilities	56,675	58,935
Non-current financial liabilities	255,271	248,152
Gross financial indebtedness	311,946	307,087
Current financial assets and Cash and cash equivalents	(58,883)	(51,343)
Non-current financial assets	(59,385)	(111,395)
Net financial debt	193,678	144,349
Net equity	243,695	224,674

The net financial indebtedness at December 31, 2019 is set forth below against the corresponding data of 2018:

Net financial debt (euro/000)	12/31/2019	12/31/2018
Cash and cash equivalents	21,574	9,246
Current and non-current financial assets	96,694	153,492
Current financial liabilities	(54,349)	(55,918)
Current portion of non-current financial liabilities	(2,326)	(3,017)
Non-current financial liabilities	(255,271)	(248,152)
Total net financial debt	(193,678)	(144,349)
IFRS16 effect	(2,743)	
Total net financial debt net of IFRS16 effect	(190,935)	(144,349)

The Company's net financial position is indebtedness of euro 193.7 million, compared with the euro 144.3 million indebtedness of 2018, a year-on-year increase of euro 49.3 million.

The main components of the debt are the bond notes for a notional amount of euro 250 million, the super senior revolving credit facility of euro 40 million, of which euro 27 million had been used as at December 31, 2019, and short and medium-term loans granted by various banks. The current and non-current financial assets are composed prevalently of loans granted to Group companies, including the USD 65 million balance on the loan

granted in 2013 to subsidiary Marcolin USA Eyewear Corp., excluding the principal amount of USD 60 million waived in October 2019, as specified above. They also include a loan granted in 2017 to associate Thélios S.p.A. to provide it with sufficient funding for the start-up of its business. That loan receivable was euro 15.6 million at December 31, 2019.

More information on the cash generated by operating activities is reported Notes to the Financial Statements.

The debt-to-equity ratio at December 31, 2019 is 0.78 (compared with 0.64 at December 31, 2018).

Year (euro/000.000)	Net financia debt	Net equity	Leverage (*)
2017	(150.8)	200.9	(0.75)
2018	(144.3)	224.7	(0.64)
2019	(190.9)	243.7	(0.78)

(*) The Leverage is the debt to equity ratio

The composition of net working capital, in comparison with the previous year, is set forth in the following table:

Net working capital (euro/000)	12/31/2019	12/31/2018
Inventories	74,101	73,052
Trade receivables	87,835	92,137
Trade payables	(116,998)	(124,504)
Total Net working capital	44,938	40,685

With reference to the main items that make up net working capital:

- the value of inventories rose by euro 1.0 million compared with the previous year, in line with the increase in the turnover of the Parent Company, which was engaged in sales to its customers and logistically supporting the other Group companies in EMEA countries;
- trade receivables fell by euro 4.3 million from those of the previous year, as they were largely affected by the timing of sales to Group affiliates. With respect to receivables due from third-party customers, in recent years management has been taking measures to improve the "days sales outstanding" (DSO), which were continued in 2019;
- trade payables at the end of 2019 were affected by amounts due to Group companies and licensors at the end of the year that will be paid in the next year.

The working capital-to-sales ratio is 0.16 (0.15 for 2018).

Among the non-current assets, in line with the previous year, the Parent Company recognized goodwill of euro 186.2 million accounted for since 2014 (arising on the downstream merger with Cristallo S.p.A.) as an asset with an indefinite useful life, and thus not amortized.

The goodwill was tested for impairment. The related assumptions and results are described in the Notes to the Separate Financial Statements of Marcolin S.p.A..

The other non-current receivables include deferred tax assets of euro 7.7 million, whose decrease from the previous year is explained in the explanatory notes.

Investments in subsidiaries and associates and other financial assets, euro 161.4 million, increased primarily as a result of new investments of euro 12.3 million in Thélios S.p.A. and the aforementioned USD 60 million waiver of the financial receivable due from subsidiary Marcolin USA Eyewear Corp. Moreover, euro 0.1 million refers to the share capital subscribed in the new affiliate, Marcolin Singapore Pte Ltd.

The annual capital expenditures for tangibles regarded mainly the purchase of plant and equipment for the Longarone (Belluno) factories.

Investments in intangibles were made prevalently to adjust and rationalize the existing business software.

INVESTMENTS IN SUBSIDIARIES

The results of the companies affiliated with the Group are summarized hereunder.

Marcolin France Sas

Marcolin France Sas (Paris) is wholly owned by Marcolin S.p.A. The company distributes Marcolin products in France, and in 2019 it produced sales revenues of euro 37.4 million (euro 35.2 million in 2018). It broke even in 2019 (same as in 2018).

Marcolin Iberica S.A.

Marcolin Iberica S.A., located a Barcelona, is wholly owned by Marcolin S.p.A. A distributor of Marcolin products in Spain and Andorra, in 2019 it produced sales revenues of euro 18.6 million (euro 16.7 million in 2018). The company reported a net profit of euro 0.5 million for 2019 (net profit of euro 0.4 million for 2018).

Marcolin Portugal-Artigos de Optica Lda

Marcolin Portugal-Artigos de Optica Lda is based in Lisbon and is wholly owned by Marcolin S.p.A. In 2019 it produced sales revenues of euro 3.2 million (euro 3.1 million in 2018). It broke even in 2019 (net profit of euro 0.1 million in 2018).

Marcolin Deutschland GmbH

Marcolin Deutschland GmbH (wholly owned by Marcolin S.p.A.), based in Cologne, distributor for the German market, produced sales revenues of euro 14.5 million in 2019 (euro 11.8 million in 2018). The company made a profit of euro 0.4 million in 2019 (it broke even in 2018).

Marcolin Schweiz GmbH

Marcolin Schweiz GmbH (wholly owned by Marcolin S.p.A.), based in Muttenz, produced sales revenues of euro 1.7 million (euro 1.6 million in the prior year). It broke even in 2018 (net loss of euro 0.1 million in 2018).

Marcolin Benelux Sprl

Marcolin Benelux Sprl (Villers-Le-Bouillet), wholly owned by Marcolin S.p.A., produced sales revenues of euro 8.4 million in 2019 (euro 8.0 million in 2018) in Belgium, Luxembourg and the Netherlands. It reports a net profit of euro 0.1 million for 2019 (the same as for 2018).

Marcolin (UK) Ltd

Marcolin U.K. Ltd, based in London, wholly owned by Marcolin S.p.A., produced sales revenues of euro 12.2 million in 2019 (euro 11.5 million in 2018) in the United Kingdom and Ireland. The company reported a net profit of euro 0.3 million for 2019 (net profit of euro 0.4 million for 2018). The profits refer exclusively to the English legal entity, excluding the Hong Kong branch, which is described subsequently in the respective paragraph. In January 2019 the company started the process of moving its headquarters to London in order to benefit from greater visibility for marketing and strategic purposes.

Viva Eyewear UK Ltd

The company is no longer operational and was put into liquidation in December 2019. It is wholly owned by Marcolin USA Eyewear Corp.

Marcolin USA Eyewear Corp.

Marcolin USA Eyewear Corp., wholly owned by Marcolin S.p.A. and based in Somerville (New Jersey), is the Group's most important sales affiliate. The sales are conducted largely in the United States and Canada. It

produced revenues of USD 197.1 million (euro 176.1 million) in 2019, compared with USD 208.3 million (euro 176.4 million) in 2018, a decrease of 5.3% from the previous year.

It reports a net loss of euro 10.8 million for 2019 (net loss of euro 2.9 million for 2018).

Marcolin Do Brasil Ltda

Marcolin Do Brasil Ltda, based in Barueri, wholly owned by Marcolin S.p.A., produced sales revenues of euro 17.1 million (euro 13.8 million in 2018) in the Brazilian market.

It reports a net loss of euro 0.6 million for 2019 (net loss of euro 1.4 million for 2018).

Marcolin Asia HK Ltd

Marcolin Asia HK Ltd (wholly owned by Marcolin S.p.A.), based in Hong Kong, provides sourcing services in Asia exclusively to the Group's affiliates. It reports a net profit of euro 0.1 million for 2019, in line with the previous year.

Marcolin Technical Services Co. Ltd

This company, wholly owned directly by Marcolin S.p.A. and based in Shenzhen, Guangdong Province, China, monitors the production of Chinese-manufactured products, performs quality control and checks production work in progress for the Group's companies (Marcolin S.p.A., Marcolin USA Eyewear Corp. and Marcolin UK Hong Kong branch). It broke even in 2019 and in 2018.

Marcolin UK Ltd Hong Kong Branch

In 2019 Marcolin UK Ltd Hong Kong Branch (branch of Marcolin UK Ltd) produced sales of euro 38.6 million (euro 42.8 million in 2018), and a net profit of euro 3.8 million (net profit of euro 5.6 million in 2018). The company represents the Group's main sales company in the Far East.

Viva Eyewear HK Ltd

This company, wholly owned by Viva Eyewear UK Ltd, is not operational. It was the Viva Group's main Asian affiliate before that group was acquired by Marcolin. It broke even in 2019 and in 2018.

Eyestyle Trading (Shanghai) Co. Ltd

Eyestyle Trading (Shanghai) Co. Ltd (wholly owned by Marcolin S.p.A.) assists the importing and distribution of products with certain brands to the respective boutiques in China. It produced sales of euro 0.3 million in 2019 (euro 0.4 million in 2018) and a net profit of euro 0.1 million, in line with that of the prior year.

Marcolin-RUS LLC

The subsidiary, set up in partnership with a local shareholder, Sover-M, an established, prestigious company operating in the eyewear business in Russia, is part of Marcolin Group's strategy to develop business in new markets. The company is the distributor of all Marcolin products in Russia. Marcolin S.p.A. owns 51% of Marcolin-RUS LLC.

The company produced sales revenues of euro 8.8 million in 2019 (euro 7.6 million in 2018) and a net profit of euro 0.4 million (euro 0.3 million in 2018).

Marcolin Nordic AB

Marcolin Nordic AB (Stockholm), wholly owned by Marcolin S.p.A., produced sales revenues of euro 9 million in 2019 (euro 8.6 million in 2018) in the Nordic countries (Denmark, Finland, Norway, Iceland and Sweden). During 2015 its structure was provided with branches to operate in the main countries of interest in the region. The company showed a net profit of euro 0.6 million for 2019 (net profit of euro 0.8 million for 2018).

Ging Hong Lin International Co. Ltd and Shanghai Jinlin Optical Co. Ltd

In order to improve the management of direct distribution in mainland China, in the second half of 2014 a company was set up with the Gin Hong Yu International Co. Ltd group, a well-known and respected business operating in the Chinese eyewear market.

The operations are managed by Shanghai Jinlin Optical Co. Ltd, a company based in Shanghai and wholly owned by Gin Hong Lin International Co. Ltd.

The Hong Kong company is 50%-owned directly by Marcolin S.p.A..

In 2019 the company produced total sales revenues of euro 6.8 million (euro 7.8 million in 2018) and a net profit of euro 0.2 million (it broke even in 2018).

Viva Deutschland GmbH and its subsidiaries

The company, set up in partnership with the Menrad Group, is 50%-owned by Marcolin Group through Viva UK Eyewear Ltd. The company operated together with its two subsidiaries, Viva Schweiz AG and Viva Eyewear Brillenvertriebs GmbH, under a product distribution agreement for the Guess and Gant brands, which expired on December 31, 2017. Upon expiration of the distribution agreement, the shareholders jointly decided to wind up all three companies. Viva Eyewear Brillenvertriebs GmbH completed the liquidation process on July 4, 2018, Viva Schweiz AG on November 26, 2019, and the parent company is still undergoing liquidation. The companies were not operational in 2019 (or in 2018).

Marcolin Middle East FZCO

Marcolin Middle East FZCO was set up in partnership with the Rivoli Group (one of the largest retailers in the Middle East) in May 2017. The company, based in Dubai in the United Arab Emirates, is 51%-owned by Marcolin S.p.A., and distributes eyewear collections with Marcolin's portfolio brands. The company produced sales of euro 15.3 million in 2019 (euro 18.9 million in 2018) and a net profit of euro 1.8 million (euro 2.7 million in 2018).

Marcolin Mexico SAPI de CV

The company, based in Naucalpan (Mexico), was founded in April 2018 in partnership with a local business, Moendi. It is 51%-owned by Marcolin S.p.A. and its objective is to distribute luxury and lifestyle-brand sunglasses and eyeglasses in Mexico. In 2019 the company produced sales of euro 6.4 million (euro 3.3 million in 2018) and a net profit of euro 0.4 million (net loss of euro 0.3 million in 2018).

Marcolin Singapore Pte Ltd

The company, based in Singapore, was founded in March 2019. It is wholly owned by Marcolin S.p.A. and its mission is to distribute products in Singapore and Malaysia. In 2019 the company produced sales of euro 0.3 million and a net loss of euro 0.6 million attributable to the company's start-up phase.

INVESTMENTS IN ASSOCIATES

Thélios S.p.A. and its subsidiaries

The company, established in 2017 from the Marcolin Group and LVMH Group partnership, currently has the following brands: Celine, Kenzo, Loewe, Fred. Berluti, Rimowa and Fenty. Moreover, in 2019 the company stipulated with Dior an agreement for the creation, manufacturing and distribution of eyewear throughout the world. The first collection will be unveiled in January 2021. Adding to the affiliates already operating in the U.S.A., France and Hong Kong, during 2020 the company will continue to open sales affiliates, mainly in Europe.

MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP AND THE COMPANY ARE EXPOSED

Economic risks and competitive risks associated with the sectors in which the Group and the Company operate

The financial position and performance of Marcolin Group and Marcolin S.p.A. are influenced by macroeconomic factors of the various countries in which they operate. Economic recession has been present on an international level for the past few years, which has caused some major markets to contract, in some cases to record minimums. Recently, some economies have shown signs of significant improvement and have resumed growth; others are still in recession and continue to experience slow growth or even stagnation.

In this critical moment it is difficult to predict the size and duration of economic cycles and make forecasts of future demand in the various countries; it is certain that, at least in the near future, the economies of certain countries will continue to have slow growth.

Significant declines in consumer spending showing up across markets and product lines could impact the Group's and the Company's financial position and performance, although the diversification of our markets and the Marcolin product/brand portfolio strongly limits such risk considerably compared with companies that are more concentrated in certain markets or segments.

The balance achieved since 2014 by Marcolin with the Viva acquisition and in recent years with additional investments in Middle Eastern countries, Mexico, China, Singapore and Australia, and the plan to partner with the LVMH Group through Thélios S.p.A., not only expanded the possibilities to grow in markets having higher growth than Europe (particularly Viva's American markets, where much of production was offered), it also accelerated the distribution channel diversification (balance between eyeglass frames and sunglasses, luxury and diffusion, men's and women's), thereby reducing the risk of potential contractions of sales volumes due to economic recession.

Other uncertain factors could create negative consequences for the Group's and the Company's performance, such as rising energy prices and/or fluctuating raw material prices, but in such circumstances the effects could be transferred to selling prices, eliminating or at least limiting the impact on performance and thus on self-financing capability.

If sales volumes and/or selling prices were to fall significantly, the Group and the Company are able to implement actions in the short term to contain their cost structures in order to minimize any adverse effects on financial position and performance.

The tough economies/financial situations of some markets may lead to greater risks regarding the collection of trade receivables, at least in the most troubled situations.

For this purpose, within the scope of its policy to manage risks regarding customer accounts, the Company has an internal credit management department headed by a designated manager, which takes every action to manage credit risk at the time of customer evaluation and at delivery, sending payment notices for delinquent accounts and monitoring new accounts, risky accounts, and sales credit and payment extensions granted, in collaboration of the sales functions.

Cash flow risk

At the end of 2013 the first bond issue, redeemed subsequently though a new bond issue at the beginning of 2017, completely changed Marcolin's previous funding activities, which had been through the ordinary financial market, i.e. short-term and medium/long-term loans with major banks, often with bilateral agreements.

The bond issues provided the Group and the Company with conditions of relative stability, at least until the notes of the latest issue mature at the end of 2023.

The 2017 transaction involved a super senior revolving credit facility to be used to manage the timing mismatch between receipts and payments, or cash requirements for normal operating activities such as those involving ordinary investments.

The credit facility, a total of euro 40 million (including euro 27 million undrawn as of December 31, 2019), is considered adequate to support the Group's and the Company's ordinary funding requirements.

On December 31, 2019 additional undrawn credit facilities totaling some euro 10.3 million were present at major banks, consisting of revolving credit available for short-term cash flow requirements.

Moreover, the Parent Company had access to new bank loans and alternative funding sources, such as leasing, factoring and reverse factoring, to support investments in new projects and manage working capital.

Although significant, sudden reductions of sales volumes could have negative effects on the ability to generate cash flow from its operating activities, in the current circumstances the Group and the Company expect to maintain an adequate capacity to generate cash flows through operating activities.

Marcolin Group plans to meet its cash requirements for repayment of its financial debts due and for the approved budget by using cash flows from operating activities (annual self-financing), cash and bank balances, use of the

aforementioned revolving credit facility, use of credit lines currently available, and funding through leasing, factoring and reverse factoring.

Currency and interest rate risks

Marcolin Group and Marcolin S.p.A. operate in various markets throughout the world and thus are exposed to market risks connected with fluctuations of foreign exchange rates and interest rates.

Exposure to currency risk arises from the different geographic locations of its manufacturing and commercial activities. The Group and the Company are primarily exposed to fluctuations of the U.S. dollar on supplies received from Asia and on sales conducted in U.S. dollars, and to a lesser extent to fluctuations of the Brazilian real, British pound sterling, Hong Kong dollar, Russian ruble and Canadian dollar.

Currency risk consists of the risk on transactions in currencies other than the euro (transaction risk) and the risk on the translation of financial statements prepared in currencies other than the euro (translation risk).

Transaction risk is generated by sales and costs incurred in currencies other than the euro, mainly the U.S. dollar for sales and sourcing of goods from Asian suppliers. Although fluctuations of foreign exchange rates could affect the Group's profit or loss, we believe that the structure of revenues and expenses in foreign currency enable to maintain a natural hedge against the transactional risk, due to the fact that the amount of sales in foreign currency substantially corresponds to the amount of purchases in foreign currency.

In the past, the Group used currency hedges (foreign exchange forward contracts), which were no longer stipulated as of 2016 due to the natural hedge from which the Group benefits as a result of the current structure of revenues and expenses in foreign currency.

Translation risk arises because some consolidated revenues and expenses originate from Group companies whose functional currency differs from the euro. In the preparation of the consolidated financial statements, assets and liabilities are translated at the exchange rates in force at the reporting date, and revenues and expenses at the average exchange rates for the reporting period. This results in changes in the foreign currency translation reserve, a component of the consolidated equity. The main companies of the Group whose functional currency differs from the euro are Marcolin USA Eyewear Corp., Marcolin UK Ltd (including the Hong King branch) and Marcolin do Brasil Ltda.

With respect to interest rate risk, Marcolin Group uses types of financing mainly with variable interest rates; the notes subscribed in 2017 have a variable interest rate calculated on the three-month Euribor (with a zero-based floor) plus a 4.125% spread. To mitigate the risk of an excessive increase in the three-month Euribor, in 2017 the Company stipulated a swaption, which gave the option until November 2018 of entering into an interest rate swap that would enable to reduce the risk deriving from fluctuations of the Euribor. Due to the performance of the Euribor, it was not necessary to exercise such option. Given the expected rate fluctuation, the Company did not consider it necessary to stipulate other similar contracts.

Additional information concerning the risks and hedging instruments used by the Group is provided in the explanatory notes.

Licensing risks

The markets in which the Group and the Parent Company operate are highly competitive in terms of product quality, innovation and business conditions.

Marcolin's success is partially due to its capacity to introduce products with innovative and new designs, its continuous search for new materials and new productive processes, and its ability to adapt to consumers' changing tastes, anticipating fashion shifts and reacting to such shifts in a timely manner.

The Company has signed long-term licensing agreements that enable it to produce and distribute eyeglass frames and sunglasses under trademarks owned by third parties. If in the long-term the Group and the Company were unable to maintain or renew their licensing agreements at market conditions, or if they were unable to stipulate new licensing agreements for other successful labels, the growth prospects and operating results of Marcolin Group and Marcolin S.p.A. could be negatively impacted.

For this reason the Group and the Company work constantly toward renewing existing licenses and procuring new licenses in order to maintain their long-term prospects.

In 2019 these activities produced positive results, as described in the Group Report on Operations. Many initiatives were carried out successfully in terms of extending license durations and acquiring new, prestigious licenses.

Moreover, all licensing agreements require payment of annual minimum guaranteed royalties (the “guaranteed minimum”) to the licensor, even if the sales should fall below certain thresholds, with possible negative effects on the Group’s financial position and performance.

The Group and the Company monitor these situations closely in order to safeguard the business performance when overheads are not adequately absorbed by sales revenues.

In 2019, some initiatives to revise the minimum guaranteed royalties due over the term of the licensing agreement were successfully implemented.

Supplier risks

The Group and the Company use contract manufacturers and third-party suppliers to manufacture and/or process some of their products.

The use of contract manufacturers and third-party suppliers involves additional risks, such as cancellation and/or termination of contracts, poor quality in the supplies and services provided and delivery delays.

Delays or defects of products supplied by third parties, or the cancellation or termination of supplier contracts without having adequate alternative sourcing available, could have a negative impact on the Group’s business operations, financial position and performance.

Contract manufacturers and third-party suppliers, located mainly in Italy and Asia, are submitted to continuous controls by the responsible functions to verify compliance with quality and service standards, including those relating to delivery timing and methods, and fair prices with respect to the target margins.

The Group and the Company manage this risk by constantly monitoring the sourcing markets, also in order to identify alternative manufacturers and suppliers in case of temporary or structural difficulties with the current suppliers.

With respect to procurement, the Group monitors directly with certain subsidiaries the performance of the Asian suppliers, from a quantitative and qualitative point of view (quality, reliability and service), in light of the particular social and economic dynamics characterizing that sourcing market.

Another factor that mitigates supplier risk is the new factory in Longarone (in the Fortogna district), inaugurated in 2015, which has enabled to double the production of Italian manufactured goods, thereby reducing the dependence on external supplies.

Reasons for which the consolidation and development of its production capacity in Italy are important to Marcolin include reduced dependence on external suppliers (both Italian and Asian), which enable to shorten the manufacturing lead time and thus increase the ability to seize market opportunities (and improve the time to market), and the possibility to manage the inflation risk regarding the Chinese sourcing market, as production insourcing will result in greater control of production factors.

It is worth noting that the Group does not depend significantly on a limited number of suppliers, and is not exposed significantly to price risk for the raw materials needed in the various phases of the eyewear production.

Risks associated with the United Kingdom’s decision to leave the European Union

As a result of the United Kingdom’s decision to leave the European Union (EU), i.e. “Brexit”, both parties are negotiating an exit deal and the framework for future relationships between the United Kingdom and the EU. Many uncertainties remain over the outcome of the negotiations between the United Kingdom and the EU, and the exit conditions that will result from them.

On February 1, 2020 the one-year transition period commenced, during which the future relationships between the European Union and the United Kingdom will be determined. Although the status quo will be maintained during the transition period (until December 31, 2020), on January 1, 2021 dealings between the EU and the UK will change definitively and the actors will have to operate in a different manner. The Group is currently evaluating the potential business risks involving the United Kingdom and how to manage them.

OTHER INFORMATION

Human resources

Marcolin considers the value of human resources to be a critical success factor.

Personnel training, promotion and enhancement constitute an investment in the Group's and the Company's business growth and development.

In 2019 the corporate Flexible Benefit project for employees was continued in collaboration with Willis. Employees may customize their own benefits package by deciding individually how to invest their quota.

The Unisalute health insurance policy was renewed.

In continuation of the "Smart Work, Smart Life" project, the following measures regarding the work-life balance were proposed in 2019:

- Matilda Service: the service provided to all employees by the Longarone and Fortogna Receptionists, to whom errands and various types of practical matters are entrusted, was continued.
- From June to September 2019, three meetings on the topic of "Health and Wellness" were organized for all workers, in collaboration with "Le Valli" physiotherapy center.
- Car pooling: in 2019 the carpooling project was launched. Using the Jojob smartphone application, employees can certify their carpooling trips between home and work, and accumulate points to win rewards. On a monthly basis, the six teams that do the most carpooling and use the app are assigned parking places. In December 2019 and January 2020 the Season Carpool Race, a seasonal incentive plan that provides for awarding gas, Amazon and Decathlon coupons for the top five winners, was launched.

In 2019 the Learning & Development (L&D) division continued to implement SuccessFactors, the new software for the global management of human resources, consolidating the process both in Italy and at the affiliates.

Moreover, in January 2019 a training platform, the Learning Management System (LMS), was launched for all workers in the area. The platform contains constantly updated Onboarding material, policies, Compliance courses (General Safety Training, Privacy Updates, Form 231), language courses and some Smart Work, Smart Life projects (such as Digital Parents, Carpooling, Wellness Path).

The Infoscreens, installed during 2018 and put online to structure a more effective communication flow, are updated constantly with company announcements.

Lastly, in the second half of 2019 the L&D area began to design three Infopoints/Totems: workstations equipped with a computer, printer and scanner available to all Marcolin workers to assist the digitalization process at the company.

On December 31, 2019, the Group had 1,878 employees (1,950 at the end of 2018), as shown below. The table presents the employees in service as at December 31, 2019, excluding independent agents who work exclusively for the Group and the Company.

Employees Category	Final number		Average number	
	12/31/2019	12/31/2018	2019	2018
Managers	74	118	96	102
Staff	1065	1,066	1,058	1,060
Manual workers	739	766	747	786
Total	1,878	1,950	1,902	1,948

On December 31, 2019, Marcolin S.p.A. had 904 employees (924 in 2018) in the following categories:

Employees Category	Final number		Average number	
	12/31/2019	12/31/2018	2019	2018
Managers	21	22	22	22
Staff	352	349	350	346
Manual workers	531	553	547	562
Total	904	924	919	930

The data includes the temporary workers employed to meet the demand peaks. The increase is attributable mainly to the staff increase at the manufacturing and distribution divisions in Longarone.

Italian and second-level collective bargaining agreements

The 2019 - 2021 Italian collective bargaining agreement is undergoing discussion at a national level. The supplementary agreement, which expired at the end of 2019, is also undergoing discussion. In the past few years the attention given to the work-life balance (special leaves of absence, part-time and reduced hours, flexible hours, leaves of absence for parents and other types), the introduction of health insurance for all employees and flexible benefits have certainly been appreciated. Attendance and performance parameters will be reviewed in the next supplementary agreement.

Employee wellness and assistance to families

In 2019 the wellness plan had a euro 450 budget for each employee, to be managed autonomously using a web portal to access the various services of the plan, such as services relating to education, sports, assistance to the elderly/children, store coupons and others.

Tax regulations call for stipulating an insurance policy for all employees in order to obtain medical expense refunds.

In 2019 it was possible to access the portal at any time without pre-set option windows.

Within the scope of the "Smart Work, Smart Life" project, begun in 2016, the following measures were proposed for a work-life balance in 2019:

- Matilda project: continuation and expansion of the service provided to all employees by a person to whom errands and various types of practical matters may be entrusted (such as:
 - Car services: servicing, tire replacement, light/headlight replacement and all services regarding car maintenance and bodywork. The service was activated under agreements with a repair shop and a body shop assigned to pick up and deliver personal cars of personnel;
 - Various phone bookings and searches for services/professionals located in the area;
 - Cash payments of bills, duties, mailing of packages, etc.;
 - Flower delivery at the company.
- Digital parents: in December 2019 and January 2020 an e-learning course was added to the Learning Management System in continuation with the parenting initiatives launched in 2018.
- Wellness Path: from June to September 2019, three meetings on the topic of "Health and Wellness" were organized for all workers. The subjects covered were:
 - hydration
 - lower back pain
 - mindfulness and daily wellness, with a practice activities.
- Smart Working: use of the software was extended to various business areas.

Research and development

The Company continued to conduct research and development activities in 2019.

Research and development activities are carried out by the Parent Company, Marcolin S.p.A., through two divisions.

The first division works in close partnership with licensors to come up with new collections, hone style and research new materials for sunglasses and eyeglass frames.

The second division, which works closely with the first, oversees the subsequent development of collections and manufacturing of products.

Related-party transactions

Related-party transactions, including intra-Group transactions, cannot be defined as either atypical or unusual, as they are part of the normal intercompany business activities.

Such transactions take place on an arm's length basis, taking into account the nature of the goods and services supplied.

Detailed information on related-party transactions is provided in the Notes to the Consolidated Financial Statements and in the Notes to the Separate Financial Statements of Marcolin S.p.A..

Treasury shares

On the reporting date, Marcolin S.p.A. did not own (and never owned in 2019) treasury shares or parent company shares, either directly or indirectly.

Personal data protection

Pursuant to the new European legislation, the General Data Protection Regulation ("GDPR") enacted on May 25, 2016 and effective from May 25, 2018, activities were implemented to evaluate the data protection systems of the Group companies subject to such legislation.

The activities found substantial compliance with the legislative requirements for the protection of the personal data processed by such companies, including the preparation of the Security Planning Document, which is constantly updated.

Branches

Marcolin S.p.A. operates from its headquarters in Longarone and with qualified contract manufacturers.

The operational premises are as follows:

- its headquarters in Longarone (Belluno), in zona industriale Villanova n. 4 (registered office, executive offices and operations);
- a logistics center and warehouse in Longarone (Belluno), in zona industriale Villanova n. 20 H;
- a manufacturing facility in Longarone (Belluno), via Fortogna 184/C (Fortogna district);
- a manufacturing facility in Quero Vas (Belluno), Zona Artigianale n. 1;
- a showroom and representative office in Milan, in corso Venezia, n. 36;
- a warehouse in Alpago (Belluno), Via dell'Artigianato n. 67.

The non-operational premises are as follows:

- the former Fintec premises in zona industriale Villanova S.N.C.;
- the premises in Domegge di Cadore (Belluno), Via Noai n. 31, Vallesella di Cadore district.

SUBSEQUENT EVENTS

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

Between December 31, 2019 and the date of approval of the financial statements, no events occurred that could have material effects on the financial results reported (IAS 10).

However, it is worth noting that as of the date of this writing, the Company has been monitoring the development of certain factors of instability that have emerged recently, particularly the Covid-19 (“Coronavirus”) emergency, which at the beginning of 2020 impacted the Chinese economy and then spread to other countries. This factor is considered a non-adjusting event – under IAS 10 § 21 – because, although the Coronavirus crisis appeared in China around the reporting date, the World Health Organization declared it a global health emergency at the end of January 2020. At that time cases of infection were found even in other countries, so containment measures were adopted in China and in the other countries involved. Based on the scenarios currently hypothesized by the leading international bodies, the Group's business areas most affected by the health crisis could be the human resource supply chain and the general consumer spending trend, and thus the Group's revenues, with an indirect effect on the valuation of assets, particularly intangibles. With respect to production and the supply chain, supplier output in Asia is slowly returning to normality; in the human resource area, all safety systems required by law have been prepared and activated; concerning consumer spending, specific marketing initiatives have been implemented in the Asian market, whereas the performance of orders in Europe and America is encouraging. Nevertheless, the Group is adopting a series of cost containment measures in order to mitigate any future tensions.

Currently, no impacts on the recoverability of invested capital have been identified, in particular as regards the values of the tangible and intangible assets recognized in the financial statements.

While evaluating the effects, we believe that the financial statement items as at December 31, 2019 will not be adjusted.

No other significant events took place after the end of 2019.

Additional strategic objectives

For Marcolin, after years of repositioning, reorganization and especially development activities, 2020 will be a year of solidity and additional growth, thanks to the unfolding of the positive effects of initiatives implemented successfully in previous years and to the more recent strategic projects.

The strategy for the Italian eyewear industry and for Marcolin essentially remains one of internationalization, the capacity to seize the opportunities offered on international markets.

Today Marcolin is the result of a strongly balanced product offering (between luxury and diffusion, men's and women's lines, and eyeglasses and sunglasses) and excellent geographical presence.

The important scale and balance achieved in the organizational structure are strengths that will enable the Group to pursue more effectively the consolidation of its existing brand portfolio and the introduction of new licenses, in keeping with the Group's growth targets in strategic markets, particularly in the more dynamic areas (United States, Middle East, Far East and emerging markets).

An increasing focus on innovation, certified quality, and exclusive and original designs that add value and convey added value is an integral part of Marcolin's strategies.

Longarone (BL); February 28, 2020

for the Board of Directors

C.E.O.

Signed: *Massimo Renon*

NOTICE OF CALLING TO GENERAL MEETING

The Marcolin S.p.A. Shareholders are hereby called to the General Meeting to be held in Longarone (Belluno), at Z.I. Villanova 4, on March 23, 2020 at 12:00 p.m. at a first calling, and on March 24, 2020, same place and same time, at a second calling, to discuss and resolve upon the following

Agenda

- Approval of Annual Financial Statements for the year ended December 31, 2019, Board of Directors' Report, Board of Statutory Auditors' Report, Independent Auditors' Report;
- Presentation of the Marcolin Group's Consolidated Financial Statements for the year ended December 31, 2019 and related Reports;
- Resolutions thereon.

The right to attend the General Meeting, the right to proxies and the possibility to attend the General Meeting through electronic means of communication are regulated in Articles 14 and 15 of the Corporate By-Laws currently in effect.

Longarone (BL); February 28, 2020

for the Board of Directors

the Chairman

Signed: *Vittorio Levi*

PROPOSED RESOLUTION

Shareholders,

The Financial Statements of Marcolin S.p.A. submitted to you present a true and fair view of the Company's financial position, financial performance and cash flows for the year.

Therefore, we request the Company's Shareholders, 3 Cime S.p.A. and Vicuna Holding S.p.A., to approve the proposed Financial Statements for the year ended December 31, 2019.

We propose to allocate the net profit of euro 19,084,679.90 in the following manner:

- euro 954,234.00 to the Legal Reserve;
- carry forward the remainder.

Accordingly, after such allocation, the retained earnings/(losses) will have a balance of euro 111,634,903.45.

Longarone (BL); February 28, 2020

for the Board of Directors

the Chairman

Signed: *Vittorio Levi*

MARCOLIN GROUP
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
CONSOLIDATED INCOME STATEMENT
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(euro/000)</i>	Notes	12/31/2019	12/31/2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	48,547	29,941
Intangible assets	2	50,873	51,377
Goodwill	2	288,449	286,506
Investments in subsidiaries and associates	3	451	1,377
Deferred tax assets	4	43,163	41,916
Other non-current assets	5	315	469
Non-current financial assets	6	1,813	2,513
Total non-current assets		433,610	414,100
CURRENT ASSETS			
Inventories	7	122,777	126,061
Trade receivables	8	90,674	91,992
Other current assets	9	27,396	31,162
Current financial assets	10	16,336	21,294
Cash and cash equivalents	11	45,872	34,184
Total current assets		303,055	304,693
TOTAL ASSETS		736,666	718,793
EQUITY			
	12		
Share capital		35,902	35,902
Additional paid-in capital		170,304	170,304
Legal reserve		5,483	4,263
Other reserves		53,511	45,131
Retained earnings (losses)		(58,135)	(51,041)
Profit (loss) for the period		(16,233)	(2,246)
Group equity		190,832	202,313
Non controlling interests		5,910	4,864
TOTAL EQUITY		196,742	207,176
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	13	269,622	252,226
Non-current funds	14	6,877	6,382
Deferred tax liabilities	4	6,808	7,889
Other non-current liabilities	15	1,764	3,344
Total non-current liabilities		285,071	269,841
CURRENT LIABILITIES			
Trade payables	16	143,869	150,134
Current financial liabilities	17	60,735	40,214
Current funds	18	16,278	15,162
Tax liabilities	29	5,331	5,419
Other current liabilities	19	28,640	30,848
Total current liabilities		254,853	241,776
TOTAL LIABILITIES		539,924	511,617
TOTAL LIABILITIES AND EQUITY		736,666	718,793

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

<i>(euro/000)</i>	Notes	2019	%	2018	%
Net revenues	21	486,670	100.0%	482,219	100.0%
Cost of sales	22	(207,465)	(42.6)%	(207,227)	(43.0)%
GROSS PROFIT		279,206	57.4%	274,992	57.0%
Distribution and marketing expenses	23	(228,349)	(46.9)%	(221,524)	(45.9)%
General and administrative expenses	24	(44,009)	(9.0)%	(39,803)	(8.3)%
Other operating income/(expenses)	26	12,679	2.6%	15,217	3.2%
OPERATING INCOME – EBIT		19,527	4.0%	28,882	6.0%
Profit/(loss) from associates	27	(13,177)	(2.7)%	(9,011)	(1.9)%
Financial income	28	14,977	3.1%	8,127	1.7%
Financial costs	28	(36,477)	(7.5)%	(32,201)	(6.7)%
PROFIT (LOSS) BEFORE TAXES		(15,150)	(3.1)%	(4,202)	(0.9)%
Income tax expense	29	323	0.1%	3,372	0.7%
NET PROFIT (LOSS) FOR THE PERIOD		(14,826)	(3.0)%	(831)	(0.2)%
Profit (loss) attributable to:					
- owners of the parent		(16,233)	(3.3)%	(2,246)	(0.5)%
- non-controlling interests		1,407	0.3%	1,415	0.3%

<i>(euro/000)</i>	2019	2018
NET PROFIT (LOSS) FOR THE PERIOD	(14,826)	(831)
<i>Other items that will be not subsequently reclassified to profit or loss:</i>		
Effect (actuarial gain/losses) on defined benefit plans, net of taxes	(63)	54
TOTAL OTHER ITEMS THAT WILL NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	(63)	54
<i>Other items that will be subsequently reclassified to profit or loss:</i>		
Change in foreign currency translation reserve	1,226	5,664
Change in exchange rate difference on quasi equity loan	3,837	3,765
TOTAL OTHER ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	5,063	9,429
TOTAL CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERIOD	(9,827)	8,652
Profit (loss) attributable to:		
- owners of the parent	(11,480)	7,246
- non-controlling interests	1,653	1,406

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Additional paid-in capital	Legal Reserve	Other reserves			S holders deposit in s/capital	Profit (loss) for the period	Capital and reserves net total	Non-controlling interests in equity	Total equity
				Translation reserve	Other	Actuarial gain / (loss) reserve					
<i>(euro'000)</i>											
December 31, 2017	35,902	170,304	4,263	(370)	(10,079)	(22)	(31,844)	198,650	3,688	202,305	
Allocation of 2017 loss	-	-	-	-	-	-	(15,514)	15,514	-	-	
IFRS15 and IFRS9 impacts	-	-	-	-	-	-	(3,400)	(3,400)	(60)	(3,460)	
Dividends distribution	-	-	-	-	-	-	-	-	(143)	(143)	
Share capital increase	-	-	-	-	-	-	-	-	3	3	
- Period result	-	-	-	-	-	-	-	(2,246)	(2,246)	(2,246)	
- Other components of comprehensive income	-	-	-	5,673	3,765	54	(183)	9,309	(9)	9,300	
Total comprehensive income	-	-	-	5,673	3,765	54	(183)	(2,246)	7,063	1,406	
December 31, 2018	35,902	170,304	4,263	5,303	(6,313)	32	(51,041)	202,313	4,864	207,176	
Allocation of 2018 loss	-	-	1,220	-	-	-	(3,466)	2,246	(0)	(0)	
Dividends distribution	-	-	-	-	-	-	-	-	(607)	(607)	
- Period result	-	-	-	-	-	-	-	(16,233)	(16,233)	(16,233)	
- Other components of comprehensive income	-	-	-	4,607	3,837	(63)	(3,625)	4,753	247	4,999	
Total comprehensive income	-	-	-	4,607	3,837	(63)	(3,625)	(16,233)	(11,480)	1,653	
December 31, 2019	35,902	170,304	5,483	9,910	(2,476)	(31)	(58,135)	190,832	5,910	196,742	

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(euro/000)</i>	Note	12/31/2019	12/31/2018
OPERATING ACTIVITIES			
<i>Profit (loss) for the period</i>		(14,823)	(831)
Depreciation and amortization	1.2	25,107	19,062
Provisions	14.18	4,045	12,081
Income tax expense	29	(323)	(3,372)
Accrued interest expense	28	21,500	24,073
Adjustments to other non-cash items		12,819	8,920
<i>Cash generated by operations</i>		48,324	59,933
<i>Cash generated by change in operating working capital</i>		(5,363)	2,213
(Increase) decrease in other assets	5.9	4,896	(9,251)
(Decrease)/increase in other liabilities	15.19	(3,532)	4,105
(Use) of current and non-current provisions	14.18	(2,587)	(1,750)
(Decrease)/increase in current tax liabilities	29	(1,627)	(2,780)
Adjustments to other non-cash items		-	0
<i>Other elements in working capital</i>		(2,850)	(9,676)
Income taxes paid		(1,095)	(2,185)
Interest received		627	724
Interest paid		(13,663)	(13,257)
<i>Total cash generated by change in other items of net working capital</i>		(16,982)	(24,394)
<i>Net cash from /(used in) net working capital</i>		(22,345)	(22,181)
Net cash from /(used in) operating activities		25,979	37,753
INVESTING ACTIVITIES			
(Purchase) of property, plant and equipment	1	(9,666)	(8,645)
Disposal of property, plant and equipment	1	358	700
(Investments) in intangible assets	2	(10,923)	(10,480)
Net (Investments)/disposal in investment in subsidiaries and associates	3	-	(9,802)
Net cash from /(used in) investing activities		(20,231)	(28,227)
FINANCING ACTIVITIES			
<i>Financial Assets</i>			
- (Proceeds)	6,10	(6,177)	(7,431)
- Repayments	6,10	-	-
<i>Financial Loans from banks</i>			
- Proceeds	13.17	7,000	-
- (Repayments)	13.17	(3,768)	(9,673)
Principal elements of lease payments		(4,461)	-
<i>Other current and non current financial liabilities</i>	6,10,13,17	13,493	423
Capital increase	Mov. PN	-	3
Dividends paid	Mov. PN	(607)	(143)
Net cash from /(used in) financing activities		5,480	(16,821)
Net increase/(decrease) in cash and cash equivalents		11,229	(7,296)
Effect of foreign exchange rate changes		460	674
Cash and cash equivalents at beginning of year		34,184	40,805
Cash and cash equivalents at end of year		45,872	34,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to the shareholder, Vicuna Holding S.p.A., a company of the LVMH Group. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. The share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2019, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The Marcolin S.p.A. shares owned by 3 Cime S.p.A. are encumbered by liens stipulated when the bond notes were issued on February 10, 2017, secured by collateral for the same amount of the obligations assumed with the bondholders, including a lien on the shares of the Issuer, Marcolin.

General Information

The explanatory notes set out below form an integral part of the annual Consolidated Financial Statements of Marcolin Group and were prepared in accordance with the accounting documents updated to December 31, 2019.

For the purpose of providing exhaustive financial information, the Report on the Operations of Marcolin Group and Marcolin S.p.A. has been prepared, which contains additional information regarding the main events of the year, subsequent events, business outlook and other important financial and operational information of the business.

These financial statements were prepared on the basis of the going-concern assumption, the accrual basis of accounting and the historical cost basis, except for the measurement of financial assets and liabilities, which are required to be accounted for at fair value.

The Consolidated Financial Statements for the year ended December 31, 2019 include the financial statements of the Parent Company, Marcolin S.p.A., and those of its subsidiaries and well as the Group's interests in jointly controlled entities and in associates.

Marcolin S.p.A. is incorporated under Italian law, listed in the Belluno Companies Register with no. 01774690273, and has shares that until February 14, 2013 were traded in Italy on the Mercato Telematico Azionario (electronic stock exchange) organized and managed by Borsa Italiana S.p.A. Marcolin S.p.A. is the Parent Company of Marcolin Group, which operates in Italy and abroad in the design, manufacturing and distribution of prescription frames and sunglasses, including by way of direct and indirect management of affiliates and partnerships located in major countries of interest worldwide, and through the management of qualified contract manufacturers.

The addresses of the locations from which the Parent Company's main operations are performed are listed in the Report on Operations.

Company	Headquarters	Address
Marcolin Asia HK Ltd	Hong Kong	Units 2207-11, Tower I, Level 22 - Metroplaza, 223 Hing Fong Road - Kwai Fong, N.T.
Marcolin Benelux Sprl	Villers-Le-Bouillet, Belgio	Rue Le Marais 14B
Marcolin do Brasil Ltda	Barueri - SP, Brasilia	Av Tamboré, 1180 - 06460-000
Marcolin Deutschland GmbH	Colonia, Germania	Monreposstrasse, 55
Marcolin France Sas	Parigi, Francia	45, rue Saint Sébastien - 75011
Marcolin GmbH	Mittenz, Svizzera	Rheinstrasse, 26 - 4414
Marcolin Iberica SA	Barcelona, Spagna	Juan De Austria, 116 - 4a Planta - 08018
Marcolin Nordic AB	Stoccolma, Svezia	Frosundavisk Alle 1, 169 70 Solna
Marcolin Portugal Lda	Lisbona, Portogallo	Rua Jose Travassos, 15B 1600-410
Eyestyle Trading (Shanghai) Co Ltd	Shanghai, PRC	Unit 313, no.555 Anyuan Road, Jingan District
Marcolin Technical Services (Shenzhen) Co. Ltd	Shenzhen, PRC	4018 Jin Tian Road, Fitian District
Marcolin UK Ltd	London, UK	140 Old Street, EC1V 9BJ - London - UK
Marcolin USA Eyewear Corp.	Somerville, Usa	Route 22 west, 3140 - 08876 NJ
Marcolin Singapore Pte Ltd	Singapore	16 Raffles Quay 33-03 - Hong Leong Building
Viva Eyewear Hong Kong Ltd	Hong Kong	Workshop A-E, 8th Floor, Block 1, Kwai Tak Industrial Centre, Nos. 15-33 Kwai Tak Street, Kwai Chung
Viva Eyewear UK Ltd	North Yorkshire, Regno Unito	1-2 Miner Court, Hornbeam Square South, Hornbeam Business Park, Harrogate, North Yorkshire, HG2 8NB
Viva Deutschland GmbH	Schwaebisch Gmund, Germania	Oderstrasse 2, Schwaebisch Gmund
Marcolin-RUS LLC	Mosca, Russia	Building 1, 8 Bolshoy Chudov Pereulok
Gin Hong Lin International Co Ltd	Hong Kong	Ocean Centre 609, Harbour City 5, Canton Road Tst Kowloon
Shanghai Ginlin Optics Co Ltd	Shanghai, PRC	Shanghai Jinlin Optical Co Ltd
Marcolin Middle East FZCO	Dubai Airport Freezone, UAE	7WB 2115, Dafza, P.O. Box 121, Dubai, U.A.E.
Marcolin México S.A.P.I. de C.V.	Naucaplan de Juarez, México	Av.16 de Septiembre No.784 Col.Alice Blanco C.P.53370
Thélios Group	Longarone (BL), Italia	Zona Industriale Villanova, SNC - 32013 Longarone (BL) - Italy

Presentation currency

These financial statements are presented in the Parent Company's presentation currency (Euro). For the purpose of clarity, the amounts in the Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and explanatory notes are presented in thousands of Euros (unless specified otherwise). As a result of presenting the amounts in thousands of Euros, immaterial differences in the totals may emerge due to rounding off.

Italian tax consolidation

On March 31, 2017 Marcolin S.p.A. renewed the tax consolidation agreement for the three-year term of 2017 - 2019 involving the ultimate parent company, 3Cime S.p.A., and its subsidiaries for corporate income tax (IRES) purposes under Presidential Decree 917, Article 117 *et seq.* of December 22, 1986 (Italian Tax Code or "TUIR"), since the previous agreement for 2014 - 2016 had expired.

The tax consolidation agreement enables each participant (including the Company), by way of partial recognition of the group's tax burden, to optimize the financial management of corporate income tax (IRES), for example by netting taxable income and tax losses within the tax group.

Tax consolidation transactions are summarized below:

- in years with taxable income, the subsidiaries pay 3 Cime S.p.A. the additional tax due to the tax authorities;
- the consolidated companies with negative taxable income receive from 3 Cime S.p.A. a payment corresponding to 100% of the tax savings realized, accounted for on an accruals basis;
- the payment is made only at the time of actual use by 3 Cime S.p.A. for itself and/or for other Group companies;
- if 3 Cime S.p.A. and the subsidiaries do not renew the tax consolidation option, or if the requirements for continuance of tax consolidation should fail to be met before the end of the three-year period in which the option is exercised, tax loss carryforwards resulting from the tax return are split up proportionally among the companies that produced them.

The Company expects the agreement to be renewed for the next three-year term of 2020 to 2022.

Issuance

The Financial Statements were authorized for issue by the Board of Directors on February 28, 2020.

ACCOUNTING STANDARDS

Basis of preparation

The Financial Statements were prepared according to the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union.

The IFRS include all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the former Standing Interpretations Committee (SIC), which at the date of approval of the financial statements had been authorized by the European Union according to Regulation (EC) no. 1606/2002, enacted by the European Parliament and European Council on July 19, 2002.

The accounting policies adopted to prepare the Separate Financial Statements for the year ended December 31, 2019 are the same as those used in the prior year except as regards the adoption of the following new or revised IFRS or IFRIC.

New accounting standards and interpretations approved by the European Union and effective for periods beginning on or after January 1, 2019

The following new standards and amendments became effective on January 1, 2019:

Annual Improvements to IFRS Standards (2015-2017 Cycle)

Endorsed by the European Union on March 14, 2019 with Regulation n. 2019/412

The primary objective of the annual improvements is to resolve non-urgent matters regarding inconsistencies found in IFRSs or to clarify wording, which had been discussed with the IASB during the planning cycle. The amendments regard:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements;
IAS 12 Income Taxes;
IAS 23 Borrowing Costs.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Endorsed by the European Union on March 13, 2019 with Regulation n. 2019/402

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

Endorsed by the European Union on February 8, 2019 with Regulation n. 2019/237.

IFRIC 23 Uncertainty over Income Tax Treatments

Endorsed by the European Union on October 23, 2018 with Regulation n. 2018/1595.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Endorsed by the European Union on March 22, 2018 with Regulation n. 2018/498.

IFRS 16 Leases

On October 31, 2017 the European Union issued Regulation n. 2017/1986 approving IFRS 16 (Leases). The standard has been in effect since January 1, 2019. The main impact of the new standard is the recognition of all leases in the statement of financial position, effectively eliminating the different methods for accounting for operating leases and financial leases. The new standard provides for recognizing a right-of-use asset (right to use the leased asset) and a lease liability referring to the future payments for which a contractual obligation exists. Short-term leases and leases of low-value assets are excluded from the new accounting method. Marcolin Group adopted the new standard on January 1, 2019 using the simplified approach, without restating the comparative period before adopting the standard. The right-to-use asset initially had the same value as the lease liability (adjusted for any prepaid or allocated lease costs at December 31, 2018). The leases regard mainly property leases for office, warehouse and factory use and for motor vehicles.

To comply with IFRS 16, the Group recognized a lease liability for those leases that had been classified as "operating leases" at December 31, 2018, in accordance with IAS 17. The lease liability was discounted by applying a discount rate the present value of the expected future lease payments at January 1, 2019. A discount rate of 3.2% was used on average.

Concerning leases previously classified as "finance leases", the Group recognized the carrying amount recognized in the December 31, 2018 financial statements as a right-of-use asset and a lease liability. IFRS 16 was applied to the leases solely from January 1, 2019.

When adopting IFRS 16 for the first time at January 1, 2019, the Group used the simplifications allowed by the new standard:

- the same discount rate was applied to a portfolio of similar leases;
- leases with a term of 12 months or less at January 1, 2019 were considered short-term leases, and thus excluded from IFRS 16 adoption;
- initial direct costs were excluded from the calculation of the right-of-use asset;
- only the information available at the time of first-time adoption was considered.

At January 1, 2019, the financial liability for leases previously classified as "operating leases" under IAS 17 was euro 19,309 thousand, and the financial liability for leases previously classified as "finance leases" was euro 1,462 thousand. The total lease liability at January 1, 2019 was euro 20,772 thousand.

The right-of-use asset was measured as the lease liability adjusted by any prepayments, accruals and deferrals recognized at December 31, 2018 for the leases concerned.

The following table lists the amount of the right-of-use asset, for each asset category, recognized in the Group's financial statements for leases that until December 31, 2018 had been classified as operating leases under IAS 17.

€/000	12/31/2019	01/01/2019
Land and buildings	13,108	16,132
Industrial and commercial equipment	881	247
Cars	2,745	2,827
Other tangibles fixed assets	111	104
Total Right-of-use assets	16,845	19,310

The Group has a lease portfolio consisting primarily of buildings, cars, plant and sundry equipment. The leases are usually stipulated by the Group for a term of 3 to 8 years. The leases stipulated by the Group do not contain any covenants, and the underlying assets may not be used as collateral.

Until 2018, leases for buildings, plant and machinery were classified as finance leases or operating leases under IAS 17. The payments made under operating leases (net of any incentives received from the lessor) were recognized in the Income Statement on a straight-line basis over the term of the lease. As of January 1, 2019, leases are recognized with a right-of-use asset and corresponding lease liability, accounted for when the underlying asset is ready for its intended use. Each lease payment is split up into the lease liability and the interest expense. The interest expense is recognized in the Income Statement on a straight-line basis over the term of the lease on the residual lease liability. The right-of-use asset is depreciated over the useful life of the underlying asset or the term of the lease, whichever is shorter.

The non-current assets and the lease liabilities were initially stated at their present value. The lease liability corresponds to the present value of outstanding lease payments that were not yet due at January 1, 2019. The following cash outflows were included for discounting purposes:

- fixed payments, net of any incentives;
- variable payments linked to an index or market rate, proportionate to the value reached by the index/rate at January 1, 2019;
- any amounts that the lessee is required to pay to the lessor under guarantees;
- the price of exercising any purchase option if it is reasonably certain that such option will be exercised;
- payments of any penalties for early termination, if considering the lease term it is reasonably certain that the lessee will exercise the early termination option;

Future lease payments are discounted using the lessee's incremental borrowing rate, i.e. the interest rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value to the asset being leased, all other conditions being equal, and thus for a similar time horizon, with the same degree of risk and in a similar economic environment.

At initial recognition, the right-of-use asset was measured at cost, which includes:

- the amount of the debt initially recognized as a liability for the present value of future lease payments due;
- any payments made before the first-time adoption date, net of any incentives received to encourage the completion of the transaction;
- any additional initial direct costs, defined as the incremental cost incurred to obtain the lease;
- estimated costs of dismantling and removing the asset, recovering the area where it was located or returning the asset in the conditions specified in the lease agreement at the end of its use. This amount is included only if a specific contractual obligation exists.

Payments for short-term leases (those with a residual term of less than 12 months beginning January 1, 2019), or for leases whose underlying asset has a low value, are recognized on a straight-line basis in the Income Statement. The low-value assets consist mainly of IT devices and small office furniture.

The possibility of extending the lease term is present in some types of leases analyzed; the Group decided to include such renewal options in the lease only if it was effectively probable that they would be exercised.

IFRS 16 adoption affected the property, plant and equipment and the financial liabilities. The table below presents such effects on the Statement of Financial Position, comparing the impact at January 1, 2019 and at December 31, 2019.

€/000	12/31/2019	01/01/2019
Right of use new IFRS16	16,845	19,310
PPE IAS17 finance lease	448	697
Total amount right of use for lease in PPE	17,293	20,008
Non current lease liabilities new IFRS16	12,709	15,003
Non current finance lease liabilities IAS17	1,281	819
Total non current finance lease liabilities	13,990	15,822
Current lease liabilities IFRS16	4,857	4,307
Current finance lease liabilities IAS17	2,661	643
Total current finance lease liabilities	7,518	4,950
Total finance lease liabilities	21,508	20,772

At December 31, 2019, the positive impact of IFRS 16 adoption on EBITDA was euro 5,254 thousand, whereas the impact on the depreciation of the right-of-use asset was euro 5,132 thousand. The interest expense is euro 830 thousand. The negative impact on profit before tax is euro 708 thousand.

New accounting standards and interpretations approved by the European Union and effective for periods after December 31, 2019

Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform

Issued on September 26, 2019, it became effective on January 1, 2020. It was endorsed by the European Union on January 15, 2020 with Regulation n. 2020/34.

Amendments to IAS 1 and IAS 8: Definition of Material

Issued on October 31, 2018, it became effective on January 1, 2020. It was endorsed by the European Union on November 29, 2019 with Regulation n. 2019/2075.

Amendments to References to the Conceptual Framework in IFRS Standards

Issued on March 29, 2018, it became effective on January 1, 2020. It was endorsed by the European Union on November 29, 2019 with Regulation n. 2019/2075.

The Group is evaluating the impact of these new standards on its financial situation.

There are no other accounting standards endorsed by the European Union and effective from reporting periods after December 31, 2019 that are presumed to have a material effect for the Group in the next reporting period or in the foreseeable future.

New accounting standards and interpretations published by the IASB but not yet approved by the European Union

The following IFRSs, interpretations, amendments to existing standards and interpretations, or special provisions contained in the standards and interpretations approved by the IASB, not yet approved by the European Union as at the date of approval of this document, are set forth below:

IFRS 17 (Insurance Contracts) - Issued on May 18, 2017, it will become effective on January 1, 2021.

Amendments to IFRS 3 Business Combinations – Issued on October 22, 2018, its endorsement is expected in the first quarter of 2020.

No accounting standards and/or interpretations mandatorily effective for annual periods beginning after December 31, 2019 were adopted earlier.

Marcolin Group is evaluating the effects of the application of the above new standards, which currently are not expected to be significant.

Financial statement format

The Consolidated Financial Statements consist of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and the related explanatory Notes.

In order to provide comparability, the previous period data was restated as necessary, with explanations given of the restatements.

The Company and the Group prepared the financial statements on the basis of the following accounting policies.

Statement Of Financial Position

Assets and liabilities are classified separately as either current or non-current as envisaged by IAS 1.

An asset is classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realized within twelve months from the end of the reporting period; or
- (d) it is cash or a cash equivalent.

All other assets are classified as non-current.

A liability is classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months from the end of the reporting period; or
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

All other liabilities are classified as non-current.

As necessary, in accordance with IFRS 5, assets (and related liabilities) for which the book value will be recovered mainly through sale rather than continuing use are classified as "assets held for sale" and "liabilities relating to assets held for sale".

Reclassification of prior year's Statement of Financial Position format

In order to provide better comparability of assets having similar contractual substance and thus a similar accounting treatment, the Company decided, in accordance with IAS 8, to reclassify the presentation in the Statement of Financial Position of assets disclosed at December 31, 2018 in other current and non-current assets among intangible assets.

Income Statement

Costs are classified by function, stating separately the cost of sales, marketing and distribution expenses and administration expense in order to provide readers with more meaningful and relevant information than the alternative classification of costs by nature, in view of the business sector.

In addition, it was decided to present two separate statements: the Income Statement and the Statement of Comprehensive Income.

Statement of Changes in Equity

The statement was prepared presenting items in individual columns with reconciliation of the opening and closing balances of each item forming equity.

Statement of Cash Flows

Cash flows from operating activities are presented using the indirect method.

Based on this approach, the net profit for the year was adjusted to account for the effects of non-cash items on operating, investing and financing activities.

Basis of consolidation

The scope of consolidation includes direct and indirect subsidiaries.

Below is a list of the consolidated companies stating the consolidation method used:

Company	Currency	Share capital	Equity	Net profit / (loss) for the period	Consolidation method	% ownership	
						Direct	Indirect
Marcolin Asia HK Ltd	HKD	1,539,785	1,539,785	471,756	Full consolidation	100.0%	
Marcolin Benelux Sprl	EUR	280,000	449,934	113,051	Full consolidation	100.0%	
Marcolin do Brasil Ltda	BRL	41,369,129	7,751,264	(2,590,599)	Full consolidation	100.0%	
Marcolin Deutschland GmbH	EUR	300,000	1,640,174	409,164	Full consolidation	100.0%	
Marcolin France Sas	EUR	1,054,452	1,248,732	323,217	Full consolidation	100.0%	
Marcolin GmbH	CHF	200,000	127,530	(49,661)	Full consolidation	100.0%	
Marcolin Iberica SA	EUR	487,481	1,107,817	522,621	Full consolidation	100.0%	
Marcolin Nordic AB	SEK	50,000	(1,731,443)	6,188,562	Full consolidation	100.0%	
Marcolin Portugal Lda	EUR	420,000	220,856	(24,356)	Full consolidation	100.0%	
Eyestyle Trading (Shanghai) Co Ltd	CNY	3,001,396	9,368,102	926,912	Full consolidation	100.0%	
Marcolin Technical Services (Shenzhen) Co. Ltd	CNY	1,000,000	2,532,836	342,228	Full consolidation	100.0%	
Marcolin UK Ltd	GBP	3,572,718	7,025,548	3,545,925	Full consolidation	100.0%	
Marcolin USA Eyewear Corp.	USD	121,472,262	100,447,030	(12,079,481)	Full consolidation	100.0%	
Marcolin Singapore Pte Ltd	SGD	100,000	(765,413)	(865,413)	Full consolidation	100.0%	
Viva Eyewear Hong Kong Ltd	HKD	100	4,465,770	(243,909)	Full consolidation		
Viva Eyewear UK Ltd	GBP	-	830,570	19,864	Full consolidation		100.0%
Viva Deutschland GmbH	EUR	25,000	180,913	-	Full consolidation		50.0%
Marcolin-RUS LLC	RUB	305,520	204,288,099	30,405,703	Full consolidation	51.0%	
Gin Hong Lin International Co Ltd	HKD	25,433,653	36,084,877	819,555	Full consolidation	50.0%	
Shanghai Ginlin Optics Co Ltd	CNY	22,045,100	19,811,922	948,469	Full consolidation		50.0%
Marcolin Middle East FZCO	AED	100,000	21,012,233	7,485,037	Full consolidation	51.0%	
Marcolin México S.A.P.I. de C.V.	MXN	50,000	1,774,444	8,837,478	Full consolidation	51.0%	
Thélios Group	EUR	1,000,076	921,043	(25,530,124)	Equity	49.0%	

The following changes took place in the scope of consolidation after December 31, 2018:

- On March 27, 2019, Marcolin Singapore Pte Ltd, wholly owned by Marcolin S.p.A., was founded in Singapore to distribute directly Marcolin products in Singapore and Malaysia;
- On November 26, 2019, Viva Schweiz AG was canceled from the Companies Register following its liquidation, and so it was deconsolidated, without significant effects on the Group's financial performance since it had not been a significant company in the previous years;

In January 2020 the liquidation process for Viva Eyewear UK Ltd commenced.

Basis of consolidation

The consolidation method adopted is as follows:

- the equity method is used to consolidate the companies in which the Group has more than 20% ownership ("associates") or over which the Group has significant influence even in another way; due to the use of the equity method, the carrying amount of the investee is aligned with the equity adjusted, as necessary to reflect the adoption of the IFRS approved by the European Commission and, includes the recognition of any goodwill identified at the time of the acquisition. The interest in the profits/losses realized by the associate after the acquisition date is recognized in the income statement, whereas the interest in changes in reserves after the acquisition date is recognized in the equity reserves. If the Group's interest in the losses of an associate is equal to or in excess of its interest in the associate itself, taking into account all unsecured receivables, the value of the associate is written off and the Group does not recognize additional losses with respect to those attributable to it except and to the extent that the Group is required to answer for them. Unrealized profits and losses on transactions with associates are eliminated on the basis of the Group's interest therein;
- companies are consolidated on a line-by-line basis when the Group exercises control over them ("subsidiaries") by virtue of direct or indirect ownership of the majority of shares with voting rights or by exercise of dominant influence expressed by the power to govern, whether directly or indirectly, the company's financial and operating policies, obtaining the related benefits regardless of any equity ownership. Any potential voting rights exercisable at the reporting date are considered for the purpose of determining control. Subsidiaries are consolidated from the date on which control is gained and are deconsolidated on the date from which such control ceases;
- the financial statements of the subsidiaries, associates and joint arrangements are incorporated using the accounting policies of the Parent Company; consolidation adjustments are made as necessary to create consistency between items influenced by the application of different accounting policies;
- on consolidation, balances and transactions between consolidated subsidiaries are eliminated in full, i.e. receivables and payables outstanding at the end of the period, expenses and income, finance costs and financial income. Significant profits and losses realized between fully consolidated subsidiaries are also eliminated in full;
- significant profits included in products in stock originating from intercompany transactions are eliminated;
- any non-controlling interests in equity or net profit/(loss) are stated separately as non-controlling interests under the consolidated equity;

- dividends distributed by fully consolidated companies are eliminated from the income statement, which incorporates the net profits or losses realized by such companies;
- financial statements presented in a different functional currency from that of the Parent Company are translated into euros by applying the current exchange rates in force on the reporting date to assets and liabilities, and the average exchange rates for the reporting period to revenues, costs, income and expenses. The related currency exchange differences are recognized in the changes in equity ⁸.

The following table lists the exchange rates used for translation:

Currency	Symbol	Closing exchange rate			Average exchange rate		
		12/31/2019	12/31/2018	Change	2019	2018	Change
Dirham Emirati Arabi	AED	4.126	4.205	(1.9)%	4.111	4.337	(5.2)%
Australian Dollar	AUD	1.600	1.622	(1.4)%	1.611	1.580	2.0%
Brasilian Real	BRL	4.516	4.444	1.6%	4.413	4.309	2.4%
Canadian Dollar	CAD	1.460	1.561	(6.5)%	1.485	1.529	(2.9)%
Swiss Franc	CHF	1.085	1.127	(3.7)%	1.112	1.155	(3.7)%
Remimbi	CNY	7.821	7.875	(0.7)%	7.736	7.808	(0.9)%
Danish Krone	DKK	7.472	7.467	0.1%	7.466	7.453	0.2%
English Pound	GBP	0.851	0.895	(4.9)%	0.878	0.885	(0.8)%
Hong Kong Dollar	HKD	8.747	8.968	(2.5)%	8.771	9.256	(5.2)%
Japanese Yen	JPY	121.940	125.850	(3.1)%	122.006	130.396	(6.4)%
Mexican Pesos	MXN	21.220	22.492	(5.7)%	21.557	22.705	(5.1)%
Norwegian krone	NOK	9.864	9.948	(0.8)%	9.851	9.597	2.6%
Russian Rublo	RUB	69.956	79.715	(12.2)%	72.455	74.042	(2.1)%
Swedish Krone	SEK	10.447	10.255	1.9%	10.589	10.258	3.2%
USA Dollar	USD	1.123	1.145	(1.9)%	1.119	1.181	(5.2)%

Business combinations

The Group's business combinations are accounted for with the acquisition method in accordance with IFRS 3, "Business Combinations".

The cost of an acquisition is the fair value, at the control transfer date, of assets acquired, liabilities assumed, and equity instruments issued in exchange for the control of the acquired entity.

Based on the acquisition method, the cost of the business combination is allocated to the identifiable acquired net assets, at the acquisition date, through the fair value measurement of the assets acquired and liabilities and contingent liabilities assumed, and goodwill is recognized to the extent of the excess of the business combination cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the initial accounting for a business combination can be determined only provisionally, adjustments to the values initially attributed are made within twelve months of the acquisition date. Non-controlling interests are recognized at the fair value of the net acquired assets.

When a business combination is achieved in stages with subsequent share purchases, each stage is measured separately based on the cost and fair value of the assets, liabilities and contingent liabilities at each transaction date to determine the amount of any difference.

If a subsequent acquisition enables to obtain control of an entity, the previously owned interest is restated based on the fair value of identifiable assets, liabilities and contingent liabilities, determined at the date on which control was obtained.

⁸ Translation of foreign-currency financial statements

Financial statements presented in a different functional currency are translated into euros in accordance with IAS/IFRS as follows:

- assets and liabilities are translated at the current exchange rates in force on the reporting date;
- revenues, costs, income and expenses are translated at the average exchange rate for the reporting period, considered to be a reasonable approximation of the actual exchange rates of the dates of the transactions;
- currency exchange differences arising from translation of opening equity and the annual changes in equity are recognized in the "foreign currency translation reserve" under "other reserves".

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted to prepare the consolidated financial statements are described hereunder:

Property, plant, and equipment (also "tangible assets")

Property, plant, and equipment are recorded at their acquisition or production cost, inclusive of ancillary costs incurred to bring the assets to working condition for their intended use, excluding land and buildings for which the deemed cost model was used on the transition date or business combination date based on the market value determined through an appraisal performed by an independent qualified appraiser.

They are stated net of depreciation except for land, which is not depreciated, and net of any impairment losses. Costs incurred for routine and/or cyclical maintenance and repairs are recognized directly in the income statement of the period in which they are incurred. Costs concerning the extension, renovation or upgrading of owned or leased assets are capitalized to the extent that they can be separately classified as an asset or part of an asset. The carrying value is adjusted by depreciation using the straight-line method calculated on the basis of estimated useful life.

If the depreciable asset consists of distinctly identifiable components with useful lives that differ significantly from the other components of the asset, each component of the assets is depreciated separately, according to the component approach.

Profits and losses deriving from the sale of assets or groups of assets are determined by comparing the sale price with the relevant net book value.

Government grants relating to tangible assets are recorded as deferred revenues and credited to the income statement over the depreciation period for the assets concerned.

Finance costs relating to purchases of a fixed asset are charged to the income statement, unless they are directly attributable to the acquisition, construction or production of an asset which justifies capitalizing them.

Under newly introduced IFRS 16, assets obtained under leases are accounted for as finance leases and classified as property, plant and equipment, the contra entry being the financial payable generated. A specific section in this Annual Report explains the effects of IFRS 16 application.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, using the depreciation rates listed below:

Category	Depreciation Rate
Buildings	3%
Non-operating machinery	10%
Depreciable equipment	40%
Operating machinery	15.5%
Office furniture and furnishings	12%
Exhibition stands	27%
Electronic machines	20%
Vehicles	25%
Trucks	20%

Intangible assets

Intangible assets consist of controllable, non-monetary assets without physical substance that are clearly identifiable and able to generate future economic benefits. These assets are recognized at purchase and/or production cost, inclusive of directly attributable expenses to bring the asset to working condition for its intended use, net of accumulated amortization (except for those assets with an indefinite useful life) and any impairment losses. Amortization commences when the asset is available for use and is systematically distributed over the asset's useful life.

If there is any indication that the assets have suffered an impairment loss, the recoverable amount of the asset is estimated and any impairment loss is recognized in the income statement. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized, recognizing the reversal of the impairment loss as income.

Goodwill

Goodwill is recognized at cost less any impairment losses.

Goodwill acquired in a business combination is represented by the excess of the cost of the combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is not amortized, but it is reviewed for impairment annually, and whenever events or circumstances give rise to the possibility of an impairment loss, the recoverable amount is reviewed in accordance with IAS 36 ("Impairment of Assets"). If the recoverable amount is less than its carrying amount, goodwill is reduced to its recoverable amount (see section on impairment losses on tangible and intangible assets). If goodwill has been allocated to a cash-generating unit that is partially disposed of, the goodwill associated with the unit disposed of is included in the determination of any gain or loss on disposal.

Trademarks and licenses

Trademarks and licenses are recognized at cost.

They have a finite useful life and are recognized at cost net of accumulated amortization. Amortization is calculated on a straight-line basis so as to allocate the cost of trademarks and licenses over their remaining useful lives.

If, aside from amortization, impairment should emerge, the asset is written down accordingly; if the reasons for the writedown should cease to exist in future financial years, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized.

Trademarks are amortized on a straight-line basis over their estimated useful lives, ranging from 15 to 20 years.

Software

Software licenses acquired are capitalized on the basis of the costs incurred for their purchase and the costs necessary to make them serviceable. Amortization is calculated on a straight-line basis over their estimated useful lives (ranging from 3 to 5 years). Costs associated with software development and maintenance are recognized as costs in the period they are incurred.

The direct costs include the costs for the personnel to develop the software.

Research & development costs

Research and development costs for new products and/or processes are recognized as an expense as incurred unless they meet the conditions for capitalization under IAS 38.

Other intangible assets

The intangible assets also include renewal fees paid in some cases to licensors for the renewal of licensing agreements.

Other intangible assets also include certain internal costs incurred by the Company to develop new eyewear models; the amortization period, equal to the average life of a model on the market, commences when the related models are put on the market.

Impairment of tangible and intangible assets

IAS 36 requires impairment testing of tangible and intangible assets when there is any indication that those assets have suffered an impairment loss.

For intangible assets with an indefinite life, such as goodwill, testing for impairment is performed at least annually. The recoverable amount is determined by comparing the carrying amount of the asset with its fair value less costs to sell and value in use, whichever is greater. Value in use is determined on the basis of the present value of estimated future cash flows from operating activities. For purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

If an asset's recoverable value is less than its carrying value, the carrying value is reduced to its recoverable value. This reduction is an impairment loss that is recognized as an expense immediately. If there are indications that an impairment loss should be reversed, the recoverable amount of the asset is recalculated and the carrying value is increased to that new value. The increased carrying value must not exceed the net carrying value the asset would have had without any impairment loss.

An impairment loss with respect to goodwill may not be reversed.

Financial derivatives

Financial derivatives are recognized in accordance with IFRS 9. On the contract stipulation date, the derivatives are initially accounted for at fair value as financial assets when the fair value is positive or as financial liabilities when the fair value is negative. If hedge accounting cannot be applied, the changes in the fair value after initial recognition are recognized through profit or loss.

Fair value measurement

The Group measures financial instruments (derivatives) at their fair values at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes that a transaction to sell an asset or to transfer a liability takes place:

- in the principal market for the asset or liability; or
- in absence of a principal market, the most advantageous market for the asset or liability.

The principal market or most advantageous market must be accessible to the Group. The fair value of an asset or liability is measured adopting assumptions that market participants would use to determine the price of the asset or liability, assuming that they act to best satisfy their economic interest. Fair value measurement of a non-financial asset considers a market participant's capacity to generate economic benefits from the highest and best use of the asset or from the sale to another participant that can obtain its highest and best use.

The Group uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or stated in the financial statements are categorized into the following levels of the fair value hierarchy:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

The fair value measurement is categorized entirely in the same level of the fair value hierarchy of the lowest level input used for measurement.

For recurring assets and liabilities, the Group determines whether there have been any transfers between levels of the fair value hierarchy and reviews the categorization (based on the lowest level input that is significant to the entire measurement) at the end of each reporting period.

Inventories

Inventories are stated at the lower of average purchase or production cost and the corresponding estimated realizable value based on market prices. Estimated realizable value represents the estimated selling price in normal market conditions less all direct selling costs.

Purchase cost was adopted for products purchased for resale and for materials directly or indirectly used, purchased and used in the production process, whereas production cost was adopted for finished and semi-finished products.

Purchase cost is determined on the basis of the cost actually incurred, inclusive of directly attributable ancillary costs, including transport and customs expenses and excluding trade discounts.

Production cost includes the cost of materials used, as defined above, and all directly and indirectly attributable manufacturing costs.

Obsolete and slow-moving inventories are written down to reflect their useful life or realizable value.

Trade and other receivables

Trade and other receivables are stated at amortized cost and are measured on the basis of the impairment model introduced by IFRS 9 (see paragraph on financial assets regarding the initial recognition). In accordance with such model, the Group measures receivables using a logic of expected losses, replacing the IAS 39 framework based on incurred losses. The Group has adopted the simplified approach for trade receivables, which instead of recognizing the periodic changes in credit risk, requires accounting for an expected credit loss ("ECL") calculated over the lifetime of the receivable ("lifetime ECL"). The amount of the receivables is shown in the Statement of Financial Position net of the related provisions for doubtful debts. Impairment losses calculated under IFRS 9 are recognized in the Income Statement net of any positive effects relating to releases or reversals, and are presented in the line for net writedowns of financial assets within the general and administration expenses.

Financial assets – Loans and receivables

The Group's financial assets are classified on the basis of the business model adopted to manage them and their cash flows. The following categories were identified:

a. Financial assets measured at amortized cost

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is to hold assets to collect contractual cash flows; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. They concern trade receivables, loans and other receivables. Loan and other receivables are included with current assets, except those whose contractual collection date is after twelve months from the reporting date, which are classified as non-current assets. The loan and other receivables are classified in the Statement of Financial Position as trade and other receivables. Except for trade receivables that do not contain a significant financing component, the loan and other receivables are initially recognized at their fair value adjusted by directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price (determined in accordance with IFRS 15 Revenue from Contracts with Customers). After initial recognition, the assets belonging to such category are measured at amortized cost, using the effective interest rate. The effects of such measurement are recognized in profit and loss. The assets are also subject to the impairment model described in the foregoing section on trade and other receivables.

b. Fair Value through Other Comprehensive Income ("FVOCI")

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is met both collecting contractual cash flows and selling these assets; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. The assets are initially recognized at their fair value adjusted by directly attributable transaction costs. Afterward, the initial recognition is updated and any changes in fair value are recognized in Other Comprehensive Income ("OCI"). Like the previous category, the assets are subject to the impairment model described in the section on trade and other receivables.

c. Fair Value through Profit and Loss ("FVPL")

Financial assets that do not fall within the preceding categories are classified in this residual category. They are mainly derivatives and equity instruments, both listed and not listed on financial markets, that the Company has irrevocably decided to classify as FVOCI upon initial recognition or in transitioning. The assets belonging to this category are classified as current assets or non-current assets according to when they are due and they are stated at fair value at initial recognition. Investments in unconsolidated companies over which the Company does not have significant influence are included in this category and accounted for as investments in subsidiaries and associates. Related costs incurred at initial recognition of the asset are accounted for immediately in the Income Statement. FVPL financial assets are subsequently measured at fair value. Profits and losses deriving from changes in fair value are recognized in the Income Statement as they arise, within the net other income/(expenses). Purchases and sales of financial assets are accounted for on the settlement date. Financial assets are derecognized when the rights to receive cash flows deriving from the instrument are extinguished and the Company has transferred substantially all the risks and rewards of ownership and control of the asset. The fair value of financial instruments is based on the current price offered. If the market for a financial asset is not active (or the asset consists of unlisted securities), the Group determines fair value by using valuation techniques. The techniques include referring to advanced negotiations in progress, referring to securities having the same characteristics, analysis based on cash flows, pricing models based on the use of market indicators and aligned, as much as possible, to the asset being measured. In the valuation process, the Group tends to use market information instead of internal information referring specifically to the nature of the business in which the Group operates.

Cash and bank balances

Cash and bank balances include cash, demand deposits at banks and other highly liquid short-term investments, i.e. with an original duration of up to three months, and are stated at the amounts actually on hand at the reporting date.

Assets held for sale and related liabilities

These items include non-current assets (or disposal groups of assets and liabilities) whose carrying value will be recovered mainly through sale rather than through continuing use. Assets held for sale (or disposal groups) are recognized at their net carrying value or fair value less costs to sell, whichever is less.

If those assets (or disposal groups) should cease to be classified as assets held for sale, the amounts are not reclassified or presented for comparative purposes with the classification in the most recent Statement of Financial Position.

Equity

Share capital

Share capital consists of the subscribed and paid-up capital.
Direct issue costs of new share issues are classified as a direct reduction of equity after deferred taxes.

Treasury shares

Treasury shares are shown as a deduction of equity. The original cost of treasury shares and revenues arising on subsequent sale are recognized as changes in equity. The nominal value of the treasury shares owned is directly deducted from share capital, while the value exceeding the nominal value is used to reduce the treasury share reserve included in the retained earnings/(losses) reserves.

Employee benefits

Post-employment benefit plans are classified, according to their characteristics, as either defined contribution plans or defined benefit plans.

Defined benefit plans, such as that of the "fondo trattamento di fine rapporto" ("TFR", severance indemnity provision) in place until the 2007 Italian Financial Law became effective, are plans under which guaranteed employee benefits are paid upon termination of employment. The defined benefit plan obligation is determined on the basis of actuarial assumptions and is recognized on an accruals basis consistently with the employment service necessary to obtain the benefits; the obligation is measured annually by independent actuaries.

The benefits accrued in the year, determined with actuarial methodology, are recognized in the income statement with the personnel costs, whereas the notional interest cost is recognized in net financial income/(costs).

Actuarial gains and losses from changes in actuarial assumptions are recognized directly in the equity of the year they emerge, in accordance with Revised IAS 19.

On January 1, 2007, the 2007 Financial Law and related enactment decrees brought significant changes to employee severance indemnity regulations, including the possibility for the employee to choose, by June 30, 2007, how to allocate his or her accruing benefits. New accruing severance indemnities may be assigned by the employee to selected pension funds or kept within the company (in the latter case the company will pay the severance pay contributions into a treasury account held at the INPS).

Pursuant to these changes, the severance indemnity provision accrued up to the date of the employee's decision (defined benefit plans) was recalculated by independent actuaries, excluding the component of future salary raises. Severance indemnities accruing from the date of the employee's decision, and in any case from June 30, 2007, are considered a defined contribution plan, so the accounting treatment is similar to that in effect for all other contribution payments.

Provisions for risks and charges

Provisions for risks and charges consist of allowances for present obligations (either legal or constructive) toward third parties that arise from past events, the settlement of which will probably require an outflow of financial resources, and the amount of which can be estimated reliably.

Provisions are stated at the discounted best estimate of the amount the company should pay to settle the obligation or to transfer it to third parties as at the reporting date.

Changes in estimates are reflected in the income statement of the period in which the change occurs.

Risks for which the emergence of a liability is merely possible are identified in the section relating to commitments and guarantees without making any allowances for them.

Trade payables and other non-financial liabilities

This item refers to payables originating from the purchase of goods or services that have not been settled by the end of the reporting period. They are not usually covered by guarantees and are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Financial liabilities

Borrowings (loans) are initially recognized at cost, corresponding to the fair value of the liability less their transaction costs.

They are subsequently measured at amortized cost; any difference between the amount financed (net of transaction costs) and the nominal value is recognized in the income statement over the life of the loan, using the

effective interest method. If there is a change in the anticipated cash flows and management is able to estimate them reliably, the value of borrowings is recalculated to reflect such changes.

Loans are classified among current liabilities if they mature in less than 12 months from the end of the reporting period and if the Group does not have an unconditional right to defer their payment for at least 12 months.

Loans are derecognized when they are paid off or when all risks and costs associated with them have been transferred to third parties.

Revenues and income

In accordance with the five-step model introduced by IFRS 15, the Company recognizes revenue after having identified the contracts with its customers and the performance obligations in the contract (transfer of goods and/or services), determined the amount of consideration to which it is entitled in exchange for satisfying each of the performance obligations, and evaluated how the performance obligations were satisfied (at a point in time or over time). The Group recognizes revenues only when all the following requirements have been met (requirements for identifying the contract(s) with the customer): a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations; therefore, an agreement exists that creates the rights and obligations regardless of the form of such agreement; b) the Group can identify each party's rights in relation to the goods or services to be transferred; c) the Group can identify the payment terms of the goods or services to be transferred; d) the contract has commercial substance; and e) it is probable that the Group will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. If the above criteria are not met, the related revenues are recognized when: (i) the Group has already transferred goods and/or services to the customer and all, or substantially all, of the promised consideration has been received and is non-refundable; or (ii) the contract is terminated and the consideration received is non-refundable.

If the above criteria are met, the sales revenues are recognized when the control of the good sold is transferred to the customer, or when the good is delivered to the customer under the terms of the contract and the customer acquires the full ability to direct the use of it, and obtain substantially all of the remaining benefits from it. When the sale contract provides for retrospective volume discounts, the Company estimates their effect and treats it as a variable component of the agreed consideration. The Group also estimates the effect of possible returns from customers. This effect is accounted for as a variable component of the contractual consideration with the contextual presentation of a refund liability among the short-term risk provisions and the corresponding return asset among other current assets in the Statement of Financial Position. The estimate is based on the right-of-return policies and practices adopted by the Company and past trends of sales returns. The variable components of the consideration (discounts and returns) are recognized in the financial statements only when it is highly probable that a significant adjustment to the amount of revenue recognized will not occur. No post-delivery obligations exist besides the product warranties, where required by local regulations; the warranties do not constitute a separate service and they are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Interest income is accrued on a time basis by reference to the effective interest rate applicable to the related asset.

Dividends are recognized when the shareholder's rights to receive payment are established. This normally occurs when the dividend distribution resolution is approved at the General Meeting.

Cost of sales

The cost of sales includes the cost of producing or acquiring the goods and products sold. It includes all the costs of materials, processing, and expenses directly associated with production. It also includes the depreciation of buildings, plant and equipment, the amortization of the intangible assets used in production and inventory impairment losses.

Royalties

The Group accounts for royalty expense on an accruals basis according to the substance of the agreements stipulated.

Other costs

The costs are recognized according to the relevance and matching principles.

Financial income and costs

Interest is accounted for according to the accrual concept on the basis of the interest rate established by contract. If not established by contract, interest is recognized using the effective interest method, i.e. using the interest rate that makes all inflows and outflows of a specific transaction financially equivalent.

Translation of foreign currency amounts

Transactions in currency other than the Euro are translated into local currency using the exchange rates in force on the transaction date. Foreign exchange differences realized in the period are recognized in the Income Statement.

Foreign currency receivables and payables are adjusted at the exchange rate in force on the reporting date, recognizing the entire amount of profit or loss arising on exchange as financial income or finance costs in the income statement.

Income taxes

Income taxes are stated in the Income Statement, except for those regarding items recognized directly in equity, for which the tax effect is also recognized directly in equity.

Deferred taxes are calculated on the temporary differences generated between the value of the assets and liabilities reported in the financial statements and the value attributed to those assets and liabilities for tax purposes.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which they may be recovered. The carrying value of deferred tax assets is reviewed at the end of each reporting period and, as necessary, is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reductions are reversed if the conditions causing them should cease to exist.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, considering the tax rates in force and those that have been enacted or substantially enacted by the reporting date.

Other taxes not relating to income, such as property and equity taxes, are included in the operating items.

FINANCIAL RISK FACTORS

Financial risks

Financial risk management is an integral part of Marcolin Group's activities and is performed centrally by the Parent Company based on strategies to cover specific areas, i.e. through hedges of foreign exchange risks and risks deriving from fluctuations of interest rates.

The Group seeks to minimize the impact of such risks on its results, and in previous years some hedging instruments were used.

Although the derivatives were designated exclusively to hedge against the risk of exchange rate variability on sales to customers in U.S. dollars, they do not qualify for hedge accounting because they do not fully meet the strict requirements, including formal ones, of the applicable accounting standard.

Those contracts were no longer stipulated in 2019 due to the natural hedge from which the Group benefits as a result of the current structure of revenues and expenses in foreign currency.

Currency risk

The Report on Operations provides details on Marcolin Group's and Marcolin S.p.A.'s currency risk.

With respect to transaction risk, according to the sensitivity analysis performed, a change in exchange rates should not significantly impact the Group's Consolidated Financial Statements.

With respect to translation risk, according to the sensitivity analysis performed, a 5% appreciation of the U.S. dollar as at December 31, 2019 would result in a euro 4.7 million increase in the translation reserve, whereas a 5% depreciation of the U.S. dollar as at December 31, 2019 would result in a euro 4.3 million decrease in the translation reserve.

Supplier risks

The Company uses contract manufacturers and third-party suppliers to manufacture and/or process some of their products.

The use of contract manufacturers and third-party suppliers involves additional risks, such as cancellation and/or termination of contracts, poor quality in the supplies and services provided and delivery delays.

Delays or defects of products supplied by third parties, or the cancellation or termination of supplier contracts without having adequate alternative sourcing available, could have a negative impact on the Company's business operations, financial position and performance.

Contract manufacturers and third-party suppliers, located mainly in Italy and Asia, are submitted to continuous controls by the responsible functions to verify compliance with quality and service standards, including those relating to delivery timing and methods, and fair prices with respect to the target margins.

The Company manages this risk by constantly monitoring the sourcing markets, also in order to identify alternative manufacturers and suppliers in case of temporary or structural difficulties with the current suppliers.

With respect to procurement, the Company monitors directly with certain subsidiaries the performance of the Asian suppliers, from a quantitative and qualitative point of view (quality, reliability and service), in light of the particular social and economic dynamics characterizing that sourcing market.

Another factor that mitigates supplier risk is the new factory in Longarone (in the Fortogna district), inaugurated in 2015, which has enabled to double the production of Italian manufactured goods, thereby reducing the dependence on external supplies.

Reasons for which the consolidation and development of its production capacity in Italy are important to Marcolin include reduced dependence on external suppliers (both Italian and Asian), which enable to shorten the manufacturing lead time and thus increase the ability to seize market opportunities (and improve the time to market), and the possibility to manage the inflation risk regarding the Chinese sourcing market, as production insourcing will result in greater control of production factors.

It is worth noting that the Company does not depend to a significant extent on a limited number of suppliers, and is not affected by the price trends of the raw materials needed in the various phases of the eyewear production.

Interest rate risk

The Report on Operations provides details on Marcolin Group's and Marcolin S.p.A.'s interest rate risk.

The section on liquidity risk provides a quantitative analysis of the Group's exposure to cash flow risk relating to interest rates on loans.

Information on outstanding loans is provided subsequently in these notes.

Interest rate sensitivity analysis

Interest rate sensitivity analysis was performed, assuming a 25 basis-point increase and a 10 basis-point decrease of the Euribor/Swap yield curves, published by Reuters for December 31, 2019. In this manner, the Group determined the impact that such changes would have on income and on equity.

The sensitivity analysis excluded financial instruments that are not exposed to significant interest rate risk, such as short-term trade receivables and payables.

The interest on bank borrowings was recalculated using the above assumptions and the investment position in the year, recalculating the higher/lower annual finance costs.

For cash and bank balances, the average balance of the period was calculated using the book values at the beginning and end of the year. The effect on income of a 25 basis-point increase/10 basis-point decrease in the interest rate from the first day of the period was calculated on the amount thus determined.

According to the sensitivity analysis performed on the basis of the above criteria, the Group is exposed to interest rate risk on its expected cash flows. If interest rates should rise by 25 basis points, income would decrease by euro 46 thousand due to higher interest expense with banks and third parties with respect to the increase in financial income on bank accounts.

If interest rates should fall by 10 basis points, income would increase by euro 18 thousand.

Credit risk

The Group has no significant concentration of credit risk. Receivables are recognized net of the impairment calculated in accordance with IFRS 9. Guidelines have been implemented for managing customer credit, supervised by the designated business function (Credit Management), to ensure that sales are conducted only with reasonably reliable and solvent parties, and through the setting of differentiated credit ceilings (according to creditworthiness).

The trade receivables and other current assets are set forth below by the main areas in which the Group operates in order to evaluate the country risk. The section on accounting standards provides additional information.

Trade receivables by geographical area and other current assets	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Italy	25,267	28,725
Rest of Europe	18,486	16,642
North America	26,346	24,959
Rest of Word	39,132	44,476
Total	109,230	114,801

Trade receivables not past-due are set forth below by geographical area (IFRS 7) below:

Trade receivables not overdue by geographical area	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Italy	11,340	13,301
Rest of Europe	13,375	13,984
North America	23,762	24,447
Rest of Word	31,912	32,216
Total	80,388	83,947

The following table shows the undisputed trade receivables due and past due (in an aging analysis):

Ageing analysis of trade receivables not protested	Gross value	Provision	Net value
<i>(euro/000)</i>			
12/31/2018			
Not past due	83,947	(2,154)	81,793
Past due by less than 3 months	9,000	(504)	8,496
Past due by 3 to 6 months	2,375	(940)	1,435
Past due by more than 6 months	4,304	(4,211)	93
Total	99,626	(7,809)	91,817
12/31/2019			
Not past due	80,388	(2,280)	78,108
Past due by less than 3 months	9,771	(1,562)	8,210
Past due by 3 to 6 months	5,338	(1,388)	3,950
Past due by more than 6 months	1,737	(1,379)	358
Total	97,235	(6,609)	90,626

In some markets where the Group operates, receivables are regularly collected after the date stipulated by contract, without this necessarily indicating collection issues or financial difficulties. Consequently, there are trade receivable balances that were not considered impaired even though they were past due.

The balance of these trade receivables is set forth in the table below by past-due category:

Trade receivables overdue but not impaired	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Past due less than 3 months	2,936	2,307
Past due more than 3 months	480	1,245
Total	3,415	3,552

For the sake of exhaustive disclosure, an aging analysis of disputed receivables and the related writedowns is set forth below:

Ageing analysis of protested trade receivables	Gross value	Provision	Net value
<i>(euro/000)</i>			
12/31/2018			
Past due by less than 12 months	484	(383)	101
Past due by more than 12 months	4,676	(4,603)	73
Total	5,160	(4,985)	175
12/31/2019			
Past due by less than 12 months	594	(567)	28
Past due by more than 12 months	5,235	(5,215)	21
Total	5,829	(5,781)	48

The changes in the provision for doubtful debts are set forth below:

Provision for doubtful debts	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Opening amount	12,794	8,277
Adjustments opening balance as at 1 January 2018 in accordance with IFRS9	-	2,485
Provisions/Reversal on P&L	2,928	3,020
Use	(3,466)	(1,023)
Reclassifications and other movements	22	-
Translation difference	113	35
Period end Total	12,390	12,794

In accordance with IFRS 9, the expected losses on trade receivables were estimated upon initial recognition of the receivable and over its lifetime (lifetime expected credit loss). As allowed by the standard, a matrix was used to estimate the expected credit losses that took into account the geographical source of the receivable and the type of customer. The matrix considers different loss percentages according to the aging category of the receivables. The expected loss percentage rises when the receivable seniority rises.

Liquidity risk

Prudent management of liquidity risk entails keeping a sufficient level of liquidity and having sources of funding available to meet working capital requirements by means of adequate credit lines.

Due to the dynamic nature of its business, the Group has always preferred the flexibility of obtaining funding through the use of credit lines. As noted in the Report on Operations, since February 2017 the Parent Company has had a revolving credit facility (RCF) of nominal euro 40 million available for short-term cash flow requirements.

At present, based on its available sources of funding and credit facilities, the Group considers its access to funding to be sufficient for meeting the financial requirements of ordinary operations and for the capital expenditures planned. The Marcolin Group Report on Operations also discusses this subject.

Liquidity analysis

Liquidity analysis was performed on loans and trade payables. Principal repayments and non-discounted interest were specified by time brackets. Future interest amounts were determined using forward interest rates taken from the spot-rate curve published by Reuters at the end of the reporting period.

None of the cash flows included in the table were discounted. They also consider the Group's debt as at December 31, 2019.

(euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Carrying value
Loans and bonds (excluding capital lease)	54,596	7,693	250,000	-	307,145
Interest expenses on loans, bonds, leasing	12,981	21,699	1,772	127	1,704
Capital lease (*)	6,139	8,422	4,428	2,519	21,508
Trade payables	143,869	-	-	-	143,869

(*) for more details, please see the specific paragraph "accounting policy".

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments are shown by type in the following table (in comparison with the amounts of the prior year), in accordance with IFRS 7. The financial instruments were classified in accordance with IFRS 9 and the amounts referring to 2019 were classified in accordance with the new accounting standard, IFRS 16.

Categories of financial assets (euro/000)	Trade receivables	Financial assets	Cash and cash equivalents
2019			
Loans and other financial receivables at amortized cost	90,674	18,149	45,872
Financial assets at fair value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	90,674	18,149	45,872

Categories of financial assets (euro/000)	Trade receivables	Financial assets	Cash and cash equivalents
2018			
Loans and other financial receivables at amortized cost	91,992	23,807	34,184
Financial assets at fair value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	91,992	23,807	34,184

Categories of financial liabilities (euro/000)	Trade payables	Financial liabilities	Bond
2019			
Financial liabilities at amortized cost	143,869	60,881	247,968
Lease financial liabilities (*)	-	21,508	-
Total	143,869	82,389	247,968

(*) for more details, please see the specific paragraph "accounting policy".

Categories of financial liabilities (euro/000)	Trade payables	Financial liabilities	Bond
2018			
Financial liabilities at amortized cost	150,134	44,187	246,745
Financial liabilities as under IAS 17	-	1,507	-
Total	150,134	45,694	246,745

FAIR VALUE MEASUREMENT HIERARCHY

The financial instruments measured at fair value are presented on the basis of the fair value hierarchy, described below:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

In 2019 the Company did not own any financial instruments measured at fair value.

USE OF ESTIMATES

The preparation of consolidated financial statements requires making estimates that could affect the carrying value of some assets, liabilities, income and expenses, and disclosures concerning contingent assets and liabilities at the reporting date.

Estimates were used mainly to determine the recoverability of intangible assets (including goodwill), the useful lives of tangible assets, the recoverability of receivables (including deferred tax assets), the valuation of inventories and the recognition or measurement of provisions for risks and charges.

The estimates and assumptions are based on data that reflect currently available information.

The estimates and assumptions that involve a significant risk of changes in the carrying values of assets and liabilities are described hereunder.

Goodwill

Pursuant to IAS 36, the Group performs impairment tests at least annually.

Recoverable values are calculated based on "value in use".

The calculations require using estimates of the future performance of the cash-generating units (CGUs) to which goodwill belongs (business plan forecasts), the discount rate (weighted average cost of capital or "WAAC") and the prospective growth rate to be applied to the forecast cash flows ("g" rate).

Impairment of non-current assets

When there is indication that the net carrying value could exceed the recoverable value, non-current assets are reviewed to determine whether they have suffered impairment losses, in accordance with the accounting standards adopted. The recoverable amount is analyzed by comparing the carrying amount of the asset with its fair value less costs to sell and value in use, whichever is greater.

If any such indication exists, management is required to perform subjective evaluations based on information available within the Group and on the market, and based on the management's knowledge.

If indications of impairment should exist, the Group calculates the potential impairment using the valuation techniques it considers to be the most appropriate.

Proper identification of impairment indications and estimates of potential impairment are dependent on factors that may vary over time, affecting the measurements and estimates made by management.

Provision for doubtful debts

The provision for doubtful debts reflects management's estimates of future losses on trade receivables. The provision for doubtful debts is calculated in accordance with IFRS 9.

Returns provision and product warranty provision

The returns provision and product warranty provision reflect management's estimate of losses deriving from the customers' possibility under contract to return products sold. The product warranty provision gives the customer the possibility to return defective merchandise and receive in exchange an analogous (non-defective) product.

The returns provision is accounted for in accordance with IFRS 15, and the product warranty provision in accordance with IAS 37.

Provision for inventory impairment

The provision for inventory impairment reflects management's estimates regarding the losses expected by the Group, determined on the basis of past experience and both past and anticipated market trends.

Deferred tax assets

Recognition of deferred tax assets is based on expectations of profits in future years.

Estimates of future earnings used to recognize deferred tax assets are dependent on factors that may vary over time and significantly affect estimates of deferred tax assets.

ANALYSIS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Comments and the most significant changes in the items compared with the Consolidated Financial Statements for the year ended December 31, 2018 are described in this section (the amounts are in thousands of euros, unless specified otherwise).

1. PROPERTY, PLANT, AND EQUIPMENT

The composition of and annual changes in the item are set forth below:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP&E	Assets under construction	Total
Net value at beginning of 2018	13,724	6,595	1,906	6,664	182	29,070
Increases	1,002	1,857	1,395	3,819	295	8,367
Decreases	(342)	(41)	(14)	(156)	(32)	(585)
Depreciation	(919)	(1,734)	(1,353)	(3,069)	-	(7,075)
Translation difference	38	-	16	99	9	163
Reclassification and other movements	97	-	(85)	93	(105)	0
Net value at end of 2018	13,600	6,676	1,865	7,450	349	29,941
Net value at beginning of 2019	13,600	6,676	1,865	7,450	349	29,941
Increases	17,338	4,345	2,534	8,178	351	32,745
Decreases	6	(344)	(197)	(3)	-	(538)
Depreciation	(4,960)	(1,982)	(1,620)	(5,174)	-	(13,735)
Translation difference	47	-	9	71	7	134
Reclassification and other movements	272	-	-	-	(272)	(0)
Net value at end of 2019	26,304	8,695	2,591	10,522	436	48,548

The 2019 capital expenditures totaled euro 32,745 thousand and regarded mainly the following investments (the amounts include the effect of IFRS 16 adoption):

- euro 17,338 thousand for factory buildings; the part not referring to the IFRS 16 effect regards primarily construction work done on some buildings owned;
- plant and machinery purchases of euro 4,345 thousand; the part not referring to the IFRS 16 effect regards exclusively industrial plant and machinery purchased by the Parent Company to renew existing production lines;
- equipment purchases of euro 2,534 thousand; the part not referring to the IFRS 16 effect regards mainly the Parent Company;
- other purchases totaling euro 8,178 thousand; the part not referring to the IFRS 16 effect consists primarily of computer hardware, office furniture and other equipment and sales-related furnishings;
- increases of euro 351 thousand refers to work in progress and advances.

Depreciation is euro 13,735 thousand and consists of:

- euro 3,594 thousand recognized in the components of cost of sales;
- euro 820 thousand recognized in distribution and marketing expenses;
- euro 1,554 thousand recognized in general and administration expenses.

The undepreciated values of property, plant and equipment and their accumulated depreciation as at December 31, 2019 are shown in the following table:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP&E	Assets under construction	Total 12/31/2019
Undepreciated value	44,127	26,270	21,731	27,977	436	120,540
Accumulated depreciation	(17,823)	(17,575)	(19,139)	(17,455)	-	(71,993)
Net value	26,303	8,695	2,591	10,522	436	48,548

The following table presents the amounts of the previous year:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total 12/31/2018
Undepreciated value	26,602	25,550	19,350	19,962	350	91,814
Accumulated depreciation	(13,002)	(18,874)	(17,485)	(12,512)	-	(61,872)
Net value	13,600	6,676	1,865	7,450	350	29,941

The table below presents the effect of IFRS 16 application on the respective item. The recognition of the right-to-use asset at January 1, 2019 and the related 2019 depreciation, for leases previously classified as operating leases under IAS 17, are listed in the following tables:

€/000	12/31/2019	01/01/2019
Land and buildings	13,108	16,132
Industrial and commercial equipment	881	247
Cars	2,745	2,827
Other tangibles fixed assets	111	104
Total Right-of-use assets	16,845	19,310

€/000	2019
Land and buildings	3,632
Industrial and commercial equipment	191
Cars	1,268
Other tangibles fixed assets	41
Total depreciation of Right-of-use	5,132

IFRS 16 adoption and the effects thereof are explained in the specific section of this Annual Report.

2. INTANGIBLE ASSETS AND GOODWILL

The composition of and changes in this item are set forth below:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total	Goodwill
Net value at beginning of 2018	8,202	8,583	21,854	10,969	49,609	282,326
Increases	2,539	-	3,799	1,533	7,871	-
Decreases	-	-	-	(10)	(10)	-
Amortization	(3,249)	(1,646)	(7,091)	-	(11,987)	-
Translation difference	156	167	489	252	1,064	4,180
Reclassification and other movements	617	-	-	(618)	0	-
Net value at end of 2018	8,264	7,105	19,051	12,126	46,547	286,506
Net value at beginning of 2019	8,264	7,105	19,051	12,126	46,547	286,506
Increases	2,960	4,064	7,024	1,249	15,296	-
Decreases	(29)	-	(6)	(22)	(57)	-
Amortization	(3,645)	(4,252)	(3,476)	-	(11,372)	-
Translation difference	76	63	214	106	459	1,942
Reclassification and other movements	416	-	-	(416)	(0)	-
Net value at end of 2019	8,043	6,981	22,807	13,042	50,873	288,448

The annual increase of euro 15,296 thousand includes euro 2,960 thousand for software, referring primarily to the Parent Company's new business software and the implementation thereof, and regards other intangible assets regarding amounts paid by the Parent Company and by the American affiliate to some licensors to extend licenses.

Amortization is euro 11,372 thousand and consists of:

- euro 7,963 thousand recognized in distribution expenses;
- euro 120 thousand recognized in manufacturing costs;
- euro 3,289 thousand recognized in general and administration expenses.

The unamortized value of intangible assets and goodwill and their accumulated amortization as at December 31, 2019 are shown in the following table:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total	Goodwill
Undepreciated value	33,114	19,581	55,130	13,042	120,868	288,449
Accumulated depreciation	(25,071)	(12,601)	(32,323)	-	(69,995)	-
Net value	8,043	6,980	22,807	13,042	50,873	288,449

The following table presents the amounts of the previous year:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2018	Goodwill
Undepreciated value	29,482	17,591	45,512	12,126	104,711	286,506
Accumulated depreciation	(21,217)	(10,486)	(26,460)	-	(58,164)	-
Net value	8,264	7,105	19,052	12,126	46,546	286,506

The value of goodwill at December 31, 2019 is euro 288,449 thousand. The increase from December 31, 2018 is attributable exclusively to the translation into euro of the goodwill recognized by some Group companies in their local currency.

Goodwill was tested for impairment to assess the fairness of the carrying amount as at December 31, 2019.

The recoverable amount of goodwill was estimated using Marcolin Group's value in use, assumed as the enterprise value emerging from the application of the unlevered free cash flow method to the projected cash flows of Marcolin Group's continuing operation.

The following assumptions were made to determine value in use:

- the cash-generating unit was identified in the entire Marcolin Group (cash flows from projected operating/financing activities of Marcolin S.p.A. and all its Italian and foreign subsidiaries) because the Group's organizational structure uses a centralized model headed by Marcolin S.p.A.;
- the main data sources used were: the draft financial statements for the year ended December 31, 2019, the 2020 Budget and the 2021 - 2022 business plan⁹;
- the terminal value was calculated using the 2022 EBITDA, assuming perpetual growth at a "g" rate of 2.4%, conservatively considering the inflation projections for the countries in which Marcolin is present. The resulting cash flow is adjusted to normalize the cash flow expected in perpetuity, according to the standard measurement practice;
- the cash flow discount rate (WAAC) is 9.7%, calculated in line with the Capital Asset Pricing Model (CAPM) commonly used for valuation in doctrine and in standard practice. This rate reflects current market estimates referring to: 1) the cost of capital for debt (Kd = 3.0% , after taxes); 2) the expected return on the risk capital invested in Marcolin (Ke = 10.3%), weighted considering the source of the Group's main cash flows. Weighted Kd/Ke was determined under the applicable accounting standards by considering the average financial structure of Marcolin's main comparables, assuming that the value of the entity's projected cash flows does not derive from its specific debt/equity ratio. WAAC was calculated considering the impact of IFRS 16, consistently with the amount of the net invested capital, which reflects the new accounting standard.

Based on the results of the analysis performed, goodwill did not suffer any impairment losses given that the value in use exceeds the carrying amount as at December 31, 2019 by a wide margin.

Moreover, sensitivity analysis was performed on the Group's enterprise value, determined with the previously described methods, assuming:

- changes in WAAC;
- changes in the g rate.

In this case, a half-percentage point increase in WAAC would result in a 7% decrease in the enterprise value (given the same g), whereas a half-percentage point decrease in the g rate would result in an 6% decrease in the enterprise value (given the same WAAC). Neither case would result in an impairment loss.

In addition, a stress test was performed assuming higher capital expenditures than those budgeted, and estimating possible cash outflows that the Group could incur to renew certain licenses upon their expiration. The stress test confirmed that the coverage amounts remain positive, with broad safety margins.

Concessions, licenses and trademarks include the Web trademark. This asset, which was obtained in November 2008 for euro 1,800 thousand and whose purchase price was determined by an independent professional appraiser, is amortized over 18 years.

⁹ The impairment test document was approved by the Parent Company's Board of Directors on January 31, 2020.

Concessions, licenses and trademarks also include euro 10,000 thousand for an option, already exercised, that enabled the Group to extend a licensing agreement beyond its expiration date (2015) to December 2022. This cost is amortized over 7 years starting from 2016.

3. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The investments in associates, totaling euro 451 thousand, consist exclusively of the investment in Thélios S.p.A., consolidated with the equity method. The amount was obtained by applying the previously described consolidation method, and reflects Marcolin Group's interest in the associate's equity. The amount at December 31, 2019 was impacted by losses ensuing from the company's start-up phase. The losses are consistent with the business projections made by the company's management when the partnership agreement was stipulated, and resulted from heavy expenses incurred initially to start up production that were not offset by product sales, which commenced as planned in early 2018.

In accordance with IFRS 12, the key financial information of Thélios S.p.A. and its subsidiaries at December 31, 2019 is presented hereunder:

	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Non-current assets	78,068	42,509
Current assets	43,009	42,731
Cash and cash equivalents	6,446	6,643
TOTAL ASSETS	127,524	91,883
EQUITY	921	2,809
Non-current financial liabilities	16,063	14,145
Other non-current liabilities	4	289
Current financial liabilities	76,753	45,879
Other current liabilities	33,783	28,762
TOTAL LIABILITIES	126,603	89,075
TOTAL LIABILITIES AND EQUITY	127,524	91,883

	2019	2018
<i>(euro/000)</i>		
Net revenues	54,856	38,746
Operating expenses	(81,997)	(59,109)
OPERATING INCOME – EBIT	(27,141)	(20,362)
Financial income	135	76
Financial costs	(1,987)	(724)
Depreciation, amortization, impairment loss on inves	(6,647)	(3,129)
PROFIT (LOSS) BEFORE TAXES	(35,640)	(24,140)
Income tax expense	8,751	5,703
NET PROFIT (LOSS) FOR THE PERIOD	(26,889)	(18,437)

The following table presents the reconciliation of the associate's net profit/loss with the carrying amount of the consolidated equity interest consolidated with the equity method in the Group' Statement of Financial Position.

	2019	2018
<i>(euro/000)</i>		
January, 01 2019 Equity	2,809	1,246
Period result	(26,889)	(18,437)
Share capital increase	25,000	20,000
31 December 2019 Equity	920	2,809
% owned by Marcolin SpA	49%	49%
Carrying value	451	1,377

The associate did not pay any dividends to shareholders in 2019.

4. DEFERRED TAX ASSETS AND LIABILITIES

The net deferred tax assets as at December 31, 2019 are euro 36,356 thousand (euro 34,028 thousand in 2018), the balance of euro 43,163 thousand in deferred tax assets and euro 6,808 thousand in deferred tax liabilities. The amount is primarily attributable to the Parent Company, for euro 3,738 thousand (euro 6,117 thousand in 2018), Marcolin USA Eyewear Corp. for euro 23,905 thousand (euro 19,002 thousand in 2018), and Marcolin France sas for euro 3,240 thousand (euro 3,597 thousand in 2018).

The amount refers to:

- euro 24,916 thousand in temporary differences generated between the value of the assets and liabilities reported in the financial statements and the value attributed to those assets and liabilities for tax purposes;
- euro 11,440 thousand in tax assets recognized on tax losses.

Recognition of deferred tax assets was made possible by the prospect of realizing the assets due to the expectation of future taxable profits according to the business plans prepared by the Group.

More information is provided in Note 29 on income taxes.

5. OTHER NON-CURRENT ASSETS

The balance as at December 31, 2019 is euro 315 thousand (versus euro 469 thousand at the end of the prior year). The previous year's amount was adjusted as described in the introduction of these Notes. The item consists principally of commissions on the Parent Company's euro 40 million senior revolving credit facility, of which euro 27 million had been used as at December 31, 2019.

6. NON-CURRENT FINANCIAL ASSETS

This item amounted to euro 1,813 thousand on December 31, 2019 (euro 2,513 thousand in 2018), referring primarily to a euro 5,000 thousand loan granted by the Parent Company to a third party, on which interest accrues at market rates and whose repayments began in 2013 (with installments until 2022). The current portion receivable, recognized among current financial assets, is euro 760 thousand.

7. INVENTORIES

Inventories are detailed below:

Inventories (euro/000)	12/31/2019	31/12/2018
Finished goods	117,714	121,296
Raw material	17,187	15,867
Work in progress	18,137	19,754
Gross inventory	153,039	156,917
Inventory provision	(30,262)	(30,856)
Net inventory	122,777	126,061

Net inventories fell by euro 3,284 thousand from the previous year. The reduction is attributable to a euro 3,878 decrease in gross inventory and a fairly stable inventory impairment provision. The inventory decrease derives from the action taken by management to improve the efficiency of inventory management by reducing considerably the number of models produced and accelerating the sales period for them.

The inventory impairment provision provides adequate coverage for obsolete and slow-moving inventory, taking into account the composition of and possibility to sell such inventory.

8. TRADE RECEIVABLES

The composition of the trade receivables is as follows:

Trade receivables (euro/000)	12/31/2019	12/31/2018
Gross trade receivables	103,064	104,786
Provision for bad debts	(12,390)	(12,794)
Net trade receivables	90,674	91,992

Net trade receivables rose by euro 90,358 thousand. The trade receivables trend was affected by the Group's strategies to reduce the average collection period, or "days sales outstanding" (DSO).

The amount of receivables recognized was not discounted, since all receivables are due within 12 months.

The provision for doubtful debts was calculated in accordance with IFRS 9. More information is provided in the section on financial risk factors.

9. OTHER CURRENT ASSETS

The composition of other current assets is shown below:

Other current assets (euro/000)	12/31/2019	31/12/2018
Tax credits	7,892	12,793
Prepaid expenses	8,685	7,650
Assets for rights to receive goods back	8,840	8,353
Other receivables	1,979	2,366
Total other current assets	27,396	31,162

This item, euro 27,396 thousand (euro 31,162 thousand in 2018), presents a decrease of euro 3,766 thousand from the prior year.

The tax credits consist mainly of VAT and taxes paid on account. The annual decrease of euro 4,901 thousand is attributable primarily to the Parent Company's lower VAT credits deriving from a different mix compared with the prior year of the purchasing and sales liable to VAT in the last six months of the year. The excess at the end of 2018 was offset in the initial months of 2019.

"Other receivables" consists primarily of amounts due from 3 Cime S.p.A. under the tax consolidation agreement in effect with that company. The balance due from 3 Cime S.p.A. at December 31, 2019 is euro 7,465 thousand, versus euro 7,037 thousand at December 31, 2018. The increase derives from the recognition of receivables for foreign withholding tax transferred to the head entity when the 2019 tax return was filed, which outweighed the tax consolidation expense as a result of Marcolin S.p.A.'s IRES for 2019.

The right-of-return assets comprise the estimated assets for the right to recover products returned, recognized in accordance with IFRS 15.

"Other assets" consists mainly of prepaid insurance premiums and other costs for projects relating to 2029.

10. CURRENT FINANCIAL ASSETS

This item, euro 16,336 thousand at December 31, 2019 (euro 21,294 thousand in 2018), refers primarily to euro 15,566 thousand due to Marcolin S.p.A. by Thélios S.p.A. under the loan agreement stipulated with the associate to enable the latter to finance the start-up of its business. Euro 760 thousand refers to the current portion due on a loan granted by Marcolin S.p.A. to a third party which accrues interest at market rates, and whose repayments began in 2013 (with installments until 2022).

11. CASH AND BANK BALANCES

This item represents the value of cash deposits and highly liquid financial instruments, i.e. those with a maturity of up to three months.

It rose by euro 11,688 thousand in the period. The increase is shown in the Consolidated Statement of Cash Flows, which provides information on the 2019 movements in cash and cash equivalents.

12. EQUITY

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2018 to the new shareholder, Vicuna Holding S.p.A. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. The share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2019, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The share premium reserve was euro 170,304 thousand as at December 31, 2018, and the capital reserve account remained unchanged at euro 46,108 thousand.

The legal reserve of euro 5,483 thousand has not reached the limit imposed by Italian Civil Code Article 2430.

The foreign currency translation reserve, euro 9,910 thousand, refers to the translation into euros of the financial statements of Group companies whose functional currency differs from the euro. The euro 4,607 thousand increase from the prior year is directly attributable to changes in currency exchange rates during the year. It was mainly affected by the appreciation in 2019 of the U.S. dollar, Russian ruble, and British pound sterling, which rose by 2%, 14% and 5% respectively from December 31, 2018 to December 31, 2019.

The other reserves, euro -6,313 thousand, include the euro 3,765 thousand foreign exchange difference on the intercompany loan denominated in U.S. dollars granted by Marcolin S.p.A. to subsidiary Marcolin USA Eyewear Corp. On November 18, 2016, pursuant to a Board of Directors' meeting held on October 27, 2016 by Marcolin S.p.A., the intercompany loan's maturity date was terminated without providing for repayment of the loan in the foreseeable future. Therefore, in accordance with IAS 21, the loan to the American subsidiary is classified as a quasi-equity loan, so all the exchange differences associated with it are recognized in the consolidated financial statements in a specific equity reserve, like the exchange differences of financial statements denominated in foreign currency. At the end of October 2019, the company approved a partial waiver of the repayment of such loan with respect to a principal amount of USD 60 million, in order to rebalance the American subsidiary's financial structure. The amount of the loan waived was recognized in Marcolin USA Eyewear Corp.'s equity as a capital reserve constituting an item of equity. The conditions, terms and clauses governed by the loan agreement and subsequent amendments are still in effect for the remainder of the financial receivable excluded from the waiver.

The actuarial reserve regards future employee benefits accounted for under IAS 19, corresponding to Marcolin S.p.A.'s provision for severance indemnities.

The retained earnings/losses contain the amount deriving from first-time adoption of IFRS 9 and IFRS 15.

The Statement of Changes in Equity provides more detailed information.

13. NON-CURRENT FINANCIAL LIABILITIES

This item, euro 269,622 thousand, was euro 252,226 thousand at the end of 2018; it has increased by euro 17,396 thousand. The item consists primarily of the value of the bond notes subscribed on February 10, 2017 for euro 250 million¹⁰.

¹⁰ The notes, which have a six-year maturity and provide for voluntary early redemption, were issued in a single tranche on November 10, 2017. The key features are summarized below:

Purchasers: the notes may be offered and placed (1) in the United States, solely with qualified institutional buyers pursuant to Rule 144A of the U.S. Securities Act; (2) in Europe and in Italy solely with qualified investors pursuant to Directive 2003/71/EC, as subsequently amended and integrated, Italian Legislative Decree 58/1998 and CONSOB Regulation 11971/1999 for Issuers, unless in circumstances which are exempt from public offer rules.

Listing: (1) on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and (2) with Borsa Italiana S.p.A. for trading on the extramot pro multilateral trading facility.

Issue Price: 100% (one hundred percent) of the nominal value of the notes, plus any accrued interest from the issue date.

Maturity Date: February 15, 2023.

The notes issued, which mature in 2023, are classified as non-current financial liabilities, and the related payable is accounted for in accordance with IFRS 9 with the amortized cost method in order to defer the transaction costs pertaining to future periods and to recognize them with the effective interest rate method. With respect to this financing, costs totaling euro 6,672 thousand were deferred, including euro 1,207 thousand pertaining to 2019, for a total amount of euro 3,440 thousand in costs deferred so far.

Within the scope of the refinancing transaction, a super senior revolving credit facility of euro 40 million was stipulated, of which euro 27 million had been used as at December 31, 2019, by Credit Suisse International, Deutsche Bank AG and Unicredit S.p.A., to be used for ordinary cash flow demands. With respect to this financing, accounted for with the current financial liabilities, costs totaling euro 60 thousand were deferred, including euro 10 thousand pertaining to 2019, for a total amount of euro 31 thousand in costs deferred so far.

For the sake of exhaustive disclosure, the net financial position is set forth below. More information is provided in the Report on Operations.

Net financial debt	12/31/2019	12/31/2018
<i>(euro/000)</i>		
Cash and cash equivalents	45,872	34,184
Current and non-current financial assets	18,149	23,807
Current financial liabilities	(58,409)	(37,197)
Current portion of non-current financial liabilities	(2,326)	(3,017)
Non-current financial liabilities	(269,622)	(252,226)
Total	(266,336)	(234,449)
IFRS16 effect	(17,566)	
Total net of IFRS16 effect	(248,770)	

In addition to the commitments described subsequently (in Note 20) for the revolving credit facility, commitments to meet financial covenants exist at a consolidated level for Marcolin S.p.A. and its subsidiaries. According to an analysis conducted at the time of preparation of these Notes, all the covenants were met as at December 31, 2019.

14. NON-CURRENT PROVISIONS

This item amounts to euro 6,667 thousand (euro 6,382 thousand in 2018), showing an increase of euro 285 thousand.

The amounts of the long-term provisions and the relevant changes for the year and for the previous year are shown below:

Non-current funds	Provision for severance	Provision for agency	Other funds	Total
<i>(euro/000)</i>	employee indemnities	terminations		
12/31/2017	3,104	1,253	2,978	7,336
Allowances	72	219	600	891
Use / reversal	(215)	(173)	(1,423)	(1,810)
Actuarial loss / (gain)	(52)	-	-	(52)
Translation difference	-	(22)	38	17
12/31/2018	2,908	1,277	2,194	6,382
Allowances	184	273	680	1,136
Use / reversal	(185)	(340)	(734)	(1,258)
Actuarial loss / (gain)	63	-	-	63
Reclassifications	543	-	-	543
Translation difference	-	(3)	17	13
12/31/2019	3,514	1,207	2,157	6,878

Form: notes issued in registered form represented by (1) a global certificate representing the notes issued pursuant to Regulation S of the 1933 U.S. Securities Act, and (2) a global certificate representing the notes issued pursuant to Rule 144A of the 1933 U.S. Securities Act.

Interest Rate: Three-month Euribor (with a 0% floor) plus 4.125% per annum, reset quarterly.

Interest Payment Dates: February 15, May 15, August 15 and November 15 of each year, commencing on May 15, 2017 to the maturity date.

Employee benefits consist of the employee severance indemnity provision ("TFR") recognized in the Parent Company's financial statements for euro 3,383 thousand¹¹, which was measured with an actuarial calculation at the end of the year¹².

The additional information required under Revised IAS 19 is provided hereunder:

- sensitivity analysis of each significant actuarial assumption at the end of the year, showing effects of changes in actuarial assumptions reasonably possible at that date, in absolute terms:

Sensitivity analysis	DBO * al 12/31/2019
Inflation rate +0,25%	2,878
Inflation rate - 0,25%	2,819
Actuarial rate +0,25%	2,802
Actuarial rate - 0,25%	2,897
Turnover rate +1%	2,831
Turnover rate -1%	2,868

* Defined Benefit Obligation

- next year's service cost and average vesting period of the defined benefit obligation:

Next year service cost	
Next year service cost	-
Vesting period	7.50

- payments foreseen under the plan:

Years	Payments foreseen
1	506
2	361
3	191
4	217
5	185

The provision for agency termination presents principally the liability regarding severance indemnities with respect to agents, and is calculated in accordance with the applicable regulations.

The provision for risks and charges presents the estimated amount, in a medium/long-term time horizon, of future obligations toward third parties for liabilities arising in previous periods.

15. OTHER NON-CURRENT LIABILITIES

At the end of the period the amount of other non-current liabilities was euro 1,764 thousand (compared with the euro 3,344 thousand of 2018) and refers primarily to non-trade debts of Marcolin USA Eyewear Corp. that were partially paid during the year.

¹¹ The provision consists of the benefits that accrued to employees until December 31, 2006 to be paid upon or subsequent to termination of employment: the TFR accruing from January 1, 2007 is treated as a defined contribution plan. By paying the contributions into (public and/or private) social security funds, the Company complies with all relevant obligations.

¹² The parameters used for the actuarial calculation are: 1) mortality rate: Table RG 48 of the Public Accounting Office; 2) disability rates: INPS table by age and gender; 3) personnel turnover rates: 5%; 4) frequency of severance payments: 2%; 5) discount/interest rate: 0.37%; 6) TFR growth rate: 2.625% for 2018, 2.4% for 2019; 7) inflation rate: 1.5% for 2018, 1.2% for 2019.

16. TRADE PAYABLES

The following table sets forth the trade payables by geographical area:

Trade payables by geographical area (euro/000)	12/31/2019	12/31/2018
Italy	44,478	72,338
Rest of Europe	7,019	3,092
North America	35,557	8,792
Rest of Word	56,815	65,911
Total	143,869	150,134

The trade payables at December 31, 2019 were substantially lower than those of the prior year as a result of a different procurement timing and thus different timing for the related payments. The recognized trade payables were not subject to discounting, as the amount is a reasonable representation of their fair value in consideration of the fact that there are no payables due beyond the short term.

In compliance with the disclosure requirements of IFRS 7, it is reported that on December 31, 2019 there were no past-due trade payables, excluding the accounts being disputed by the Company with suppliers, which are of immaterial amounts.

17. CURRENT FINANCIAL LIABILITIES

The current financial liabilities amount to euro 60,375 thousand (compared with the euro 40,214 thousand of 2018), up by euro 20,522 thousand year on year.

The item includes:

- euro 53,115 thousand in short-term borrowings from banks (euro 38,347 thousand in 2018);
- euro 2,403 thousand due to other financiers, primarily the interest accrued on the bond notes (euro 1,866 thousand in 2018).
- short-term lease payables of euro 4,857 thousand regarding IFRS 16 application. more information is provided in the description of the Group's accounting policies.

The following table presents the maturities of the financial payables, which are classified as either current financial liabilities or non-current financial liabilities.

Borrowings maturity (euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Credit lines used	8,471	-	-	-	8,471
Loans	46,053	4,349	-	-	50,403
Financial liabilities as under IFRS16 (*)	4,857	6,349	3,840	2,519	17,566
Other financiers	1,353	5,417	247,148	-	253,917
12/31/2019	60,735	16,115	250,988	2,519	330,357

(*) per maggiori dettagli sull'applicazione del nuovo principio contabile IFRS16, si rinvia al paragrafo relativo ai cambiamenti nell'accounting policy.

No instruments to hedge against currency risk were in place as at December 31, 2019.

18. CURRENT PROVISIONS

The table below presents the most significant changes of the year and of the previous year:

Current funds (euro/000)	Other funds	Returns Reserve	Warranty provision	Total Other funds
12/31/2017	418	-	-	418
Adjustment for IFRS15 adoption	-	10,164	2,895	13,059
Allowances	147	11,435	3,187	14,769
Use / reversal	(235)	(10,164)	(2,895)	(13,294)
Translation difference	-	199	11	210
Other changes	-	-	-	-
12/31/2018	330	11,634	3,198	15,162
Allowances	89	767	1,386	2,243
Use / reversal	(69)	(618)	(644)	(1,330)
Translation difference	-	164	23	187
Other changes	17	-	-	17
12/31/2019	368	11,947	3,964	16,278

The current provisions amount to 16,278 euro thousand as at December 31, 2019.

The other provisions, which totaled euro 368 thousand, refer to potential risks originating mainly from legal obligations.

In accordance with IFRS 15, the returns provision and product warranty provision are recognized by reference to the future sales and/or qualitative returns expected to be received from customers based on the available contractual information and past statistics.

19. OTHER CURRENT LIABILITIES

Below are the details of the other current liabilities:

Other current liabilities (euro/000)	12/31/2019	31/12/2018
Payables to personnel	20,978	21,710
Social security payables	3,866	3,725
Other accrued expenses and deferred income	3,796	5,413
Total other current liabilities	28,640	30,848

The other current liabilities consist primarily of euro 20,978 thousand due to personnel (euro 21,710 thousand in 2018), euro 3,866 thousand due to social security authorities (euro 3,725 thousand in 2018), and other accrued expenses and deferred income of euro 3,796 thousand, including euro 1,111 thousand for the amount due to 3 Cime S.p.A. regarding dividends totaling euro 25,900 thousand distributed pursuant to the General Meeting resolution passed on February 10, 2017.

20. COMMITMENTS AND GUARANTEES

Guarantees associated with the bond issue

With a notarial deed dated January 31, 2017, the Board of Directors passed a resolution to issue non-convertible senior-secured notes; with a determination deed drawn up by a specifically designated director on February 3, 2017, and in implementation of the Board of Directors' mandate of January 31, 2017, the terms and conditions for the issuance of notes of nominal euro 250,000,000 were established.

The notes are secured by collateral provided by Marcolin S.p.A (the "Issuer") and by some subsidiaries of the Issuer for the exact amount of payment obligations assumed by the Issuer with the bondholders:

- a pledge over the shares of the Issuer representing 100% (one hundred percent) of share capital;
- an assignment of the Issuer's receivables under the intercompany loans due from the following companies: Marcolin Nordic AB (February 12, 2015 loan agreement) and Marcolin U.S.A. Eyewear Corp. (December 3, 2013 loan agreement) (Intercompany Loan Agreement, which originally also included the loan to Marcolin International B.V., subsequently extinguished when such company was absorbed by Marcolin S.p.A., effective for legal purposes on December 31, 2017);
- a pledge over all Marcolin (UK) Limited shares owned by the Issuer;
- a pledge over all Marcolin France S.a.s. shares owned by the Issuer;

- a pledge over all Marcolin (Deutschland) Gmbh shares owned by the Issuer;
- a pledge over all the Marcolin U.S.A. Eyewear Corp. shares owned by the Issuer.;
- a pledge and security agreement from Marcolin U.S.A. Eyewear Corp. over its material assets;
- a special lien granted by Marcolin S.p.A. over movable assets assigned as security, including plants, existing works, concessions and capital goods.

Licenses

The Group has contracts in effect to use trademarks owned by third parties for the production and distribution of eyeglass frames and sunglasses.

Those contracts require payment of guaranteed minimum royalties over the duration of the contracts; at December 31, 2019 these future commitments amounted to euro 373,487 thousand (euro 353,890 thousand in 2018), including euro 72,805 thousand falling due within the next year.

Guaranteed minimum Royalties due <i>(euro/000)</i>	12/31/2019	12/31/2018
Within one year	72,805	67,571
In one to five years	291,609	248,367
After five years	9,074	37,952
Total	373,487	353,890

The Group also has guarantees for third parties of euro 1,798 thousand (euro 213 thousand in 2018).

MARCOLIN GROUP CONSOLIDATED INCOME STATEMENT

The Group's Consolidated Income Statement results are presented in comparison with the 2018 results.

21. REVENUE

The following table sets forth the 2019 net sales revenue by geographical area:

Net Revenues by geographical area (euro/000)	2019		2018		Variazione	
	euro	% of total	euro	% of total	euro	% of total
Italy	35,033	7.2%	34,204	7.1%	829	2.4%
Rest of Europe	169,239	34.8%	161,171	33.4%	8,067	5.0%
Europe	204,271	42.0%	195,375	40.5%	8,896	4.6%
Americas	202,144	41.5%	197,466	40.9%	4,677	2.4%
Asia	34,783	7.1%	36,372	7.5%	(1,589)	(4.4)%
Rest of World	45,472	9.3%	53,006	11.0%	(7,533)	(14.2)%
Total	486,670	100.0%	482,219	100.0%	4,451	0.9%

The 2019 revenue is euro 486,670 thousand, compared with euro 482,219 thousand in 2018. The Report on Operations provides a description of revenue by geographical area.

22. COST OF SALES

The following table shows a detailed breakdown of the cost of sales:

Cost of sales (euro/000)	2019	% sui ricavi	2018	% sui ricavi
Cost of product	188,559	38.7%	190,471	39.5%
Cost of personnel	12,011	2.5%	11,490	2.4%
Amortization, depreciation and writedowns	3,714	0.8%	3,482	0.7%
Other costs	3,179	0.7%	1,784	0.4%
Total	207,465	42.6%	207,227	43.0%

The cost of sales is euro 207,465 thousand, compared with euro 207,227 thousand for 2018. The other expenses refer principally to purchasing charges (transport and customs) and business consulting services.

23. DISTRIBUTION AND MARKETING EXPENSES

Below is a detailed breakdown of the 2019 distribution and marketing expenses:

Distribution and marketing expenses (euro/000)	2019	% sui ricavi	2018	% sui ricavi
Cost of personnel	59,020	12.1%	55,636	11.5%
Commissions	29,313	6.0%	29,511	6.1%
Amortization, depreciation and writedowns	16,549	3.4%	11,272	2.3%
Royalties	60,613	12.5%	59,394	12.3%
Advertising and PR	33,646	6.9%	33,568	7.0%
Other costs	29,207	6.0%	32,143	6.7%
Total	228,349	46.9%	221,524	45.9%

They amount to euro 228,349 thousand, versus euro 221,524 thousand for 2018.

With respect to advertising and public relations ("PR") expenses, such advertising and marketing expenditure continued to promote the brands managed, including both licensed and house brands; as a percentage of net sales, the expenditure remained consistent with that of the previous year.

Other costs include mainly business expenses such as shipping costs on sales, marketing expenses incurred for the sales network, services regarding the sales area, rent expense, travel expenses, telephone expenses, insurance costs and entertainment expenses.

24. GENERAL AND ADMINISTRATION EXPENSES

The general and administrative expenses are set forth below:

General and administrative expenses (euro/000)	2019	% sui ricavi	2018	% sui ricavi
Cost of personnel	19,311	4.0%	16,045	3.3%
Writedown of receivables	2,928	0.6%	3,020	0.6%
Amortization, depreciation and writedowns	4,843	1.0%	4,307	0.9%
Other costs	16,927	3.5%	16,430	3.4%
Total	44,009	9.0%	39,803	8.3%

The 2019 general and administrative expenses amount to euro 44,009 thousand, versus euro 39,803 thousand for 2018.

The other costs include the compensation of directors, statutory auditors, the independent auditing firm and other external professionals; general and administrative services, information technology expenses, general and administrative consulting services, telephone expenses, insurance costs, travel expenses, rent expense, rentals and other sundry expenses.

The increase in the cost of personnel is attributable mainly to non-recurring costs referring to the Board of Directors' succession plans.

25. EMPLOYEES

The 2019 end-of-period and average numbers of employees of the various Group companies (including the work force on temporary contracts) are broken down below in comparison with the previous year:

Employees Category	Final number		Average number	
	12/31/2019	12/31/2018	2019	2018
Managers	74	118	96	102
Staff	1065	1,066	1,058	1,060
Manual workers	739	766	747	786
Total	1,878	1,950	1,902	1,948

26. OTHER OPERATING INCOME AND EXPENSES

The operating income and expenses are set forth below:

Other operating income and expenses (euro/000)	2019	% sui ricavi	2018	% sui ricavi
Other income	12,898	2.7%	15,366	3.2%
Other expenses	(219)	(0.0%)	(148)	(0.0%)
Total	12,679	2.6%	15,217	3.2%

The balance of this item is net operating income of euro 12,679 thousand, compared with euro 15,217 thousand for the previous year. The amount corresponds to 2.6% of net sales, compared with the 3.2% of the previous

year. The item consists mainly of various amounts charged back to third parties, contingent gains and losses, and insurance compensation.

27. SHARE OF PROFITS/(LOSSES) OF ASSOCIATES

The amount of this item, euro 13,177 thousand, corresponds to the effect of consolidation using the equity method of the interest in Thélios S.p.A. and its subsidiaries. Additional information is provided in Note 3 on investments in associates.

28. FINANCIAL INCOME AND COSTS

The details for financial income and costs are presented below:

Financial income and costs (euro/000)	2019	%sui ricavi	2018	%sui ricavi
Financial income	14,977	3.1%	8,127	1.7%
Financial costs	(36,477)	(7.5)%	(32,201)	(6.7)%
Total	(21,500)	(4.4)%	(24,073)	(5.0)%

The composition of financial income is shown below:

Financial income (euro/000)	2019	%sui ricavi	2018	%sui ricavi
Interest income and others	1,039	0.2%	724	0.2%
Gains on currency exchange	13,938	2.9%	7,404	1.5%
Total	14,977	3.1%	8,127	1.7%

The composition of finance costs is shown below:

Financial costs (euro/000)	2019	%sui ricavi	2018	%sui ricavi
Interest expense	(19,095)	(3.9)%	(17,907)	(3.7)%
Losses on currency exchange	(17,382)	(3.6)%	(14,294)	(3.0)%
Total	(36,477)	(7.5)%	(32,201)	(6.7)%

Financial income and costs result in net costs of euro 21,500 thousand, compared with net costs of euro 24,073 thousand for 2018.

The net finance costs are the balance between income of euro 14,977 thousand and costs of euro 36,477 thousand. The components are classifiable in two different categories: financial income and costs, and exchange differences.

The first component consists of:

- interest and other financial income of euro 1,039 thousand;
- interest expense of euro 16,500 thousand consisting primarily of:
 - interest of euro 10,313 thousand servicing the bond notes issued by Marcolin S.p.A., paid quarterly in February, May, August and November;
 - the reversal to the Income Statement of bond issuance transaction costs, accounted for under IFRS with the amortized cost method;
 - euro 7,575 thousand in net finance costs (euro 3,307 thousand referring to Marcolin S.p.A. and euro 4,269 thousand referring to subsidiaries) regarding to bank interest expense and actualization differences;

With respect to the component of gains and losses on currency exchange, the balance is a net loss of euro 3,445 thousand for 2019, compared with a net loss of euro 6,890 thousand for the previous year. The 2019 loss is attributable primarily to the reclassification to the Income Statement of amounts present in the prior year's Statement of Comprehensive Income relating to a partial waiver of receivables due under the intercompany loan granted by Marcolin SpA to Marcolin USA Eyewear Corp., as described previously herein. In accordance with IAS

21, since November 18, 2016 the translation adjustment to the loan denominated in U.S. dollars from Marcolin S.p.A. to Marcolin USA Eyewear Corp. has been recognized in an equity reserve because it is classifiable as a quasi-equity loan. The partial waiver in October 2019 resulted in a reclassification of the equity reserve to the Income Statement. Additional information is available in Note 12 on equity.

There were no currency hedges (on purchases and sales) in place as at December 31, 2019.

29. INCOME TAXES

Income taxes are euro 403 thousand, including current taxes of euro -1,687 thousand, net deferred taxes of euro 3,607 thousand, tax consolidation expense of euro -623 thousand and taxes referring to the previous period of euro -895 thousand.

Income tax expense <i>(euro/000)</i>	2019	2018
Current taxes	(1,687)	(2,922)
Deferred taxes	3,607	5,971
Income/(Expenses) from Tax Consolidation	(623)	(70)
Taxes relating to prior year	(975)	394
Total income tax expense	323	3,372

The Parent Company's current taxes for 2019 are euro -483 thousand, and those of foreign subsidiaries are euro -1,204 thousand. The deferred taxes refers to the Parent Company for euro -1,982 thousand and foreign subsidiaries for euro 5,589 thousand.

The tax consolidation expense refers entirely to the Parent Company's IRES due to 3 Cime S.p.A. under the tax consolidation agreement with the ultimate parent company, whose renewal for the three-year term of 2017 - 2019 was stipulated on March 31, 2017. Additional information is contained in the section on Italian tax consolidation at the beginning of these notes.

The current tax burden was determined on the basis of the taxable income of each company, taking into account the use of any accumulated tax losses and applying the tax rules and tax rates in force in each country.

The income taxes for the year are reconciled with the theoretical tax burden in the following table:

Tax rate reconciliation <i>(euro/000)</i>	12/31/2019		12/31/2018	
Results before tax		(15,150)		(4,202)
Theoretical taxes	24.0%	3,636	24.0%	1,009
Impact of foreign tax rate different from Italian tax rate	-1.8%	(267)	28.5%	1,199
IRAP and other	3.4%	519	-15.2%	(638)
Higher taxes due to non-deductible costs	-25.3%	(3,838)	-81.4%	(3,421)
Lower taxes for non-taxable income	5.4%	817	31.7%	1,334
Taxes relating to prior year	-6.4%	(975)	9.4%	394
Unrecognised deferred tax assets on tax losses	0.8%	114	-0.9%	(36)
Use of accumulated tax losses unrecognised deferred tax assets in previous year	0.8%	121	4.0%	166
Impact of tax change rates on taxes	0.0%	-	0.0%	-
Activation of deferred tax assets unrecognised previous years	3.8%	575	68.9%	2,894
Other	-2.5%	(378)	11.2%	471
Total income tax expense	2.1%	323	80.2%	3,372

Deferred taxes and the changes therein are presented in the following tables:

Deferred tax assets				
<i>(euro/000)</i>	Temporary differences	Tax on temporary differences	Temporary differences	Tax on temporary differences
	12/31/2019	12/31/2019	12/31/2018	12/31/2018
Accumulated tax losses	48,044	11,440	57,284	13,518
Grants and compensation deductible on a cash basis	4,747	1,263	14,710	3,842
Non-deductible financial interest	36,233	9,483	21,776	5,485
Inventory provisions	26,685	6,871	26,409	6,716
Provision for return risks	1,659	473	7,368	1,930
Intangible assets subject to taxation	3,717	990	4,688	1,228
Taxed provision for doubtful debts	7,363	2,027	7,827	2,338
Unrealized currency exchange differences	3,407	1,100	3,268	1,062
Non-deductible temporary amortization	2,120	640	1,933	593
Supplementary client indemnity provision	372	104	638	178
Other	14,855	3,617	4,381	1,239
Provisions for risks and charges	9,872	2,628	3,172	831
Intercompany profit	9,719	2,527	8,966	2,959
Total deferred tax assets	168,793	43,163	162,419	41,916

Deferred tax liabilities				
<i>(euro/000)</i>	Temporary differences	Tax on temporary differences	Temporary differences	Tax on temporary differences
	12/31/2019	12/31/2019	12/31/2018	12/31/2018
Unrealized currency exchange differences	(11,242)	(2,720)	(18,036)	(4,351)
Property, plant and equipment and intangible assets	(1,729)	(482)	(8,516)	(1,862)
Equity-method accounting of JV and other equity investments	(1,576)	(333)	-	-
Finance costs deducted on a cash basis	(3,386)	(813)	(4,598)	(1,104)
Other	(9,191)	(2,459)	(2,073)	(551)
Actuarial gain / losses on TFR under IAS	(8)	(2)	(87)	(21)
Total deferred tax liabilities	(27,132)	(6,808)	(33,310)	(7,889)

Total deferred assets / liabilities	141,662	36,356	129,109	34,028
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The difference compared with the prior year in the balance of deferred tax assets and liabilities in the Statement of Financial Position, euro 2,328 thousand, differs from the balance of euro 3,607 thousand shown in the Income Statement due to the following reasons:

- Deferred tax recognition on amounts accounted for in equity totaling euro 1,233 thousand;
- Euro 397 thousand adjustment to deferred taxes pursuant to the preparation of the tax return in 2019, whose Income Statement component is classified as "taxes regarding prior periods";
- Euro -350 thousand adjustment deriving from the translation into euros of the accounts of Group companies whose functional currency differs from the euro.

The Group companies' tax losses are euro 3.7 million for which, out of prudence, deferred tax assets were not recognized. Based on the tax rates of the various companies involved, such deferred tax assets would amount to euro 0.9 million.

DISCLOSURE OF ATYPICAL, UNUSUAL AND RELATED-PARTY TRANSACTIONS

The information with respect to atypical and unusual transactions and transactions with related parties is disclosed in this section.

Significant non-recurring events and transactions

Significant non-recurring events and transactions that impacted the Group's financial position, financial performance and cash flows in 2019 regard some non-recurring costs, described in detail in the Report on Operations.

Atypical and unusual transactions

There were no atypical and/or unusual transactions, including with other Group companies, nor were there any transactions outside the scope of the ordinary business activity in 2019 that could significantly impact the financial position, financial performance or cash flows of Marcolin S.p.A. and the Group.

Transactions with related parties with and equity-accounted associates

In addition to the transactions between the consolidated companies, during the year transactions took place with the equity-accounted associates and other related parties.

Related-party transactions were of a trade nature, conducted on an arm's length basis, and regarded licensing agreements in particular.

The transactions and outstanding balances with respect to related parties as at December 31, 2019 are shown below, as required by IAS 24:

Company (euro/000)	Costi	Ricavi	Debiti	Crediti	Type
Altre parti correlate					
Tod's S.p.A	1,000	488	875	472	Related party
Pai Partners Sas	60	-	60	-	Related party
Coffen Marcolin Family	524	-	136	-	Related party
O.T.B. Group	2,480	150	3	5	Related party
3 Cime S.p.A.	-	-	-	7,465	Consolidating
Thélios S.p.A.	15,554	11,364	5,643	18,446	Associates
Total	19,618	12,002	6,717	26,389	

The same table is set forth for 2018:

Company (euro/000)	Costi	Ricavi	Debiti	Crediti	Type
Other related parties					
Tod's S.p.A	2,255	576	938	154	Related party
Pai Partners Sas	60	-	60	-	Related party
Coffen Marcolin Family	603	-	218	-	Related party
O.T.B. Group	2,260	50	-	26	Related party
3 Cime S.p.A.	-	-	-	7,038	Consolidating
Thélios S.p.A.	13,847	19,809	6,983	20,639	Associates
Total	19,026	20,434	8,199	27,856	

All related-party transactions are carried out at arm's length.

The remuneration of the Group's Directors, Statutory Auditors and Key Management Personnel ("Others") is reported below:

(euro/000)	2019		2018	
	Board of Directors	Statutory Auditors	Board of Directors	Statutory Auditors
Base fee	255	100	255	100
Salaries and benefits	936	-	1,135	-
Total	1,191	100	1,390	100

During the year other amounts were paid to the Board of Directors, as described in Note 24 on “general and administration expenses”.

Other information pursuant to Italian Civil Code Article 2427, point 16 bis

The following table presents the 2019 fees of the auditing firm, Pricewaterhouse Coopers S.p.A., for audit services performed by that firm, as required under Italian Civil Code Article 2427, point 16 bis:

Audit and other services (euro/000)	Amount
Audit for Marcolin S.p.A.	76
Audit for other subsidiaries	105
Other services for Marcolin S.p.A not for Audit	29
Total	210

Government grants

The 2017 annual law for market and competition required disclosure in the notes to the financial statements of grants, subsidies, paid engagements and all financial benefits in general received from public entities and companies controlled by public entities (Law n. 124 of August 4, 2017 – Article 1, paragraphs 125 to 129 – hereinafter “Law 124/2017”). Mandatory disclosure is effective from 2019 regarding all financial benefits received from January 1, 2018. The 2019 information for Marcolin S.p.A., presented on a cash basis, is set out below.

Super-depreciation

Between January 1, 2018 and December 31, 2018, Marcolin S.p.A. incurred costs for investments in new capital goods for which it benefited from “super-depreciation”, i.e. additional depreciation under Law 208/2015, Article 1, paragraph 91 *et seq.* and subsequent extensions. The related benefit was presented in the 2019 tax return in an amount of euro 665,197.

Hyper-depreciation

Between January 1, 2018 and December 31, 2018, Marcolin S.p.A. incurred costs for investments in new capital goods for which it benefited from “hyper-depreciation”, i.e. extra depreciation under Law 232/2016, Article 1, paragraphs 8 to 11 and subsequent extensions. The related benefit was presented in the 2019 tax return in an amount of euro 290,639.

“Industria 2015” -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation

In 2010, the research, development and innovation project “Industria 2015” -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation, Objective B Area, Project Number MI00153 was launched. The purpose of the project was to create a platform for supply chain integration that operates on the technical and operational aspects of the companies, which should encourage the competitive and technological development of Italian eyewear business systems. The platform should enable marketing and supply chain events to be communicated quickly to the entire production process, and any critical issues leading to changes in supply chain planning to be made visible rapidly to all interested parties. The platform will also create interactive communications between the various parties in the supply chain.

Under Ministry of Economic Development Decree n. 00098MI01 dated December 21, 2013, expenses of euro 13,747,949 and total facilities of euro 4,247,627 were granted. Marcolin S.p.A.'s investment is euro 849,686.49 with a total contribution to expenses of euro 182,790.90, as budgeted. In 2016 the Company received euro 25,108.85 of the grant.

Optional tax incentive regime for income deriving from the use of intellectual property

In 2015 the Company filed an application with the Italian Revenue Agency for the assessment of tax benefits available under the Ministerial decree of July 30, 2015 regarding the optional tax incentive regime for income deriving from the use of intellectual property, patents, trademarks, industrial designs and models as well as processes, formulas and trade secrets obtained in legally protected industrial, business or scientific fields. Following the necessary preliminary activities, on July 31, 2018 an agreement was stipulated with the Italian Revenue Agency. A direct tax benefit of euro 0.3 million was obtained for 2019. The benefit was determined

through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

Investment bonus

In 2019 the Company offset tax liabilities with euro 52 thousand, through Form F24, constituting the third of three installments granted as a benefit under Decree-Law 91/2014 totaling euro 155 thousand referring to investments made in 2015.

Other grants

Marcolin received euro 19,380 from the Ministry of Economic Development as the balance of the grant issued with Concession Decree 477 of June 26, 2003 regarding the facility for technological innovation under the A16/0205/0 program (for making innovative ski goggles).

Exemption from INPS contributions on new employees

In 2019 Marcolin used the following exemption from INPS contributions:

- Relief for hiring individuals under the age of 35 (GECO) with their first open-ended contract, in an amount of euro 90,676.

Subsequent events

The subsequent events are described in the specific section of the Report on Operations.

INDEPENDENT AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH LEGISLATIVE DECREE N. 39, ARTICLE 14 OF JANUARY 27, 2010



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of
Marcolin SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Marcolin Group (the Group), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Marcolin SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

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The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Marcolin SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;



- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of Marcolin SpA are responsible for preparing a report on operations of the Marcolin Group as of 31 December 2019, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Marcolin Group as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of Marcolin Group as of 31 December 2019 and is prepared in compliance with the law. With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 20 March 2020

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

MARCOLIN S.P.A.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

STATEMENT OF FINANCIAL POSITION
INCOME STATEMENT
STATEMENT OF FINANCIAL POSITION
STATEMENT OF CHANGES IN EQUITY
STATEMENT OF CASH FLOWS

STATEMENT OF FINANCIAL POSITION

<i>(euro)</i>	Notes	12/31/2019	12/31/2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	27,589,560	23,302,214
Intangible assets	2	27,382,127	27,105,102
Goodwill	2	186,226,529	186,226,529
Investments in subsidiaries and associates	3	161,363,823	94,969,224
Deferred tax assets	27	7,657,645	12,042,740
Other non-current assets	4	46,104	193,207
Non-current financial assets	5	59,385,068	111,395,306
Total non-current assets		469,650,856	455,234,322
CURRENT ASSETS			
Inventories	6	74,101,394	73,051,840
Trade receivables	7	87,835,031	92,136,831
Other current assets	8	14,208,058	18,319,634
Current financial assets	9	37,308,885	42,096,829
Cash and cash equivalents	10	21,573,680	9,245,841
Total current assets		235,027,047	234,850,974
TOTAL ASSETS		704,677,902	690,085,296
EQUITY			
	11		
Share capital		35,902,750	35,902,750
Additional paid-in capital		42,827,001	42,827,001
Legal reserve		5,482,883	4,263,080
Other reserves		46,893,384	46,956,591
Retained earnings (losses)		93,504,458	70,328,196
Profit (loss) for the period		19,084,680	24,396,064
TOTAL EQUITY		243,695,156	224,673,683
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	12	255,270,824	248,152,402
Non-current funds	13	5,331,039	5,375,714
Deferred tax liabilities	27	3,920,060	5,925,476
Other non-current liabilities	14	50,000	50,000
Total non-current liabilities		264,571,922	259,503,593
CURRENT LIABILITIES			
Trade payables	15	116,998,091	124,503,523
Current financial liabilities	16	56,675,192	58,934,898
Current funds	17	4,608,681	4,585,393
Tax liabilities	27	3,496,924	1,492,013
Other current liabilities	18	14,631,935	16,392,192
Total current liabilities		196,410,823	205,908,020
TOTAL LIABILITIES		460,982,745	465,411,613
TOTAL LIABILITIES AND EQUITY		704,677,902	690,085,296

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

<i>(euro)</i>	Notes	2019	%	2018	%
Net revenues	20	275,787,133	100.0%	272,997,166	100.0%
Cost of sales	21	(154,935,718)	(56.2)%	(158,073,824)	(57.9)%
GROSS PROFIT		120,851,415	43.8%	114,923,342	42.1%
Distribution and marketing expenses	22	(97,438,955)	(35.3)%	(96,157,453)	(35.2)%
General and administrative expenses	23	(18,462,456)	(6.7)%	(15,155,553)	(5.6)%
Other operating income/(expenses)	25	9,210,013	3.3%	9,666,811	3.5%
Other income	25	9,341,732	3.4%	9,702,974	3.6%
Other expenses	25	(131,718)	(0.0)%	(36,164)	(0.0)%
OPERATING INCOME – EBIT		14,160,017	5.1%	13,277,147	4.9%
Income/(expenses) from investments in subsidiaries	26	12,787,491	4.6%	14,105,552	5.2%
Financial income	27	14,770,516	5.4%	21,033,181	7.7%
Financial costs	27	(18,584,658)	(6.7)%	(21,547,799)	(7.9)%
PROFIT (LOSS) BEFORE TAXES		23,133,365	8.4%	26,868,081	9.8%
Income tax expense	28	(4,048,685)	(1.5)%	(2,472,017)	(0.9)%
NET PROFIT (LOSS) FOR THE PERIOD		19,084,680	6.9%	24,396,064	8.9%

<i>(euro)</i>	2019	2018
NET PROFIT (LOSS) FOR THE PERIOD	19,084,680	24,396,064
Other items that will be not subsequently reclassified to profit or loss:		
Effect (actuarial gain/losses) on defined benefit plans, net of taxes	(63,207)	53,585
TOTAL OTHER ITEMS THAT WILL NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	(63,207)	53,585
Other items that will be subsequently reclassified to profit or loss:		
- Hedge accounting effect (cash flow hedge) of derivatives, net of fiscal effect	-	-
TOTAL OTHER ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	19,021,473	24,449,650

STATEMENT OF CHANGES IN EQUITY

	Share capital	Additional paid-in capital	Legal Reserve	Other reserves			Profit (loss) for the period	Total equity
				Sholders deposit in capital	Other	Actuarial gain / (loss) reserve		
<i>(euro)</i>								
December 31, 2017	35,902,750	42,827,001	4,263,080	46,107,590	1,389,819	(594,403)	81,770,242	200,913,355
Allocation of 2017 loss	-	-	-	-	-	-	(10,752,725)	-
IFRS9 impacts	-	-	-	-	-	-	(689,321)	(689,321)
- Period result	-	-	-	-	-	-	24,396,064.34	24,396,064
- Other components of comprehensive income	-	-	-	-	-	53,695	-	53,695
Total comprehensive income	-	-	-	-	-	53,695	-	53,695
December 31, 2018	35,902,750	42,827,001	4,263,080	46,107,590	1,389,819	(540,818)	70,328,196	224,673,684
Allocation of 2018 profit	-	-	1,219,003	-	-	-	23,176,261	(24,396,064)
- Period result	-	-	-	-	-	-	19,084,690	19,084,690
- Other components of comprehensive income	-	-	-	-	-	(63,207)	-	(63,207)
Total comprehensive income	-	-	-	-	-	(63,207)	-	(63,207)
December 31, 2019	35,902,750	42,827,001	5,482,883	46,107,590	1,389,819	(604,025)	93,504,458	243,695,157

STATEMENT OF CASH FLOWS

<i>(euro)</i>	Note	12/31/2018	31/12/2018
OPERATING ACTIVITIES			
<i>Profit (loss) for the period</i>		19,084,680	24,396,064
Depreciation and amortization	1.2	12,558,568	12,254,848
Provisions	13.17	(1,561,776)	6,980,393
Income tax expense	27	4,466,685	2,472,017
Accrued interest expense	26	3,813,143	514,618
Adjustments to other non-cash items		(13,119,793)	(14,221,465)
<i>Cash generated by operations</i>		25,241,508	32,396,475
<i>Cash generated by change in operating working capital</i>		(3,444,836)	(10,330,168)
(Increase) decrease in other assets	4.8	4,589,826	(8,339,090)
(Decrease)/increase in other liabilities	14.18	(1,760,257)	3,275,230
(Use) of current and non-current provisions	13.17	(588,000)	(1,965,000)
(Decrease)/increase in current tax liabilities	27	131,060	2,143
<i>Other elements in working capital</i>		2,372,629	(7,026,716)
Income taxes paid		(20,000)	(378,000)
Interest received		8,923,579	10,144,008
Interest paid		(12,883,000)	(12,514,000)
<i>Total cash generated by change in other items of net working capital</i>		(1,606,792)	(9,774,708)
<i>Net cash from /(used in) net working capital</i>		(5,051,628)	(20,104,876)
Net cash from /(used in) operating activities		20,189,880	12,291,599
INVESTING ACTIVITIES			
(Purchase) of property, plant and equipment	1	(6,769,180)	(4,998,777)
Disposal of property, plant and equipment	1	332,302	657,913
(Investments) in intangible assets	2	(6,715,363)	(6,533,013)
Net (Investments)/disposal in investment in subsidiaries and associates	3	(67,000)	(9,802,270)
Net cash from /(used in) investing activities		(13,219,241)	(20,676,147)
FINANCING ACTIVITIES			
<i>Financial Assets</i>			
- (Proceeds)		(6,238,000)	-
- Repayments	5,9	-	2,744,000
<i>Financial Loans from banks</i>			
- Proceeds	12.16	7,000,000	-
- (Repayments)	12.16	(3,768,000)	(9,673,000)
Principal elements of lease payments		(895,178)	-
<i>Other current and non current financial liabilities</i>	5,9,12,16	(3,345,553)	(16,034,501)
Dividends cash in	11	12,787,000	14,105,552
Net cash from /(used in) financing activities		5,540,269	(8,857,949)
Net increase/(decrease) in cash and cash equivalents		12,511,145	(17,242,259)
Effect of foreign exchange rate changes		(183,306)	158,000
Cash and cash equivalents at beginning of year		9,245,841	26,330,100
Cash and cash equivalents at end of year		21,573,680	9,245,841

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF MARCOLIN S.P.A. FOR THE YEAR ENDED DECEMBER 31, 2019

Introduction

The share capital of Marcolin S.p.A. is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to the new shareholder, Vicuna Holding S.p.A. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. The share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

Accordingly, 90% of the share capital was owned by 3 Cime S.p.A. (parent company of Marmolada S.p.A., which took over the latter by way of a merger of Marmolada S.p.A. into 3 Cime S.p.A. on November 27, 2017) and 10% by Vicuna Holding S.p.A. as at December 31, 2019.

The Marcolin shares owned by 3 Cime S.p.A. (pursuant to the absorption of Marmolada S.p.A. with a merger deed dated November 27, 2017) are encumbered by liens initially emerging at the end of 2013 due to the issuance of bond notes, secured by collateral for the same amount of the obligations assumed with the bondholders, including a lien on the shares of the Issuer, Marcolin. On February 10, 2017 the bond notes were redeemed early when new notes were issued. The new notes also involve a lien on the shares of Marcolin S.p.A. owned by 3 Cime S.p.A.

General Information

The explanatory notes set out below form an integral part of the Separate Financial Statements of Marcolin S.p.A. as at December 31, 2019, and were prepared on the basis of the accounting records updated to December 31, 2019.

For the purpose of providing exhaustive financial information, the Report on the Operations has been prepared, which contains additional information regarding the main events of the year, subsequent events, business outlook and other important financial and operational information of the business.

The financial statements were prepared on the basis of the going-concern assumption, the accrual basis of accounting and the historical cost basis, except for the measurement of financial assets and liabilities, which are required to be accounted for at fair value (and except for some revaluations performed in previous periods).

Marcolin S.p.A. is incorporated under Italian law, listed in the Belluno Companies Register with n. 01774690273, and has shares that until February 14, 2013 were traded in Italy on the Mercato Telematico Azionario (electronic stock exchange) organized and managed by Borsa Italiana S.p.A.

Marcolin S.p.A. is the Parent Company of Marcolin Group, which operates in Italy and abroad in the design, manufacturing and distribution of eyeglass frames and sunglasses, including through direct and indirect management of business affiliates located in major countries of interest worldwide and qualified contract manufacturers.

The addresses of the locations from which the Company's main operations are performed are listed in the Report on Operations.

Pursuant to Article 2497-bis, paragraph 4 of the Italian Civil Code, we note that Marcolin S.p.A. is not subject to management and coordination activities by any entity.

The financial statements were authorized for issue by the Board of Directors on February 28, 2020.

ACCOUNTING STANDARDS

Basis of preparation

The Financial Statements were prepared according to the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union.

The IFRS include all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the former Standing Interpretations Committee (SIC), which at the date of approval of the financial statements had been authorized by the European Union according to Regulation (EC) no. 1606/2002, enacted by the European Parliament and European Council on July 19, 2002.

The accounting policies adopted to prepare the Separate Financial Statements for the year ended December 31, 2019 are the same as those used in the prior year except as regards the adoption of the following new or revised IFRS or IFRIC.

New accounting standards and interpretations approved by the European Union and effective for periods beginning on or after January 1, 2019

The following new standards and amendments became effective on January 1, 2019:

Annual Improvements to IFRS Standards (2015-2017 Cycle)

Endorsed by the European Union on March 14, 2019 with Regulation n. 2019/412

The primary objective of the annual improvements is to resolve non-urgent matters regarding inconsistencies found in IFRSs or to clarify wording, which had been discussed with the IASB during the planning cycle. The amendments regard:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements;

IAS 12 Income Taxes;

IAS 23 Borrowing Costs.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Endorsed by the European Union on March 13, 2019 with Regulation n. 2019/402

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

Endorsed by the European Union on February 8, 2019 with Regulation n. 2019/237.

IFRIC 23 Uncertainty over Income Tax Treatments

Endorsed by the European Union on October 23, 2018 with Regulation n. 2018/1595.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Endorsed by the European Union on March 22, 2018 with Regulation n. 2018/498.

IFRS 16 Leases

On October 31, 2017 the European Union issued Regulation n. 2017/1986 approving IFRS 16 (Leases). The standard has been in effect since January 1, 2019. The main impact of the new standard is the recognition of all leases in the statement of financial position, effectively eliminating the different methods for accounting for operating leases and financial leases. The new standard provides for recognizing a right-of-use asset (right to use the leased asset) and a lease liability referring to the future payments for which a contractual obligation exists. Short-term leases and leases of low-value assets are excluded from the new accounting method. Marcolin adopted the new standard on January 1, 2019 using the simplified approach, without restating the comparative period before adopting the standard. The right-to-use asset initially had the same value as the lease liability (adjusted for any prepaid or allocated lease costs at December 31, 2018). The leases regard mainly property leases for office, warehouse and factory use and for motor vehicles.

To comply with the instructions of IFRS 16, the new accounting standard, the Company recognized a lease liability for leases that had been classified as "operating leases" at December 31, 2018, in accordance with IAS 17. The lease liability was discounted by applying a discount rate to the present value of the expected future lease payments at January 1, 2019. The discount rate used on average was 3.2%.

Concerning leases that previously had been classified as "finance leases", the Parent Company recognized the carrying amount recognized in the December 31, 2018 financial statements as the right-of-use asset and lease liability. IFRS 16 was applied to the leases solely from January 1, 2019.

When applying IFRS 16 for the first time at January 1, 2019, the Parent Company used the simplifications allowed by the new standard such as:

- the same discount rate was applied to a portfolio of similar leases;
- leases with a term of 12 months or less at January 1, 2019 were considered short-term leases, and thus excluded from the scope of IFRS 16;
- initial direct costs were excluded from the calculation of the right-of-use asset;
- only the information available at the time of first-time adoption was considered.

At January 1, 2019, the financial liability for leases previously classified as "operating leases" under IAS 17 was euro 2,193 thousand, and the financial liability for leases previously classified as "finance leases" was euro 1,462 thousand. The total lease liability at January 1, 2019 was euro 3,655 thousand.

The right-of-use asset was measured as the lease liability adjusted by any prepayments, accruals and deferrals recognized at December 31, 2018 for the leases concerned.

The following table lists the amount of the right-of-use asset, for each asset category, recognized in the Company's financial statements for leases that until December 31, 2018 were classified as operating leases under IAS 17.

€/000	12/31/2019	01/01/2019
Land and buildings	513	807
Industrial and commercial equipment	641	43
Cars	1,471	1,274
Other tangibles fixed assets	88	69
Total Right-of-use assets	2,713	2,193

The Parent Company has a lease portfolio consisting primarily of buildings, cars, plant and sundry equipment. The leases are usually stipulated by the Parent Company for a term of 3 to 8 years. The leases stipulated by the Parent Company do not contain any covenants, and the underlying assets may not be used as collateral.

Until 2018, leases for buildings, plant and machinery were classified as finance leases or operating leases under IAS 17. The payments made under operating leases (net of any incentives received from the lessor) were recognized in the Income Statement on a straight-line basis over the term of the lease. As of January 1, 2019, leases are recognized with a right-of-use asset and corresponding lease liability, accounted for when the underlying asset is ready for its intended use. Each lease payment is split up into the lease liability and the interest expense. The interest expense is recognized in the Income Statement on a straight-line basis over the term of the lease on the residual lease liability. The right-of-use asset is depreciated over the useful life of the underlying asset or the term of the lease, whichever is shorter.

The non-current assets and the lease liabilities were initially stated at their present value. The lease liability corresponds to the present value of outstanding lease payments that were not yet due at January 1, 2019. The following cash outflows were included for discounting purposes:

- fixed payments, net of any incentives;
- variable payments linked to an index or market rate, proportionate to the value reached by the index/rate at January 1, 2019;
- any amounts that the lessee is required to pay to the lessor under guarantees;
- the price of exercising any purchase option if it is reasonably certain that such option will be exercised;
- payments of any penalties for early termination, if considering the lease term it is reasonably certain that the lessee will exercise the early termination option;

Future lease payments are discounted using the lessee's incremental borrowing rate, i.e. the interest rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value to the asset being leased, all other conditions being equal, and thus for a similar time horizon, with the same degree of risk and in a similar economic environment.

At initial recognition, the right-of-use asset was measured at cost, which includes:

- the amount of the debt initially recognized as a liability for the present value of future lease payments due;
- any payments made before the first-time adoption date, net of any incentives received to encourage the completion of the transaction;
- any additional initial direct costs, defined as the incremental cost incurred to obtain the lease;

- estimated costs of dismantling and removing the asset, recovering the area where it was located or returning the asset in the conditions specified in the lease agreement at the end of its use. This amount is included only if a specific contractual obligation exists.

Payments for short-term leases (those with a residual term of less than 12 months beginning January 1, 2019) or for leases whose underlying asset has a low value are recognized on a straight-line basis in the Income Statement. The low-value assets consist mainly of IT devices and small office furniture.

The possibility of extending the lease term is present in some types of leases analyzed; the Company decided to include such renewal options in the lease only if it were effectively probable that they would be exercised.

IFRS 16 adoption affected property, plant and equipment and financial liabilities. The table below presents such effects on the Statement of Financial Position, comparing the impact at January 1, 2019 and at December 31, 2019.

€/000	12/31/2019	01/01/2019
Right of use new IFRS16	2,713	2,193
PPE IAS17 finance lease	448	697
Total amount right of use for lease in PPE	3,161	2,890
Non current lease liabilities new IFRS16	1,702	1,444
Non current finance lease liabilities IAS17	1,281	819
Total non current finance lease liabilities	2,983	2,263
Current lease liabilities IFRS16	1,042	750
Current finance lease liabilities IAS17	2,661	643
Total current finance lease liabilities	3,703	1,392
Total finance lease liabilities	6,685	3,655

At December 31, 2019, the positive impact of IFRS 16 adoption on EBITDA was euro 989 thousand, whereas the impact on the depreciation of the right-of-use asset was euro 950 thousand. The interest expense is euro 69 thousand. The negative impact on profit before tax is euro 30 thousand.

New accounting standards and interpretations approved by the European Union and effective for periods after December 31, 2019

Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform

Issued on September 26, 2019, it became effective on January 1, 2020. It was endorsed by the European Union on January 15, 2020 with Regulation n. 2020/34.

Amendments to IAS 1 and IAS 8: Definition of Material

Issued on October 31, 2018, it became effective on January 1, 2020. It was endorsed by the European Union on November 29, 2019 with Regulation n. 2019/2075.

Amendments to References to the Conceptual Framework in IFRS Standards

Issued on March 29, 2018, it became effective on January 1, 2020. It was endorsed by the European Union on November 29, 2019 with Regulation n. 2019/2075.

The Company is evaluating the impact of these new standards on its financial situation.

There are no other accounting standards endorsed by the European Union and effective from reporting periods after December 31, 2019 that are presumed to have a material effect for the Company in the next reporting period or in the foreseeable future.

New accounting standards and interpretations published by the IASB but not yet approved by the European Union

The following IFRSs, interpretations, amendments to existing standards and interpretations, or special provisions contained in the standards and interpretations approved by the IASB, not yet approved by the European Union as at the date of approval of this document, are set forth below:

IFRS 17 (Insurance Contracts - Issued on May 18, 2017, it will become effective on January 1, 2021.

Amendments to IFRS 3 Business Combinations – Issued on October 22, 2018, its endorsement is expected in the first quarter of 2020.

No accounting standards and/or interpretations mandatorily effective for annual periods beginning after December 31, 2019 were adopted earlier.

The Company is evaluating the effects of the application of the above new standards, which currently are not considered significant.

Financial statement format

The Company adopted the following formats for the financial statements.

In summary:

- In the Statement of Financial Position, current and non-current assets and current and non-current liabilities are classified separately. Current assets are those intended to be realized, sold or consumed in the Company's normal operating cycle; current liabilities are those expected to be settled either in the Company's normal operating cycle or within twelve months from the end of the reporting period;
- in the Income Statement costs are classified by function;
- the Statement of Comprehensive Income is presented separately from the Income Statement, and the individual items are stated in compliance with Revised IAS 1;
- the indirect method is used for the Statement of Cash Flows, with presentation of cash flows from operating, investing and financing activities;
- the Statement of Changes in Equity presents separately the profit/(loss) for the year and all revenues and expenses not recognized in profit or loss, but recognized directly in equity on the basis of specific IAS/IFRS accounting standards, and presents separately transactions with Shareholders.

In order to provide comparability, the previous period data was restated as necessary, with explanations given of the restatements.

Reclassification of prior year's Statement of Financial Position format

In order to provide better comparability of assets having similar contractual substance and thus a similar accounting treatment, the Company decided, in accordance with IAS 8, to reclassify the presentation in the Statement of Financial Position of assets disclosed at December 31, 2018 in other current and non-current assets among intangible assets.

The significant accounting policies adopted to prepare the Separate Financial Statements of Marcolin S.p.A. are as follows:

Property, plant, and equipment (also "tangible assets")

Property, plant, and equipment are recorded at their acquisition or production cost, inclusive of ancillary costs incurred to bring the assets to working condition for their intended use, excluding land and buildings for which the deemed cost model was used on the transition date or business combination date based on the market value determined through an appraisal performed by an independent qualified appraiser.

They are stated net of depreciation except for land, which is not depreciated, and net of any impairment losses. Costs incurred for routine and/or cyclical maintenance and repairs are recognized directly in the income statement of the period in which they are incurred. Costs concerning the extension, renovation or upgrading of owned or leased assets are capitalized to the extent that they can be separately classified as an asset or part of an asset. The carrying value is adjusted by depreciation using the straight-line method calculated on the basis of estimated useful life.

If the depreciable asset consists of distinctly identifiable components with useful lives that differ significantly from the other components of the asset, each component of the assets is depreciated separately, according to the component approach.

Profits and losses deriving from the sale of assets or groups of assets are determined by comparing the sale price with the relevant net book value.

Government grants relating to tangible assets are recorded as deferred revenues and credited to the income statement over the depreciation period for the assets concerned.

Finance costs relating to purchases of a fixed asset are charged to the income statement, unless they are directly attributable to the acquisition, construction or production of an asset which justifies capitalizing them.

Under newly introduced IFRS 16, assets obtained under leases are accounted for as finance leases and classified as property, plant and equipment, the contra entry being the financial payable generated. A specific section in this Annual Report explains the effects of IFRS 16 application.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, using the depreciation rates listed below:

Category	Depreciation rate
Buildings	3%
Light structures	10%
General-purpose machinery	10%
General-purpose plastic machinery	10%
Depreciable equipment	40%
Special-purpose machines	16%
Special-purpose plastic machines	15.5%
Office furniture and furnishings	12%
Exhibition stands	27%
Electronic machines	20%
Non-instrumental vehicles	25%
Instrumental vehicles	20%

Intangible assets

Intangible assets consist of controllable, non-monetary assets without physical substance that are clearly identifiable and able to generate future economic benefits. These assets are recognized at purchase and/or production cost, inclusive of directly attributable expenses to bring the asset to working condition for its intended use, net of accumulated amortization (except for those assets with an indefinite useful life) and any impairment losses. Amortization commences when the asset is available for use and is systematically distributed over the asset's useful life.

If there is any indication that the assets have suffered an impairment loss, the recoverable amount of the asset is estimated and any impairment loss is recognized in the income statement. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized, recognizing the reversal of the impairment loss as income.

Goodwill

Goodwill is recognized at cost less any impairment losses. Goodwill acquired in a business combination is represented by the excess of the cost of the combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is not amortized, but it is reviewed for impairment annually, and whenever events or circumstances give rise to the possibility of an impairment loss, the recoverable amount is reviewed in accordance with IAS 36 ("Impairment of Assets"). If the recoverable amount is less than its carrying amount, goodwill is reduced to its recoverable amount. If goodwill has been allocated to a cash-generating unit that is partially disposed of, the goodwill associated with the unit disposed of is included in the determination of any gain or loss on disposal.

Trademarks and licenses

Trademarks and licenses are recognized at cost. They have a finite useful life and are recognized at cost net of accumulated amortization. Amortization is calculated on a straight-line basis so as to allocate the cost of trademarks and licenses over their remaining useful lives.

If, aside from amortization, impairment should emerge, the asset is written down accordingly; if the reasons for the writedown should cease to exist in future financial years, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized.

Trademarks are amortized on a straight-line basis over their estimated useful lives, ranging from 15 to 20 years.

Software

Software licenses acquired are capitalized on the basis of the costs incurred for their purchase and the costs necessary to make them serviceable. Amortization is calculated on a straight-line basis over their estimated useful lives (ranging from 3 to 5 years). Costs associated with software development and maintenance are recognized as costs in the period they are incurred.

The direct costs include the costs for the personnel to develop the software.

Research & development costs

Research and development costs for new products and/or processes are recognized as an expense as incurred unless they meet the conditions for capitalization under IAS 38.

Other intangible assets

The intangible assets also include renewal fees paid in some cases to licensors for the renewal of licensing agreements.

Other intangible assets also include certain internal costs incurred by the Company to develop new eyewear models; the amortization period, equal to the average life of a model on the market, commences when the related models are put on the market.

Impairment of tangible and intangible assets

IAS 36 requires impairment testing of tangible and intangible assets when there is any indication that those assets have suffered an impairment loss. For intangible assets with an indefinite life, such as goodwill, testing for impairment is performed at least annually. The recoverable amount is determined by comparing the carrying amount of the asset with its fair value less costs to sell and value in use, whichever is greater. Value in use is determined on the basis of the present value of estimated future cash flows from operating activities. For purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If an asset's recoverable value is less than its carrying value, the carrying value is reduced to its recoverable value. This reduction is an impairment loss that is recognized as an expense immediately. If there are indications that an impairment loss should be reversed, the recoverable amount of the asset is recalculated and the carrying value is increased to that new value. The increased carrying value must not exceed the net carrying value the asset would have had without any impairment loss. An impairment loss with respect to goodwill may not be reversed.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are valued at acquisition cost net of any impairment losses.

If the reasons for writedowns made no longer apply, the equity investments are revalued to the extent of such writedowns. The investments are tested for impairment when indications of impairment are detected. If there is evidence of a loss in value, an impairment loss is recognized in the income statement. If the Company's share in any losses of a subsidiary or associate exceeds the carrying amount of the investment, and the Company has the obligation or intention to cover such losses, the value of the investment is written off and the Company's portion of further losses is recognized as a provision under liabilities. If the loss in value is subsequently reversed or reduced, the impairment loss is likewise reversed up to an amount not exceeding cost. When significant influence over an associate or joint venture is lost, the Company measures and discloses the retained investment at its fair value. The difference between the carrying amount of the investment on the date on which the significant influence or common control is lost and the fair value of the retained investment and the consideration received is recognized in the Income Statement.

Financial derivatives

Financial derivatives are recognized in accordance with IFRS 9. On the contract stipulation date, the derivatives are initially accounted for at fair value as financial assets when the fair value is positive or as financial liabilities when the fair value is negative. If hedge accounting cannot be applied, the changes in the fair value after initial recognition are recognized through profit or loss.

Fair value measurement

The Company measures financial instruments (derivatives) at their fair values at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes that a transaction to sell an asset or to transfer a liability takes place:

- in the principal market for the asset or liability;
- or in absence of a principal market, the most advantageous market for the asset or liability.

The principle market or most advantageous market must be accessible to the Company. The fair value of an asset or liability is measured adopting assumptions that market participants would use to determine the price of the asset or liability, assuming that they act to best satisfy their economic interest. Fair value measurement of a non-financial asset considers a market participant's capacity to generate economic benefits from the highest and best use of the asset or from the sale to another participant that can obtain its highest and best use.

The Company uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or stated in the financial statements are categorized into the following levels of the fair value hierarchy:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

The fair value measurement is categorized entirely in the same level of the fair value hierarchy of the lowest level input used for measurement.

For recurring assets and liabilities, the Company determines whether there have been any transfers between levels of the fair value hierarchy and reviews the categorization (based on the lowest level input that is significant to the entire measurement) at the end of each reporting period.

Inventories

Inventories are stated at the lower of average purchase or production cost and the corresponding estimated realizable value based on market prices. Estimated realizable value represents the estimated selling price in normal market conditions less all direct selling costs.

Purchase cost was adopted for products purchased for resale and for materials directly or indirectly used, purchased and used in the production process, whereas production cost was adopted for finished and semi-finished products.

Purchase cost is determined on the basis of the cost actually incurred, inclusive of directly attributable ancillary costs, including transport and customs expenses and excluding trade discounts.

Production cost includes the cost of materials used, as defined above, and all directly and indirectly attributable manufacturing costs.

Obsolete and slow-moving inventories are written down to reflect their useful life or realizable value.

Trade and other receivables

Trade and other receivables are stated at amortized cost and are measured on the basis of the impairment model introduced by IFRS 9 (see paragraph on financial assets regarding the initial recognition). In accordance with such model, the Company measures receivables using a logic of expected losses, replacing the IAS 39 framework based on incurred losses. The Company has adopted the simplified approach for trade receivables, which instead of recognizing the periodic changes in credit risk, requires accounting for an expected credit loss ("ECL") calculated over the lifetime of the receivable ("lifetime ECL"). The amount of the receivables is shown in the Statement of Financial Position net of the related provisions for doubtful debts. Impairment losses calculated under IFRS 9 are recognized in the Income Statement net of any positive effects relating to releases or reversals, and are presented in the line for net writedowns of financial assets within the general and administration expenses.

Financial assets – Loans and receivables

The financial assets are classified on the basis of the business model adopted to manage them and of their cash flows. The following categories were identified:

a. Financial assets measured at amortized cost

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is to hold assets to collect contractual cash flows; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. They concern trade receivables, loans and other receivables. Loan and other receivables are included with current assets, except those whose contractual collection date is after twelve months from the reporting date, which are classified as non-current assets. The loan and other receivables are classified in the Statement of Financial Position as trade and other receivables. Except for trade receivables that do not contain a significant financing component, the loan and other receivables are initially recognized at their fair value adjusted by directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price (determined in accordance with IFRS 15 Revenue from Contracts with Customers). After initial recognition, the assets belonging to such category are measured at amortized cost, using the effective interest rate. The effects of such measurement are recognized in profit and loss. The assets are also subject to the impairment model described in the foregoing section on trade and other receivables.

b. Fair Value through Other Comprehensive Income ("FVOCI")

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is met both collecting contractual cash flows and selling these assets; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. The assets are initially recognized at their fair value adjusted by directly attributable transaction costs. Afterward, the initial recognition is updated and any changes in fair value are

recognized in Other Comprehensive Income ("OCI"). Like the previous category, the assets are subject to the impairment model described in the section on trade and other receivables.

c. **Fair Value through Profit and Loss ("FVPL")**

Financial assets that do not fall within the preceding categories are classified in this residual category. They are mainly derivatives and equity instruments, both listed and not listed on financial markets, that the Company has irrevocably decided to classify as FVOCI upon initial recognition or in transitioning. The assets belonging to this category are classified as current assets or non-current assets according to when they are due and they are stated at fair value at initial recognition. Investments in unconsolidated companies over which the Company does not have significant influence are included in this category and accounted for as investments in subsidiaries and associates. Related costs incurred at initial recognition of the asset are accounted for immediately in the Income Statement. FVPL financial assets are subsequently measured at fair value. Profits and losses deriving from changes in fair value are recognized in the Income Statement as they arise, within the net other income/(expenses). Purchases and sales of financial assets are accounted for on the settlement date. Financial assets are derecognized when the rights to receive cash flows deriving from the instrument are extinguished and the Company has transferred substantially all the risks and rewards of ownership and control of the asset. The fair value of financial instruments is based on the current price offered. If the market for a financial asset is not active (or the asset consists of unlisted securities), the Company determines fair value by using valuation techniques. The techniques include referring to advanced negotiations in progress, referring to securities having the same characteristics, analysis based on cash flows, pricing models based on the use of market indicators and aligned, as much as possible, to the asset being measured. In the valuation process, the Company tends to use market information instead of internal information referring specifically to the nature of the business in which the Company operates.

Cash and bank balances

Cash and bank balances include cash, demand deposits at banks and other highly liquid short-term investments, i.e. with an original duration of up to three months, and are stated at the amounts actually on hand at the reporting date.

Assets held for sale and related liabilities

These items include non-current assets (or disposal groups of assets and liabilities) whose carrying value will be recovered mainly through sale rather than through continuing use. Assets held for sale (or disposal groups) are recognized at their net carrying value or fair value less costs to sell, whichever is less.

If these assets (or disposal groups) should cease to be classified as assets held for sale, the amounts are not reclassified or presented for comparative purposes with the classification in the most recent Statement of Financial Position.

Equity

Share capital

Share capital consists of the subscribed and paid-up capital.

Direct issue costs of new share issues are classified as a direct reduction of equity after deferred taxes.

Treasury shares

Treasury shares are shown as a deduction of equity. The original cost of treasury shares and revenues arising on subsequent sale are recognized as changes in equity.

The nominal value of the treasury shares owned is directly deducted from share capital, while the value exceeding the nominal value is used to reduce the treasury share reserve included in the retained earnings/(losses) reserves.

Employee benefits

Post-employment benefit plans are classified, according to their characteristics, as either defined contribution plans or defined benefit plans.

Defined benefit plans, such as that of the "fondo trattamento di fine rapporto" ("TFR", severance indemnity provision) in place until the 2007 Italian Financial Law became effective, are plans under which guaranteed employee benefits are paid upon termination of employment. The defined benefit plan obligation is determined on the basis of actuarial assumptions and is recognized on an accruals basis consistently with the employment service necessary to obtain the benefits; the obligation is measured annually by independent actuaries.

The benefits accrued in the year, determined with actuarial methodology, are recognized in the income statement with the personnel costs, whereas the notional interest cost is recognized in net financial income/(costs). Actuarial gains and losses from changes in actuarial assumptions are recognized directly in the equity of the year they emerge, in accordance with Revised IAS 19, effective from January 1, 2013.

On January 1, 2007, the 2007 Financial Law and related enactment decrees brought significant changes to employee severance indemnity regulations, including the possibility for the employee to choose, by June 30,

2007, how to allocate his or her accruing benefits. New accruing severance indemnities may be assigned by the employee to selected pension funds or kept within the company (in the latter case the company will pay the severance pay contributions into a treasury account held at the INPS).

Pursuant to these changes, the severance indemnity provision accrued up to the date of the employee's decision (defined benefit plans) was recalculated by independent actuaries, excluding the component of future salary raises. Severance indemnities accruing from the date of the employee's decision, and in any case from June 30, 2007, are considered a defined contribution plan, so the accounting treatment is similar to that in effect for all other contribution payments.

Provisions for risks and charges

Provisions for risks and charges consist of allowances for present obligations (either legal or constructive) toward third parties that arise from past events, the settlement of which will probably require an outflow of financial resources, and the amount of which can be estimated reliably.

Provisions are stated at the discounted best estimate of the amount the company should pay to settle the obligation or to transfer it to third parties as at the reporting date.

Changes in estimates are reflected in the income statement of the period in which the change occurs.

Risks for which the emergence of a liability is merely possible are identified in the section relating to commitments and guarantees without making any allowances for them.

Trade payables and other non-financial liabilities

Payables with settlement dates that are consistent with normal terms of trade are not discounted to present value and are recorded at their face value.

Financial liabilities

Borrowings (loans) are initially recognized at cost, corresponding to the fair value of the liability less their transaction costs. They are subsequently measured at amortized cost; any difference between the amount financed (net of transaction costs) and the nominal value is recognized in the income statement over the life of the loan, using the effective interest method. If there is a change in the anticipated cash flows and management is able to estimate them reliably, the value of borrowings is recalculated to reflect such changes.

Loans are classified among current liabilities if they mature in less than 12 months from the end of the reporting period and if the Company does not have an unconditional right to defer their payment for at least 12 months.

Loans are derecognized when they are paid off or when all risks and costs associated with them have been transferred to third parties.

Revenues and income

In accordance with the five-step model introduced by IFRS 15, the Company recognizes revenue after having identified the contracts with its customers and the performance obligations in the contract (transfer of goods and/or services), determined the amount of consideration to which it is entitled in exchange for satisfying each of the performance obligations, and evaluated how the performance obligations were satisfied (at a point in time or over time). The Company recognizes revenues only when all the following requirements have been met (requirements for identifying the contract(s) with the customer): a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations; therefore, an agreement exists that creates the rights and obligations regardless of the form of such agreement; b) the Company can identify each party's rights in relation to the goods or services to be transferred; c) the Company can identify the payment terms of the goods or services to be transferred; d) the contract has commercial substance; and e) it is probable that the Company will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. If the above criteria are not met, the related revenues are recognized when: (i) the Company has already transferred goods and/or services to the customer and all, or substantially all, of the promised consideration has been received and is non-refundable; or (ii) the contract is terminated and the consideration that the Company has received from the customer is non-refundable.

If the above criteria are met, the sales revenues are recognized when the control of the good sold is transferred to the customer, or when the good is delivered to the customer under the terms of the contract and the customer acquires the full ability to direct the use of it, and obtain substantially all of the remaining benefits from it. When the sale contract provides for retrospective volume discounts, the Company estimates their effect and treats it as a variable component of the agreed consideration. The Company also estimates the effect of possible returns from customers. This effect is accounted for as a variable component of the contractual consideration with the contextual presentation of a refund liability among the short-term risk provisions and the corresponding return asset among other current assets in the Statement of Financial Position. The estimate is based on the right-of-return policies and practices adopted by the Company and past trends of sales returns. The variable components of the consideration (discounts and returns) are recognized in the financial statements only when it is highly probable that a significant adjustment to the amount of revenue recognized will not occur. No post-delivery obligations exist besides the product warranties, where required by local regulations; the warranties do not

constitute a separate service and they are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Interest income is accrued on a time basis by reference to the effective interest rate applicable to the related asset.

Dividends are recognized when the shareholder's rights to receive payment are established. This normally occurs when the dividend distribution resolution is approved at the General Meeting.

Cost of sales

The cost of sales includes the cost of producing or acquiring the goods and products sold. It includes all the costs of materials, processing, and expenses directly associated with production. It also includes the depreciation of buildings, plant and equipment, the amortization of the intangible assets used in production and inventory impairment losses.

Royalties

The Company accounts for royalty expense on an accrual basis according to the substance of the agreements stipulated.

Other costs

The costs are recognized according to the relevance and matching principles.

Financial income and costs

Interest is accounted for according to the accrual concept on the basis of the interest rate established by contract. If not established by contract, interest is recognized using the effective interest method, i.e. using the interest rate that makes all inflows and outflows of a specific transaction financially equivalent.

Translation of foreign currency amounts

Transactions in currency other than the Euro are translated into local currency using the exchange rates in force on the transaction date. Foreign exchange differences realized in the period are recognized in the Income Statement.

Foreign currency receivables and payables are adjusted at the exchange rate in force on the reporting date, recognizing the entire amount of profit or loss arising on exchange as financial income or finance costs in the income statement.

Income taxes

Income taxes are stated in the Income Statement, except for those regarding items recognized directly in equity, for which the tax effect is also recognized directly in equity.

Deferred taxes are calculated on the temporary differences generated between the value of the assets and liabilities reported in the financial statements and the value attributed to those assets and liabilities for tax purposes.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which they may be recovered. The carrying value of deferred tax assets is reviewed at the end of each reporting period and, as necessary, is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reductions are reversed if the conditions causing them should cease to exist.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, considering the tax rates in force and those that have been enacted or substantially enacted by the reporting date.

Other taxes not relating to income, such as property and equity taxes, are included in the operating items.

Italian tax consolidation

At the end of 2016 the three-year term ended for the option of Italian tax consolidation for IRES purposes between the ultimate parent company, 3Cime S.p.A., and its subsidiaries, including Marcolin S.p.A., under Presidential Decree 917, Article 117 *et seq.* of December 22, 1986 (Italian Tax Code or "TUIR"). On March 31, 2017 the Company renewed the tax consolidation agreement for the three-year term of 2017 - 2019.

The tax consolidation agreement enables each participant (including the Company), by way of partial recognition of the group's tax burden, to optimize the financial management of corporate income tax (IRES), for example by netting taxable income and tax losses within the tax group.

Tax consolidation transactions are summarized below:

- in years with taxable income, the subsidiaries pay 3 Cime S.p.A. the additional tax due to the tax authorities;
- the consolidated companies with negative taxable income receive from 3 Cime S.p.A. a payment corresponding to 100% of the tax savings realized, accounted for on an accruals basis;

- the payment is made only at the time of actual use by 3 Cime S.p.A. for itself and/or for other Group companies;
- if 3 Cime S.p.A. and the subsidiaries do not renew the tax consolidation option, or if the requirements for continuance of tax consolidation should fail to be met before the end of the three-year period in which the option is exercised, tax loss carryforwards resulting from the tax return are split up proportionally among the companies that produced them.

FINANCIAL RISK FACTORS

Market and currency risks

Marcolin S.p.A. operates in various markets throughout the world and thus is exposed to risks connected with fluctuations of foreign exchange rates and interest rates.

Exposure to currency risk arises from the different geographic locations of its manufacturing and commercial activities. The Company is primarily exposed to fluctuations of the U.S. dollar on supplies received from Asia and on sales conducted in U.S. dollars, and to a lesser extent to fluctuations of the British pound sterling.

Marcolin S.p.A.'s currency risk refers to transaction risk, generated by sales and costs incurred in currencies other than the euro, mainly the U.S. dollar for sales and sourcing goods from Asian suppliers. Although fluctuations of foreign exchange rates could affect the Company's profit or loss, the structure of revenues and expenses in foreign currency is considered to enable maintaining a natural hedge against the transactional risk, due to the fact that the amount of sales in foreign currency substantially corresponds to the amount of costs in foreign currency.

In the past, the Company used currency hedges (foreign exchange forward contracts), which were no longer stipulated in 2016 due to the natural hedge from which the Company benefits as a result of the current structure of revenues and expenses in foreign currency.

With respect to transaction risk, according to the sensitivity analysis performed, a change in exchange rates should not significantly impact the Company's separate financial statements, thanks to the previously described situation.

Interest rate risk

The Report on Operations provides details on Marcolin S.p.A.'s interest rate risk.

The section on liquidity risk provides a quantitative analysis of the Company's exposure to cash flow risk relating to interest rates on loans.

Information on outstanding loans is provided subsequently in these notes.

Interest rate sensitivity analysis

Interest rate sensitivity analysis was performed, assuming a 25 basis-point increase and a 10 basis-point decrease of the Euribor/Swap yield curves, published by Reuters for December 31, 2018. In this manner, the Company determined the impact that such changes would have had on the income statement and on equity.

The sensitivity analysis excluded financial instruments that are not exposed to significant interest rate risk, such as short-term trade receivables and payables.

The interest on bank borrowings was recalculated using the above assumptions and the investment position in the year, recalculating the higher/lower annual finance costs.

For cash and bank balances, the average balance of the period was calculated using the book values at the beginning and end of the year. The effect on income of a 25 basis-point increase/10 basis-point decrease in the interest rate from the first day of the period was calculated on the amount thus determined.

According to the sensitivity analysis performed on the basis of the above criteria, the Company is exposed to interest rate risk on its expected cash flows. If interest rates should rise by 25 basis points, income would decrease by euro 108 thousand due to higher interest expense with banks and third parties with respect to the increase in financial income on intercompany loans and bank accounts.

If interest rates should fall by 10 basis points, income would increase by euro 43 thousand.

Credit risk

The Company does not have a significant concentration of credit risk. Receivables are recognized net of writedowns for risk of counterparty default, calculated based on available information regarding the customer's solvency and any useful statistical records.

Guidelines and internal policies have been implemented for managing customer credit, supervised by the designated business function (Credit Management), to ensure that sales are conducted only with reasonably reliable and solvent parties, and through the setting of differentiated credit exposure ceilings (according to creditworthiness).

Receivables and other current assets are set forth below by the main areas in which the Company operates (the table excludes the provision for returns, which is classified with trade receivables).

Trade receivables by geographical area and other current assets (euro/000)	12/31/2019	12/31/2018
Italy	23,384	29,248
Rest of Europe	18,254	18,701
North America	17,507	17,376
Rest of Word	40,923	43,061
Total	100,068	108,386

Trade receivables not past-due are set forth below by geographical area (IFRS 7) below:

Trade receivables not overdue by geographical area (euro/000)	12/31/2019	12/31/2018
Italy	10,962	13,836
Rest of Europe	16,772	17,252
North America	17,455	10,104
Rest of Word	22,397	27,389
Total	67,585	68,581

In compliance with IFRS 7, the following table provides an aging analysis of the undisputed trade receivables:

Ageing analysis of trade receivables not protested (euro/000)	Gross value	Provision	Net value
12/31/2018			
Not past due	68,581	(1,078)	67,503
Past due by less than 3 months	8,101	(495)	7,606
Past due by 3 to 6 months	4,389	(848)	3,541
Past due by more than 6 months	14,363	(942)	13,421
Total	95,434	(3,363)	92,070
12/31/2019			
Not past due	67,585	(1,131)	66,454
Past due by less than 3 months	7,775	(746)	7,029
Past due by 3 to 6 months	3,911	(595)	3,316
Past due by more than 6 months	11,735	(779)	10,955
Total	91,006	(3,251)	87,755

In some markets in which Marcolin S.p.A. operates, receivables are regularly collected after the date stipulated by contract, without this necessarily indicating collection issues or financial difficulties.

Consequently, there are trade receivable balances that were not considered impaired even though they were past due.

These trade receivables are set forth in the table below by past-due category.

Trade receivables overdue but not impaired (euro/000)	12/31/2019	12/31/2018
Past due less than 3 months	705	659
Past due more than 3 months	90	1,454
Total	795	2,113

For the sake of exhaustive disclosure, an aging analysis of disputed receivables and the related writedowns is set forth below.

Ageing analysis of protested trade receivables (euro/000)	Gross value	Provision	Net value
12/31/2018			
Past due by less than 12 months	30	(28)	1
Past due by more than 12 months	1,298	(1,233)	65
Total	1,328	(1,261)	66
12/31/2019			
Past due by more than 12 months	1,604	(1,524)	80
Total	1,604	(1,524)	80

Some trade receivables are covered by the types of guarantees typically used for sales on international markets.

The changes in the provision for doubtful debts are set forth below:

Provision for doubtful debts (euro/000)	12/31/2019	12/31/2018
Opening amount	4,625	2,106
Adjustments opening balance as at 1 January 2018 in accordance with IFRS9	-	907
Provisions/Reversal on P&L	302	1,691
Use	(152)	(79)
Period end Total	4,775	4,625

In accordance with IFRS 9, the expected losses on trade receivables were estimated upon initial recognition of the receivable and over its lifetime (lifetime expected credit loss). As allowed by the standard, a matrix was used to estimate the expected credit losses that took into account the geographical source of the receivable and the type of customer. The matrix considers different loss percentages according to the aging category of the receivables. The expected loss percentage rises when the receivable seniority rises.

Liquidity risk

Prudent management of liquidity risk entails keeping a sufficient level of liquidity and having sources of funding available by means of adequate credit lines.

Due to the dynamic nature of its business, the Company prefers the flexibility of obtaining funding through the use of credit lines. At present, based on its available sources of funding and credit lines, the Company considers its access to funding to be sufficient for meeting the financial requirements of ordinary operations and for the investments envisioned in its business plans and budgets.

The types of credit lines available and the base rate on the reference date are reported subsequently in these Notes.

Liquidity analysis

Liquidity analysis was performed on loans, derivatives, and trade payables. Borrowings were specified by time bracket for principal repayments and non-discounted interest. Future interest amounts were determined using forward interest rates taken from the spot-rate curve published by Reuters at the end of the reporting period. None of the cash flows included in the following table was discounted.

(euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Carrying value
Loans and bonds (excluding capital lease)	54,352	4,349	250,000	-	296,877
Interest expenses on loans, bonds, leasing	11,206	21,699	1,772	127	1,704
Capital lease (*)	2,323	3,369	993	-	6,686
Trade payables	116,998	-	-	-	116,998

(*) for more details, please see the specific paragraph "accounting policy".

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments are shown by type in the following table (in comparison with the amounts of the prior year), in accordance with IFRS 7.

In 2019 the financial instruments were classified in accordance with IFRS 9 and IFRS 16.

Categories of financial assets (euro/000)	Trade receivables	Financial assets	Cash and cash equivalents
2019			
Loans and other financial receivables at amortized cost	87,835	96,694	21,574
Financial assets at fair value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	87,835	96,694	21,574

Categories of financial assets (euro/000)	Trade receivables	Financial assets	Cash and cash equivalents
2018			
Loans and other financial receivables at amortized cost	92,137	153,492	9,246
Financial assets at fair value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	92,137	153,492	9,246

Categories of financial liabilities (euro/000)	Trade payables	Financial liabilities	Bond
2019			
Financial liabilities at amortized cost	116,998	57,293	247,968
Lease financial liabilities (*)	-	6,686	-
Total	116,998	63,978	247,968

(*) for more details, please see the specific paragraph "accounting policy".

Categories of financial liabilities (euro/000)	Trade payables	Financial liabilities	Bond
2018			
Financial liabilities at amortized cost	124,504	58,850	246,745
Financial liabilities as under IAS 17	-	1,492	-
Total	124,504	60,342	246,745

FAIR VALUE MEASUREMENT HIERARCHY

The financial instruments measured at fair value are presented on the basis of the fair value hierarchy, described below:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates that could affect the carrying value of some assets, liabilities, income and expenses, and disclosures concerning contingent assets and liabilities at the reporting date.

Estimates were used mainly to determine the recoverability of intangible assets (including goodwill), the useful lives of tangible assets and any market values used to evaluate impairment, the value of investments in subsidiaries and associates, the recoverability of receivables (including deferred tax assets), the valuation of inventory and the recognition or measurement of provisions for risks and charges.

The estimates and assumptions are based on data that reflect currently available information.

Estimates and assumptions that involve a significant risk of changes in the carrying values of assets and liabilities are described hereunder.

Goodwill

Pursuant to IAS 36, the Company performs impairment tests at least annually.

Recoverable values are calculated based on "value in use".

The calculations require using estimates of the future performance of the cash-generating units (CGUs) to which goodwill belongs (business plan forecasts), the discount rate (WAAC) and the prospective growth rate to be applied to the forecast cash flows ("g" rate).

Impairment of non-current assets

When there is indication that the net carrying value exceeds the recoverable value, non-current assets are reviewed to determine whether they have suffered an impairment loss, in accordance with the accounting principles adopted.

The recoverable value is represented by the fair value less costs to sell, or value in use, whichever is greater. Recoverable values are calculated based on their value in use. Those calculations require using estimates of future performance, the discount rate and the prospective growth rate to be applied to the forecast cash flows.

If any such indication exists, management is required to perform subjective evaluations based on information available within the Company and on the market.

If indications of impairment should exist, the Company calculates the potential impairment using the valuation techniques it considers to be the most appropriate.

Proper identification of impairment indications and estimates of potential impairment are dependent on factors that may vary over time, affecting the measurements and estimates made by management.

Provision for doubtful debts

The provision for doubtful debts reflects management's estimates of future losses on trade receivables. The provision for doubtful debts is calculated in accordance with IFRS 9.

Returns provision and product warranty provision

The returns provision and product warranty provision reflect management's estimate of losses deriving from the customers' possibility under contract to return products sold. The product warranty provision gives the customer the possibility to return defective merchandise and receive in exchange an analogous (non-defective) product.

The returns provision is accounted for in accordance with IFRS 15, and the product warranty provision with IAS 37.

Provision for inventory impairment

The provision for inventory impairment reflects management's estimates regarding the losses expected by the Company, determined on the basis of past experience and both past and anticipated market trends.

Deferred tax assets

Recognition of deferred tax assets is based on expectations of profits in future years. Estimates of future earnings used to recognize deferred tax assets are dependent on factors that may vary over time and significantly affect estimates of deferred tax assets.

ANALYSIS OF MARCOLIN S.P.A. STATEMENT OF FINANCIAL POSITION

Comments and the most significant changes in the items compared with the separate Financial Statements for the year ended December 31, 2018 are described in this section (the amounts are in thousands of euros, unless specified otherwise).

1. PROPERTY, PLANT, AND EQUIPMENT

The composition of and changes in the item for the past two years are set forth below:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP&E	Assets under construction	Total
Net value at beginning of 2018	12,635	6,596	1,319	2,873	143	23,565
Increases	606	1,857	1,191	1,346	-	4,999
Decreases	(342)	(41)	(11)	(117)	(31)	(542)
Depreciation	(640)	(1,734)	(1,143)	(1,203)	-	(4,720)
Reclassification and other movements	97	-	-	-	(97)	-
Net value at end of 2018	12,356	6,676	1,356	2,898	15	23,302
Net value at beginning of 2019	12,356	6,676	1,356	2,898	15	23,302
Increases	915	4,345	2,014	3,440	253	10,967
Decreases	-	(344)	(186)	-	-	(530)
Depreciation	(936)	(1,982)	(1,305)	(1,927)	-	(6,149)
Net value at end of 2019	12,336	8,695	1,878	4,412	267	27,589

- euro 17,338 thousand for factory buildings; the part not referring to the IFRS 16 effect regards primarily construction work done on some buildings owned;

The capital expenditures totaled euro 10,967 thousand and regarded mainly the following investments (the amounts include the effect of IFRS 16 adoption):

- plant and machinery for euro 4,345 thousand; the part not referring to the IFRS 16 effect regards principally the purchase of numerically controlled machining systems;
- industrial and commercial equipment for euro 2,014 thousand;
- hardware and office furniture, included in other tangible assets, for euro 3,440 thousand;
- land and buildings for euro 915 thousand.

The undepreciated values of property, plant and equipment and their accumulated depreciation as at December 31, 2019 are shown in the following table:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP&E	Assets under construction	Total 12/31/2019
Undepreciated value	23,801	26,270	19,178	12,914	268	82,431
Accumulated depreciation	(11,465)	(17,575)	(17,300)	(8,501)	-	(54,841)
Net value	12,336	8,695	1,878	4,412	268	27,590

The following table presents the amounts of the previous year:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP&E	Assets under construction	Total 12/31/2019
Undepreciated value	22,885	25,550	17,420	9,582	15	75,452
Accumulated depreciation	(10,528)	(18,874)	(16,064)	(6,684)	-	(52,149)
Net value	12,356	6,676	1,356	2,898	15	23,302

The table below presents the effect of IFRS 16 application on the respective item. The recognition of the right-to-use asset at January 1, 2019 and the related depreciation for 2019, for leases previously classified as operating leases under IAS 17, are listed in the following tables.

€/000	12/31/2019	01/01/2019
Land and buildings	513	807
Industrial and commercial equipment	641	43
Cars	1,471	1,274
Other tangibles fixed assets	88	69
Total Right-of-use assets	2,713	2,193

€/000	2019
Land and buildings	294
Industrial and commercial equipment	73
Cars	322
Other tangibles fixed assets	28
Total depreciation of Right-of-use	717

IFRS 16 adoption and the effects thereof are explained in the specific section of this Annual Report.

2. INTANGIBLE ASSETS AND GOODWILL

The composition of and changes in this item are set forth below:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total	Goodwill
Net value at beginning of 2018	3,920	4,512	9,322	5,523	23,278	186,227
Increases	2,507	-	2,958	1,077	6,543	-
Decreases	-	-	-	(10)	(10)	-
Amortization	(1,713)	(819)	(5,003)	-	(7,535)	-
Reclassification and other movements	77	-	-	(77)	-	-
Net value at end of 2018	4,791	3,693	7,277	6,514	22,276	186,227
Net value at beginning of 2019	4,791	3,693	7,277	6,514	22,276	186,227
Increases	2,883	-	8108	368	11,359	-
Decreases	-	-	-	-	-	-
Amortization	(2,134)	(818)	(3,380)	-	(6,332)	-
Reclassification and other movements	170	-	242	(412)	(0)	-
Net value at end of 2019	5,710	2,875	12,247	6,469	27,302	186,227

The intangible assets include mainly the amounts recognized as a result of the 2013 merger, particularly the goodwill of originally euro 189,722 thousand. In 2015 goodwill decreased by euro 3,496 thousand pursuant to the transfer of the Asia Pacific business division to Marcolin UK Ltd.

Goodwill was tested for impairment to evaluate whether its carrying value was consistent with its fair value at the reporting date.

The recoverable value of goodwill was estimated using the Company's value in use, taken as the enterprise value emerging from the application of the unlevered free cash flow method to the projected cash flows in a continuing operation.

The methods and sensitivity analysis used for the test results are described in the subsequent section on impairment testing.

The impairment test and sensitivity analysis results provided values consistent with the invested capital presented in the financial statements.

No shortages emerged from the sensitivity analysis: therefore, it is reasonable to conclude that the carrying value of goodwill in the Company's financial statements is consistent with its fair value, as the test did not require writing down the value of goodwill in Marcolin S.p.A.'s Financial Statements.

During the year investments of euro 11,359 thousand were made (euro 6,543 thousand in 2018), consisting of euro 2,883 thousand for software and the remainder referring mainly to payments made by the Company to some licensors.

The purchase cost and accumulated amortization of the intangible assets deducted directly from the cost are shown in the following table:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2019	Goodwill
Undepreciated value	19,479	7,437	35,289	6,470	68,676	186,227
Accumulated depreciation	(13,769)	(4,563)	(22,962)	-	(41,293)	-
Net value	5,710	2,874	12,328	6,470	27,382	186,227

The following table presents the amounts of the previous year:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2018	Goodwill
Undepreciated value	16,426	7,437	26,783	6,514	57,160	186,227
Accumulated depreciation	(11,635)	(3,744)	(19,506)	-	(34,885)	-
Net value	4,791	3,693	7,277	6,514	22,275	186,227

Concessions, licenses and trademarks include the Web trademark.

This asset was obtained near the end of 2008 for euro 1,800 thousand after being appraised by an independent professional, and is amortized over an estimated useful life of 18 years.

Concessions, licenses and trademarks also include euro 5,000 thousand for an option, already exercised, that enabled the Company to extend a licensing agreement beyond its expiration date (2015) to December 2022. This cost is amortized over 7 years starting from 2016.

Impairment testing

Impairment testing, under IAS 36, is performed at least annually for intangible assets with an indefinite useful life, such as goodwill. Other intangible assets are tested whenever there are external or internal indications that they have suffered an impairment loss.

The total goodwill of euro 288,449 thousand recognized in the Group's consolidated financial statements as at December 31, 2019, of which euro 186,227 thousand refers to the Parent Company, was tested for impairment to assess the fairness of the carrying amount as at the reporting date.

The Group's new organizational structure resulting from Viva International integration represents the full integration of all Viva structures into Marcolin; Viva's previous structures lost their identity in the integration process through acquisitions, mergers and business division transfers conducted within the vast international reorganization of the Group, which is now managed as a single unit coordinated by the Parent Company using a centralized model. For this reason goodwill was measured at a Group level.

The recoverable amount of goodwill was estimated using Marcolin Group's value in use, assumed as the enterprise value emerging from the application of the unlevered free cash flow method to the projected cash flows of Marcolin Group's continuing operation.

The following assumptions were made to determine value in use:

- the cash-generating unit was identified in the entire Marcolin Group (cash flows from projected operating/financing activities of Marcolin S.p.A. and all its Italian and foreign subsidiaries) because the Group's organizational structure uses a centralized model headed by Marcolin S.p.A.;
- the main data sources used were: the draft financial statements for the year ended December 31, 2019, the 2020 Budget and the 2021 - 2022 business plan¹³;
- the terminal value was calculated using the 2022 EBITDA, assuming perpetual growth at a "g" rate of 2.4%, conservatively considering the inflation projections for the countries in which Marcolin is present. The resulting cash flow is adjusted to normalize the cash flow expected in perpetuity, according to the standard measurement practice;
- the cash flow discount rate (WAAC) is 9.7%, calculated in line with the Capital Asset Pricing Model (CAPM) commonly used for valuation in doctrine and in standard practice. This rate reflects current market estimates referring to: 1) the cost of capital for debt (Kd = 3.0% , after taxes); 2) the expected return on the risk capital invested in Marcolin (Ke = 10.3%), weighted considering the source of the Group's main cash flows. Weighted Kd/Ke was determined under the applicable accounting standards by considering the average financial structure of Marcolin's main comparables, assuming that the value of the entity's projected cash flows does not derive from its specific debt/equity ratio. WAAC was calculated considering the impact of IFRS 16, consistently with the amount of the net invested capital, which reflects such new accounting standard.

Based on the results of the analysis performed, goodwill did not suffer any impairment losses given that the value in use exceeds the carrying amount as at December 31, 2019 by a wide margin.

Moreover, sensitivity analysis was performed on the Group's enterprise value, determined with the previously described methods, assuming:

- changes in WAAC;
- changes in the g rate.

In this case, a half-percentage point increase in WAAC would result in a 7% decrease in the enterprise value (given the same g), whereas a half-percentage point decrease in the g rate would result in an 6% decrease in the enterprise value (given the same WAAC). Neither case would result in an impairment loss.

¹³ The impairment test document was approved by the Parent Company's Board of Directors on January 31, 2020.

In addition, a stress test was performed assuming higher capital expenditures than those budgeted, and estimating possible cash outflows that the Group could incur to renew certain licenses upon their expiration. The stress test confirmed that the coverage amounts remain positive, with broad safety margins.

3. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The investments in directly controlled subsidiaries and associates and their changes for the year are reported below:

Subsidiaries (euro/000)	12/31/2018	Subscription/ disposal	12/31/2019
Marcolin USA Eyewear Corp.	53,558	54,078	107,637
Marcolin UK Ltd	6,133	-	6,133
Marcolin do Brasil Ltda	5,431	-	5,431
Marcolin Iberica SA	3,268	-	3,268
Marcolin-RUS LLC	1,533	-	1,533
Marcolin Deutschland GmbH	1,161	-	1,161
Ging Hong Lin International Co Ltd	1,500	-	1,500
Marcolin Benelux Sprl	477	-	477
Eyestyle Trading (Shanghai) Co Ltd	397	-	397
Marcolin GmbH	166	-	166
Marcolin Technical Services (Shenzhen) Co. Ltd	142	-	142
Marcolin Nordic AB	904	-	904
Marcolin Portugal Lda	-	-	-
Marcolin France Sas	214	-	214
Marcolin Asia Ltd	176	-	176
Marcolin México S.A.P.I. de C.V.	2	-	2
Marcolin Singapore Pte Ltd	-	66	66
Marcolin Middle East FZCO	3,762	-	3,762
Total	78,823	54,145	132,968

Associates (euro/000)	12/31/2018	Subscription/ disposal	12/31/2019
Thélios S.p.A.	16,146	12,250	28,396
Total	16,146	12,250	28,396

The investments in subsidiaries amount to euro 132,968 thousand (euro 78,823 thousand in 2018), and the investments in associates amount to euro 28,396 thousand.

On March 27, 2019 Marcolin SpA subscribed the share capital of a new company, Marcolin Singapore Pte Ltd, for an amount equivalent to euro 66 thousand.

On October 29, 2019, Marcolin SpA accepted a request from subsidiary Marcolin USA Eyewear Corp. to partially waive the repayment of an intercompany loan of originally USDF 125 million for a principal amount of USD 60 million (equivalent to euro 54.1 million) in order to rebalance the American subsidiary's financial structure. The amount of the loan waived was recognized in Marcolin USA Eyewear Corp.'s equity as a capital reserve constituting an item of equity. The conditions, terms and clauses previously governed by the loan agreement and subsequent amendments are still in effect for the remainder of the financial receivable excluded from the waiver. As a consequence of such waiver, the value of the investment at December 31, 2019 exceeds the value of equity owned by the Company (100%), so a potential risk impairment risks exists. The Company did not account for any impairment because the American affiliate's business plans demonstrate that the company's equity value is higher than the carrying amount of the investment.

Investments in associates, totaling euro 28,396 thousand, consist exclusively of the investment in associate Thélios S.p.A., a company established in partnership with the LVMH Group, through which Marcolin owns a 49% stake. The value of the investment as at December 31, 2019 derives from the following transactions, carried out from the establishment of the company until December 31, 2019:

- March 17, 2017 subscription of 58,800 Class B shares (euro 58,800), corresponding to 49% of the total number of shares issued by the company.
- October 16, 2017 capital increase by way of a new share issue. Marcolin S.p.A.'s portion is 431,200 Class B shares for euro 431,200 and a share premium of euro 5,855,696, released by Marcolin S.p.A. through a contribution in kind of the business division composed of assets, contracts and employees dedicated to the design, manufacturing and production of eyeglass frames and sunglasses with LVMH brands, established in 2017 upon completion of the company's start-up process and the beginning of extension and renovation works on the Longarone building. Using the unlevered free cash flow formula, the economic value of the transferred business division is euro 6,287 thousand. A professional valuation was drawn up for the contribution in kind, in accordance with Italian Civil Code Article 2343-quater. Vicuna Holding S.p.A., which owns 51% of the Thélios S.p.A. shares, carried out the capital increase with a monetary contribution;
- April 19, 2018 capital increase in accordance with Civil Code Article 2447 pursuant to accruing losses recognized by the company in the first few months of 2018, by way of clearing and re-establishing share capital with a share premium, of which the portion referring to Marcolin S.p.A. was carried out with a subscription of 490,000 Class B shares for a value of euro 490,000 and a share premium of euro 542,430 paid with a bank transfer;
- Waivers of interest-bearing receivables, in accordance with Civil Code Article 1236, referring to the loan from Marcolin S.p.A. to Thélios S.p.A., of the following dates and amounts:
 - effective April 19, 2018 for euro 8,767,570;
 - effective March 25, 2019 for euro 4,900,000;
 - effective December 2, 2019 for euro 7,350,000.

The difference between the value of Thélios S.p.A.'s equity and the value of the interest recognized by the company as at December 31, 2019, attributable to the net losses of the initial years of the associate's operation, does not indicate impairment because the difference is not considered to last.

The negative differences between the carrying amount of some investments in subsidiaries and the respective equity value are not considered to represent indications of impairment because they are not deemed permanent. Management has evaluated this by conducting impairment testing on some equity investments, which show future profits based on the business plans of the companies concerned.

4. OTHER NON-CURRENT ASSETS

The amount of other non-current assets is euro 46 thousand (euro 193 thousand in 2018), and refers primarily to prepaid expenses recognized in 2019 that will also involve subsequent years, and prepaid commissions on the euro 40 million senior revolving credit facility, of which euro 27 million had been used as at December 31, 2019.

5. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets were euro 59,385 thousand, compared with euro 111,395 thousand in 2018.

The 2019 amount consists of:

- euro 57,860 thousand (USD 65 million) in loans granted to subsidiary Marcolin USA Eyewear Corp. used to finance the December 3, 2013 acquisition of Viva Optique, Inc., reduced in October 2019 by USD 60 million as a result of the partial repayment waiver, described in Note 3, "Investments in Subsidiaries and Associates";
- a loan granted to a third party with an outstanding balance of euro 1,500 thousand at December 31, 2019, accruing interest at market rates, whose repayment commenced on January 1, 2016 with semiannual installments until 2022. The current portion receivable, recognized among current financial assets, is euro 760 thousand.

The difference from the balance of the prior year is attributable to the changes resulting from the aforementioned effects and to the effect of translation at the 2019 year-end exchange rate of the intercompany loan to Marcolin USA Eyewear Corp. denominated in U.S. dollars

6. INVENTORIES

The composition of other current assets is shown below.

Inventories (euro/000)	12/31/2019	12/31/2018
Finished goods	56,345	57,020
Raw material	15,412	13,749
Work in progress	18,137	19,754
Gross inventory	89,895	90,523
Inventory provision	(15,793)	(17,471)
Net inventory	74,101	73,052

Net inventories rose by euro 1,049 thousand from the previous year.

The increase is attributable to a euro 628 thousand decrease in the inventory itself and a euro 1,678 thousand decrease in the inventory impairment provision. The decrease in the provision, which was more than proportional to the gross inventory, is attributable to the provision returning to "normal" values after the prior year's extraordinary increase due to the ending of the Montblanc and Balenciaga licensing agreements.

The Company continues to pursue efficient inventory management aiming to streamline the products offered by considerably reducing the number of models produced and accelerating the sales periods for some models. This resulted in better quality inventories, enabling to reduce the impairment rate.

The inventory impairment provision provides adequate coverage for obsolete and slow-moving inventory, taking into account the composition of and possibility to sell such inventory.

In detail:

- the value of finished products rose by euro 675 thousand;
- the value of raw materials rose by euro 1,663 thousand;
- the value of work in progress fell by euro 1,616 thousand.

7. TRADE RECEIVABLES

The composition of the trade receivables is as follows:

Trade receivables (euro/000)	12/31/2019	12/31/2018
Gross trade receivables	92,610	96,761
Provision for bad debts	(4,775)	(4,624)
Net trade receivables	87,835	92,137

Trade receivables are down from the previous year as they were affected primarily by intercompany accounts, which reflect a different timing of supplies to Group companies than in the previous year.

The provision for doubtful debts is stated in accordance with IFRS 9.

The amount of receivables recognized was not discounted, since all receivables are due within 12 months.

The trade receivables due from directly and indirectly controlled subsidiaries are set forth below:

Receivables due from subsidiaries (euro/000)	12/31/2019	12/31/2018
Marcolin USA Eyewear Corp.	15,398	17,338
Marcolin do Brasil Ltda	15,219	14,430
Marcolin UK Hong Kong Branch	8,541	11,917
Gin Hon Lin Int. Co. Ltd	7,436	6,015
Marcolin France Sas	5,336	6,254
Marcolin UK Ltd	3,076	1,910
Marcolin Iberica SA	3,028	2,900
Marcolin Middle East FZCO	2,603	1,970
Marcolin México S.A.P.I. de C.V.	2,161	2,245
Marcolin Nordic AB Sweden	1,607	1,711
Marcolin Portugal Lda	854	798
Marcolin-RUS LLC	458	897
Marcolin Deutschland Gmbh	437	568
Marcolin Nordic AB Norway	364	555
Marcolin Benelux Sprl	353	267
Marcolin Nordic AB Denmark	299	(2)
Marcolin Nordic AB Finland	286	312
Marcolin Gmbh	227	36
Eyestyle Trading (Shanghai) Co Ltd	70	148
Marcolin Asia Ltd	49	24
Marcolin Singapore Pte Ltd	3	-
Total	67,807	70,294

8. OTHER CURRENT ASSETS

The composition of other current assets is shown below.

Other current assets (euro/000)	12/31/2019	12/31/2018
Tax credits	3,306	7,918
Prepaid expenses	796	1,118
Assets for rights to receive goods back	1,975	2,071
Other receivables	8,131	7,213
Total other current assets	14,208	18,320

This item, euro 14,208 thousand (euro 18,320 thousand in 2018), presents a decrease of euro 4,112 thousand from the prior year and is broken down below:

- tax credits of euro 3,306 thousand (euro 7,918 thousand in 2018);
- prepaid expenses of euro 796 thousand (euro 1,118 thousand in 2018), referring principally to insurance premiums and other costs for projects of 2020;
- other receivables of euro 8,131 thousand (euro 7,213 thousand in 2018), consisting mainly of the amount due from 3 Cime S.p.A. under the Italian tax consolidation agreement with that company;
- other receivables of euro 1,975 thousand for returns from customers pursuant to the new accounting standard, IFRS 15 (euro 2,071 in the prior year).

9. CURRENT FINANCIAL ASSETS

This item, euro 37,309 thousand (compared with euro 42,097 thousand as at December 31, 2018), consists primarily of euro 36,549 thousand due from Group companies.

Marcolin S.p.A.'s main current financial assets from loans to subsidiaries and associates are listed below:

- euro 15,566 thousand due from associate Thélios S.p.A.;

- euro 12,720 thousand due from Marcolin U.S.A. Eyewear Corp.;
- euro 2,237 thousand due from Marcolin UK Ltd;
- euro 1,816 thousand due from Marcolin México S.A.P.I. de C.V.;
- euro 1,709 thousand due from Marcolin Middle East FZCO;
- euro 817 thousand due from Marcolin Portugal Lda;
- euro 787 thousand due from Marcolin Singapore PTE Ltd;
- euro 515 thousand due from Marcolin Benelux SPRL;
- euro 207 thousand due from Marcolin Nordic AB;
- euro 175 thousand due from Viva Hong Kong Ltd;

The total amount is lower than that of the prior year by euro 4,788 thousand primarily as a result of the reduction of the loan balance due from associate Thélios S.p.A. pursuant to the waivers described in Note “3. Investments in subsidiaries and associates”, which outbalanced the additional amounts granted during the year to the associate.

In accordance with EEC IVth Directive 78/660 Article 43, paragraph 1, n. 13, it is confirmed that as at December 31, 2019 there were no loans to members of administrative, management, or control bodies, nor any commitments undertaken for guarantees given to any members of administrative, management, or control bodies, directors or statutory auditors.

10. CASH AND BANK BALANCES

This item, which amounts to euro 21,574 thousand, represents the value of cash deposits and highly liquid financial instruments, i.e. those with a maturity of up to three months.

Cash and bank balances rose by euro 12,328 thousand from December 31, 2018. The increase is presented in the Statement of Cash Flows, which provides information on the 2019 movements in cash and cash equivalents.

11. EQUITY

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2018 to the new shareholder, Vicuna Holding S.p.A. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. The share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2019, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The share premium reserve was euro 42,827 thousand as at December 31, 2019, and the capital reserve account remained unchanged at euro 46,108 thousand.

The legal reserve of euro 5,483 thousand has not reached the limit imposed by Italian Civil Code Article 2430.

The actuarial reserve regards future employee benefits accounted for under IAS 19, corresponding to Marcolin S.p.A.'s provision for severance indemnities.

The retained earnings/losses contain the amount deriving from first-time adoption of IFRS 9 and IFRS 15.

The Statement of Changes in Equity provides more detailed information.

The following table presents the composition of the Company's equity at December 31, 2019:

Item (euro/000)	Amount	Possible use	Available portion	Uses in previous three years	
				Loss coverage	Other
Share capital	35,903		-	-	-
Share premium reserve	42,827	A-B-C	42,827	-	-
Legal reserve	5,483	B	-	-	-
Other reserves	46,893		-	-	-
Retained earnings/(losses)	93,504	A-B-C	93,504	-	25,900
Total	224,610		136,331	-	-
Non-distributable portion under Civil Code Art. 2426, comma 1 n. 5 c.c.			-		
Non-distributable portion under Civil Code Art. 2426, comma 1 n. 8 bis, c.c.			6,894		
Non-distributable portion under Civil Code Art. 2431			1,698		
Distributable portion			127,740		
Restricted portion under TUIR Art. 109 paragraph 4/b			-		
Legend					
A - to increase share capital		B - to cover losses		C - to distribute to shareholders	
				D - others	

12. NON-CURRENT FINANCIAL LIABILITIES

This item has an amount of euro 255,271 thousand as at December 31, 2019, consisting of the euro 246,560 thousand value of the bond notes, accounted for in accordance with the amortized cost method, and loans from banks, loans from other financiers and the lease liability under IFRS 16 for euro 8,711 thousand.

The net financial position is set forth below. Additional information is provided in the Report on Operations.

Net financial debt (euro/000)	12/31/2019	12/31/2018
Cash and cash equivalents	21,574	9,246
Current and non-current financial assets	96,694	153,492
Current financial liabilities	(54,349)	(55,918)
Current portion of non-current financial liabilities	(2,326)	(3,017)
Non-current financial liabilities	(255,271)	(248,152)
Total net financial debt	(193,678)	(144,349)
IFRS16 effect	(2,743)	
Total net financial debt net of IFRS16 effect	(190,935)	(144,349)

The following table presents the maturities of the financial payables, which are classified as current liabilities and non-current liabilities.

Borrowings maturity (euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Credit lines used	8,471	-	-	-	8,471
Loans	35,821	4,349	-	-	40,170
Other financiers	1,281	2,073	247,148	-	250,502
Financial liabilities as under IFRS16 (*)	1,042	1,297	405	-	2,743
Intercompany	10,061	-	-	-	10,061
12/31/2019	56,675	7,718	247,552	-	311,946

(*) for more details, please see the specific paragraph "accounting policy".

In addition to the commitments described subsequently (in Note 20) for the revolving credit facility, commitments to meet financial covenants exist at a consolidated level for Marcolin S.p.A. and its subsidiaries. According to an analysis conducted at the time of preparation of these Notes, all the covenants were met as at December 31, 2019.

13. NON-CURRENT PROVISIONS

The composition of non-current provisions is shown below:

Non-current funds (euro/000)	Provision for severance employee	Provision for agency terminations	Other funds	Total
12/31/2017	3,095	1,044	2,169	6,307
Allowances	62	126	600	788
Use / reversal	(215)	(63)	(1,389)	(1,667)
Actuarial loss / (gain)	(52)	-	-	(52)
12/31/2018	2,890	1,106	1,380	5,376
Allowances	-	142	600	742
Use / reversal	(107)	(290)	453	(850)
Actuarial loss / (gain)	63	-	-	63
12/31/2019	2,846	957	1,527	5,331

Employee benefits consist of the employee severance indemnity provision ("TFR"). The provision, euro 2,846 thousand¹⁴, was measured with an actuarial calculation at the end of the year¹⁵. The additional information required under Revised IAS 19 is provided hereunder:

- sensitivity analysis of each significant actuarial assumption at the end of the year, showing effects of changes in actuarial assumptions reasonably possible at that date, in absolute terms:

Sensitivity analysis	DBO * al 12/31/2019
Inflation rate +0,25%	2,878
Inflation rate - 0,25%	2,819
Actuarial rate +0,25%	2,802
Actuarial rate - 0,25%	2,897
Turnover rate +1%	2,831
Turnover rate -1%	2,868

* Defined Benefit Obligation

- next year's service cost and average vesting period of the defined benefit obligation:

Next year service cost	
Next year service cost	-
Vesting period	7.50

- payments foreseen under the plan:

Years	Payments foreseen
1	506
2	361
3	191
4	217
5	185

The provision for agency termination presents principally the liability regarding severance indemnities with respect to agents, and is calculated in accordance with the applicable regulations.

The provision for risks and charges presents the estimated amount, in a medium/long-term time horizon, of future obligations toward third parties for liabilities arising in previous periods.

14. OTHER NON-CURRENT LIABILITIES

This item consists primarily of security deposits due after 12 months from the reporting date.

¹⁴ The provision consists of the benefits that accrued to employees until December 31, 2006 to be paid upon or subsequent to termination of employment: the TFR accruing from January 1, 2007 is treated as a defined contribution plan. By paying the contributions into (public and/or private) social security funds, the Company complies with all relevant obligations.

¹⁵ The parameters used for the actuarial calculation are: 1) mortality rate: Table RG 48 of the Public Accounting Office; 2) disability rates: INPS table by age and gender; 3) personnel turnover rates: 5%; 4) frequency of severance payments: 2%; 5) discount/interest rate: 0.37%; 6) TFR growth rate: 2.625% for 2018, 2.4% for 2019; 7) inflation rate: 1.5% for 2018, 1.2% for 2019.

15. TRADE PAYABLES

The following table sets forth the trade payables by geographical area:

Trade payables by geographical area (euro/000)	12/31/2019	12/31/2018
Italy	41,184	64,929
Rest of Europe	9,893	7,507
North America	26,947	9,403
Rest of Word	38,975	42,665
Total	116,998	124,504

The euro 7,505 thousand decrease in trade payables was affected by the different timing for purchasing goods from suppliers than in the previous year, and by the amount of payables due to subsidiaries as at December 31, 2019.

The trade payables were not subject to discounting; the amount is a reasonable representation of their fair value since there are no payables due after 12 months.

In compliance with the disclosure requirements of IFRS 7, it is reported that on December 31, 2019 there were no past-due trade payables, excluding the accounts being disputed by the Company with suppliers.

16. CURRENT FINANCIAL LIABILITIES

The amount of euro 56,675 thousand consists of short-term bank borrowings (euro 42,883 thousand), loans from other financiers (euro 3,731 thousand), and other financial payables of euro 10,060 thousand due to the subsidiaries within 12 months from the reporting date.

The main current financial liabilities with subsidiaries and associates are listed below:

- euro 2,991 thousand due to Marcolin UK Ltd;
- euro 2,544 thousand due to Marcolin France Sas;
- euro 1,754 thousand due to Marcolin UK Ltd - HK Branch;
- euro 1,512 thousand due to Viva Eyewear UK Ltd;
- euro 821 thousand due to Marcolin Iberica SA;
- euro 436 thousand due to Marcolin Deutschland GmbH.

17. CURRENT PROVISIONS

The table below presents the most significant changes in the current provisions of the past two years:

Current funds (euro/000)	Other funds	Returns reserve	Warranty provision
12/31/2017	1,018	-	-
Adjustment for IFRS15 adoption	-	2,683	363
Allowances	-	3,199	4
Use / reversal	-	(2,683)	-
12/31/2018	1,018	3,199	367
Allowances	-	-	70
Use / reversal	-	(47)	-
12/31/2019	1,018	3,152	437

The other provisions consist of allowances for risks regarding:

- contingent liabilities arising from legal obligations for euro 15 thousand;
- commitments of euro 1,003 thousand to cover losses of subsidiaries.

The returns provision and product warranty provision are disclosed in accordance with IFRS 15. Additional information is provided in the section on accounting standards.

18. OTHER CURRENT LIABILITIES

The other current liabilities are as follows.

Other current liabilities (euro/000)	12/31/2019	12/31/2018
Payables to personnel	10,752	12,591
Social security payables	2,646	2,483
Other accrued expenses and deferred income	1,210	1,193
Total other current liabilities	25	125
Total	14,632	16,392

The other current liabilities consist primarily of amounts due to personnel and the related social security contributions. The accrued expenses and deferred income contain the euro 1,111 thousand residual amount due to 3 Cime S.p.A. for the part of the dividend deliberated in 2017.

19. COMMITMENTS AND GUARANTEES

Guarantees associated with the bond issue

The commitments and guarantees are described in Note 20 of the Notes to the Consolidated Financial Statements.

The Company also has guarantees for third parties of euro 1,798 thousand (euro 213 thousand in 2018).

Licenses

The Company has contracts in effect to use trademarks owned by third parties for the production and distribution of eyeglass frames and sunglasses.

Those contracts require payment of guaranteed minimum royalties over the duration of the contracts; At December 31, 2019 these future commitments amounted to euro 263,514 thousand (euro 234,424 thousand in 2018), including euro 52,952 thousand falling due within the next year.

Guaranteed minimum Royalties due (euro/000)	12/31/2019	12/31/2018
Within one year	52,952	47,875
In one to five years	205,381	186,550
After five years	5,180	-
Total	263,514	234,424

INCOME STATEMENT

As described in the Report on Operations, the balances can include some non-recurring costs incurred for special initiatives undertaken or pursued during the year, such as extraordinary costs for employees who left the company, consulting services and services associated with the non-recurring transactions of the year. The effects of those costs are described in the Report on Operations in order to take them into account for the purpose of determining normalized income for 2019, duly compared with 2018.

The Company's main income statement items and changes therein are described in this section.

20. REVENUE

The following table sets forth the 2019 net sales revenues by geographical area:

Net Revenues by geographical area (euro/000)	2019		2018		Change	
	euro	% of total	euro	% of total	euro	%
<i>Italy</i>	35,033	12.7%	34,184	12.5%	849	2.5%
<i>Rest of Europe</i>	114,879	41.7%	89,479	32.8%	25,400	28.4%
Europe	149,911	54.4%	123,662	45.3%	26,249	21.2%
Americas	64,460	23.4%	62,904	23.0%	1,556	2.5%
Asia	24,056	8.7%	29,589	10.8%	(5,532)	(18.7)%
Rest of World	37,359	13.5%	56,842	20.8%	(19,483)	(34.3)%
Total	275,787	100.0%	272,997	100.0%	2,790	1.0%

The 2019 sales revenues were euro 275,787 thousand, compared with the euro 272,997 thousand revenues of 2018, presenting an increase of euro 2,790 thousand (1.0%) from the prior year. The Report on Operations describes the 2019 performance of sales.

21. COST OF SALES

Below is a detailed breakdown of the cost of sales:

Cost of sales (euro/000)	2019	% of net revenues	2018	% of net revenues
Cost of product	136,437	49.5%	140,855	51.6%
Cost of personnel	9,549	3.5%	9,706	3.6%
Amortization, depreciation and writedowns	3,714	1.3%	3,482	1.3%
Other costs	5,237	1.9%	4,031	1.5%
Total	154,936	56.2%	158,074	57.9%

The cost of sales decreased in terms of amount by euro 3,138 thousand, and was 56.2% of sales, compared with 57.9% in 2018.

The other expenses refer principally to purchasing costs (transport and customs) and business consulting services.

22. DISTRIBUTION AND MARKETING EXPENSES

Below is a breakdown of the distribution and marketing expenses:

Distribution and marketing expenses <i>(euro/000)</i>	2019	% of net revenues	2018	% of net revenues
Cost of personnel	14,047	5.1%	13,979	5.1%
Commissions	4,311	1.6%	4,180	1.5%
Amortization, depreciation and writedowns	7,801	2.8%	8,050	2.9%
Royalties	42,987	15.6%	40,979	15.0%
Advertising and PR	21,098	7.7%	20,595	7.5%
Other costs	7,193	2.6%	8,375	3.1%
Total	97,439	35.3%	96,157	35.2%

Distribution and marketing expenses rose by euro 1,282 thousand (1.3%) from the previous year. As a percentage of net sales, they increased by 10 basis points.

The other expenses consist primarily of sales expenses, including transport costs, travel expenses, rent expense and entertainment expenses.

23. GENERAL AND ADMINISTRATION EXPENSES

The general and administrative expenses are set forth below:

General and administrative expenses <i>(euro/000)</i>	2019	% of net revenues	2018	% of net revenues
Cost of personnel	10,866	3.9%	7,620	2.8%
Writedown of receivables	302	0.1%	1,691	0.6%
Amortization, depreciation and writedowns	1,043	0.4%	838	0.3%
Other costs	6,251	2.3%	5,006	1.8%
Total	18,462	6.7%	15,156	5.6%

General and administration expenses increased by euro 3,307 thousand compared with the previous year, mainly as a result of extraordinary personnel costs referring to the Board of Directors' succession plans.

The other costs, euro 6,251 thousand (down by euro 1,245 thousand year-on-year), consist primarily of the compensation for directors, statutory auditors and the independent auditing firm, other general and administrative consulting services, and expenses regarding the Parent Company's information systems.

24. EMPLOYEES

The 2019 end-of-period and average numbers of employees (including the work force on temporary contracts) are broken down below in comparison with the previous year:

Employees Category	Final number		Average number	
	12/31/2019	12/31/2018	2019	2018
Managers	21	22	22	22
Staff	352	349	350	346
Manual workers	531	553	547	562
Total	904	924	919	930

25. OTHER OPERATING INCOME AND EXPENSES

The other operating income and expenses are set forth below:

Other operating income and expenses (euro/000)	2019	% of net revenues	2018	% of net revenues
Other income	9,342	3.4%	9,703	3.6%
Other expenses	(132)	(0.0%)	(36)	(0.0%)
Total	9,210	3.3%	9,667	3.5%

The balance of this item is net operating income of euro 9,210 thousand, compared with net operating income of euro 9,667 thousand for 2018 (a decrease of euro 457 thousand).

Other income consists mainly of euro 6,696 thousand for the recovery of advertising expenses incurred by the Parent Company and charged to other Group companies, compared with euro 5,944 thousand in 2018.

26. DIVIDEND INCOME FROM SUBSIDIARIES

This item consists of income from dividends distributed by some Group companies: euro 5,973 thousand from Marcolin UK Ltd (HK Branch), euro 4,898 thousand from Marcolin UK Ltd, euro 778 thousand from Marcolin Asia Ltd, euro 628 thousand from Marcolin Middle East Fzco, euro 409 thousand from Marcolin Iberica SA and euro 100 thousand from Marcolin Benelux Sprl.

27. FINANCIAL INCOME AND COSTS

The financial income and costs are set forth below:

Financial income and costs (euro/000)	2019	% of net revenues	2018	% of net revenues
Financial income	14,771	5.4%	21,033	7.7%
Financial costs	(18,585)	(6.7%)	(21,548)	(7.9%)
Total	(3,814)	(1.4%)	(515)	(0.2%)

The composition of financial income and finance costs is shown below:

Financial income (euro/000)	2019	% of net revenues	2018	% of net revenues
Interest income from subsidiaries	8,535	3.1%	9,627	3.5%
Interest income and others	801	0.3%	517	0.2%
Gains on currency exchange	5,435	2.0%	10,889	4.0%
Total	14,771	5.4%	21,033	7.7%

Financial costs (euro/000)	2019	% of net revenues	2018	% of net revenues
Interest expense	(14,826)	(5.4)%	(15,440)	(5.7)%
Losses on currency exchange	(3,759)	(1.4)%	(6,107)	(2.2)%
Total	(18,585)	(6.7)%	(21,548)	(7.9)%

Financial income and costs result in net costs of euro 3,814 thousand, compared with net costs of euro 515 thousand for 2018.

The net finance costs are the balance between income of euro 14,771 thousand and costs of euro 18,585 thousand. The components are classifiable in two different categories: financial income and costs, and exchange differences.

The first component consists of:

- interest income of euro 8,535 thousand from Group companies referring to loans granted to such companies, and from others for euro 801 thousand;
- interest expense of euro 14,703 thousand consisting primarily of:
 - interest of euro 10,313 thousand servicing the bond notes issued by Marcolin S.p.A., paid quarterly in February, May, August and November;
 - the reversal to the Income Statement of bond issuance transaction costs, accounted for under IFRS with the amortized cost method;
 - euro 3,751 thousand in net finance costs referring to bank interest expense, actualization differences and intercompany loans.

With respect to the component of gains and losses on currency exchange, the balance is a net gain of euro 1,676 thousand for 2019, compared with a net gain of euro 4,782 thousand for the previous year. The 2019 amount is affected by the end-of-period translation adjustment to a loan denominated in U.S. dollars from Marcolin S.p.A. to Marcolin USA Eyewear Corp. (equal to USD 65 million after the partial waiver of repayment was granted in October 2019), which generated an unrealized gain of euro 1.1 million due to the 3.2% appreciation of the U.S. dollar against the euro in 2019. The year-on-year decrease in the gains on currency exchange derives from the translation adjustment to the aforementioned intercompany loan, which had generated higher unrealized gains in 2018 because the appreciation of the U.S. dollar was higher (4.5%) and the calculation basis was USD 125 million, since the partial repayment waiver was granted in 2019.

Excluding that, the exchange rate effect was practically neutral for Marcolin S.p.A. in 2019.

There were no currency hedges (on purchases and sales) in place as at December 31, 2019.

28. INCOME TAXES

Current tax was determined by applying the tax rates in force to taxable income (profit for the year determined with the changes generated by the applicative tax rules).

Income taxes are euro 4,049 thousand, including current taxes of euro -483 thousand, net deferred taxes of euro 1,982 thousand, tax consolidation expense of euro -623 thousand and taxes referring to the previous period of euro 961 thousand.

Income tax expense	2019	2018
<i>(euro/000)</i>		
Current taxes	(483)	(1,150)
Deferred taxes	(1,982)	(1,718)
Income/(Expenses) from Tax Consolidation	(623)	(70)
Taxes relating to prior year	(961)	466
Total income tax expense	(4,049)	(2,471)

The tax consolidation expense refers entirely to the Parent Company's IRES due to 3 Cime S.p.A. under the tax consolidation agreement with the ultimate parent company, whose renewal for the three-year term of 2017 - 2019 was stipulated on March 31, 2017. Additional information is contained in the section on Italian tax consolidation at the beginning of the Notes to the Separate Financial Statements.

The income taxes for the year are reconciled with the theoretical tax burden in the following table:

Tax rate reconciliation				
<i>(euro/000)</i>	%	12/31/2019	%	12/31/2018
Results before tax		23,133		26,868
Theoretical taxes	24.0%	(5,552)	24.0%	(6,448)
IRAP and other	(4.3)%	(986)	4.5%	(1,209)
Higher taxes due to non-deductible costs	(0.6)%	(137)	2.1%	(574)
Lower taxes for non-taxable income	15.5%	3,587	(19.7)%	5,294
Taxes relating to prior year	(4.2)%	(961)	(1.7)%	466
Totale imposte sul reddito dell'esercizio	(17.5)%	(4,049)	9.2%	(2,472)

The deferred taxes and changes therein for the year are set forth below:

Deferred tax assets	Temporary differences	Tax rate	Tax on temporary differences	Temporary differences	Tax rate	Tax on temporary differences
<i>(euro/000)</i>	12/31/2019		12/31/2019	12/31/2018		12/31/2018
Accumulated tax losses	769	24%	185	13,647	24%	3,275
Inventory provisions	13,987	24,0%/27,9%	3,357	14,742	24,0%/27,9%	3,538
Grants and compensation deductible on a cash	3,269	24,0%/27,9%	869	4,300	24,0%/27,9%	1,121
Non-deductible financial interest	6,272	24.0%	1,505	9,990	24.0%	2,398
Unrealized currency exchange differences	576	24.0%	138	465	24.0%	112
Taxed provision for doubtful debts	2,417	24.0%	580	2,388	24.0%	791
Supplementary client indemnity provision	372	27.9%	104	638	27.9%	178
Provision for return risks	1,615	27.9%	451	1,496	27.9%	417
Provisions for risks and charges	15	27.9%	4	15	27.9%	4
Other	1,923	24,0%/27,9%	465	844	24,0%/27,9%	209
Total deferred tax assets	31,216		7,658	48,525		12,043

Deferred tax liabilities	Temporary differences	Tax rate	Tax on temporary differences	Temporary differences	Tax rate	Tax on temporary differences
<i>(euro/000)</i>	12/31/2019		12/31/2019	12/31/2018		12/31/2018
Unrealized currency exchange differences	(10,996)	24.0%	(2,639)	(17,779)	24.0%	(4,267)
Finance costs deducted on a cash basis	(3,386)	24.0%	(813)	(4,598)	24.0%	(1,104)
Land and buildings	(1,672)	27.9%	(467)	(3,253)	27.9%	(534)
Actuarial gain / losses on TFR under IAS	(8)	24.0%	(2)	(87)	24.0%	(21)
Total deferred tax liabilities	(16,062)		(3,920)	(25,716)		(5,925)

Total deferred assets / liabilities	15,154		3,738	22,809		6,117
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The difference in the balance of deferred tax assets and liabilities presented in the Statement of Financial Position, euro 2,380 thousand, diverges from the balance of euro 1,982 thousand shown in the Income Statement due to the following reasons:

- Deferred tax recognition on amounts accounted for in equity totaling euro -20 thousand;
- Euro 418 thousand adjustment to deferred taxes pursuant to the preparation of the tax return in 2019, classified as "taxes regarding the prior period".

INCOME AND EXPENSES WITH SUBSIDIARIES AND ASSOCIATES

The intercompany transactions are mainly of a trade and/or financial nature and are conducted on an arm's length basis.

The income and expenses with directly controlled subsidiaries are set forth below:

Company	Revenues for sales and services	Dividends	Other income	Financial income from non-current assets	Financial expenses for non-current liabilities	Cost of row, ancillary and consumable material and products	Cost of services	12/31/2019
<i>(euro/000)</i>								
Eyestyle Trading (Shanghai) Co Ltd	110	-	-	-	-	-	-	110
Gin Hon Lin International Co. Ltd	2,054	-	397	-	-	-	(0)	2,452
Marcolin (Deutschland) GmbH	9,338	-	440	2	10	-	55	9,715
Marcolin (UK) Ltd	8,505	4,899	364	4	105	(1)	77	13,591
Marcolin Asia Ltd.	2	778	23	-	-	8	1,265	(471)
Marcolin Benelux S.p.r.l.	4,665	100	231	6	1	-	86	4,915
Marcolin do Brasil Ltda	9,195	-	342	-	-	-	(1)	9,539
Marcolin France SAS	21,842	-	2,294	0	53	-	598	23,485
Marcolin GmbH	1,026	-	108	-	-	-	2	1,132
Marcolin Iberica S.A.	12,614	409	864	4	8	6	493	13,385
Marcolin Middle East FZCO	8,273	628	91	109	-	-	123	8,979
Marcolin Nordic AB Denmark	1,300	-	56	-	-	-	-	1,356
Marcolin Nordic AB Finland	662	-	57	-	-	-	-	719
Marcolin Nordic AB Norway	929	-	139	-	-	-	-	1,068
Marcolin Nordic AB Sweden	1,877	-	450	7	-	-	9	2,325
Marcolin Portugal Lda	2,314	-	183	20	-	-	14	2,503
Marcolin Technical Services (Shenzhen) Co.Ltd	-	-	-	-	-	-	543	(543)
Marcolin Uk Hong Kong Branch	21,902	5,973	1,382	30	85	1,974	322	26,906
Marcolin Usa Eyewear Corp.	45,420	-	10,404	8,303	154	1,824	14,633	47,517
Marcolin-RUS LLC	3,416	-	13	-	-	-	10	3,419
Viva Eyewear HK Ltd	-	-	-	3	-	-	-	3
Viva Eyewear UK Ltd	-	-	-	-	29	-	-	(29)
Marcolin México S.A.P.I. de C.V.	3,353	-	3	42	-	-	44	3,354
MARCOLIN SINGAPORE PTE. LTD	45	-	4	6	-	-	-	55
Thélios S.p.A.	22	-	1,297	784	-	138	-	1,965
Total	158,867	12,787	19,141	9,319	445	3,949	18,273	177,448

RELATED-PARTY TRANSACTIONS

Related-party transactions were of a trade nature, conducted on an arm's length basis, and regarded licensing agreements in particular.

The transactions and outstanding balances with respect to related parties as at December 31, 2019 are shown below, as required by IAS 24.

Company	Expenses	Revenues	Payables	Receivables	Type
<i>(euro/000)</i>					
Other related parties					
Tod's S.p.A	1,000	488	875	472	Related party
Pai Partners Sas	60	-	60	-	Related party
Coffen Marcolin Family	524	-	136	-	Related party
O.T.B. Group	2,480	150	3	5	Related party
3 Cime S.p.A.	-	-	-	7,465	Consolidating
Thélios S.p.A.	138	2,103	65	16,023	Associates
Total	4,202	2,740	1,139	23,965	

The same table is set forth for 2018:

Company	Expenses	Revenues	Payables	Receivables	Type
<i>(euro/000)</i>					
Other related parties					
Tod's S.p.A	2,255	576	938	154	Related party
Pai Partners Sas	60	-	60	-	Related party
Coffen Marcolin Family	603	-	218	-	Related party
O.T.B. Group	2,260	50	-	26	Related party
3 Cime S.p.A.	-	-	-	7,038	Consolidating
Thélios S.p.A.	152	9,734	9	21,071	Associates
Total	5,331	10,360	1,225	28,288	

The remuneration of the Directors and Statutory Auditors is reported below (the table does not present Key Management Personnel because they are included in the category of the Company's Directors).

(euro/000)	2019		2018	
	Board of Directors	Statutory Auditors	Board of Directors	Statutory Auditors
Base fee	255	100	255	100
Salaries and benefits	936	-	1,135	-
Total	1,191	100	1,390	100

During the year other amounts were paid to the Board of Directors as described in Note 23 on “general and administration expenses”.

Atypical and unusual transactions

In 2019 there were no atypical and/or unusual transactions, including with other Group companies, nor were there any transactions outside the scope of the ordinary business activity that could significantly impact the financial position, financial performance or cash flows of Marcolin S.p.A.

Significant non-recurring events and transactions

The significant non-recurring events and transactions that impacted the Company's financial position, financial performance and cash flows in 2019 are described in the Report on Operations, in the description of the Income Statement highlights.

Government grants

The 2017 annual law for market and competition required disclosure in the notes to the financial statements of grants, subsidies, paid engagements and all financial benefits in general received from public entities and companies controlled by public entities (Law n. 124 of August 4, 2017 – Article 1, paragraphs 125 to 129 – hereinafter “Law 124/2017”). Mandatory disclosure is effective from 2019 regarding all financial benefits received from January 1, 2018. The 2019 information for Marcolin S.p.A., presented on a cash basis, is set out below.

Super-depreciation

Between January 1, 2018 and December 31, 2018, Marcolin S.p.A. incurred costs for investments in new capital goods for which it benefited from “super-depreciation”, i.e. additional depreciation under Law 208/2015, Article 1, paragraph 91 *et seq.* and subsequent extensions. The related benefit was presented in the 2019 tax return in an amount of euro 665,197.

Hyper-depreciation

Between January 1, 2018 and December 31, 2018, Marcolin S.p.A. incurred costs for investments in new capital goods for which it benefited from “hyper-depreciation”, i.e. extra depreciation under Law 232/2016, Article 1, paragraphs 8 to 11 and subsequent extensions. The related benefit was presented in the 2019 tax return in an amount of euro 290,639.

“Industria 2015” -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation

In 2010, the research, development and innovation project “Industria 2015” -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation, Objective B Area, Project Number MI00153 was launched. The purpose of the project was to create a platform for supply chain integration that operates on the technical and operational aspects of the companies, which should encourage the competitive and technological development of Italian eyewear business systems. The platform should enable marketing and supply chain events to be communicated quickly to the entire production process, and any critical issues leading to changes in supply chain planning to be made visible rapidly to all interested parties. The platform will also create interactive communications between the various parties in the supply chain.

Under Ministry of Economic Development Decree n. 00098MI01 dated December 21, 2013, expenses of euro 13,747,949 and total facilities of euro 4,247,627 were granted. Marcolin S.p.A.'s investment is euro 849,686.49 with a total contribution to expenses of euro 182,790.90, as budgeted. In 2016 the Company received euro 25,108.85 of the grant.

Optional tax incentive regime for income deriving from the use of intellectual property

In 2015 the Company filed an application with the Italian Revenue Agency for the assessment of tax benefits available under the Ministerial decree of July 30, 2015 regarding the optional tax incentive regime for income deriving from the use of intellectual property, patents, trademarks, industrial designs and models as well as processes, formulas and trade secrets obtained in legally protected industrial, business or scientific fields. Following the necessary preliminary activities, on July 31, 2018 an agreement was stipulated with the Italian Revenue Agency. A direct tax benefit of euro 0.3 million was obtained for 2019. The benefit was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

Investment bonus

In 2019 the Company offset tax liabilities with euro 52 thousand, through Form F24, constituting the third of three installments granted as a benefit under Decree-Law 91/2014 totaling euro 155 thousand referring to investments made in 2015.

Other grants

Marcolin received euro 19,380 from the Ministry of Economic Development as the balance of the grant issued with Concession Decree 477 of June 26, 2003 regarding the facility for technological innovation under the A16/0205/0 program (for making innovative ski goggles).

Exemption from INPS contributions on new employees

In 2019 Marcolin used the following exemption from INPS contributions:

- Relief for hiring individuals under the age of 35 (GECO) with their first open-ended contract, in an amount of euro 90,676.

Subsequent events

The subsequent events are described in the specific section of the Report on Operations.

INDEPENDENT AUDITORS' REPORT
ON THE SEPARATE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of
Marcolin SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Marcolin SpA (the Company), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

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The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and



significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of Marcolin SpA are responsible for preparing a report on operations of the Company as of 31 December 2019, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Marcolin SpA as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of Marcolin SpA as of 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 20 March 2020

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

BOARD OF STATUTORY AUDITORS' REPORT

BOARD OF STATUTORY AUDITORS' REPORT FOR THE GENERAL MEETING OF MARCOLIN S.P.A. PURSUANT TO ITALIAN CIVIL CODE ARTICLE 2429, ARTICLE 2

For the attention of the Shareholders

Dear Sir/Madam,

The external audit of the accounts for each of the three years ending December 31, 2019, 2020 and 2021 has been assigned to PricewaterhouseCoopers S.p.A. (the "Independent Auditors"), in accordance with Italian Legislative Decree 39/2010, Article 14 and Italian Civil Code Articles 2409-bis et seq., and pursuant to the justified proposal of this Board of Statutory Auditors for the period from December 31, 2019 to December 31, 2021.

The Board of Directors has provided us with the report on operations and draft financial statements for the year from January 1, 2019 to December 31, 2019, showing a profit of euro 19,084,680, approved on February 28, 2020.

During the year ended on December 31, 2019, we performed the supervisory duties required by law, in observance of the provisions issued by Consob and also in accordance with the Board of Statutory Auditors' code of conduct recommended by the Italian association of certified accountants.

With respect to our supervisory duties, we report that:

- we attended the Board of Director meetings and verified the observance of the principles of fair management, laws and by-laws, and the correct use of the proxies assigned to the Directors;
- the Board of Statutory Auditors attended the General Meetings, which were held in observance of the law to pass appropriate resolutions;
- the Company's Board of Statutory Auditors held 6 meetings during the year to perform the statutory controls and to exchange information with the firm responsible for the external audit;
- we obtained the information necessary to perform our general supervisory function by constantly participating in Board of Director meetings and by meeting with management. We also obtained from the Directors, on a regular basis, information on the activities performed by the executive directors in execution of the powers assigned to them, on the most significant business, financial and equity transactions, on related-party transactions including infra-group transactions, and on any atypical or unusual transactions, in accordance (as necessary) with Italian Legislative Decree 58/1998, Article 150, paragraph 1. This took place in keeping with the Company's specific corporate governance procedure to ensure that Directors and Statutory Auditors have at their disposal all information needed to ensure the correct fulfillment of their duties. Based on the information obtained, we verified that the main operations carried out by the Company were consistent with the business purpose and with the law and by-laws, and we can confirm that those operations were not manifestly risky, hazardous, such as to compromise the integrity of the Company's net worth, or in contrast to the decisions taken at the General Meeting or in conflict of interest;
- during the Board of Director meetings we were given periodic and timely information on the activity performed by the Company and the Subsidiaries, and on the most significant business, financial and equity transactions, and we verified that those transactions were consistent with the business purpose and with the law and by-laws, and were not manifestly risky, hazardous, such as to compromise the integrity of the Company's net worth, or in contrast to the decisions taken at the General Meeting or in conflict of interest;
- during the year we met regularly with the Independent Auditors and with other heads of functions; no matters worthy of note emerged from the meetings;
- we found no evidence of atypical or unusual transactions as defined in Consob Communication 6064293 of July 28, 2006;
- we verified that there are no routine intercompany or related-party transactions that are in conflict of the Company's interest or inconsistent; the intercompany and related-party transactions are described adequately by the Directors in the Report on Operations and in the explanatory notes; all such transactions were carried out on an arm's length basis;
- the Company applied the principles regarding procedures that companies must adopt to ensure the necessary conditions of fairness in the process of carrying out transactions with related parties;
- we evaluated, as within our competence, the adequacy of the Company's organizational structure, internal control system, administrative and accounting systems, and their reliability to accurately represent business matters, by collecting information from department heads, by meeting with the Independent Auditors with the reciprocal exchange of data and information, and by attending Internal Audit Committee meetings, and given the business activity and the size of the Company, we deem the organization and systems to be adequate;
- we monitored the implementation of organizational measures associated with business developments;
- we checked the Company's observance of the law and by-laws.

We inspected and obtained information about the organizational and procedural activities implemented by the Company and its subsidiaries in accordance with Italian Legislative Decree 231/01 on the administrative liability of entities for the crimes contemplated by such legislation (and as subsequently amended). The Supervisory Body

reported on the activity performed during the year ended December 31, 2019, without finding any wrongdoing or specific violations of the Company's and the subsidiaries' Organizational Model.

As noted, PricewaterhouseCoopers S.p.A. audited the Company's separate financial statements for the year ended December 31, 2019 and on March 20, 2020 it submitted an unqualified opinion, stating that the Company's separate financial statements for the year ended December 31, 2019 "give a true and fair view of the financial position, results of operations and cash flows of Marcolin S.p.A for the year ended December 31, 2019". The Independent Auditors also state that the report on operations is consistent with the separate financial statements of the Company. The Board of Statutory Auditors performed its supervisory function with the full collaboration of the corporate boards and adequate documentation was always provided. No omissions, wrongdoing or irregularities were found.

We checked the accounting policies of the separate financial statements, upon which we agree in that they correspond to the Italian Civil Code rules and are consistent with those applied in the previous year. Intangible assets were recognized and amortized with our consent, as necessary.

On February 28, 2020 the Board of Directors of MARCOLIN S.p.A. approved the draft consolidated financial statements of MARCOLIN Group for the year ended December 31, 2019; those financial statements, drawn up according to IAS/IFRS, were also audited by PricewaterhouseCoopers S.p.A., which on March 20, 2020 issued a clean opinion on the true and fair view of the financial position, results of operations and cash flows of the group. The Independent Auditors state that the report on operations is consistent with the consolidated financial statements of MARCOLIN S.p.A. As within our competence, we acknowledge that the Directors' report on the consolidated financial statements describes adequately the situation of the companies of the group, the financial and business matters, the subsequent events, the annual business performance and the business outlook for the current year.

We reviewed the report to verify compliance with Italian Legislative Decree 127/1991, Article 40, the correct identification of the consolidated companies in accordance with the international accounting standards, and the information as per Article 39 of the same Decree.

On the basis of the controls performed, the Board of Statutory Auditors considers the report on operations to be correct and consistent with the consolidated financial statements.

The explanatory notes contain the information required by the international accounting standards, present the accounting principles and policies adopted, and present the consolidation methods, which correspond to those used for the previous year.

No claims were made to the Board of Statutory Auditors under Italian Civil Code Article 2408 or of any other nature.

During the year we issued the opinions requested of the Board of Statutory Auditors in accordance with the law. In consideration of the foregoing, pursuant to the supervisory activity performed, and on the basis of the information exchanged with the Independent Auditors, we are in favor of the approval of the financial statements and we agree with the Board of Directors' proposal to destine the profit of the period of some euro 19,084,680.

March 20, 2020

David Reali

Mario Cognigni

Diego Rivetti

SUMMARY OF GENERAL MEETING RESOLUTIONS

SUMMARY OF GENERAL MEETING RESOLUTIONS

The General Meeting of Shareholders, held at a first calling on March 23, 2020, passed resolutions to:

- approve Marcolin S.p.A.'s Financial Statements and Report on Operations for the year ended December 31, 2019, and Marcolin Group's Consolidated Financial Statements for the year ended December 31, 2019 and accompanying Report on Operations;
- allocate the Company's profit for the year of euro 19,084,679.90 as follows:
 - euro 954,234.00 to the Legal Reserve;
 - carry forward the remainder.

Longarone; March 23, 2020

for the Board of Directors

the Chairman

Signed: *Vittorio Levi*

MARCOLIN
EYEWEAR

