

PROSEGUR COMPAÑÍA DE SEGURIDAD, S.A. AND SUBSIDIARIES

Condensed interim consolidated financial statements for the six-month period ended 30 June 2020

*(Free translation from the original in Spanish. In the event
of discrepancy, the Spanish-language version prevails.)*

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I. CONSOLIDATED INCOME STATEMENT – EXPENSE BY FUNCTION

(In thousands of Euros)	Note	Six-month period ended 30	
		June	
		2020	2019
Revenue	5	1,845,042	2,055,057
Costs to sell	6, 7	(1,471,061)	(1,567,636)
Gross profit		373,981	487,421
Other income	8	514,570	16,836
Sale and administrative expenses	6, 7	(358,116)	(351,734)
Other expenses	8	(87,353)	(7,049)
Investments accounted for using the equity method	13	(640)	(636)
Operating profit/(loss) (EBIT)		442,442	144,838
Finance income	9	4,419	7,913
Finance expenses	9	(50,668)	(35,469)
Net financial costs		(46,249)	(27,556)
Profit before tax		396,193	117,282
Income tax	20	(74,978)	(46,803)
Post-tax profit from continuing operations		321,215	70,479
Consolidated profit for the period		321,215	70,479
Attributable to:			
Owners of the Parent		315,646	48,394
Non-controlling interests		5,569	22,085
Earnings per share from continuing operations attributable to the owners of the Parent (Euros per share)			
- Basic	17	0.57	0.08
- Diluted	17	0.57	0.08

The Notes on pages 10 to 63 form an integral part of these condensed interim consolidated financial statements

II. CONSOLIDATED STATEMENT OF COMPRHENSIVE INCOME

(In thousands of Euros)

	Six-month period ended 30 June	
	2020	2019
Result for the period	321,215	70,479
Other comprehensive income:		
Items which are not reclassified to profit and loss		
Changes in the fair value of equity instruments	(50,812)	-
	(50,812)	-
Items which are reclassified to profit and loss		
Translation differences of financial statements of foreign operations	(182,004)	10,533
Total comprehensive income for the period, net of tax	88,399	81,012
Attributable to:		
- Owners of the parent	117,317	57,440
- Non-controlling interests	(28,918)	23,572
	88,399	81,012

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III. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Euros)

	Note	30 June 2020	31 December 2019
ASSETS			
Property, Plant and Equipment	11	615,165	716,427
Rights of use	11	88,971	120,519
Goodwill	11	605,871	634,027
Other intangible assets	11	312,895	349,923
Property investments	11	42,196	44,110
Investments accounted for using the equity method	13	269,807	9,452
Non-current financial assets	12	231,445	21,004
Deferred tax assets		94,519	94,769
Non-current assets		2,260,869	1,990,231
Inventory	16	51,182	64,846
Clients and other receivables		755,735	914,989
Current tax assets		105,032	155,721
Non-current Assets held for sale	11	57,130	-
Other financial assets	14	290,000	319,621
Cash and cash equivalents	14	963,812	530,677
Current assets		2,222,891	1,985,854
Total assets		4,483,760	3,976,085
EQUITY			
Share capital	17	35,921	35,921
Share premium	17	25,472	25,472
Treasury Stock	17	(149,806)	(107,927)
Translation differences		(759,254)	(187,965)
Retained earnings and other reserves		1,735,489	1,060,609
Equity attributable to equity holders of the Parent		887,822	826,110
Non-controlling interests		43,400	72,230
Total equity		931,222	898,340
LIABILITIES			
Financial liabilities	19	1,898,022	1,364,942
Lease liabilities	11	61,990	86,848
Deferred tax liabilities		83,232	45,950
Provisions	18	229,431	224,466
Other non-current liabilities		23,202	28,807
Non-current liabilities		2,295,877	1,751,013
Trade and other payables		659,075	833,058
Current tax liabilities		108,312	138,583
Financial liabilities	19	328,119	256,996
Non-current Assets Held for Sale	11	70,998	-
Lease liabilities	11	35,435	45,173
Provisions	18	9,170	2,277
Other Current Liabilities		45,552	50,645
Current liabilities		1,256,661	1,326,732
Total liabilities		3,552,538	3,077,745
Total equity and liabilities		4,483,760	3,976,085

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IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

PERIOD ENDED 30 JUNE 2020

(In thousands of Euros)

	Equity attributable to equity holders of the Parent					Total	Minority interests	Total equity
	Share capital (Note 17)	Share premium (Note 17)	Own shares (Note 17)	Translation differences (Note 17)	Retained earnings and other reserves			
Balance at 31 December 2019	35,921	25,472	(107,927)	(187,965)	1,060,609	826,110	72,230	898,340
Reclassification NIC 29	-	-	-	(423,772)	423,772	-	-	-
Balance at 1 January 2020	35,921	25,472	(107,927)	(611,737)	1,484,381	826,110	72,230	898,340
Total comprehensive income for the period ended 30 June 2020	-	-	-	(147,517)	264,834	117,317	(28,918)	88,399
Purchase of own shares	-	-	(61,450)	-	-	(61,450)	-	(61,450)
Share-based incentives offered to employees	-	-	641	-	(267)	374	-	374
Reinvestment program for the second payment of the interim dividend for the financial year 2019	-	-	18,930	-	(8,027)	10,903	-	10,903
Prosegur Cash capital increase	-	-	-	-	-	-	890	890
Other changes	-	-	-	-	(5,432)	(5,432)	(802)	(6,234)
Balance at 30 June 2020	35,921	25,472	(149,806)	(759,254)	1,735,489	887,822	43,400	931,222

The Notes on pages 10 to 63 form an integral part of these condensed interim consolidated financial statements

PERIOD ENDED 30 JUNE 2019

(In thousands of Euros)

	Equity attributable to equity holders of the Parent						Minority interests	Total equity
	Share capital (Note 17)	Share premium (Note 17)	Own shares (Note 17)	Translation differences	Retained earnings and other reserves	Total		
Balance at 31 December 2018	37,027	25,472	(52,777)	(174,397)	1,162,402	997,727	68,730	1,066,457
Transition adjustments (Note 2)	-	-	-	-	(60,133)	(60,133)	(9,682)	(69,815)
Balance at 1 January 2019	37,027	25,472	(52,777)	(174,397)	1,102,269	937,594	59,048	996,642
Total comprehensive income for the period ended 30 June 2019	-	-	-	9,046	48,394	57,440	23,572	81,011
Purchase of own shares	-	-	(920)	-	-	(920)	-	(920)
Share-based incentives offered to employees	-	-	349	-	-	349	-	349
Adjustment for Hyperinflation	-	-	-	-	8,740	8,740	(1,457)	7,283
Capital reduction	(1,106)	-	52,438	-	(51,332)	-	-	-
Other changes	-	-	-	-	(1,255)	(1,255)	2,386	1,131
Balance at 30 June 2019	35,921	25,472	(910)	(165,351)	1,106,816	1,001,947	83,549	1,085,497

The Notes on pages 10 to 63 form an integral part of these condensed interim consolidated financial statements

V. CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of Euros)	Note	Six-month period ended 30	
		June	
		2020	2019
Cash flows from operating activities			
Profit/(loss) for the period		321,215	70,479
Adjustments for:			
Depreciation and amortisation	6, 11	94,307	101,818
Other income and expenses	8, 11	(497,171)	-
Impairment losses on trade receivables and inventory	8, 16	8,691	7,841
Impairment losses of non current assets	9	62,018	-
Investments accounted for using the equity method	13	640	636
Change in provisions	18	45,908	16,123
Finance income	9	(4,419)	(7,913)
Finance expenses	9	56,665	30,706
(Profit)/losses on disposal and sale of property, plant and equipment		10,022	1,073
Income tax	20	74,978	46,803
Changes in working capital, net of the effect of acquisitions and translation differences			
Inventory	16	(1,651)	(3,733)
Clients and other receivables		35,934	(83,720)
Trade and other payables		(11,117)	5,665
Payment of provisions	18	(7,357)	(22,312)
Other Current Liabilities		10,286	7,330
Cash from operating activities			
Interest paid		(25,741)	(19,723)
Income tax paid		(35,943)	(61,778)
Net cash from operating activities		137,265	89,295
Cash flows from investing activities			
Proceeds from investments accounted for using the equity method		-	19,676
Proceeds from sale of subsidiaries net of cash and cash equivalents		(3,112)	219
Proceeds from sale of property, plant and equipment		1,042	-
Interest collection		2,277	6,807
Proceeds from sale of financial assets	14	30,000	1,953
Investments accounted for using the equity method		(2,529)	-
Acquisition of subsidiaries, net of cash and cash equivalents	22	(18,436)	(79,838)
Acquisition of property, plant and equipment	11	(54,262)	(86,551)
Acquisition of intangible assets	11	(11,791)	(13,182)
Payments for the acquisition of minority interests	13	(6,830)	(1,331)
Acquisition of financial assets	14	(2,846)	(2,419)
Net cash from investing activities		(66,487)	(154,666)
Cash flows from financing activities			
Payments arising on purchase own equity instruments	17	(61,450)	(512)
Proceeds from debentures and other marketable securities	19	-	-
Payments for debentures and other marketable securities	19	-	-
Proceeds from loans and borrowings	19	773,957	117,553
Payments for loans and borrowings	19	(176,441)	(90,436)
Payments arising on lease liabilities	11	(23,291)	(21,941)
Payments for other financial liabilities		(53,328)	(7,603)
Dividends paid	17	(38,086)	(54,613)
Net cash from financing activities		421,361	(57,552)
Net increase/(decrease) in cash and cash equivalents		492,139	(122,923)
Cash and cash equivalents at the beginning of year		530,677	558,355
Effect of exchange differences		(57,199)	(5,803)
Cash and cash equivalents at the end of the period		965,617	429,629
It includes:			
- Cash and cash equivalents at the end of the period of continuing operations		963,812	427,749
- Cash and cash equivalents at the end of the period of non current assets held for sale (Note 11)		1,805	1,880

The Notes on pages 10 to 63 form an integral part of these condensed interim consolidated financial statements

VI. EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Prosegur is a business group made up of Prosegur Compañía de Seguridad, S.A. (hereinafter “the Company”) and its subsidiaries (together, Prosegur) which provides private securities logistics in the following countries: Germany, Argentina, Australia, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, El Salvador, Spain, the United States, the Philippines, France, Guatemala, Honduras, India, Indonesia, Luxembourg, Mexico, Nicaragua, Paraguay, Peru, Portugal, Singapore, South Africa, and Uruguay.

Prosegur is organised into the following business lines:

- Security.
- Cash.
- Alarms.

Prosegur is controlled by Gubel S.L., which was incorporated in Madrid, and holds 52.479% of the shares of Prosegur Compañía de Seguridad, S.A., which consolidates Prosegur’s financial statements.

Prosegur Compañía de Seguridad, S.A. is a public limited company that is listed on the Stock Exchanges of Madrid, Bilbao, Valencia and Barcelona whose shares are traded on the Spanish Stock Exchange Interconnection System (SIBE). The Company was incorporated in Madrid on 14 May 1976 and is entered in the Mercantile Register of Madrid. The registered offices of Prosegur Compañía de Seguridad, S.A. are at Calle Pajaritos, 24, Madrid (Spain).

The corporate purpose is described in Article 2 of its Articles of Association. The main services and activities provided by the Company by means of its subsidiaries are as follows:

- Security patrol and protection of premises, goods and individuals.
- The transportation, storage, safekeeping, counting and classification of coins and bank notes, deeds, securities and other items that require special protection due to their economic value or associated risk.
- The installation and maintenance of security equipment, devices and systems.

The Individual and Consolidated Annual Accounts of Prosegur Compañía de Seguridad, S.A. for 2019 are pending approval by the Shareholders General Meeting, which has been temporarily postponed as a result of the declaration of the state of emergency caused by the COVID-19 outbreak.

Structure of Prosegur

Prosegur Compañía de Seguridad, S.A. is the Parent of a Group made up of subsidiaries, listed in Appendix I of the Notes to the Consolidated Annual Accounts at 31 December 2019. Likewise, Prosegur has Joint Arrangements in place (Notes 15, 16 and Appendix II of the Notes to the Consolidated Annual Accounts at 31 December 2019).

Prosegur holds interests of less than 20% in the share capital of other entities. It does not exert significant influence over these entities (Note 17 of the Consolidated Annual Accounts at 31 December 2019).

Details of the principles applied to prepare the Prosegur Consolidated Annual Accounts and define the consolidation scope are provided in Note 35.2 and Note 2 to the Consolidated Annual Accounts at 31 December 2019, respectively.

2. Basis for presentation, estimates made and accounting policies

These condensed interim consolidated financial statements of Prosegur, for the six-month period ended 30 June 2020, have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

In accordance with the provisions of IAS 34, the condensed interim financial reporting is prepared solely with the intention of updating the content of the latest Consolidated Annual Accounts prepared by Prosegur, emphasising the new activities, events and circumstances that occurred during the six-month period ended 30 June 2020, and not duplicating the information previously published in the Consolidated Annual Accounts for 2019.

Therefore, and for a proper understanding of the information included in these condensed interim consolidated financial statements, they should be read together with Prosegur Consolidated Annual Accounts for the year ended 31 December 2019, which were prepared in accordance with International Financial Reporting Standards (IFRS), adopted for use in the European Union and approved by the current European Commission Regulations and other applicable financial reporting regulations (IFRS-EU).

Significant changes in accounting policies

Except for the rest of the new standards and effective interpretations at January 1, 2020 described in Annex I, the accounting policies applied in these consolidated condensed interim financial statements as of June 30, 2020, are consistent with those applied in the preparation of the consolidated annual accounts of Prosegur at December 31, 2019, the details of which are included in note 35 of the mentioned consolidated annual accounts.

Estimates, assumptions and relevant judgements

The preparation of the condensed interim consolidated financial statements has required the application of relevant accounting estimates and the making of judgements, estimates and assumptions in the process of application of Prosegur accounting policies and valuation of the assets, liabilities and profit and loss. The estimates are the same as indicated in the Notes to the Consolidated Annual Accounts for 2019.

Although estimates are calculated by Prosegur's Directors based on the best information available, it is possible that due to the uncertainty of the emergency health situation caused by the COVID-19 outbreak, future events may require changes to these estimates in subsequent years. Any effect arising from adjustments to be made in subsequent years would be recognised prospectively, where appropriate.

Corporate Income Tax for the six-month period ended 30 June 2020 is calculated using the tax rate that is estimated to be applicable to the profit/(loss) for the year.

Comparative information

For comparative purposes and for each item in the consolidated statement of financial position, in the consolidated income statement, in the consolidated statement of comprehensive income, in the consolidated statement of cash flows, in the consolidated statement of changes in equity and in the notes to the condensed interim financial statements, in addition to the consolidated figures for the six-month period ended 30 June 2020, the condensed interim consolidated financial statements show those for the same period the previous year, except for the consolidated statement of financial position which shows the consolidated figures for the twelve-month period ended 31 December 2019.

In 2018, as a result of applying IAS 29 for Argentina, the Company has adopted the accounting policy of recognising changes in equity associated with the currency effect, entirely under the heading Other reserves. In 2020, due to the interpretation issued by the expert committee of international accounting standards, the Company has adopted the accounting policy of recording changes in equity, associated with the currency effect and the inflation effect, under the heading Translation differences as a whole. Comparative figures have not been restated. As a result, the Company has reclassified an amount of EUR 423,772 thousand from the item "Retained earnings and other reserves" to the item "Translation differences".

3. Changes to the Group's structure

In Appendix I to the Consolidated Annual Accounts for the year ended 31 December 2019, relevant information is provided on the Group companies that were consolidated at that date.

The following companies were incorporated during the first half of 2020:

- ✓ In February 2020, Prosegur Consumer Finance Perú S.A.C. was incorporated in Peru.
- ✓ In February 2020, Prosegur Global BSI International S.L. was incorporated in Spain.
- ✓ In February 2020, Prosegur Custodia de Activos Digitales, S.L. was incorporated in Spain.
- ✓ In February 2020, Prosegur BSI Internacional, S.L. was incorporated in Spain.
- ✓ In March 2020, Gelt Brasil Consultoria em Tecnologia da Informacao Ltda. was incorporated in Brazil.
- ✓ In June 2020, Spike GmbH was incorporated in Germany.

Furthermore, the following mergers took place between subsidiaries in 2020:

- ✓ In March 2020, the takeover merger of Transvip Transporte de Valores e Vigilância Patrimonial Ltda by Prosegur Brasil SA Transportadora de Valores e Seguranca was formalised in Brazil.

On 14 February 2020 Prosegur sold all its stake in the Mexican companies Prosegur Seguridad Privada Logistica y Gestión de Efectivo SA de CV, Prosegur Servicios de Seguridad Privada Electronica SA de CV and Grupo Tratamiento y Gestión de Valores SAPI de CV for a total sum of EUR 3,598 thousand.

The cash and cash equivalents that were sold with the companies amounted to EUR 6,710 thousand.

The net assets of the Mexican companies at the time of sale amounted to EUR 4,734 thousand. The sale entailed an expense for Prosegur of EUR 1,041 thousand included under the heading Other expenses. Additionally, an amount of EUR 1,197 thousand was reclassified to income, which corresponds to the translation differences of the Mexican companies sold.

The rest of the changes in the structure of the Group during the year 2020, corresponds to acquisitions of subsidiaries whose information is detailed in Note 22.

4. Events occurred since the end of 2019

In addition to what is reflected in Note 3 on the changes to the structure of the Group, the most relevant transactions and events that occurred during the first half of 2020 are detailed below:

Acquisition of own shares

On 28 January 2020 and aside from the own share buyback programme, Prosegur acquired a package of 5,850,000 of its own shares from an institutional investor, representing 0.98% of the share capital, at a price of EUR 3.592 per share, with a discount of EUR 0.05 per share.

On 6 March 2020 and aside from the own share buyback programme, Prosegur acquired a package of 1,448,376 of its own shares from an institutional investor, representing 0.24% of the share capital, at a price of EUR 3.335 per share, with a discount of EUR 0.015 per share.

Sale to the Telefónica Group of 50% of the Alarms Business in Spain

Once the pertinent regulatory approvals were obtained, on 28 February 2020, Prosegur sold 50% of Prosegur's Alarms business in Spain for a price of EUR 305,614 thousand, subject to standard adjustments in this type of transactions on debt, working capital and client base.

The entire price was paid through the delivery of 49,545,262 shares of Telefónica S.A. Prosegur has agreed to accept certain restrictions on the transferability of the aforementioned Telefónica shares (Note 12).

Reinvestment programme for the second payment of the interim dividend for 2019

In the framework of the current situation arising from the impact of the COVID-19 pandemic and in order to potentially help strengthen the Company's equity position, the Board of Directors of Prosegur has agreed to offer shareholders who voluntarily agree, the possibility of reinvesting the total net amount of the second payment of the interim dividend for 2019 in ordinary Prosegur shares with a par value of EUR 0.06 each from the treasury stock.

The reinvestment price per share will be EUR 1.9783. This price corresponds to the simple average of the weighted average changes of the Company's share in the SIBE market corresponding to the five trading days prior to the payment date of the second payment of the interim dividend for 2019, that is, on 23, 24, 27, 28, and 29 April 2020 (for 23, 24 and 27 April, reducing the gross amount of said dividend payment).

Each shareholder who has voluntarily joined the reinvestment programme will acquire through the sale of the Company a number of Prosegur shares (from the treasury stock) equal to the result of dividing: (a) the total net amount (no partial reinvestment) of the second payment of the interim dividend for 2019 that they are entitled to receive on the payment date, by (b) the reinvestment price calculated, rounding the result of said division by default up/down to the nearest unit. The rest of this net amount not applied to reinvestment as a result of the aforementioned rounding up/down will be paid in cash to the shareholder.

Shareholding Change

Through various funds managed by Invesco Ltd., during March 2020, its shareholding position was reduced, down to total of 5,835,481 shares, the equivalent of less than 1% of Prosegur's shareholding structure.

Transfers of company shares

During June 2020, Prosegur entered into negotiations with Fiducial, for the sale and purchase of its security operations in France. This transaction is expected to be concluded during the third quarter of 2020. The final price of the transaction will be determined and paid at the close of the transaction (Note 13).

Covid-19

On 11 March 2020, the World Health Organisation declared the outbreak of Coronavirus COVID-19 to be a pandemic, after spreading rapidly around the world, having affected over 150 countries. The majority of Governments have taken restrictive measures to contain the propagation which include: isolation, confinement, quarantine and restrictions to the free movement of people, closing public and private establishments except for those used for basic needs and healthcare, closed borders and a drastic reduction of transport by air, sea, rail and road.

This situation is having a significant effect on the world economy due to the interruption or slowing down of the supply chains and the significant increase of economic uncertainty which is evidenced by a greater volatility in the price of assets, exchange rates and reduced long-term interest rates.

The measures adopted by the different governments for combatting the spread of COVID-19 and the circumstances arising from the coronavirus crisis have brought about a fall in the total market accessible by the Prosegur Group for carrying out its business. This is due to businesses being closed, the successive temporary ceasing of activity due to the impact of COVID-19, the restrictions to the free movement of persons and to work carried out in existing buildings limiting its activity mainly to urgent repair work, and the limited access to materials for the protection and prevention of contagion for both its personnel and clients. Only shops providing essential products and services remained open, given the exceptional situation.

With this panorama, characterised by a drastic drop in the different sectors of the economy, and absolute uncertainty for the future, the main consequences have been the following:

- ✓ Payment of tax liabilities was deferred where local laws allow so (Germany, Portugal, Australia, Peru, Guatemala, Chile, Paraguay, Singapore, China, Colombia and Brazil) amounts to EUR 39,132 thousand.
- ✓ In the United States, Australia and Singapore, government aid was received for continuing to employ workers. An income has been registered At 30 June 2020 amounts to EUR 9,070 thousand (Note 8).
- ✓ A financial loan was received in Peru at a reduced rate amounts to EUR 9,423 thousand (Note 19).
- ✓ Staff have been temporarily laid-off to try and adapt the organisational structure, production and costs to the new levels of activity.
- ✓ Exemption from Social Security payments associated with the temporary workforce reduction plan (ERTE) in Spain, Portugal, Germany, Argentina and Colombia amount to EUR 2,735 thousand.
- ✓ Net turnover and profit before tax has gone down compared to the previous year. To reduce this impact is much as possible, non-essential expenses have been limited in providing services to clients, such as travel expenses, consultancy fees and other professional fees.
- ✓ The negative impact on EBITDA with respect to the estimate, as a consequence of mentioned pandemic, amounts to approximately EUR 50 million.

Prosegur has adopted a series of measures to mitigate these effects in the countries in which it operates. The following aspects stand out from the results of these measures:

- ✓ Liquidity risk: The situation of uncertainty generated by the COVID-19 pandemic has led to greater liquidity constraints in the economy as a whole, as well as reduced access to credit. For this reason, the Group has drawn down all the balances of the credits associated with the contracted syndicated financing facilities for the amount of EUR 500,000 thousand (Note 19).
- ✓ Risk of measurement of assets and liabilities on the balance sheet: The Company has carried out an analysis and made a series of calculations associated with the accounting valuation of certain assets (goodwill, tax credits and non-current assets), with no signs of impairment being detected mainly in goodwill, intangible assets and non-current assets recorded in certain countries associated with the Security business (Notes 11 and 20).
The Company has complied with the applicable conventions and estimates that this situation will continue at the end of the year.
- ✓ Risk credit: In the first half of the 2020, Prosegur did not have significant increases associated with the credit risk due to the insolvency of its clients.
- ✓ Operational risk: Private security has been declared an essential activity by the governments in almost all the countries in which the Group operates. Therefore, our security business has not been stopped, and the drop in volume has been partially offset by the increase in certain public services such as operations classified as essential activities.

The Alarm business has been mainly affected by this pandemic crisis, as a consequence of confinement. The Alarms commercial network has not been able to carry out its activity and therefore the expected sales growth objectives have not been achieved.

The Cash business, due to the closings of the retailers, has also been strongly impacted, suffering a drop in volumes in the ordinary activity of the business, with the consequent drop in sales.

- ✓ Going concern risk: in light of the aspects mentioned above, the Company considers that on the date of preparation of the condensed interim consolidated financial statements, no risk associated with the application of the going concern principle was detected.

5. Revenue

Details of revenue for the periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Provision of services	1,778,278	1,975,706
Sale of goods	3,344	6,365
Operating lease revenues	63,420	72,986
Total revenues	1,845,042	2,055,057

Operating lease income are generated by alarm system rentals. When a client rents an alarm system, the Company receives an initial amount which is taken to the income statement over the average contract duration and a regular payment for the rental of the equipment and the service provided.

See Note 10 for further information on revenue by segment and geographical area.

6. Cost of sales and administration and sales expenses

The main cost of sales and administration and sales expenses in the income statement for the six-month periods ended 30 June 2020 and 2019 are as follows:

		Thousands of Euros	
		Period ended 30 June	
		2020	2019
Supplies		73,255	100,610
Employee benefits expenses	(Note 7)	1,168,532	1,226,926
Operating leases		12,143	14,263
Supplies and external services		108,041	126,074
Depreciation and amortisation		39,485	45,748
Other expenses		69,604	54,015
Total sale expenses		1,471,061	1,567,636
Supplies		3,816	5,335
Employee benefits expenses	(Note 7)	192,560	178,314
Operating leases		3,085	6,231
Supplies and external services		64,155	63,482
Depreciation and amortisation		54,821	56,070
Other expenses		39,679	42,302
Total sale and administrative expenses		358,116	351,734

Total supplies in the consolidated income statement for the six-month period ended 30 June 2020 amount to EUR 77,071 thousand (2019: EUR 105,945 thousand).

The general decrease of all items arises as a consequence of the COVID-19 pandemic (Note 4).

The heading on supplies and external services includes the costs for the repair of items of transport, bill-counting equipment, operating subcontracts with third parties and other advisors such as lawyers, auditors and consultants.

The costs for leases by right of use corresponding to contracts for a period equal to or less than one year and to lease contracts of low value assets for an amount equal to or less than USD 5 thousand are included under the heading on operating leases. The remaining contracts are included in the heading on rights of use (Note 11.5).

7. Employee benefits expenses

Details of employee benefits expenses for the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Salaries and wages	1,017,893	1,067,651
Social Security	251,550	264,315
Other employee benefits expenses	47,151	49,741
Indemnities	44,498	23,533
Total employee benefits expense	1,361,092	1,405,240

The general decrease of all items arises as a consequence of the COVID-19 pandemic (Note 4).

The accrual of the long-term incentive associated with the 2017 and 2020 Plans for the Executive Director and the Senior Management of Prosegur is included under the heading on salaries and wages (Note 18).

The heading on indemnities includes the provision for occupational risks (Note 18).

8. Other income and expenses

Other expenses

Details of Other expenses in the income statement for the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Impairment losses on trade receivables	(6,075)	(5,156)
Impairment losses on non-current assets (Note 11)	(62,018)	-
Net Losses through disposal of PPE/Non-current Assets Held for Sale	(10,022)	(1,073)
Other expenses	(9,238)	(820)
Total other expenses	(87,353)	(7,049)

Other income

The heading on other income for the first six months of 2020 primarily records the following income:

- ✓ Profit arising from the sale of 50% of the Alarms business of Prosegur in Spain (Note 13).
- ✓ Income generated from the non-refundable subsidies accrued awarded by the Administration for the maintenance of employment in the context of the COVID-19 pandemic for EUR 9,070 thousand.
- ✓ Income generated from the property investments located in Buenos Aires (Note 11.2). Income generated during the first six months of 2020 amounted to EUR 2,566 thousand (EUR 2,960 thousand at 30 June 2019).

9. Net financial expenses

Details of net financial expenses for the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Interest expenses	(21,804)	(15,177)
Interest received	1,901	7,060
Net profits/(losses) on foreign currency transactions	(3,184)	(4,010)
Finance expenses on discounting lease liabilities	(3,116)	(3,727)
(Losses)/gains on the fair value of financial instruments	-	853
Net financial expenses from net monetary position	2,518	(6,357)
Other net finance income and expenses	(22,564)	(6,198)
Total net financial expenses	(46,249)	(27,556)

The main change is associated with bank borrowing interests, which have increased as a result of drawing down all the balances of the credits associated with the contracted syndicated financing facilities for the amount of EUR 200,000 thousand and EUR 300,000 thousand and due to new bank borrowings and credit facilities contracted in Argentina (Note 4 and 17), and as a consequence of new loans and credit lines with credit institutions contracted in Argentina.

Other net financial income and expenses have been increased due to recording the late-payment interest associated with the tax liability related to the records of non-acceptance in proceedings brought by the Spanish Administration which were recorded during the first six months of 2020 for EUR 12,324 thousand.

In addition, as a result of the application during the first six months of 2020 of IAS 29, net financial income has arisen from the net monetary position for the amount of EUR 2,518 thousand (Note 2). That item reflects the exposure to the change in the purchasing power of the Argentine currency.

Under the heading on fair value gains of financial instruments in 2019 the income generated from the sale of Cognigo Research Ltd is recorded for EUR 853 thousand (Note 12).

As a prevention measure, 100% of the syndicated loan has been drawn (Note 19 and 4), which has caused a slight increase in financial expenses for this concept.

10. Segment reporting

The Board of Directors is ultimately responsible for making decisions on Prosegur's operations and, together with the Audit Committee, for reviewing Prosegur's internal financial information to assess performance and to allocate resources.

Business is the backbone of the organisation and is made up of the General Business Management Areas which are responsible for the design of security solutions for clients and cover the main business lines: Security, Cash and Alarms which therefore correspond to the Group's segments.

- Security: mainly includes the activities of guarding and protection of premises, goods and individuals and activities related to technological security and cybersecurity solutions. The cybersecurity activity was only included in this segment during the first half of 2019.
- Cash: mainly includes the transportation, storage, safekeeping, counting and classification of coins and bank notes, deeds, securities and other items that require special protection due to their economic value or associated risk.
- Alarms: this includes the installation and maintenance of home alarm systems, as well as the alarm monitoring service by Alarm Reception Centre (ARC).

The corporate functions are supervised by the Global Support Divisions which cover the Financial Department, Prosegur Gestión de Activos (Prosegur Asset Management), Risk Management and CEO's Office. From the geographical perspective, the following geographical areas are identified:

- Europe, which includes the following countries: Germany, Spain, France and Portugal.
- ROW, which includes the following countries: Australia, China, United States, the Philippines, India, Indonesia, Singapore and South Africa.
- LatAm, which includes the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay.

The Board of Directors uses earnings before interest and tax (EBIT) to assess segment performance, since this indicator is considered to best reflect the results of the Group's different activities.

Total assets allocated to segments do not include other current and non-current financial assets, non-current assets held for sale, property investments of cash and cash equivalents, as these are managed at Prosegur Group level.

The total liabilities allocated to segments exclude bank borrowings as Prosegur jointly handles the financing, and they include lease liabilities.

Details of revenue by geographical areas for the six-month periods ended 30 June 2020 and 2019 are as follows:

Thousands of Euros	Europe		ROW		LatAm		Total	
	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019
	Total sales	779,202	867,725	167,789	151,364	898,051	1,035,968	1,845,042
<i>% of total</i>	42%	42%	9%	7%	51%	50%	100%	100%

Details of sales and EBIT by business are as follows:

Thousands of Euros	Cash		Security		Alarms		Not assigned		Total	
	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019	at 30 June 2020	at 30 June 2019
	Total sales	771,768	888,424	891,622	1,026,978	103,134	139,655	78,518	-	1,845,041
EBIT	65,555	136,736	18,307	20,022	9,518	7,715	349,062	(19,635)	442,442	144,838

For the six-month period ended 30 June 2020, the cybersecurity sub-business was led by the Prosegur Gestión de Activos, (hereinafter PGA) support area. For the six-month period ended 30 June 2019, the total sales figure for the cybersecurity sub-business amounted to EUR 6,379 thousand, which was included under the security business. In the six-month period ended June 30, 2020, the revenue of the cybersecurity business has amounted to 7,989 thousand euros, included in PGA and Unassigned.

Unallocated costs consist of the support costs of the Security and Alarms business, as well as any exceptional costs incurred during the year which are not considered as the outcome of any of the three business lines themselves. The main variation in the unallocated item corresponds to the capital gain derived from the sale of 50% of Prosegur Alarms Spain. Additionally, the non-assigned heading includes sales and EBIT of France Security (Note 11.3)

A reconciliation of EBIT allocated to segments with net profit/(loss) for the year attributable to the owners of the parent is as follows:

	Thousands of Euros	
	at 30 June 2020	at 30 June 2019
EBIT allocated to segments	93,380	164,473
EBIT not allocated	349,062	(19,635)
EBIT of the period	442,442	144,838
Net financial costs	(46,249)	(27,556)
Profit before tax	396,193	117,282
Income tax	(74,978)	(46,803)
Post-tax profit from continuing operations	321,215	70,479
Non-controlling interests	5,569	22,085
Profit for the period attributable to owners of the Parent	315,646	48,394

Details of assets allocated to segments and a reconciliation with total assets at 30 June 2020 and 31 December 2019 are as follows:

	Cash		Security		Alarms		Not allocated to segments		Total	
	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019
Thousands of Euros										
Assets allocated to segments	1,403,509	1,523,606	750,965	949,443	448,883	247,586	295,820	340,038	2,899,177	3,060,673
Other unallocated assets	-	-	-	-	-	-	1,584,583	915,412	1,584,583	915,412
Other non-current financial assets	-	-	-	-	-	-	231,445	21,004	231,445	21,004
Property investments	-	-	-	-	-	-	42,196	44,110	42,196	44,110
Non-current Assets held for sale	-	-	-	-	-	-	57,130	-	57,130	-
Other current financial assets	-	-	-	-	-	-	290,000	319,621	290,000	319,621
Cash and cash equivalents	-	-	-	-	-	-	963,812	530,677	963,812	530,677
	1,403,509	1,523,606	750,965	949,443	448,883	247,586	1,880,403	1,255,450	4,483,760	3,976,085

Details of liabilities allocated to segments and a reconciliation with total liabilities at 30 June 2020 and 31 December 2019 are as follows:

	Cash		Security		Alarms		Not allocated to segments		Total	
	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019	At 30 June 2020	At 31 December 2019
Thousands of Euros										
Liabilities allocated to segments	670,698	779,161	380,499	444,822	82,619	136,089	249,685	218,068	1,383,501	1,578,140
Other unallocated liabilities	-	-	-	-	-	-	2,169,037	1,499,605	2,169,037	1,499,605
Non-current Assets Held for Sale	-	-	-	-	-	-	70,998	-	70,998	-
Bank borrowing	-	-	-	-	-	-	2,098,039	1,499,605	2,098,039	1,499,605
	670,698	779,161	380,499	444,822	82,619	136,089	2,418,722	1,717,673	3,552,538	3,077,745

11. Property, plant and equipment, goodwill and other intangible assets

11.1. Property, plant and equipment

Details of changes in property, plant and equipment for the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Cost		
Opening balance	1,491,380	1,411,721
Translation differences	(132,800)	12,396
Transfer to Non-current Assets held for sale	(14,744)	(32,691)
Adjustments Hyperinflation	-	19,724
Business Combinations	16,217	1,887
Additions	56,662	86,551
Disposals	(19,229)	(21,444)
Disposal of the scope of consolidation	(108,738)	-
Closing balance	1,288,749	1,478,144
Accumulated amortisation		
Opening balance	(774,953)	(711,590)
Translation differences	60,553	(3,805)
Transfer to Non-current Assets held for sale	14,416	25,394
Adjustments Hyperinflation	-	(9,152)
Disposals	14,592	7,979
Provisions charged to the income statement	(50,958)	(60,901)
Disposal of the scope of consolidation	64,358	-
Provision for impairment recognised in profit and loss (Note 8)	(1,591)	-
Closing balance	(673,584)	(752,075)
Net assets		
Opening balance	716,427	700,131
Closing balance	615,165	726,069

The additions for the period have been reduced mainly as a consequence of the COVID-19 effect and the associated cash containment measures.

During the first half of 2020, investments in property, plant and equipment made by Prosegur came to EUR 56,662 thousand (at 30 June 2019: EUR 86,551 thousand). These investments correspond mainly to cash automation equipment fitted in clients premises and purchasing and conditioning bases and armoured vehicles in Spain, Germany, Colombia, Brazil and Argentina.

No assets are subject to restrictions on title or pledged as security for particular transactions at 30 June 2020.

11.2. Property investments

Details of changes in property investments for the first six-month period ended 30 June 2020 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
<u>Cost</u>		
Opening balance	48,534	48,773
Adjustment for Hyperinflation	-	4,567
Translation differences	(1,628)	-
Closing balance	46,906	53,340
<u>Accumulated amortisation</u>		
Opening balance	(4,424)	(3,465)
Adjustment for Hyperinflation	-	(317)
Provisions charged to the income statement	(435)	(500)
Translation differences	149	-
Closing balance	(4,710)	(4,282)
<u>Net assets</u>		
Opening balance	44,110	45,308
Closing balance	42,196	49,058

11.3. Non-current assets held for sale

Assets and liabilities classified as held for sale at June 2020 are associated with the Security activity in France, whose sale is subject to approval by the competent French authorities on foreign investment; it is expected to occur during the third quarter of 2020.

During June 2020, Prosegur entered into negotiations with Fiducial, for the sale and purchase of its security operations in France. This transaction is expected to be concluded during the third quarter of 2020. The final price of the transaction will be determined and paid at the close of the transaction.

As a result, all its associated assets and liabilities have been classified as held for sale. It has not been considered a discontinued operation due to the fact that it is not a significant business line separate from the rest, nor a geographical area of operations.

At 30 June 2020 and 31 December 2019 non-current assets held for sale and liabilities directly associated with non-current assets classified as held for sale were recognised at their carrying amount and include the following assets and liabilities:

	Thousands of Euros	
	30/06/2020	31/12/2019
Non-current assets held for sale		
Property, plant and equipment (Note 11.1)	328	-
Rights of use (Note 11.5)	6,049	-
Non-current financial assets	1,544	-
Other intangible assets (Note 11.4)	224	-
Deferred tax assets	2,919	-
Inventory	279	-
Clients and other receivables	43,297	-
Current tax assets	685	-
Cash and cash equivalents	1,805	-
	57,130	-

	Thousands of Euros	
	30/06/2020	31/12/2019
Liabilities associated to non-current assets held for sale		
Financial liabilities long term	2	-
Long-term lease liabilities (Note 11.5)	3,609	-
Short-term lease liabilities (Note 11.5)	2,862	-
Provisions long term (Note 18)	8,663	-
Short-term Financial liabilities	27	-
Trade and other payables	54,940	-
Other non-current liabilities	895	-
	70,998	-

11.4. Goodwill

Details of changes in goodwill for the six-month period ended 30 June 2020 are as follows:

	<u>Thousands of Euros</u>
Carrying amount at 31 December 2019	634,027
Additions to to consolidated group (Note 22)	61,439
New additions	1,743
Provision for impairment recognised in profit and loss (Note 8)	(44,420)
Translation differences	(46,918)
Carrying amount at 30 June 2020	<u>605,871</u>

For the six-month period ended 30 June 2020, goodwill from the following business combinations has been incorporated:

	<u>2020</u>
	<u>Thousands of Euros</u>
Business combinations Cash Latin America ⁽¹⁾	59,932
Security business combinations in Europe ⁽¹⁾	1,507
	<u>61,439</u>

⁽¹⁾ Calculations relating to business combinations are provisional and may be adjusted for up to a year from the acquisition date.

The additions correspond to the adjustments made in the value of the goodwill associated with a Cash business combination in Europe due to reassessing the corresponding deferred contingent consideration:

	<u>2020</u>
	<u>Thousands of Euros</u>
Business combinations Cash Europe ⁽¹⁾	1,743
	<u>1,743</u>

Prosecur tests goodwill for impairment at the end of each reporting period, or earlier if there are indications of impairment, in accordance with the accounting policy described in Note 35.10 of the Consolidated Annual Accounts at December 2019. However, taking into account the current situation after the WHO declaration of the coronavirus outbreak (COVID-19) as a pandemic on 11 March 2020, the Group has reviewed the projections and discount rates published in the Consolidated Annual Accounts at December 2019.

As a result of the review of the projections and the discount rates published in the Consolidated Annual Accounts at December 2019 and as a result of the sale and purchase agreement of the Security business in France, Prosegur has impaired the following goodwill grouped by activity and country:

	<u>Thousands of Euros</u>
	2020
	<u>Seguridad</u>
France CGU	22,849
China CGU	89
Brazil CGU	9,399
Chile CGU	3,482
Colombia CGU	8,601
Total	<u>44,420</u>

The detail of the key hypotheses of the UGES detailed in the previous table are as follows:

June 30, 2020	<u>Brazil</u>	<u>Chile</u>	<u>China</u>	<u>Colombia</u>
Growth rate	3.05%	3.00%	3.00%	3.04%
Discount rate	9.69%	7.15%	6.28%	9.34%

Details of changes in goodwill for the six-month period ended 30 June 2019 were as follows:

	<u>Thousands of Euros</u>
Carrying amount at 31 December 2018	570,073
Additions to consolidated group (Note 22)	62,526
New additions	178
Adjustments Hyperinflation	4,463
Transfer to Non-current Assets held for sale	(16,938)
Translation differences	2,023
Carrying amount at 30 June 2019	<u>622,325</u>

For the six-month period ended 30 June 2019, goodwill from the following business combinations was incorporated:

	<u>2019</u>
	<u>Thousands of Euros</u>
Business combinations Cash Europe ⁽¹⁾	436
Business combinations Cash Latin America ⁽¹⁾	14,313
Business combinations Cash ROW ⁽¹⁾	3,317
Security business combinations in Europe ⁽¹⁾	1,625
Business combinations Security LatAm ⁽¹⁾	13,845
Business combinations Security ROW ⁽¹⁾	28,990
	<u>62,526</u>

The additions corresponded to the adjustments made in the value of the goodwill associated with a Cash business combination in LatAm due to reassessing the associated opening balance:

	2019
	Miles de euros
Business combinations Cash Latin America(1)	178
	178

11.5. Rights of use

Details of changes in right of use assets for the six-month period ended at 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2020
Cost		
Opening balance	159,382	-
Transition adjustment	-	130,286
Opening balance after adjustment	159,382	130,286
Additions	7,397	6,033
Adjustment for Hyperinflation	-	132
Business Combinations	-	2,455
Transfer to Non-current Assets held for sale	(11,106)	(3,340)
Write offs and transfer	(3,332)	(2,123)
Translation differences	(8,617)	(710)
Disposal of the scope of consolidation	(5,500)	-
Closing balance	138,224	132,733
Accumulated amortisation		
Opening balance	(38,863)	-
Write offs and transfer	-	-
Transfer to Non-current Assets held for sale	5,057	509
Amortisation for the year	(20,529)	(18,260)
Translation differences	2,721	60
Disposal of the scope of consolidation	2,361	-
Closing balance	(49,253)	(17,691)
Net assets		
Opening balance	120,519	-
Closing balance	88,971	115,042

Details of changes in lease liabilities for the six-month period ended at 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Cost		
Opening balance	(132,021)	-
Transition adjustments	-	(143,478)
Balance at 1 January	(132,021)	(143,478)
Additions	(7,397)	(6,033)
Business Combinations	-	(2,653)
Write offs and transfer	26,623	21,941
Financial Expenses (Note 9)	(3,116)	(3,274)
Translation differences	8,714	797
Liabilities directly associated to non-current assets held for sale	6,471	2,858
Disposal of the scope of consolidation	3,301	-
Closing balance	(97,425)	(129,841)

The average discount rates for the main countries affected by this standard, used for calculating the current value of the operating lease liabilities, were as follows:

	Average rate		
	First 5 years	5 to 10 years	10 to 15 years
Germany	0.94%	1.05%	1.32%
Brazil	6.72%	7.87%	9.06%
Peru	3.91%	4.21%	4.74%
Argentina	40.59%	38.97%	37.34%
Colombia	5.82%	6.29%	7.07%
Chile	3.60%	3.86%	4.49%
Spain	1.15%	1.27%	1.53%

The rates have been calculated according to the life of the right of use.

As indicated in Note 2, the Group has chosen not to recognise in the balance sheet the lease liabilities and the right of use corresponding to short-term lease contracts (leases for one year or less) and to leases for low value assets (USD 5 thousand or less). Those exceptions have been recorded entirely under the heading on operating leases (Note 7).

11.6. Other intangible assets

Details of changes in intangible assets for the six-month periods ended 30 June 2019 and 2019 are as follows:

	Thousands of Euros	
	Period ended 30 June	
	2020	2019
Cost		
Opening balance	723,391	617,671
Adjustment for Hyperinflation	-	3,654
Additions	16,435	13,182
Transfer to Non-current Assets held for sale	(34,281)	(16,103)
Business Combinations	40,154	56,442
Disposals	(11,923)	(744)
Disposal of the scope of consolidation	(5,191)	-
Translation differences	(77,074)	2,148
Closing balance	651,511	676,250
Accumulated amortisation		
Opening balance	(373,468)	(345,424)
Adjustment for Hyperinflation	-	(2,146)
Transfer to Non-current Assets held for sale	34,361	11,867
Disposals	5,495	1,148
Provisions charged to the income statement	(22,385)	(22,157)
Disposal of the scope of consolidation	3,864	-
Translation differences	29,524	(156)
Provision for impairment recognised in profit and loss (Note 8)	(16,007)	-
Closing balance	(338,615)	(356,868)
Net assets		
Opening balance	349,923	272,247
Closing balance	312,895	319,382

Intangible assets allocated to the valuation of the following business combinations were included in the additions for the first half of 2020:

	Thousands of Euros		
	Client portfolio	Computer software	Total
Business combinations Cash Latin America ⁽¹⁾	40,121	33	40,154
	40,121	33	40,154

⁽¹⁾ Calculations relating to business combinations are provisional and may be adjusted for up to a year from the acquisition date.

Prosegur tests intangible assets for impairment at the end of each reporting period, or earlier if there are indications of impairment. However, taking into account the current situation after the WHO declaration of the coronavirus outbreak (COVID-19) as a pandemic on 11 March 2020, which is considered an indicator of impairment, the Group has reviewed the projections associated with the aforementioned intangible assets and has impaired intangible assets associated with the security business in the ROW area for EUR 6,348 thousand. Also, as a consequence of the sale and purchase agreement of the Security business in France, the Company has impaired the associated intangible assets for EUR 4,159 thousand.

12. Non-current financial assets

Details of non-current financial assets at 30 June 2020 and 31 December 2019 are as follows:

	Thousands of Euros	
	<u>30/06/2020</u>	<u>31/12/2019</u>
Equity instrument	226,070	14,526
Deposits and guarantees	3,008	3,285
Other non-current financial assets	2,367	3,193
Total non-current financial assets	<u>231,445</u>	<u>21,004</u>

As described in Note 17 to the Consolidated Annual Accounts for the year ended 31 December 2019, the equity instruments item includes non-controlling financial interests in certain companies in which the Prosegur Group has no management influence. These interests are not recorded at fair value. At 30 June 2020, there were no indicators of impairment with respect to the recognised financial interests.

During the six-month period ended 30 June 2020, the main change in the equity instruments item arose from the sale of 50% of the Alarms business in Spain which has been paid for through the delivery of 49,545,262 shares in Telefónica S.A.

Telefónica S.A. shares have been classified in the equity instruments category at fair value with changes in other comprehensive income. They have also been classified in Level 1 of the levels of the fair value hierarchy since the valuation was performed by directly using the actual quotation price of the equity instrument, which can be observed and taken from independent sources, and referred to an active market.

Prosegur has also agreed to accept certain restrictions on the transferability of the aforementioned Telefónica shares. As a result, the fair value of the aforementioned shares has been adjusted considering an additional discount which represents the impossibility of selling the shares in the market until nine months after the transaction.

At 30 June 2020, the share in Telefónica S.A. was valued at EUR 210,567 thousand and represents a 0.95% interest in its share capital.

During June 2019, the non-controlling interest in Cognigo Research, Ltd was sold for EUR 1,716 thousand, generating an income of EUR 853 thousand (Note 9). This start-up was dedicated to the development of software based on Artificial Intelligence (AI) which Cognigo provides on heterogeneous and distributed

databases, allowing the automatic categorisation and classification of data contextually to its location and environment.

Deposits and guarantees were recorded at amortised cost. Items that do not accrue interest explicitly are recorded at their nominal amount, provided that the effect of not financially updating the cash flows is not significant.

The heading on other non-current financial assets mainly includes a loan granted to one of the Prosegur Group subsidiaries in India, SIS Cash Services Private Ltd, which is consolidated using the equity method, not being eliminated therefore in the consolidation process, and which is recorded at amortised cost for the amount of EUR 2,322 thousand.

During the first half of 2019, no significant purchases, sales, issues or settlements of non-current financial assets were made.

13. Investments accounted for using the equity method

Joint arrangements

The main Joint Arrangements of Prosegur at 30 June 2020 correspond to companies that operate in India dedicated to the Cash activity and since 28 February 2020 include 50% of the Prosegur Alarms business in Spain. These Joint Arrangements are structured as separate vehicles and Prosegur has a share of their net assets. Consequently, Prosegur has classified these shareholdings as Joint Ventures.

Details of changes in the investments in joint ventures accounted for under the equity method for the six-month periods ended 30 June 2020 and 2019 were as follows:

	Thousands of Euros	
	<u>30/06/2020</u>	<u>30/06/2019</u>
Opening balance	9,452	29,433
Acquisitions	261,400	-
New additions (capitalisations)	1,198	(636)
Sales	-	(19,794)
Share in profits/(losses)	(1,838)	-
Translation differences	(405)	59
Closing balance	<u>269,807</u>	<u>9,062</u>

Details of the main figures of investments accounted for under the equity method at the end of 2019 are included in Appendix III of the Consolidated Annual Accounts for the year ended 31 December 2019.

Once the pertinent regulatory approvals were obtained, on 28 February 2020, Prosegur sold 50% of Prosegur's Alarms business in Spain for a price of EUR 305,614 thousand, subject to standard adjustments in this type of transactions on debt, working capital and client base.

The entire price was paid through the delivery of 49,545,262 shares of Telefónica S.A. Prosegur has agreed to accept certain restrictions on the transferability of the aforementioned Telefónica shares. The fair value of Telefónica S.A.'s shares on the date on which the transaction was concluded amounted to EUR 261,400 thousand.

This means that the remaining 50% share held by Prosegur in Prosegur Alarmas España is recognised as a result of the sale initially at fair value and is accounted for using the equity method as of 28 February 2020, as the relevant decisions were no longer adopted unilaterally by Prosegur. To do this, Prosegur has derecognised the assets and liabilities that Prosegur Alarmas España contributed at that date.

The main impacts on the balance sheet at the end of February 2020 due to the loss of control are as follows:

	<u>Thousands of Euros</u>
	<u>30/06/2020</u>
Property, plant and equipment (Note 11.1)	(37,754)
Rights of use (Note 11.5)	(1,768)
Non-current financial assets	(88)
Other intangible assets (Note 11.4)	(1,244)
Deferred tax assets	(1,684)
Inventory	(7,281)
Clients and other receivables	(14,850)
Cash and cash equivalents	(2,259)
	<u>(66,928)</u>

	<u>Thousands of Euros</u>
	<u>30/06/2020</u>
Lease liabilities long term (Note 11.5)	610
Lease liabilities short term (Note 11.5)	1,132
Provisions long term (Note 18)	2,252
Current tax liabilities	1,568
Trade and other payables	13,271
Other current liabilities	14,315
Other non-current liabilities	1,547
Deferred tax liabilities	7,756
	<u>42,451</u>

Prosegur Alarmas España also contributed EUR 19,141 thousand of Net Turnover at the end of February 2020.

On 23 April 2019 Prosegur sold its entire interest in the joint venture for the alarm business in India, SIS Prosegur Alarms Monitoring and Response Services Pte Ltd, for the total amount of 204,432 thousand Indian Rupees (equivalent at the transaction date to EUR 2,505 thousand). The value of the holding at the time of being sold was 73,448 thousand Indian Rupees (equivalent to EUR 900 thousand at the transaction date). The sale entailed income for Prosegur of EUR 1,605 thousand (Note 8).

On 4 June 2019 Prosegur exercised the sales option on the 33.33% interest in SBV as, at the time of exercising it, the entire share of Prosegur did not exceed 50% of the capital. The shares taken up by Prosegur were acquired by the other shareholders of the company. The income from the sale was recorded under the heading of other income (Note 8).

Prosegur has no significant contingent liability commitments in any of the joint ventures accounted for under the equity method.

14. Other financial assets

Other financial assets

Details of balances and changes in the heading Other financial assets for the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	30/06/2020	30/06/2019
Balance at January 1	319,621	489,268
Interests	379	320
Additions	-	-
Disposal	(30,000)	-
Balance at June 30	290,000	489,588

Details and the issue dates of financial assets at 30 June 2020 are as follows:

Description	Date of issue	Thousands of Euros	
		Principal	Balance at 30/06/2020
Fixed-term deposit	22/06/2017	150,000	150,000
Fixed-term deposit	20/03/2018	140,000	140,000
		290,000	290,000

Details and the issue dates of financial assets at 30 June 2019 are as follows:

Description	Date of issue	Thousands of Euros	
		Principal	Balance at 30/06/2019
Fixed-income investment fund	07/04/2017	25,000	24,794
Fixed-income investment fund	19/04/2017	25,000	24,794
Fixed-term deposit	22/06/2017	150,000	150,000
Fixed-term deposit	15/03/2018	150,000	150,000
Fixed-term deposit	20/03/2018	140,000	140,000
		490,000	489,588

15. Cash and cash equivalents

Details of the heading Cash and Cash equivalents at 30 June 2020 and 31 December 2019 are as follows:

	Thousands of Euros	
	<u>30/06/2020</u>	<u>31/12/2019</u>
Cash in hand and at banks	873,514	454,473
Current bank deposits	90,298	76,204
	<u>963,812</u>	<u>530,677</u>

The effective interest rate on current bank deposits is 2.35% (at 31 December 2019: 1.44%) and the average term of the deposits held during the first half of 2019 was 135 days (at 31 December 2019: 150 days).

16. Inventories

Details of inventories at 30 June 2020 and 31 December 2019 are as follows:

	Thousands of Euros	
	<u>30/06/2020</u>	<u>31/12/2019</u>
Work in progress	6,480	7,883
Goods for resale, fuel and other	44,402	56,757
Operating materials	2,308	1,851
Uniforms	7,022	6,732
Impairment of inventories	(9,030)	(8,377)
	<u>51,182</u>	<u>64,846</u>

No inventories have been pledged as securities for liabilities.

The changes in impairment losses for the six-month periods ended 30 June 2020 and 30 June 2019 are as follows:

	Thousands of Euros	
	<u>30/06/2020</u>	<u>30/06/2019</u>
Balance at 1 January	(8,377)	(5,109)
Additions	(2,616)	(2,685)
Applications and other	709	2,134
Disposal of the scope of consolidation	770	-
Transfer Non-current Assets Held for Sale	29	-
Translation differences	455	(583)
Balance at 30 June	<u>(9,030)</u>	<u>(6,243)</u>

17. Equity

17.1. Share capital

Share capital consists of:

	Thousands	Thousands of Euros			
	Number of shares	Share capital	Share premium	Treasury Stock	Total
1 January 2019	617,125	37,027	25,472	(52,777)	9,722
31 December 2019	598,679	35,921	25,472	(107,927)	46,534
30 June 2020	598,679	35,921	25,472	(149,806)	88,413

At 30 June 2020, the share capital of Prosegur Compañía de Seguridad, S.A. totals EUR 35,921 thousand and is represented by 598,679,362 shares with a par value of EUR 0.06 each, fully subscribed and paid. These shares are listed on the Madrid, Bilbao, Valencia and Barcelona Stock Exchanges and traded via the Spanish Stock Exchange Interconnection System (SIBE).

On 26 June 2019 the share capital was reduced following approval by the Shareholders General Meeting held on 4 June 2019.

The Company's share capital was reduced by EUR 1,106,716.68, through the cancellation of 18,445,278 own shares.

Consequently, article 5 of the Company's Articles of Association was modified and after the reduction, the share capital stood at EUR 35,920,761.72, divided into 598,679,362 ordinary shares of the same class and series each with a par value of EUR 0.06, fully subscribed and paid up.

The capital reduction was made against free reserves, by provisioning an amortised capital reserve with an amount equivalent to the par value of the cancelled shares (that is EUR 1,106,716.68).

17.2. Share premium

The share premium amounts to EUR 25,472 thousand, is freely distributable and did not change in 2019 or in the six-month period ended 30 June 2020.

17.3. Own shares

Details of changes in own shares for the six-month period ended at 30 June 2020 are as follows:

	<u>Number of shares</u>	<u>Thousands of Euros</u>
Carrying amount at 31 December 2019	30,080,960	107,927
Purchase of own shares	20,653,127	61,450
Reinvestment program for the second payment of the interim dividend for the financial year 2019	(5,511,321)	(18,930)
Other awards	(180,830)	(641)
Carrying amount at 30 June 2020	<u>45,041,936</u>	<u>149,806</u>

On 4 June 2019 the Board of Directors of Prosegur decided to implement an own share buyback programme.

The Programme is put into effect under the provisions of Regulation (EU) no. 596/2014 on market abuse and the Commission Delegated Regulation 2016/1052, making use of the authorisation granted by the Shareholders General Meeting held on 27 April 2016 for the purchase of own shares, for the purpose of reducing the share capital of Prosegur Compañía de Seguridad, S.A. in the terms agreed by the Shareholders General Meeting held on 4 June 2019.

The Programme will apply to a maximum of 59,850,000 shares, representing approximately 10% of Prosegur's share capital (after the capital reduction agreed upon).

The Programme will have the following features:

- a) Maximum amount allocated to the Programme: EUR 300,000 thousand.
- b) Maximum number of shares that can be acquired: up to 59,850,000 shares representing approximately 10% of the Company's share capital.
- c) Maximum price per share: the Company will not buy shares at a price higher than the highest of the following: (i) the price of the last independent trade; or (ii) the highest current independent bid on the trading venues where the purchase is carried out.
- d) Maximum volume per trading session: in so far as volume is concerned, Prosegur must not purchase more than 25% of the average daily volume of the shares in any one day on the trading venues on which the purchase is carried out.
- e) Duration: the Programme will commence on 5 June 2019 and finish no later than 5 June 2022. Notwithstanding the above, Prosegur reserves the right to conclude the Programme, if prior to the indicated maximum date of the term, it has acquired the maximum number of shares authorised by the Board of Directors, if it has reached the maximum monetary amount of the Programme or if any other circumstances arise that call for it.

On 28 January 2020 and aside from the own share buyback programme, Prosegur acquired a package of 5,850,000 of its own shares from an institutional investor, representing 0.98% of the share capital, at a price of EUR 3.592 per share, with a discount of EUR 0.05 per share.

On 6 March 2020 and aside from the own share buyback programme, Prosegur acquired a package of 1,448,376 of its own shares from an institutional investor, representing 0.24% of the share capital, at a price of EUR 3.335 per share, with a discount of EUR 0.015 per share.

17.4. Cumulative translation differences

The change in the balance of the cumulative translation differences at 30 June 2020 as compared to 31 December 2019 (EUR thousands) results mainly from the depreciation of the Brazilian Real.

In 2018, as a result of applying IAS 29 for Argentina, the Group has adopted the accounting policy of recognising changes in equity associated with the currency effect, entirely under the heading Other reserves. In 2020, due to the interpretation issued by the expert committee of international accounting standards, the Group has adopted the accounting policy of recording changes in equity, associated with the currency effect and the inflation effect, under the heading Translation differences as a whole. Comparative figures have not been restated. As a result, the Company has reclassified an amount of EUR 423,772 thousand from the item "Retained earnings and other reserves" to the item "Translation differences".

17.5. Dividends

On 19 December 2019, the Board of Directors approved the distribution of a regular dividend of EUR 0.1320 per share on account of the 2019 profits, or a total maximum dividend of EUR 79,026 thousand (considering that the share capital is currently represented by 598,679,362 shares). This resolution of the Board of Directors is awaiting approval at the Shareholders General Meeting. The amount that is not distributed as a dividend on the total maximum agreed, by reason of the treasury stock existing on the date of each payment, will be allocated to voluntary reserves and is reflected in the item "Other changes" of the consolidated statement of changes in equity.

On 15 January 2020 the first payment of the interim regular dividend was made against 2019 profits, for EUR 19,756 thousand (at a rate of EUR 0.0330 gross per outstanding share, equivalent to EUR 0.02673 net per share).

On 30 April 2020 the second payment of the interim regular dividend was made against 2019 profits, for EUR 19,756 thousand (at a rate of EUR 0.0330 gross per outstanding share, equivalent to EUR 0.02673 net per share).

In the framework of the current situation arising from the impact of the COVID-19 pandemic and in order to potentially help strengthen the Company's equity position, the Board of Directors of Prosegur has agreed to

offer shareholders who voluntarily agree, the possibility of reinvesting the total net amount of the second payment of the interim dividend for 2019 in ordinary Prosegur shares with a par value of EUR 0.06 each from the treasury stock.

The reinvestment price per share will be EUR 1.9783. This price corresponds to the simple average of the weighted average changes of the Company's share in the SIBE market corresponding to the five trading days prior to the payment date of the second payment of the interim dividend for 2019, that is, on 23, 24, 27, 28, and 29 April 2020 (for 23, 24 and 27 April, reducing the gross amount of said dividend payment).

Each shareholder who has voluntarily joined the reinvestment programme will acquire through the sale of the Company a number of Prosegur shares (from the treasury stock) equal to the result of dividing: (a) the total net amount (no partial reinvestment) of the second payment of the interim dividend for 2019 that they are entitled to receive on the payment date, by (b) the reinvestment price calculated, rounding the result of said division by default up/down to the nearest unit. The rest of this net amount not applied to reinvestment as a result of the aforementioned rounding up/down will be paid in cash to the shareholder.

On 22 July 2020 the third payment of the interim regular dividend to the shareholders was made against 2019 profits, which represents a gross amount of EUR 0.0330 euros per outstanding share and with economic rights on that date, equivalent to a net amount of EUR 0.02673 per share.

The Prosegur Board of Directors has also agreed to offer shareholders who voluntarily agree, the possibility of reinvesting the total net amount of the third payment of the interim dividend for 2019 in ordinary Prosegur shares with a par value of EUR 0.06 each from the treasury stock.

The remaining payment, until completing the approved dividend of EUR 0.1320 per share, considering that the share capital on the date of approval of said dividend was divided into 598,679,362 shares, will be made in October 2020.

17.6. Earnings per share

- **Basic**

Basic earnings per share are calculated by dividing the profit of the ongoing operations attributable to the owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares acquired by the Company.

	Thousands of Euros	
	<u>30/06/2020</u>	<u>30/06/2019</u>
Profit for the year attributable to owners of the Parent	315,646	48,394
Weighted average number of ordinary shares outstanding	557,937,479	598,602,011
Basic earnings per share	<u>0.57</u>	<u>0.08</u>

- **Diluted**

Diluted earnings per share are calculated by adjusting the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares outstanding for all the inherent diluting effects of potential ordinary shares.

The parent does not have different classes of partially diluted ordinary shares.

17.7. Non-controlling interests and other changes

Prosegur Cash, S.A. is a subsidiary of the Spanish company Prosegur Compañía de Seguridad, S.A., which currently holds 51.76% of the shares, and indirectly controls another 21.59% through its 100%-owned subsidiary, Prosegur Assets Management, S.L.U. after the capital increase of Prosegur Cash, S.A. The remaining 26.65% of the shares are in the hands of non-controlling interests as a result of its first listing on the Stock Market on 17 March 2017.

Prosegur Cash shares started trading at EUR 2 per share on the Madrid and Barcelona Stock Exchanges and they are traded through the Spanish Stock Markets Interconnection System (SIBE). This transaction was reflected as a transaction with own equity shares.

The impact resulting from this transaction amounted to EUR 824,992 thousand and the expenses related to it to EUR 28,018 thousand. As a result, the positive impact recorded by the disposal of these equity instruments was EUR 796,974 thousand in 2017.

During 2020, Prosegur Compañía de Seguridad, S.A. purchased Prosegur Cash S.A. shares from various non-controlling interests amounting to EUR 6,830 thousand which represent 0.54% of the share capital of Prosegur Cash S.A. The negative impact recorded by the acquisition of these equity instruments has been recorded in the statement of changes in equity under the heading "Other movements".

The capital increase agreed by the Board of Directors of Prosegur Cash S.A. under item 9 of the agenda of the Shareholders General Meeting of the Company held on 6 February 2017 was executed on 3 July 2020. The increase was registered on 6 July 2020.

The capital increase was charged against monetary contributions of Prosegur Cash for a total nominal amount of EUR 421,159, through the issuance of 21,057,953 ordinary shares with a par value of EU 0.02 each. All the shares have been subscribed and paid up. The amount of the share premium was set at EUR 16,381,508.

On 8 May 2017 Prosegur Cash, S.A. signed a liquidity agreement in accordance with the regulations in force at the time. Prior to signing this agreement, said company did not have treasury stock. The operating process prior to the liquidity contract to set up treasury stock ended on 8 June, having attained treasury stock of 1,000,000 shares. The liquidity contract came into operation on 9 June 2017 and ended 10 July 2017, when the liquidity agreement was terminated. On 7 July 2017 Prosegur Cash S.A. signed a new liquidity agreement, entering into force on 11 July 2017, in accordance with the new legislation, commencing operations again to boost the contractual liquidity.

As a consequence of the implementation of a treasury stock program, Prosegur Cash, S.A. it has carried out the suspension of the operation of the liquidity contract.

At 30 June 2020, the treasury stock of Prosegur Cash, S.A. consists of 3,921,844 shares.

At 30 June 2019 the treasury stock of Prosegur Cash, S.A. consisted of 894,538 shares, of which 471,452 were associated to the liquidity agreement for a total amount of EUR 1,545 thousand.

18. Provisions

Details of the balance and changes under this heading for the six-month period ended 30 June 2020 are as follows:

Thousands of Euros	Labour-related risks	Legal risks	Employee benefits expense	Other risks	Total
Carrying amount at 31 December 2019	54,968	16,465	20,744	134,566	226,743
Provisions charged to income statement	8,967	9,378	-	34,658	53,003
Reversals credited to income statement	(4,156)	(676)	-	(2,263)	(7,095)
Aplicaciones	(4,657)	(713)	-	(1,987)	(7,357)
Financial effect of the discount	1,459	342	-	2,112	3,913
Transfer liabilities directly associated to Non-current Assets Held for Sale	(3,907)	(1,633)	-	(3,123)	(8,663)
Disposal of the scope of consolidation	(2,291)	(812)	-	(1,613)	(4,716)
Additions to consolidated group	15,897	84	-	8,033	24,014
Translation differences	(18,457)	(2,386)	-	(20,398)	(41,241)
Carrying amount at 30 June 2020	47,823	20,049	20,744	149,985	238,601
Non Current 2020	47,823	20,049	20,744	140,815	229,431
Current 2020	-	-	-	9,170	9,170

a) Occupational risks

The provisions for occupational risks, which amount to EUR 47,823 thousand (31 December 2019: EUR 54,968 thousand), are calculated individually based on the estimated probability of success or failure. In addition, an internal review is carried out of the probabilities of reaching agreements in each of the cases, depending on the past experience of Prosegur, in order to arrive at the final provision to be recorded.

The provision for occupational risks is composed mainly of labour legal cases in Brazil. The characteristics of labour legislation in that country result in such processes becoming drawn out, and has led to a provision in 2020 of EUR 32,832 thousand (31 December 2019: EUR 28,618 thousand).

A provision is also included for EUR 2,255 thousand (31 December 2019: EUR 2,987 thousand) related to the business combination carried out in 2005 with Transpev.

b) Legal risks

The provisions for legal risks, which amount to EUR 20,049 thousand (31 December 2019: EUR 16,465 thousand), correspond mainly to civil claims which are analysed on a case-by-case basis. The settlement of these provisions is highly probable, but both the value of the final settlement as well as the moment are uncertain and depend upon the outcome of the processes under way.

c) Employee benefits

As indicated in Note 5.2 of the Consolidated Annual Accounts for the year ended 31 December 2019, Prosegur maintains defined benefit schemes in Germany, Brazil, France Honduras, Nicaragua, El Salvador and Mexico. The actuarial valuation, carried out by qualified actuaries, of the value of the benefits to which the Company is committed is updated every year. The last update occurred at the end of 2018 applicable to the current period.

In addition, due to the business combination detailed in Note 22, Honduras, Nicaragua and El Salvador by law have obligations under defined benefit schemes arising from the termination of employment contracts by dismissal or following a mutual agreement.

The defined benefit schemes of Germany and France consist of Pension and retirement schemes, while the benefit scheme defined for Mexico consists of a seniority scheme. In Brazil they consist of post-employment healthcare compliant with local legislation (Act 9656).

d) Other risks

The provisions for other risks, which amount to EUR 149,985 thousand (31 December 2019: EUR 134,566 thousand), includes multiple items.

The settlement of these provisions is highly probable, but both the value of the final settlement as well as the moment are uncertain and depend upon the outcome of the processes under way.

We list the most significant ones below:

Tax risks

These mainly refer to tax risks in Brazil, Argentina and Spain amounting to EUR 115,804 thousand (31 December 2019: EUR 95,122 thousand).

The tax risks associated with Brazil are related to indirect municipal and state tax claims mainly, as well as provisions coming from the business combination of Nordeste and Transpev. In Argentina they are related to various amounts that are not individually material, linked to direct and indirect local and state taxes. The most representative risks arise as a result of the disparity in criteria between Prosegur and Tax Administration.

The tax risks associated with Spain are as a result of two lawsuits awaiting decision arising from two records of non-acceptance in proceedings brought by the Spanish Administration. The first proceeding was brought in 2012, in relation to Corporate Income Tax for the years 2005, 2006 and 2007, for a tax liability of EUR 8,268 thousand. That lawsuit is currently pending admission to cassation before the Supreme Court. The second proceeding was brought in 2014 in relation to Corporate Income Tax for the years 2008 and 2009 and is for a tax liability of EUR 16,072 thousand. On 10 May 2019 a contentious-administrative appeal was filed before the National Court (Audiencia Nacional) and is still awaiting a decision. Despite the fact that there are good defence arguments for the resolution of these disputes, the Company has deemed it advisable to record a provision to cover the accounting impact that could arise from a different interpretation of the legislation to that of the Company's.

Tax risks are classified as material on the basis of opinions in external studies according to the analysis of case law in the matter of reference. In addition, internal analyses are conducted based on similar cases that have occurred in the past at Prosegur or at other companies.

At each close of quarter, a detailed analysis of each of the tax contingencies is made. This analysis refers to quantification, qualification and the level of provision associated with the risk. An annual letter with the respective

analysis and assessment by an independent expert is used to determine these parameters in the most significant risks. On the basis of this, the level of provision is adjusted.

Provisions charged against and reversals credited to the income statement are included under the heading Other expenses in Note 6.

Comcare Australia

In the first half of 2020, payments were made for commitments associated with the occupational accident insurance plan in Australia amounting to EUR 205 thousand, resulting in a total provision of EUR 3,038 thousand (31 December 2019: EUR 2,907 thousand), of which EUR 192 thousand are due in the short term (31 December 2019: EUR 484 thousand).

Accruals with personnel

These provisions include the accrued incentive in the 2017 and 2020 long-term incentive plan for the Executive Director and Senior Management of Prosegur. During the year, provisions to profit/(loss) amounted to EUR 907 thousand (30 June 2019: EUR 5,499 thousand), resulting in a total provision of EUR 13,826 thousand. Expenses are included under the heading on wages and salaries in Note 7.

As detailed in Note 34.19 of the Consolidated Annual Accounts for the year ended 31 December 2019, the 2017 Plan is generally linked to the creation of value during the 2015-2017 period and envisages the payment of cash incentives, calculated for certain beneficiaries based on the share price. In the vast majority of cases, the Plan measures target achievement from 1 January 2015 until 31 December 2017 and length of service from 1 January 2015 until 31 December 2019.

During the first half of 2020, a total amount of EUR 928 thousand associated with the last payment of the 2017 Plan was paid.

At the Shareholders General Meeting held on 28 May 2018, the shareholders approved the 2020 Plan of long-term incentives for the Executive Director and the Senior Management of Prosegur. The Plan is linked to the creation of value in the 2018-2020 period and envisages the payment of cash incentives, calculated for certain beneficiaries based on the share price. The Plan has a duration of three years and is based on length of service and target achievement. In the vast majority of cases, the Plan measures target achievement from 1 January 2018 until 31 December 2020 and length of service from 1 January 2018 until 31 December 2022.

In both plans, for the purpose of determining the value in cash of each share to which the beneficiary is entitled, the average quotation price of the Prosegur shares on the Stock Exchange will be taken as reference during the last fifteen trading sessions of the month prior to the one in which the shares are awarded.

Quantification of the total incentive will depend on the degree of achievement of the targets established in line with the strategic plan.

19. Financial liabilities

Details of the balances of this heading under the consolidated statement of financial position at 30 June 2020 and 31 December 2019 are as follows:

Thousands of Euros	30/06/2020		31/12/2019	
	Non-current	Current	Non-current	Current
Bonds and other marketable securities	1,291,824	6,094	1,289,510	15,124
Syndicated loan	500,000	-	-	-
Loans and borrowings	54,020	223,070	19,699	112,082
Credit accounts	-	23,031	-	63,190
Other payables	52,178	75,924	55,733	66,600
	1,898,022	328,119	1,364,942	256,996

The most significant items that make up the balance at 31 December 2019 are detailed in Note 23 of the Consolidated Annual Accounts for the year ended on that date.

During the six-month period ended 30 June 2020, there has been no default or non-compliance with any agreement regarding the loans and credit facilities granted to Prosegur.

Syndicated credit facility (Spain)

On 12 June 2014 Prosegur contracted a new syndicated credit financing facility in the amount of EUR 400,000 thousand for a five-year term. On 18 March 2015 the syndicated loan was renewed, mainly modifying the maturity date and postponing its expiry until 18 March 2020. On 10 February 2017 this credit syndicated financing facility was cancelled and replaced with two new syndicated financing facilities:

Syndicated financing facility of EUR 200,000 thousand (Spain)

On 10 February 2017 Prosegur arranged a five-year syndicated credit financing facility of EUR 200,000 thousand to provide the company with long-term liquidity. On 7 February 2019 this syndicated credit facility was renewed, and its maturity extended by another 5 years until February 2025. At 30 June 2020 the balance drawn down from this credit amounted to EUR 200,000 thousand.

The interest rate of the drawdowns under the syndicated financing facility is equal to Euribor plus an adjustable spread based on the Company's rating.

Syndicated financing facility of EUR 300,000 thousand (Spain)

On 10 February 2017 Prosegur's subsidiary, Prosegur Cash, S.A., arranged a five-year syndicated credit financing facility of EUR 300,000 thousand to provide the Company with long-term liquidity. On 7 February 2019 this syndicated credit facility was renewed, and its maturity extended by another 5 years until February 2025. At 30 June 2020 the balance drawn down from this credit amounted to EUR 300,000 thousand.

The interest rate of the drawdowns under the syndicated financing facility is equal to Euribor plus an adjustable spread based on the Company's rating.

Debentures and other negotiable securities

On 4 December 2017 Prosegur, through its subsidiary Prosegur Cash, S.A. made an issue of uncovered bonds with a nominal value of EUR 600,000 thousand, maturing on 4 February 2026. The issue was made in the Euromarket as part of the Euro Medium Term Note Programme. This issue will enable the deferment of maturities of part of the debt of Prosegur Cash and the diversification of funding sources. The bonds are traded on the secondary market, on the Irish Stock Exchange. They accrue an annual coupon of 1.38% payable at the end of each year.

On 8 February 2018 an issue of uncovered bonds with a nominal value of EUR 700,000 thousand, maturing on 8 February 2023, was made. The bonds are traded on the secondary market, on the Irish Stock Exchange. They accrue an annual coupon of 1.00% payable at the end of each year.

Bailment

Prosegur in Australia has signed a bailment for the supply of cash to automated teller machines belonging to Prosegur. The cash is, according to the contract, owned by the bailor. Prosegur has access to this money for the sole purpose of loading cash into the ATM belonging to it, supplied by this contract. The settlement of the assets and liabilities is carried out via regulated clearing systems, such as the right of set-off of balances. As a result of the foregoing, no assets and liabilities are shown in these consolidated financial statements for this item. The amount of outstanding cash at 30 June 2020 was AUD 14,401 thousand (equivalent to EUR 8,811 thousand); at 31 December 2019 it was AUD 50,500 thousand (equivalent to EUR 31,600 thousand).

Bank borrowings (South Africa)

In order to partially finance the subscription of shares representing 33.33% of the share capital of the South African company SBV Services Proprietary Limited, Prosegur arranged a 4-year bullet loan on 29 January 2016 for ZAR 272,000 thousand (Note 13).

On 20 June 2019, and as a consequence of exercising the sales option on the 33.33% share in SBV, the entire loan was cancelled in advance.

Syndicated loan (Australia)

On 24 April 2020 Prosegur, via its subsidiary Prosegur Australia Investments Pty, arranged a syndicated financing facility in the amount of AUD 70,000 thousand for a 3-year term. At 30 June 2020, the drawn down capital corresponding to the loan was AUD 70,000 thousand (equivalent at the end of the first half of 2020 to: EUR 42,829 thousand). The syndicated loan for the amount of 70,000 thousand Australian dollars contracted on April 28, 2017 has been canceled during the first six months of 2020 (Note 24).

Other payables

The most significant items that make up the balance at 31 December 2019 are detailed in Note 23 of the Consolidated Annual Accounts for the year ended on that date.

Other payables mainly relate to pending payments of business combinations.

20. Taxation

Tax expense is recognised in the interim accounting period based on the best estimate of the weighted average effective tax rate expected for the annual accounting period. The amounts calculated for the tax expense, in this interim accounting period, may need adjustments in subsequent periods provided that the estimates of the effective annual rate have changed by then.

	Thousands of Euros Period ended 30 June	
	2020	2019
Current tax	37,446	53,965
Deferred tax	37,532	(7,162)
Total	74,978	46,803

	Thousands of Euros Period ended 30 June	
	2020	2019
Income tax expense	74,978	46,803
Profit before tax	396,193	117,282
Effective tax rate	18.92%	39.91%

The effective tax rate stood at 18.92% in the first half of 2020 compared to 39.91% in the same period the previous year, which represents a decrease of 20.99 percentage points, mainly due to the extraordinary accounting result generated from the sale of 50% of the shares of the subsidiary Prosegur Alarmas España, S.A.

On 6 June 2018 the Technical Office issued a settlement resolution for EUR 1,354 thousand, of which EUR 1,196 thousand was for the capital and EUR 159 thousand for late-payment interest for “deductibility of directors’ remuneration” from 2011 to 2014. The Company has lodged a claim against that Resolution with the Central Court for Economic-Administrative Issues. That claim is awaiting a decision.

In addition, the Company has two lawsuits awaiting decision arising from two records of non-acceptance in proceedings brought by the Spanish Administration. The first proceeding was brought in 2012, in relation to Corporate Income Tax for the years 2005, 2006 and 2007, for a tax liability of EUR 8,268 thousand. That lawsuit is currently pending admission to cassation before the Supreme Court. The second proceeding was brought in 2014 in relation to Corporate Income Tax for the years 2008 and 2009 and is for a tax liability of EUR 16,072

thousand. On 10 May 2019 a contentious-administrative appeal was filed before the National Court (Audiencia Nacional) and is still awaiting a decision. Despite the fact that there are good defence arguments for the resolution of these disputes, the Company has deemed it advisable to record a provision to cover the accounting impact that could arise from a different interpretation of the legislation to that of the Company's.

On 4 April 2019 the Brazilian Tax Authority notified Prosegur Brasil S.A. Transportadora de Valores e Segurança of a tax settlement decision regarding Corporate Income Tax, Social Security and withholdings at source in relation to the corporate cost incurred from 2014 to 2016. The amount under that notice was BRL 214,820 thousand (tax liability BRL 102,938 thousand, interest BRL 30,833 thousand and penalties BRL 81,049 thousand), equivalent at 30 June 2019 to EUR 49,371 thousand. The resolution was challenged by the subsidiary in the administrative stage on 29 April 2019, having been partially admitted by the Brazilian authority on 26 August 2019. Against said resolution, the subsidiary decided to lodge an appeal to the CARF (Conselho Administrativo de Recursos Fiscais). That appeal is awaiting a decision. The Company has not established any provision associated with that lawsuit since it considers unlikely the chances of failure in the defence of that process, having for this purpose two external tax opinions to support that consideration. Additionally, it has been decided to request a bilateral valuation agreement (MAP) from the Central Unit of Major Taxpayers of the Spanish Administration, in order to reach an agreement between the administrations that eliminates the double taxation that the action of the Receita Federal seeks to generate.

The other Group companies are subject to the local jurisdictions in the countries in which they operate. Due to the different interpretations that could be made of the fiscal legislation in force, additional tax liabilities could arise in the event of inspection. In any event, the Directors of the Company do not consider that any such liabilities that could arise would have a significant effect on the Consolidated Annual Accounts.

Prosegur tests annually at the end of each reporting period, or earlier if there are indications, whether it is necessary to uncapitalise the deferred tax assets capitalised. However, taking into account the current situation after the WHO declaration of the coronavirus outbreak (COVID-19) as a pandemic on 11 March 2020, the Group has reviewed the projections associated with the aforementioned deferred tax assets and has derecognised deferred tax assets associated with the security business for EUR 18,104 thousand.

21. Contingencies

Note 28 of the Consolidated Annual Accounts for the year ended 31 December 2019 provides information on contingent assets and liabilities at that date.

National Commission on Markets and Competition

Disciplinary proceedings

On 22 April 2015 the National Commission on Markets and Competition (hereinafter the CNMC) commenced disciplinary proceedings against Prosegur Compañía de Seguridad, S.A. (Prosegur), Prosegur Servicios de Efectivo España, S.L.U. (currently a subsidiary of Prosegur Cash) and Loomis España, S.A. for alleged anticompetitive practices in accordance with the Competition Defence Law and the Treaty on the Functioning of the European Union. On 10 November 2016 the Competition Chamber of the CNMC ruled to jointly fine Prosegur and its subsidiary EUR 39,420 thousand.

On 13 January 2017 Prosegur announced it planned to file, in the National Court (Audiencia Nacional), a contentious-administrative appeal against said ruling requesting the cancellation of this resolution and the adoption of an interim measure consisting of suspending payment of the fine imposed.

On 13 February 2017 the National Court accepted the appeal proposed by Prosegur for processing, commencing the relevant proceedings, prior to formal filing of the appeal.

By Order of 12 July 2017 -after the provision of the mandatory surety bond by Prosegur, by presenting a bank guarantee for the amount of EUR 39,420 thousand-, the National Court granted the precautionary suspension of the payment of the fine.

On 10 June 2019 Prosegur was notified of the Court Order declaring the proceedings to be concluded, with a vote and decision pending on them when their turn for this arrives.

On 9 June 2017 Prosegur presented the National Court with a bank guarantee amounting to EUR 39,420 thousand.

Prosegur Compañía de Seguridad, S.A. will exclusively and at its own expense assume the defence of Prosegur and Prosegur Servicios de Efectivo España S.L., having sole power regarding the directing and control of that defence and of the lawsuit.

On-site inspection of the CNMC at PROSEGUR's headquarters

On 10, 11 and 12 February 2015 the CNMC's Competition Directorate (DC) carried out inspections at the headquarters of Prosegur Compañía de Seguridad, S.A. and Prosegur Servicios de Efectivo España, S.L.

On 20 February 2015 Prosegur filed an administrative appeal before the CNMC Council against the inspection proceedings of the DC. On 18 May 2018 the National Court dismissed the contentious-administrative appeal filed by Prosegur against the resolution of the Competition Chamber of the CNMC Council of 9 April 2015, by which it was agreed to dismiss the internal appeal against the Investigation Order of 4 February 2015 issued by the CNMC's Competition Directorate and subsequent inspections.

A cassation appeal was filed before the Supreme Court against the ruling of the National Court but was dismissed by the order of 8 January 2019, as it did not have annulment interest, and this was made final.

Finally, on 11 September Prosegur filed an appeal for constitutional protection against the CNMC Investigation Order and the inspection proceedings, the Resolution on the Investigation Order, the Ruling on the appeal against the Investigation Order that was made final after the Order of the Supreme Court and the Petition for Nullity. By Order of 16 June 2020, the Second Chamber of the Constitutional Court has agreed not to accept the appeal for constitutional protection presented by Prosegur for not considering it to have the special constitutional significance which, as a condition for its acceptance, the law requires.

The Company has therefore decided to record a provision based on the best estimate available to it on the date of preparation of these interim financial statements for EUR 7,000 thousand.

22. Business combinations

Details of changes in goodwill during the first half of 2020 are presented in Note 11.4.

22.1. Goodwill added in 2020

Details of the net assets acquired and goodwill recognised on business combinations during the first half of 2020 are as follows:

Thousands of Euros	Cash payment	Deferred amount at fair value	Total purchase price	Fair value of identifiable net assets	Goodwill
Business combinations Cash Latin America (1)	24,816	50,863	75,679	15,747	59,932
Business combinations Security Europe (1)	900	1,337	2,237	730	1,507
	25,716	52,200	77,916	16,477	61,439

(1) Calculations relating to business combinations are provisional and may be adjusted for up to a year from the acquisition date.

Goodwill is not tax deductible.

The cash outflow incurred to purchase these businesses, net of cash acquired, is as follows:

Thousands of Euros	Cash payment	Cash and cash equivalents acquired	Cash outflow for the acquisition
Business combinations Cash Latin America (1)	24,816	(6,661)	18,155
Business combinations Security Europe (1)	900	(619)	281
	<u>25,716</u>	<u>(7,280)</u>	<u>18,436</u>

(1) Calculations relating to business combinations are provisional and may be adjusted for up to a year from the acquisition date.

Cash business combinations in LatAm

During the first half of 2020, Prosegur acquired a number of security companies and assets in LatAm providing securities logistics, cash in transit and administrative banking services. The total purchase price was EUR 75,679 thousand, comprising a cash consideration of EUR 24,816 thousand, a deferred contingent consideration amounting to a total of EUR 27,691 thousand, due in 2020 and 2024 and a deferred payment of EUR 23,172 thousand, due in 2020, 2021, 2022, 2023, 2024 and 2025.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	Carrying amount of the acquired company	Fair value
Cash and cash equivalents	6,661	6,661
Property, Plant and Equipment	16,191	16,191
Inventory	199	199
Deferred tax asset	7,271	7,271
Current tax liabilities	(105)	(105)
Current tax assets	1,017	1,017
Clients and other receivables	10,228	10,228
Trade and other payables	(15,347)	(15,347)
Provisions	(24,014)	(24,014)
Other intangible assets	33	40,154
Other current liabilities	(33)	(33)
Deferred tax liability	(454)	(7,962)
Short-term financial liabilities	(13,257)	(13,257)
Long-term financial liabilities	(5,256)	(5,256)
Identifiable net assets acquired	<u>(16,866)</u>	<u>15,747</u>

The goodwill on this acquisition was allocated to the Cash segment and to the LatAm geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 40,121 thousand) with a useful life between 12 and 20 years.

Security business combinations in Europe

During the first half of 2020, Prosegur acquired a security company in Europe specialising in cybersecurity. The total purchase price was EUR 2,237 thousand, comprising a cash consideration of EUR 900 thousand, a deferred contingent consideration amounting to a total of EUR 1,337 thousand, due in 2020, 2021 and 2022.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired</u>	<u>Fair value</u>
Cash and cash equivalents	619	619
Property, Plant and Equipment	26	26
Inventory	29	29
Clients and other receivables	812	812
Trade and other payables	(667)	(667)
Current tax liabilities	(90)	(90)
Non-current financial assets	1	1
Identifiable net assets acquired	<u>730</u>	<u>730</u>

The goodwill on this acquisition was allocated to the Security segment and to the Europe geographical area and mainly reflects the profitability of the business and sizeable synergies expected to arise as a result of the acquisition by Prosegur.

22.2. Goodwill added in 2019 whose valuation is being reviewed in 2020

Details of the net assets acquired and goodwill recognised on business combinations during 2019 whose valuation is being reviewed in 2020 are as follows:

Thousands of Euros	<u>Cash payment</u>	<u>Deferred amount at fair value</u>	<u>Total purchase price</u>	<u>Fair value of identifiable net assets</u>	<u>Goodwill</u>
Business combinations Cash Europe (1)	15,320	9,931	25,251	15,996	9,255
	<u>15,319</u>	<u>9,931</u>	<u>25,251</u>	<u>15,997</u>	<u>9,255</u>

Goodwill is not tax deductible.

The cash outflow incurred to purchase these businesses, net of cash acquired, is as follows:

Thousands of Euros	Cash payment	Cash and cash equivalents acquired	Cash outflow for the acquisition
Business combinations Cash Europe (1)	15,320	(5,928)	9,392
	15,319	(5,927)	9,392

Cash business combinations in Europe

In 2019, Prosegur acquired a number of software engineering companies in Europe specialised in the development of technological solutions for the insurance industry implemented in open systems and platforms, and a company that provides cash management services related to digital software of the retail sector. The total purchase price was EUR 25,252 thousand, comprising a cash consideration of EUR 15,320 thousand, a deferred contingent consideration amounting to a total of EUR 8,358 thousand, due in 2020, 2021, 2022, 2023, and a deferred payment of EUR 1,574 thousand, due in 2020.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	Carrying amount of the acquired company	Fair value
Cash and cash equivalents	5,928	5,928
Clients and other receivables	1,452	1,452
Non-current financial assets	1,126	1,126
Current tax assets	155	155
Deferred tax assets	56	56
Other liabilities and expenses	(386)	(386)
Property, Plant and Equipment	789	789
Trade and other payables	(1,540)	(1,540)
Short-term financial liabilities	(5)	(5)
Deferred tax liabilities	(12)	(2,821)
Other intangible assets	3	11,242
Identifiable net assets acquired	7,566	15,996

The goodwill on this acquisition was allocated to the Cash segment and to the Europe geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 10,598 thousand) with a useful life of 14 years and a software specialised in the development of technological solutions for the insurance industry (EUR 641 thousand) with a useful life of 8 years.

22.3. Goodwill incorporated in year 2019 not reviewed in 2020

Details of the net assets acquired and goodwill recognised on business combinations during 2019 whose valuation has not been reviewed in 2020 are as follows:

Thousands of Euros	Cash payment	Deferred amount at fair value	Total purchase price	Fair value of identifiable net assets	Goodwill
Business combinations Cash Latin America (1)	30,812	34,282	65,094	40,175	24,919
Business combinations Cash ROW (1)	1,241	3,079	4,320	698	3,622
Business combinations Alarms Latin America (1)	4,683	3,832	8,515	6,173	2,342
Business combinations Cibersecurity Europe (1)	1,875	938	2,813	1,125	1,688
Business combinations Cibersecurity Latin America (1)	14,450	7,225	21,675	7,647	14,028
Business combinations Security and Cibersecurity ROW (1)	47,539	10,901	58,440	29,724	28,716
	100,600	60,257	160,857	85,543	75,315

Goodwill is not tax deductible.

The cash outflow incurred to purchase these businesses, net of cash acquired, is as follows:

Thousands of Euros	Cash payment	Cash and cash equivalents acquired	Cash outflow for the acquisition
Business combinations Cash Latin America (1)	30,812	(3,153)	27,659
Business combinations Cash ROW (1)	1,241	(5)	1,236
Business combinations Alarms Latin America (1)	4,683	-	4,683
Business combinations Cibersecurity Europe (1)	1,875	(87)	1,788
Business combinations Cibersecurity Latin America (1)	14,450	(99)	14,351
Business combinations Security and Cibersecurity ROW (1)	47,539	(571)	46,968
	100,600	(3,915)	96,685

Cash business combinations in LatAm

During 2019, Prosegur acquired a number of security companies and assets in LatAm providing securities logistics, cash in transit and administrative banking services. The total purchase price was EUR 65,094 thousand, comprising a cash consideration of EUR 30,812 thousand, a deferred contingent consideration amounting to a total of EUR 19,748 thousand, due in 2019, 2020 and 2021 and a deferred payment of EUR 14,534 thousand, due in 2020 and 2021.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired company</u>	<u>Fair value</u>
Cash and cash equivalents	3,153	3,153
Rights of use	2,027	2,027
Property, Plant and Equipment	914	914
Clients and other receivables	8,979	8,979
Non-current financial assets	16	16
Deferred tax assets	114	114
Current tax assets	983	983
Provisions	(6,812)	(6,812)
Trade and other payables	(9,838)	(9,838)
Short-term financial liabilities	(270)	(270)
Current tax liabilities	(724)	(724)
Long-term lease liabilities	(1,663)	(1,663)
Short-term lease liabilities	(381)	(381)
Deferred tax liabilities	(36)	(3,536)
Other intangible assets	48	47,213
Identifiable net assets acquired	<u>(3,490)</u>	<u>40,175</u>

The goodwill on this acquisition was allocated to the Cash segment and to the LatAm geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets are based on client relationships (EUR 41,871 thousand) with a useful life of between 9 and 13 years and a non-competition agreement (EUR 5,294 thousand) with a useful life of between 5 and 10 years.

Cash business combinations in ROW

In 2019, Prosegur acquired a security company that provides securities logistics and cash in transit services. The total purchase price was EUR 4,320 thousand, comprising a cash payment of EUR 1,241 thousand, and a deferred payment of EUR 3,079 thousand maturing in 2019 and 2020.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired company</u>	<u>Fair value</u>
Cash and cash equivalents	5	5
Property, Plant and Equipment	374	374
Rights of use	269	269
Clients and other receivables	502	502
Trade and other payables	(475)	(475)
Current tax assets	86	86
Other intangible assets	-	540
Deferred tax assets	-	(135)
Short-term financial liabilities	(180)	(180)
Long-term financial liabilities	(26)	(26)
Long-term lease liabilities	(150)	(150)
Short-term lease liabilities	(131)	(131)
Inventory	19	19
Identifiable net assets acquired	<u>293</u>	<u>698</u>

The goodwill on this acquisition was allocated to the Cash segment and to the ROW geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 512 thousand) with a useful life of 19 years and trademarks (EUR 28 thousand) with a useful life of 1 year.

Alarms business combinations in LatAm

In 2019, Prosegur acquired a series of assets in LatAm from a security company specialising in monitoring residential alarm systems. The total purchase price was EUR 8,515 thousand, comprising a cash payment of EUR 4,683 thousand, and a deferred payment of EUR 3,832 thousand maturing in 2020.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired company</u>	<u>Fair value</u>
Property, Plant and Equipment	712	712
Other intangible assets	22	5,377
Clients and other receivables	38	38
Inventory	46	46
Identifiable net assets acquired	<u>818</u>	<u>6,173</u>

The goodwill on this acquisition was allocated to the Alarms segment and to the LatAm geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 5,355 thousand) with a useful life of 8 years.

Cibersecurity business combinations in Europe

During 2019, Prosegur acquired a security company in Europe specialising in cybersecurity. The total purchase price was EUR 2,813 thousand, comprising a cash consideration of EUR 1,875 thousand, a deferred contingent consideration amounting to a total of EUR 786 thousand, due in 2023 and 2024 and a deferred payment of EUR 152 thousand, due in 2021, 2022, 2023, 2024 and 2025.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired company</u>	<u>Fair value</u>
Cash and cash equivalents	87	87
Property, Plant and Equipment	2	2
Clients and other receivables	383	383
Trade and other payables	(218)	(218)
Other intangible assets	-	1,050
Deferred tax liability	-	(179)
Identifiable net assets acquired	<u>254</u>	<u>1,125</u>

The goodwill on this acquisition was allocated to the Security segment and to the Europe geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 791 thousand) with a useful life of 9 years, and trademarks (EUR 259 thousand) with an indefinite useful life.

Cibersecurity business combinations in LatAm

During 2019, Prosegur acquired a security company in LatAm specialising in cybersecurity. The total purchase price was EUR 21,675 thousand, comprising a cash consideration of EUR 14,450 thousand, a deferred contingent consideration amounting to a total of EUR 6,513 thousand, due in 2023 and 2024 and a deferred payment of EUR 712 thousand, due in 2021, 2022, 2023, 2024 and 2025.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired company</u>	<u>Fair value</u>
Cash and cash equivalents	99	99
Rights of use	99	99
Property, Plant and Equipment	295	295
Deferred tax assets	15	15
Current tax assets	205	205
Clients and other receivables	5,096	5,096
Trade and other payables	(3,329)	(3,329)
Provisions	(66)	(66)
Other intangible assets	270	8,262
Deferred tax liability	-	(2,717)
Long-term lease liabilities	(23)	(23)
Short-term lease liabilities	(97)	(97)
Short-term financial liabilities	(172)	(172)
Long-term financial liabilities	(20)	(20)
Identifiable net assets acquired	<u>2,372</u>	<u>7,647</u>

The goodwill on this acquisition was allocated to the Security segment and to the LatAm geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 6,939 thousand) with a useful life of 7 years, and trademarks (EUR 1,053 thousand) with an indefinite useful life.

Security and Cybersecurity business combinations in ROW

During 2019, Prosegur acquired a number of security companies in ROW providing services of surveillance, remote video-surveillance, cybersecurity and sales of security devices. The total purchase price was of EUR 58,440 thousand, comprising a cash consideration of EUR 47,539 thousand, a deferred contingent consideration amounting to a total of EUR 10,324 thousand, due in 2019, 2022, 2023, and 2024 and a deferred payment of EUR 577 thousand, due in 2021, 2022, 2023, 2024 and 2025.

The assets and liabilities that arose from this acquisition are as follows:

(Thousands of Euros)	<u>Carrying amount of the acquired company</u>	<u>Fair value</u>
Cash and cash equivalents	571	571
Property, Plant and Equipment	919	919
Rights of use	2,400	2,400
Clients and other receivables	36,500	36,500
Inventory	5,096	5,096
Current tax assets	311	311
Other liabilities and expense	(581)	(581)
Trade and other payables	(18,491)	(18,492)
Non-current financial assets	166	166
Short-term financial liabilities	(13,741)	(13,741)
Long-term financial liabilities	(249)	(249)
Long-term lease liabilities	(1,343)	(1,343)
Short-term lease liabilities	(1,198)	(1,198)
Deferred tax assets	4,227	4,227
Provisions	(4,801)	(4,801)
Current tax liabilities	(93)	(93)
Deferred tax liability	-	(4,670)
Other intangible assets	77	24,702
Identifiable net assets acquired	<u>9,770</u>	<u>29,724</u>

The goodwill on this acquisition was allocated to the Security segment and to the ROW geographical area and mainly reflects the profitability of the business and major synergies expected to arise as a result of the acquisition by Prosegur. The intangible assets acquired comprise client relationships (EUR 20,951 thousand) with a useful life of between 8 and 27 years and trademarks (EUR 3,674 thousand) with a useful life of 5 years and an indefinite useful life.

23. Related parties

Prosegur is controlled by Gubel S.L., which was incorporated in Madrid and holds 52.479% of the Company's shares. The remaining 47.521% is held by various shareholders, including AS Inversiones S.L. with 5.492% and FMR LLC with 4.992%.

Procurement of goods and services

During the first half of 2020, Proactinmo, S.L.U. (controlled by Gubel, S.L.) invoiced Prosegur for the rental of three properties located in Madrid EUR 1,481 thousand (at 30 June 2019: EUR 964 thousand for two properties located in Madrid). The three leases are at market prices.

During the first half of 2020, the Euroforum Group (controlled by Gubel, S.L.) invoiced Prosegur for hotel services amounting to EUR 50 thousand (at 30 June 2019: EUR 193 thousand).

During the first half of 2020, Agrocinegética San Huberto (controlled by Gubel, S.L.) invoiced Prosegur EUR 318 thousand.

Provision of services

During the first half of 2020, Prosegur provided security services to Proactinmo, S.L.U. (controlled by Gubel, S.L.) for EUR 68 thousand (at 30 June 2019: EUR 29 thousand).

During the first half of 2020, Prosegur provided security services to the Euroforum Group (controlled by Gubel, S.L.) amounting to EUR 39 thousand (at 30 June 2019: EUR 164 thousand).

Remuneration of members of the Board of Directors and key senior management personnel

1. Remuneration of members of the Board of Directors

Details of the remuneration accrued by members of the Board of Directors for all items during the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of Euros	
	30/06/2020	30/06/2019
Fixed remuneration	264	465
Variable remuneration	506	154
Remuneration for membership of the Board and	10	10
Life insurance premiums	29	26
Per diems	468	558
	<u>1,277</u>	<u>1,213</u>

2. Remuneration of Senior Management personnel

Senior Management personnel are understood to be Prosegur employees who hold, de facto or de jure, Senior Management positions reporting directly to the Board of Directors, executive committees or Executive Director, including those holding a power of attorney which relates to the corporate object and is not restricted to specific areas or matters.

The remuneration accrued by all the Senior Management personnel of Prosegur for the six-month periods ended 30 June 2020 and 2019 is as follows:

	Thousands of Euros	
	<u>30/06/2020</u>	<u>30/06/2019</u>
Total remunerations accrued by senior management	1,623	1,201

The total commitment acquired by the Company at 30 June 2020 related to the 2017 and 2020 Plan incentives is recorded in liabilities for a total amount of EUR 13,826 thousand (Note 18).

Loans to related parties

At 30 June 2020 and 2019 there were no loans to related companies except for the loan granted from Prosegur to one of its subsidiaries in India, SIS Cash Services Private Ltd, which is consolidated using the equity method for the amount of EUR 2,322 thousand (Note 12).

Through the company Gestconsult S.A. Prosegur invested EUR 50,000 thousand in a fixed income fund in 2017, for which an expense was recognised for a management fee of 0.60%. The chairman of Gestconsult, Juan Lladó Fernandez-Urrutia, is a person related to Mr Christian Gut Revoredo. Following a favourable report from the corresponding Committee, on 3 April 2017 the Board of Directors authorised this related transaction. That investment was derecognised on 27 January 2020.

Information required by article 229 of the Spanish Companies Act

As required by articles 228, 229 and 230 of the Revised Text of the Spanish Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July 2010 and amended by Act 31/2014 concerning improvements to corporate governance, the members of the Board of Directors and their related parties declare that they have not been involved in any direct or indirect conflicts of interest with the Company during the first half of 2019.

Recurrently, and for many years before the appointment of Fernando Vives as a director of the Company, the law firm J&A Garrigues, S.L.P. has provided Prosegur with legal counsel and tax advice, within the ordinary course of business and in market terms. Prosegur does not work solely with J&A Garrigues, S.L.P., but also receives legal counsel and tax advice from other firms. The fees received by J&A Garrigues, S.L.P. from Prosegur are not material for the firm and neither do they represent a significant amount on the accounts of Prosegur. At 30 June 2019 the fees amounted to EUR 514 thousand, representing less than 0.5% of Prosegur's total administration and sales expenses (Note 6) (at 30 June 2019 the amount was EUR 211 thousand).

In addition, in the six-month period ended 30 June 2020 Prosegur provided surveillance services to the law firm J&A Garrigues, S.L.P. The surveillance services invoiced to J&A Garrigues, S.L.P. at 30 June 2020 stood at EUR 329 thousand, accounting for less than 0.5% of Prosegur's sales (at 30 June 2019 it was EUR 308 thousand).

Furthermore, these services are provided through partners from the firm other than Fernando Vives, whose remuneration as a partner of J&A Garrigues, S.L.P. is entirely independent and in no way linked to the amount invoiced by the firm to Prosegur. Accordingly, the Board of Directors considers that the business relationship between the law firm J&A Garrigues, S.L.P. and Prosegur, due to its recurrent, non-exclusive nature in the ordinary course of business, and its scant significance in the terms outlined, in no way affects the independence of Fernando Vives to discharge the duties of independent director of Prosegur.

24. Average headcount

Details of the average headcount of Prosegur for the six-month periods ended 30 June 2020 and 30 June 2019 are as follows:

	30/06/2020	30/06/2019
Male	138,101	143,032
Female	30,076	27,608
	168,177	170,640

25. Events after the reporting date

- On July 10, 2020, the Spanish Tax Authorities notified to the company Prosegur Compañía de Seguridad S.A. the opening of an inspection procedure comprising the following concepts and tax periods:
 - Income tax for the years 2015 to 2018
 - Value Added Tax: from April 2016 to December 2018
 - Withholdings on account of Personal Income Tax: from April 2016 to December 2018
 - Withholdings on account of Non-Resident Tax: from April 2016 to December 2018

- On July 29, 2020, the amendment to the Regulations of the Board of Directors and the Regulations of the Audit Committee of Prosegur was approved, in order to adapt them to the recommendations that the Spain's National Commission of Securities Market included in the update of the Code of good governance of listed companies dated June 26, 2020.

APPENDIX I. – Summary of the main accounting policies

The accounting policies used in the preparation of these condensed interim consolidated financial statements are the same as those applied in the consolidated annual accounts for the year ended December 31, 2019, except for the following modifications that have been applied for the first time in this exercise:

- Amendments to IFRS 3 - Business Combinations: The amendments change the business definition in IFRS 3 to help entities determine whether a transaction should be recorded as a business combination or as the acquisition of a group of assets. This distinction is important, since the acquirer only recognizes goodwill when a business is acquired.

The new definition of business emphasizes that the product of a business is to provide goods and services to customers, that generate investment income (such as dividends or interest) or that generate other income from ordinary activities; while the previous definition focused on providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

- Modification to IFRS 16 of Concessions of incomes related to Covid -19: The modification process has not been concluded and therefore cannot be applied in IFRS-EU. This modification would allow the lessee, as a practical solution, to choose not to count the rental concessions, derived from Covid-19, as a modification of the lease. If applicable, if so chosen, the lessee shall account for the concessions applying the criteria in IFRS 16 Leases as if said concessions were not a modification.

This practical solution can only be applied to rental concessions that have been a direct consequence of Covid-19. This requires the following conditions to be met: (i) the change in the lease payments results in a revision of the lease consideration that is substantially the same, or less than, the consideration that was immediately prior to the change; (ii) any reduction in lease payments only affects payments that were originally due on or before June 30, 2021; and (iii) there are no substantive changes in other terms and conditions of the lease.

PROSEGUR COMPAÑIA DE SEGURIDAD, S.A. AND SUBSIDIARIES

**Directors' interim consolidated report
for the first six-month period
ended 30 June 2020**

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Directors' interim consolidated report for the six-month period ended 30 June 2020

1. Events occurred since the end of 2019

The most important transactions and events occurred during the first half of 2020 are detailed below:

Acquisition of own shares

On 28 January 2020 and aside from the own share buyback programme, Prosegur acquired a package of 5,850,000 of its own shares from an institutional investor, representing 0.98% of the share capital, at a price of EUR 3.592 per share, with a discount of EUR 0.05 per share.

On 6 March 2020 and aside from the own share buyback programme, Prosegur acquired a package of 1,448,376 of its own shares from an institutional investor, representing 0.24% of the share capital, at a price of EUR 3.335 per share, with a discount of EUR 0.015 per share.

Sale to the Telefónica Group of 50% of the Alarms Business in Spain

Once the pertinent regulatory approvals were obtained, on 28 February 2020, Prosegur sold 50% of Prosegur's Alarms business in Spain for a price of EUR 305,614 thousand, subject to standard adjustments in this type of transactions on debt, working capital and client base.

The entire price was paid through the delivery of 49,545,262 shares of Telefónica S.A. Prosegur has agreed to accept certain restrictions on the transferability of the aforementioned Telefónica shares (Note 12).

Reinvestment programme for the second payment of the interim dividend for 2019

In the framework of the current situation arising from the impact of the COVID-19 pandemic and in order to potentially help strengthen the Company's equity position, the Board of Directors of Prosegur has agreed to offer shareholders who voluntarily agree, the possibility of reinvesting the total net amount of the second payment of the interim dividend for 2019 in ordinary Prosegur shares with a par value of EUR 0.06 each from the treasury stock.

The reinvestment price per share will be EUR 1.9783. This price corresponds to the simple average of the weighted average changes of the Company's share in the SIBE market corresponding to the five trading days prior to the payment date of the second payment of the interim dividend for 2019, that is, on 23, 24, 27, 28, and 29 April 2020 (for 23, 24 and 27 April, reducing the gross amount of said dividend payment).

Each shareholder who has voluntarily joined the reinvestment programme will acquire through the sale of the Company a number of Prosegur shares (from the treasury stock) equal to the result of dividing: (a) the total net amount (no partial reinvestment) of the second payment of the interim dividend for 2019 that they are entitled to receive on the payment date, by (b) the reinvestment price calculated, rounding the result of said division by default up/down to the nearest unit. The rest of this net amount not applied to reinvestment as a result of the aforementioned rounding up/down will be paid in cash to the shareholder.

Shareholding Change

Through various funds managed by Invesco Ltd., during March 2020, its shareholding position was reduced, down to total of 5,835,481 shares, the equivalent of less than 1% of Prosegur's shareholding structure.

Transfers of company shares

During June 2020, Prosegur entered into negotiations with Fiducial, for the sale and purchase of its security operations in France. This transaction is expected to be concluded during the third quarter of 2020. The final price of the transaction will be determined and paid at the close of the transaction (Note 13).

Covid-19

On 11 March 2020, the World Health Organisation declared the outbreak of Coronavirus COVID-19 to be a pandemic, after spreading rapidly around the world, having affected over 150 countries. The majority of Governments have taken restrictive measures to contain the propagation which include: isolation, confinement, quarantine and restrictions to the free movement of people, closing public and private establishments except for those used for basic needs and healthcare, closed borders and a drastic reduction of transport by air, sea, rail and road.

This situation is having a significant effect on the world economy due to the interruption or slowing down of the supply chains and the significant increase of economic uncertainty which is evidenced by a greater volatility in the price of assets, exchange rates and reduced long-term interest rates.

The measures adopted by the different governments for combatting the spread of COVID-19 and the circumstances arising from the coronavirus crisis have brought about a fall in the total market accessible by the Prosegur Group for carrying out its business. This is due to businesses being closed, the successive temporary ceasing of activity due to the impact of COVID-19, the restrictions to the free movement of persons and to work carried out in existing buildings limiting its activity mainly to urgent repair work, and the limited access to materials for the protection and prevention of contagion for both its personnel and clients. Only shops providing essential products and services remained open, given the exceptional situation.

With this panorama, characterised by a drastic drop in the different sectors of the economy, and absolute uncertainty for the future, the main consequences have been the following:

- ✓ Payment of tax liabilities was deferred where local laws allow so (Germany, Portugal, Australia, Peru, Guatemala, Chile, Paraguay, Singapore, China, Colombia and Brazil) amounts to EUR 39,132 thousand.
- ✓ In the United States, Australia and Singapore, government aid was received for continuing to employ workers. An income has been registered At 30 June 2020 amounts to EUR 9,070 thousand (Note 8).
- ✓ A financial loan was received in Peru at a reduced rate amounts to EUR 9,423 thousand (Note 19).
- ✓ Staff have been temporarily laid-off to try and adapt the organisational structure, production and costs to the new levels of activity.
- ✓ Exemption from Social Security payments associated with the temporary workforce reduction plan (ERTE) in Spain, Portugal, Germany, Argentina and Colombia amount to EUR 2,735 thousand.
- ✓ Net turnover and profit before tax has gone down compared to the previous year. To reduce this impact is much as possible, non-essential expenses have been limited in providing services to clients, such as travel expenses, consultancy fees and other professional fees.
- ✓ The negative impact on EBITDA with respect to the estimate, as a consequence of mentioned pandemic, amounts to approximately EUR 50 million.

Prosegur has adopted a series of measures to mitigate these effects in the countries in which it operates. The following aspects stand out from the results of these measures:

- ✓ Liquidity risk: The situation of uncertainty generated by the COVID-19 pandemic has led to greater liquidity constraints in the economy as a whole, as well as reduced access to credit. For this reason, the Group has drawn down all the balances of the credits associated with the contracted syndicated financing facilities for the amount of EUR 200,000 and EUR 300,000 thousand (Note 19).
- ✓ Risk of measurement of assets and liabilities on the balance sheet: The Company has carried out an analysis and made a series of calculations associated with the accounting valuation of certain assets (goodwill, tax credits and non-current assets), with no signs of impairment being detected mainly in goodwill, intangible assets and non-current assets recorded in certain countries associated with the Security business (Notes 11 and 20).
The Company has complied with the applicable conventions and estimates that this situation will continue at the end of the year.
- ✓ Risk credit: In the first half of the 2020, Prosegur did not have significant increases associated with the credit risk due to the insolvency of its clients.
- ✓ Operational risk: Private security has been declared an essential activity by the governments in almost all the countries in which the Group operates. Therefore, our security business has not been stopped, and the drop-in volume has been partially offset by the increase in certain public services such as operations classified as essential activities.

The Alarm business has been mainly affected by this pandemic crisis, as a consequence of confinement. The Alarms commercial network has not been able to carry out its activity and therefore the expected sales growth objectives have not been achieved.

The Cash business, due to the closings of the retailers, has also been strongly impacted, suffering a drop-in volumes in the ordinary activity of the business, with the consequent drop in sales.

- ✓ Going concern risk: in light of the aspects mentioned above, the Company considers that on the date of preparation of the condensed interim consolidated financial statements, no risk associated with the application of the going concern principle was detected.

2. Performance of the businesses

2.1. Sales by geographical area

Prosegur consolidated sales for the first half of 2020 amounted to EUR 1,845.0 million (at 30 June 2019: EUR 2,055.1 million), representing a decline of 10.2% due to the COVID-19 coronavirus health crisis, of which 2.9% reflects pure organic growth, 0.1% inorganic growth and with the effect of the currency exchange rate causing a fall of 13.2%.

Consolidated sales are distributed by geographical area as follows:

	Millions of Euro		Variation
	June 2020	June 2019	
Europe	779.2	867.7	(10.2%)
ROW	167.8	151.4	10.8%
Ibero-America	898.0	1,036.0	(13.3%)
Total	1,845.0	2,055.1	(10.2%)

In Europe, the fall in sales was 10.2% compared to the same period the previous year, with a 3.5% decrease in pure organic growth and a 6.3% drop in inorganic growth. Sales have dropped in LatAm, with a 13.7% decrease compared to the same period in 2019. The variation in sales in LatAm corresponds to 10.3% pure organic growth, 2.3% inorganic growth and the effect of the currency exchange rate causing a decrease of 26.2%. Sales in ROW increased by 10.8%, mainly due to inorganic growth, resulting in an increase of 21.8%.

2.2. Sales by business area

Consolidated sales are distributed by business areas as follows:

	Millions of Euro	
	June 2020	June 2019
Security	970.1	1,027.0
<i>% of total</i>	<i>52.6%</i>	<i>50.0%</i>
Cash	771.8	888.4
<i>% of total</i>	<i>41.8%</i>	<i>43.2%</i>
Alarms	103.1	139.7
<i>% of total</i>	<i>5.6%</i>	<i>6.8%</i>
Total	1,845.1	2,055.1

2.3. Margins

The consolidated operating profit/(loss) (EBIT) for the first half of 2020 was EUR 442.4 million (at 30 June 2019: EUR 144.8 million). The capital gain obtained from the sale to Telefónica of 50% of the alarms business in Spain is recorded under this heading. The EBIT margin at the end of the first half of 2020 was 24.0% (at 30 June 2019: 7.0%).

The EBIT margin is as follows:

	Millions of Euro	
	30 June 2020	
	Prosegur	
Sales	1,845.0	
EBIT	442.4	
EBIT Margin	24.0%	

	Millions of Euro	
	30 June 2019	
	Prosegur	
Sales	2,055.1	
EBIT	144.8	
EBIT Margin	7.0%	

2.4. Outlook for the second half of 2020

After the severe impact that the Covid-19 pandemic has had on most global economies, practically all companies have been forced to adjust their expectations for the second half of the year.

Prosegur is no exception, so growth prospects for the rest of the year have been limited, with a focus on spending control and liquidity protection.

In any case, despite the sharp slowdown during the most intense months of the coronavirus crisis, the businesses have shown positive resistance which allows us to consider a certain degree of recovery, although each one of them has different dynamics.

Cash is the activity that has most suffered the effect of business closures and social confinement. During these periods, the volumes of cash operated and the amounts transported were significantly reduced due to lower consumption and the closing of bank branches. Its income has also suffered a further reduction due to the negative translational effect of the devaluation in the main LatAm currencies, the Argentine Peso and the Brazilian Real, during the first six months of the year.

However, the transport and cash handling business has benefited from certain extraordinary high-volume services in LatAm, where some governments have urgently promoted the distribution of subsidies to the population supported by our logistical capacity.

Additionally, it is expected that the volumes of the Cash business will recover gradually as the different economies reopen and the mobility of its citizens increases.

The Security business has also been affected by the lockdowns and business closures. However, its volume losses have been lower due to the need for clients to maintain a minimum level of security, even when their work centres are closed, and due to the sharp increase in demand from the food and hospital retail sectors to ensure their clients and users comply with social distancing and hygiene measures.

This set of new solutions which have been renamed "Anti-Covid Measures" is very promising and it is hoped that they will strongly boost technological solutions based on remote monitoring, thermography and intelligent image processing.

However, despite the positive outlook in expected demand for this new type of services, the security business has yet to recover the volume losses of the first half of the year -lower than cash, but with a slower recovery- and also to overcome certain negative profitability impacts in some countries caused by protectionist labour measures which have prevented adapting labour costs to the fall in volumes proportionally.

In summary, Security has shown greater resistance to the Covid crisis than the rest of the businesses and its prospects for developing new high-demand solutions are very high, but its recovery to pre-crisis levels will be slower than Cash or Alarms which are businesses that recover more quickly.

Finally, Alarms is also a business that was severely impacted during the worst months of the pandemic, but which at the same time is also showing very positive recovery prospects.

Indeed, during the main months of the lockdown, in virtually all our countries, the ability to access clients' homes or businesses to sell new connections or install those already sold was limited entirely.

During this period, the alarms business has redoubled its focus on client retention policies and spending control, adjusting its sales force in all countries and increasing portfolio retention offers.

Despite these efforts, the client abandonment rate has increased, especially in LatAm and in the segment of small business clients who have been forced to permanently close their establishments and to therefore dispense with the alarm.

The result has been a slight decrease in the installed base, which is expected to be offset in the second half of the year once commercial activity has resumed with a greater focus on the more stable residential client.

Regarding the alarms operated directly by Prosegur in Portugal, Argentina, Peru, Chile, Colombia, Uruguay, Paraguay and South Africa, positive growth is expected to return in the installed base during the second half of 2020 until reaching rates similar to previous years, once the population lockdown phase in these countries has been completed.

Furthermore, the joint venture created in Spain with Telefónica -Movistar Prosegur Alarmas- began operations on 1 March 2020 at the start of the pandemic and, therefore, has not been able to fully produce its initial sales forecast.

With the resumption of the commercial activity, the forecasts are again excellent and the combination of Telefónica's extraordinary commercial capacity with the high perceived quality of the Prosegur brand allow us to estimate a very significant increase -well above the usual growth of the last years- in the number of clients at the end of the year.

Finally, at the consolidated level of the Prosegur Group, it is worth noting the good result which is being obtained both in cash and in working capital from the application of measures aimed at protecting the company's liquidity.

The labour cost adjustment measures to adapt it to the reduction in volumes, the intense focus on strengthening client payment collection policies and the offers to the market of the possibility of dividend payouts via shares are proving highly beneficial for the generation of cash which will possibly improve proportionally to sales compared to other years. This highlights the strength of the company's balance sheet and ensures its ability to meet its financial and growth commitments without compromise over the coming years.

3. Average headcount

Details of the average headcount of Prosegur for the six-month periods ended 30 June 2020 and 2019 are as follows:

	June 2020	June 2019
Male	138,101	143,032
Female	30,076	27,608
	168,177	170,640

4. Investments

All of Prosegur's investments are always analysed by the corresponding technical and operating areas and the management control department, which estimate and examine the strategic importance, return period and yields of the investments before these are approved. Subsequently these are submitted to the Investment Committee for a final decision on whether to proceed with the investment. Investments in excess of EUR 1 million are submitted to the Board of Directors.

During the first half of 2020, investments in Property, Plant and Equipment were approved for EUR 38.9 million (at 30 June 2019: EUR 68.9 million) mainly in Argentina and Brazil.

5. Financial management

Prosegur calculates net financial debt as follows: total current and non-current borrowings (excluding other non-bank payables) plus net derivative financial instruments, minus cash and cash equivalents, and minus other current financial assets.

Net financial debt at 30 June 2020 amounted to EUR 838.6 million (at 31 December 2019: EUR 649.4 million).

The ratio of net financial debt to equity was 0.99 at 30 June 2020 (at 31 December 2019: 0.87).

6. Own shares

Details of changes in own shares during the first half of 2020 are as follows:

	Number of shares	Thousands of Euros
Carrying amount at 31 December 2019	30,080,960	107,927
Purchase of own shares	20,653,127	61,450
Reinvestment program for the second payment of the interim dividend for the financial year 2019	(5,511,321)	(18,930)
Other awards	(180,830)	(641)
Carrying amount at 30 June 2020	45,041,936	149,806

7. Social performance during the health crisis

We are working to safeguard the health and safety of our employees:

Main Prosegur services have been declared to be essential services. In this extremely complex scenario, our teams are playing a key role and providing service to a wide range of sectors. Indeed some of these are critical, such as the health infrastructure, logistics centres and food distribution chains.

To safeguard the health and safety of our employees, we at Prosegur have put a series of organisational and health measures in place, among which the following are particularly noteworthy:

- **Prioritising working from home** All those posts where this proves viable are working in this way. Where it is not viable on account of the post in question, contingency plans have been activated to protect the health of our professionals.
- **Adapting work centres** We have installed beaconing and signposting devices and put up posters at our facilities; we have established capacity control mechanisms; we have increased cleaning and disinfecting measures; and, moreover, masks and social distancing are now compulsory.
- **Boosting communication** At Prosegur we have further bolstered our communication channels with the different stakeholders with whom we engage. Particularly, we have reinforced internal communication with our employees. Among other actions taken, we send regular reminders containing basic hygiene recommendations and measures, we repeatedly call attention to the new protocols, we are doing surveys and, in fine, we have established a fluid dialogue between the company and our employees.

We have implemented business continuity plans:

Maintaining service quality and excellence for our customers throughout the health crisis has become a key mission. We at Prosegur are ready to tackle these situations by rolling out our business continuity plans. Thanks to the anticipation and extraordinary commitment of our team, we have ensured service continuity for our customers at all times. An even more important undertaking, bearing in mind that our activities pertain to an essential sector for society.

We support those communities where we are based:

At Prosegur we work to make the world a safer place. A purpose that becomes critical in contexts of uncertainty such as that which has been caused by the COVID-19 pandemic. And for that very reason, we are convinced that our business units, each in its particular area, greatly contribute to the development of society.

Prosegur Cash ensures the supply and availability of cash, an essential means of payment for many groups. Prosegur Alarms looks after the safety of thousands of families in their homes and employers in their businesses. And Prosegur Security guarantees the normal pursuits of our customers.

Beyond our daily activities, we have made our capacities and infrastructure available to the authorities to help contribute to relieving the effects of the pandemic.

Worthy of particular mention is the use of armoured vans to transport equipment and medication in several countries; the supply of personal protection equipment to children's schools within the framework of our "Piecitos Colorados" project in Argentina; several donations of material to the Colombian army; the transfer of people in armoured units to reunite them with their families; or the carrying of *bono rural* and *bono universal* benefits to the remotest corners of Peru.

Likewise, through the auspices of our Prosegur Foundation we have fostered the involvement of our employees in support initiatives for those affected by COVID-19.

All of these actions, which complement our daily endeavour, make us enormously proud of the over 160,000 people who, day in, day out, represent the very best of Prosegur worldwide.

We have a key role to play in the renewal of normal activity

We at Prosegur are convinced that we must play an active role in returning our customers to normality.

Today, our commitment to innovation and transformation of the sector is bearing fruit in the application of new solutions based on the latest technological developments. We are, therefore, ready to face up to the new reality and have the strength required to accompany our customers in the generation of spaces of trust.

People are important to us at Prosegur and, hand-in-hand with our customers, we are working to safeguard the health and safety of their employees.

8. Innovation

In the Strategic Plan 2018-2020, Prosegur set as an objective to continue strengthening its leadership in the industry through three basic pillars: Digitisation, Innovation and Growth. Through the different initiatives that the company has launched as part of an ambitious Digital Transformation Plan, technology is now no longer an instrument but rather an intrinsic part of the activity.

Innovation has become a cornerstone of the Company's future business. In 2019 Prosegur invested more than EUR 20 million in projects certified as Innovation by the governments of the countries in which it operates, equating to growth

of more than 100% compared to the equivalent investment in 2018. Likewise, throughout the 2018-2020 Plan, over €10 million have been invested directly in innovative start-ups with technological solutions that are quickly incorporated into services and solutions for clients.

In 2020, as a sign of Prosegur's commitment to Innovation, Tech Studios have been created in order to equip Prosegur with the capabilities to develop Innovation projects in advanced digital technologies such as the Internet of Things (IoT), Artificial Intelligence (AI), Data Science (Data) and Electronic Security Systems (SES).

To promote innovation, new initiatives have been launched in the field of innovation, such as the launch of the COME IN Open Innovation Programme, which aims to encourage collaboration between the start-up ecosystem and Prosegur. This programme has launched challenges to find COVID-FREE solutions for work and academic environments, a sign of Prosegur's commitment to society.

Additionally, Prosegur has launched an ambitious internal training plan on Innovation, called "Innovation Deep Dive", which aims to give all its employees technological capabilities, allowing them to acquire knowledge in advanced technologies (IoT, Data Science, IA, Blockchain, Mixed Reality, Blockchain and Robotics), as well as in innovative management processes (Management 3.0, Design Thinking and Agile Methodology).

9. Alternative performance measures

In order to comply with ESMA Guidelines on APMs, Prosegur presents this additional information to enhance the comparability, reliability and understanding of its financial reporting. The Company presents its profit/(loss) in accordance with International Financial Reporting Standards (IFRS). However, Management considers that certain alternative performance measures provide additional useful financial information that should be taken into consideration when assessing its performance. Management also uses these APMs to make financial, operating and planning decisions, as well as to assess the Company's performance. Prosegur provides those APMs it deems appropriate and useful for users to make decisions and those it is convinced represent a true and fair view of its financial information.

PROSEGUR COMPAÑÍA DE SEGURIDAD, S.A. AND SUBSIDIARIES

APM	Definition and calculation	Purpose
Working capital	A financial measure showing the Group's operational liquidity. Working capital is calculated as current assets less current liabilities, plus deferred tax assets less deferred tax liabilities, less non-current provisions.	Positive working capital is needed to ensure that a company is able to continue operating and has sufficient funds with which to meet its current debt obligations and imminent operating expenses. The management of working capital requires the Group to control inventories, accounts receivable and payable and cash.
EBIT Margin	EBIT Margin is calculated as results from operating activities divided by total revenue.	EBIT margin provides a view of the company's operating results in comparison with the total revenue.
Organic Growth	Organic Growth is calculated as the increase or decrease in revenue between two periods adjusted for acquisition and divestitures and changes in exchange rate.	Organic Growth provides a view of the company's organic revenue growth.
Inorganic Growth	Company calculates Inorganic growth for a given period as the aggregation of all the revenues from all the acquired entities during the last 12 months.	Inorganic Growth provides a view of the company's increase or decrease of revenue due to M&A or Sales variations.
Effect of exchange rate fluctuations	The Group calculates the Effect of exchange rate fluctuations as the difference of Revenues for the current year less revenues for the current year at exchange rates of previous year.	The Effect of exchange rate fluctuations provides the impact of the currencies in the company's revenues.
Net Financial Debt	The Group calculates Net Financial Debt as the sum of current and non-current financial liabilities (including other non-bank payables corresponding to deferred payments for M&A acquisitions and financial liabilities with Group companies) less cash and cash equivalents, less current investments in group companies, less other current financial assets.	Net Financial Debt provides the absolute figure of the Group's level of debt.
EBITA	EBITA is calculated on the Group's Consolidated profit for the year without factoring in loss from discontinued operation net of tax, income tax expenses, net finance income or cost and amortisation of goodwill or of intangible assets, but including amortisation of software.	EBITA provides a view of the company's earnings before interest, taxes and amortisation of goodwill or of intangible assets.
EBITDA	EBITDA is calculated on the Group's Consolidated profit without factoring in loss from discontinued operations net of tax, income tax expenses, net finance income or cost and any depreciation or amortisation of goodwill.	EBITDA provides an accurate view of what a company is earning or losing from its business. EBITDA excludes non-cash variables, which can vary significantly from one company to another, depending on the accounting policies applied. Depreciation and amortisation are non-monetary variables and are therefore of limited interest to investors.

Working Capital (Millions of Euro)	30.06.2020	31.12.2019
Non-Current Assets held-for-sale	57.1	0.0
Inventories	51.2	64.8
Trade and other receivables	755.7	915.0
Current tax assets	105.0	155.7
Cash and cash equivalents	963.8	530.7
Other current financial assets	290.0	319.6
Deferred tax assets	94.5	94.8
Trade and other payables	(659.1)	(833.1)
Current tax liabilities	(108.3)	(138.6)
Financial liabilities	(328.1)	(257.0)
Other current liabilities	(45.6)	(50.6)
Deferred tax liabilities	(83.2)	(46.0)
Provisions	(238.6)	(226.7)
Total Working Capital	854.5	528.6

EBIT Margin (Millions of Euro)	30.06.2020	30.06.2019
EBIT	442.4	144.8
Revenues	1,845.0	2,055.1
Adjusted EBIT Margin	24.0%	7.0%

Organic Growth (Millions of Euro)	30.06.2020	30.06.2019
Revenues for current year	1,845.0	2,055.1
Less: Revenues for the previous year	2,055.1	2,011.1
Less: Inorganic Growth	2.3	134.8
Effect of exchange rate fluctuations	(271.7)	(236.9)
Total Organic Growth	59.4	146.0

Inorganic Growth (Millions of Euro)	30.06.2020	30.06.2019
Cash Ibero-America	21.7	33.5
Cash Europe	4.0	5.9
Cash Row	2.1	16.7
Security Ibero-America	12.3	10.4
Security Europe	0.0	0.3
Security Row	30.9	68.0
Divestments	(68.8)	-
Total Inorganic Growth	2.3	134.8

Effect of exchange rate fluctuations (Millions of Euro)	30.06.2020	30.06.2019
Revenues for current year	1,845.0	2,055.1
Less: Revenues for the current year at exchange rates of previous year	2,116.9	2,292.0
Effect of exchange rate fluctuations	(271.7)	(236.9)

Net Financial Debt (Millions of Euro)	30.06.2020	31.12.2019
Financial liabilities	2,226.1	1,621.9
Financial liabilities related to leases	97.4	132.0
Adjusted financial liabilities (A)	2,323.6	1,754.0
Not assigned financial liabilities with group companies (B)	-	-
Cash and cash equivalents	(963.8)	(530.7)
Cash and cash equivalents (held for sale)	0.0	-
Less: adjusted cash and cash equivalents (C)	(963.8)	(530.7)
Less: not assigned current investments in group companies (D)	-	-
Less: other financial current assets (E)	(290.0)	(319.6)
Total Net Financial Debt (A+B+C+D+E)	1,069.8	903.7
Less: Financial liabilities related to leases	(97.4)	(132.0)
Less: other non-bank payables (F)	(128.1)	(122.3)
Total Net Financial Debt (excluding other non-bank payables corresponding to deferred payments for M&A acquisitions) (A+B+C+D+E+F)	844.2	649.3

EBITA (Millions of Euro)	30.06.2020	30.06.2019
Consolidated profit for the year	315.6	48.4
Minority interests	5.6	22.1
Income tax expenses	75.0	46.8
Net finance costs	46.2	27.6
Amortizations	69.4	13.9
EBITA	511.8	158.8

EBITDA (Millions of Euro)	30.06.2020	30.06.2019
Consolidated profit for the year	315.6	48.4
Minority interests	5.6	22.1
Income tax expenses	75.0	46.8
Net finance costs	46.2	27.6
Depreciation and amortization	154.7	101.8
EBITDA	597.2	246.7

10. Subsequent events

- On July 10, 2020, the company Prosegur Compañía de Seguridad S.A. was notified by the Tax Authorities the opening of an inspection procedure comprising the following concepts and tax periods:
 - Income tax for the years 2015 to 2018
 - Value Added Tax: from April 2016 to December 2018
 - Withholdings on account of Personal Income Tax: from April 2016 to December 2018
 - Withholdings on account of Non-Resident Tax: from April 2016 to December 2018

- On July 29, 2020, the amendment to the Regulations of the Board of Directors and the Regulations of the Audit Committee of Prosegur was approved, in order to adapt them to the recommendations that the Spain's National Commission of Securities Market included in the update of the Code of good governance of listed companies dated June 26, 2020.

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL REPORT OF THE FIRST HALF OF 2020

The members of the Board of Directors of Prosegur Compañía de Seguridad, S.A. state, to the best of their knowledge, that the financial information selected from Prosegur Compañía de Seguridad, S.A., as well as the condensed interim consolidated financial statements of Prosegur Compañía de Seguridad, S.A. and their subsidiaries, for the first half of 2020, drawn up by the Board of Directors, at its meeting of 29 July 2020, and prepared in accordance with the applicable accounting principles, provide a true and fair view of the assets, financial position and the profit/(loss) of Prosegur Compañía de Seguridad, S.A., as well as of the subsidiaries included in the consolidation scope, taken as a whole, and that the respective directors' interim reports include a reliable analysis of the information required.

Madrid, 29 July 2020

Ms Helena Irene Revoredo Delvecchio
Chair

Mr Isidro Fernández Barreiro
Vice-chairman

Mr Christian Gut Revoredo
Executive Director

Ms Chantal Gut Revoredo*
Director

Mr Eugenio Ruiz-Gálvez Priego
Director

Mr Ángel Durández Adeva
Director

Mr Fernando Vives Ruíz
Director

Mr Fernando D'Ornellas Silva
Director

Proceeding to record that the Board of Directors of Prosegur Compañía de Seguridad, S.A. in the meeting held in Madrid on 29 July 2020 has drawn up the Half-Yearly Financial Report for the first half of 2020, consisting of the following documents: the individual financial information selected, the consolidated financial information selected, the condensed interim consolidated financial statements and the Directors' interim report of Prosegur Compañía de Seguridad, S.A. and its subsidiaries, and the statement of responsibility of the Directors, all corresponding to the first half of 2020, documentation which has been drawn up unanimously (by all the attending directors) by the Board of Directors of the Company, in accordance with the provisions of article 35 of Act 24/1988, of 28 July, on the Securities Market, in the meeting held on this date.

The aforementioned documents, which are presented in a single body, are transcribed in the preceding pages numbered consecutively, written only on their front and all signed purely for identification purposes by the Secretary of the Board of Directors, with the Company's seal.

In compliance with the provisions of current applicable regulations, the Directors (except for Ms Chantal Gut Revoredo who was represented by Mr Christian Gut Revoredo on the Board of Directors, where the aforementioned documents were drawn up) who, on today's date, make up the Board of Directors of the Company, sign herein the last page of this document, all of which as Secretary of the Board of Directors I attest to, in Madrid on 29 July 2020.

Signed: Mr Arnau Tapias Monné
(Non-Director Secretary)