Selle Royal

CONSOLIDATED ANNUAL REPORT AT 30.06.2019

Selle Royal S.p.A.
Legal seat in Via Vittorio Emanuele n. 119 – Pozzoleone (VI)
Share Capital Euro 6,000,000.00 fully paid-up
Vicenza Companies House and tax ID no. 00231010281
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CONTENTS

MANAGEMENT REPORT

Dear Shareholders,

The year ending 30 June 2019 reported a consolidated profit of € 951,647, of which € 518,699 pertaining to the Group.

SIGNIFICANT EVENTS OCCURRING DURING THE YEAR

The context in which the year in question was carried out was characterised by the strengthening of the signs of expansion of the market already highlighted last year. The recovery was made possible by the maintenance of balanced stock levels along the entire production-distribution chain, after the shocks triggered in recent years by the conversion of market preferences from traditional bicycles to electric bicycles (Europe) and by the rapid rise and equally sharp regression in bike sharing in the Chinese market. In contrast to a generally more favourable situation, however, significant critical issues were recorded in the form of international tensions deriving from the prospects of a slowdown in global demand, the introduction of protectionist measures by the USA on Chinese produced goods and uncertainties over the results of the UK's exit from the European Union (also known as Brexit).

Some comments on the main markets in which the Group operates are provided below:

EUROPE

Undoubtedly, 2018 was the year of the consecration of pedal-assisted bicycles in Europe, as confirmed by the statistics made available by the various national associations in the sector.

Germany and the Netherlands were forerunners in adopting this type of bicycle, given the traditional orientation towards using bicycles as a means of alternative mobility, leisure and also travel. Although these were first-time adoption countries and therefore already had a considerably large fleet of bicycles in circulation, the growth rates recorded in 2018 were extremely high: in Germany, 980,000 e -bikes were sold, marking growth of 36% in volumes when compared to 2017 (source: ZIV). According to the same analysis, currently the market share of this type of bicycle is close to 25% (23.5%) of total bicycles sold, with an estimate that places them at 30% in the medium term and projects the share to be roughly 35% over the long term. In the Netherlands, for the first time in history, more than 1 million bicycles were sold, with market growth in value of 25%, which therefore exceeded € 1.2 billion. In this

context, the share of e-bikes, which has remained stable at around 30% in recent years, has grown to 40%, exceeding 400,000 units sold (with growth of 38% compared to 2017 volumes) (source: RAI Association).
France, the third most important continental country in the market, recorded a growth rate of +21% in electrically assisted pedal cycles, with over 330,000 units sold and a market value exceeding € 500 million (source: French Bicycle Observatory). The fact that, in 2018, electric bikes held a market share of 13%, allows room for further opportunities for future growth. Similar considerations also apply to other countries, such as Italy (+16.8% compared to 2017, with over 170,000 units sold; source: AICMA), Spain (+55% with over 110,000 units; source: AMBE), Belgium (over 250,000 units, up +14.3%; source: Velofollies) to name but a few.
Some of the reasons behind this generalised growth throughout Europe deserve to be mentioned: numerous innovations in this product category have taken place in recent years; the batteries and the gears are now integrated in the bicycles' frames, to the point that they are sometimes difficult to distinguish from "human-powered" bicycles at a glance, hence with a marked improvement in their aesthetic look. Over the years, companies offering products with differentiated brands, features and price points have grown to the point that, to date, there are virtually no bicycle brands that do not incorporate "e-" solutions in their range. Over the years, in fact, after urban bicycles, electric versions of recreational models, mountain bikes and, lastly, road racing bikes have gradually came on to the market. This expansion of the ranges from a "horizontal" perspective, and of the price points in a "vertical" sense, have significantly expanded the market. Finally, many cities now offer solutions involving the rental and/or sharing of electric bicycles; the same applies to holiday resorts, whether by the sea or in the mountains. This has enabled many potential consumers to test the bicycles before purchase, thus stimulating further growth in demand.
The Selle Royal Group, traditional supplier of European assemblers or their partners in the Far East, has undoubtedly benefited from this trend, thanks to its significant market shares.

AMERICA

The American cycle market continues to be the one in greatest difficulty in terms of advanced countries in 2018, and physical stores continue to suffer in particular. Citing a report by the Bicycle Product Suppliers Association (BPSA), sales of complete bicycles to retailers fell by 10% in terms of volume (from 2.3 million to 2.07 million units) while they recorded a +4%

increase in value. The growth in the average sale price (from $ 467 to $ 537 at wholesale values) was also driven by the expansion of e-bike volumes, which grew by 78% compared to 2017; the average price of an electric bicycle in the USA exceeded $ 2,000. The other categories of "non-e-" bicycles recorded decreases of varying degrees: from -28% for mountain bikes (the biggest category in the market) to -2% for "road" bikes, whose decline was mitigated by a strong performance by the "gravel" sub-category.

While stressing that the aforementioned data do not relate to sales to end consumers but sales along the distribution chain and that the significant increase in the average price has made it possible to greatly contain the market decline if measured in terms of value, they can still be considered indicative of a trend, which has already taken hold several years ago, which has seen medium-large market operators get a foothold in the market, who can compete and co-exist effectively with the on-line retail giants in terms of the depth of their offering and quality of service.

In this complex and changing environment, the Group recorded a strong performance in this market, thanks to the ability to adapt and service its local subsidiaries, which were able to boost their market shares.

ASIA

As already mentioned, the Chinese market, in recent years, has been disrupted by the bike sharing phenomenon, which has helped to weaken a sector that had already experienced stagnation previously. The first signs of a recovery in domestic consumption were seen in the last quarter of 2018 and continued in the first half of 2019.

China, in addition to being a large consumer country, is also traditionally the main country for supplying bicycles to the rest of the world. In recent months, however, there has been a gradual migration of production volumes from mainland China to Taiwan and other countries of the so-called "Pacific rim" (such as Cambodia and Vietnam), following both the confirmation by the European Union of the additional anti-dumping duties on traditional bicycles and the introduction of similar measures on electric bicycles, as well as for the measures adopted by the USA, again to the detriment of Chinese production. As reported by the Taiwan Bicycle Association, exports from the island increased by 44.9% in the first 7 months of 2018, reviving a sector that had suffered locally. It should also be noted that some countries in the area (for example, Cambodia, Bangladesh and the Philippines) benefit from the status of developing country recognised by the European Union (the so-called GPS +

status) or have signed free trade agreements with the EU like Vietnam (the so-called "EVFTA"), thus ultimately benefiting from the *trends* described above. Cambodia was therefore the largest exporter of traditional bicycles to Europe (835,000 in the first 6 months of 2019 alone), followed by Taiwan (546,000 in the same period) (source: Eurostat). The situation in the Asian continent, at least understood as the "world's factory", is certainly evolving but, on the whole, it appears to be improving. The Group recorded positive results in the Asian area, given its ability to capitalise on the commercial synergies deriving from its global presence, with production sites both in the principal consumption and procurement countries.

At corporate level, various events characterised the year in question.
Selle Royal S.p.A. acquired a 50% interest in the share capital of Royal Ciclo Industria de Componentes, Ltda., a Brazilian company based in Rio do Sul, in the state of Santa Catarina. Royal Ciclo is the company established as a result of the merger of Selle Bras Ltda. and Metalciclo Ltda., the former originally founded in 1995 by the Selle Royal Group and dedicated to the production of Selle Royal branded saddles based on the know-how and technologies of the Italian parent company; the latter, instead, was owned by a local entrepreneur. To date, the saddles represent the most significant product line of the Company's turnover and are developed and produced according to Selle Royal guidelines.
In addition, Royal Ciclo manufactures pedals and cranks in its own factory, which it offers to the local market and, to a lesser extent, other countries in South America. Royal Ciclo's customers are all major bicycle manufacturers in Brazil (OEM channel) and over 450 distributors and chains (aftermarket channel). For some years now, it has been expanding its business with the direct distribution of its products to over 1,400 Brazilian retailers through the Royal Pro division. In addition to the in-house product range, Royal Pro supports the commercial lines of the other brands of the Selle Royal Group as well as other selected premium brands in the bicycle sector, some of which are in turn distributed by Group companies also in other geographical areas.
On 24 September 2018, the parent company Selle Royal S.p.A. issued a new bond instrument, listed on the ExtraMot PRO segment ("*mini-bond*") for a nominal value of Euro 10,000,000.00. This instrument, fully subscribed by a fund managed by Mediobanca SGR SpA, has an annual interest rate of 4.95% with half-yearly coupons; the maturity date is December 2024 with an amortising repayments on a straight-line basis starting from December 2020.

On 9 November 2018, the procedure was completed for the full early repayment of the residual nominal portion, equal to Euro 10,125,000.00, plus the associated interest, of the bond instrument originally issued in two tranches in 2014 for a total amount equal to Euro 13,500,000.00.

During the autumn of 2018, Selle Royal Vehicle (China) Co., Ltd. commenced the procedures to discontinue the operations of its Tianjin branch. It should be noted that the production plant located there was established in 2015 to exploit the potential of the local market, which has always served Japan as well. At the time, the market in the area, traditionally "poor" and concentrated on low-end bicycles, was beginning to evolve towards higher value products, also intended for some Western countries. Serious environmental problems, combined with the instability generated in the sector by the sudden advent and equally rapid collapse of the phenomenon of free float sharing bikes, which had a hugely negative impact on operators in the area, have actually been disastrous for the previously expected growth. As a result, the Group, which has always focused on brand and product innovation, opted to discontinue activities and close the plant, which took place definitively during the first half of 2019, in view of the negative results recorded to date and the current future prospects.

Lastly, in June 2019, Selle Royal S.p.A. acquired the residual interests, equal to 10% of the respective share capital, of BROOKS England Ltd., a production company based in Smetwick-Birmingham (GB), and of the trading company Hong-Kong Royal Concept Co., Ltd. Following these two transactions, Selle Royal S.p.A. now wholly owns them.

ECONOMIC PERFORMANCE

The following table shows the 2018/19 income statement, compared with the figures for the previous year:

	2018/19	2017/18	% Change
Revenues	130.637.239	115.565.745	*13,0%*
Cost of sales	77.017.154	69.522.341	*10,8%*
GROSS MARGIN	**53.620.085**	**46.043.404**	***16,5%***
Industrial costs	5.831.094	4.306.618	*35,4%*
Sales and promotion costs	10.629.833	9.009.878	*18,0%*
Costs of the management structure	14.295.336	13.475.243	*6,1%*
General and administrative costs	10.521.383	8.732.459	*20,5%*
Other operating income and (expenses)	263.833	686.153	*-61,5%*
EBITDA	**12.606.273**	**11.205.358**	***12,5%***
Amortisation/depreciation and write-downs of fixed ass	6.981.957	6.608.869	*5,6%*
EBIT	**5.624.316**	**4.596.489**	***22,4%***
Profits / (losses) from companies measured at equity	-	-	-
Gains / (losses) on disposal of financial assets	-	-	-
Financial income / (charges)	(3.639.820)	(3.137.363)	*16,0%*
PRE-TAX RESULT	**1.984.496**	**1.459.126**	***36,0%***
Taxes for the year	1.032.849	426.001	*n.s.*
NET INCOME	**951.647**	**1.033.126**	***-7,9%***
Minority interests	432.948	(308.078)	*n.s.*
NET INCOME PERTAINING TO THE GROUP	**518.699**	**1.341.204**	***-61,3%***

The year in question, which ended on 30 June 2019, recorded sales of Euro 130.6 million, up compared to the turnover in the previous year, thanks to the consolidation of the recovery of the sector in Europe, to the continuous growth of shares of the sports footwear market and despite the criticalities of some markets, as described in the previous paragraph. The figure

also benefits from the first-time consolidation of Royal Cycle, as described above.
The performance in terms of percentage gross margins was extremely positive, thanks to the increasing weight of sales in the aftermarket channel.
The increase in operating costs, in addition to the consolidation of the balances of Royal Cycle, is due to some non-recurring operating items that negatively impacted EBITDA and, in particular, cancelled out the growth in the percentage gross margin. Adjusted EBITDA, net of these non-recurring costs, amounted to € 13.6 million, with a percentage impact on turnover of 10.4% and a growth of 21.0% compared to the previous year.
The increase in depreciation and amortisation is entirely attributable to the entry of Royal Ciclo, a highly integrated and capital-intensive industrial entity, within the scope of the Group.
Net financial charges, net of the impact of Royal Cycle, were down due to both lower financial charges on loans and the contribution of exchange rate differences, which were slightly positive in the current year compared to € -0.2 million in the previous year. For further details, please refer to the relevant section of the explanatory notes.
As anticipated, the year in question closed with a net result substantially in line with the previous year.

STATEMENT OF FINANCIAL POSITION

The financial position of the Group as at 30 June 2019, compared with the situation reported in the consolidated financial statements for the year ended 30 June 2018, is as follows:

	30/06/2019	30/06/2018	*Change*
in trade receivables	15.857.700	15.173.076	684.623
Inventories	23.230.417	18.968.202	4.262.215
Tax receivables	2.239.425	1.986.523	252.901
Other current assets	2.229.125	1.885.311	343.814
CURRENT ASSETS	***43.556.666***	***38.013.112***	***5.543.554***
Trade payables	17.132.366	12.574.613	4.557.753
Tax payables	1.928.798	732.596	1.196.202
Other current liabilities	9.081.409	6.053.390	3.028.019
CURRENT LIABILITIES	***28.142.573***	***19.360.599***	***8.781.974***
NET WORKING CAPITAL	**15.414.093**	**18.652.513**	**(3.238.420)**
Depreciation of tangible assets	25.394.668	17.905.273	7.489.395
Amortisation of intangible assets	22.376.937	22.696.922	(319.984)
Equity investments	1.919.221	1.761.521	157.700
Goodwill	10.428.649	8.641.717	1.786.932
Other non-current assets	1.669.506	2.336.099	(666.593)
NON-CURRENT ASSETS	***61.788.981***	***53.341.531***	***8.447.450***
Post-employment benefits and other provisions	5.157.946	5.125.017	32.929
Deferred taxes	982.791	464.568	518.224
Other non-current liabilities	12.017	11.012	1.005
NON-CURRENT LIABILITIES	***6.152.755***	***5.600.597***	***552.158***
NET INVESTED CAPITAL	**71.050.320**	**66.393.447**	**4.656.873**
Short-term financial debt, net	14.715.248	15.107.660	(392.413)
Medium/long-term financial debt	21.139.543	16.076.638	5.062.906
NET FINANCIAL POSITION	**35.854.791**	**31.184.298**	**4.670.493**
Share capital and other reserves	30.271.991	30.317.696	(45.705)
Group result for the year	518.699	1.341.204	(822.504)
GROUP SHAREHOLDERS' EQUITY	**30.790.690**	**31.658.900**	**(868.210)**
Share capital and other reserves	3.971.891	3.858.327	113.563
Profit for the year pertaining to minority interests	432.948	(308.078)	741.026
MINORITY INTERESTS	**4.404.839**	**3.550.249**	**854.589**

The decrease in net working capital is primarily due to the increase in payables for (indirect) taxes and other current liabilities, the latter linked to the purchase of the equity investment in Royal Ciclo and the minority interest in BROOKS England Ltd. The increase in inventories, amounting to € 4.3 million, was accompanied by a similar increase in trade payables. As outlined in more detail below, the figure was impacted not only by the inventories recorded in the financial statements of Royal Ciclo, but the increase in inventories of raw materials in Selle Royal S.p.A., which increased due to production flow management reasons.

The operating investments made by the various Group companies, for a total amount of € 5.3 million, are aimed both at product innovation, one of the key elements on which the Group bases its future growth, and at the upgrading and improvement of the Group's production sites.

The increase in net debt is entirely attributable to the inclusion of Royal Ciclo in the Group's balances. The net financial position on a like-for-like basis was instead down to € 29.4 million, with an extension of the average duration of existing loans. The self-financing generated by operations allowed the coverage of technical investments, with a surplus of liquidity for the benefit of financial management and investments for acquisitions.

DERIVATIVE FINANCIAL INSTRUMENTS

In compliance with the provisions of art. 2427-bis of the Italian Civil Code and in line with the interpretations contained in document no. 3 issued by the Italian Accounting Body, the parent company Selle Royal S.p.A. subscribed a derivative financial instrument, for the purpose of hedging the risk of fluctuations in interest rates on a medium/long-term loan, recorded under the item non-current "financial liabilities at fair value".

Since it is an instrument whose hedging was effective, the relative change in value was allocated to a specific equity reserve (so-called "cash flow hedge reserve"). For further information, please refer to the Explanatory Notes to these financial statements.

INVESTMENTS

As already outlined, during the year 2019, the company carried out operating investments of approximately € 5.3 million.

DATA on TREASURY SHARES and on any EQUITY INVESTMENTS in the PARENT COMPANY

Neither the parent company Selle Royal S.p.A. nor its associates and subsidiaries held shares in the parent company at the reporting date.

RISK ANALYSIS

Credit risk

The financial assets of the Group companies must be considered to possess good credit quality. There are no financial assets whose recoverability is deemed to be doubtful.

Liquidity risk

There are sufficient credit lines to meet liquidity requirements.

Policies related to the various hedging activities

The main risk classes are the exchange rate differences resulting from sales in the USA and purchases in the Far East (mainly Taiwan and the People's Republic of China).

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE YEAR

No significant events occurred after the close of the financial year in question.

BUSINESS OUTLOOK

It is reasonable to expect that, in the current year, the Group will achieve a positive net result.

RELATIONS WITH PARENT COMPANIES, ASSOCIATES AND RELATED PARTIES

As regards transactions with related parties, please refer to the Notes to these consolidated financial statements.

ENVIRONMENT, PERSONNEL and SECTOR REGULATIONS

The production, manufacture and sale of Group products is not currently subject to specific sector regulations. However, in consideration of the use of certain substances, environmental regulations are particularly important, especially for their treatment, emissions and waste disposal.

The Group carefully monitors the risks deriving from environmental and personnel regulations and any situations that may arise within the scope of operations are handled in compliance with the regulations.

With reference to personnel, the Selle Royal Group protects the health and safety of its workers in compliance with current regulations on health and safety in the workplace.

The average number of employees in the current year was 1,105, an increase compared to the 966 employees in the previous year. The growth is attributable to the already mentioned entry of Royal Ciclo Industria de Componentes Ltda. into the Group perimeter and despite the termination of operations by the Tianjin branch of Selle Royal Vehicle (China) Co., Ltd.

CONCLUSIONS and PROPOSALS

We remain at your full disposal to provide any clarifications and information needed during the Shareholders' Meeting.

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Pozzoleone (VI), 29 November 2019

The Chairman of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

Consolidated balance sheet(*)

	30/06/2019	30/06/2018	*Change*
ASSETS			
Cash and cash equivalents	11.109.764	9.838.468	1.271.296
Trade receivables	15.857.700	15.173.076	684.623
Inventories	23.230.417	18.968.202	4.262.215
Tax receivables	2.239.425	1.986.523	252.901
Other current assets	2.229.125	1.885.311	343.814
TOTAL CURRENT ASSETS	**54.666.431**	**47.851.580**	**6.814.850**
Intangible assets	22.376.937	22.696.922	(319.984)
Tangible assets	25.394.668	17.905.273	7.489.395
Equity investments	1.919.221	1.761.521	157.700
Goodwill	10.428.649	8.641.717	1.786.932
Deferred tax assets	1.095.227	913.481	181.746
Financial assets at *fair value*	510.726	-	510.726
Other non-current assets	63.553	1.422.617	(1.359.065)
TOTAL NON-CURRENT ASSETS	**61.788.981**	**53.341.531**	**8.447.450**
TOTAL ASSETS	**116.455.412**	**101.193.111**	**15.262.301**

(*) The effects of transactions with related parties are described in the section “Transactions with related parties”.

	30/06/2019	30/06/2018	*Change*
LIABILITIES			
Trade payables	17.132.366	12.574.613	4.557.753
Tax payables	1.928.798	732.596	1.196.202
Short-term loans	25.825.012	24.946.128	878.884
Financial liabilities at *fair value*	-	1.114	(1.114)
Other current liabilities	9.081.409	6.052.277	3.029.132
TOTAL CURRENT LIABILITIES	**53.967.585**	**44.306.728**	**9.660.858**
Provisions for employees	2.039.763	2.029.122	10.641
Bonds	9.516.854	10.090.332	(573.478)
Medium / long-term loans	11.622.690	5.986.306	5.636.384
Provisions for risks and charges	3.118.183	3.095.894	22.289
Payables for deferred taxes	982.791	464.568	518.224
Financial liabilities at *fair value*	12.017	11.012	1.005
TOTAL NON-CURRENT LIABILITIES	**27.292.298**	**21.677.234**	**5.615.064**
TOTAL LIABILITIES	**81.259.883**	**65.983.962**	**15.275.922**
SHAREHOLDERS ’EQUITY			
Share capital	6.000.000	6.000.000	-
Legal reserve	1.212.045	1.152.985	59.060
Translation reserve	836.428	1.896.513	(1.060.085)
Reserve for first-time adoption of IAS	10.716.446	10.716.446	-
Other reserves and undistributed profits	11.507.072	10.551.752	955.320
Group profit / (loss) for the year	518.699	1.341.204	(822.504)
GROUP SHAREHOLDERS’ EQUITY	**30.790.690**	**31.658.900**	**(868.210)**
Share capital and undistributed profits pertainin	3.971.891	3.858.327	113.563
Profit / (loss) for the year of minority interests	432.948	(308.078)	741.026
MINORITY INTERESTS	**4.404.839**	**3.550.249**	**854.589**
TOTAL LIABILITIES and SHAREHOLDERS’ EQUITY	**116.455.412**	**101.193.111**	**15.262.302**

Consolidated income statement(*)

	2018/19	2017/18	% Change
Revenues	130.637.239	115.565.745	*13,0%*
Cost of sales	77.017.154	69.522.341	*10,8%*
GROSS MARGIN	**53.620.085**	**46.043.404**	***16,5%***
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Sales and promotion costs	10.629.833	9.009.878	*18,0%*
Costs of the management structure	14.295.336	13.475.243	*6,1%*
General and administrative costs	10.521.383	8.732.459	*20,5%*
Other operating income and (expenses)	263.833	686.153	*-61,5%*
EBITDA	**12.606.273**	**11.205.358**	***12,5%***
Amortisation/depreciation and write-downs of fixed ass	6.981.957	6.608.869	*5,6%*
EBIT	**5.624.316**	**4.596.489**	***22,4%***
Profits / (losses) from companies measured at equity	-	-	-
Gains / (losses) on disposal of financial assets	-	-	-
Financial income / (charges)	(3.639.820)	(3.137.363)	*16,0%*
PRE-TAX RESULT	**1.984.496**	**1.459.126**	***36,0%***
Taxes for the year	1.032.849	426.001	*n.s.*
NET INCOME	**951.647**	**1.033.126**	***-7,9%***
Minority interests	432.948	(308.078)	*n.s.*
NET INCOME PERTAINING TO THE GROUP	**518.699**	**1.341.204**	***-61,3%***

(*) The effects of transactions with related parties are described in the section "Transactions with related parties".

Consolidated statement of comprehensive income

	2018/19	2017/18
Net profit	**951.647**	**1.033.126**
Change in *fair value* of hedging derivatives	109	4.731
Actuarial gains/(losses)	(68.583)	10.070
Changes in scope of consolidation	(258.350)	
Differences from translation of financial statements in fore	(1.060.085)	61.413
Total comprehensive profit/(loss) after tax	**(435.262)**	**1.109.339**

Statement of changes in shareholders' equity

	Balance as at 30 June 2017	Transfer of previous year result	Fair value IRS	Effect of discounting of post-employment benefits	Changes in scope of consolidation	Other consolidation adjustments	Profit/(loss) for the year	Balance as at 30 June 2018
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.152.985	-	-	-	-	-	-	1.152.985
Translation reserve	1.835.100	-	-	-	-	61.413	-	1.896.513
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	10.154.341	382.611	4.731	10.070	-	-	-	10.551.752
Group profit / (loss) for the year	382.611	(382.611)	-	-	-	-	1.341.204	1.341.204
TOTAL GROUP SHAREHOLDERS 'EQUITY	30.241.482	-	4.731	10.070	-	61.413	1.341.204	31.658.900
Share capital and undistributed profits pertaining to non-controlling interests	3.852.716	72.037	-	-	-	(66.425)	-	3.858.327
Profit / (loss) for the year of minority interests	72.037	(72.037)	-	-	-	-	(308.078)	(308.078)
TOTAL MINORITY INTERESTS	3.924.753	-	-	-	-	(66.425)	(308.078)	3.550.249
TOTAL SHAREHOLDERS' EQUITY	**34.166.235**	**-**	**4.731**	**10.070**	**-**	**(5.012)**	**1.033.126**	**35.209.149**

	Balance as at 30 June 2018	Transfer of previous year result	Fair value IRS	Effect of discounting of post-employment	Changes in scope of consolidation	Other consolidation adjustments	Profit/(loss) for the year	Balance as at 30 June 2019
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.152.985	59.060	-	-	-	-	-	1.212.045
Translation reserve	1.896.513	-	-	-	-	(1.060.085)	-	836.428
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	10.551.752	1.282.144	109	(68.583)	(258.350)	-	-	11.507.072
Group profit / (loss) for the year	1.341.204	(1.341.204)	-	-	-	-	518.699	518.699
TOTAL GROUP SHAREHOLDERS 'EQUITY	31.658.900	-	109	(68.583)	(258.350)	(1.060.085)	518.699	30.790.690
Share capital and undistributed profits pertaining to non-controlling interests	3.858.327	(308.078)	-	-	1.490.090	(1.068.449)	-	3.971.891
Profit / (loss) for the year of minority interests	(308.078)	308.078	-	-	-	-	432.948	432.948
TOTAL MINORITY INTERESTS	3.550.249	-	-	-	1.490.090	(1.068.449)	432.948	4.404.839
TOTAL SHAREHOLDERS' EQUITY	**35.209.149**	**-**	**109**	**(68.583)**	**1.231.740**	**(2.128.534)**	**951.647**	**35.195.529**

Consolidated Cash flow statement

(Amounts in €)	2018/19 financial year	2017/18 financial year
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit/(loss) for the year	951.647	1.033.126
Adjustments relating to items with no effect on liquidity:		
Amortisation	6.981.957	6.608.869
Increase/(Decrease) in provisions for employees	10.640	(43.531)
Allocation/(use) of provision for deferred taxes	518.224	(383.499)
Capital losses (capital gains) from disposal of assets	19.755	(29.537)
Total	*8.482.223*	*7.185.427*
Changes in current assets and liabilities:		
Receivables due from customers	(684.623)	2.245.852
Inventories	(4.262.215)	2.244.317
Tax receivables	(252.901)	32.809
Other current assets	(343.814)	220.665
Trade payables	4.557.753	(2.033.316)
Tax payables	1.196.202	109.352
Current financial liabilities at *fair value*	(1.114)	1.114
Other current liabilities	3.029.132	130.640
Total	*3.238.420*	*2.951.432*
Cash flows generated/(absorbed) by operations	11.720.643	10.136.859
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Net (Investments)/Divestments in technical fixed assets	(3.959.429)	(3.029.397)
(Increase)/decrease in intangible assets	(1.268.890)	(1.331.813)
(Increase)/decrease in goodwill	(1.739.876)	-
Net (Increases)/decreases in fixed assets from acquisitions	(8.672.140)	-
(Increase)/decrease in equity-accounted investments	(157.700)	(131.527)
Cash flows generated/(absorbed) by investment activities	(15.798.035)	(4.492.737)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Obtainment of medium/long-term loans	7.950.000	3.000.000
Extinguishment of 2014 bond (so-called mini-bond)	(10.454.597)	(1.647.054)
New bond issue (so-called mini-bond)	9.881.119	-
(Repayment) of medium/long-term loans	(2.313.616)	(6.997.887)
Change in *cash flow hedge reserve*	109	4.731
Change in reserve for discounting of post-employment benefits	(68.583)	10.070
Other changes in shareholders' equity	1.231.740	-
Reduction/(increase) in other non-current assets	666.593	(748.045)
Increase/(reduction) in other non-current liabilities	23.294	53.075
Cash flows generated/(absorbed) by financing activities	6.916.059	(6.325.112)
Differences from translation of financial statements in foreign currency	(2.446.254)	114.629
NET CASH GENERATED/(ABSORBED) in the year	**392.412**	**(566.361)**
(OPENING SHORT-TERM NET BANK DEBT)	15.107.660	14.541.299
(CLOSING SHORT-TERM NET BANK DEBT)	14.715.248	15.107.660

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2019

FOREWORD

The consolidated financial statements as at 30 June 2019 of the Selle Royal S.p.A. Group were prepared in compliance with the international accounting standards IFRS or International Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission according to the procedure pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 on the date of preparation of these financial statements as well as the provisions of Legislative Decree 38/2005.

IFRS also means all the revised international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC") which, at the date of approval of the consolidated financial statements for the year ended 30 June 2019, have been subject to endorsement by the European Union in accordance with the procedure envisaged by Regulation (EC) no. 1606/2002 by the European Parliament and Council of 19 July 2002.

The 2019 Consolidated Financial Statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes that follow.

These consolidated financial statements have been prepared on the basis of the best knowledge of IFRS and taking into account the best academic literature on the subject; any future guidelines and interpretative updates will be reflected in subsequent years, according to the methods envisaged from time to time by the reference accounting standards.

All amounts included in these financial statements are presented in Euro, which represents the currency of the main economic environment in which the Group operates, unless indicated otherwise.

The Consolidated Financial Statements were prepared on the basis of the going concern assumption, as the directors verified the absence of financial, operational or other indicators that could indicate critical issues regarding the Group's ability to meet its obligations in the foreseeable future, and, in particular, in the next 12 months.

The consolidated financial statements were prepared using as a basis the financial statements of the Group companies approved by their respective Boards of Directors.

The reference date of the consolidated financial statements coincides with the closing date of the financial year of the Parent Company and of the other companies included in the scope of consolidation.

Lastly, it should be noted that the financial statements of the Italian and foreign companies included in the scope of consolidation, drawn up in accordance with local standards, have been amended in accordance with IAS / IFRS for the sole purpose of the consolidated financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND MANDATORY INTERPRETATIONS ADOPTED BY THE GROUP

The accounting standards adopted by the Group for the preparation of the Consolidated financial statements as at 30 June 2019 are the same as those adopted to draft the consolidated financial statements in the previous year, with the exception of the following accounting standards, amendments and interpretations.

Description	**Expected effective date**
IFRS 15 (Revenue from Contracts with Customers) including the amendments to IFRS 15 issued on 11 September 2015	Financial years beginning on or after 1 January 2018
Clarifications to IFRS 15 (Revenue from Contracts with Customers) issued on 12 April 2016	Financial years beginning on or after 1 January 2018
IFRS 9 (Financial instruments)	Financial years beginning on or after 1 January 2018
IFRIC 22 – Foreign currency transactions and advance consideration	Financial years beginning on or after 1 January 2018

IFRS 15 – Revenue from Contracts with Customers

On 28 May 2014, the IASB published the standard “IFRS 15 - Revenue from Contracts with Customers”, which replaced the standards “IAS 18 - Revenue” and “IAS 11 - Construction Contracts”, as well as some related IFRIC interpretations.

The new standard specifies the method of recognition of revenues, in addition to requiring more supporting information to be provided. The proposed revenue recognition model is divided into the following 5 phases:

a) Identification of the contract with the customer;

b) Identification of the individual performance obligations within the contract;

c) Determination of the transaction price;

d) Allocation of the transaction price to the individual performance obligations;

e) Recognition of revenues in line with the fulfilment of individual performance obligations.

The fulfilment of the performance obligations, and therefore the simultaneous recognition of the revenue, occurs when the control of the good/service is transferred, since the verification of the transfer of the risks and benefits connected to the ownership of the asset subject to sale is no longer relevant (as envisaged by IAS 18). Considering the nature of the business and the related sales transactions, the significant changes introduced by the new IFRS 15 did not lead to changes in the method of recognition of revenues by Group companies.
Moreover, on 12 April 2016, the IASB published the amendments “Clarification to IFRS 15 - Revenue from Contracts with Customers”, also applicable from the first financial year following the one in progress as at 31 December 2017. The aforementioned amendments aim to clarify the methods by which to identify the company as a “principal” or as an “agent” and to determine whether any license revenues must be deferred for the duration of the same. “Principal” means a party that has full control of the entire cycle linked to the purchase and subsequent sale of the goods (by way of example, but not limited to, the search for customers, the negotiation of the price and the conditions of sale, the purchase of goods and the risk on stock,…). By “agent”, on the other hand, we mean a subject that does not enjoy the same autonomy as the “principal” and, usually, benefits from a simple brokerage margin for its services. Based on the above, it is clear that the Group companies always operate as “principals”, also with reference to the product categories not produced internally.

IFRS 9 - Financial Instruments

This new accounting standard, published on 24 July 2014 and in force as from 1 January 2018, incorporates the results of the project conducted by the International Accounting Standards Board and aimed at replacing the standard “IAS 39 - Financial Instruments”.
In particular, IFRS 9 introduces new criteria for the classification and measurement of financial assets and liabilities and a new hedge accounting model.
Although of greatest interest to the Group, the new standard also requires the estimate of losses on receivables to be made on the basis of the model of expected future losses (and not on the losses incurred, as envisaged by the previous IAS 39) using easily obtainable historical, current and prospective data.
Emphasising that trade receivables are usually covered by insurance against the risk of insolvency of the counterparties, the value of the provisions allocated against potential future non-collectability for the uncovered portion are consistent with the potential future losses

estimated using the simplified approach.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE GROUP

Below are the international accounting standards, interpretations, amendments to existing accounting standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB that have not yet been endorsed for adoption in Europe at the date of this financial report or were not adopted early.

Description	Approved as at the date of this document	Expected effective date
Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts)	Yes	Financial years beginning on or after 1 January 2019
IFRS 16 (Leases)	Yes	Financial years beginning on or after 1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	Yes	Financial years beginning on or after 1 January 2019
Amendments to IAS 40: Transfer of Investment Properties	Yes	Financial years beginning on or after 1 January 2019
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	Yes	Financial years beginning on or after 1 January 2019
IFRIC 23 - Uncertainty over income tax treatments	Yes	Financial years beginning on or after 1 January 2019
Amendments to IAS 28 - Long term interests in associates and joint ventures	Yes	Financial years beginning on or after 1 January 2019

The Group is currently analysing the standards indicated and assessing whether their adoption will have a significant impact on its consolidated financial statements.

FINANCIAL STATEMENT FORMATS AND CLASSIFICATION CRITERIA

When preparing the formats of the documents that make up the financial statements, the Company adopted the following criteria:

- Balance Sheet

The assets and liabilities shown in the financial statements have been separately classified as current and non-current in compliance with the provisions of IAS 1.

In particular, an asset must be classified as current when it meets one of the following criteria:

(a) it will be realised, or held for sale or consumption, in the normal course of the entity's operating cycle;

(b) it is held primarily for the purpose of trading;

(c) it is expected to be realised within twelve months of the reporting date;

(d) these are cash and cash equivalents.

All other assets were classified as non-current.

A liability must be classified as current when it meets one of the following criteria:

(a) it is expected to be settled in the normal operating cycle of an entity;

(b) it is held primarily for the purpose of trading;

(c) it must be settled within twelve months from the reporting date;

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the reporting date.

All other liabilities were classified as non-current.

Moreover, on the basis of the provisions of IFRS 5, those assets (and related liabilities) whose book value will be recovered mainly through a sale transaction rather than continuous use are classified, where they exist, as “Assets held for sale” and “Liabilities related to assets held for sale”.

- Income statement

The classification of costs was carried out on the basis of the criterion of their destination, which is considered more representative, as well as adhering to the criteria of the reporting used by the management of the Group Companies in determining the strategic direction and the execution of the related business plans.

- Statement of changes in shareholders’ equity

The statement was prepared by showing the items in individual columns with a reconciliation of the opening and closing balances of each item that makes up Shareholders' equity.

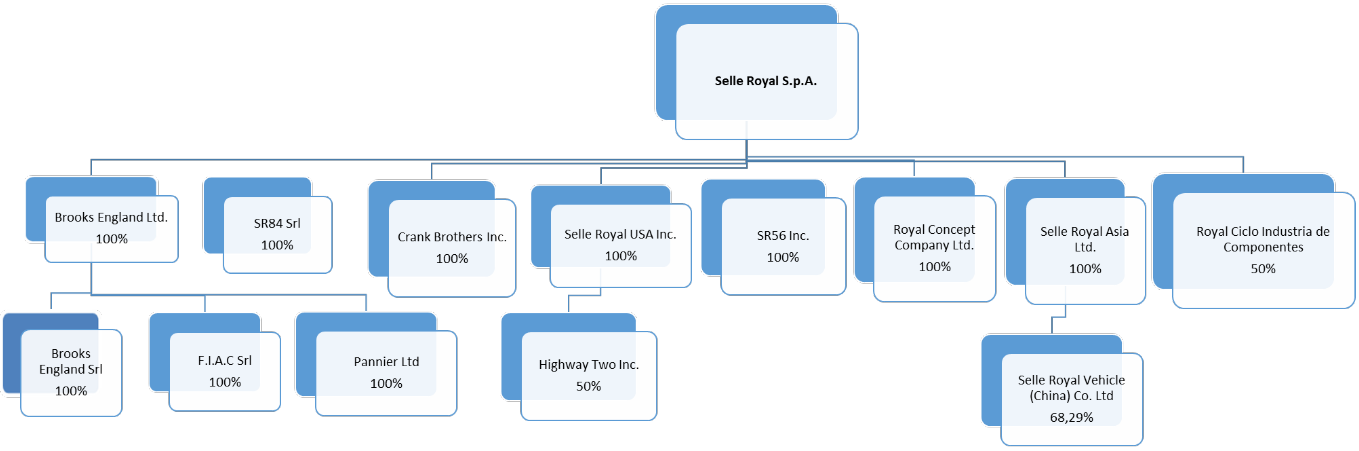
- Cash flow statement

The cash flows from operating activities are presented using the indirect method as permitted by IAS 7, as this criterion was considered the most appropriate to the business sector in which the company operates. By means of this criterion, the result for the year was adjusted for the effects of non-monetary transactions, operating, investing and financial activities.

ACTIVITIES OF THE GROUP COMPANIES

The companies that make up the Selle Royal Group produce and sell saddles, sports shoes and cycle accessories.

The structure of the Group as at the date of these consolidated financial statements is shown below, with an indication of the equity investment percentages.



This structure has changed with respect to the composition of the Group as at 30 June 2018 due to the aforementioned entry of Royal Ciclo into the Group scope and, to a lesser extent, to the effect of the acquisition of minority interests in BROOKS England Ltd. and Royal Concept Co., Ltd.

SIGNIFICANT EVENTS OCCURRING DURING THE YEAR

Thanks to the strengthening of the recovery in Europe and despite the persistence of complex general market conditions in some geographical areas, such as North America, consolidated turnover increased compared to the previous year, reaching more than € 130 million; the contribution deriving from the inclusion of Brazilian company Royal Ciclo Industria de Componentes, Ltda in the Group's scope of consolidation made a significant contribution to this performance.

The sales figures recorded by *fi'zi:k* brand sports shoes, which continue to increase their share of the global market and confirm their position at the top of the category in terms of performance and level of appreciation, from both professional athletes and enthusiasts, were once again largely positive. The choice made in recent years to directly cover some key markets, especially in a context in which customer service is ever more a success factor, is proving to be an increasingly more strategic and successful one. For a more in-depth examination of the elements characterising the tax year under review, including significant events from a corporate point of view, please refer to the Report on Operations.

GENERAL PREPARATION CRITERIA AND CONSOLIDATION PRINCIPLES

Consolidation is carried out using the line-by-line method. The criteria adopted for the application of this method are mainly the following:

- the book value of the equity investments held by the Parent Company or by the other companies subject to consolidation is eliminated against the relative shareholders' equity against the assumption of the assets and liabilities of the investee companies;
- any higher book value of the equity investments with respect to the shareholders' equity pertaining to the acquisition is allocated, where possible, to the assets of the companies included in the scope of consolidation up to the current value of the same and, for the residual part, to the item "Goodwill";
- significant transactions between consolidated companies are eliminated, as well as receivables and payables and unrealised profits deriving from transactions between group companies, net of any tax effect;
- the portion of shareholders' equity pertaining to minority shareholders is shown in the specific item of consolidated shareholders' equity, while the portion pertaining to minority interests of the result for the year is shown separately in the consolidated income statement;
- the equity investments acquired during the year are included in the scope of consolidation from the date of acquisition.

Subsidiaries are those in which the Group simultaneously has:

- decision-making power, i.e. the ability to direct the relevant activities of the investee, i.e. those activities that have a significant influence on the investee's returns;
- the right to variable (positive or negative) results from its investment in the entity;
- the ability to use its decision-making power to determine the amount of the returns deriving from its investment in the entity.

Control can be exercised either by virtue of the direct or indirect ownership of the majority of shares with voting rights, or by virtue of contractual or legal agreements, also regardless of shareholder relations. In assessing the existence of control, the Company also considers its own and third-party potential voting rights to determine whether it has power. "Potential voting rights" are rights to obtain voting rights of an investee, such as those deriving from convertible financial instruments or options. These rights are considered only if they are substantial.

The existence of control is verified every time that facts or circumstances indicate a change in one or more of the three elements qualifying the control.

Subsidiaries are consolidated on a line-by-line basis from the date on which control is actually acquired and cease to be consolidated from the date on which control is transferred to third parties. The criteria adopted for line-by-line consolidation are as follows:

- the book value of the equity investments in the companies included in the scope of consolidation is eliminated against the relative shareholders' equity against the assumption of the assets and liabilities of the investees;
  - according to the provisions of IFRS 3, subsidiaries acquired by the Group are accounted for using the acquisition method, according to which the consideration transferred in a business combination is measured at fair value, calculated as the sum of the fair value of the assets transferred and liabilities assumed by the Group at the acquisition date and of the equity instruments issued in exchange for control of the acquired company. Accessory charges to the transaction are recognised in the income statement at the time they are incurred;
  - the excess of the acquisition cost over the market value of the Group's share of net assets is accounted for as goodwill;
  - if the acquisition cost is lower than the *fair value* of the Group's share in the net assets of the acquired subsidiary, the difference is recognised directly in the income statement;
  - profits and losses not yet realised with third parties, deriving from transactions between Group companies, are eliminated as well as receivables, payables, costs, revenues, margins on products in inventory and all significant transactions that have taken place between the consolidated companies;
  - dividends distributed among group companies are eliminated, as are the coverage of losses and write-downs of equity investments in consolidated companies;
  - the portions of shareholders' equity and profit for the year pertaining to minority interests are shown separately, respectively, in a specific item of the consolidated balance sheet and income statement; pursuant to IFRS 10, the total loss is attributed to the shareholders of the parent company and to the minority interests, even when the shareholders' equity attributable to the minority interests presents a negative balance;
- acquisitions of non-controlling interests relating to entities for which control already exists or the sale of non-controlling interests that do not entail the loss of control are considered equity transactions; therefore, any difference between the acquisition / disposal cost and the relative portion of shareholders' equity acquired / sold is recorded as an

adjustment to the Group's shareholders' equity. Any obligation, relating to a forward contract, to purchase its own equity instruments for cash and cash equivalents entails the recognition of a liability whose *fair value* is reclassified from shareholders' equity. If the contract expires without a delivery, the accounting amount of the liability is transferred to shareholders' equity. The contractual obligation for the acquisition of own equity instruments gives rise to a liability for the present value of the redemption amount even if the obligation is subordinated to the exercise by the counterparty of the redemption right.

The financial statements of subsidiaries are prepared using the currency of the primary economic environment in which they operate. The rules for the translation of the financial statements of companies expressed in currencies other than the Euro are as follows:

- the assets and liabilities are converted using the exchange rates in force at the reporting date;
- costs and revenues are converted at the average exchange rate for the year;
- the "translation reserve" included among the items of the statement of comprehensive income includes both the exchange differences generated by the conversion of the economic items at an exchange rate different from the closing one and those generated by the conversion of the opening shareholders' equity at a different exchange rate from the one at the end of the reporting period;
- goodwill, if any, and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and converted at the closing exchange rate for the period.

The exchange rates adopted for the conversion of these financial statements are shown in the following table:

	Exact exchange rate as at 30 June			Average exchange rate for the year		
			Appreciation /			Appreciation /
Currency	**2019**	**2018**	**(deprec.)**	**2018/19**	**2017/18**	**(deprec.)**
British Pound (GBP)	0,8966	0,8861	-1,17%	0,8817	0,8863	0,52%
US Dollar (USD)	1,1380	1,1658	2,44%	1,1412	1,1930	4,54%
Hong Kong Dollar (HKD)	8,8866	9,1468	2,93%	8,9474	9,3350	4,33%
Chinese Yuan Renminbi (RMB)	7,8185	7,7170	-1,30%	7,7884	7,7606	-0,36%
Brazilian Real (BRL)(*)	4,3511	4,4876	3,14%	4,4077	4,1801	-5,16%

(*) 2018 figures shown for comparison purposes only

The consolidated financial statements as at 30 June 2019 include the data of the parent company Selle Royal S.p.A. and those of the subsidiaries in which it holds, directly or indirectly, the majority of the votes that can be exercised at the Shareholders' Meeting.

In particular, the scope of consolidation is broken down as follows:

- Selle Royal S.p.A., Parent company, with registered office in Pozzoleone (VI), share capital of € 6,000,000.
- Brooks England Limited, acquired in 2002, with registered office in Smethwick-Birmingham, United Kingdom, share capital of GBP 240,000, equal to approximately € 301,799, wholly-owned by Selle Royal S.p.A. and consolidated on a line-by-line basis.
- SR84 S.r.l.: with registered office in Pozzoleone (VI) and share capital of € 2,000,000; the company is wholly-owned by Selle Royal S.p.A.
- Selle Royal USA Inc. (previously known as Hi-Move Inc.), established in 2006, with registered office in Olney, USA, 1909 Miller Drive, share capital of USD 1,000, equal to approximately € 901. The company is wholly-owned by Selle Royal SpA and is consolidated on a line-by-line basis. Also in 2006, a joint venture was established with a leading German operator for the direct distribution of products on the US market. To this end, Highway Two Llc. was established, based in the USA, currently 50% owned by Selle Royal USA Inc. In these consolidated financial statements, Highway Two Llc. is measured using the equity method. The value at the balance sheet date was € 1,902,715.
- Royal Concept Company Limited, with registered office in Hong Kong and share capital of HK $ 1,000, equal to approximately € 91. The company is wholly-owned by Selle Royal S.p.A. and is consolidated on a line-by-line basis.
- Crank Brothers Inc., with share capital of USD 1,000, equal to approximately € 901, wholly-owned by Selle Royal S.p.A. This company is consolidated on a line-by-line basis.
- SR56 Inc., with registered office in Ogden (UT) in the USA and share capital of USD 1,000, equal to approximately € 901, is wholly-owned by Selle Royal S.p.A.
- Selle Royal Vehicle (China) Co. Ltd.: formerly called Jiangyin Justek Vehicle Co., Ltd.; the acquisition, completed in February 2010, was effective retroactively from 1 January 2010. The interest in Selle Royal S.p.A., through its wholly-owned subsidiary Selle Royal Asia Ltd., grew in 2014/15 from 51.86% of the share capital held since the acquisition to 68.29% currently held, following a corporate restructuring. Lastly, it should be noted that the aforementioned company Selle Royal Asia Ltd. is a pure holding company that holds exclusively the equity investment in Selle Royal Vehicle (China) Co. Ltd and does not carry out any activities.
- Brooks England S.r.l.: with registered office in Pozzoleone (VI) and share capital of € 100,000; the company is wholly-owned by Brooks England Ltd.

- Pannier Ltd., with registered office in Smethwick-Birmingham, United Kingdom, share capital of GBP 100.00 (corresponding to approximately EUR 120), fully subscribed and paid in by the subsidiary Brooks England Ltd. It should be noted that this company is exempted from the requirements of the Companies Act with reference to the audit of individual financial statements, as envisaged by Section 479A.
- F.I.A.C. S.r.l., with registered office in Pozzoleone (VI) and share capital of € 100,000; the company is wholly-owned by Brooks England Ltd.
- Royal Ciclo Industria de Componentes, Ltda., with registered office in Rio do Sul, in the State of Santa Catarina, Brazil. The share capital, amounting to Brazilian Real 11,601,802 , is 50% owned by Selle Royal S.p.A. as a result of the transactions better described previously. This company is consolidated on a line-by-line basis.

MEASUREMENT CRITERIA

The measurement criteria and the accounting standards and the financial statements drafting principles, adopted according to a prudent approach and on a going concern basis, were as follows.

Intangible fixed assets

- Goodwill and other assets with an indefinite useful life
- Other intangible assets.

These are non-monetary assets, identifiable even if they have no physical substance, from which it is probable that future economic benefits will flow. Intangible assets are recognised at cost, represented by the purchase price and any direct cost incurred to prepare the asset for use, net of accumulated amortisation, for intangible fixed assets with a limited useful life, and impairment losses.

If there is objective evidence that an individual asset may have suffered a reduction in value, a comparison is made between the carrying amount of the asset and its recoverable value, equal to the higher of the fair value, less costs to sell, and the related value in use, intended as the present value of future cash flows that are expected to originate from the asset. Any value adjustments are recognised in the income statement.

Intangible assets with an indefinite useful life are not amortised. For these assets, the book value is compared annually with the recoverable value. If the book value is higher than the recoverable value, a loss equal to the difference between the two values is recognised in the income statement.

In the case of reversal of the value of intangible assets, excluding goodwill, previously written down, the increased net book value cannot exceed the book value that would have been determined if no impairment loss had been recognised for the asset in the previous years.

An intangible asset is derecognised from the balance sheet upon disposal or when no future economic benefits are expected from its use or disposal.

IAS 38 defines as intangible assets those identifiable non-monetary assets without physical substance. The main characteristics to meet the definition of an intangible asset are:

- identifiability;
- control of the resource in question;
- existence of future economic benefits.

In the absence of one of the above characteristics, the expense to acquire or generate the same internally is considered as a cost in the year in which it was incurred.

With reference to trademarks owned by the Group, it should be noted that they are classified among intangible assets with an indefinite life, and therefore not amortised, since:

- they play a key role in the Group's strategy and constitute a primary value driver;
- the corporate structure, in its concept of organised tangible assets and organisation in a broad sense, is heavily committed, at the moment, to the dissemination and development of the brands on the markets for the products marketed by the Group, although the aforementioned brands may represent assets that may be freely used in markets adjacent to those of consolidated entities;
- the trademarks are owned and are correctly registered and constantly protected from a regulatory perspective, with options for renewing the legal protection at the end of the registration periods that are inexpensive, easy to implement and without external impediments;
- the products marketed by the Group under these brands are not subject to particular technological obsolescence in consideration of the development activities carried out by the Group that allow them to qualify in the luxury market for the categories of cycling products that are subject to marketing and in which the Group is perceived by the market;
- in fact, the brands are considered by their consumers as constantly innovative and on trend, so much so that they become models to be imitated or inspired by;
- the brands are distinguished, in the typical national and/or international context for each of them, by market positioning and reputation such as to ensure their pre-eminence in

the respective market segments, being constantly associated and compared to products of absolute reference;

- in the reference competitive context, it can be stated that the investments to maintain the brands are proportionally limited, compared to the substantial and favourable cash flows expected.

Goodwill

Goodwill recognised in the financial statements is that paid for a business combination, i.e. for the acquisition of control of a company or business unit. It is not subject to amortisation, but to an impairment test to be carried out at least annually. If the purchasing company can demonstrate that it is able to achieve the value creation objectives implicit in the acquisition price, it does not make any adjustments to the goodwill recorded; otherwise, it must record an impairment loss in accordance with IAS 36. The goodwill generated internally by the company is not recognised. In accordance with IAS 36, the impairment test is based on the discounting of cash flows.

Tangible fixed assets

Property, plant and equipment are recognised according to the cost criterion and recognised at the purchase price or at the cost of production, revalued if necessary in accordance with the law, including directly attributable accessory costs necessary to make the assets ready for use. Financial charges directly attributable to the acquisition, construction or production of a tangible asset are recognised in the income statement at the time they are incurred if they do not refer to a qualifying asset. The Group does not hold assets for which a certain period of time normally elapses to make the asset ready for use (qualifying asset).

The expenses incurred for ordinary and/or cyclical maintenance and repairs are directly charged to the income statement in the year in which they are incurred. The capitalisation of costs relating to the expansion, modernisation or improvement of structural elements owned or used by third parties is carried out exclusively to the extent that they meet the requirements to be separately classified as an asset or part of an asset by applying the “Component approach”.

Property, plant and equipment, with the exception of land, are systematically depreciated each year on a straight-line basis over the estimated useful life in relation to the remaining useful life of the assets. If the asset being depreciated is composed of distinctly identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is carried out separately for each of the parts that make up the asset in application of the “component approach” principle.

Amortisation begins when the asset is available for use, taking into account the actual moment in which this condition occurs.

The depreciation amounts charged to the income statement are calculated on the basis of the residual possibility of use, taking into account the use, the destination and the economic-technical duration of the assets. This criterion is considered well represented by the following rates:

- Land 0%
- Buildings 3%
- Generic plants 10% -12.50%
- Machinery 10%-12.50%
- Equipment 10%-35%
- Office furniture and equipment 12%
- Electronic office equipment 18% -20%
- Motor vehicles and internal transport vehicles 20% - 25%
- Light constructions 10%

The depreciation rates of property, plant and equipment are reviewed and updated, where necessary, at least at the end of each year.

If, regardless of the depreciation already recorded, there is an impairment loss, the tangible asset is written down; if in subsequent years the reasons for the write-down no longer apply, the original value is restored.

The residual values and the useful life of the assets are reviewed at each reporting date and, if deemed necessary, the appropriate adjustments are made.

Impairment losses

IAS 36, in the presence of indicators, events or changes in circumstances that suggest the existence of impairment, requires intangible assets and tangible assets be subjected to the *impairment test*, in order to ensure that they are not recognised as assets at a value higher than the recoverable amount. This test is performed at least annually for assets and goodwill with an indefinite useful life, in the same way as for tangible and intangible assets not yet in

use.
The certification of the recoverability of the values recorded in the financial statements is obtained by comparing the book value at the reference date and the fair value net of costs to sell (if available) or the value in use. The value in use of a tangible or intangible asset is determined on the basis of the estimated future cash flows expected from the asset, discounted through the use of an after-tax discount rate, which reflects the current market valuation of the present value of money and risks related to the Group's activities, as well as cash flows deriving from the disposal of the asset at the end of its useful life. If it is not possible to estimate an independent cash flow for an individual asset, the smallest operating unit (cash generating unit) to which the asset belongs and to which it is possible to associate future cash flows that can be objectively determined and independent from those generated by others is identified. The identification of the cash generating units was carried out in line with the organizational and operating architecture of the Group.
If the impairment test shows an impairment loss on an asset, its book value is reduced to the recoverable value, through direct recognition in the income statement, unless the asset is measured at revalued value, in which case the write-down is charged to the revaluation reserve. When the reasons for a write-down no longer apply, the book value of the asset (or of the cash-generating unit), with the exception of goodwill, is increased to the new value deriving from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the write-down for impairment had not been made. The write-back is charged to the income statement immediately, unless the asset is measured at the revalued amount, in which case the write-back is charged to the revaluation reserve.

Financial leasing transactions

In line with the recommendations contained in IAS 17, financial leasing transactions are represented by comparing them to financing transactions and recognised according to the so-called "financial method".
This method provides for: the recognition of the original value of the leased assets in the related category of fixed assets; the recognition of the corresponding residual principal payable to the leasing company under liabilities and the recognition in the income statement of the depreciation of the assets if with a finite useful life, as well as the portion of interest for the year included in the instalments paid to the leasing company.
The balances shown in these financial statements do not incorporate the effects deriving from

the application of the new international accounting standard “IFRS 16 - Leases”, whose adoption is mandatory starting from the first financial year after 1 January 2019. For the sake of completeness, it should be noted that the new accounting standard provides for the recognition, under balance sheet assets, of an amount equal to the future instalments envisaged by the rental, operating and financial lease agreements in the form of “right of use”, matched by the recognition of a liability of the same amount. As highlighted, the new accounting standard no longer differentiates between leases and operating leases on the one hand, and finance leases on the other, aiming to provide evidence of the substantive aspect of the underlying transactions. It is possible to opt for non-recognition only with reference to short-term leases (whose maturity is within twelve months) or low-value contracts.
A summary quantitative representation of the impacts deriving from the adoption of IFRS 16 by the Group is provided in the following paragraph “COMMITMENTS”.

Financial fixed assets

Other equity investments are recognised at purchase or subscription cost, adjusted if necessary for impairment.

Inventories

Raw materials, auxiliary materials and finished products are recorded at purchase or production cost, including accessory charges, or at the realisable value based on market trends, if lower.
The cost configuration used is that of the “weighted average cost”.
Production costs include the expenses incurred to bring the assets to the state in which they are found in the financial statements; they include both the specific costs of the individual assets and the overall costs incurred in the activities carried out for their preparation.
Obsolete and slow-moving stocks are valued in relation to their possibility of use and realisation, with reference to the average duration of the production cycle, with the allocation of a specific write-down both directly and through the establishment of a provision to adjust their value.

Receivables

Receivables are recorded at their presumed realisable value, which corresponds to the difference between the nominal value of the receivables and the amounts allocated by way of write-down of the receivables. The value of the receivables is, in fact, adjusted by a specific bad debt provision set up over the years that takes into account the general economic and sector conditions, and also the country risk, as well as by a residual provision to cover bad loans for the part not covered by insurance. The value of the receivables, thus determined, adequately approximates the fair value.

Cash and cash equivalents

Cash and cash equivalents are represented by cash and current account deposits not subject to significant risks of changes in value.

Provisions for risks and charges

Provisions for risks and charges relate to costs and charges of a certain nature and of certain or probable existence that at the end of the year are undetermined in terms of amount or date of occurrence. Allocations to these provisions are recognised when:

- it is probable that there is a current legal or implicit obligation deriving from a past event;
- it is probable that the fulfilment of the obligation will be onerous;
- the amount of the obligation can be reliably estimated.

Provisions are recognised at the value representing the best estimate of the amount that the company would reasonably pay to extinguish the obligation or to transfer it to third parties at the end of the year. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting back the expected cash flows determined taking into account the risks associated with the obligation; the increase in the provision related to the passage of time is recognises in the income statement under “financial income” or “financial charges”.

The provisions are periodically updated to reflect changes in cost estimates, realisation times and the discount rate; revised estimates are charged to the same income statement item that previously included the provision.

The existence of contingent liabilities, represented by obligations:

- possible, but not probable, arising from past events, the existence of which will be confirmed only upon the occurrence or otherwise of one or more uncertain future events not fully under the control of the company; or
- current events, as they derive from past events, for which, however, the possibility of

incurring charges in the future is considered remote, or the amount of which cannot be reliably estimated;
it does not give rise to the recognition of liabilities recorded in the financial statements, but is illustrated in a special note to the financial statements.

Provisions for employees

The liability relating to defined benefit plans, net of any assets serving the plan, is determined on the basis of actuarial assumptions and is recognised on an accrual basis in line with the work services necessary to obtain the benefits.
The valuation of the liability was carried out by independent actuaries using the projected unit credit method.
Gains and losses deriving from the actuarial calculation are recognised in the statement of comprehensive income. The amount reflects not only the payables accrued at the reporting date, but also future salary increases and the related statistical trends.
The benefits guaranteed to employees through defined contribution plans (also by virtue of recent changes in national pension legislation) are recognised on an accrual basis and at the same time give rise to the recognition of a liability measured at nominal value.

Current and deferred taxation

Provisions for income taxes for the year made by the individual companies included in the scope of consolidation are calculated in accordance with the current tax regulations of the country where the companies are based and are recorded under “tax payables”, net of any tax credits legally offset during the subsequent tax period.
Deferred taxes are calculated on the cumulative amount of all temporary differences between the value of an asset or a liability determined according to statutory criteria and the value attributed to that asset or liability for tax purposes, applying the presumed tax rate in force at the moment in which the temporary differences will reverse, as well as the tax effect of the typical consolidation adjustments.
It should also be noted that no deferred taxes have been allocated against the revaluation reserves subject to taxation recognised under shareholders’ equity since, at present, it is believed that no transactions are carried out that would result in taxation.
Deferred tax assets deriving from losses that can be carried forward for tax purposes are also recognised if the conditions of reasonable certainty of obtaining taxable income that will be

able to absorb the losses carried forward and the losses in question derive from well-identified circumstances and it is reasonably certain that these circumstances will not be repeated.

Payables

Payables are stated at their nominal value, modified in the event of returns or invoicing adjustments. This measurement approximates the fair value in an appropriate manner.
The bond payable is recognised on the basis of the amounts collected, net of the transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

Derivative contracts

Derivative contracts can be considered trading or hedging contracts and, based on IAS rules, must be recognised in the financial statements and measured at *fair value* regardless of their destination and classification. The hedging transaction must also be attributable to a predefined *risk management* strategy, must be consistent with the risk management policies adopted, must be documented and effective in effectively neutralising the risk to be hedged. This principle of consistency can be maintained only in the presence of effective hedging contracts. Hedging transactions can be divided into fair value and cash flow hedges of specific financial statement items.

Share capital

The item is represented by the subscribed and paid-in capital.

Reserve for first-time adoption of IAS / IFRS

The item includes the total amount of IAS / IFRS adjustments recognised directly in equity at the time of First Time Adoption (1 July 2014).

Other equity reserves

Among other things, the item includes the cash flow hedge reserve, where changes in the fair value of hedging derivatives are recognised directly in equity net of the related taxes.
It also includes the employee severance indemnity discounting reserve, where the effects of changes in the employee severance indemnity provision of employees of the Italian companies of the Group are accounted for, as resulting from the actuarial analysis carried out

by professionals enrolled in the professional register to which the data in question are subjected on an annual basis.

Revenues, income, costs and charges

Revenues and income, costs and charges, including all taxes and duties not charged to income, are recorded in the financial statements net of returns, discounts, allowances and premiums, as well as taxes directly related to the sale of products and the provision of services.

The revenues deriving from the sale of goods are recognised at the time of transfer of ownership, which generally coincides with the time of delivery or shipment, unless the delivery terms are such as to cause significant risks and benefits to pass to the purchasing counterparty at a later time than the aforementioned delivery or shipment of the good, in which case, on the basis of the average delivery time, the sales revenues and the related costs are deferred to the following year.

Revenues from the provision of services are considered to have been achieved on the date on which the services are completed. Revenues of a financial nature and those deriving from the provision of continuous services are recognised on an accrual basis.

Costs are recognised on an accrual basis.

Income taxes

Taxes are allocated on the basis of the rates in force applied to taxable income, taking into account the regulations in force at the time of preparation of the financial statements, in compliance with the accrual principle.

Taxes for the period include current and deferred taxes. Income taxes are generally recognised in the income statement, except when they relate to items recorded directly in equity. In this case, income taxes are also charged directly to shareholders' equity.

Current taxes are the taxes that are expected to be paid on the taxable income for the year and are calculated in compliance with the regulations in force in the various countries in which the Selle Royal Group operates.

Deferred taxes are calculated using the *liability method* on the temporary differences between the amount of assets and liabilities in the consolidated financial statements and the corresponding values recognised for tax purposes. Deferred taxes are calculated on the basis of the tax rate that is expected to be in force at the time the asset is realised or the liability is extinguished.

Deferred tax assets are recognised only if it is probable that sufficient taxable income will be generated in subsequent years for the realisation of these assets.
Income taxes relating to previous years include charges and income recognised in the year for income taxes relating to previous years.
Receivables and payables in foreign currency and liquid funds in foreign currency at the end of the accounting period are stated in the financial statements at the exchange rate in force on the date of the financial statements.
Profits and losses deriving from the translation of individual receivables and payables and of liquid funds in foreign currency, at the exchange rate in force on the date of the financial statements, are credited and debited respectively to the income statement as financial income components. If a net profit emerges from their conversion at the exchange rate in force at the end of the year, when the financial statements are approved, this net profit is recorded in a non-distributable reserve for the part not absorbed by any loss for the year.

ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires the directors to apply accounting standards and methods which, in certain circumstances, are based on difficult and subjective assessments and estimates based on historical experience and assumptions that are considered reasonable and realistic from time to time depending on the relevant circumstances.
The application of these estimates and assumptions affects the amounts shown in the financial statements, such as the statement of financial position, the income statement and the cash flow statement, as well as the information provided.
The final results of the items in the consolidated financial statements for which the above-mentioned estimates and assumptions were used, may differ from those reported in the financial statements of the individual companies due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.
The estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement of the period in which the estimate is revised.
Below is a summary of the financial statement items that require greater subjectivity than others on the part of the directors in preparing the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial statements:

- Non-current assets: the Group periodically reviews the carrying amount of property, plant and equipment, intangible assets, investments in joint ventures and associates and other non-current assets, when facts and circumstances require such revision in order to determine their recoverable value. The recoverability analysis of the book value is generally carried out using estimates of expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value. When the book value of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the book value of the asset and its recoverable value through the use or sale of the same, determined with reference the cash flows inherent in the most recent business plans.
- Deferred tax assets: the Group has deferred tax assets on deductible temporary differences and theoretical tax benefits for losses carried forward that are recognises to the extent that it is probable that future taxable income will be available against which they can be recovered. The valuation of the recoverability of deferred tax assets, recognised in relation to both tax losses usable in subsequent years and deductible temporary differences, takes into account the estimate of future taxable income and is based on prudent tax planning.
- Provision for inventory obsolescence: reflects the Company management's estimate of expected impairment losses in relation to inventories, determined on the basis of past experience. Any anomalous trends in market prices could have repercussions in future inventory write-downs.
- Bad debt provision: the recoverability of receivables is measured taking into account the risk of non-collectability, their age and losses on receivables recognised in the past for similar types of receivables.
- Employee-related provisions: provisions for employee benefits and net financial charges are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial methodology considers financial parameters such as, for example, the discount rate and the growth rates of wages and considers the probability of occurrence of potential future events through the use of demographic parameters such as, for example, employee mortality rates and resignation or retirement rates.
- Contingent liabilities: the Group ascertains a liability for pending disputes and lawsuits when it deems it probable that a financial outlay will occur and when the amount of the resulting losses can be reasonably estimated. In the event that a financial outlay becomes possible but the amount cannot be determined, this fact is reported in the explanatory notes

to the financial statements. The lawsuits may concern complex legal and tax issues, subject to a different degree of uncertainty against which it is possible that the value of the provisions may change as a result of future developments in the ongoing proceedings. The Group monitors the status of pending legal proceedings and consults with its legal advisors and experts.

- Depreciation/amortisation: changes in the economic conditions of the markets, in technology and in the competitive scenario could significantly affect the useful life of property, plant and equipment and of intangible assets and could result in a difference in the timing of the amortisation process, as well as on the amount of depreciation/amortisation costs.
- Income taxes: determined in each country in which the Group operates according to a prudent interpretation of current tax regulations. This sometimes involves complex estimates in determining the taxable income and the deductible and taxable temporary differences between the carrying amounts and taxable amounts.

SEGMENT REPORTING

The segment reporting of the Selle Royal Group, in application of IFRS 8, is provided with reference to the geographical areas in which the Group operates based on the availability of financial statement information and in line with the main method with which the results are periodically reviewed by management for performance assessment purposes. More specifically, the Group's areas of activity can be broken down as follows:

EUROPE

This area is represented, from a corporate point of view, by the Parent Company Selle Royal S.p.A. and its direct and indirect subsidiaries, whose registered office and whose operating activities are mainly concentrated in the European Union.

From a business point of view, this sub-scope includes both industrial activities, carried out in the factories of Selle Royal S.p.A. in Pozzoleone (VI) and of Brooks England Ltd. in Smethwick (GB), as well as purely commercial activities. The latter consist of the sale and distribution of own-brand products, the result of both internal production and pure marketing, and the distribution of third-party brand products. With specific reference to the latter aspect, it is recalled that the parent company Selle Royal S.p.A. has, for years now, augmented traditional sales in the OEM (so-called original equipment) and aftermarket (sales of spare products to national/regional distributors) channels with direct sales to retailers limited to Italy and France, under the brand name A4 Selection.

AMERICA

This area is represented, from a corporate point of view, by the subsidiaries whose registered office and operating activities are mainly concentrated in North America and by Royal Ciclo, whose registered office and reference market are in Brazil.

The activities carried out by the companies belonging to this sub-perimeter are varied and mainly include the design, development and marketing of hardware products (defined, for simplicity, as all those "non-saddles" and "non-sports shoes" products); the production of saddles and other accessories in the Brazilian plant and the marketing of the Group's brands and selected third-party brands on the American, Canadian and Brazilian markets, through the retail channel and selected specialised chains.

ASIA

This area is represented, from a corporate point of view, by the subsidiaries whose registered office and whose operating activities are mainly concentrated in Asia.

These are mainly industrial activities carried out in the Chinese plants of Selle Royal Vehicle (China) Co., Ltd., whose products are intended for both the domestic market and the export market. The main sales channel that includes these products is the so-called "OEM" channel, in which the Group's direct customers are bicycle assemblers, who operate both on their own behalf and on behalf of third parties. In the latter case, the Group exploits its relations and its sales force by negotiating supplies with Western brands (mainly European and American), which then decide to allocate production to its own and/or third-party plants, mainly in Europe or in the Far East.

Overall, it should be emphasised that the global presence, both in production and commercial terms, and the portfolio of own brands, which is also accompanied by a service for the development of specific products at the request of customers, make the Selle Royal Group a privileged counterparty for the large groups/agglomerations of brands that have formed over the years in the cycle sector.

The following tables present the data on revenues and on certain balance sheet items relating to the Group's business segments for the years 2018-2019 and 2017-2018.

	2018/19			2017/18		
	EUROPE	AMERICA	ASIA	EUROPE	AMERICA	ASIA
Revenues	69.505.718	38.951.446	22.180.075	70.004.107	22.599.124	22.962.514
Current assets	26.792.805	16.654.772	11.218.854	25.635.995	10.149.862	12.065.723
Non-current assets	32.401.739	21.271.662	8.115.580	32.568.829	11.297.804	9.474.898
Current liabilities	30.614.354	16.801.062	6.552.168	25.256.475	10.557.688	8.492.565
Non-current liabilities	21.260.641	5.973.214	58.443	21.194.793	423.230	59.211

DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2019, the parent company Selle Royal S.p.A. holds a derivative financial instrument, subscribed with a leading Italian credit institution, for the purpose of hedging against interest rate volatility (known as the so-called "IRS").

The effectiveness test carried out shows that this derivative financial instrument is a hedge and, as a result, the effects relating to the change in its value were reflected in a specific equity reserve (so-called "cash flow hedge reserve").

RISK MANAGEMENT

In relation to financial and other risks, please refer to the Report on Operations.

COMMITMENTS

Below is a summary representation of the financial impact deriving from the application of the new international accounting standard "IFRS 16 - Leases" which, as outlined in the introductory notes, will take place starting from the 2019/20 financial year.

COMMITMENTS from LEASE CONTRACTS

Some Group companies are counterparties in multi-year lease agreements relating, typically, to the properties in which they have their registered office and/or secondary appurtenances. The following table shows the future lease payments set forth in the contracts in place as at 30 June 2018 and 2019, including the lease payments expected in the cases in which it is reasonably foreseeable that the contracts will be renewed upon expiry:

	30/06/2019	30/06/2018
TOTAL FUTURE LEASE CONTRACTS	**10.452.379**	**10.539.538**

TRANSACTIONS with RELATED PARTIES

The main transactions with related parties are described below:

- Dec. 28, 1928 Holding S.p.A.: parent company of Selle Royal S.p.A., receives emoluments as a member of the Board of Directors of Selle Royal S.p.A.; in addition, the payable balances for IRES of the Italian companies of the Group that participated in the tax consolidation, for which Dec 28, 1928 Holding S.p.A. is the parent company, are transferred to it.
- Dec. 28, 1928 Real Estate S.r.l.: the parent company Selle Royal S.p.A., by virtue of a lease contract signed in June 2013 and with a duration of 8 years, manages the property leased from Dec. 28, 1928 Real Estate S.r.l. in which the production and sales activities of Selle Royal S.p.A. and the other Italian companies of the Group are carried out. The consideration for the lease is involves a fixed portion and a variable portion to be determined on the basis of purely financial parameters from year to year. Dec. 28, 1928 Real Estate S.r.l. is also the lessor of an office space where the secondary office of Selle Royal SpA is located.

The amounts shown as current liabilities, with counterparties at Dec. 28, 1928 Real Estate S.r.l. and shareholders, refer to the residual payables at the date of the financial statements relating to the purchase of the equity investment and the minority shares already described above.

The economic and financial relations held during the 2018-2019 financial year are summarised in the following table:

COUNTERPARTY	INDUSTRIAL COSTS	GENERAL and ADMINISTRATIVE C.	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES
Dec. 28, 1928 Holding S.p.A.	-	80.000	-	212.753
Dec. 28, 1928 Real Estate S.r.l.	977.564	-	25.200	756.171
Shareholders	-	-	-	1.546.667
Directors	-	525.000	-	-
TOTAL RELATED PARTIES	**977.564**	**605.000**	**25.200**	**2.515.591**

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

CASH AND CASH EQUIVALENTS

This item refers to the positive balances in the bank current accounts and postal deposits of the Group Companies, together with a limited amount of cash held by each Company to meet current needs.

The balance as at 30 June 2019, equal to € 11,109,764, was up compared to the previous year due to higher collections in the last part of the year.

As at 30 June 2019 and 2018, there are no restrictions or limitations on the use of the Group's cash and cash equivalents.

TRADE RECEIVABLES

The breakdown of this item, expressed in the financial statements net of allocations to the bad debt provision carried out prudentially on the portion of receivables not covered by insurance, is as follows:

	30/06/2019	**30/06/2018**	***Change***
Trade receivables	16.689.301	15.746.319	942.982
Bad debt provision	(831.601)	(573.242)	(258.359)
TRADE RECEIVABLES, net	**15.857.700**	**15.173.076**	**684.623**

For receivables whose collectability is uncertain, for which legal action for collection has been initiated, and for some receivables from customers with a potential lower degree of collectability, specific provisions for write-downs have been allocated up to the presumed realisable value.

The growth in this item is attributable to the entry of Royal Ciclo into the scope of consolidation.

It should be noted that the parent company Selle Royal S.p.A. transferred receivables from certain customers, primarily domestic, through a non-*recourse* factoring transaction, to a leading bank for € 1,996,492; the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd. completed a similar transaction for a value of € 636,639. During the previous year, the cumulative value of the assignments of receivables without recourse made by the same companies was equal to € 2,254,003.

INVENTORIES

The breakdown of this item, broken down by type of stock and with details of the provisions recorded against the risk of potential obsolescence, is shown in the table below:

	30/06/2019	30/06/2018	*Change*
Raw materials, supplies and consumables	8.140.728	6.213.917	1.926.810
Work in progress and semi-finished products	3.968.316	3.834.329	133.987
Finished products and goods	14.179.402	12.748.314	1.431.087
Goods in transit	1.544.969	228.430	1.316.539
Gross inventories	**27.833.415**	**23.024.991**	**4.808.423**
Provision for obsolescence	(2.516.760)	(2.467.414)	(49.346)
Provision for unrealised intra-Group margin	(2.086.238)	(1.589.376)	(496.863)
INVENTORIES	**23.230.417**	**18.968.202**	**4.262.215**

The growth of this item is due both to the effect of consolidation of the balances of Royal Ciclo and to an increased volume of stocks of raw materials in Selle Royal S.p.A. to bring forward part of the production to July, in view of the extraordinary maintenance planned in the first few months of the following tax year.

TAX RECEIVABLES

Tax receivables increased compared to the balance as at 30 June 2018, as detailed below:

	30/06/2019	30/06/2018	*Change*
Current tax receivables:			
For direct taxes	761.817	963.186	(201.369)
For indirect taxes	529.117	351.523	177.594
For other withholdings	186.788	107.795	78.993
Subtotal current taxes	1.477.722	1.422.504	55.218
Current deferred tax assets	761.703	564.019	197.684
TOTAL TAX RECEIVABLES	**2.239.425**	**1.986.523**	**252.901**

The reduction in receivables for direct taxes mainly refers to the better results obtained by some Group companies.

The increase in receivables for indirect taxes mainly relates to the increase in the VAT credit due to Selle Royal S.p.A. and deriving from the payments made at the reporting date.

Deferred tax assets were recognised taking into account that there is a reasonable certainty that positive results will be achieved in future years to allow the use of deferred tax assets allocated to assets.

For an examination of the change in current deferred tax assets, please refer to the relevant section of these notes.

OTHER CURRENT ASSETS

The breakdown of this item and the comparison with the previous year are as follows:

	30/06/2019	30/06/2018	*Change*
Advance costs	347.900	225.657	122.244
IRAP refund application	535.809	535.809	-
Accrued income and prepaid expenses	684.161	882.773	(198.612)
Sundry receivables	661.255	241.073	420.183
TOTAL CURRENT ASSETS	**2.229.125**	**1.885.311**	**343.814**

The increase in sundry receivables is due to the change in the scope of consolidation already mentioned, as well as to a receivable of Selle Royal S.p.A. from the Italian Revenue Agency.

NON-CURRENT ASSETS

INTANGIBLE ASSETS

Details of the item and the changes that have taken place since the previous year are shown in the table below:

	Balance as at 30 June 2018	Acquisitions (+)	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2019
Research and development costs	237.362	-	-	-	322.293	(488.667)	(4)	70.984
Industrial patent rights and intellectual property rights	2.315.123	-	435.474	-	-	(583.703)	33.415	2.200.309
Concessions, licenses, trademarks and similar rights	19.191.626	19.639	576.467	-	-	(419.571)	(11.570)	19.356.590
Others	162.263	-	53.589	-	-	(139.220)	17.778	94.410
Fixed assets in progress and payments on account	790.548	-	241.631	-	(360.563)	-	(16.971)	654.644
Total intangible assets	**22.696.922**	**19.639**	**1.307.160**	**-**	**(38.270)**	**(1.631.161)**	**22.648**	**22.376.937**

The item “Research and development costs” refers to the capitalisation of costs incurred for the implementation and realisation of new projects. The aforementioned costs are deemed to be recoverable through the revenues that will be generated in the future from the implementation of the above-mentioned projects and, as they are reasonably related to a useful life span over several years, a multi-year benefit has been recognised.

The item “Industrial patent rights” mainly includes the corresponding item recorded in the financial statements of the subsidiary Crank Brothers, Inc. at the time of the acquisition of the same company by Selle Royal S.p.A.; the value was also tested on the basis of valuations issued by independent experts who also indicated the useful life on which to calculate the depreciation; higher values are recorded in the financial statements of Crank Brothers Inc. for a total of USD 7,694,000, allocated for USD 4,780,500 to the item "Industrial patent rights", amortised over 15 years. The residual portion was recorded under "Goodwill", as shown below.

The item "Concessions, licenses, trademarks and similar rights" refers to the value of the trademark portfolio held by the Group companies, for a value of € 18.301.801; the remainder relates to the concession rights of the land on which the Selle Royal China plant stands and to licenses and costs for the implementation of non-proprietary management software.

Trademarks are considered "with an indefinite useful life" and are therefore subject to annual impairment tests. The analyses carried out confirm the recoverability of the book value at which they are recorded in the financial statements through the analysis and estimate of the cash flows that are estimated will be generated in the future.

The item "Other" refers to the recognition of intangible assets that meet the requirements of IAS 38 for their recognition in the financial statements.

Intangible assets in progress and advances mainly relate to expenses incurred by the Group in relation to projects for the development of new products and product lines, as well as supporting software and applications, not yet operational at the end of the year.

TANGIBLE FIXED ASSETS

Details of the item and the changes that have taken place since the previous financial statements are shown in the following table:

	Balance as at 30 June 2018	Acquisitions (+)	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2019
Land and buildings	7.294.091	2.673.744	286.703	-	-	(873.687)	62.392	9.443.244
Plant and machinery	4.373.248	5.168.978	1.040.908	(65.982)	52.379	(1.098.348)	142.293	9.613.477
Industrial and commercial equipment	3.689.758	680.449	1.547.216	(12.133)	973.978	(2.760.925)	27.380	4.145.723
Other assets	1.429.167	76.951	376.198	(31.359)	31.601	(603.772)	(4.184)	1.274.601
Fixed assets in progress and payments on account	1.119.010	52.379	759.852	-	(1.019.688)	-	6.070	917.624
Total tangible fixed assets	**17.905.273**	**8.652.502**	**4.010.877**	**(109.474)**	**38.270**	**(5.336.732)**	**233.952**	**25.394.668**

The balances shown in the "Acquisitions" column relate to the assets owned by Royal Ciclo at the effective date of the acquisition.

The increases in the item "land and buildings" relate to improvements made by Selle Royal SpA and by some of its subsidiaries on properties used for production and commercial activities.

The increases in other items, and in particular "plant and machinery", "industrial and commercial equipment” and “work in progress and advances” mainly refer to investments of an industrial nature, made mainly by the parent company and the production subsidiaries. The reclassification from the item “work in progress and advances” to the item “industrial and commercial equipment”, amounting to € 973,978, refers to the successful completion of development processes, including multi-year, of new products during the year in question.

EQUITY INVESTMENTS

The balance reflects the cost incurred for the acquisition of equity investments in companies not consolidated on a line-by-line basis and relates, for € 1,918,498, to the equity investment in Highway Two Llc., with registered office in Olney (USA) and share capital of USD 241,648, over which indirect joint control of 50% is exercised. This investment is measured using the equity method. The residual amount of € 723 relates to minority interests held by Selle Royal S.p.A.

GOODWILL

This item had a balance at the reporting date of € 10,428,649. The increase compared to the balance as at 30 June 2018 is due to the residual portion, not allocated to other assets of the target company, of the higher value recognised at the time of acquisition of the interest in Royal Ciclo compared to the corresponding portion of shareholders' equity.

For the sake of completeness, it should be noted that this item includes the goodwill recorded in the financial statements of the subsidiary Crank Brothers Inc., as well as the higher value recognised at the time of acquisition of the shares in the same US subsidiary and in the Chinese subsidiary Selle Royal Vehicle (China) Co. Ltd.

In line with the provisions of IAS 36, goodwill is not subject to amortisation but to an impairment test. The analysis carried out by comparing the value of the goodwill recorded in the financial statements and the present value of the cash flows that it is reasonably expected will be generated by the three companies justifies the values represented.

DEFERRED TAX ASSETS

Details of the item in question is shown in the following table:

	30/06/2019		30/06/2018	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	46.361	12.935	69.566	19.409
Employee bonuses	-	-	109.208	25.140
Accrued leave for employees	106.985	30.854	101.115	22.062
Bad debt provision	289.432	66.978	46.122	10.523
Inventories	-	-	348.167	74.451
Unrealised margin on intra-Group sales	2.115.033	529.593	1.501.078	406.481
Tangible assets	673.223	114.448	-	-
Other temporary differences	34.473	6.895	265.226	5.953
Subtotal current deferred tax assets	**3.265.506**	**761.703**	**2.440.481**	**564.019**
Non-current deferred tax assets:				
Allocation to agents' provision	115.372	32.189	115.372	32.189
Provision for write-down of finished products	1.293.693	319.247	843.598	215.197
Intangible assets	58.997	16.460	130.038	36.281
Tangible assets	1.241.470	251.564	30.178	6.765
Prior tax losses - Federal taxes	1.382.652	290.357	2.326.799	464.423
Prior tax losses - State taxes	1.280.055	179.890	762.599	158.627
Other temporary differences	23.000	5.520		
Subtotal non-current deferred tax assets	**5.395.238**	**1.095.227**	**4.208.584**	**913.481**
TOTAL DEFERRED TAX ASSETS	**8.660.745**	**1.856.930**	**6.649.065**	**1.477.501**

The change in the current portion of deferred tax assets is mainly related to the increase in the value of taxes allocated on the unrealised margin in intra-group transactions following an increase in the provision itself. Deferred tax assets relating to fixed assets increased, both for the current and non-current portion, following the inclusion of Royal Ciclo in the scope of consolidation.

The decrease in non-current deferred tax assets allocated against previous tax losses is attributable to the positive results achieved by the subsidiaries Crank Brothers, Inc. and Selle Royal Vehicle (China) Co., Ltd.

FINANCIAL ASSETS AT FAIR VALUE

This item, amounting to € 510,726, is recognised in the financial statements of the subsidiary Royal Ciclo and refers to the amounts paid by the Company to a financing consortium in which it participates.

OTHER NON-CURRENT ASSETS

This item, amounting to € 63,553, mainly concerns security deposits relating to lease contracts of Selle Royal S.p.A., Crank Brothers, Inc. and SR56, Inc.

CURRENT LIABILITIES

TRADE PAYABLES

"Trade payables" are recognised net of trade discounts and any advances paid to suppliers; cash discounts are instead recognised at the time of payment. The nominal value of these payables was adjusted, in relation to returns or allowances (invoicing adjustments), to the extent corresponding to the amount defined with the counterparty.

The balance amounts to € 17,132,366, up compared to the previous year due to a different timing of purchases, which led to an increase in the balance at the reporting date. This performance is reflected in the trend in inventories discussed above.

TAX PAYABLES

The item in question is detailed below:

	30/06/2019	**30/06/2018**	***Change***
Direct taxes	41.761	111.203	(69.441)
Indirect taxes	1.371.000	90.108	1.280.891
Local taxes	38.471	40.211	(1.739)
Withholding taxes on employees and otl	477.566	491.075	(13.509)
TOTAL TAX PAYABLES	**1.928.798**	**732.596**	**1.196.202**

The increase in the balance compared to 30 June 2018 is attributable to the higher debt for indirect taxes pertaining to Royal Ciclo.

SHORT-TERM LOANS

The balance of the item in question, as at 30 June 2019, amounting to € 25,825,012, a modest increase compared to the previous year, expresses the actual payable for principal, interest and accessory charges accrued and payable and includes both credit lines whose duration does not exceed 12 months and the current portion of the medium/long-term loans.

FINANCIAL LIABILITIES AT FAIR VALUE

This item has a balance of zero, as the instrument came to maturity during the year, at the same time as the underlying to which it referred.

OTHER CURRENT LIABILITIES

The item in question, compared with the balance as at the reporting date of the previous year, is detailed as follows:

	30/06/2019	30/06/2018	*Change*
Payables to employees	4.849.113	4.501.484	347.629
Payables to social security institutions	615.214	511.315	103.899
Payables to sales agents	226.048	223.573	2.475
Payables for tax consolidation	212.753	87.491	125.262
Accrued expenses and deferred income	433.480	462.846	(29.366)
Sundry payables	2.744.800	265.568	2.479.232
TOTAL CURRENT LIABILITIES	**9.081.409**	**6.052.277**	**3.029.132**

The increase in the balance is mainly linked to the residual payables to previous shareholders for the purchase of shares in Royal Ciclo and BROOKS England Ltd.

NON-CURRENT LIABILITIES

PROVISIONS FOR EMPLOYEES

This item mainly includes the employee severance indemnity provision of the Italian companies of the Group.

The value of the employee severance indemnity provision was correctly determined by the Group by applying actuarial methods. The valuation of the liability was carried out by independent actuaries using the projected unit credit method, which determined the value on the basis of the following fundamental assumptions:

- mortality rate: these data were taken from the actuary technician on the basis of the RG48 mortality tables published by the State General Accounting Office;
- disability rate: the annual probabilities of elimination from the service due to incapacity were inferred on the basis of what was published by INPS in 2000;
- annual probability of elimination from the service for other reasons: this was assumed to be 0.5%, determined on the basis of the historical trend of this parameter within the company;
- annual probability of request for severance pay advances: this was assumed to be 3.0%, based on the historical trend of this parameter within the company;
- annual discount rate: this was assumed to be 0.77% based on the average financial duration of the liabilities to employees;
- annual inflation rate: estimated at 1.5% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2018	Changes in scope of consolidation	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 30 June 2019
Provisions for employees	2.029.122	7.440	72.038	(162.061)	25.167	68.583	(526)	2.039.763
TOTAL	**2.029.122**	**7.440**	**72.038**	**(162.061)**	**25.167**	**68.583**	**(526)**	**2.039.763**

In compliance with the provisions of IAS 19 revised, the possible effects on the employee severance indemnity provision deriving from fluctuations in the main parameters used in the actuarial estimate are given below:

Variable	Value
+1% on the turnover rate	1,794,531
-1% on the turnover rate	1,823,739
+1/4% on the annual inflation rate	1,832,852
-1/4% on the annual inflation rate	1,784,341
+1/4% on the annual discount rate	1,769,861
-1/4% on the annual discount rate	1,848,305

OBLIGATIONS

As already mentioned above, during the year in question, the parent company Selle Royal S.p.A. carried out two separate transactions that impacted said balance sheet liability item.

Firstly, on 24 September 2018, Selle Royal S.p.A. issued a new bond instrument listed on the ExtraMot PRO segment (“mini-bond”) for a nominal value of € 10,000,000.00. This instrument, fully subscribed by the Italian reserved and closed-end fund “Mediobanca Fondo per le Imprese 2.0” managed by Mediobanca SGR S.p.A., has an annual interest rate of 4.95% with half-yearly coupons, expires in December 2024, and involves amortising repayments on a straight-line basis starting from December 2020.

The payable, in compliance with the provisions of IAS 39, is recognised on the basis of the amounts collected, net of the transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

The objective of the second transaction, completed on 9 November 2018, was the full early repayment of the residual nominal amount, equal to € 10,125,000.00, plus the related interest, of the bond instrument originally issued in two tranches, in June and December 2014, for a total amount of € 13,500,000.00. For the sake of completeness, note that this instrument would expire naturally in June 2019.

MEDIUM-LONG-TERM LOANS

This item, amounting to € 11,622,690, up by € 5,636,384 compared to the same period of the previous year, relates to the portion falling due beyond the next year of medium/long-term loans (mainly unsecured loans) taken out, for the most part by the parent company Selle Royal S.p.A. with leading credit institutions. The increase in the balance is attributable to the higher volume of new unsecured mortgages taken out with respect to the instalments falling due, as can also be seen from the details provided in the cash flow statement.

PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2018	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 30 June 2019
Provision for supplementary customer indemnities	54.827	14.176	-	(14.887)	54.116
Provision for payment of foreign agents	115.372	-	-	-	115.372
End of mandate indemnity	309.250	23.000	-	-	332.250
Other provisions for risks	2.616.446	-	-	-	2.616.446
TOTAL	**3.095.894**	**37.176**	**-**	**(14.887)**	**3.118.183**

The provision for severance indemnity refers to the pension fund set up by the parent company Selle Royal S.p.A. in compliance with the resolutions of the Shareholders' Meeting.

DEFERRED TAXES

The balance and breakdown of this item are broken down as follows:

	30/06/2019		30/06/2018	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Bond issue	-	-	34.667	9.672
Intangible assets	1.002.755	299.322	1.423.522	301.219
Tangible assets	2.119.029	683.468	467.319	92.807
Gains from equity investments	-	-	181.619	33.875
Other temporary differences	-	-	101.704	26.995
TOTAL DEFERRED TAXES	**3.121.784**	**982.791**	**2.208.831**	**464.568**

This item was also affected by the effects of the first consolidation of Royal Ciclo, which can be found in the row relating to deferred taxes on assets.

FINANCIAL LIABILITIES AT FAIR VALUE

This item, amounting to € 12,017, relates to the market value of a hedging derivative instrument with respect to the risk of fluctuations in interest rates (“IRS”) subscribed by Selle Royal S.p.A. in June 2017 as collateral to the taking out a multi-year floating rate loan maturing in May 2022.

This derivative, maturing in May 2022, has the following characteristics:

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 05/06/2017;

Notional value: € 2,000,000;

Liability hedged: medium-term loan;

Initial date: 05/06/2017;

End date: 31/05/2022;

Debtor Selle Royal S.p.A.: basic product index rate actual/360 paid at the end of the quarter - 3-month Euribor at the beginning of the period;

Bank borrower: basic contractual fixed rate act/360 paid at the end of the quarter - contractual fixed rate -0.21%;

Periodic expiry date: quarterly.

Since the hedge is effective, the change in the fair value of this derivative instrument occurred during the year in question was recorded in a special reserve in shareholders' equity (so-called "cash flow hedge reserve").

SHAREHOLDERS' EQUITY

The share capital is composed as follows:

Shares	Number	Nominal Value (€)
Ordinary Shares	6.000.000	1
Total	**6.000.000**	

The reconciliation between shareholders' equity and profit for the year of the parent company and shareholders' equity and consolidated shareholders' equity is shown in the following table:

	30 June 2019		30 June 2018	
	Shareholders' equ	**Profit for the year**	**Shareholders' equ**	**Group result for the yea**
Selle Royal S.p.A. as per the financial statements	27.627.654	967.387	26.728.739	1.155.490
Difference between book value and pro-rata value shareholders' equity of consolidated companies	8.554.066	-	9.889.561	-
Pro-rata results achieved by consolidated subsidiaries	-	64.194	-	937.622
Application of financial methodology for leased assets	24.209	(11.446)	35.655	(3.605)
Elimination of intercompany profits included in inventories	(1.564.678)	(372.647)	(1.192.030)	(156.239)
Other consolidation differences	(3.850.561)	(128.789)	(3.803.025)	(592.065)
Shareholders 'equity and profit for the year pertaining to the Group	**30.790.690**	**518.699**	**31.658.900**	**1.341.204**
Shareholders' equity and profit for the year attributable to non-controlling interests	4.404.839	432.948	3.550.249	(308.078)
Shareholders' equity and profit for the year as reported in the consolidated financial statements	**35.195.529**	**951.647**	**35.209.149**	**1.033.126**

ANALYSIS and COMPOSITION of the INCOME STATEMENT

REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to € 130.637.239 and were generated by the sale of saddles, pedals and other accessories, and by the provision of services. The breakdown of revenues from sales and services by business category is shown in the following table:

	30 June 2019	30 June 2018	*Change*
Revenues from sales of saddles	75.425.119	68.038.195	7.386.924
Revenues from the sale of accessory components	49.785.169	43.034.852	6.750.317
Revenues from the sale of pedals	12.603.792	7.464.454	5.139.338
Revenues from the sale of sundry materials	1.485.310	2.009.878	(524.567)
Revenue from services	168.875	63.796	105.079
Total gross revenues	**139.468.265**	**120.611.176**	**18.857.090**
Unconditional discounts	(4.364.946)	(3.868.403)	(496.544)
Returns	(956.239)	(604.011)	(352.229)
Price changes and others	(67.875)	(116.726)	48.851
Sales tax	(3.040.255)	-	(3.040.255)
Year-end bonus	(401.710)	(456.291)	54.581
Total revenue from sales	**130.637.239**	**115.565.745**	**15.071.494**

COST OF SALES

The components of the cost of sales are shown below, compared with the previous year:

	30 June 2019	30 June 2018	*Change*
Purchase of raw materials	55.328.323	47.960.108	7.368.215
Ancillary charges on RM purchases	1.493.816	1.914.016	(420.199)
Outsourcing	4.552.845	5.166.769	(613.923)
Labour	15.666.487	13.804.745	1.861.742
Change in inventories	(24.317)	676.704	(701.021)
Total cost of sales	**77.017.154**	**69.522.341**	**7.494.813**

INDUSTRIAL COSTS

This item includes ancillary production process costs, although not directly variable with respect to production volumes, and therefore can be classified under the item "cost of sales".

	30 June 2019	30 June 2018	*Change*
Electricity	1.157.387	902.916	254.471
Consumables	1.595.246	292.384	1.302.862
Minor equipment	413.789	491.901	(78.111)
Maintenance	576.878	531.683	45.195
Rents	1.155.989	1.201.326	(45.337)
Research and development costs	287.676	203.505	84.171
Other industrial costs	644.128	682.903	(38.775)
Total industrial costs	**5.831.094**	**4.306.618**	**1.524.476**

COMMERCIAL AND PROMOTION COSTS

The balance of the item "sales and promotion costs", which is composed of costs directly related to sales activities, is shown below.

	30 June 2019	30 June 2018	*Change*
Commercial and advertising costs	5.098.389	4.295.842	802.547
Transports on sales	3.090.435	2.584.868	505.567
Commissions	1.604.840	1.239.185	365.655
Royalties	37.442	71.775	(34.333)
Gifts	476.387	286.382	190.004
Other commercial and promotion costs	322.341	531.827	(209.486)
Total sales and promotion costs	**10.629.833**	**9.009.878**	**1.619.955**

COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to € 14,295,336 for the year in question, includes the cost of the clerical and managerial structures of the various Group companies.

GENERAL and ADMINISTRATIVE COSTS

The item in question is detailed below, mainly consisting of services purchased by the various Group companies.

	30 June 2019	30 June 2018	*Change*
Consulting	2.885.351	2.660.608	224.744
Travel expenses	1.563.226	1.124.496	438.730
Board of Directors' emoluments	647.666	605.000	42.666
Board of Statutory Auditors' emoluments	60.362	58.076	2.286
Utilities	314.336	245.690	68.646
Entertainment and hospitality expenses	286.616	253.347	33.268
Motor vehicles	450.568	396.931	53.637
Fees and IT support	723.910	556.492	167.418
Insurance	845.628	789.113	56.515
Rents	666.356	514.812	151.544
Other general and administrative costs	2.077.362	1.527.893	549.469
Total general and administrative costs	**10.521.383**	**8.732.459**	**1.788.924**

OTHER OPERATING INCOME and EXPENSES

The table below provides details of other operating income and expenses that cannot be classified in other items of the income statement, including extraordinary positive and negative income components.

	30 June 2019	30 June 2018	*Change*
Operating income:			
Minor independent works	202.294	54.459	147.834
Repayments and sundry income	210.421	672.963	(462.542)
Capital gains	6.041	30.051	(24.010)
Contingent assets and other income	313.536	133.552	179.983
Royalty income	49	1.172	(1.123)
Research & development	259.508	819.546	(560.038)
Total operating income	991.849	1.711.743	(719.895)
Operating expenses:			
Provisions for obsolescence	(235.753)	(558.614)	322.862
Allocation to provision for credit risks	(195.180)	(244.376)	49.196
Losses on receivables	(20.617)	(91.692)	71.074
Capital losses	(25.797)	(514)	(25.283)
Contingent liabilities and other charges	(250.669)	(130.396)	(120.274)
Total operating expenses	(728.016)	(1.025.591)	297.575
TOTAL OPERATING INCOME / (EXPENSES)	**263.833**	**686.153**	**(422.319)**

The net balance of this item was positive by € 263,833, down compared to the previous year. The change is mainly due to the presence of a non-recurring component in the 2018 balance relating to the item research & development, which included a portion of the tax benefit recognised on the development activities carried out by some US companies also in previous years.

OTHER FINANCIAL INCOME and EXPENSES

The breakdown of interest and other financial charges is provided in the table below:

	30 June 2019	**30 June 2018**	***Change***
Financial income:			
Bank and postal interest	31.671	18.141	13.530
Dividends	4.421	-	4.421
Other financial income	28.270	3.685	24.585
Total financial income	64.361	21.825	42.536
Financial charges:			
Interest on bonds	(693.737)	(719.665)	25.928
Interest expense	(1.856.424)	(1.072.066)	(784.358)
Interest cost provision for employee severance indemnity	(25.167)	(29.408)	4.241
Discounts	(548.984)	(504.304)	(44.680)
Bank charges	(623.050)	(589.054)	(33.996)
Total financial charges	(3.747.362)	(2.914.496)	(832.865)
Net exchange rate differences	43.180	(244.692)	287.872
TOTAL FINANCIAL INCOME / (EXPENSES)	**(3.639.820)**	**(3.137.363)**	**(502.458)**

The growth of this item is essentially attributable to the effects deriving from the inclusion of Royal Ciclo in the Group perimeter. On a like-for-like basis, interest expense decreased substantially by € 137,589, as did the other main cost items.

The impact of the net exchange rate differences also improved which, on the whole, were positive in the year in question for € 43,180 (compared to a negative balance of € -244,692 in the previous year). This item includes both exchange gains and losses realised as at 30 June 2019, and latent exchange gains and losses as at the same date deriving from the alignment of foreign currency balances with the current exchange rates at the end of the year, in addition to exchange differences resulting from the elimination of the intragroup items.

TAXES FOR THE YEAR

The following table details the tax burden emerging at the level of the individual companies belonging to the Group perimeter and any income adjustment items related to the consolidation.

	30 June 2019	30 June 2018	*Change*
Current taxes	1.297.532	575.718	721.814
Deferred tax (assets)/liabilities	(264.683)	(149.717)	(114.966)
TOTAL TAXES FOR THE YEAR	**1.032.849**	**426.001**	**606.848**

The increase in current taxes is attributable to the better results achieved by some Group companies, plus the taxes present in the financial statements of Royal Ciclo.

These consolidated financial statements, consisting of the Balance Sheet, the Income Statement and the Explanatory Notes, provide a true and fair view of the equity and financial position as well as the economic result for the year ended 30 June 2019 and correspond to the results of the accounting records.

* * *

Pozzoleone (VI), 29 November 2019
The Chairman of the Board of Directors
(Barbara Bigolin)

Selle Royal S.p.A.

Independent Auditors’ Report

Consolidated Financial Statements as at 30 June 2019

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Independent Auditors' Report

Pursuant to art. 14 of Legislative Decree no. 39 of 27 January 2010

To the Shareholder of Selle Royal S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Selle Royal S.p.A. Group (the Group), comprising the consolidated statement of financial position as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders' equity, the consolidated cash flow statement for the year ending on that date and the explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as at 30 June 2019, and of its economic result and cash flows for the year ended as at said date, in compliance with the International Financial Reporting Standards adopted by the European Union.

Elements forming the basis of our opinion

We have conducted the audit in compliance with the international standards on auditing (ISA Italy). Our responsibilities pursuant to these standards are described further in the section "Responsibilities of the independent auditors for the audit of the consolidated financial statements" in this report. We are independent from the Company in compliance with the regulations and principles governing ethics and independence applicable in the Italian legal system to the auditing of financial statements. We believe we have obtained sufficient and appropriate evidence on which to base our opinion.

Responsibilities of the Board of Directors and the Board of Statutory Auditors for the consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements that provide a true and fair view in compliance with the Italian regulations that govern their drafting criteria and, within the terms prescribed by law, for the part of the internal control deemed necessary by these to allow the drafting of financial statements that do not contain material errors due to fraud or unintentional behaviour or events.

The Directors are responsible for assessing the Group's capacity to continue to operate as a going concern and, in drafting the consolidated financial statements, for the appropriateness of the going concern assumption and for adequate relevant disclosure. The Directors apply the going concern assumption in drafting the consolidated financial statements unless they have evaluated that the conditions exist for the liquidation of the parent company Selle Royal S.p.A. or for the suspension of business or they do not have realistic alternatives to these choices.
The Board of Statutory Auditors is responsible for monitoring, in accordance with the terms prescribed by law, the process of preparation of the Group's financial disclosures.

BDO Italia S.p.A. - Registered office: Viale Abruzzi, 94 20131 Milan - Share capital EUR 1,000,000, fully paid-in
Tax Code, VAT no. and Registration no. in the Milan Register of Companies 07722780967 – Milan R.E.A. (economic and administrative index) 1977842
Enrolled in the Register of Auditors at no. 167911 under Ministerial Decree of 15/03/2013 Official Gazette no. 26 of 02/04/2013
BDO Italia S.p.A., Italian joint-stock company, member of BDO International Limited, UK company (company limited by guarantee), and part of the international BDO network, network of independent companies.

Responsibility of the independent auditors for the audit of the consolidated financial statements

Our objectives are to acquire reasonable certainty that the consolidated financial statements, as a whole, are free of material errors, due to fraud or unintentional behaviour or events, and the issuing of an audit report, which includes our opinion. By reasonable certainty, we mean a high level of certainty that, however, does not provide the guarantee that an audit conducted in compliance with the international audit standards (ISA Italy) always identifies a material error, if it exists. Errors may result from fraud or unintentional behaviour or events and are considered significant if they are reasonably expected, both individually and as a whole, to be able to influence the economic decisions taken by users based on the consolidated financial statements.

As part of the audit conducted in compliance with the international audit standards (ISA Italy), we exercised our professional judgment and maintained our professional scepticism for the duration of the audit. In addition:

- we identified and evaluated the risks of material errors in the consolidated financial statements, due to fraud or unintentional behaviour or events; we defined and performed the audit procedures in response to said risks; we obtained sufficient and appropriate evidence on which to base our opinion. The risk of not identifying a material error due to fraud is higher than the risk of not identifying a material error deriving from unintentional behaviour or events, since fraud may imply the existence of collusion, falsifications, intentional omissions, misleading representations or forcing of internal control;
- we acquired an understanding of the relevant internal control system for the purposes of the audit, in order to define the appropriate audit procedures in the circumstances and not to express an opinion on the effectiveness of the Group's internal control system;
- we evaluated the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates prepared by the directors, including the relevant information;
- we reached a conclusion on the appropriateness of the directors' use of the going concern assumption and, based on the supporting elements acquired, on the existence of significant uncertainty regarding the events or circumstances that may gave rise to major doubts over the Group's ability to continue to operate as a going concern. In the presence of significant uncertainty, we are required to draw attention, in the audit report, to the relevant financial statements information, i.e. if said information is inadequate, or to reflect this circumstance in the formulation of our opinion. Our conclusions are based on the supporting elements acquired until the date of this report. However, subsequent events or circumstances may cause the Group to cease operating as a going concern.
- we evaluated the presentation, structure and content of the consolidated financial statements as a whole, including the information, and whether the consolidated financial statements correctly represent the underlying transactions and events
- we acquired sufficient and appropriate evidence on the financial information of the companies and of the difference economic activities carried out within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the Group's audit engagement. We are sole party responsible for the audit opinion on the consolidated financial statements.

  We informed the managers of governance activities, identified at an appropriate level as required by ISA Italy, including other aspects, of the planned scope and timescales for the audit and the significant results that emerged, including any significant gaps in the internal control system identified during our audit.

Report on other legal and regulatory provisions

Opinion pursuant to art. 14, paragraph 2, letter e) of Legislative Decree 39/10

The Directors of Selle Royal S.p.A. are responsible for the preparation of the report on operations of the Selle Royal S.p.A. Group as at 30 June 2019, including its consistency with the relevant consolidated financial statements and its compliance with the legal provisions.

We carried out the procedures set out in accounting standard (SA Italy) no. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Selle Royal S.p.A. Group as at 30 June 2019 and on its compliance with the legal provisions, as well as issuing a declaration on any material errors.

In our opinion, the report on operations referred to above is consistent with the consolidated financial statements of the Selle Royal S.p.A. Group as at 30 June 2019 and is drafted in compliance with the legal provisions.

With reference to the declaration pursuant to art. 14, paragraph 2, letter e) of Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and the relevant context acquired during the audit, we have nothing to report.

Milan, 3 December 2019
BDO Italia S.p.A.
Carlo Consonni
Shareholder
[signature]