Selle Royal Group

CONSOLIDATED ANNUAL REPORT AT 30.06.2022

Selle Royal Group S.p.A.
Legal seat in Via Vittorio Emanuele n. 119 – Pozzoleone (VI)
Authorized share capital Euro 46.000.000,00 of which subscribed and paid Euro 6.000.000,00
Vicenza Companies House and tax ID no. 00231010281
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Some figures in the document have been rounded. Consequently, homogeneous data presented in different tables may undergo modest variations and some totals, in some tables, may not be the algebraic sum of the respective addends.

<u>REPORT ON OPERATIONS</u>

Dear Shareholders,

The year ended 30 June 2022 reported a consolidated profit of € 24,503,594, of which € 21,385,884 is attributable to the Group.

EVENTS DURING THE YEAR

"*We used to occasionally have black swan events. The problem, at the moment, is we have a whole flock of black swans coming at us*"

- Richard Wilding, Prof. of Supply Chain Strategy

"*...as in any changing scenario, the big winners will be the ones who happened to guess right. But, failing that, the most successful players will be the most agile ones*"

- Rick Vosper – Columnist and industry expert

Although not all the "black swans" to which the quotation refers fully respect the characteristics of those events as theorised by Nassim Nicholas Taleb, it is clear that the year in question was characterised not only by the continuation of some positive long-term trends for the sector of the cycle to which the Group belongs, but also by a concurrence of adverse events that is unprecedented in recent history: the persistence of the pandemic emergency, the increasing commodities and energy costs, the worldwide bottleneck in logistic flows and the escalation of geopolitical tensions, especially between the United States and China. Furthermore, the year 2022 opened in the shadow of growing tensions on the eastern Ukrainian border, culminating in the Country's invasion by the Russian Federation army and in the continuing war scenario, which further accentuated the tensions on the currency, capital and commodities markets, causing a further deterioration to a macroeconomic framework which was already under pressure due to the forecast of an inflation-driven slowdown in global growth.

The production plants of the entire Group had to face a rapid increase in the procurement costs of the main categories of materials (plastic, chemical, ferrous and, also, paper derivatives) and, although to a lesser extent, the cost of electricity and gas.

In the course of 2021/22, the critical conditions in global logistics have quickly exacerbated starting from the rapid post-shock economic recovery, under the combined effect of: congestion at the main ports of destination for goods from Asia, especially those on the west coast of the United States, where there has been a wait of around 50 days for ships to unload *(source: "C-Timing" research by Container Xchange and Fraunhofer CML, as reported in the article "Imbalance in shipping container supply chain is far from over" - BikeEurope)*; of the advent of the Omicron variant, which has led to major slowdowns in activity or even total closures of some Far Eastern ports; the increase in the cost of oil and, finally, the reduction of the available maritime labour force, which is affected by the Russian-Ukrainian conflict (the war is blocking about 15% of seafarers, of which 10% are Russian – about 198,000 employees – and 5% Ukrainian – about 76,000 employees; *source: "Container, la tempesta perfetta" – La Repubblica, 28/03/2022*).

Despite this macroeconomic and geopolitical scenario, the Group continued to increase both its turnover and its gross margin compared to the same period of the previous year; therefore, the Group's ability to create value is consolidated thanks to its position of undisputed leadership in its reference segments.

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

EUROPE

"E-bikes are the most powerful instrument for change. We are way ahead of electric cars"

- Kevin Mayne – CEO of Cycling Industries Europe

"*You cannot do it (the cycling revolution, ndr.), and cycling will make it easier*"

- Frans Timmermans – Executive VP of the European Commission

As reported in the Deloitte E-Mobility Survey 2022, published by the consulting company of the same name in May 2022, the *e-bike* was the electric means of mobility of choice for 18% of the participants (a total panel of 1,008 German adults, a statistically representative sample), compared to only 7% of electric cars and scooters (the second and third most representative categories). Moreover, this mean of transport has proven to be the most attractive form of alternative mobility (with a score of 2.7 on a scale of 1 to 4), for various reasons: from ease of use, to being a viable alternative to other means of transport, from environmental sustainability to the fun associated with its use.

At a continental level, sales of cycles, both conventional and pedal-assisted, exceeded 22 million units in 2021, the highest figure since 2000 (the year these statistics began to be recorded), with a market value that grew by +7.5% compared to 2020 to € 19.7 billion *(source: European Bicycle Industry and Market Profile, CONEBI)*. Of the 22 million bicycles sold, approximately 5 million are electric bicycles, demonstrating the further penetration potential for the coming years, as also pointed out by Deloitte in

the research mentioned above, when compared to the shares of these products in more mature markets (in Germany, they account for around 43% of bicycles sold, in the Netherlands over 50%).
Also of particular importance is the phenomenon of the return of cycles and components production to Europe (the so-called "reshoring", with Eastern European countries and Portugal being the preferred destinations), driven by national and European incentives, the presence of skilled labour, with the possibility of considerably reducing production lead times and, last but not least, a growing environmental awareness on the other hand. During 2021, approximately 16 million bicycles were produced in Europe (+10% over the previous year), while the production of parts and components grew by +20% to 3.6 billion *(source: ibidem)*. This phenomenon has given and will continue to give impetus to a sector of the manufacturing industry that already today employs approximately 87,000 people directly and about twice that number also considering the allied industries *(source: ibidem)*, as well as representing a key element in achieving the ambitious plans to reduce carbon dioxide consumption set out in the European Green Deal of 2019 and the Cop26 in Glasgow at the end of 2021.

AMERICA

"*The future ain't what it used to be*"

- Yogi Berra – All star baseball player

"*It's as if there was a "global bicycle boom" big button and someone pressed it without warning*"

- John Burke – CEO Trek Bicycles

During the year under review, the United States was the country that suffered most from the shocks on both the demand and supply sides.
On the supply side, the first imbalances had already been recorded in 2019, with the imposition of additional duties for some products (including bicycles) of Chinese manufacture: in fact, that year recorded the lowest imports of cycles since 1982 (approximately 13.0 million units, excluding e-bikes, equal to a value of approximately US$ 1.2 billion *(source: US Department of Commerce)*). Up until the previous year, China was the country of origin of approximately 64% of bicycles imported into the USA *(source: USA Trade Online/Census Bureau, as reported in an article published on the Bicycle Retailer on 6 June 2022)*.
Import volumes subsequently rose to 17.2 million units in 2020 and 19.2 million in 2021, equal to almost US$ 2.0 billion in 2021 *(source: US Department of Commerce)*; in the first quarter of 2022, 4.7 million

bicycles were imported, i.e. +52% compared to the first quarter of 2021 and +143% compared to the first quarter of 2020 *(source: USA Trade Online/Census Bureau, as previously mentioned)*. In the meantime, the set of cycles originating from the People's Republic of China fell to 45% (figure relating to imports in the first quarter of 2022, with Cambodia as the country receiving the most American demand; *source: USA Trade Online/Census Bureau, as previously mentioned)*. In light of the growing geopolitical tensions between the USA and China, it is likely that Yogi Berra will prove to be an easy prophet.

These figures clearly show the extent of the challenges faced by a sector that has had to change its procurement sources quite radically and at the same time significantly increasing the volumes offered.

On the demand side, however, the plastic representation evoked by the CEO of Trek Bicycles, one of the most established global bicycle brands, is effective. As already described in the past, the spread of the Covid-19 virus actually "detonated" a number of trends that were already emerging. If Europe is a substantially mature market, albeit with significant differences between individual countries, the same cannot be said of the United States, where the adoption of the cycle is less widespread especially in its meaning of means of transport. Half of today's (American) cyclists have taken up this activity, or returned to it after a period of interruption, in the last two years *(source: National Bicycle Dealers Association Bicycle Buying 2021)*, while 30% of Americans have cycled at least once in the last two years *(source: Covid Participation Study by People for Bikes, as cited in Bicycle Retailer on 13 June 2022)*.

The lengthening of production and logistics lead times, combined with the strong growth in demand, meant that American retailers faced the complex situation of issuing purchase orders with lead times of 10-12 months, with undoubted difficulties in forecasting in such a dynamic market. A similar situation was also found upstream in the value chain (national and regional distributors and, even more upstream, manufacturers of cycles and accessories), creating the so-called *bullwhip effect*, i.e. the excess of purchases in times of shortage of stocks that then materialises in an excess of inventories when demand stabilises, which was actually observed starting from the first months of 2022.

The local market, which has shown a great inclination towards the cycle sector as a new lifestyle, appears to be evolving to date, with all forecasts for the short-term period made even more complex by expectations regarding the impact of inflationary evolution (and the consequent tightening moves carried out by the Federal Reserve) on the propensity for private consumption of non-essential goods.

ASIA

"*The transformation of the Taiwanese industry from producing traditional bicycles... to e-bikes is in full swing*"

- Michael Tseng Chairman of the Taiwan Bicycle Association (2019... but still in office)

"*The recent production disruptions in China could also add another headwind in the near term*"

- Bank of America Monthly Bicycle Industry Tracker (April 2022)

There is no doubt that the increase in demand for e-bikes in Europe and North America has benefited not only local European producers (together with those who have transferred production from East Asia, a phenomenon already described above), but also non-EU countries traditionally assemblers for the Western world. In this regard, in 2021 Taiwan recorded the fourth consecutive double-digit annual increase in exports of pedal-assisted bicycles, with +30% growth in volume (to just under 1.0 million units) and +33% in value (to € 1.2 billion; *source: Taiwan's Ministry of Economic Affairs*), with triple-digit rates in the UK (+155%) and Germany (+104%, the third largest destination country for bicycles *made in Taiwan*) and double-digit but extremely high rates in the USA (+62%) and France (+48%) *(source: ibidem)*. Europe, which imported a total of more than 1.1 million electric bicycles (approx. +30% compared to 2020), relied mainly on suppliers located "on the island" for almost half of its import requirements (approximately 480 thousand units compared to approximately 450 thousand in 2020; *source: Taiwan Bicycle Association; data revised by Bike Europe 05/05/2022*), followed by China, Vietnam and Turkey. Also in the first four months of 2022, the positive trend in Taiwanese exports of cycles and components continued, which recorded a +28.4% compared to the same period of the previous year, reaching a value of US$ 2.0 billion. Electric bicycles alone increased in value by +12.8% to US$ 470 million *(source: Taiwan Bicycle Association, as stated in the article "Taiwan sees hike in bicycle export revenues", 21/7/2022)*.

The year under review also saw a resurgence of the pandemic in East Asia, following the spread of the so-called "Omicron variant", with significant local and global impacts, especially as a result of the Draconian containment measures implemented in the People's Republic of China. As will be recalled, the metropolis of Shanghai underwent a lockdown of more than four weeks, between the months of March and April, with heavy repercussions on the levels of operations of its port, the busiest in the world. In those weeks, the number of ships on hold increased by 35% compared to the same period of the previous year *(source: "L'economia cinese in lockdown"; La Repubblica 26/04/2022)*. From 11 to 20 April, the turnover of the main Chinese ports fell by -5.2% on an annual basis. More worrying are the

GDP figures of the provinces most affected by these restrictions: Henan (4.7%), Jiangsu (the province where Selle Royal Vehicle (China) Co, Ltd is located; 4.6%), Guangdong (3.3%), Shanghai (3.1%) and Tianjin (0.1%) grew less than the national average. In March, industrial production in Shanghai fell by -7.5% year-on-year, the first drop recorded in two years *(source: ibidem)*. As a result, the Chinese government had to revise its growth estimates for 2022, in a politically complex year, as the nomenklatura will meet on 16 October to grant a new mandate to President Xi Jinping. Therefore, it is clear that, in discontinuity with the recent past, it is political rather than economic issues that currently drive the Party's agenda.

With reference to the Selle Royal Group, on 12 January 2022, the Shareholders' Meeting of the parent company, in addition to the change of company name (it should be recalled that the company was formerly Selle Royal S.p.A.), resolved to approve a project aimed at the listing of the same on the electronic equity market Euronext Milan organised and managed by Borsa Italiana S.p.A., and in particular on the Euronext STAR Milan segment, if the conditions were met. This placement was subsequently discontinued in late spring at the company's own instigation, despite the positive course of the process up to that point, due to the severe and persistent deterioration in stock market conditions, mainly as a result of inflationary tensions and the continuing Russian-Ukrainian conflict.

Further significant events that occurred in the current tax year, mentioned yet in the consolidated nine-monthly financial report as at 31 March 2022, are reported below.

As regards the corporate structure, on 6 July 2021, Jiangyin Selle Royal Cycling Co., Ltd., a company under Chinese law, 68.29% owned by the Selle Royal Group, was established through the Hong Kong holding Selle Royal Asia Limited (the remaining interest is held by the same minority shareholder of Selle Royal Vehicle (China) Co., Ltd). This company was established in order to take over the concession of land for industrial use located in the municipality of Jiangyin (province of Jiangsu, People's Republic of China), to be used for the construction of a new production plant. The land was optioned and the necessary discussions are underway with the relevant local administration in order to obtain the necessary authorisations and building permits. This new initiative became necessary due to the expropriation notification received by the subsidiary Selle Royal Vehicle (China) Co., Ltd. during the first half of the current fiscal year, and relating to the land on which its production plant stands. The date of execution of the expropriation measure and the amount to be paid as compensation have not yet been defined.

On 6 December 2021, the merger by incorporation of SR84 S.r.l. into Selle Royal Group S.p.A. was successfully completed, with tax effect from 1 July 2021.

On 22 December 2021, Selle Royal Group S.p.A. signed an agreement with M J K Partecipações Ltda., equal shareholder in the Brazilian company Royal Ciclo Industria de Componentes Ltda., aimed at the purchase of an additional share of 1% of the latter's share capital. As a result of this transaction, Selle Royal Group S.p.A. holds 51% of the subsidiary's share capital. As illustrated in the explanatory notes to this consolidated annual financial report, the company was already consolidated using the line-by-line method as Selle Royal Group S.p.A. exercised de facto control over it.

Please finally note that the liquidation process of Royal Concept Co., Ltd. has officially ended, as formal notification of its cancellation from the local *Companies Registry* was received in March 2022.

THE SELLE ROYAL GROUP and the CORONAVIRUS-19 PANDEMIC

As is known, the period in question was characterised by the persistence of the state of emergency linked to the Covid-19 pandemic at global level.

As regards the Selle Royal Group, the adoption of urgent prevention and control measures by each company in the perimeter (including, by way of example, the adoption of remote work organisation forms, free periodic tests for employees and the restructuring of personnel flows and work shifts in the production sites) have ensured that no outbreaks of the virus have occur within the facilities, thus making it possible to increase the output volumes needed to deal with the increased demand from the various markets in which the Group operates.

THE SELLE ROYAL GROUP and the WAR EVENTS in UKRAINE

Despite having commercial relations with counterparties residing in Ukraine, the Russian Federation and Belarus, the Selle Royal Group is not significantly exposed to the risks deriving from the ongoing war events. The turnover generated for the Group in these countries, even in aggregate form, represents an essentially insignificant portion of the consolidated turnover. At the same time, none of the Group’s direct suppliers are based in those countries, therefore, so there has been no significant impact on the supply chain since the start of the conflict, nor is there reasonably expected to be any in the future should the situation remain unchanged.

ECONOMIC PERFORMANCE

The following table shows the 2021/22 income statement, compared with the figures for the previous year:

	2021/22	% of revenues	2020/21	% of revenues	% Change
Revenues	223.762.787	*100,0%*	205.090.143	*100,0%*	*9,1%*
Cost of sales	126.936.347	*56,7%*	117.039.940	*57,1%*	*8,5%*
GROSS MARGIN	96.826.440	*43,3%*	88.050.203	*42,9%*	*10,0%*
Operating costs	55.376.706	*24,7%*	51.699.182	*25,2%*	*7,1%*
EBITDA	41.449.734	*18,5%*	36.351.021	*17,7%*	*14,0%*
Amortisation / depreciation and write-downs of fixed assets	8.078.526	*3,6%*	7.128.778	*3,5%*	*13,3%*
EBIT	33.371.208	*14,9%*	29.222.243	*14,2%*	*14,2%*
Financial income / (charges) and other financial components	(1.629.042)	*-0,7%*	(3.850.941)	*-1,9%*	*-57,7%*
PRE-TAX RESULT	31.742.167	*14,2%*	25.371.302	*12,4%*	*25,1%*
Taxes for the year	7.238.573	*3,2%*	6.831.377	*3,3%*	*6,0%*
NET PROFIT FOR THE YEAR	24.503.594	*11,0%*	18.539.926	*9,0%*	*32,2%*
Minority interests	3.117.710	*1,4%*	3.622.371	*1,8%*	*-13,9%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	21.385.884	*9,6%*	14.917.555	*7,3%*	*43,4%*

The year in question, which ended on 30 June 2022, recorded sales of € 223.8 million, with a strong growth compared to the turnover of the previous year (+9,1%). In addition, during the period, the Group recorded an additional improvement in margins (from 42,9% to 43,3%), despite the impact resulting from the increase of supplying costs of raw materials.

The increase in operating costs, and in particular in some industrial costs linked to production volumes, was partly driven by the growth in turnover. Overall, however, the Group greatly benefited from significant operating leverage effect, which brought the EBITDA *margin* to 18,5% of revenues (compared to 17,7% in the year of comparison).

In absolute terms, this item reached € 41.4 million compared to € 36.4 million million in the year of comparison, signing a significant growth of +14.0%.

Despite the increase of depreciation and amortisation respect to the comparative figure, the operating result grows up of +14.2% compared to the fiscal year closed at 30 June 2021, signing a growth more than proportional respect to the growth of the EBITDA.

The financial charges, as such, are substantially in line with the previous year reaching a value equal to € 2.9 million. The overall figure, including the foreign exchange differences, shows a decrease about € 2.2 million, mainly thanks to the above mentioned exchange differences, that bring a positive impact for € 1.3 million.

As anticipated, the year in question closed with a net profit in strong growth (+32.2%) compared to the previous year (€ 24.5 million and € 18.5 million, respectively), with an incidence of 11,0% on the turnover (9,6% considering solely the profit pertaining to the Group; +43,4% the growth compared to the previous fiscal year 2020/21).

STATEMENT OF FINANCIAL POSITION

The financial position of the Group as at 30 June 2022, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2021, is as follows:

	30/06/2022	30/06/2021	*Change*
Trade receivables	32.964.861	28.453.316	4.511.545
Inventories	43.649.021	26.318.545	17.330.475
Tax receivables	4.726.827	2.266.907	2.459.920
Other current assets	1.317.096	1.480.397	(163.301)
CURRENT ASSETS	*82.657.804*	*58.519.166*	*24.138.639*
Trade payables	20.179.920	22.080.469	(1.900.548)
Tax payables	6.289.289	6.262.892	26.398
Other current liabilities	13.297.952	9.690.052	3.607.900
CURRENT LIABILITIES	*39.767.162*	*38.033.412*	*1.733.749*
NET WORKING CAPITAL	42.890.643	20.485.753	22.404.889
Tangible assets	37.324.083	30.529.614	6.794.469
Intangible assets	20.955.107	21.142.693	(187.586)
Equity investments	2.482.007	2.060.638	421.369
Goodwill	10.673.404	10.320.071	353.333
Other non-current assets	3.133.904	2.050.345	1.083.558
NON-CURRENT ASSETS	*74.568.504*	*66.103.361*	*8.465.143*
Employee severance indemnity and other provisions	2.308.198	2.500.819	(192.621)
Deferred taxes	893.978	760.993	132.985
NON-CURRENT LIABILITIES	*3.202.177*	*3.261.812*	*(59.635)*
NET INVESTED CAPITAL	114.256.970	83.327.302	30.929.668
Short-term financial debt, net	1.520.247	3.770.491	(2.250.244)
Medium/long-term financial debt	43.091.687	38.353.309	4.738.379
NET FINANCIAL DEBT	44.611.935	42.123.800	2.488.134
Share capital and other reserves	35.624.425	17.621.302	18.003.123
Group profit for the year	21.385.884	14.917.555	6.468.329
GROUP SHAREHOLDERS' EQUITY	57.010.309	32.538.857	24.471.452
Share capital and other reserves	9.517.017	5.042.274	4.474.743
Profit for the year pertaining to minority interests	3.117.710	3.622.371	(504.661)
MINORITY INTERESTS	12.634.727	8.664.645	3.970.082

The increase in net working capital (€ +22.4 million) results mainly driven by higher inventories and trade receivables, while the trands of the other items classified under current assets and liabilities cancel each other out. The growth of the trade receivables is mainly due to the increase of the turnover. The growth of the inventory value is, instead, linked to more phenomenon: in one side, the complex situation of the global logistic continues to impact on the final balance and, in the other side, it has influenced the higher value per unit consequents to the increase of the supplying costs.

With specific reference to Asian products, the strong extension of the lead times between the booking of maritime leases and the delivering of the goods to the final destination have comported a significant increase in inventory level as at 30 June, regarding both finished product and goods in transit.

The continue increase of raw materials costs and some occasional critical issues regarding on sourcing of them, have brought at the valuation of an increase, where possibile, of the inventories, in order to both reducing the possibile production inefficency and mitigate the infactionary impact; as commented above, the result of these strategic choices, jointly to the review of pricing lists, have allowed to increase the gross profitability of the Group.

The operating investments ("capital expenditure") made by the various Group companies, for a total amount of € 13.8 million (of which € 5.2 million pertaining to the increase in the item "rights of use" recognised in accordance with the IFRS 16 accounting standard), were mainly aimed at product innovation, one of the key elements on which the Group bases its future growth, the renewal and improvement of production sites and the protection of intellectual assets consisting in particular of the over 70 registered product and/or process patents and trademarks under which the Group markets its products. Net invested capital shows an increase of € 30.9 million, reaching € 114.3 milion, mainly driven by net working capital dynamic.

Net financial debt increases for € 2.5 million and it is equal to € 44.6 million; this increase is entirely concentrated on medium / long-term portion, instead the increase of current financial indebtedness has been resulted more than compensed by the increase of the cash and cash equivalents, as shown in the table below:

		30/06/2022	30/06/2021	*Change*
A	Cash on hand	26.283.940	19.846.067	6.437.873
B	Cash and cash equivalents	-	-	-
C	Other current financial assets	-	-	-
D	**Liquidity (A + B + C)**	**26.283.940**	**19.846.067**	**6.437.873**
E	Current financial debt *	9.978.258	10.963.212	(984.954)
F	Current portion of non-current financial debt **	17.825.929	12.653.347	5.172.582
G	**Current financial debt (E + F)**	**27.804.187**	**23.616.559**	**4.187.629**
H	**Net current financial debt (G-D)**	**1.520.247**	**3.770.491**	**(2.250.244)**
I.	Non-current financial debt ***	39.147.032	32.477.712	6.669.320
J	Debt instruments	3.944.655	5.875.597	(1.930.941)
K	Trade payables and other non-current payables	-	-	-
L	**Non-current financial debt (I + J + K)**	**43.091.687**	**38.353.309**	**4.738.379**
M	**Net financial debt (H + L)**	**44.611.935**	**42.123.800**	**2.488.134**

* Excluding current portion of non-current financial debt;

** Includes the current portion of bank loans and bonds as well as lease liabilities pursuant to IFRS 16

*** Includes the non-current portion of mortgages and lease liabilities pursuant to IFRS 16

The increasing of net financial indebtedness, anyway, results limited respect to the increase recorded at net working capital level, thanks to the operating cash flow generated during the period, at the net of the variation of the net working capital.

DERIVATIVE FINANCIAL INSTRUMENTS

The parent company Selle Royal Group S.p.A. has two derivative financial instruments in place, with the aim of hedging the risk of fluctuations in interest rates on as many medium/long-term loans.

It should be noted that, during the fiscal year, in particular in May 2022, has arrived to natural maturity the loan that was on the unique derivative financial contract that until to 30 June 2021 was recorded under “current financial liabilities at fair value”.

At the end of the financial year 2022, the total value of the two new derivative contracts signed during the period, maturing in September 2027, is recorded under “non-current financial liabilities at fair value”.

As these instruments were effective, the initial recognition and subsequent changes in value were recognised in a specific equity reserve (“cash flow hedge reserve”), net of the related tax effect. For further information, please refer to the Explanatory Notes to this consolidated annual financial report.

INVESTMENTS

As already mentioned, during the year 2022, the company made operating investments ("capital expenditure") of approximately € 13.8 million, as shown in detail below:

	30/06/2022
Land and buildings	361.676
Right of use of leased assets	5.243.385
Plant and machinery	2.946.039
Industrial and commercial equipment	2.170.146
Other assets	584.654
Fixed assets in progress and payments on account	1.666.475
Sub-total - Investments in tangible assets	**12.972.375**
Industrial patent rights and intellectual property rights	248.437
Concessions, licences, trademarks and similar rights	451.797
Fixed assets in progress and payments on account	108.071
Sub-total - Investments in intangible assets	**808.305**
TOTAL OPERATING INVESTMENTS	13.780.680

As reported in the table above, € 5.2 million are related to goods under rent, leasing or similar contract, for which the application of IFRS 16 accounting standard is requested.

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

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

RISK ANALYSIS

The main financial and operational risks to which the Group is exposed are shown below:

Financial risks

Credit risk

The Group is exposed to credit risk deriving mainly from commercial relations with its customers and, in particular, due to any delays or non-fulfilment of their payment obligations according to the agreed terms and methods. On the other hand, some Group companies have taken out insurance policies with a leading international institution to mitigate this risk. At the balance sheet date, approximately 68% of the consolidated receivables (gross of the bad debt provision) were covered by insurance.

Risks associated with changes in interest rates

As at 30 June 2022, approximately 84% of the Group's consolidated gross financial debt was floating rate, equal to € 51.6 million. In relation to a portion of this debt (approximately 32% of the total), the parent company Selle Royal Group S.p.A. made use of derivative financial instruments (know as IRS, interest rate swap) to hedge the risk of fluctuations in interest rates on two medium/long-term loans. The aggregate mark-to-market value of these derivatives as at 30 June 2022 is positive in the amount of € 964,394. The remaining part of the consolidated gross financial debt at floating rate, equal to approximately 52% of the total, is not hedged by interest rate risk hedging instruments. Significant changes in interest rates could result in an increase in financial charges relating to floating rate debt.

Liquidity risk

It should be noted that there are sufficient credit lines to meet the reasonably foreseeable liquidity requirements, also in view of the typical seasonality of the sector in which the Group operates.

Risks associated with exchange rate trends

Part of the Group's activities are carried out, also through subsidiaries, outside the Eurozone and the fees for some orders and transactions are agreed in currencies other than the Euro, mainly in US Dollars, Chinese Renminbi, Brazilian Real and Taiwanese Dollars. In this regard, it should be noted that any fluctuations in currencies other than the Euro could have negative effects on the Group's operating margins. In addition, fluctuations in the exchange rates used to convert the financial statements of certain foreign companies of the Group, originally expressed in currencies other than the Euro, could affect the economic, equity and financial situation of the Group, which prepares the consolidated financial statements in Euro.

Operational risks

Risks associated with the operations of production plants

The Group is exposed to the risk of having to interrupt or suspend its production activities due to events beyond its control, including the revocation of permits and authorisations, breakdowns, malfunctions, damage or natural disasters. This could have negative effects on the economic, equity and financial situation of the Group.

Risks associated with fluctuations in the price of raw materials and procurement difficulties, as well as the congestion of global logistics flows

As mentioned earlier, the purchase prices of some key raw materials in the Group's production processes increased significantly during the year. In the same way, the global logistics crisis has partly affected the normal operations of the Group companies, both as regards the procurement of components and products sold of Asian origin, and as regards shipments to customers. Lastly, the increase in the cost of electricity and gas, particularly evident at a European level during 2022, may reverberate its effects not only directly on the Group (which is not, in any case, among the so-called "energy-intensive" or "gas-intensive" businesses), but also and above all on certain supply chains (such as paper and metals), with repercussions both in terms of higher purchase costs and, potentially, temporary shortages of the components themselves.

Risks related to relations with manufacturers and suppliers of products and services and dependence on a limited number of suppliers for certain product categories

The Group is exposed to the risk that the relationship with the main producers and suppliers of goods and services that it uses may be interrupted, dissolved or terminated, and/or that the latter do not meet the contractually agreed quality standards and/or applicable regulations, putting at risk the Group's ability to meet the delivery of products to its customers according to the pre-established objectives. On the other hand, the strategic decision to develop solid multi-year partnerships with the most critical suppliers also meets the need to maintain adequate supervision in terms of quality control, both during the approval of new products and during the mass production of previously approved products.

Risks related to the impossibility of realising the book value of the stocks and to the increase in the obsolescence of said stocks

The Group is exposed to the risk of inventory obsolescence, against which adjustment provisions have been made, deemed reasonably adequate by the management based on the analyses carried out on stock rotation.

Risks associated with dependence on Group brands

These risks may materialise in the form of both a loss of value of the Group's brands, as perceived by the reference consumer communities, and in the difficulty of protecting and defending the intellectual property that belongs to the Group in the event of violations by third parties, including in foreign jurisdictions.

Risks associated with labour shortage and any increase in related costs

The Group is exposed to risks deriving from any increase in labour turnover rates and from difficulties in sourcing skilled and unskilled labour to an extent that satisfies the trend in demand for Group products.

Risks related to the consequences of the effects of the Covid-19 pandemic

During the years 2020 and 2021, the Group had to comply with the restrictive measures adopted by the national governments of the individual countries in which the Group companies operate to deal with the Covid-19 health emergency (so called "Coronavirus"), which caused a major international economic crisis, characterised by a significant contraction in demand on the main markets and in global gross domestic product. The cycle sector was marginally impacted by the pandemic, so much so that the Group in the year ended 30 June 2020 recorded substantially stable revenues compared to the previous year (€ 130.1 million in the year ended 30 June 2020 compared to € 130.6 million in the year ended 30 June 2019, equal to -0.3%), and a sustained growth during the year ended 30 June 2021 (revenues of € 205.1 million, equal to +58% compared to the previous year).

Nevertheless, if the Covid-19 pandemic, the evolution of which is still uncertain, were to continue or worsen, leading to the adoption of new restrictive measures by the competent national authorities (as, moreover, is still the case in some areas of China), the Group could be exposed to the risk of a slowdown or decrease in sales of its products. Any occurrence of these circumstances could have negative effects on the Group's business and economic, equity and financial situation.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Without prejudice to the deterioration of the macroeconomic situation (inflation, increased energy costs, increasing interest rates, etc.) and geopolitics, there are no other significant events that directly involved the Group.

BUSINESS OUTLOOK

The current environment is significantly affected by numerous factors of uncertainty and disruption of economic activities: the continuation of the Russian-Ukrainian conflict with no apparent possibility of resolution in the short term; inflationary tensions substantially present on a global scale; the rise in interest rates; the dramatic increase in the cost of electricity and gas and the consequences it is causing and will determine in the coming months (including possible rationing of the same); the ongoing geopolitical tensions between China and the United States on the "Taiwan issue"; the possible resumption of Covid-19 infections. Each of these phenomena has the potential to impact, even to a significant extent, on the growth prospects of an economic entity. All the more so, the co-presence of all these events in unprecedented uncertainty, with foreseeable recessionary impacts on the propensity to consume in many areas of the world, and in particular at the expense of non-essential goods. On the other hand, the sector in which the Group operates enjoys the above illustrated medium-long term trends, which have the potential to mitigate the effects outlined above.

TRANSACTIONS WITH PARENT COMPANIES, AFFILIATES AND RELATED PARTIES

As regards transactions with related parties, please refer to the Explanatory Notes to this consolidated annual financial report.

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 1,127, substiantially flat compared to the 1,153 employees in the previous year. The net decrease (-26 units) is fully attributable to factory personnel of Brazilian subsidiary Royal Ciclo Industria de Componentes Ltda. . In addition to the employees hired by the Group companies, a total of an additional 321 employees were hired in the current period through temporary work agencies.

The following tables show, by category, the average workforce and the total workforce for the year 2022.

Average workforce	Financial Year 2021/22	Financial Year 2020/21	Change
Executives	24,8	25,5	(0,7)
Employees	242,5	227,2	15,4
Workers	857,8	899,5	(41,7)
Others	1,5	1,0	0,5
Total	1.126,6	1.153,2	(26,5)

Workforce *(in units)*	30/06/2022	30/06/2021	Change
Executives	25	25	0
Employees	254	235	19
Workers	841	923	(82)
Others	4	1	3,00
Total	1.124	1.184	(60)

CONCLUSIONS and PROPOSALS

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

* * *

Pozzoleone (VI), 19 October 2022

The Chairperson of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT(*)

	NOTE	2021/22	2020/21	*Var.%*
Revenues	16	223.762.787	205.090.143	*9,1%*
Cost of sales	17	126.936.347	117.039.940	*8,5%*
GROSS MARGIN		96.826.440	88.050.203	*10,0%*
Industrial costs	18	7.400.912	6.582.481	*12,4%*
Sales and promotion costs	19	14.612.990	13.771.565	*6,1%*
Costs of the management structure	20	18.404.093	17.806.989	*3,4%*
General and administrative costs	21	16.319.256	14.534.680	*12,3%*
Other operating income and (expenses)	22	1.360.545	996.534	*36,5%*
EBITDA		41.449.734	36.351.022	*14,0%*
Amortisation / depreciation and write-downs of fixed assets		8.078.526	7.128.778	*13,3%*
EBIT		33.371.208	29.222.244	*14,2%*
Profits / (losses) from companies measured at equity		-	-	-
Gains / (losses) on acquisition/disposal of financial assets		-	19.173	*-100,0%*
Financial income / (charges)	23	(1.629.042)	(3.870.114)	*-57,9%*
PRE-TAX RESULT		31.742.167	25.371.303	*25,1%*
Taxes for the year	24	7.238.573	6.831.377	*6,0%*
NET PROFIT FOR THE YEAR		24.503.594	18.539.926	*32,2%*
Minority interests		3.117.710	3.622.371	*-13,9%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP		21.385.884	14.917.555	*43,4%*

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021/22	2020/21
Net profit	24.503.594	18.539.926
Change in fair value of hedging derivatives net of the tax effect	734.392	3.835
Actuarial gains / (losses)	259.986	(33.276)
Acquisition of shares in companies already subject to control	(689.454)	-
Translation differences of foreign financial statements	2.780.644	418.970
Total comprehensive profit / (loss) after tax	27.589.162	18.929.456

CONSOLIDATED BALANCE SHEET (*)

ASSETS	NOTES	30/06/2022	30/06/2021	*Var.*
Cash and cash equivalents	25, 39	26.283.940	19.846.067	6.437.873
Trade receivables	26	32.964.861	28.453.316	4.511.545
Inventories	27	43.649.021	26.318.546	17.330.475
Tax receivables	28	4.726.827	2.266.907	2.459.920
Other current assets	29	1.317.096	1.480.397	(163.301)
TOTAL CURRENT ASSETS		108.941.745	78.365.233	30.576.511
Intangible assets	30	20.955.107	21.142.693	(187.586)
Tangible assets	31	37.324.083	30.529.614	6.794.469
Equity investments	32	2.482.007	2.060.638	421.369
Goodwill	33	10.673.404	10.320.071	353.333
Deferred tax assets	34	843.510	871.708	(28.199)
Financial assets at fair value	35, 39	1.604.547	509.813	1.094.734
Other non-current assets	36	685.847	668.824	17.023
TOTAL NON-CURRENT ASSETS		74.568.504	66.103.361	8.465.143
TOTAL ASSETS		183.510.249	144.468.594	39.041.655

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

LIABILITIES	NOTES	30/06/2022	30/06/2021	*Var.*
Trade payables	37	20.179.920	22.080.469	(1.900.548)
Tax payables	38	6.289.289	6.262.892	26.398
Bonds - Portion maturing within 12 months	39, 44	1.930.941	1.903.363	27.578
Short-term loans	39, 40	23.421.806	20.630.896	2.790.910
Current financial liabilities at fair value		-	1.452	(1.452)
Current liabilities for leased assets	41	2.451.440	1.080.847	1.370.593
Other current liabilities	42	13.297.952	9.690.052	3.607.900
TOTAL CURRENT LIABILITIES		67.571.349	61.649.971	5.921.378
Provisions for employees	43	1.531.744	1.874.444	(342.700)
Bonds - Portion maturing beyond 12 months	39, 44	3.944.655	5.875.597	(1.930.941)
Medium / long-term loans	39, 45	31.901.782	26.731.370	5.170.412
Provisions for risks and charges	46	776.455	626.375	150.079
Payables for deferred taxes	47	893.978	760.993	132.985
Non-current liabilities for leased assets	48	7.245.250	5.746.342	1.498.908
TOTAL NON-CURRENT LIABILITIES		46.293.864	41.615.121	4.678.743
TOTAL LIABILITIES		113.865.213	103.265.092	10.600.121

SHAREHOLDERS' EQUITY				
Share capital		6.000.000	6.000.000	-
Legal reserve		1.244.082	1.244.082	-
Translation reserve		3.588.034	807.389	2.780.644
Reserve for first-time adoption of IAS		10.716.446	10.716.446	-
Other reserves and undistributed profits		14.075.864	(1.146.615)	15.222.479
Group profit / (loss) for the year		21.385.884	14.917.555	6.468.329
GROUP SHAREHOLDERS' EQUITY	49	57.010.309	32.538.857	24.471.452
Share capital and undistributed profits pertaining to minority interests		9.517.017	5.042.274	4.474.743
Profit / (loss) for the year of minority interests		3.117.710	3.622.371	(504.661)
MINORITY INTERESTS	49	12.634.727	8.664.645	3.970.082
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		183.510.249	144.468.594	39.041.655

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 30 June 2020	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance indemnity	Dividend distribution	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 30 June 2021
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.244.081	-	-	-	-	-	-	1.244.082
Translation reserve	388.420	-	-	-	-	418.969	-	807.389
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	11.800.466	2.582.359	3.835	(33.276)	(15.500.000)	-	-	(1.146.615)
Group profit / (loss) for the year	2.582.359	(2.582.359)	-	-	-	-	14.917.555	14.917.555
TOTAL GROUP SHAREHOLDERS' EQUITY	32.731.771	-	3.835	(33.276)	(15.500.000)	418.969	14.917.555	32.538.857
Share capital and undistributed profits pertaining to minority interests	3.837.143	1.040.347	-	-	-	164.784	-	5.042.274
Profit / (loss) for the year of minority interests	1.040.347	(1.040.347)	-	-	-	-	3.622.371	3.622.371
TOTAL MINORITY INTERESTS	4.877.490	-	-	-	-	164.784	3.622.371	8.664.645
TOTAL SHAREHOLDERS' EQUITY	**37.609.261**	**-**	**3.835**	**(33.276)**	**(15.500.000)**	**583.753**	**18.539.926**	**41.203.502**

	Balance as at 30 June 2021	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance indemnity	Increase in Group interests	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 30 June 2022
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.244.082	-	-	-	-	-	-	1.244.082
Translation reserve	807.389	-	-	-	-	2.780.644	-	3.588.034
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	(1.146.615)	14.917.555	734.392	259.986	-	(689.454)	-	14.075.864
Group profit / (loss) for the year	14.917.555	(14.917.555)	-	-	-	-	21.385.884	21.385.884
TOTAL GROUP SHAREHOLDERS' EQUITY	32.538.857	-	734.392	259.986	-	2.091.190	21.385.884	57.010.309
Share capital and undistributed profits pertaining to minority interests	5.042.274	3.622.371	-	-	(76.826)	929.198	-	9.517.017
Profit / (loss) for the year of minority interests	3.622.371	(3.622.371)	-	-	-	-	3.117.710	3.117.710
TOTAL MINORITY INTERESTS	8.664.645	-	-	-	(76.826)	929.198	3.117.710	12.634.727
TOTAL SHAREHOLDERS' EQUITY	**41.203.502**	**-**	**734.392**	**259.986**	**(76.826)**	**3.020.388**	**24.503.594**	**69.645.036**

CONSOLIDATED CASH FLOW STATEMENT PREPARED USING THE INDIRECT METHOD

		2021/22	2020/21
STATEMENT OF CASH FLOWS FROM OPERATIONS			
Pre-tax result		**31.742.167**	**25.371.303**
Adjustments for			
+/-	**non-monetary elements**		
	Depreciation of tangible assets	5.221.074	4.762.167
	Amortisation of intangible assets	1.154.510	1.098.663
	Amortisation of Right Of Use	1.702.942	1.267.949
	Net financial charges	1.545.939	3.834.970
	Minor independent works	(219.709)	(186.043)
	(Gains) / losses on the sale of property, plant and equipment and financial assets	36.251	9.601
	Change in the bad debt provision	203.223	95.418
	Changes in deferred taxes, provisions and employee benefits	2.773.782	(1.124.234)
	Change in cash flow hedge reserve	734.392	3.835
	Change in actuarial reserves	259.986	(28.366)
Cash and cash equivalents generated by transactions before working capital		**45.154.555**	**35.105.263**
+/-	**change in working capital**		
+/-	Change in inventories	(20.192.090)	(4.219.174)
+/-	Change in trade receivables	(3.752.743)	(13.244.196)
+/-	Change in trade payables	116.862	10.561.861
+/-	Change in other current assets	(1.376.779)	(334.760)
+/-	Change in other current liabilities	2.250.335	2.379.571
Cash and cash equivalents generated by transactions		**22.200.140**	**30.248.565**
+	Interest collected	970.250	363.097
-	Interest paid	(2.535.723)	(3.210.239)
-	Taxes paid	(7.727.716)	(4.208.792)
Net cash and cash equivalents from operating activities (A)		**12.906.951**	**23.192.631**
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES			
-	Payments for acquisitions of property, plant, machinery and other tangible assets	(7.509.280)	(4.523.549)
+	Incassi (corrispettivi ottenuti) per vendita di immobili, impianti, macchinari ed altre immobilizzazioni materiali	4.882	35.295
-	Payments for acquisitions of intangible assets and capitalised costs	(808.305)	(625.323)
-	Payments for the granting of advances or loans to third parties	(2.301.320)	(1.324.121)
-	Payments for derivatives	(83.102)	(4.120)
-	Payments for acquisitions of investments in subsidiaries, associates or joint venture entities	(783.046)	-
Net cash and cash equivalents from / used in investing activities (B)		**(11.480.173)**	**(6.441.817)**
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES			
+	Collections from obtaining loans	41.757.999	28.437.427
-	Payments for rents that fall under the application of IFRS 16	(2.212.640)	(1.662.301)
-	(Redemption) bond loan (known as mini-bond)	(2.000.000)	(2.000.000)
-	Loan repayments	(33.796.677)	(27.400.685)
-	Dividends paid	-	(15.500.000)
Net cash from / used in financing activities (C)		**3.748.682**	**(18.125.559)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)		5.175.461	(1.374.745)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		19.846.067	20.888.905
CONVERSION DIFFERENCE ON CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)		1.262.412	331.907
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G) = (D + E + F)		26.283.940	19.846.067

EXPLANATORY NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL REPORT AS AT 30 JUNE 2022

1. INTRODUCTION

The consolidated annual financial report as at 30 June 2022 of the Selle Royal Group S.p.A. was prepared in compliance with the International Financial Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission in accordance with 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 this report as well as the provisions of Italian 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 Standing Interpretations Committee ("SIC"), which, at the date of approval of the consolidated annual financial report for the financial year ended 30 June 2022, were 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 consolidated annual financial report as at 30 June 2022 consists of the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, 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 Selle Royal Group S.p.A. 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.

2. MANDATORY ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED BY THE GROUP

The accounting standards adopted by the Group for the preparation of the Consolidated Report as at 30 June 2022 are the same as those adopted for the preparation of the consolidated financial statements as at 30 June 2021, with the exception of the following accounting standards, amendments and interpretations:

Amendment to IFRS 16 – Leases: CoViD-19-Related Rent Concessions beyond 30 June 2021

Issued on 31 March 2021, it should have been effective from 1 April 2021, but was approved on 30 August 2021. With this amendment, the IASB further amended IFRS 16 to extend the time limit of one of the criteria that the lessor must comply with in order to apply the practical expedient to the concessions received (exemption to lessees from the obligation to determine whether a concession in terms of leases is a change to the lease), i.e. that any reduction in lease payments could only affect payments originally due by 30 June 2021.

3. 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.

Amendments to IFRS 17 – Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information

On 9 December 2021, the IASB published a further amendment to IFRS 17. The amendment to the transitional provisions of IFRS 17 allows companies to overcome the one-off classification differences of the comparative information of the previous year at the time of the first application of IFRS 17 and IFRS 9 Financial Instruments.

The optional classification overlay introduced by this amendment allows companies to make the comparative information presented at the time of first-time application of IFRS 17 and IFRS 9 more useful. The scope of application includes financial assets linked to insurance liabilities, which until now have not been restated in accordance with IFRS 9. The amendment will be effective from 1 January 2023 or later. No material impacts are expected for the Group with reference to this amendment.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Issued in May 2021, IAS 12 requires the recognition of deferred taxes whenever there are temporary differences, i.e. taxes due or recoverable in the future. In particular, it was established that companies, in specific circumstances, may be exempted from recognising deferred tax when they recognise assets or liabilities for the first time. This provision previously raised some uncertainty as to whether the exemption would apply to transactions such as leasing and dismantling obligations, transactions for which the companies recognise both an asset and a liability. With the amendment to IAS 12, the IFRS clarifies that the exemption does not apply and that companies are required to recognise deferred tax on these transactions. The objective of the amendments is to reduce the diversity in the reporting of deferred taxes on lease agreements and dismantling obligations. The amendments are effective for years starting on 1 January 2023 and early application is envisaged. No material impacts are expected for the Group with reference to this amendment.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

Presented in February 2021, these amendments are intended to help the drafter of the financial statements in deciding which accounting policies to present in their financial statements. They will be effective for financial years beginning on or after 1 January 2023. In particular, the entity is required to make the disclosure of the material accounting policies, rather than the significant accounting policies and several paragraphs are introduced that clarify the process of defining the material policies, which could be such by their very nature, even if the related amounts may be intangible. An accounting policy is material if the users of financial statements need it to understand other information included in the financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB published amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by the right to defer the maturity date
- That the right of deferment must exist at the end of the year

- The classification is not affected by the probability with which the entity will exercise its right of deferment
- Only if an embedded derivative in a convertible liability is itself an equity instrument does the liability's maturity have no impact on its classification.

The amendments will be effective for years beginning on or after 1 January 2023, and must be applied retrospectively. No material impacts are expected for the Group with reference to this amendment.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

From February 2021, changes were introduced to the definition of accounting estimates, replacing the concept of changing them. According to the new definition, accounting estimates are monetary amounts subject to measurement uncertainty. The Board clarifies that a change in the accounting estimate, which results from new information or new developments, is not the correction of an error. Moreover, the effects of a change in the inputs or in the measurement technique used to develop an accounting estimate are changes in estimates unless they result from the correction of errors of previous years. A change in an accounting estimate may affect only the profit (or loss) for the current period or, alternatively, for both the current period and future periods. These amendments will be applicable, subject to approval, from 1 January 2023. No material impacts are expected for the Group with reference to this amendment.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a new comprehensive standard relating to insurance contracts that covers recognition and measurement, presentation and disclosure. When it comes into force, IFRS 17 will replace IFRS 4 Insurance Contracts, issued in 2005. IFRS 17 applies to all types of insurance contracts (e.g. life, non-life, direct insurance, reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. For this purpose, limited exceptions will be applied. The general objective of IFRS 17 is to present an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the provisions of IFRS 4, which are largely based on the maintenance of previous accounting policies, IFRS 17 provides a complete model for insurance contracts that covers all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)

- A simplified approach (the premium allocation approach) mainly for short-term contracts.

IFRS 17 will be in force for years beginning on or after 1 January 2023, and will require the presentation of comparative balances. Early application is permitted, in which case the entity must also have adopted IFRS 9 and IFRS 15 at the date of first-time application of IFRS 17 or earlier. No material impacts are expected for the Group with reference to this amendment.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB published the amendments to *IFRS 3 Business Combinations – Reference to the Conceptual Framework*. The amendments were approved on 28 June 2021. The Board added an exception to the measurement standards of IFRS 3 to avoid the risk of potential losses or profits "of the day after" deriving from liabilities and contingent liabilities that would fall within the scope of IAS 37 or IFRIC 21 Levies, if contracted separately. At the same time, the Board decided to clarify that the existing guidance in IFRS 3 for contingent assets will not be impacted by the update of the references to the *Framework for the Preparation and Presentation of Financial Statements*. The amendments will be effective for the years starting on 1 January 2022 and apply prospectively. No material impacts are expected for the Group with reference to this amendment.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB published *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits the entity from deducting from the cost of property, plant and equipment any revenue deriving from the sale of items produced while the company is preparing the asset for its use in testing. These revenues must be recognised in the income statement under income from sales as well as the related costs. The amendments were approved on 28 June 2021. The amendment will be effective for years beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use at or after the start date of the period prior to the period in which the entity applies this amendment for the first time. No material impacts are expected for the Group with reference to these amendments.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB published amendments to IAS 37 to specify which costs must be considered by an entity when assessing whether a contract is onerous or loss-making. The amendments were approved on 28 June 2021. The amendment provides for the application of a "*directly related cost approach*". Costs that refer directly to a contract for the supply of goods or services include both incremental costs and costs directly attributed to the contractual activities. General and administrative expenses are not directly related to a contract and are excluded unless they are explicitly recharged to the counterparty on the basis of the contract. The amendments will be effective for years beginning on or after 1 January 2022. The Group will assess the impacts of these changes in the event of contracts for which it has not yet satisfied all its obligations at the beginning of the year of first application.

4. IFRS and INTERPRETATIONS APPROVED by the IASB and NOT ENDORSED in EUROPE

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 these financial statements.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date

With regard to the two amendments issued respectively in January 2020 and July 2020, the IASB, on 19 November 2021, published a new draft disclosure in this regard.

5. 2018-2020 ANNUAL IMPROVEMENTS

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of the 2018-2020 annual improvements process of the IFRS standards, the IASB published an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. This amendment allows a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 to account for the cumulative translation differences on the basis of the amounts recorded by the parent company, considering the date of transition to IFRS by the parent company. This amendment also applies to associates or joint ventures that choose to apply paragraph D16(a) of IFRS 1. The amendment will be effective for years beginning on or after 1 January 2022, and early application is permitted. No material impacts are expected for the Group with reference to this amendment.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of the 2018-2020 annual improvements process of the IFRS standards, the IASB published an amendment to IFRS 9. This amendment clarifies the fees that an entity includes in determining whether the conditions of a new or amended financial liability are substantially different with respect to the terms of the original financial liability. These fees include only those paid or received between the debtor and the lender, including those paid or received by the debtor or the lender on behalf of others. An entity applies this amendment to financial liabilities that are amended or exchanged after the date of the financial year in which the entity applies the amendment for the first time. The amendment will be effective for years beginning on or after 1 January 2022, and early application is permitted. The Group will apply this amendment to financial liabilities that are amended or exchanged subsequently or at the date of the financial year in which the entity applies this amendment for the first time. No material impacts are expected for the Group with reference to this amendment.

6. FINANCIAL STATEMENT FORMATS AND CLASSIFICATION CRITERIA

When preparing the formats of the documents that make up the consolidated annual financial report, the Group adopted the following criteria:

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.

Balance Sheet

The assets and liabilities shown in the consolidated annual financial report 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 consolidated annual financial 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 consolidated annual financial report;

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the consolidated annual financial report.

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”.

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.

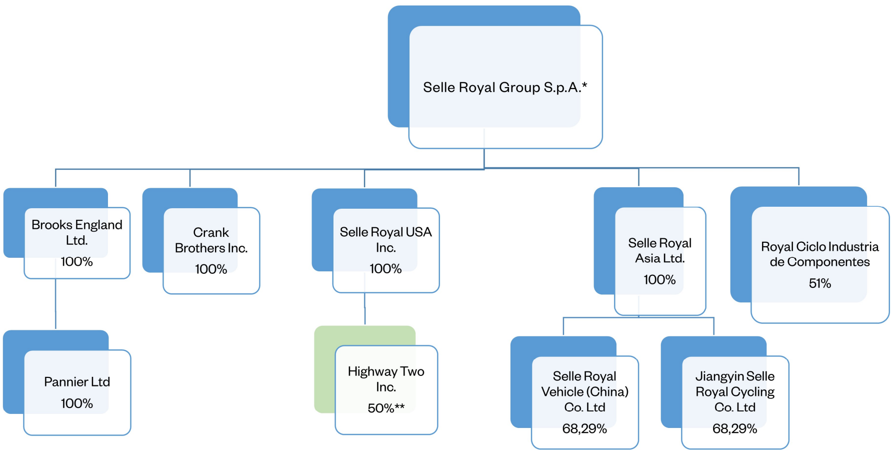
Cash flow statement

The cash flows from operating activities are presented using the indirect method as permitted by IAS 7, since 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 period was adjusted for the effects of non-monetary transactions, operating, investing and financial activities.

7. ACTIVITIES OF THE COMPANIES BELONGING TO THE GROUP

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.



* Following the change of company name resolved by the shareholders’ meeting of 12 January 2022
** Consolidated using the equity method

This structure changed with respect to the composition of the Group as at 30 June 2021, due to the establishment, on 6 July 2021, of Jiangyin Selle Royal Cycling Co., Ltd., a company under Chinese law, 68.29% controlled by the Group through the Hong Kong holding company Selle Royal Asia Limited

and, for the remainder, by the same local shareholder holding the minority interest in Selle Royal (Vehicle) Co., Ltd.. For further details, please refer to the section "Significant events during the period".
On 6 december 2021, the merger by incorporation of SR84 S.r.l. into Selle Royal Group S.p.A. was completed, as resolved by the respective corporate bodies on 28 September 2021. The statutory effects of this transaction became effective as from 31 December 2021, while the taxation effect applied as from 1 July 2021.
Furthermore, please note that on 22 December 2021 Selle Royal Group S.p.A. signed an agreement with M J K Partecipações Ltda., equal shareholder in the Brazilian company Royal Ciclo Industria de Componentes Ltda., for the purchase of an additional shareholding equal to 1% of the latter's share capital. As a result of this transaction, the subsidiary Selle Royal Group S.p.A. holds 51% of the subsidiary's share capital. The higher value recognised to the minority shareholder in the acquisition, with respect to the portion of shareholders' equity of Royal Ciclo Industria de Componentes Ltda. subject to transfer, was recorded as a decrease in shareholders' equity reserves, as required by international accounting standards in the event of increase of interest in companies already subject to control. Finally, during the period under review, the liquidation procedure of the Hong-Kong company Royal Concept Co., Ltd. was concluded.
The consolidated financial annual report as at 30 June 2022 includes the data of the parent company Selle Royal Group S.p.A. and those of the subsidiaries in which it has, directly or indirectly, the majority of the votes that can be exercised at the Shareholders' Meeting or in which it has decision-making power, i.e. the ability to manage the relevant activities of the investee or those activities that have a significant influence on the investee's returns.
In particular, the scope of consolidation is broken down as follows:

- **Selle Royal Group S.p.A.**, parent company, with registered office in Pozzoleone (VI), share capital of Euro 46,000,000.00, subscribed and paid in for Euro 6,000,000. It should be noted that, as already described above, following a shareholders' meeting resolution of 12 January 2022, Selle Royal S.p.A. changed its company name as indicated above.
- **Brooks England Limited** , acquired in 2002, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 239,100, equal to approximately € 301,799, 100% owned by Selle Royal Group S.p.A.
- **Selle Royal USA Inc.** (formerly Hi-Move Inc.), established in 2006, with registered office in Chicago (Illinois), share capital of US$ 1,000, equal to approximately € 901. The company is wholly owned by Selle Royal Group S.p.A. 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 reporting date was € 2,463,609.

- **Crank Brothers Inc** ., with share capital of US$ 2,000, equal to approximately € 1,802, wholly owned by Selle Royal Group S.p.A.
- **Selle Royal Vehicle (China) Co. Ltd** ., formerly Jiangyin Justek Vehicle Co., Ltd.; the acquisition, completed in February 2010, was effective retroactively from 1 January 2010. The interest in Selle Royal Group 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 the 68.29% currently held, following a corporate reorganisation. 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.
- **Selle Royal Jiangyin Cycling Co. Ltd** .: established on 6 July 2021, with registered office in Jiangyin (Jiangsu province, People's Republic of China), the company is 68.29% owned by Selle Royal Asia Limited.
- **Pannier Ltd.** , with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 100.00 (corresponding to approximately € 120), fully subscribed and paid in by the subsidiary 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 of R$ 11,601,802 is 51% owned by Selle Royal Group S.p.A..

8. SIGNIFICANT EVENTS DURING THE YEAR

As detailed extensively in the Report on Operations, the fiscal year in question was characterised, especially in the first half of the year, by the effects of the sustained post-Covid economic recovery of some of the world's largest economies (the US and China, first and foremost), which triggered, also unexpectedly, to significant shocks in commodities markets and to significant disruptions in global logistics chains. In this complex and changing macroeconomic context, the cycle sector has nevertheless proved to be extremely dynamic. The second half of the financial year, although the effects just described due to the resumption of post-pandemic activities still persisted, was mainly marked by the military escalation that saw, and still sees, Russia and Ukraine as protagonists. The conflict has inevitably led to the exacerbation of geopolitical tensions that every day negatively affect the reactions of the main financial markets, in particular when pricing electricity and gas. In this global context, which was positive for the sector it belongs to, but disrupted and deteriorating at a macroeconomic and geopolitical level, the Group further strengthened its leadership in its areas of activity, achieving a further improvement in its fundamentals.

9. GENERAL PREPARATION CRITERIA AND CONSOLIDATION PRINCIPLES

Consolidation methodologies

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 Selle Royal Group S.p.A. or by the other companies subject to consolidation is eliminated against the relative shareholders' equity as a result of 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 "Goodwill" item;
- 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 or 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 as a result of 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 minority interests relating to entities for which control already exists or the sale of minority 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.

Conversion into Euro of the financial statements of foreign companies

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			Average exchange rate of the year		
Currency	30 June 2022	30 June 2021	Appreciation / (deprec.)	2021/22	2020/21	Appreciation / (deprec.)
British Pound (GBP)	0,8582	0,8581	-0,02%	0,8471	0,8865	4,65%
US Dollar (USD)	1,0387	1,1884	14,41%	1,1279	1,1928	5,75%
Chinese Yuan Renminbi (RMI	6,9624	7,6742	10,22%	7,2789	7,8968	8,49%
Brazilian Real (BRL)	5,4229	5,9050	8,89%	5,9205	6,4236	8,50%

10. MEASUREMENT CRITERIA

The measurement criteria, the accounting standards and the principles applied to the preparation of the consolidated annual financial report, based on a prudent approach and on a going concern basis, were as follows.

Revenues, income, costs and charges

On the basis of the five-step model introduced by IFRS 15, the Group recognises revenues after identifying the contracts with its customers and the related performance obligations to be satisfied (transfer of goods and/or services), determined the consideration to which it expects to be entitled in exchange for the fulfilment of each of these performance obligations, as well as assessed the manner of satisfaction of these performance obligations (fulfilment at a given point in time versus fulfilment over time). In particular, the Group recognises revenues only if the following requirements are met (so-called requirements for identifying the "contract" with the customer):

a) the parties to the contract have approved the contract (in writing, orally or in compliance with other usual commercial practices) and have undertaken to fulfil their respective obligations; there is therefore an agreement between the parties that creates enforceable rights and obligations regardless of the form in which said agreement is expressed;

b) the Group may identify the rights of each party with regard to the goods or services to be transferred;

c) the Group may identify the payment terms for the goods or services to be transferred;

d) the contract has commercial substance; and

e) it is likely that the Group will receive the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

If the above requirements are not met, the related revenues are recognised when: (i) the Group no longer has any obligation to transfer goods and/or provide services to the customer and all, or almost all, of the consideration promised by the customer has been received and is not refundable; or (ii) the contract was terminated and the consideration that the Group received from the customer is not refundable.

If the above requirements are met, the revenues deriving from the sale of goods are recognised at the time of transfer of ownership, which generally takes place at 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 asset, 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.

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 shareholders' 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 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.

Criteria for the translation of currency items

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 reporting date.

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.

Fair value measurement

In compliance with IFRS 13 - Fair value measurement, the Group measures financial instruments like derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement of fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the main market or, in the absence of a main market, in the most advantageous market for the asset or liability.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient data are available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which the fair value is measured or disclosed in the financial statements are classified in the fair value hierarchy, described below, based on the lowest level input that is significant for the measurement of fair value in its complex:

- Level 1 - (Unadjusted) market prices listed in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant for the measurement of fair value is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant for the measurement of fair value is unobservable.

Cash and cash equivalents

The item consists of cash and current account deposits, recognised at nominal value, corresponding to the fair value. Cash and cash equivalents are short-term investments, highly liquid and readily convertible into cash, which are subject to an insignificant risk of change in value.

Trade receivables

Trade receivables are measured on the basis of the impairment model introduced by IFRS 9 on the basis of which the Group measures receivables by adopting an expected loss approach, replacing the IAS 39 framework based on the measurement of incurred losses. The Group has applied a simplified approach in the calculation of Expected Credit Losses ("ECL"); therefore it does not keep track of changes in credit risk, but recognises a provision for losses based on "ECL" calculated over the entire life of the loan (known as lifetime ECL) at each reference date, based on its historical experience of credit loss, adjusted for specific forward-looking factors of the debtors and the economic context. The amount of the receivables is shown in the balance sheet net of the related bad debt provision. The write-downs reported pursuant to IFRS 9 (including recoveries or write-backs) are recognised in the income statement under the other operating income and charges item.

Inventories

Inventories of raw materials, semi-finished and finished products are measured at the lower of cost and net realisable value.

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.

Tangible 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.

Depreciation 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%
▪ Leasehold improvements	Duration of the contract on the underlying asset
▪ Rights of use	Duration of the lease

The depreciation rates of tangible assets 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.

Intangible 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 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.

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 organisational 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.

Leases

The Group assesses at the beginning of the contract whether a contract is, or contains, a lease. This occurs if the contract transfers, in exchange for consideration, the right to control the use of an identified asset for a period of time.
According to IFRS 16 - Leases, the Group applies a recognition and measurement approach for all leases, with the exception of short-term leases and leases of low-value assets. Consequently, the lease payments for short-term leases and the leases of low-value assets are recognised as expenses on a straight-line basis for the duration of the lease.
The Group recognises the lease liabilities that represent the obligations to pay the lease payments and the right-of-use assets that represent the right of use for the underlying assets.
The Group recognises the right-of-use assets at the start date of the lease and measures them at cost, less accumulated depreciation and impairment, and adjusted for any re-measurement of lease liabilities. Right-of-use assets are measured at cost, which includes the following: (i) the amount of the initial measurement of the lease liability; (ii) any lease payment made on or before the commencement date, less any lease incentive received; (iii) any initial direct costs and, if applicable, (iv) restoration costs. Right-of-use assets are depreciated on a straight-line basis for the shorter of the lease term and the estimated useful life of the assets.
At the start date of the lease, the Group recognises the lease liabilities measured at the present value of the lease payments to be made during the lease term, of the following: (i) fixed lease payments less any lease incentives to be received, (ii) variable lease payments that are based on an index or rate and, if applicable, (iii) amounts that are expected to be paid based on residual value guarantees, and (iv)

the exercise price of a purchase option if the lessee is reasonably certain of exercising this option. Variable lease payments that do not depend on an index or rate are recognised as costs in the period in which the event or condition that triggers the payment occurs. Lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be determined, the incremental financing rate of the reference entity is used, i.e. the rate that the same would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic context with similar terms and conditions. Each lease payment is divided into main payable and interest expense. Interest expense is charged to the income statement over the lease period using the effective interest rate method.

Financial assets

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

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 recognised 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 an explanatory note.

Employee benefits

The Group has defined benefit pension plans with employees. Defined benefit pension plans typically define the amount of benefit that employees will receive at the time of retirement and which, usually, depends on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is equal to the present value of the pension obligation at the end of the period, also including any adjustment deriving from unrecognised costs relating to past benefits, less the fair value of pension assets ("plan asset"). The pension obligation is calculated annually, with the help of external actuaries, using the "Projected Unit Credit Method". The present value of the pension obligation is calculated by discounting the disbursements expected in the future on the basis of the interest rate applied to bonds issued by leading companies in the same currency in which the benefits will be paid and which have a maturity similar to that of the pension obligation. Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions used or from changes in the plan conditions are recognised in the statement of comprehensive income in the year in which they occur. The amount reflects not only the payables accrued at the reporting date, but also future salary increases and the related statistical trends. Costs relating to services provided in previous periods are recognised immediately in the income statement.

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.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the course of ordinary activities. Trade payables are classified as current liabilities if payment is due within one year or less from the reference date. Otherwise, they are presented as non-current liabilities.

Trade 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 Group recognises payables from other taxes and social security and other non-financial payables at the amount payable on the due date.

Payables to banks and other lenders

Payables to banks and other lenders are initially recognised at fair value net of directly attributable accessory costs and are subsequently measured at amortised cost, applying the effective interest rate method. If there is a change in the expected cash flows and/or the internal rate of return initially determined, the value of the liabilities is recalculated to reflect this change. Payables to banks and other lenders are classified under current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reference date. Payables to banks and other lenders are removed from the financial statements when they are extinguished, i.e. when all risks and charges relating to the instrument are transferred, derecognised or settled. 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 statements 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 shareholders' equity at the time of First Time Adoption (1 July 2014).

Other shareholders' equity reserves

Among others, the item includes the cash flow hedge reserve, where changes in the fair value of hedging derivatives are recognised directly in shareholders' equity net of the related taxes.

It also includes the employee severance indemnity discounting reserve, where the effects of changes in the 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.

11. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated annual financial report 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 balance sheet, 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:

- 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 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.
- Provision for inventory obsolescence: reflects the Group management's estimate of expected impairment losses in relation to inventories, determined on the basis of past experiences. 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. The Group uses a simplified approach to calculate the ECL (Expected Credit Loss) for trade receivables and contractual assets, initially based on the historical default rates observed. The Group adjusts the historical experience of credit loss with forward-looking information. At each reporting date, the historical default rates observed are updated and changes in forward-looking estimates are analysed. The assessment of the correlation between the historical default rates observed, the expected economic conditions and the “ECLs” is a significant estimate. The amount of the “ECLs” is sensitive to changes in circumstances and expected economic conditions. The company's historical experience of credit loss and the forecast of economic conditions may not be representative of the actual default of the customer in the future.

- 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 to 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 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.
- Employee benefits: 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 takes into account 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 lawsuits and consults with its legal advisors and experts.

12. SEGMENT REPORTING

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

EUROPE

From a corporate point of view, this area is represented by the parent company Selle Royal Group S.p.A. and its direct and indirect subsidiaries, whose registered office and 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 Group 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 Group S.p.A. has, for years now, augmented traditional sales in the OEM ("original equipment") and aftermarket (sales of spare products to national/regional distributors) channels with direct sales to retailers in Italy, France and Austria, under the A4 Selection brand name.

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-scope 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 operating activities are mainly concentrated in Asia.

These are primarily 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 2021-22 and 2020-21.

	2021/22			2020/21		
	EUROPE	AMERICA	ASIA	EUROPE	AMERICA	ASIA
Revenues	121.212.914	67.375.483	35.174.389	104.397.649	68.447.906	32.244.588
Current assets	43.984.428	37.779.974	27.177.343	32.570.097	25.938.873	19.856.263
Non-current assets	45.190.084	21.794.078	7.584.342	38.290.469	20.423.318	7.389.573
Current liabilities	43.027.967	19.261.411	5.281.971	35.786.701	18.289.299	7.573.971
Non-current liabilities	42.918.309	3.309.926	65.629	38.417.919	3.137.661	59.541

13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2022, the parent company Selle Royal Group S.p.A. held two derivative financial instruments, subscribed with a leading Italian bank, for the purpose of hedging against interest rate volatility ("IRS").

These derivative financial instruments were subscribed on 29 October 2021, at the same time as the opening of two multi-year unsecured mortgages at variable rates.

As they were found to be hedged by the effectiveness tests conducted, the impact relating to the change in their value were reflected in a specific equity reserve ("cash flow hedge reserve"), net of the related tax effect. For further information, please refer to the section on financial assets measured at fair value in these Explanatory Notes.

14. RISK MANAGEMENT

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

15. 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 Group S.p.A., of which he holds the 66,6% of share capital, the payable balances for IRES are transferred to it. Following to the merger of SR84 S.r.l. mentioned yet, Selle Royal Group S.p.A. and its majority parent company participate in the related tax consolidation.
- Dec. 28, 1928 Real Estate S.r.l.: parent company Selle Royal Group S.p.A., by virtue of a lease contract signed on 1 July 2021, that has renewed the agreement previously signed on June 2013, with a duration of 6 years, manages the property leased from Dec. 28, 1928 Real Estate S.r.l. in which the production and sales activities of Selle Royal Group S.p.A.
- Wise Equity SGR S.p.A.: some shareholders of Wise Equity SGR S.p.A. (which holds 33.3% of the share capital of the subsidiary Selle Royal Group S.p.A.) are members of the latter's Board of Directors, a position for which Wise Equity SGR S.p.A. charges the relative emoluments periodically; these emoluments are fully paid for the amounts pertaining to the period in question.
- Minority shareholders in subsidiaries: the amount shown in the table below refers to the remuneration for consultancy activities carried out for the benefit of the subsidiary Royal Ciclo Industria de Componentes Ltda. by the minority shareholder.
- Family members of the controlling shareholders of the parent company: the amounts refer to the residual payables at the reporting date for future lease payments on the property located in Rossano Veneto, the site of the parent company Selle Royal Group S.p.A. where the offices of the A4Selection division are located, and recorded in accordance with the provisions of IFRS 16. This contract, with a duration of 6 years, will expire in February 2025.

The economic and financial relations entertained during the 2021-22 financial year are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE COSTS	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Wise Equity SGR	210.000	-	-	-
Dec. 28, 1928 Holding S.p.A.	-	-	1.968.311	-
Dec. 28, 1928 Real Estate S.r.l.	-	600.000	1.094.884	4.706.865
Minority shareholders in subsidiaries	167.038	-	-	-
Directors	1.570.974	-	1.034	-
Family members of the controlling shareholders of the parent company	-	25.200	47.403	81.990
TOTAL RELATED PARTIES	1.948.012	625.200	3.111.632	4.788.856

ANALYSIS and COMPOSITION of the INCOME STATEMENT

16. REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to € 223,762,787 and were generated by the sale of saddles, pedals and other accessories, and, residually, from the sale of raw materials and semi-finished goods as well as the provision of services. The breakdown of revenues from sales and services by business category is shown in the following table:

	2021/22	2020/21	*Change*
Revenues from sales of saddles	118.562.408	108.011.066	10.551.342
Revenues from the sale of accessory components	100.919.221	94.836.435	6.082.786
Revenues from the sale of sundry materials	4.636.360	2.823.722	1.812.638
Revenue from services	198.538	224.934	(26.396)
Total gross revenues	**224.316.527**	**205.896.157**	**18.420.370**
Price changes and others	(56.405)	(118.458)	62.052
Year-end bonus	(497.335)	(687.555)	190.221
Revenue adjustments	(553.740)	(806.013)	252.273
Total revenue from sales	**223.762.787**	**205.090.143**	**18.672.643**
RECOGNITION of REVENUES			
Realised at a specific point in time	223.762.787	205.090.143	18.672.643
Realised over time	-	-	-
Total revenue from sales	**223.762.787**	**205.090.143**	**18.672.643**

An additional level of analysis (so-called "segment reporting") used by management in ordinary operations and in determining strategic initiatives is provided below:

2021/22	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	74.665.210	46.198.761	20.245.987	41.774.578	2.809.323	38.068.927	223.762.787
Gross margin	34.652.228	21.575.469	9.223.544	13.937.488	1.544.003	15.893.709	96.826.440
	46,4%	*46,7%*	*45,6%*	*33,4%*	*55,0%*	*n.s.*	*43,3%*

2020/21	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	68.390.557	37.485.616	18.859.383	35.547.990	2.382.469	42.424.128	205.090.143
Gross margin	32.585.297	18.903.207	10.921.093	16.395.355	1.278.633	7.966.618	88.050.203
	47,6%	*50,4%*	*57,9%*	*46,1%*	*53,7%*	*n.s.*	*42,9%*

(*) Revenues represent the turnover of third-party brands that do not exceed the materiality thresholds set for separate disclosure, as envisaged by par. 13 of IFRS 8, as well as non-core turnover. The gross margin instead represents the net balance between the margin of "other" turnover and cost of sales elements not directly attributable to a specific brand.

17. COST OF SALES

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

	2021/22	2020/21	*Change*
Purchase of raw materials	104.006.031	84.965.430	19.040.601
Ancillary charges on RM purchases	6.081.354	4.398.552	1.682.803
Outsourcing	6.850.385	6.298.710	551.675
Labour	23.555.313	21.305.407	2.249.906
Change in inventories	(13.556.737)	71.842	(13.628.579)
Total cost of sales	**126.936.347**	**117.039.940**	**9.896.406**

18. 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".

	2021/22	2020/21	*Change*
Electricity	1.546.866	1.447.793	99.073
Consumables	1.663.341	1.633.289	30.052
Minor equipment	599.667	666.216	(66.549)
Maintenance	839.278	774.002	65.275
Lease payments	119.741	128.345	(8.604)
Research and development costs	1.317.141	902.968	414.172
Other industrial costs	1.314.878	1.029.866	285.012
Total industrial costs	**7.400.912**	**6.582.481**	**818.431**

19. 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.

	2021/22	2020/21	*Change*
Sales and advertising costs	5.444.264	5.096.298	347.966
Transports on sales	5.381.984	5.295.475	86.510
Commissions	2.278.716	2.657.573	(378.857)
Royalties	-	13.360	(13.360)
Gifts	534.709	397.413	137.297
Other sales and promotion costs	973.316	311.447	661.869
Total sales and promotion costs	**14.612.990**	**13.771.565**	**841.425**

20. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to € 18,404,093 for the year in question, includes the cost of the clerical and managerial structures of the various Group companies.

21. GENERAL and ADMINISTRATIVE COSTS

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

	2021/22	2020/21	*Change*
Consulting	6.212.473	5.842.995	369.478
Travel expenses	1.090.762	261.955	828.807
Board of Directors' fees	1.780.974	2.056.615	(275.641)
Board of Statutory Auditors' fees	47.792	48.308	(516)
Utilities	337.546	322.094	15.452
Entertainment and hospitality expenses	258.479	166.058	92.421
Motor vehicles	470.453	431.054	39.399
Fees and IT support	1.323.153	1.113.562	209.591
Insurance	1.186.438	945.230	241.208
Lease payments	321.304	306.307	14.997
Bank charges	598.082	565.916	32.166
Other general and administrative costs	2.691.799	2.474.586	217.213
Total general and administrative costs	**16.319.256**	**14.534.680**	**1.784.576**

22. 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.

	2021/22	2020/21	*Change*
Operating income:			
Minor independent works	219.709	186.043	33.666
Repayments and sundry income	652.630	836.155	(183.524)
Capital gains	5.096	11.935	(6.839)
Contingent assets and other income	713.458	479.289	234.168
Royalty income	3.193	38	3.154
Research & development	382.192	261.343	120.849
Total operating income	1.976.277	1.774.804	201.474
Operating expenses:			
Allocation to provision for obsolescence	(137.967)	(251.980)	114.014
Allocation to provision for credit risks	(175.376)	(271.269)	95.893
Losses on receivables	1.285	(6.196)	7.481
Capital losses	(41.347)	(21.536)	(19.811)
Contingent liabilities and other charges	(262.328)	(227.289)	(35.039)
Total operating expenses	(615.732)	(778.270)	162.537
TOTAL OPERATING INCOME / (EXPENSES)	1.360.545	996.534	364.011

The net balance of this item is positive for € 1,360,545.

The item "repayments and sundry income" is mainly attributable to the results achieved in the marketing of the product lines of some premium brands in the cycle sector, for which the joint venture Highway 2 Llc. operates as a distributor in the North American market. This business is complementary and in support of the relevance of the brands of the Selle Royal Group and the Continental Group, equal partners in Highway 2 LLC.

The greater balance of the item "contingent assets and other income" is mainly attributable to the reimbursement deriving from winning the tax dispute by Royal Ciclo Industria de Componentes Ltda.

23. OTHER FINANCIAL INCOME and CHARGES

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

	2021/22	2020/21	*Change*
Financial income:			
Bank and postal interest	143.485	115.381	28.103
Dividends	1.510	4.684	(3.174)
Other financial income	82.446	250.866	(168.420)
Total financial income	227.441	370.932	(143.491)
Financial charges:			
Interest on bonds	(443.137)	(569.715)	126.578
Interest expense	(1.271.706)	(1.307.210)	35.504
Interest cost provision for employee severance indemnity	(9.915)	(2.525)	(7.389)
Discounts	(888.732)	(859.168)	(29.564)
Fees on loans	(212.943)	(302.253)	89.309
Other financial charges	(299.016)	(238.081)	(60.935)
Total financial charges	(3.125.448)	(3.278.951)	153.503
Net exchange rate differences	1.268.965	(962.095)	2.231.060
TOTAL FINANCIAL INCOME / (CHARGES)	**(1.629.042)**	**(3.870.114)**	**2.241.072**

This item, negative for € 1,629,042, was positively affected by the decrease in interest expense to service the debt subscribed by some Group companies, as well as lower interest on the bond loan issued by Selle Royal Group S.p.A..

The item "other financial charges" includes primarily the recognition of financial charges related to the adoption of IFRS 16.

Lastly, the impact of net exchange rate differences, which were overall positive by € 1.268.965 (compared to a negative balance of € -962,095 of the same period of the last financial year). This item includes both exchange gains and losses realised as at 30 June 2022 (which show a positive net balance of € 492,140), and unrealised exchange gains and losses 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 intragroup items (which cumulatively show a positive net balance of € +776,825).

24. TAXES FOR THE YEAR

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

	2021/22	2020/21	*Change*
Current taxes	8.139.183	6.669.049	1.470.133
Deferred tax (assets) / liabilities	(900.610)	162.327	(1.062.938)
TOTAL TAXES FOR THE YEAR	7.238.573	6.831.377	407.196

The increase in current taxes is attributable to the better results achieved by the Group companies compared to the comparative period.

The increase of the balance related to deferred tax assets is mainly due to higher deferred tax assets recognised during the period, and in particular to the increase of the provision related to elimination of unrealised intercompany profit.

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

25. 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 2022, amounting to € 26,283,940 (of which € 6,076,020 in Selle Royal Group S.p.A. and € 16,382,069 in Selle Royal China, the latter with a positive net financial position), is growing compared to the previous year thanks to the cash flows generated during the period.

As at 30 giugno 2022 (similar to 30 June 2021) there are no restrictions or limitations on the use of the Group's cash and cash equivalents.

26. 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:

	30/06/2022	30/06/2021	*Change*
Trade receivables	34.080.290	29.365.523	4.714.767
Bad debt provision	(1.115.429)	(912.207)	(203.223)
TRADE RECEIVABLES, net	32.964.861	28.453.316	4.511.545

Receivables insured at the date of 30 June 2022 amounted to € 21,0 million, compared to € 18,8 million at 30 June 2021.

For receivables of uncertain collectability, for which legal procedures for collection have 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.

It should be noted that the parent company Selle Royal Group S.p.A. transferred receivables from certain foreign and domestic customers, through a non-*recourse* factoring transaction, to a leading bank for € 3,060,047; the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd. completed a similar transaction for a value of € 1,132,842. During the previous year, the cumulative value of the assignments of receivables without recourse made by the same companies was equal to € 4,014,502.

Finally, the change in the bad debt provision during the year in question is shown below:

	Balance as at 30 June 2021	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2022
Bad debt provision	912.207	184.305	(487)	(30.868)	50.272	1.115.429
TOTAL BAD DEBT PROVI	**912.207**	**184.305**	**(487)**	**(30.868)**	**50.272**	**1.115.429**

27. 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:

	30/06/2022	30/06/2021	*Change*
Raw materials, supplies and consumables	13.162.572	9.767.182	3.395.390
Work in progress and semi-finished products	5.812.351	4.631.511	1.180.840
Finished products and goods	27.918.922	12.649.871	15.269.051
Goods in transit	2.725.444	2.378.635	346.810
Gross inventories	**49.619.289**	**29.427.199**	**20.192.090**
Provision for obsolescence	(2.391.811)	(2.210.367)	(181.444)
Provision for unrealised intra-Group margin	(3.578.457)	(898.287)	(2.680.170)
INVENTORIES	43.649.021	26.318.546	17.330.475

The growth of this item can be seen in each inventory category and is conducive to the higher business volumes. Moreover, the inflactionary impact recorded during the period has contributed to the growth.

In addition, the congestion of the global logistic, before mentioned, has involved in an extension of transit time expecially for product coming from Asia and destinated to the North-American market, with a consequently increase both the balance of the finished products and the goods in transit.

Lastly, the change in provisions for adjusting the value of stocks during the year in question is shown below:

	Balance as at 30 June 2021	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2022
Provisions for obsolescence	2.210.367	144.166	-	(91.683)	128.961	2.391.811
Provision for unrealised intra-Group margin	898.287	2.550.707		-	129.463	3.578.457
TOTAL ADJUSTMENT PROVISIONS of INVENT	3.108.654	2.694.873	-	(91.683)	258.424	5.970.269

28. TAX RECEIVABLES

Tax receivables increased compared to the balance as at 30 June 2021, as detailed below:

	30/06/2022	30/06/2021	*Change*
Current tax receivables:			
For direct taxes	2.772.305	1.555.585	1.216.720
For indirect taxes	378.434	137.865	240.569
For other withholdings	431.374	149.963	281.412
Subtotal current taxes	3.582.114	1.843.413	1.738.701
Current deferred tax assets	1.144.713	423.494	721.219
TOTAL TAX RECEIVABLES	4.726.827	2.266.907	2.459.920

Compared to 30 June 2021, the increase in receivables for direct tax is linked to the combinated effect, on the one side, of the increase of tax receivables related to parent company Selle Royal Group S.p.A. and, in the other side, of the decrease of them related to the subsidiary Royal Ciclo Industria de Componentes Ltda.

Infact, during the financial year, the subsidiary Royal Ciclo Industria de Componentes was able to use the tax credit, which arose in previous years, to offset other taxes, specifically during the months of July 2021 and May 2022; the subsidiary Selle Royal Group S.p.A., on the other hand, was able to access the benefits provided by Italian Law 178/2020 on tax credits related to investments in capital goods falling under the facilities collectively known as "Industry 4.0".

The increase on the tax receivables for direct tax is principally referred to the higher VAT credit of Selle Royal Group S.p.A. and of Crank Brothers Inc. taiwanese branch.

Lastly, for an analysis of the current deferred tax assets, please refer to the relevant section of these notes.

29. OTHER CURRENT ASSETS

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

	30/06/2022	30/06/2021	*Change*
Advance costs	220.406	154.547	65.859
Accrued income and prepaid expense	787.965	598.724	189.241
Sundry receivables	308.725	727.126	(418.402)
TOTAL CURRENT ASSETS	1.317.096	1.480.397	(163.301)

The higher advanced costs compared to 30 June 2021 come from the seasonality of the sector and from incurring, at the end of the fiscal year, costs related to new products launch and partecipations in events in following fiscal year, which are therefore suspended under this item as at the 30 June of each year to comply with the accrual principle it is entirely referrable to the parent company Selle Royal Group S.p.A.. The decrease of the sundry receivables is related to the closing of the operation of financial leasing linked to the installation of a new productive plant in Selle Royal Group S..p.A.; this plant has been entered in activity during the first quarter 2022.

NON-CURRENT ASSETS

30. 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 2021	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2022
Industrial patent rights and intellectual property rights	1.588.355	248.437	-	-	(690.701)	82.180	1.228.271
Concessions, licences, trademarks and similar rights	19.477.822	451.797	-	-	(449.603)	57.418	19.537.435
Other	25.552	-	-	-	(14.206)	1.952	13.297
Fixed assets in progress and payments on account	50.964	108.071	-	-	-	17.068	176.103
Total intangible assets	**21.142.693**	**808.305**	**-**	**-**	**(1.154.510)**	**158.618**	**20.955.107**

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 Group 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 € 18,351,322; 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 not yet operational at the end of the year.

31. 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 2021	Increases (+)	Decreases (-)	Reclassification	Depreciation (-)	Translation diff.	Balance as at 30 June 2022
Land and buildings	7.564.390	361.676	-	-	(596.619)	(97.973)	7.231.474
Right of use of leased assets	6.853.524	5.243.385	-	-	(1.702.942)	127.278	10.521.245
Plant and machinery	8.537.565	2.946.039	(3.290)	59.656	(1.510.602)	551.603	10.580.971
Industrial and commercial equipment	4.824.429	2.170.146	-	529.647	(2.583.746)	147.370	5.087.847
Other assets	1.457.009	584.654	(18.931)	(8.535)	(530.106)	125.567	1.609.657
Fixed assets in progress and payments on account	1.292.697	1.666.475	(126.065)	(580.768)	-	40.552	2.292.890
Total tangible assets	**30.529.614**	**12.972.375**	**(148.287)**	**-**	**(6.924.016)**	**894.397**	**37.324.083**

The increases in the item “land and buildings” relate to improvements made by Selle Royal Group S.p.A. and by some of its subsidiaries on properties used for production and commercial activities.

The item “rights of use of leased assets” represents the discounted value recorded in the financial statements following the adoption of IFRS 16, and relates to the premises leased by Selle Royal Group S.p.A. and the offices of Crank Brothers Inc..

The increase of this item is related to the redetermination of future lease fees owed for the leasing of the building of Selle Royal Group S.p.A. after the signing of a new lease contract, to the recording of the right of use related to the new plant before mentioned, to the leasing of a building in San Clemente (California) where have been transferred the employees and the equipments before located on the secondary office of Crank Brothers Inc. in Ogden, Utah as well as, finally, to the new multi-annual leasing contracts that respect the criteria for the recording in the financial statement under the IFRS 16 accounting standard.

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.

32. 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 € 2,463,609, to the equity investment in Highway Two Llc., with registered office in Olney (USA) and share capital of US$ 241,648, over which indirect joint control of 50% is exercised. This equity investment is measured using the equity method. The residual amount, equal to € 18,398, relates to minority interests held by Selle Royal Group S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 17,675).

Some economic indicators of Highway Two LLC, relating to 2022, are listed below, as well as the balance sheet balances as at 30 June 2022, and related comparative data. For the sake of completeness, the fiscal year of the joint venture coincides with the calendar year.

		30/06/2022		30/06/2021		*Change*
Highway 2 Llc:						
Current assets	$	27.825.001	$	23.813.171	$	4.011.830
Non-current assets	$	725.028	$	1.043.037	$	(318.009)
Current liabilities	$	(23.424.925)	$	(19.918.573)	$	(3.506.352)
Non-current liabilities	$	(44.673)	$	(63.444)	$	18.771
Shareholders' equity	**$**	**5.080.432**	**$**	**4.874.191**	**$**	**206.241**
Group interest (50%)	$	2.540.216	$	2.437.095	$	103.120
Carrying amount of the investment in Highway 2 Llc. (in €)		2.463.609		2.045.238		418.371
Other equity investments *(in €)*		18.398		15.400		2.998
Total equity investments		**2.482.007**		**2.060.638**		**421.369**

		Financial year 2022		Financial year 2021		*Change*
Highway 2 Llc:						
Revenues	$	8.311.579	$	7.367.470	$	944.109
Cost of sales	$	(7.565.946)	$	(7.566.926)	$	980
Operating and financial costs	$	(681.629)	$	335.419	$	(1.017.048)
Net profit	**$**	**64.004**	**$**	**135.964**	**$**	**(71.960)**
Group interest (50%)	$	32.002	$	67.982	$	(35.980)

33. GOODWILL

This item had a balance as at 30 June 2022 of € 10.673.404.

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 American subsidiary, in the Chinese subsidiary Selle Royal Vehicle (China) Co. Ltd. and the Brazilian subsidiary Royal Ciclo Industria de Componentes Ltda.

In line with the provisions of IAS 36, goodwill is not subject to amortisation but to impairment testing. 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.

34. DEFERRED TAX ASSETS

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

	30/06/2022		30/06/2021	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	29.507	8.233	18.818	5.250
Accrued leave for employees	277.171	65.197	133.686	40.481
Bad debt provision	362.965	77.029	247.858	52.857
Unrealised margin on intra-Group sales	3.669.942	920.139	989.788	250.100
Tangible assets	131.908	22.424	243.538	41.401
Other temporary differences	189.108	51.691	106.959	33.403
Subtotal current deferred tax assets	**4.660.602**	**1.144.713**	**1.740.647**	**423.494**
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	188.817	52.680	144.961	40.444
Inventory write-down provision	1.995.869	462.835	1.685.361	394.650
Intangible assets	522.773	145.854	580.859	162.060
Tangible assets	527.407	44.175	227.614	30.652
Prior tax losses - Federal taxes	498.454	104.675	566.552	118.976
Prior tax losses - State taxes	376.598	33.290	1.296.687	124.926
Subtotal non-current deferred tax assets	**4.109.917**	**843.510**	**4.502.033**	**871.708**
TOTAL DEFERRED TAX ASSETS	8.770.519	1.988.222	6.242.681	1.295.202

The change in the current portion of deferred tax assets is mainly related to the deferred tax effect on the higher value of the provision for unrealised intercompany profit.

The non-current deferred tax assets, overall, not have been recorded significant variation.

35. FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 640,153, the value of a financial asset recognised in the financial statements of the subsidiary Royal Ciclo and refers to the amounts paid by the latter to a financing consortium in which it participates. The increase of the value compared to 30 June 2021 is significally influenced by the appreciation, during the period, of the Brazilian Reais, that is the currency used for the recording in the financial statement of the subsidiary compared to the reference Group currency.

Furthermore, this item includes the market value of two hedging derivative instruments with respect to the risk of fluctuations in interest rates (“IRS”), for an amount of € 964,394; these derivatives were subscribed by Selle Royal Group S.p.A. in October 2021 as collateral for the opening of the same number of long-term floating rate loans maturing in September 2027, previously recognised under financial liabilities at fair value.

These derivatives, maturing at the same time, have the following characteristics:

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 29/10/2021;

Notional value: € 10,000,000, the first; € 9,500,000, the second;

Liability hedged: medium-term loan;

Initial date: 31/10/2021;

End date: 30/09/2027;

Debtor Selle Royal Group S.p.A.: basic contractual fixed rate 30E/360 paid at the end of the quarter - contractual fixed rate 0.10%;

Debtor Bank: basic product index rate 30E/360 paid at the end of the quarter - 3-month Euribor at the beginning of the period, with a minimum rate (floor) of -0.90%;

Periodic expiry date: quarterly.

Since the hedge is effective, the initial recognition and subsequent change in the fair value of these derivative instruments during the period in question were recognised in a special restricted equity reserve ("cash flow hedge reserve"), net of the related deferred tax effect.

36. OTHER NON-CURRENT ASSETS

This item, amounting to € 685,847, mainly refers to security deposits relating to lease contracts pertaining to Selle Royal Group S.p.A. and Crank Brothers, Inc. The final balance is aligned to the balance of last financial period.

CURRENT LIABILITIES

37. 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 is € 20,179,920, in decreasing compared to the previous period, even if there is a significant increase of the inventories, that confirm the financial strenght of the Group.

38. TAX PAYBLES

The item in question is detailed below:

	30/06/2022	30/06/2021	*Change*
Direct taxes	2.321.907	1.175.186	1.146.721
Indirect taxes	897.792	931.773	(33.981)
Local taxes	58.449	54.327	4.122
Withholding taxes on employees and others	844.655	1.485.159	(640.504)
Payables due to tax disputes	2.166.486	2.616.446	(449.960)
TOTAL TAX PAYABLES	**6.289.289**	**6.262.892**	**26.398**

The higher payables for direct taxes are attributable to the significant profits recorded by the Group companies; the decrease of the payables for with-holding taxes, almost entirely referred to the parent company Selle Royal Group S.p.A., reflects the portion withheld by the employer as withholding agent for the higher performance bonuses recognised by virtue of the extremely positive results achieved in the previous fiscal year.

Payables for tax disputes refer to amounts provisionally due pending judgement and subject to existing instalment plans in place with the Italian Revenue Agency.

39. MEASUREMENTS AT FAIR VALUE

IFRS 13 establishes a three-level hierarchy useful for categorising assets/liabilities measured at fair value on the basis of increasingly less certain inputs; these levels, shown in descending order of priority, can be described as follows:

Level 1: Level 1 inputs are quoted prices (not adjusted) in active markets for identical assets or liabilities, which the entity can access at the measurement date. A price quoted in an active market provides the most reliable proof of fair value and, when available, must be used without any adjustment to measure the fair value. A Level 1 input will be available for many financial assets and liabilities, some of which may be traded in different active markets (for example, on different stock exchanges). Therefore, in Level 1 the focus is on the determination of the following elements:

- the main market for the asset or liability or, in the absence of a main market, the most advantageous market for the asset or liability; and
- the possibility for the entity to carry out a transaction with the asset or liability at the price of that market at the measurement date.

Level 2: Level 2 inputs are inputs other than the listed prices included in Level 1 observable directly or indirectly for the asset or liability. If the asset or liability has a certain (contractual) duration, a Level 2 input must be observable for substantially the entire duration of the asset or liability. Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in non-active markets;
- data other than the quoted prices observable for the asset or liability, for example:
    - o interest rates and yield curves observable at commonly quoted intervals;
    - o implied volatility;
    - o credit spreads;
- inputs corroborated by the market.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability. The non-observable inputs must be used to measure the fair value to the extent that the relevant observable inputs are not available, therefore allowing situations of low market activity for the asset or liability at the measurement date. However, the purpose of the fair value measurement remains the same, i.e. a closing price at the measurement date from the perspective of a market operator who owns the asset or liability. Therefore, unobservable inputs must reflect the assumptions that market participants would use in determining the price of the asset or liability, including assumptions about risk.

The following table summarises the financial assets and liabilities measured at fair value shown in the financial statements and the related measurement criteria adopted:

As at 30 June 2022

		fair value measurements			
	Notes	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	26.283.940	26.283.940	-	-
Equity investments	32	2.482.007	-	-	2.482.007
Financial assets at fair value	35, 39	640.153	-	-	640.153
Derivative financial instruments	35, 39	964.394	-	964.394	-
TOTAL ASSETS		**30.370.495**	**26.283.940**	**964.394**	**3.122.160**
Loans	39, 40, 48	55.323.589	-	55.323.589	-
Bonds	39, 44	5.875.596	-	5.875.596	-
TOTAL LIABILITIES		**61.199.185**	**-**	**61.199.185**	**-**

As at 30 June 2021

		fair value measurements			
	Notes	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	19.846.067	19.846.067	-	-
Equity investments	32	2.060.638	-	-	2.060.638
Financial assets at fair value	35, 39	509.813	-	-	509.813
TOTAL ASSETS		**22.416.519**	**19.846.067**	**-**	**2.570.452**
Loans	39, 40, 48	47.362.266	-	47.362.266	-
Bonds	39, 44	7.778.960	-	7.778.960	-
Derivative financial instruments	39	1.452	-	1.452	-
TOTAL LIABILITIES		**55.142.678**	**-**	**55.142.678**	**-**

40. SHORT-TERM LOANS

The balance of this item, as at 30 June 2022, amounting to € 23,421,806, reflects 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 medium/long-term loans.

41. CURRENT LIABILITIES FOR LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due by 30 June 2023.

42. OTHER CURRENT LIABILITIES

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

	30/06/2022	30/06/2021	*Change*
Payables to employees	6.919.323	6.099.043	820.280
Payables to social security institutions	868.326	825.331	42.995
Payables to sales agents	236.627	305.035	(68.408)
Payables for tax consolidation	1.968.311	1.339.644	628.667
Accrued expenses and deferred income	2.561.951	168.747	2.393.204
Sundry payables	743.414	952.253	(208.839)
TOTAL CURRENT LIABILITIES	13.297.952	9.690.052	3.607.900

The increase of this item is substantially linked to the higher value of the payables to employees, of the payables for tax consolidation, corresponding to the accrual of IRES balance on fiscal profit of Selle Royal Group S.p.A. for the current fiscal year, as well as to the increase of item related to accrued expenses that, also in this is case, is interely attributable to the parent company Selle Royal Group S.p.A..

The above mentioned increase is related to what is stated concerning the tax receivables for direct tax. In fact, with a view to compliance with the accrual principle and in accordance with the provisions of IAS 20, contributions related to tax credits related to investments in capital goods pertaining to the collectively known "Industry 4.0" subsidies are recognised as deferred revenue on a systematic basis over the useful life of the assets to which they refer.

NON CURRENT LIABILITIES

43. EMPLOYEE BENEFITS

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 employee severance indemnity 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 2.74% based on the average financial duration of the liabilities to employees;
- annual rate of increase in employee severance indemnity: as envisaged by art. 2120 of the Italian Civil Code, is determined as 75% of the inflation rate plus 1.5% and equal to 3.075%;
- annual inflation rate: estimated at 2.1% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2021	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 30 June 2022
Provisions for employees	1.874.444	76.456	(175.748)	9.915	(259.986)	6.664	1.531.744
TOTAL	**1.874.444**	**76.456**	**(175.748)**	**9.915**	**(259.986)**	**6.664**	**1.531.744**

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	1,460,878
-1% on the turnover rate	1,456,853
+1/4% on the annual inflation rate	1,479,421
-1/4% on the annual inflation rate	1,438,928
+1/4% on the annual discount rate	1,427,250
-1/4% on the annual discount rate	1,491,893

The above-mentioned sensitivity analysis on employee severance indemnity is based on reasonable changes in the key assumptions that occur at the end of the year, while maintaining all other assumptions constant.

This analysis may not be representative of an actual change in the provision for employee benefits, as it is unlikely that the changes in the assumptions will occur independently of each other.

Lastly, the expected future disbursements are shown below, based on the assumptions presented above:

Years	Expected disbursements
1	123,429
2	78,581
3	59,023
4	102,530
5	49,927

44. BONDS

The amount due for bonds is shown under current liabilities, in relation to the portion maturing within twelve months from the consolidated annual financial report's date, and under non-current liabilities for the residual portion.

These items refer to the value of the liability in the books of the subsidiary company Selle Royal Group S.p.A. relating to the bond loan (so-called "mini-bond") listed on the Pro^3 segment of the ExtraMOT list managed by Borsa Italiana S.p.A., and issued on 24 September 2018 for a nominal amount equal to € 10,000,000.00.

The payable recorded therein, 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.

During the first half-year of the tax current tax year, the second repayment instalment was paid, amounting to € 2,000,000.

45. MEDIUM/LONG-TERM LOANS

This item, amounting to € 31,901,782, up by € 5,170,412 compared to 30 June 2021, 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 Group S.p.A. with leading banks. The increase of the final balance is substantially related to the subscription of two unsecured mortgages backed by a government guarantee, according to the methods and terms set forth in the emergency decrees issued by the Italian government to support the liquidity of companies.

46. PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2021	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 30 June 2022
Provision for supplementary customer indemnities	75.164	17.164	-	(941)	91.388
Provision for payment of foreign agents	144.961	43.856	-	-	188.817
End of mandate indemnity	406.250	90.000	-	-	496.250
TOTAL	**626.375**	**151.020**	**-**	**(941)**	**776.455**

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

47. DEFERRED TAXES

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

	30/06/2022		30/06/2021	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCE	TAX EFFECT
Derivative financial instruments	964.394	231.455	-	-
Intangible assets	178.141	61.915	423.877	97.121
Tangible assets	1.998.517	583.012	2.379.229	650.196
Other temporary differences	83.786	17.595	65.123	13.676
TOTAL DEFERRED TAXES	**3.224.837**	**893.978**	**2.868.228**	**760.993**

The increase of this item is mainly due to the recording of deferred tax liabilities calculated on the market value of derivative financial instruments descrived above.

48. NON-CURRENT LIABILITIES for LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due after 30 June 2023.

49. SHAREHOLDERS' EQUITY

The share capital is composed as follows:

Ordinary share – 6.000.000,00 (with no par value).

For completeness, please note that the Shareholders' Meeting, which met on 18 February 2022, resolved to dematerialise and split the shares of the parent company Selle Royal Group S.p.A., on the basis of a ratio of 6,25 new actions for each previously existing action. This division was finalised in during the month of September 2022.

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

	30 June 2022		30 June 2021	
	Shareholders' equity	Profit for the year	Shareholders' equity	Profit for the year
Selle Royal Group S.p.A. as per the financial statements	30.470.661	10.532.489	21.372.116	10.144.396
Difference between book value and pro-rata value shareholders' equity of consolidated companies	21.843.390	-	5.214.939	-
Pro-rata results achieved by consolidated subsidiaries	-	13.023.777	-	11.415.016
Elimination of intercompany profits included in inventories	(2.683.842)	(2.010.128)	(673.714)	31.769
Other consolidation differences	7.380.100	(160.254)	6.625.516	(6.673.626)
Shareholders' equity and profit for the year pertaining to the Group	**57.010.309**	**21.385.884**	**32.538.857**	**14.917.555**
Shareholders' equity and profit for the year attributable to minority interests	12.634.727	3.117.710	8.664.645	3.622.371
Shareholders' equity and profit for the year as reported in the consolidated financial statements	**69.645.036**	**24.503.594**	**41.203.502**	**18.539.926**

This consolidated annual financial report, consisting of the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Shareholders' Equity, the Cash Flow 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 2022 and correspond to the results of the accounting records.

* * *

Pozzoleone (VI), 19 October 2022

The Chairperson of the Board of Directors
(Barbara Bigolin)

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39

To the shareholder of SELLE ROYAL GROUP S.P.A.

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Selle Royal Group (the "Group"), which comprise the statement of consolidated balance sheet as at 30 June 2022, the statement of consolidated comprehensive income, the statement of changes in shareholders equity, the statement of consolidated cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of this report. We are independent of the company in accordance with ethical requirements and standards applicable in Italy that are relevant to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and, within the limits of the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- Obtain and understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting principles used and the reasonableness of accounting estimates and related disclosures made management;
- Conclude on the appropriateness of management's use of the going concern and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions in a manner that achieves fair presentation;
- Obtained sufficent appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

Report on other legal and regulatory requirements

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

The directors of Selle Royal Group S.p.A. are responsible for the preparation of the report on operations of Selle Royal Group S.p.A. as at 30 June 2022, including its consistency with the financial statements and the compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of Selle Royal Group as at 30 June 2022and on its compliance with the applicable laws and regulations, and in order to assess whether its contain material misstatements.

In our opinion, the report on operations is consistent with the consolidated financial statements of Selle Royal Group as at 30 June 2022and is compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 25 October 2022

BDO Italia S.p.A.

Signed by Carlo Consonni
Partner

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.