Selle Royal Group

Consolidated annual report at 30.06.2023

Selle Royal Group S.p.A.
Legal seat in Via Vittorio Emanuele n. 119 – Pozzoleone (VI)
Authorized share capital Euro 6.315.200,00 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.

REPORT ON OPERATIONS

Dear Shareholders,

The year ended 30 June 2023 reported a consolidated profit of € 8,215,282, of which € 5,287,935 pertaining to the Group.

SIGNIFICANT EVENTS DURING THE YEAR

"*The times, they are a-changin*'"

- Bob Dylan, singer-songwriter and winner of the Nobel Prize for Literature (2016)

From an economic point of view, the fiscal year was characterised by phenomena strongly adverse to growth, especially for manufacturing companies. The rapid increase in energy costs following the sanctions imposed by the international community against Russia, the main gas supplier for Europe (in this regard, ISTAT calculated the increase in the price of electricity to be + 131.5% and natural gas + 776% between 2019 and 2022; source: La Repubblica - 11 October 2022); the materialisation of fears, the latter already present since the end of 2021, relating to the growth of the inflation rate to levels now forgotten in many Western countries; the consequent generalised increase in interest rates by the main global Central Banks (Federal Reserve, European Central Bank and Bank of England *in particular*) according to a trajectory that is unparalleled in recent history in terms of magnitude and rapidity, have on the whole strongly deteriorated the expectations of economic operators, with evident recessive effects in the Old Continent.

This has been compounded by lingering geopolitical crises: the war in Ukraine, still not close to a resolution, and the deterioration of diplomatic relations between the United States and China, both consequent to tensions over the fate of Taiwan and the Dragon's more assertive stance in the entire Indo-Pacific region, aimed at undermining the dominance of the United States and its allies, just to name the main ones.

In this context of extreme turbulence, the cycle sector experienced equally "extreme" dynamics. As described in previous financial reports, 2021 and 2022 were characterised by global logistics congestion and an unprecedented increase in demand. Both of these phenomena led to an evident imbalance between supply and demand, also due to the limited possibility of adapting production capacity quickly; moreover, as previously commented on several times, there has been a strengthening of some long-term trends, such as the increasing adoption of pedal assisted bicycles.

Lastly, future inflation expectations in a sector generally characterised by low profit margins played a role in the excess of orders found throughout the supply chain.

In the space of a few months, an opposite imbalance scenario then materialised, namely an excess of supply over market demand, which in turn normalised after the abnormal spike following the onset of the SARS-CoV-2 pandemic. Inventory levels in the warehouses of retailers, distributors and manufacturers have therefore progressively increased, ultimately causing a sharp decline in business-to-business sales, first in the aftermarket channel and, subsequently, also in the OEM channel. In the Netherlands, for example, the H&L Benchmark Group reported an increase in stocks of + 30% in June 2023 compared to a year earlier among the hundreds of retailers affiliated to it; even more significant is that half of the members of this Group reported an increase in inventory of + 50% (source: H&L Accountants, as mentioned in BikeEurope: "High inventories threat to Dutch market stability").

On the other hand, the cycle sector is demonstrating its ability to adapt to changed conditions and to an increasingly dynamic context. A more favourable regulatory environment and the attention to the sector shown by many transnational institutions (United Nations, European Parliament to name a few) in promoting its development as a key element for the effective implementation of the green strategy and micro-mobility as a long-term trend are elements of optimism for the future, once the current imbalances are resolved.

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

EUROPE

"The energy crisis and a challenging geopolitical situation will make 2023 a difficult year for the bicycle industry..."

"*... (but we remain) very optimistic about the prospect of the bicycle industry*"

- World Bicycle Industry Alliance (WBIA)

In Europe, the contraction took shape starting in the summer of 2022, coinciding with the first few months of the fiscal year under review for the Selle Royal Group, beginning with the aftermarket channel (continental and national distributors and retailers) and persisted for the entire fiscal year under review.

As regards the OEM channel (i.e. sales to bicycle assemblers), the trend was steady until the end of autumn 2022 and then underwent a sharp contraction starting in the winter months. This lag compared to the channel of the so-called "spare parts dealers" is due to the lesser responsiveness of cycle manufacturers who, on the one hand, are generally upstream in the value chain and therefore less exposed to the first signs of market contraction. On the other hand, they have a production structure that tends to be inelastic in the short term, having to plan production at least 9 months in advance in "normal" periods, which have definitely lengthened as a result of the critical issues that have emerged since spring 2020 and already described above. This has meant that many players have been forced to produce even though they were aware that they would be overstocked; this phenomenon clearly has affected and will continue to affect channel performance in the short term.

When examining the main consumer markets of the Old Continent, an interesting trend can be observed: the decline in total volumes in 2022 compared to the previous year (from 4.7 million units to 4.6 million in Germany, -2%; source: ZIV. In the Netherlands, 855 thousand units, equal to -7% compared to 2021; source: RAI. 2.6 million units in France, down -7%: source: French Bicycle Observatory) was offset by an increase in the value of the sector. In the Netherlands, for example, there was a growth of +2 % to around € 1.5 billion (source: RAI); in Germany, the sector is worth around € 7.4 billion (up from around € 6.5 billion in the previous year and just over € 4 billion in 2019; source: ZIV). Similar considerations also apply to France, where the cycle sector reached € 3.6 billion (+ 5.2% compared to 2021; source: Union Sport & Cycle).

The main cause for this increase in value (calculated by considering bicycles together with parts and accessories) against a decrease in the volume of bicycle sales lies in the persistent positive trend in the sales of pedal assisted bicycles. In the Netherlands, for example, they are estimated to have reached a market share of 57% in terms of volume and 80% in terms of value (source: RAI); in Germany 48% in volume (source: ZIV), exceeding 50% in value. In France and Italy, which are traditionally less mature markets than the previous ones, they account for 28% (but 61% in value; source: Union Sport & Cycle) and 19% (compared to 15% the previous year; source: ANCMA) of total bicycle sales, respectively.

As is well known, the imbalances that followed the outbreak of the pandemic in the early 2020s also accelerated assessments of whether some of the production previously relocated to the Far East should be brought back to the West. In the cycle sector, this phenomenon is more evident in Europe, where over the years a significant portion of production destined for local consumption has remained; according to Eurostat, 13.5 million bicycles were produced in Europe in 2022, up + 11% compared to the previous year (source: Eurostat, as mentioned in Il Sole 24 Ore of 17 February 2023).

Finally, of considerable interest for the future of the sector is the increasing centrality of the "bicycle as a means of transport" in the European political agenda. Also in February 2023, the European Parliament approved a "Cycling Strategy", inviting the Member States and the European Commission to develop the sector by supporting "Made in Europe" products and aiming to double the number of kilometres traveled by 2030, thanks to 18 levers including, for example, the development of infrastructure in urban and extra-urban centres (so-called “cycle highways”), investments to favour multi-modality (i.e. creating synergies between cycles and other means of transport) and also through tax leverage (for example, ahead of the curve was Portugal, a country that has been very active in developing a manufacturing district for years, reducing VAT on bicycles from 23% to 6%).

Therefore, beyond the contingent critical issues, the cycle sector in Europe is believed to be able to count on a number of structural factors in the future that will foster its organic growth and, with it, that of local economic agents and the labour market.

AMERICA

“*The financial wrecking ball has been released among IBDs and brands*”

- Jay Townley - Columnist and industry specialist

America, and in particular the United States, were forerunners of the crisis in the business-to-business market in the cycle sector, highlighting the first signs of it as early as spring 2022. On the other hand, having not experienced the widespread lockdowns implemented in the rest of the world and having been able to benefit from economic stimuli in the order of trillions of dollars such as those provided by the Trump Administration first and by the Biden Administration subsequently, the US economy (and the cycle sector in particular) has experienced a period of sustained growth in recent years.

Since the early 1990s, significant volumes of bicycles are no longer produced in America, having relocated production to the East (a phenomenon actually started by Schwinn as early as the late 1970s), especially in China (95% of the total up to early 2020; source: Bike Europe of 29 November 2022) and partly in Taiwan for the high-end products.

Thus, the sector had already been put to the test in recent years by the foreign policy introversion undertaken by the Trump Administration, with the introduction of strict anti-dumping protectionist measures in an anti-Chinese vein and the beginning of the end of globalisation or, more prosaically, the so-called "McDonald Theory" (in short, wherever there is a McDonald's, wherever there is room for mutual investment and trade, geopolitical tensions and the risk of war are limited).

Subsequently, the logistical congestion that particularly affected American ports (primarily those on the west coast) during 2021, and the normalisation of market demand had particularly significant effects here. A People for Bikes report (as cited in an editorial published in Bicycle Retailer of 10 June 2023) shows how the peak of monthly sell-in sales (therefore, sales to retailers) reached in March 2022 (about USD 200 million, second only to the peak of May 2020, in the middle of the pandemic, when this threshold was exceeded; source: ibidem) was followed by a drop in sales in the subsequent months (statistics available until April 2023 but, from experience, we believe that the trend continued afterwards). At the same time, the value of stocks at retailers (which had reached its lowest point in the summer months of 2021, at less than USD 50 million) literally jumped to USD 765 million as at 31 March, further growing to almost USD 800 million as at 30 April 2023 (source: Bicycle Retailer of 10 June 2023). These few figures clearly show the extent of the challenge that American retailers are facing, many of whom have ended up closing their business or selling it to one of the major bicycle brands that dominate the US market.

At the same time, a note of optimism comes from the bicycle use rate, which has reached the peak of the last 20 years. with the exception of the indoor use rate, which fell by -33% for group use and -11% for individual use, “ridership” grew by approximately +11% compared to the pre-pandemic (source: ibidem). Similar data is also found in the analyses of the National Sporting Goods Association (ibidem), which shows a significant increase in use in the youth bracket (7-17 years) in the last two years (after a constant decline since 2000, the year in which this statistic began to be recorded) and a strong growth by adults in 2020 (only partially reduced in 2021 to then remain stationary in 2022). This means that a part of the market that had "materialised" with the pandemic has not disappeared; this is already excellent news, in a market that is on average poorer (the clear majority of bicycles are for children and/or sold in large-scale distribution, at very low prices) and much less mature than the European market.

The sales boom recorded in 2020 and 2021 can probably also be interpreted as a sort of "advance" of sales that would have materialised organically in the following years. Fears of recession, inflation and rising interest rates have certainly reduced the consumption propensity for this particular category of “discretionary” products, despite a very aggressive market in commercial policies aimed at reducing inventories as quickly as possible.

In conclusion, in the knowledge that North America (and the United States in particular) has an economy that is very responsive to the economic cycle and that the current market phase still presents the critical issues described above, the increase in the rate of cycle adoption and, consequently, the outlook for the industry in this part of the world is viewed in a thoroughly positive light.

ASIA

"*Chinese bicycle companies should eye greater exports to emerging markets amid a downtrend in bicycle shipments globally*"

- China Bicycle Association

As is well known, Asia is first and foremost a source of supply to meet the demand of Western markets; historically, as described above, the largest production volumes are in China, also through investments from abroad (in this case, Taiwan).

On the other hand, during the year in question, there continued to be a gradual shift of volumes from the Middle Kingdom to other competitive countries from a labour cost point of view and, at the same time, not subject to the protectionist measures imposed first by the European Union and, more recently, also by the United States; with reference to the latter, the geopolitical tensions already mentioned also weigh heavily.

In the period January-June 2023, Chinese exports fell by -42.4% (source: Bike Europe of 7 November 2023) compared to the same period of the previous year. Moreover, 2022 overall had already been a year of significant contraction in exports, down by -39.7% in volume and -27% in value (*ibidem*), in a year in which Europe, for example, on the contrary, had increased bicycle imports by 30% in volume and even more in value (source: Bike Europe of 3 November 2023).

Benefitting from this in 2022 were other countries in the region, such as Taiwan (whose e-bike exports surpassed the 1.0 million-unit mark that year, marking growth of +4.9 percent in volume and +18.1 percent in value; source: BOFT Information Center, as reported by Bike Europe in an article of 23 February 2023).

However, the scenario is significantly changed when considering the first seven months of 2023 compared to the same period of 2022, having weighed the excess stock present in Europe and North America described in the previous sections. For example, the European Union imported a total of -23% of bicycles (2.3 million units compared to 3.0 million in January-July 2022; source: Bike Europe of 3 November 2023), which become a +1% in value thanks to a spectacular growth in the average price (almost +31%; source: ibidem). When analysing the data by country of origin in order of importance, after China already commented on above, imports from Bangladesh (-17% to just over 300,000 units), Taiwan (only -2%, thanks to specialisation in pedal assisted bicycles and high-end bicycles), Turkey (-26%) and India (-35%) to name the main ones, have dropped. The only exception among the top 10 countries exporting to Europe was Cambodia, which recorded an increase of +8%, clearly bucking the trend and confirming itself as the leading EU supplier country (source: ibidem).

In the face of this data, of a phenomenon that would seem to have structural characteristics such as the move of American brands in particular away from Chinese factories, and of the "attention" that China has in recent years been devoting more and more to developing countries (in the wake of the Belt and Road Initiative), one can well understand the sense of the guidance expressed by the industry association mentioned in the opening.

At the same time, countries such as India and China are slowly becoming, in the case of India, or more dynamically becoming, in the case of China, attractive outlet markets. In the case of China, in particular, we are seeing an increase in the quality and average selling price of bicycles, making it an increasingly attractive market for both Western brands of bicycles and parts and accessories, thus constituting a great opportunity for those, like the Selle Royal Group, who have an established presence there.

Lastly, with reference to the Selle Royal Group, 26 June 2023 saw the finalised establishment of Selle Royal Romania S.r.l. with registered office in Sacueni (in the province of Bihor) and share capital of approximately € 1,000,000. At the reporting date, the Selle Royal Group subscribed 80%, while the remaining 20% is owned by two local shareholders. The company is currently in the production start-up phase and is expected to be fully operational from 1 July 2024.

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 2022/23 income statement, compared with the figures for the previous year:

	2022/23		2021/22		
		% of revenues		*% of revenues*	*% Change*
Revenues	176.477.279	*100,0%*	223.762.787	*100,0%*	*-21,1%*
Cost of sales	96.959.466	*54,9%*	126.936.347	*56,7%*	*-23,6%*
GROSS MARGIN	**79.517.813**	***45,1%***	**96.826.440**	***43,3%***	***-17,9%***
Operating costs	58.436.871	*33,1%*	55.376.706	*24,7%*	*5,5%*
EBITDA	**21.080.941**	***11,9%***	**41.449.734**	***18,5%***	***-49,1%***
Amortisation / depreciation and write-downs of fixed assets	8.923.159	*5,1%*	8.078.526	*3,6%*	*10,5%*
EBIT	**12.157.782**	***6,9%***	**33.371.208**	***14,9%***	***-63,6%***
Financial income / (charges) and other financial components	(3.456.685)	*-2,0%*	(1.629.042)	*-0,7%*	*n.s.*
PRE-TAX RESULT	**8.701.097**	***4,9%***	**31.742.167**	***14,2%***	***-72,6%***
Taxes for the year	485.815	*0,3%*	7.238.573	*3,2%*	*-93,3%*
NET PROFIT FOR THE YEAR	**8.215.282**	***4,7%***	**24.503.594**	***11,0%***	***-66,5%***
Minority interests	2.927.347	*1,7%*	3.117.710	*1,4%*	*-6,1%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	**5.287.935**	***3,0%***	**21.385.884**	***9,6%***	***-75,3%***

The year in question, which ended on 30 June 2023, reported sales of € 176.5 million, down compared to turnover in the same period of the previous year (-21.1%); on the other hand, during the period the Group recorded a further and significant increase in margins (from 43.3% to 45.1%), despite the inflationary tensions that characterised the twelve months in question.

Operating costs, excluding the item "other income and charges", did not record any significant changes compared to the previous year, with considerable savings obtained on industrial, general and administrative costs, as well as in the cost for the management structure.

There was a sharp increase in other net operating expenses (equal to € 3.1 million in 2022/23 compared to net income of € 1.4 million in the previous year) due to the significant prudential provisions made to the inventory adjustment provisions in the financial statements of Group companies. These prudential provisions were determined precisely in consideration of the increase in stock rotation days and derive for the most part from an excess of stock against lower sales volumes recorded during the year rather than from an actual state of obsolescence of the same. This trend, which as previously described concerns the entire cycle sector, is primarily attributable to the long supply periods (lead times) of most of the products marketed by the Group, which are of Asian origin; these lead times, as already extensively described in the past, had extended from about 3-4 months to more than 12 months in the period following the onset of the Covid-19 pandemic, also due to the effects of the resulting worldwide logistical congestion. As a result, the ability of downstream operators in the production-logistics chain, namely retailers and distributors, to react promptly and effectively to the normalisation of demand has been greatly impaired.

Due to the worsening of the operating leverage effect deriving from the above, the EBITDA margin for the year stood at 11.9% of revenues (compared to 18.5% in the comparison period). In absolute terms, this item reached € 21.1 million compared to € 41.4 million in the comparison period.

The increase in amortisation and depreciation compared to the comparative figure, up due to the significant investments made in the current year and in the previous two years, has an impact on the operating result, which decreased by -63.6% compared to the year ended 30 June 2022.

Financial charges increased, amounting to € 3.7 million compared to € 2.9 million in the previous year, mainly due to the increase in interest rates in both the Euro and the US Dollar area. The overall figure, including exchange rate differences, increased by approximately € +1.8 million, with the effect of the latter contributing a positive value of € 0.3 million compared to € 1.3 million in the previous year.

As anticipated, the year in question closed with a net profit of € 8.2 million and an incidence of 4.7% on the turnover (3.0% considering only the profit pertaining to the Group).

FINANCIAL POSITION

The financial position of the Group as at 30 June 2023, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2022, is as follows:

	30/06/2023	30/06/2022	*Var.*
Trade receivables	21.355.698	32.964.861	(11.609.162)
Inventories	40.966.066	43.649.021	(2.682.955)
Tax receivables	5.018.310	4.726.827	291.483
Other current assets	1.438.877	1.317.096	121.781
CURRENT ASSETS	***68.778.952***	***82.657.804***	***(13.878.853)***
Trade payables	11.937.682	20.179.920	(8.242.238)
Tax payables	3.500.928	6.289.289	(2.788.361)
Other current liabilities	8.773.315	13.297.952	(4.524.637)
CURRENT LIABILITIES	***24.211.926***	***39.767.162***	***(15.555.236)***
NET WORKING CAPITAL	**44.567.026**	**42.890.643**	**1.676.383**
Tangible assets	42.359.667	37.324.083	5.035.584
Intangible assets	21.762.251	20.955.107	807.144
Equity investments	1.137.206	2.482.007	(1.344.801)
Goodwill	10.549.755	10.673.404	(123.649)
Other non-current assets	5.551.210	3.133.904	2.417.306
NON-CURRENT ASSETS	***81.360.088***	***74.568.504***	***6.791.584***
Employee severance indemnity and other provisions	2.271.947	2.308.198	(36.251)
Deferred taxes	788.757	893.978	(105.221)
NON-CURRENT LIABILITIES	***3.060.704***	***3.202.177***	***(141.472)***
NET INVESTED CAPITAL	**122.866.410**	**114.256.970**	**8.609.439**
Short-term financial debt, net	2.164.871	1.520.247	644.624
Medium/long-term financial debt	49.607.480	43.091.687	6.515.793
NET FINANCIAL DEBT	**51.772.351**	**44.611.935**	**7.160.417**
Share capital and other reserves	50.552.428	35.624.425	14.928.004
Group profit for the year	5.287.935	21.385.884	(16.097.949)
GROUP SHAREHOLDERS' EQUITY	**55.840.364**	**57.010.309**	**(1.169.945)**
Share capital and other reserves	12.326.348	9.517.017	2.809.331
Profit for the year pertaining to minority interests	2.927.347	3.117.710	(190.363)
MINORITY INTERESTS	**15.253.694**	**12.634.727**	**2.618.967**

The growth in net working capital (€ +1.7 million) is essentially driven by the greater decrease in current liabilities compared to the corresponding asset item. The changes recorded in the items that make up current assets and liabilities reflect the trend for the year with lower turnover volumes, and consequently production volumes, compared to the year of comparison. An exception is the value of inventories where the decrease of € -2.7 million is attributable to the provisions described above (equal to € 3.0 million).

The operating investments ("capital expenditure") made by the various Group companies, for a total amount of € 15.2 million (of which € 0.7 million pertaining to the increase in the item “rights of use” recognised in accordance with the IFRS 16 accounting standard) are 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 rose by € 8.6 million to € 122.9 million, mainly driven by increased investment.

Net financial debt increased by around € 7.2 million to € 51.8 million; with an increase entirely concentrated in the medium/long-term portion, as shown in the table below:

		30/06/2023	30/06/2022	*Var.*
A	Cash on hand	27.511.313	26.283.940	1.227.373
B	Cash and cash equivalents	-	-	-
C	Other current financial assets	-	-	-
D	**Liquidity (A + B + C)**	**27.511.313**	**26.283.940**	**1.227.373**
E	Current financial debt *	8.084.439	9.978.258	(1.893.819)
F	Current portion of non-current financial debt **	21.591.745	17.825.929	3.765.816
G	**Current financial debt (E + F)**	**29.676.184**	**27.804.187**	**1.871.997**
H	**Net current financial debt (G-D)**	**2.164.871**	**1.520.247**	**644.624**
I.	Non-current financial debt ***	47.621.383	39.147.032	8.474.350
J	Debt instruments	1.986.098	3.944.655	(1.958.557)
K	Trade payables and other non-current payables	-	-	-
L	**Non-current financial debt (I + J + K)**	**49.607.480**	**43.091.687**	**6.515.793**
M	**Net financial debt (H + L)**	**51.772.351**	**44.611.935**	**7.160.417**

* 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

DERIVATIVE FINANCIAL INSTRUMENTS

The parent company Selle Royal Group S.p.A. subscribed three derivative financial instruments, with the aim of hedging the risk of fluctuations in interest rates on as many medium/long-term loans, of which one opened in the period under examination. Their market value is recorded in the specific non-current asset item, as their maturity is consistent with the underlying loans.

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 current year the Group incurred operating investments (capital expenditure) of approximately € 15.2 million, as shown in the following detail:

	30/06/2023
Land and buildings	553.276
Right of use of leased assets	730.928
Plant and machinery	2.497.321
Industrial and commercial equipment	1.572.793
Other assets	488.717
Fixed assets in progress and payments on account	7.703.988
Sub-total - Investments in tangible assets	**13.547.023**
Industrial patent rights and intellectual property rights	258.391
Concessions, licences, trademarks and similar rights	1.369.852
Fixed assets in progress and payments on account	3.960
Sub-total - Investments in intangible assets	**1.632.203**
TOTAL OPERATING INVESTMENTS	15.179.226

DATA on TREASURY SHARES and 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 reporting date, approximately 59% 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 2023, approximately 94% of the Group's consolidated gross financial indebtedness was floating rate, equal to € 67.4 million. In relation to a portion of this debt (approximately 33,5% of the total), the parent company Selle Royal Group S.p.A. made use of derivative financial instruments (known as IRS, interest rate swap) to hedge the risk of fluctuations in interest rates on three medium/long-term loans. The aggregate mark-to-market of these derivatives as at 30 June 2023 is positive in the amount of € 1,550,372. The remaining part of the consolidated gross financial debt at floating rate, equal to approximately 60.6% 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 Group companies, 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

During the twelve months in question, tensions arose on the purchase prices of raw materials and on the cost of electricity. These phenomena have been monitored and managed by the Group, also through a policy of increasing sales prices made possible not only by the strength of the owned trademarks but also by market conditions. Any continuation of these inflationary tensions, accompanied by a drop in demand in the sector, could result in a lower capacity for full and timely reaction and could therefore have negative effects on the Group's economic, equity and financial situation.

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

If the Covid-19 pandemic were to persist or worsen, leading to the adoption of new restrictive measures by the competent national authorities, 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.

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 1,094, a slight decrease compared to the 1,127 employees in the previous year. The net decrease of approximately 33 units is entirely attributable to production employees due to the reduction in volumes. In this regard, it should be noted that the parent company Selle Royal Group S.p.A., starting from May 2023, requested and obtained access to the temporary lay-off scheme, which is used on an as-needed basis in a logic of efficient use of production resources. For further details, please refer to the information provided in the individual financial statements of the Company.

The following tables show, detailed by category, the average workforce and the total workforce for the year 2023.

Average workforce	Financial Year 2022/23	Financial Year 2021/22	Change
Executives	25,0	24,8	0,2
Employees	270,8	242,5	28,3
Workers	784,1	857,8	(73,7)
Others	4,0	1,5	2,5
Total	**1.083,9**	**1.126,6**	**(42,7)**

Workforce *(in units)*	**30/06/2023**	**30/06/2022**	**Change**
Executives	25	25	-
Employees	266	254	12
Workers	760	841	(81)
Others	4	4	-
Total	**1.055**	**1.124**	**(69)**

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.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

On 29 September 2023, the subsidiary Selle Royal USA, Inc. acquired the 50% interest previously held by the equal partners Continental The Americas Llc. in the joint venture Highway 2 Llc. This acquisition confirms the importance of the North American market for the Group and its determination to support its growth in a period of significant changes such as the current one.

On 3 November 2023, the parent company Selle Royal Group S.p.A. sold a stake equal to 20% of the share capital of Selle Royal Romania S.r.l., therefore holding, at the date of approval of these financial statements, a stake equal to 60%.

Given the continuing weakness of the market and the consequent drops in production recorded also during the first months of the fiscal year that will end on 30 June 2024, the parent company Selle Royal Group S.p.A. continued to use the flexibility provided by access to the temporary lay-off scheme, extending its application to clerical staff.

Lastly, the parent company Selle Royal Group S.p.A. settled the disputes pending with the Italian Revenue Agency as part of the initiatives aimed at deflation of the tax dispute in Italy. The settlement of this dispute did not result in additional costs for taxes for the year.

BUSINESS OUTLOOK

The current context is significantly affected by numerous factors of uncertainty and disruption of economic activities. Of particular relevance are the continuation of the Russian-Ukrainian conflict; the dramatic resurgence of tensions in the Middle East starting from 7 October following the attack perpetrated against Israel; the sudden increase in interest rates in the last 15 months; the inflationary tensions still present, albeit to a lesser extent than in the recent past; and the continuing background geopolitical tensions between China and the United States on the “Taiwan issue”. These global phenomena, which reduce the propensity to consume, especially with reference to non-primary consumer goods, are accompanied by a decisive and persistent slowdown in business-to-business sales in the cycle sector due to the oversupply, as described above.

CONCLUSIONS and PROPOSALS

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

* * *

Pozzoleone (VI), 30 November 2023

The Chairperson of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT (*)

	NOTE	2022/23	2021/22	*Var.%*
Revenues	15	176.477.279	223.762.787	*-21,1%*
Cost of sales	16	96.959.466	126.936.347	*-23,6%*
GROSS MARGIN		**79.517.813**	**96.826.440**	***-17,9%***
Industrial costs	17	6.773.375	7.400.912	*-8,5%*
Sales and promotion costs	18	15.542.103	14.612.990	*6,4%*
Costs of the management structure	19	17.425.656	18.404.093	*-5,3%*
General and administrative costs	20	15.564.917	16.319.256	*-4,6%*
Other operating income and (expenses)	21	(3.130.820)	1.360.545	*n.s.*
EBITDA		**21.080.941**	**41.449.734**	***-49,1%***
Amortisation / depreciation and write-downs of fixed assets		8.923.159	8.078.526	*10,5%*
EBIT		**12.157.782**	**33.371.208**	***-63,6%***
Financial income / (charges)	22	(3.456.685)	(1.629.042)	*n.s.*
PRE-TAX RESULT		**8.701.097**	**31.742.167**	***-72,6%***
Taxes for the year	23	485.815	7.238.573	*-93,3%*
NET PROFIT FOR THE YEAR		**8.215.282**	**24.503.594**	***-66,5%***
Minority interests		2.927.347	3.117.710	*-6,1%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP		**5.287.935**	**21.385.884**	***-75,3%***

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2022/23	2021/22
Net profit	**8.215.282**	**24.503.594**
Change in fair value of hedging derivatives net of the tax effect	445.343	734.392
Actuarial gains / (losses)	150.269	259.986
Acquisition of shares in companies already subject to control	-	(689.454)
Translation differences of foreign financial statements	(2.446.572)	2.780.644
Total comprehensive profit / (loss) after tax	**6.364.323**	**27.589.162**

CONSOLIDATED BALANCE SHEET [(*)]

ASSETS	NOTE	30/06/2023	30/06/2022	*Var.*
Cash and cash equivalents	24, 38	27.511.313	26.283.940	1.227.373
Trade receivables	25	21.355.698	32.964.861	(11.609.162)
Inventories	26	40.966.066	43.649.021	(2.682.955)
Tax receivables	27	5.018.310	4.726.827	291.483
Other current assets	28	1.438.877	1.317.096	121.781
TOTAL CURRENT ASSETS		96.290.265	108.941.745	(12.651.480)
Intangible assets	29	21.762.251	20.955.107	807.144
Tangible assets	30	42.359.667	37.324.083	5.035.584
Equity investments	31	1.137.206	2.482.007	(1.344.801)
Goodwill	32	10.549.755	10.673.404	(123.649)
Deferred tax assets	33	2.562.740	843.510	1.719.230
Financial assets at fair value	34, 38	2.305.376	1.604.547	700.829
Other non-current assets	35	683.094	685.847	(2.753)
TOTAL NON-CURRENT ASSETS		81.360.088	74.568.504	6.791.584
TOTAL ASSETS		177.650.353	183.510.249	(5.859.896)

LIABILITIES	NOTE	30/06/2023	30/06/2022	*Var.*
Trade payables	36	11.937.682	20.179.920	(8.242.238)
Tax payables	37	3.500.928	6.289.289	(2.788.361)
Bonds - Portion maturing within 12 months	38, 43	1.958.557	1.930.941	27.616
Short-term loans	38, 39	25.133.411	23.421.806	1.711.605
Current liabilities for leased assets	40	2.584.216	2.451.440	132.776
Other current liabilities	41	8.773.315	13.297.952	(4.524.637)
TOTAL CURRENT LIABILITIES		53.888.110	67.571.349	(13.683.239)
Provisions for employees	42	1.373.602	1.531.744	(158.142)
Bonds - Portion maturing beyond 12 months	38, 43	1.986.098	3.944.655	(1.958.557)
Medium / long-term loans	38, 44	42.468.789	31.901.782	10.567.007
Provisions for risks and charges	45	898.345	776.455	121.891
Payables for deferred taxes	46	788.757	893.978	(105.221)
Non-current liabilities for leased assets	47	5.152.594	7.245.250	(2.092.656)
TOTAL NON-CURRENT LIABILITIES		52.668.185	46.293.864	6.374.321
TOTAL LIABILITIES		106.556.294	113.865.213	(7.308.919)

SHAREHOLDERS' EQUITY	NOTE	30/06/2023	30/06/2022	*Var.*
Share capital		6.000.000	6.000.000	-
Legal reserve		1.244.082	1.244.082	-
Translation reserve		1.141.462	3.588.034	(2.446.572)
Reserve for first-time adoption of IAS		10.716.446	10.716.446	-
Other reserves and undistributed profits		31.450.439	14.075.864	17.374.575
Group profit / (loss) for the year		5.287.935	21.385.884	(16.097.949)
GROUP SHAREHOLDERS' EQUITY	48	**55.840.364**	**57.010.309**	**(1.169.945)**
Share capital and undistributed profits pertaining to minority interests		12.326.348	9.517.017	2.809.331
Profit / (loss) for the year of minority interests		2.927.347	3.117.710	(190.363)
MINORITY INTERESTS	48	**15.253.694**	**12.634.727**	**2.618.967**
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		**177.650.353**	**183.510.249**	**(5.859.896)**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 30 June 2021	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 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	32.538.856	-	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	**41.203.501**	**-**	**734.392**	**259.986**	**(76.826)**	**3.020.388**	**24.503.594**	**69.645.036**

	Balance as at 30 June 2022	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 2023
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.244.082	-	-	-	-	-	-	1.244.082
Translation reserve	3.588.034	-	-	-	-	(2.446.572)	-	1.141.462
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	14.075.864	21.385.884	445.343	150.269	-	(4.606.921)	-	31.450.439
Group profit / (loss) for the year	21.385.884	(21.385.884)	-	-	-	-	5.287.935	5.287.935
TOTAL GROUP SHAREHOLDERS' EQUITY	57.010.309	-	445.343	150.269	-	(7.053.492)	5.287.935	55.840.364
Share capital and undistributed profits pertaining to minority interests	9.517.017	3.117.710	-	-	-	(308.379)	-	12.326.348
Profit / (loss) for the year of minority interests	3.117.710	(3.117.710)	-	-	-	-	2.927.347	2.927.347
TOTAL MINORITY INTERESTS	12.634.727	-	-	-	-	(308.379)	2.927.347	15.253.694
TOTAL SHAREHOLDERS' EQUITY	**69.645.036**	**-**	**445.343**	**150.269**	**-**	**(7.361.872)**	**8.215.282**	**71.094.058**

CONSOLIDATED CASH FLOW STATEMENT PREPARED USING THE INDIRECT METHOD

		2022/23	2021/22
STATEMENT OF CASH FLOWS FROM OPERATIONS			
Pre-tax result		**8.701.097**	**31.742.167**
Adjustments for			
+/-	**non-monetary elements**		
	Depreciation of tangible assets	7.986.261	6.924.016
	Amortisation of intangible assets	936.898	1.154.510
	Net financial charges	3.456.685	1.629.042
	Minor independent works	(151.614)	(219.709)
	(Gains) / losses on the sale of property, plant and equipment and financial assets	(21.433)	36.251
	Change in the bad debt provision	34.794	203.223
	Changes in deferred taxes, provisions and employee benefits	2.333.384	2.915.708
Cash and cash equivalents generated by transactions before working capital		**23.276.072**	**44.385.207**
+/-	**change in working capital**		
+/-	Change in inventories	355.766	(20.192.090)
+/-	Change in trade receivables	10.197.966	(4.161.725)
+/-	Change in trade payables	(9.839.802)	525.844
+/-	Change in other current assets	1.317.352	(1.314.723)
+/-	Change in other current liabilities	(3.051.816)	1.984.862
Cash and cash equivalents generated by transactions		**22.255.537**	**21.227.375**
+	Interest collected	538.278	234.415
-	Interest paid	(3.615.637)	(1.793.765)
+/-	Net realized exchange differences	1.518.109	492.140
-	Taxes paid	(8.854.193)	(7.727.716)
Net cash and cash equivalents from operating activities (A)		**11.842.094**	**12.432.449**
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES			
-	Payments for acquisitions of property, plant, machinery and other tangible assets	(10.817.915)	(5.881.184)
+	Recepits from the sale of property, plant, and equipment and other tangible assets	32.248	4.882
-	Payments for acquisitions of intangible assets and capitalised costs	(1.632.203)	(808.305)
-	Payments for the granting of advances or loans to third parties	(1.342.004)	(2.847.447)
-	Payments for derivatives	270.934	(83.102)
-	Payments for acquisitions of investments in subsidiaries, associates or joint venture entities	-	(750.000)
Net cash and cash equivalents from / used in investing activities (B)		**(13.488.940)**	**(10.365.158)**
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES			
+	Collections from obtaining loans	58.313.420	41.757.999
-	Payments for rents that fall under the application of IFRS 16	(2.805.044)	(2.853.154)
-	(Redemption) bond loan (known as mini-bond)	(2.000.000)	(2.000.000)
-	Loan repayments	(46.034.809)	(33.796.677)
-	Dividends paid	(2.529.316)	-
Net cash from / used in financing activities (C)		**4.944.251**	**3.108.169**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)		3.297.405	5.175.461
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		26.283.940	19.846.067
CONVERSION DIFFERENCE ON CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)		(2.070.033)	1.262.412
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G) = (D + E + F)		27.511.313	26.283.940

EXPLANATORY NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL REPORT AS AT 30 JUNE 2023

1. INTRODUCTION

The consolidated annual financial report as at 30 June 2023 of the Selle Royal Group S.p.A. Group 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 2023, 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 2023 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 to the Financial Statements that follow.

This consolidated annual financial report was prepared on the basis of the best knowledge of IFRS and taking into account the best practice 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 this report are presented in Euro, which is the currency of the main economic environment in which the Group operates, unless otherwise indicated.

The consolidated annual financial report was prepared on a going concern basis, as the directors verified that there were no 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 annual financial report was 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 annual financial report coincides with the closing date of the financial year of the parent company Selle Royal Group S.p.A. and the other companies included in the consolidation area.

Lastly, it should be noted that the financial statements of the foreign companies included in the scope of consolidation prepared according to local standards have been amended in accordance with IAS/IFRS for the sole purpose of preparing the consolidated annual financial report.

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

The accounting standards adopted by the Group for the preparation of the consolidated annual financial report as at 30 June 2023 are the same as those adopted for the preparation of the consolidated annual financial report as at 30 June 2022, with the exception of the following accounting standards, amendments and interpretations.

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 are effective for financial years beginning on or after 1 January 2022. No material impacts were recognised for the Group with reference to these amendments.

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 amendments are effective for financial years beginning on or after 1 January 2022. No material impacts were recognised 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 are effective for financial years beginning on or after 1 January 2022. No material impacts were recognised for the Group with reference to these amendments.

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 IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules

Issued on 23 May 2023, the document introduces a temporary exception to the obligations of recognition and disclosure of deferred tax assets and liabilities relating to the Pillar Two Model Rules and provides for specific disclosure obligations for the entities concerned by the related International Tax Reform.

The document provides for the immediate application of the temporary exception, while the disclosure obligations will only apply to annual financial statements starting on 1 January 2023 (or at a later date). No material impacts are expected for the Group with reference to this amendment.

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 these amendments.

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 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 these amendments.

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.

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 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

Issued on 15 August 2023, the document adds requirements to help entities determine whether a currency is convertible into another currency and the spot exchange rate to be used when it is not. These amendments will be applicable from 1 January 2025, with the possibility of early application. No material impacts are expected for the Group with reference to these amendments.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements

Issued on 25 May 2023, the document requires an entity to provide additional information on reverse factoring agreements that allow users of the financial statements to assess how financial agreements with suppliers may affect the entity's liabilities and cash flows and to understand the effect of these agreements on the entity's exposure to liquidity risk.

These amendments will be applicable from 1 January 2024. No material impacts are expected for the Group with reference to these amendments.

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

With regard to the three amendments issued respectively in January 2020, July 2020 and October 2022, the IASB published a new draft disclosure in this regard. The purpose of the documents is to clarify how to classify payables and other short or long-term liabilities. These amendments will be applicable from 1 January 2024. No material impacts are expected for the Group with reference to these amendments.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

Issued on 22 September 2022, the document requires the seller-lessee to assess the liability for the lease deriving from a sale and leaseback transaction so as not to recognise an income or a loss that refers to the right of use withheld.

These amendments will be applicable from 1 January 2024. No material impacts are expected for the Group with reference to these amendments.

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 is effective for years beginning on or after 1 January 2022. No material impacts were recognised 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 is effective for financial years starting from 1 January 2022. The Group applied this amendment to financial liabilities that are amended or exchanged subsequently or at the date of the financial year in which the Group applied this amendment for the first time. No material impacts were recognised 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.

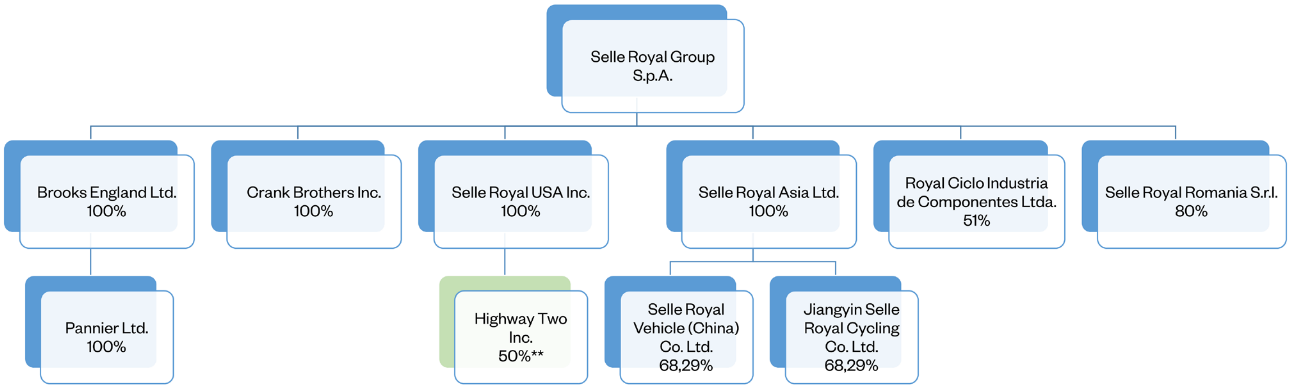
- Cash flow statement

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 GROUP COMPANIES

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

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


Selle Royal Group S.p.A.
Brooks England Ltd. 100%
Crank Brothers Inc. 100%
Selle Royal USA Inc. 100%
Selle Royal Asia Ltd. 100%
Royal Ciclo Industria de Componentes Ltda. 51%
Selle Royal Romania S.r.l. 80%
Pannier Ltd. 100%
Highway Two Inc. 50%**
Selle Royal Vehicle (China) Co. Ltd. 68,29%
Jiangyin Selle Royal Cycling Co. Ltd. 68,29%

** Consolidated according to the equity method; wholly-owned subsidiary at the date of approval of this annual financial report.

This structure has changed with respect to the composition of the Group as at 30 June 2022 due to the establishment, on 26 June 2023, of Selle Royal Romania S.r.l., a Romanian company 80% owned by the Group through the parent company Selle Royal Group S.p.A. and, for the remainder, by two local shareholders holding the minority interest in equal parts. For further details, please refer to the section “Significant events during the period”.

The consolidated financial annual report as at 30 June 2023 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 resolved of € 6,315,200.00, subscribed and paid in for € 6,000,000.
- **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 € 1,117,689.

- **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.
- **Selle Royal Romania S.r.l.**, with registered office in Sacueni, Romania. Selle Royal Group S.p.A. holds 80% of the share capital of 4,956,000 Romanian LEUs (equal to approximately € 1,000,000).

8. 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		
	30 June	30 June	Appreciation /			Appreciation /
Currency	2023	2022	(deprec.)	2022/23	2021/22	(deprec.)
British Pound (GBP)	0,8583	0,8582	-0,01%	0,8696	0,8471	-2,58%
US Dollar (USD)	1,0866	1,0387	-4,41%	1,0468	1,1279	7,76%
Chinese Yuan Renminbi (RM	7,8983	6,9624	-11,85%	7,2800	7,2789	-0,02%
Brazilian Real (BRL)	5,2788	5,4229	2,73%	5,4034	5,9205	9,57%
New Romanian Leu (RON)	4,9635	4,9464	-0,34%	4,9256	4,9430	0,35%

9. 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 a special explanatory note to the financial statements.

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.

10. 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.

11. SEGMENT REPORTING

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

EUROPE

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 whose operating activities are mainly concentrated in the territory of 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), of Brooks England Ltd. in Smethwick (GB) and which will take place at the Selle Royal Romania S.r.l. plant in Sacueni in the Bihor district, 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 this latter aspect, please note that the parent company Selle Royal Group S.p.A. has, for years now, supported the 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 2022-23 and 2021-22.

	2022/23			2021/22		
	EUROPA	AMERICA	ASIA	EUROPA	AMERICA	ASIA
Revenues	86.645.148	56.780.677	33.051.454	121.212.914	67.375.483	35.174.389
Current assets	39.216.334	34.470.482	22.603.449	43.984.428	37.779.974	27.177.343
Non-current assets	52.736.190	21.384.765	7.239.133	45.190.084	21.794.078	7.584.342
Current liabilities	34.758.007	16.818.513	2.311.589	43.027.967	19.261.411	5.281.971
Non-current liabilities	49.347.743	3.262.590	57.852	42.918.309	3.309.926	65.629

12. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2023, the parent company Selle Royal Group S.p.A. held three derivative financial instruments, subscribed with leading Italian banks, for the purpose of hedging against interest rate volatility ("IRS").

Two of the three derivative financial instruments were subscribed on 29 October 2021, at the same time as the opening of two multi-year unsecured loans at variable rates. A third, on the other hand, was signed on 30 November 2022 at the same time of a similar loan transaction.

These derivative financial instruments are found to be hedges from the effectiveness tests carried out and, as a result, the effects 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 liabilities measured at fair value in these Explanatory Notes.

13. RISK MANAGEMENT

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

14. 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 it holds 66.6% of the share capital. During the year, transactions were carried out concerning the implementation of the last year of the tax consolidation contract expired on 30 June 2022.
- Dec. 28, 1928 Real Estate S.r.l.: the parent company Selle Royal Group S.p.A., by virtue of a lease signed on 1 July 2021, which renewed the agreement previously signed in June 2013, and 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. are carried out.
- 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 parent company 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 parent company's secondary headquarters where the offices of the A4Selection division are located, and recorded in accordance with the provisions of IFRS 16. The parent company Selle Royal Group S.p.A. terminated this contract, originally for the duration of 6 years, early in January 2023, with effect from the end of July 2023.

The economic and financial relations entertained during the 2022-23 financial year are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE COSTS	CURRENT ASSETS	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Wise Equity SGR	210.000	-	-	-	-
Dec. 28, 1928 Real Estate S.r.l.	-	-	600.000	1.207.702	3.851.324
Minority shareholders in subsidiaries	218.622	139.780	-	-	-
Directors	1.561.932	-	-	19.785	-
Family members of the controlling shareholders of the parent company	-	-	25.200	4.013	-
TOTAL RELATED PARTIES	1.990.554	139.780	625.200	1.231.500	3.851.324

ANALYSIS and COMPOSITION of the INCOME STATEMENT

15. REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to € 176,477,279 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:

	2022/23	**2021/22**	***Var.***
Revenues from sales of saddles	98.321.371	118.562.408	(20.241.037)
Revenues from the sale of accessory components	75.705.830	100.919.221	(25.213.390)
Revenues from the sale of sundry materials	2.700.156	4.636.360	(1.936.203)
Revenue from services	234.869	198.538	36.331
Total gross revenues	**176.962.227**	**224.316.527**	**(47.354.300)**
Price changes and others	(176.085)	(56.405)	(119.679)
Year-end bonus	(308.864)	(497.335)	188.471
Revenue adjustments	(484.948)	(553.740)	68.792
Total revenue from sales	**176.477.279**	**223.762.787**	**(47.285.508)**
RECOGNITION of REVENUES			
Realised at a specific point in time	176.477.279	223.762.787	(47.285.508)
Realised over time	-	-	-
Total revenue from sales	**176.477.279**	**223.762.787**	**(47.285.508)**

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

	2022/23						
				CRANK		**OTHER/NOT**	
	SELLE ROYAL	**FIZIK**	**BROOKS**	**BROTHERS**	**PEdALED**	**ALLOCATED (*)**	**CONSOLIDATED**
Revenues	55.346.133	35.102.524	15.256.854	34.451.340	3.059.470	33.260.957	176.477.279
Gross margin	25.742.515	16.252.919	7.097.241	12.251.856	1.602.348	16.570.934	79.517.813
	46,5%	*46,3%*	*46,5%*	*35,6%*	*52,4%*	*n.s.*	*45,1%*

	2021/22						
				CRANK		**OTHER/NOT**	
	SELLE ROYAL	**FIZIK**	**BROOKS**	**BROTHERS**	**PEdALED**	**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%*

(*) 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.

16. COST OF SALES

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

	2022/23	**2021/22**	***Var.***
Purchase of raw materials	76.697.283	104.006.031	(27.308.748)
Ancillary charges on RM purchases	3.385.545	6.081.354	(2.695.809)
Outsourcing	3.661.069	6.850.385	(3.189.316)
Labour	17.547.699	23.555.313	(6.007.614)
Change in inventories	(4.332.130)	(13.556.737)	9.224.607
Total cost of sales	**96.959.466**	**126.936.347**	**(29.976.881)**

17. 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".

	2022/23	**2021/22**	***Var.***
Electricity	1.628.860	1.546.866	81.994
Consumables	962.171	1.085.543	(123.372)
Minor equipment	394.135	599.667	(205.532)
Maintenance	1.167.530	1.121.024	46.506
Lease payments	124.604	119.741	4.863
Research and development costs	1.102.710	1.317.141	(214.430)
Other industrial costs	1.393.364	1.610.930	(217.565)
Total industrial costs	**6.773.375**	**7.400.912**	**(627.536)**

18. SALES 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.

	2022/23	**2021/22**	***Var.***
Sales and advertising costs	6.402.947	5.444.264	958.683
Transports on sales	4.812.005	5.381.984	(569.980)
Commissions	2.101.570	2.278.716	(177.146)
Gifts	735.247	534.709	200.537
Other sales and promotion costs	1.490.334	973.316	517.018
Total sales and promotion costs	**15.542.103**	**14.612.990**	**929.113**

19. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to €17,425,656 for the period in question, includes the cost of the clerical and managerial structures of the various Group companies.

20. GENERAL and ADMINISTRATIVE COSTS

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

	2022/23	2021/22	*Var.*
Consulting	4.702.634	6.212.473	(1.509.839)
Travel expenses	1.388.588	1.090.762	297.826
Board of Directors' fees	1.771.932	1.780.974	(9.042)
Board of Statutory Auditors' fees	44.720	47.792	(3.072)
Utilities	376.820	337.546	39.274
Entertainment and hospitality expenses	331.603	258.479	73.123
Motor vehicles	485.561	470.453	15.108
Fees and IT support	1.736.321	1.323.153	413.168
Insurance	1.146.148	1.186.438	(40.290)
Lease payments	346.144	321.304	24.840
Bank charges	689.364	598.082	91.282
Other general and administrative costs	2.545.082	2.691.799	(146.718)
Total general and administrative costs	**15.564.917**	**16.319.256**	**(754.339)**

21. 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.

	2022/23	2021/22	*Var.*
Operating income:			
Minor independent works	151.614	219.709	(68.095)
Repayments and sundry income	310.314	652.630	(342.316)
Capital gains	33.206	5.096	28.110
Contingent assets and other income	463.567	713.458	(249.891)
Royalty income	62.459	3.193	59.266
Research & development	391.913	382.192	9.721
Total operating income	1.413.072	1.976.277	(563.205)
Operating expenses:			
Allocation to provision for obsolescence	(3.028.107)	(137.967)	(2.890.141)
Allocation to provision for credit risks	(239.678)	(175.376)	(64.303)
Losses on receivables	(28.556)	1.285	(29.841)
Capital losses	(11.773)	(41.347)	29.574
Contingent liabilities and other charges	(1.235.778)	(262.328)	(973.449)
Total operating expenses	(4.543.892)	(615.732)	(3.928.160)
TOTAL OPERATING INCOME / (EXPENSES)	**(3.130.820)**	**1.360.545**	**(4.491.365)**

As already mentioned above, the main cause of the increase in net operating expenses is related to the higher allocations to the provisions for obsolescence against the increase in inventories compared to 30 June 2022, concurrent and partially linked to the reduction in sales volumes. If, on the one hand, the lengthening of the production-logistics lead times recorded in 2022 (especially for products from the Far East) led to a lower capacity to react in the face of the sudden reversal of the trend in demand recorded starting from the late spring of last year and therefore an increase in volumes in stock, the same reduction in sales also corresponded to a significant reduction in the rate of stock rotation.

The combined effect of these two phenomena led the Group's management to allocate prudential provisions for the possible increase in the risk of full realisation of their value. This choice is also motivated by expectations regarding the performance of the cycle sector as a whole for 2023 and at least the first few months of 2024: an excess of stocks along the production-logistics chain (manufacturers of parts and components; assemblers of bicycles; national/international distributors; online and offline retailers) in the face of stable market demand and the consequent triggering of bearish tensions on sales prices in order to liquidate the aforementioned excess inventory.

At the same time, there was no significant increase in obsolete stocks at Group level.

22. OTHER FINANCIAL INCOME and CHARGES

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

	2022/23	**2021/22**	***Var.***
Financial income:			
Bank and postal interest	402.159	143.485	258.675
Dividends	1.019	1.510	(492)
Other financial income	118.508	82.446	36.063
Total financial income	521.686	227.441	294.245
Financial charges:			
Interest on bonds	(316.559)	(443.137)	126.578
Interest expense	(2.741.612)	(1.271.706)	(1.469.907)
Interest cost provision for employee severance indemnity	(43.944)	(9.915)	(34.029)
Discounts	(446.316)	(888.732)	442.416
Fees on loans	(350.838)	(212.943)	(137.895)
Other financial charges	(339.781)	(299.016)	(40.765)
Total financial charges	(4.239.049)	(3.125.448)	(1.113.602)
Net exchange rate differences	260.679	1.268.965	(1.008.286)
TOTAL FINANCIAL INCOME / (CHARGES)	**(3.456.685)**	**(1.629.042)**	**(1.827.643)**

This item, negative for € 3,456,685, was affected by the increase in interest expense to service the debt subscribed by some Group companies. At the end of the year, they amounted to € 2,741,612.

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

Lastly, the impact of net exchange rate differences was favourable, albeit to a lesser extent than the previous year, which, overall, were positive for € 260,679 (compared to a positive balance of € 1,268,965 recorded in 2021/22). This item includes both exchange gains and losses realised as at 30 June 2023 (which show a positive net balance of € 1,518,109), 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 negative net balance of € -1,257,431).

23. 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.

	2022/23	**2021/22**	***Var.***
Current taxes	1.437.983	8.139.183	(6.701.199)
Deferred tax (assets) / liabilities	(952.168)	(900.610)	(51.558)
TOTAL TAXES FOR THE YEAR	**485.815**	**7.238.573**	**(6.752.757)**

The decrease in current taxes is attributable to the lower profits recorded by some Group companies with respect to the comparison period.

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

24. 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 2023 was € 27,511,313 (of which € 6,879,849 in Selle Royal Group S.p.A. and € 16,454,654 in Selle Royal China, the latter with a positive net financial position), and was up compared to the previous year thanks to the liquidity generated during period.

As at 30 June 2023 (as well as at 30 June 2022) there were no restrictions or limitations on the use of the Group's cash and cash equivalents.

25. 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:

	30/06/2023	**30/06/2022**	***Var.***
Trade receivables	22.505.921	34.080.290	(11.574.369)
Bad debt provision	(1.150.223)	(1.115.429)	(34.794)
TRADE RECEIVABLES, net	**21.355.698**	**32.964.861**	**(11.609.162)**

The receivables insured as at 30 June 2023 amounted to € 13.4 million, equal to approximately 59% of the total receivables gross of the related adjustment provision.

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 € 1,917,009; the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd. completed a similar transaction for a value of € 3,037,046. During the previous year, the cumulative value of the assignments of receivables without recourse was € 4,192,889.

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

	Balance as at 30 June 2022	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2023
Bad debt provision	1.115.429	246.253	(114.182)	(76.833)	(20.443)	1.150.223
TOTAL BAD DEBT PROVISION	**1.115.429**	**246.253**	**(114.182)**	**(76.833)**	**(20.443)**	**1.150.223**

26. INVENTORIES

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

	30/06/2023	30/06/2022	*Var.*
Raw materials, supplies and consumables	7.684.413	7.884.917	(200.505)
Work in progress and semi-finished products	4.485.276	5.812.351	(1.327.075)
Finished products and goods	36.395.822	33.196.577	3.199.245
Goods in transit	698.013	2.725.444	(2.027.431)
Gross inventories	**49.263.523**	**49.619.289**	**(355.766)**
Provision for obsolescence	(5.267.673)	(2.391.811)	(2.875.861)
Provision for unrealised intra-Group margin	(3.029.785)	(3.578.457)	548.672
INVENTORIES	**40.966.066**	**43.649.021**	**(2.682.955)**

Gross inventories recorded an increase in finished products and goods, more than offset by a decrease in other types of stocks.

The slowdown in the stock rotation rate, following the drop in turnover, led management to prudently increase the provision for adjustment of the gross value of inventories up to a value of € 5,267,673, despite the absence of significant levels of obsolete stocks. On the other hand, the provision that adjusts the unrealised margin recorded a decrease of € 548,672.

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

	Balance as at 30 June 2022	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2023
Provisions for obsolescence	2.391.811	3.039.073	-	-	(163.212)	5.267.672
Provision for unrealised intra-Group margin	3.578.457	(390.925)	-	-	(157.747)	3.029.785
TOTAL ADJUSTMENT PROVISIONS of INVENTORIES	**5.970.269**	**2.648.148**	**-**	**-**	**(320.959)**	**8.297.458**

27. TAX RECEIVABLES

Tax receivables increased compared to the balance as at 30 June 2022, as detailed below:

	30/06/2023	30/06/2022	*Var.*
Current tax receivables:			
For direct taxes	3.223.041	2.772.305	450.735
For indirect taxes	190.442	378.434	(187.992)
For other withholdings	431.429	431.374	54
Subtotal current taxes	3.844.912	3.582.114	262.798
Current deferred tax assets	1.173.399	1.144.713	28.685
TOTAL TAX RECEIVABLES	**5.018.310**	**4.726.827**	**291.483**

Compared to 30 June 2022, the increase in direct tax receivables is mainly due to the increase in the same relating to the subsidiary Crank Brothers Inc. The drop in receivables for indirect taxes is mainly due to the lower VAT credit of Selle Royal Group S.p.A. and of the Taiwanese branch of Crank Brothers Inc.

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

28. OTHER CURRENT ASSETS

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

	30/06/2023	30/06/2022	*Var.*
Advance costs	185.084	220.406	(35.323)
Accrued income and prepaid expenses	940.393	787.965	152.428
Sundry receivables	313.401	308.725	4.676
TOTAL CURRENT ASSETS	1.438.877	1.317.096	121.781

The prepaid costs relate to the expenses connected to the seasonality of the sector and from incurring, at the end of the fiscal year, costs related to the launch of new products and participations in events in the following fiscal year, which are therefore suspended under this item as at 30 June of each year to comply with the accrual principle and is entirely referable to the parent company Selle Royal Group S.p.A.

Sundry receivables include € 139,780 relating to the subscription of share capital not yet paid by the minority shareholders of Selle Royal Romania S.r.l.

NON-CURRENT ASSETS

29. 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 2022	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2023
Industrial patent rights and intellectual property rights	1.228.271	258.391	-	-	(487.969)	(18.732)	979.960
Concessions, licences, trademarks and similar rights	19.537.435	1.369.852	-	335.290	(436.212)	(39.421)	20.766.943
Other	13.297	-	-	-	(12.717)	(580)	-
Fixed assets in progress and payments on account	176.103	3.960	(44.368)	(83.933)	-	(36.417)	15.347
Total intangible assets	**20.955.107**	**1.632.203**	**(44.368)**	**251.357**	**(936.898)**	**(95.150)**	**21.762.250**

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 amortisation; higher values for a total of US$ 7,694,000 are recognised in the financial statements of Crank Brothers Inc., allocated for US$ 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, licences, trademarks and similar rights" refers to the value of the trademark portfolio held by the Group companies, for a value of € 18,391,470; the remainder relates to the concession rights of the land on which the Selle Royal China plant stands and to licences 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.

30. TANGIBLE 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 2022	Increases (+)	Decreases (-)	Reclassification	Depreciation (-)	Translation diff.	Balance as at 30 June 2023
Land and buildings	7.231.474	553.276	-	(555)	(677.329)	299.031	7.405.897
Right of use of leased assets	10.521.244	730.928	(1.876)	-	(2.286.905)	(42.405)	8.920.986
Plant and machinery	10.580.972	2.497.321	(17.347)	384	(1.789.601)	(193.360)	11.078.369
Industrial and commercial equipment	5.087.844	1.572.793	(5.231)	874.398	(2.702.894)	(6.804)	4.820.106
Other assets	1.609.658	488.717	(36.826)	3.361	(529.532)	(140.844)	1.394.534
Fixed assets in progress and payments on account	2.292.890	7.703.988	(90.747)	(1.128.944)	-	(37.412)	8.739.775
Total tangible assets	**37.324.083**	**13.547.023**	**(152.026)**	**(251.357)**	**(7.986.261)**	**(121.794)**	**42.359.667**

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 as well as to the increase attributable to the first-time consolidation of the subsidiary Selle Royal Romania S.r.l.

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., as well as to other leases and multi-year leases of both production facilities and equipment and other assets. The increase in this item is mainly related to the recalculation of future fees due for the lease of the Selle Royal Group S.p.A. offices, as well as to new multi-year rental contracts that meet the criteria for recognition in the financial statements according to the provisions of the accounting standard IFRS 16.

The increases in other items, and in particular “plant and machinery”, “industrial and commercial equipment” and “fixed assets in progress and payments on account” mainly refer to investments of an industrial nature, made mainly by the parent company and the production subsidiaries.

Tangible assets in progress and payments on account mainly relate to expenses incurred by the Group in relation to new products development projects not yet completed at the end of the year.

31. EQUITY INVESTMENTS

The balance reflects the cost incurred for the acquisition of equity investments in companies not consolidated on a line-by-line basis and relates, for € 1,117,689, 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 € 19,517, relates to minority interests held by Selle Royal Group S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 18,794).

Some economic indicators of Highway Two LLC, relating to 2023, are listed below, as well as the balance sheet balances as at 30 June 2023, and related comparative data. For the sake of completeness, the fiscal year of the joint venture coincides with the calendar year.

		30/06/2023		30/06/2022	*Var.*
Highway 2 Llc:					
Current assets	$	16.297.053	$	27.825.001	$ (11.527.948)
Non-current assets	$	277.614	$	725.028	$ (447.414)
Current liabilities	$	(14.122.356)	$	(23.424.925)	$ 9.302.569
Non-current liabilities	$	(9.728)	$	(44.673)	$ 34.945
Shareholders' equity	**$**	**2.442.583**	**$**	**5.080.432**	**$(2.637.848)**
Group interest (50%)	$	1.221.292	$	2.540.216	$ (1.318.924)
Carrying amount of the investment in Highway 2 Llc. (in €)		1.117.689		2.463.609	(1.345.921)
Other equity investments *(in €)*		19.517		18.398	1.120
Total equity investments		**1.137.206**		**2.482.007**	**(1.344.801)**
		1st half 2023		1st half 2022	*Var.*
Highway 2 Llc:					
Revenues	$	2.807.411	$	8.311.579	$ (5.504.168)
Cost of sales	$	(2.081.609)	$	(7.565.946)	$ 5.484.337
Operating and financial costs	$	(584.361)	$	(681.629)	$ 97.268
Net profit	**$**	**141.442**	**$**	**64.004**	**$ 77.438**
Group interest (50%)	$	70.721	$	32.002	$ 38.719

Lastly, it should be noted that, as already indicated above, on 29 September 2023 the US subsidiary Selle Royal USA Inc. completed the purchase of the remaining portion of Highway 2 Llc. by the equal shareholder Continental Tires The Americas Llc.

32. GOODWILL

This item had a balance as at 30 June 2023 of € 10,549,755.

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.

33. DEFERRED TAX ASSETS

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

	30/06/2023		30/06/2022	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	806	225	29.507	8.233
Accrued leave for employees	436.366	101.682	277.171	65.197
Bad debt provision	451.245	98.912	362.965	77.029
Unrealised margin on intra-Group sales	3.121.261	782.968	3.669.942	920.139
Tangible assets	204.026	34.684	131.908	22.424
Other temporary differences	594.956	154.926	189.108	51.691
Subtotal current deferred tax assets	**4.808.660**	**1.173.398**	**4.660.602**	**1.144.713**
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	209.754	58.521	188.817	52.680
Inventory write-down provision	4.838.554	1.343.382	1.995.869	462.835
Intangible assets	464.649	129.637	522.773	145.854
Tangible assets	347.378	59.054	527.407	44.175
Prior tax losses - Federal taxes	4.126.438	942.582	498.454	104.675
Prior tax losses - State taxes	334.428	29.563	376.598	33.290
Subtotal non-current deferred tax assets	**10.321.200**	**2.562.740**	**4.109.917**	**843.510**
TOTAL DEFERRED TAX ASSETS	15.129.860	3.736.138	8.770.519	1.988.222

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 margin on intra-Group sales.

On the other hand, non-current deferred tax assets increased due to higher provisions for inventory write-downs commented on above, as well as following the recognition of deferred tax assets against tax losses recorded by some Group companies.

34. FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 755,004, 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.

In addition, this item includes the market value of three derivative instruments hedging against the risk of fluctuations in interest rates ("IRS") for an amount of € 1,550,372; two of the three derivative financial instruments were subscribed on 29 October 2021 and the third on 30 November 2022, at the same time multi-year unsecured loans at variable rates were taken out.

The two derivatives subscribed on 29 October 2021, 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.

The third instrument, signed on 30 November 2022, has the following characteristics:

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 01/12/2022;

Notional value: € 5,000,000;

Liability hedged: medium-term loan;

Initial date: 30/11/2022;

End date: 30/11/2027;

Debtor Selle Royal Group S.p.A.: basic contractual fixed rate 30E/360 paid at the end of the quarter - contractual fixed rate 2.81%;

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 -1.50%;

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.

35. OTHER NON-CURRENT ASSETS

This item, amounting to € 683,094, mainly refers to security deposits relating to lease contracts pertaining to Selle Royal Group S.p.A. and Crank Brothers, Inc. The balance is in line with that as at 30 June.

CURRENT LIABILITIES

36. 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 equal to € 11,937,682, down compared to the previous year in line with the decrease in volumes recorded during the period compared to the previous year and reflects, in particular, the trend of the contraction that was accentuated during the first few months of 2023, during which the sharp slowdown in sales to bicycle assemblers (the so-called *OEM channel - Original Equipment Manufacturer*) was added to the permanent weakness of the aftermarket channel, the latter already emerging during the second half of 2022.

37. TAX PAYABLES

The item in question is detailed below:

	30/06/2023	**30/06/2022**	***Var.***
Direct taxes	434.659	2.321.907	(1.887.248)
Indirect taxes	887.133	897.792	(10.659)
Local taxes	55.568	58.449	(2.881)
Withholding taxes on employees and others	523.778	844.655	(320.878)
Payables due to tax disputes	1.599.791	2.166.486	(566.695)
TOTAL TAX PAYABLES	**3.500.928**	**6.289.289**	**(2.788.361)**

The lower payables for direct taxes are attributable to the lower profits recorded by the Group companies; the decrease in payables for withholdings, almost entirely pertaining to the parent company Selle Royal Group S.p.A., is due to the payment of the amount withheld as at 30 June 2022 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 already subject to existing instalment plans in place with the Italian Revenue Agency. As already indicated in the paragraph relating to significant events after the closing date of the financial year, the disputes outstanding with the same were subsequently settled as part of the initiatives aimed at deflation of the tax dispute in Italy. The settlement of the dispute did not result in additional costs for taxes for the year.

38. 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:
  - interest rates and yield curves observable at commonly quoted intervals;
  - implied volatility;
  - 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 tables summarise the financial assets and liabilities measured at fair value shown in the financial statements and the related measurement criteria adopted:

As at 30 June 2023

		fair value measurements			
	Note	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	24, 38	27.511.313	27.511.313	-	-
Equity investments	31	1.137.206	-	-	1.137.206
Financial assets at fair value	34, 38	755.004	-	-	755.004
Derivative financial instruments	34, 38	1.550.372	-	1.550.372	-
TOTAL ASSETS		**30.953.895**	**27.511.313**	**1.550.372**	**1.892.210**
Loans	38, 39, 47	67.602.200	-	67.602.200	-
Bonds	38, 43	3.944.655	-	3.944.655	-
TOTAL LIABILITIES		**71.546.855**	**-**	**71.546.855**	**-**

As at 30 June 2022

		fair value measurements			
	Note	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	24, 38	26.283.940	26.283.940	-	-
Equity investments	31	2.482.007	-	-	2.482.007
Financial assets at fair value	34, 38	1.604.547	-	-	1.604.547
TOTAL ASSETS		**30.370.495**	**26.283.940**	**-**	**4.086.554**
Loans	38, 39, 47	55.323.589	-	55.323.589	-
Bonds	38, 43	5.875.596	-	5.875.596	-
TOTAL LIABILITIES		**61.199.185**	**-**	**61.199.185**	**-**

39. SHORT-TERM LOANS

The balance of this item, as at 30 June 2023, amounting to € 25,133,411, up compared to 30 June 2022, 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.

40. 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.

41. OTHER CURRENT LIABILITIES

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

	30/06/2023	30/06/2022	*Var.*
Payables to employees	5.186.672	6.919.323	(1.732.651)
Payables to social security institutions	525.689	868.326	(342.637)
Payables to sales agents	210.774	236.627	(25.853)
Payables for tax consolidation	-	1.968.311	(1.968.311)
Accrued expenses and deferred income	1.766.905	2.561.951	(795.045)
Sundry payables	1.083.275	743.414	339.861
TOTAL CURRENT LIABILITIES	**8.773.315**	**13.297.952**	**(4.524.637)**

The decrease in this item is essentially attributable to the lower value of payables to employees and the elimination of payables for tax consolidation following the natural expiry of the related contract signed between the parent company Selle Royal Group S.p.A. and its parent company. The decrease in the item relating to deferred income is mainly attributable to the parent company Selle Royal Group S.p.A..

The aforementioned decrease is attributable to the recognition during the period, with a view to compliance with the accrual principle and according to the provisions of IAS 20, of the portion pertaining to the year of tax credits related to investments in capital goods subsidised according to the regulations commonly defined as “Industry 4.0”; these receivables are initially recognised as deferred revenues to the extent of future accruals and subsequently reversed to the income statement on a straight-line basis.

NON-CURRENT LIABILITIES

42. 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 3.67% 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 3.225% at the balance sheet date;
- annual inflation rate: estimated at 2.3% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2022	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 30 June 2023
Provisions for employees	1.531.744	13.717	(57.782)	43.943	(150.269)	(7.751)	1.373.602
TOTAL	**1.531.744**	**13.717**	**(57.782)**	**43.943**	**(150.269)**	**(7.751)**	**1.373.602**

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	1,328,847
-1% on the turnover rate	1,312,077
+1/4% on the annual inflation rate	1,338,297
-1/4% on the annual inflation rate	1,303,858
+1/4% on the annual discount rate	1,294,123
-1/4% on the annual discount rate	1,348,663

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	109,489
2	65,757
3	93,482
4	50,676
5	179,163

43. 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 parent 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 third repayment instalment was paid, amounting to € 2,000,000.

44. MEDIUM/LONG-TERM LOANS

This item, amounting to € 42,468,789, up by € 10,567,007 compared to 30 June 2022, 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 credit institutions.

45. PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2022	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 30 June 2023
Provision for supplementary customer indemnities	91.388	12.929	-	(1.974)	102.342
Provision for payment of foreign agents	188.817	20.937	-	-	209.754
End of mandate indemnity	496.250	90.000	-	-	586.250
TOTAL	**776.455**	**123.865**	**-**	**(1.974)**	**898.345**

The end of mandate indemnity provision 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.

46. DEFERRED TAXES

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

	30/06/2023		30/06/2022	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Derivative financial instruments	1.550.372	372.089	964.394	231.455
Intangible assets	-	-	178.141	61.915
Tangible assets	1.383.023	406.964	1.998.517	583.012
Other temporary differences	46.485	9.704	83.786	17.595
TOTAL DEFERRED TAXES	**2.979.881**	**788.757**	**3.224.837**	**893.978**

The decrease in this item is mainly attributable to the net balance of lower deferred taxes relating to time differences in amortisation recognised for tax purposes compared to the same for statutory purposes and to the recognition of higher deferred taxes resulting from the increase in fair value of the derivatives described previously.

47. 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.

48. SHAREHOLDERS' EQUITY

The share capital is composed as follows:

Ordinary shares – 6,000,000.00 (with no par value). For the sake of completeness, please note that the Shareholders' Meeting, which met on 18 February 2022, resolved the spin-off and split of the shares of the parent company Selle Royal Group S.p.A., on the basis of a ratio of 6.25 new shares for each previously outstanding share. This split was completed in 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 2023		30 June 2022	
	Shareholders' equity	Profit for the year	Shareholders' equity	Profit for the year
Selle Royal Group S.p.A. as per the financial statements	34.890.629	3.824.356	30.470.661	10.532.489
Difference between book value and pro-rata value shareholders' equity of consolidated companies	15.867.509	(15.555)	21.843.390	-
Pro-rata results achieved by consolidated subsidiaries	-	6.323.972	-	13.023.777
Elimination of intercompany profits included in inventories	(2.272.339)	411.504	(2.683.842)	(2.010.128)
Other consolidation differences	7.354.566	(5.256.342)	7.380.100	(160.254)
Shareholders' equity and profit for the year pertaining to the Group	**55.840.364**	**5.287.935**	**57.010.309**	**21.385.884**
Shareholders' equity and profit for the year attributable to minority interests	15.253.694	2.927.347	12.634.727	3.117.710
Shareholders' equity and profit for the year as reported in the consolidated financial statements	**71.094.058**	**8.215.282**	**69.645.036**	**24.503.594**

This consolidated annual financial report, consisting of the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Shareholders' Equity, Cash Flow Statement and Explanatory Notes to the Financial Statements, gives a true and fair view of the financial position and results of operations for the year ended 30 June 2023 and is consistent with the accounting records.

* * *

Pozzoleone (VI), 30 November 2023
The Chairperson of the Board of Directors
(Barbara Bigolin)

Selle Royal Group S.p.A.

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

Consolidated Financial Statements as at 30 June 2023

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.

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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 2023, 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 2023 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:

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013
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- 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 2023, 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 2023and 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 2023 and 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, 6 December 2023

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.