SelleRoyalGroup

CONSOLIDATED HALF-YEARLY FINANCIAL REPORT AS AT 31.12.2022

Selle Royal Group S.p.A.
Legal seat in Via Vittorio Emanuele n. 119 – Pozzoleone (VI)
Authorized share capital Euro 46.000.000,00 of which subscribed and paid Euro 6.000.000,00
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REPORT ON OPERATIONS

Dear Shareholders,

The half-year ended 31 December 2022 recorded a consolidated profit of € 8,696,801, of which € 6,682,591 pertaining to the Group.

SIGNIFICANT EVENTS DURING THE PERIOD

During the half-year in question, the global context in which the Group operated experienced moments of strong tension, which have not yet subsided: on the one hand, the intensification of the war between Russia and Ukraine on the eastern borders of the European Union where, at the current date, there appear to be no glimmers of a peaceful solution. On the other hand, and strongly consequential to it, the dramatic increase in the cost of electricity and gas, more due to speculative dynamics and fears about the possible rationing of supplies from Russia, from which Europe found itself to be guiltily dependent, rather than an actual and structural reduction of the same.

In this context of marked instability and uncertainty, a feared and unusual inflationary trend (at least in the light of the first 20 years of this century) has become apparent, which has prompted the main global Central Banks to increase the reference interest rates with an uncommon frequency and magnitude, generating strong recessionary fears in the main world economies and ultimately determining gloomy scenarios for social stability in countries with more significant wealth inequalities and limited willingness to use tax leverage to support less affluent classes and businesses.

As if what has been described above were not enough, there were also further destabilising events at a local level but with repercussions on a global scale: for example, the Chinese real estate crisis (with the consequent monetary intervention in support of the People's Bank of China) as well as the advent of the "Omicron" variant, initially contrasted through the now well-known draconian social control measures and subsequently left to substantially rampage without restrictions, have impacted Chinese economic growth and the availability of products for the main end markets, primarily the United States and Europe.

On the other hand, the most significant good news of the period, from a microeconomic point of view, is probably related to the improvement in the state of global logistics, which notoriously had significantly deteriorated, as a result of the strong economic recovery in the period following the first wave of the Covid-19 pandemic, and the consequent reduction in the cost of sea freight.

Furthermore, on a strictly experiential basis and therefore not relevant in an absolute sense, the feared interruption of the supply chain of raw materials relating to the production cycle of the Group's products did not materialise.

As regards the cycle sector, instead, the last six months have been characterised by a significant and sudden change: on the one hand, the attenuation of market demand, which is still present but has normalised compared to previous months while, conversely on the other hand, the significant increase in stock levels along the production-distribution chain (typically composed, we recall, by manufacturers of bicycles and/or parts and accessories, national/continental distributors, and retailers, both with physical stores and large e-commerce platforms with a supra-national scope of action). What is currently taking place is the combined effect of the adjustment of supply levels to the new "post-Covid" demand and its subsequent normalisation, in any case at levels estimated to be higher than in the "pre-Covid" period. The stockpiling phenomenon became apparent, initially, in North America where the logistic congestion began to dissipate in the first months of 2022, resulting in more frequent deliveries of everything ordered in the previous 12 months and not delivered within the normal time frames. In late spring, recession fears, high inflation and rising interest rates in the United States also contributed to a prudential recalibration of consumer purchasing behaviour, with particular reference to non-essential goods such as those typical of the sector in which the Group operates.

This trend was subsequently duplicated also in Europe, starting from late summer, supported by widespread fears about the disruptive effects deriving from the increase in energy prices.

In the sector, sales to distributors and retailers (the "aftermarket" channel) were most severely impacted during the half-year in question, as these were those in which the increase in stocks primarily had serious and continuous effects. During the autumn months, there was also a slowdown in sales to bicycle assemblers ("Original Equipment Manufacturer" channel, which requires longer-term production planning and therefore has longer reaction times to changing market conditions).

On the other hand, what happened in the first few months of the current fiscal year (and which will probably occur again in the immediate future) is considered by the main players in the sector to be a natural adjustment in an industry literally "shattered" by what has occurred in the last 24-30 months, also due to the strongly disrupted global context of 2022.

In fact, there is a firm belief that the trends that have driven the growth of the sector in the last two years (sustainable mobility, greater adoption of electric bicycles, well-being, outdoor activities, etc.) are of a long-term nature and will not decrease even when the pandemic, and all the distortions it has entailed, will no longer be a factor.

Global groups, established on the market, financially stable and oriented towards process and product innovation such as the Selle Royal Group, which have been able to maximise the benefits from the increase in demand in the recent past, will be in the best conditions to be able to seize the opportunities that will organically arise once the global and sector context have stabilised.

Lastly, as regards the corporate structure, no significant events occurred during the period covered by this interim report.

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 income statement for the first half of 2022/23 is shown below, compared with the same period of the previous year:

	1st half of 2022/23	*% of revenues*	1st half of 2021/22	*% of revenues*	*% Change*
Revenues	95.300.757	*100,0%*	105.513.820	*100,0%*	*-9,7%*
Cost of sales	49.967.508	*52,4%*	58.206.052	*55,2%*	*-14,2%*
GROSS MARGIN	**45.333.249**	***47,6%***	**47.307.768**	***44,8%***	***-4,2%***
Operating costs	29.088.942	*30,5%*	24.979.232	*23,7%*	*16,5%*
EBITDA	**16.244.307**	***17,0%***	**22.328.536**	***21,2%***	***-27,2%***
Amortisation / depreciation and write-downs of fixed assets	4.377.736	*4,6%*	3.822.742	*3,6%*	*14,5%*
EBIT	**11.866.571**	***12,5%***	**18.505.793**	***17,5%***	***-35,9%***
Financial income / (charges) and other financial components	(1.433.939)	*-1,5%*	(1.251.436)	*-1,2%*	*14,6%*
PRE-TAX RESULT	**10.432.632**	***10,9%***	**17.254.358**	***16,4%***	***-39,5%***
Taxes for the year	1.735.830	*1,8%*	3.821.324	*3,6%*	*-54,6%*
NET PROFIT FOR THE YEAR	**8.696.801**	***9,1%***	**13.433.034**	***12,7%***	***-35,3%***
Minority interests	2.014.210	*2,1%*	1.863.837	*1,8%*	*8,1%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	**6.682.591**	***7,0%***	**11.569.197**	***11,0%***	***-42,2%***

The half-year under review, ended as at 31 December 2022, reported sales of € 95.3 million, down by 9.7% compared to the turnover of the comparison half-year, however, recording a significant increase in gross margins (increased from 44.8% to 47.6%), thanks to a careful management of the sales and purchase strategies implemented by the Group's management.

The increase in operating costs, and in particular some industrial costs, is mainly attributable to the increase in electricity and gas costs as a result of the inflationary phenomenon described in detail above. In addition, during the period, the provision relating to the risk of obsolescence was adjusted for an amount of € 2.3 million. This provision was made on a prudential basis, following the increase in the value of inventories and the change in the market context, as described above. Overall, however, the Group confirms its ability to exploit the operating leverage effect, recording an EBITDA margin of 17.0% of revenues (compared to 21.2% in the year of comparison). In absolute terms, this item amounted to € 16.2 million compared to € 22.3 million in the previous period.

Depreciation and amortisation increased over the comparison figure, due to the significant operating investments made in the previous fiscal year and in the period in question, bringing the operating result to € 11.9 million.

Financial charges in the strict sense were negatively affected by the increases in interest rates approved by the European and American Central Banks as well as, albeit to a much lower extent, by the different composition of gross bank debt, with a higher medium/long-term portion compared to the comparative figure.

The year in question closed with a decrease in net profit compared to the previous half-year (€ 8.7 million and € 13.4 million, respectively), with an incidence of 9.1% on turnover (€ 6.7 million considering only the profit pertaining to the Group).

FINANCIAL POSITION

The financial position of the Group as at 31 December 2022, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2022, is as follows:

	31/12/2022	30/06/2022	*Change*
Trade receivables	26.467.142	32.964.861	(6.497.719)
Inventories	54.126.815	43.649.021	10.477.794
Tax receivables	4.678.576	4.726.827	(48.251)
Other current assets	1.272.274	1.317.096	(44.822)
CURRENT ASSETS	*86.544.807*	*82.657.804*	*3.887.003*
Trade payables	19.837.432	20.179.920	(342.488)
Tax payables	6.432.093	6.289.289	142.803
Other current liabilities	10.746.108	13.297.952	(2.551.844)
CURRENT LIABILITIES	*37.015.633*	*39.767.162*	*(2.751.529)*
NET WORKING CAPITAL	49.529.174	42.890.643	6.638.532
Tangible assets	37.362.707	37.324.083	38.624
Intangible assets	20.754.233	20.955.107	(200.874)
Equity investments	2.422.041	2.482.007	(59.966)
Goodwill	10.600.033	10.673.404	(73.372)
Other non-current assets	4.799.773	3.133.904	1.665.869
NON-CURRENT ASSETS	*75.938.786*	*74.568.504*	*1.370.282*
Employee severance indemnity and other provisions	2.287.244	2.308.198	(20.954)
Deferred taxes	740.014	893.978	(153.964)
NON-CURRENT LIABILITIES	*3.027.259*	*3.202.177*	*(174.918)*
NET INVESTED CAPITAL	122.440.702	114.256.970	8.183.731
Short-term financial debt, net	(3.274.852)	1.520.247	(4.795.099)
Medium/long-term financial debt	49.221.856	43.091.687	6.130.168
NET FINANCIAL DEBT	45.947.004	44.611.935	1.335.069
Share capital and other reserves	55.661.816	35.624.425	20.037.391
Group profit for the year	6.682.591	21.385.884	(14.703.293)
GROUP SHAREHOLDERS' EQUITY	62.344.407	57.010.309	5.334.098
Share capital and other reserves	12.135.081	9.517.017	2.618.064
Profit for the year pertaining to minority interests	2.014.210	3.117.710	(1.103.500)
MINORITY INTERESTS	14.149.291	12.634.727	1.514.564

The increase in net working capital (€ +6.6 million) was mainly driven by higher inventories (€ +10.5 million net of adjustment provisions) and the decrease in other current liabilities (€ -2.6 million). The growth in inventories is primarily attributable to the phenomena described extensively above (normalisation of market demand and, at the same time, decongestion of global logistics), as well as

the inflationary impact on the unit value of the inventory goods.

On the other hand, the change in trade receivables showed an opposite trend, down by € -6.5 million, due to the improvement in the average collection days, which went from 57 to 51, as well as the trend in turnover.

The operating investments ("*capital expenditures*") made by the various Group companies, for a total amount of € 4.7 million, are mainly aimed at product innovation, one of the key elements on which the Group bases its future growth, at the renovation and improvement of production sites and the protection of intellectual property, consisting in particular of the more than 70 product and/or process patents filed and the trademarks under which the Group markets its products. Therefore, net invested capital rose by € 8.2 million to € 122.4 million, mainly driven by the trend in net working capital.

Net financial debt, inclusive of the liabilities recognised in compliance with the IFRS16 accounting standard, increased by around € 1.3 million to € 46.0 million, with a significant increase in the medium/long-term portion to the detriment of the current portion, as shown in the table below:

		31/12/2022	30/06/2022	*Change*
A	Cash on hand	38.782.240	26.283.940	12.498.299
B	Cash and cash equivalents	-	-	-
C	Other current financial assets	-	-	-
D	**Liquidity (A + B + C)**	**38.782.240**	**26.283.940**	**12.498.299**
E	Current financial debt *	23.372.972	9.978.258	13.394.713
F	Current portion of non-current financial debt **	12.134.416	17.825.929	(5.691.513)
G	**Current financial debt (E + F)**	**35.507.388**	**27.804.187**	**7.703.201**
H	**Net current financial debt (G-D)**	**(3.274.852)**	**1.520.247**	**(4.795.099)**
I.	Non-current financial debt ***	47.256.479	39.147.032	8.109.447
J	Debt instruments	1.965.376	3.944.655	(1.979.279)
K	Trade payables and other non-current payables	-	-	-
L	**Non-current financial debt (I + J + K)**	**49.221.856**	**43.091.687**	**6.130.168**
M	**Net financial debt (H + L)**	**45.947.004**	**44.611.935**	**1.335.069**

* Excluding current portion of non-current financial debt;

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

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

The increase in net financial debt is however limited compared to the increase in net invested capital, thanks to the operating cash flow generated in this first half of the year, net of the change in net working capital.

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 half-yearly financial report.

INVESTMENTS

As already mentioned, during the first half of the year the Group incurred operating investments (*capital expenditures*) of approximately € 4.7 million, as shown in the following detail:

	1st half of 2022/23
Land and buildings	173.996
Right of use of leased assets	502.272
Plant and machinery	446.370
Industrial and commercial equipment	356.558
Other assets	271.730
Fixed assets in progress and payments on account	2.628.938
Sub-total - Investments in tangible assets	**4.379.864**
Research and development costs	-
Industrial patent rights and intellectual property rights	60.432
Concessions, licences, trademarks and similar rights	192.447
Other	-
Fixed assets in progress and payments on account	108.781
Sub-total - Investments in intangible assets	**361.659**
TOTAL OPERATING INVESTMENTS	4.741.523

As can be seen from the previous table, € 2.6 million relates to assets in progress relating mainly to investments of the parent company Selle Royal Group S.p.A.

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 68% of the consolidated receivables (gross of the bad debt provision) were covered by insurance.

Risks associated with changes in interest rates

As at 31 December 2022, approximately 82% of the Group's consolidated gross financial debt, amounting to € 62.4 million, was floating rate. In relation to a portion of this debt (approximately 32% of the total), the parent company Selle Royal Group S.p.A. made use of derivative financial instruments (known as IRS, *interest rate swaps*) to hedge the risk of fluctuations in interest rates. The aggregate mark-to-market of these derivatives as at 31 December 2022 was positive for € 1.7 million. The remaining part of the consolidated gross financial debt at floating rate, equal to approximately 50% of the total, is not hedged by interest rate risk hedging instruments. Significant further changes in interest rates could result in a further increase in financial charges relating to this portion of bank 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 rising inflation

As previously mentioned, during the half-year the purchase prices of some production factors, especially those relating to energy, underwent significant increases, which were attenuated in the last weeks of the half-year and in the first few weeks of the new calendar year. On the other hand, the increase in margins recorded in the period testifies to the soundness of the Group's business model and its ability to react promptly to shocks, including sensitive ones.

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. As already described, during the period, the value of the inventory adjustment provision was adjusted against the increase in the risk of obsolescence by € 2.3 million.

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.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

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

BUSINESS OUTLOOK

The current context is significantly affected by numerous economic activity uncertainty and disruption factors: the continuation of the Russian-Ukrainian conflict; inflationary tensions; the increase in interest rates; the increase in the cost of electricity and gas and the effects of the latter on consumer propensity to purchase; the ongoing geopolitical tensions between China and the United States on the "Taiwan issue"; the stockpiling along the production-distribution chain in the cycle sector. Each of these phenomena has the potential to impact, even to a significant extent, on the growth prospects of an economic entity. All the more so, the co-presence of all these factors result in unprecedented uncertainty, with foreseeable depressing impacts on the propensity to consume in many areas of the world, and in particular at the expense of non-essential goods. On the other hand, the sector in which the Selle Royal Group operates enjoys the above illustrated medium-long term trends, which have the potential to mitigate the effects outlined above.

TRANSACTIONS WITH PARENT COMPANIES, AFFILIATES AND RELATED PARTIES

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

ENVIRONMENT, PERSONNEL and SECTOR REGULATIONS

The production, manufacture and sale of Group products is not currently subject to specific sector

regulations. However, in consideration of the use of certain substances, environmental regulations are particularly important, especially for their treatment, emissions and waste disposal.

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

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

The average number of employees in the current half-year was 1,122, essentially stable compared to the 1,127 employees in the previous year. In addition to the employees hired by the Group companies, a total of an additional 279 employees were hired in this current first half of the year through temporary work agencies. The latter were 198 as at 31 December 2022.

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

Average workforce	1st half of 2022/23	Financial Year 2021/22	Change
Executives	20,0	24,8	(4,8)
Employees	261,7	242,5	19,2
Workers	835,2	857,8	(22,7)
Others	5,3	1,5	3,8
Total	**1.122,1**	**1.126,6**	**(4,5)**

Workforce *(in units)*	31/12/2022	30/06/2022	Change
Executives	20	25	(5)
Employees	268	254	14
Workers	802	841	(39)
Others	6	4	2
Total	**1.096**	**1.124**	**(28)**

* * *

Pozzoleone (VI), 28 February 2023

The Chairperson of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT (*)

	NOTES	1st half of 2022/23	1st half of 2021/22	*Var.%*
Revenues	16	95.300.757	105.513.820	*-9,7%*
Cost of sales	17	49.967.508	58.206.052	*-14,2%*
GROSS MARGIN		**45.333.249**	**47.307.768**	***-4,2%***
Industrial costs	18	3.171.750	3.066.641	*3,4%*
Sales and promotion costs	19	7.758.368	6.778.404	*14,5%*
Costs of the management structure	20	8.879.171	8.445.986	*5,1%*
General and administrative costs	21	7.622.956	7.508.004	*1,5%*
Other operating income and (expenses)	22	(1.656.697)	819.803	*n.s.*
EBITDA		**16.244.307**	**22.328.536**	***-27,2%***
Amortisation / depreciation and write-downs of fixed assets		4.377.736	3.822.742	*14,5%*
EBIT		**11.866.571**	**18.505.793**	***-35,9%***
Profits / (losses) from companies measured at equity		-	-	-
Gains / (losses) on acquisition/disposal of financial assets		-	-	-
Financial income / (charges)	23	(1.433.939)	(1.251.436)	*14,6%*
PRE-TAX RESULT		**10.432.632**	**17.254.358**	***-39,5%***
Taxes for the year	24	1.735.830	3.821.324	*-54,6%*
NET PROFIT FOR THE YEAR		**8.696.801**	**13.433.034**	***-35,3%***
Minority interests		2.014.210	1.863.837	*8,1%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP		**6.682.591**	**11.569.197**	***-42,2%***

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1st half of 2022/23	1st half of 2021/22
Net profit	**8.696.801**	**13.433.034**
Change in fair value of hedging derivatives net of the tax effect	526.602	(92.403)
Actuarial gains / (losses)	123.696	(57.446)
Acquisition of shares in companies already subject to control	-	(684.950)
Translation differences of foreign financial statements	(1.998.791)	990.931
Total comprehensive profit / (loss) after tax	**7.348.308**	**13.589.167**

CONSOLIDATED BALANCE SHEET (*)

ASSETS	NOTES	31/12/2022	30/06/2022	*Var.*
Cash and cash equivalents	25, 39	38.782.240	26.283.940	12.498.299
Trade receivables	26	26.467.142	32.964.861	(6.497.719)
Inventories	27	54.126.815	43.649.021	10.477.794
Tax receivables	28	4.678.576	4.726.827	(48.251)
Other current assets	29	1.272.274	1.317.096	(44.822)
TOTAL CURRENT ASSETS		125.327.047	108.941.745	16.385.302
Intangible assets	30	20.754.233	20.955.107	(200.874)
Tangible assets	31	37.362.707	37.324.083	38.624
Equity investments	32	2.422.041	2.482.007	(59.966)
Goodwill	33	10.600.033	10.673.404	(73.372)
Deferred tax assets	34	1.802.322	843.510	958.812
Financial assets at fair value	35, 39	2.318.181	1.604.547	713.634
Other non-current assets	36	679.270	685.847	(6.576)
TOTAL NON-CURRENT ASSETS		75.938.786	74.568.504	1.370.282
TOTAL ASSETS		201.265.833	183.510.249	17.755.584

LIABILITIES	NOTES	31/12/2022	30/06/2022	*Var.*
Trade payables	37	19.837.432	20.179.920	(342.488)
Tax payables	38	6.432.093	6.289.289	142.803
Bonds - Portion maturing within 12 months	39, 44	3.944.749	1.930.941	2.013.808
Short-term loans	39, 40	29.084.125	23.421.806	5.662.319
Current liabilities for leased assets	41	2.478.514	2.451.440	27.074
Other current liabilities	42	10.746.108	13.297.952	(2.551.844)
TOTAL CURRENT LIABILITIES		72.523.021	67.571.349	4.951.672
Provisions for employees	43	1.440.230	1.531.744	(91.514)
Bonds - Portion maturing beyond 12 months	39, 44	1.965.376	3.944.655	(1.979.279)
Medium / long-term loans	39, 45	40.869.158	31.901.782	8.967.376
Provisions for risks and charges	46	847.014	776.455	70.560
Payables for deferred taxes	47	740.014	893.978	(153.964)
Non-current liabilities for leased assets	48	6.387.321	7.245.250	(857.929)
TOTAL NON-CURRENT LIABILITIES		52.249.114	46.293.864	5.955.250
TOTAL LIABILITIES		124.772.135	113.865.213	10.906.922

SHAREHOLDERS' EQUITY	NOTES	31/12/2022	30/06/2022	*Var.*
Share capital		6.000.000	6.000.000	-
Legal reserve		1.244.082	1.244.082	-
Translation reserve		1.589.242	3.588.034	(1.998.791)
Reserve for first-time adoption of IAS		10.716.446	10.716.446	-
Other reserves and undistributed profits		36.112.046	14.075.864	22.036.182
Group profit / (loss) for the year		6.682.591	21.385.884	(14.703.293)
GROUP SHAREHOLDERS' EQUITY	49	62.344.406	57.010.309	5.334.097
Share capital and undistributed profits pertaining to minority interests		12.135.081	9.517.017	2.618.064
Profit / (loss) for the year of minority interests		2.014.210	3.117.710	(1.103.500)
MINORITY INTERESTS	49	14.149.291	12.634.727	1.514.564
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		201.265.833	183.510.249	17.755.583

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

	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 31 December 2022
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.244.082	-	-	-	-	-	-	1.244.082
Translation reserve	3.588.034	-	-	-	-	(1.998.791)	-	1.589.242
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	14.075.864	21.385.884	526.602	123.696	-	-	-	36.112.046
Group profit / (loss) for the year	21.385.884	(21.385.884)	-	-	-	-	6.682.591	6.682.591
TOTAL GROUP SHAREHOLDERS' EQUITY	57.010.309	-	526.602	123.696	-	(1.998.791)	6.682.591	62.344.406
Share capital and undistributed profits pertaining to minority interests	9.517.017	3.117.710	-	-	-	(499.646)	-	12.135.081
Profit / (loss) for the year of minority interests	3.117.710	(3.117.710)	-	-	-	-	2.014.210	2.014.210
TOTAL MINORITY INTERESTS	12.634.727	-	-	-	-	(499.646)	2.014.210	14.149.291
TOTAL SHAREHOLDERS' EQUITY	69.645.036	-	526.602	123.696	-	(2.498.437)	8.696.801	76.493.697

CONSOLIDATED CASH FLOW STATEMENT PREPARED USING THE INDIRECT METHOD

		31.12.2022	31.12.2021
STATEMENT OF CASH FLOWS FROM OPERATIONS			
Pre-tax result		**10.432.632**	**17.254.358**
Adjustments for			
+/-	**non-monetary elements**		
	Depreciation of tangible assets	2.765.556	2.548.564
	Amortisation of intangible assets	513.560	527.849
	Amortisation of Right Of Use	1.098.619	746.330
	Net financial charges	1.433.939	1.228.970
	Minor independent works	-	(5.131)
	(Gains) / losses on the sale of property, plant and equipment and financial assets	7.558	18.578
	Change in the bad debt provision	29.144	72.695
	Changes in deferred taxes, provisions and employee benefits	3.649.406	2.523.491
	Change in cash flow hedge reserve	526.602	(121.934)
	Change in actuarial reserves	123.696	(57.446)
Cash and cash equivalents generated by transactions before working capital		**20.580.712**	**24.736.324**
+/-	**change in working capital**		
+/-	Change in inventories	(13.343.307)	(16.459.883)
+/-	Change in trade receivables	7.244.695	(2.869.532)
+/-	Change in trade payables	372.113	4.326.028
+/-	Change in other current assets	325.074	(510.331)
+/-	Change in other current liabilities	(3.495.048)	(921.738)
Cash and cash equivalents generated by transactions		**11.684.240**	**8.300.868**
+	Interest collected	155.023	118.034
-	Interest paid	(1.775.178)	(1.072.062)
-	Taxes paid	(1.602.142)	(1.929.915)
Net cash and cash equivalents from operating activities (A)		**8.461.943**	**5.416.925**
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES			
-	Payments for acquisitions of property, plant, machinery and other tangible assets	(3.877.592)	(4.303.535)
-	Payments for acquisitions of intangible assets and capitalised costs	(361.659)	(288.796)
-	Payments for the granting of advances or loans to third parties	(3.961.607)	(1.052.175)
-	Payments for derivatives	37.489	(22.465)
Net cash and cash equivalents from / used in investing activities (B)		**(8.163.369)**	**(5.666.971)**
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES			
+	Collections from obtaining loans	27.305.901	23.634.392
-	Payments for rents that fall under the application of IFRS 16	(1.418.626)	(1.014.325)
-	(Redemption) bond loan (known as mini-bond)	-	(2.000.000)
-	Loan repayments	(12.676.206)	(19.482.115)
Net cash from / used in financing activities (C)		**13.211.069**	**1.137.953**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)		13.509.643	887.906
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)		(1.011.344)	759.872
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G) = (D + E + F)		38.782.240	21.493.845

EXPLANATORY NOTES TO THE CONSOLIDATED HALF-YEARLY FINANCIAL REPORT AS AT 31 DECEMBER 2022

1. INTRODUCTION

The consolidated half-yearly report as at 31 December 2022 of Selle Royal Group S.p.A. was prepared in compliance with the International Financial Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission in accordance with the procedure pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 on the date of preparation of this report as well as the provisions of Legislative Decree 38/2005. This consolidated half-yearly financial report was also prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. The consolidated half-yearly report as at 31 December 2022 is subject to voluntary audit by the independent auditors.

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 half-yearly financial report as at 31 December 2022, were subject to endorsement by the European Union in accordance with the procedure envisaged by Regulation (EC) no. 1606/2002 by the European Parliament and the Council of 19 July 2002.

The consolidated half-yearly financial report as at 31 December 2022 consists of the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes to the Financial Statements that follow.

This half-yearly report was prepared on the basis of the best knowledge of IFRSs 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 half-yearly 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 half-yearly financial report was prepared using the interim reports of the Group

companies as a basis.

The reference date of the consolidated half-yearly financial report coincides with the closing date of the first half of the financial year of the parent company and of the other companies included in the scope of consolidation.

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

The accounting standards adopted by the Group for the preparation of the consolidated half-yearly financial report as at 31 December 2022 are the same as those adopted for the preparation of the consolidated annual financial report as at 30 June 2022.

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 1: Classification of Liabilities as Current or Non-current

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

- What is meant by the right to defer the maturity date
- That the right of deferment must exist at the end of the year
- The classification is not affected by the probability with which the entity will exercise its right of deferment
- Only if an embedded derivative in a convertible liability is itself an equity instrument does the liability's maturity have no impact on its classification.

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

Amendments to IAS 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 this amendment.

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

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

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 this consolidated half-yearly financial report.

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's consolidated financial statements with reference to this amendment.

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

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

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

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

5. 2018-2020 ANNUAL IMPROVEMENTS

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

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

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

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

6. FINANCIAL STATEMENT FORMATS AND CLASSIFICATION CRITERIA

When preparing the formats of the documents that make up the financial statements, 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 financial statements have been separately classified as current and non-current in compliance with the provisions of IAS 1.

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

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

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

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

(d) these are cash and cash equivalents.

All other assets were classified as non-current.

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

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

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

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

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

All other liabilities were classified as non-current.

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

- 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.

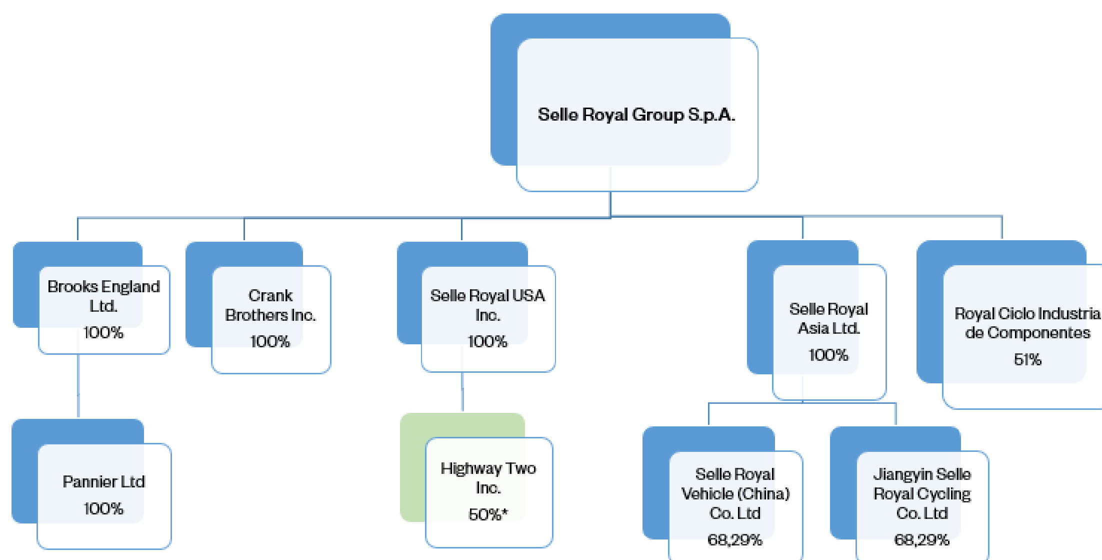
- Cash flow statement

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 year 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 these consolidated financial statements is shown below, with an indication of the equity investment percentages.



* Consolidated using the equity method

This structure has not changed compared to the composition of the Group as at 30 June 2022.

The consolidated half-yearly report as at 31 December 2022 includes the data of the parent company Selle Royal Group S.p.A. and those of the subsidiaries in which it has, directly or indirectly, the majority of the votes that can be exercised at the Shareholders' Meeting or in which it has decision-making power, i.e. the ability to direct the relevant activities of the investee, i.e. 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), resolved share capital of Euro 46,000,000.00, subscribed and paid in for Euro 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 this consolidated half-yearly financial report, Highway Two LLC. is measured using the equity method. The value at the date of this interim report is equal to € 2,403,446.

- **Crank Brothers Inc.**, with share capital of US$ 2,000, equal to approximately € 1,802, wholly-owned by Selle Royal Group S.p.A.
- **Selle Royal Vehicle (China) Co. Ltd.**, formerly Jiangyin Justek Vehicle Co., Ltd.; the acquisition, completed in February 2010, was effective retroactively from 1 January 2010. The interest in Selle Royal Group S.p.A., through its wholly-owned subsidiary Selle Royal Asia Ltd., grew in 2014/15 from 51.86% of the share capital held since the acquisition to the 68.29% currently held, following a corporate reorganisation. Lastly, it should be noted that the aforementioned company Selle Royal Asia Ltd. is a pure holding company that holds exclusively the equity investment in Selle Royal Vehicle (China) Co. Ltd and does not carry out any activities.
- **Selle Royal Jiangyin Cycling Co. Ltd.**: established on 6 July 2021, with registered office in Jiangyin (Jiangsu province, People's Republic of China), the company is 68.29% owned by Selle Royal Asia Limited.
- **Pannier Ltd.**, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 100.00 (corresponding to approximately € 120), fully subscribed and paid in by the subsidiary Brooks England Ltd.
- **Royal Ciclo Industria de Componentes, Ltda.**, with registered office in Rio do Sul, in the State of Santa Catarina, Brazil. The share capital of R$ 11,601,802 is 51% owned by Selle Royal Group S.p.A.

8. SIGNIFICANT EVENTS DURING THE PERIOD

With regard to the significant events that occurred during the period, please refer to the specific paragraph of the report on operations where all the main issues that characterised the first half of the current fiscal year are extensively examined.

9. GENERAL PREPARATION CRITERIA AND CONSOLIDATION PRINCIPLES

Consolidation methodologies

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

- the book value of the equity investments held by the parent company Selle Royal Group S.p.A. or by the other companies subject to consolidation is eliminated against the relative shareholders' equity as a result of the assumption of the assets and liabilities of the investee

companies;

- any higher book value of the equity investments with respect to the shareholders' equity pertaining to the acquisition is allocated, where possible, to the assets of the companies included in the scope of consolidation up to the current value of the same and, for the residual part, to the “Goodwill” item;
- significant transactions between consolidated companies are eliminated, as well as receivables and payables and unrealised profits deriving from transactions between Group companies, net of any tax effect;
- the portion of shareholders' equity pertaining to minority shareholders is shown in the specific item of consolidated shareholders’ equity, while the portion pertaining to minority interests of the result for the year is shown separately in the consolidated income statement;
- the equity investments acquired during the year are included in the scope of consolidation from the date of acquisition.

Subsidiaries are those in which the Group simultaneously has:

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

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

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

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

- the book value of the equity investments in the companies included in the scope of consolidation is eliminated against the relative shareholders' equity 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 1st half of		
Currency	31 december 2022	30 June 2022	Appreciation / (deprec.)	2022/23	2021/22	Appreciation / (deprec.)
British Pound (GBP)	0,8869	0,8582	-3,24%	0,8629	0,8516	-1,31%
US Dollar (USD)	1,0666	1,0387	-2,62%	1,0136	1,1612	14,55%
Chinese Yuan Renminbi (RMB)	7,3582	6,9624	-5,38%	7,0754	7,4681	5,55%
Brazilian Real (BRL)	5,6386	5,4229	-3,83%	5,3260	6,2707	17,74%

10. MEASUREMENT CRITERIA

The measurement criteria, the accounting standards and the principles applied to the preparation of this 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.

11. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated half-yearly 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 Group's historical experience of credit loss and the forecast of economic conditions may not be representative of the actual default of the customer in the future.
- Non-current assets: the Group periodically reviews the carrying amount of property, plant and equipment, intangible assets, investments in joint ventures and associates and other non-current assets, when facts and circumstances require such revision in order to determine their recoverable value. The recoverability analysis of the book value is generally carried out using estimates of expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value. When the book value of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the book value of the asset and its recoverable value through the use or sale of the same, determined with reference to the cash flows inherent in the most recent business plans.
- Deferred tax assets: the Group has deferred tax assets on deductible temporary differences and theoretical tax benefits for losses carried forward that are recognises to the extent it is probable that future taxable income will be available against which they can be recovered. The valuation of the recoverability of deferred tax assets, recognised in relation to both tax losses usable in subsequent years and deductible temporary differences, takes into account the

estimate of future taxable income and is based on prudent tax planning.

- Employee benefits: provisions for employee benefits and net financial charges are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial methodology considers financial parameters such as, for example, the discount rate and the growth rates of wages and takes into account the probability of occurrence of potential future events through the use of demographic parameters such as, for example, employee mortality rates and resignation or retirement rates.
- Contingent liabilities: the Group ascertains a liability for pending disputes and lawsuits when it deems it probable that a financial outlay will occur and when the amount of the resulting losses can be reasonably estimated. In the event that a financial outlay becomes possible but the amount cannot be determined, this fact is reported in the explanatory notes to the financial statements. The lawsuits may concern complex legal and tax issues, subject to a different degree of uncertainty against which it is possible that the value of the provisions may change as a result of future developments in the ongoing proceedings. The Group monitors the status of pending lawsuits and consults with its legal advisors and experts.

12. SEGMENT REPORTING

The segment reporting of the Selle Royal Group, in 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) and of Brooks England Ltd. in Smethwick (GB), as well as purely commercial activities. The latter consist of the sale and distribution of own-brand products, the result of both internal production and pure marketing, and the distribution of third-party brand products. With specific reference to 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 data on revenues for the first half of 2022/23 and the same period of the previous year and on certain balance sheet items relating to the Group’s business segments as at 31 December 2022 and 30 June 2022.

	1st half of 2022/23			2021/22		
	EUROPE	AMERICA	ASIA	EUROPE	AMERICA	ASIA
Revenues	45.272.813	29.773.123	20.254.820	56.430.314	30.925.576	18.157.930
Current assets	53.763.710	38.771.211	32.792.126	43.984.428	37.779.974	27.177.343
Non-current assets	46.623.926	21.670.260	7.644.601	45.190.084	21.794.078	7.584.342
Current liabilities	45.958.165	21.882.176	4.682.680	43.027.967	19.261.411	5.281.971
Non-current liabilities	49.549.764	2.637.252	62.098	42.918.309	3.309.926	65.629

13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2022, 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.

14. RISK MANAGEMENT

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

15. TRANSACTIONS with RELATED PARTIES

The main transactions with related parties are described below.

- Dec. 28, 1928 Holding S.p.A.: parent company of Selle Royal Group S.p.A., of which it holds 66.6% of the share capital; the payable IRES balances were transferred to it up to the tax year ended 30 June 2022, when the tax consolidation agreement, which was not renewed, also terminated. Selle Royal Group S.p.A. and its majority parent company participated in the related tax consolidation.
- 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 transactions carried out during the half year ended 31 December 2022 are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE COSTS	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Wise Equity SGR	105.000	-	-	-
Dec. 28, 1928 Holding S.p.A.	-	-	1.968.292	-
Dec. 28, 1928 Real Estate S.r.l.	-	600.000	1.190.538	4.445.815
Minority shareholders in subsidiaries	129.211	-	-	-
Directors	777.998	-	68.207	-
Family members of the controlling shareholders of the parent company	-	25.200	48.069	57.791
TOTAL RELATED PARTIES	1.012.209	625.200	3.275.106	4.503.606

ANALYSIS and COMPOSITION of the INCOME STATEMENT

16. REVENUES

Revenues for the current period deriving from the Group's ordinary operations amounted to a total of € 95,300,757 and were generated by the sale of saddles, pedals and other accessories, and by the provision of services. The breakdown of revenues from sales and services by business category is shown in the following table:

	1st half of 2022/23	1st half of 2021/22	*Change*
Revenues from sales of saddles	52.902.222	54.757.475	(1.855.254)
Revenues from the sale of accessory components	40.734.560	48.839.372	(8.104.812)
Revenues from the sale of sundry materials	1.855.314	2.128.615	(273.301)
Revenue from services	140.213	131.521	8.693
Total gross revenues	**95.632.309**	**105.856.983**	**(10.224.674)**
Price changes and others	(88.302)	(7.371)	(80.931)
Year-end bonus	(243.250)	(335.792)	92.542
Revenue adjustments	(331.552)	(343.163)	11.610
Total revenue from sales	**95.300.757**	**105.513.820**	**(10.213.064)**

RECOGNITION of REVENUES			
Realised at a specific point in time	95.300.757	105.513.820	(10.213.064)
Realised over time	-	-	-
Total revenue from sales	**95.300.757**	**105.513.820**	**(10.213.064)**

An additional level of analysis used by management in ordinary operations and in determining strategic initiatives is provided below:

	1st half of 2022/23						
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	29.268.797	18.501.409	8.225.293	18.850.737	1.585.257	18.869.264	95.300.757
Gross margin	13.897.911	8.579.626	3.876.096	6.913.401	857.711	11.208.504	45.333.249
	47,5%	*46,4%*	*47,1%*	*36,7%*	*54,1%*	*n.s.*	*47,6%*

	1st half of 2021/22						
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	34.477.456	23.061.473	9.008.132	18.770.687	1.322.232	18.873.840	105.513.820
Gross margin	16.183.587	11.405.436	5.191.082	8.251.491	700.032	5.576.140	47.307.768
	46,9%	*49,5%*	*57,6%*	*44,0%*	*52,9%*	*n.s.*	*44,8%*

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

17. COST OF SALES

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

	1st half of 2022/23	1st half of 2021/22	*Change*
Purchase of raw materials	48.970.013	52.834.947	(3.864.934)
Ancillary charges on RM purchases	2.054.616	2.550.534	(495.918)
Outsourcing	2.393.863	3.480.403	(1.086.540)
Labour	9.962.642	11.083.959	(1.121.317)
Change in inventories	(13.413.626)	(11.743.790)	(1.669.836)
Total cost of sales	**49.967.508**	**58.206.052**	**(8.238.544)**

18. INDUSTRIAL COSTS

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

	1st half of 2022/23	1st half of 2021/22	*Change*
Electricity	810.940	713.811	97.129
Consumables	504.527	760.832	(256.304)
Minor equipment	223.151	238.993	(15.842)
Maintenance	497.184	305.268	191.916
Lease payments	63.606	61.786	1.820
Research and development costs	372.444	415.520	(43.076)
Other industrial costs	699.897	570.430	129.467
Total industrial costs	**3.171.750**	**3.066.641**	**105.109**

19. 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.

	1st half of 2022/23	1st half of 2021/22	*Change*
Sales and advertising costs	3.391.790	2.730.225	661.565
Transports on sales	2.412.703	2.447.711	(35.008)
Commissions	901.423	1.025.141	(123.718)
Royalties	-	28.080	(28.080)
Gifts	260.870	132.633	128.237
Other sales and promotion costs	791.582	414.614	376.968
Total sales and promotion costs	**7.758.368**	**6.778.404**	**979.963**

20. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to € 8,879,171 for the year in question, includes the cost of the clerical and managerial structures of the various Group companies.

21. GENERAL and ADMINISTRATIVE COSTS

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

	1st half of 2022/23	1st half of 2021/22	*Change*
Consulting	2.270.449	2.748.746	(478.297)
Travel expenses	695.554	439.151	256.403
Board of Directors' fees	882.998	902.125	(19.127)
Board of Statutory Auditors' fees	17.500	24.000	(6.500)
Utilities	160.123	145.791	14.331
Entertainment and hospitality expenses	148.616	114.850	33.766
Motor vehicles	257.970	224.821	33.149
Fees and IT support	778.069	633.289	144.780
Insurance	551.297	696.781	(145.484)
Lease payments	177.654	180.679	(3.025)
Bank charges	333.887	265.149	68.738
Other general and administrative costs	1.348.838	1.132.622	216.217
Total general and administrative costs	**7.622.956**	**7.508.004**	**114.952**

22. OTHER OPERATING INCOME and EXPENSES

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

	1st half of 2022/23	1st half of 2021/22	*Change*
Operating income:			
Minor independent works	-	5.131	(5.131)
Repayments and sundry income	116.134	427.807	(311.674)
Capital gains	-	445	(445)
Contingent assets and other income	591.901	597.501	(5.601)
Royalty income	54.035	-	54.035
Research & development	292.767	66.439	226.328
Total operating income	1.054.837	1.097.323	(42.486)
Operating expenses:			
Allocation to provision for obsolescence	(2.398.482)	3.502	(2.401.984)
Allocation to provision for credit risks	(51.626)	(76.229)	24.603
Losses on receivables	(1.663)	1.619	(3.282)
Capital losses	(7.558)	(19.023)	11.464
Contingent liabilities and other charges	(252.205)	(187.390)	(64.815)
Total operating expenses	(2.711.534)	(277.521)	(2.434.013)
TOTAL OPERATING INCOME / (EXPENSES)	(1.656.697)	819.803	(2.476.499)

The net balance of this item is negative for € 1,656,697.

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

The allocations to provision for obsolescence estimated at the end of the half-year in question are intended to anticipate the possible future accounting effects deriving from the increase in the inventory quantities at the closing date of this consolidated half-yearly financial report coinciding, moreover, with the winter season (the "*off-season*" for the cycle sector). What has been written is to emphasise that the provisions for adjusting the value of inventories were measured not so much and not only in relation to the actual obsolescence of inventories but, rather, to the slowdown in the turnover rate of the same due to the market dynamics already mentioned. Lastly, it should be noted that the provisions made led to the recognition of deferred tax assets, as better explained below.

23. OTHER FINANCIAL INCOME and CHARGES

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

	1st half of 2022/23	**1st half of 2021/22**	***Change***
Financial income:			
Bank and postal interest	152.137	58.902	93.236
Dividends	903	460	442
Other financial income	10.635	58.786	(48.152)
Total financial income	163.674	118.148	45.526
Financial charges:			
Interest on bonds	(183.029)	(246.318)	63.289
Interest expense	(976.462)	(629.502)	(346.960)
Interest cost provision for employee severance indemnity	(19.575)	(2.242)	(17.333)
Discounts	(262.871)	(416.301)	153.430
Fees on loans	(146.873)	(106.792)	(40.080)
Other financial charges	(176.559)	(133.697)	(42.862)
Total financial charges	(1.765.368)	(1.534.853)	(230.515)
Net exchange rate differences	167.755	165.269	2.486
TOTAL FINANCIAL INCOME / (CHARGES)	**(1.433.939)**	**(1.251.436)**	**(182.503)**

This item, negative for € 1,433,939, was impacted by the increase in interest rates on the debt subscribed by some Group companies, moreover partly offset by higher interest income and lower interest on the bond loan issued by Selle Royal Group S.p.A.

The item “other financial charges” mainly includes primarily the recognition of financial charges related to the application of IFRS 16.

On the other hand, the item relating to cash discounts decreased, in line with the trend in turnover. The increase relating to commissions on loans is mainly attributable to the portion pertaining to the commissions charged at the time of signing of new medium/long-term loans.

The effect of exchange rate differences is positive and in line with the half-year in comparison. This item reflects, for € +1,081,561, the positive impact of exchange rate differences realised in the period and, for € -1,021,545, the negative impact of exchange rate differences from valuation, in addition to exchange differences resulting from the elimination of intercompany items (which, cumulatively, show a positive net balance of € +107,739).

24. TAXES FOR THE YEAR

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

	1st half of 2022/23	**1st half of 2021/22**	***Change***
Current taxes	3.024.380	4.772.199	(1.747.819)
Deferred tax (assets) / liabilities	(1.288.549)	(950.875)	(337.674)
TOTAL TAXES FOR THE YEAR	1.735.830	3.821.324	(2.085.493)

The trend in current taxes is attributable to the different results achieved by the Group companies with respect to the comparison period.

The balance relating to deferred tax assets is mainly attributable to higher deferred tax assets allocated during the period, and in particular to the net effect deriving from the increase in inventory adjustment provisions.

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

25. CASH and CASH EQUIVALENTS

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

The balance as at 31 December 2022, amounting to € 38,782,240 (of which € 14,579,892 in Selle Royal Group S.p.A. and € 20,377,181 in Selle Royal China, the latter with a positive net financial position), was up compared to the previous year thanks to the liquidity generated during the half year.

As at 31 December 2022 (and as at 30 June 2022) there were no restrictions or limitations on the use of the Group's cash and cash equivalents.

26. TRADE RECEIVABLES

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

	31/12/2022	30/06/2022	*Change*
Trade receivables	27.611.715	34.080.290	(6.468.575)
Bad debt provision	(1.144.573)	(1.115.429)	(29.144)
TRADE RECEIVABLES, net	**26.467.142**	**32.964.861**	**(6.497.719)**

Receivables insured at the date of this Report amounted to € 18.7 million, compared to € 21.0 million as at 30 June 2022.

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 to a leading bank, through a factoring transaction without recourse, for € 2,916,616.

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 31 December 2022
Bad debt provision	1.115.429	45.906	-	(428)	(16.334)	1.144.573
TOTAL BAD DEBT PROVISION	1.115.429	45.906	-	(428)	(16.334)	1.144.573

27. 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:

	31/12/2022	30/06/2022	*Change*
Raw materials, supplies and consumables	9.005.547	7.884.917	1.120.629
Work in progress and semi-finished products	6.085.889	5.812.351	273.538
Finished products and goods	43.782.764	33.196.577	10.586.187
Goods in transit	4.088.397	2.725.444	1.362.953
Gross inventories	**62.962.596**	**49.619.289**	**13.343.307**
Provision for obsolescence	(4.663.181)	(2.391.811)	(2.271.369)
Provision for unrealised intra-Group margin	(4.172.601)	(3.578.457)	(594.143)
INVENTORIES	**54.126.815**	**43.649.021**	**10.477.794**

In addition to what has been described above in relation to the market context, please note that the cycle sector in which the Group operates is characterised by seasonality of sales, given that it pertains to outdoor activities and therefore subject to weather trends during the year. Therefore, the increase in stocks in the winter period in anticipation of a decrease thanks to sales that usually characterises the second half of the fiscal year (with particular reference to the aftermarket channel, i.e. sales to wholesalers, retailers and end consumers) is typical.

Lastly, the change in provisions for adjusting the value of stocks during the year in question, to which reference is made in the comments to the consolidated income statement, is shown below:

	Balance as at 30 June 2022	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 31 December 2022
Provisions for obsolescence	2.391.811	2.408.717	-	(15.239)	(122.109)	4.663.180
Provision for unrealised intra-Group margin	3.578.457	594.143	-	-	-	4.172.601
TOTAL ADJUSTMENT PROVISIONS of INVENTORIES	5.970.269	3.002.861	-	(15.239)	(122.109)	8.835.781

28. TAX RECEIVABLES

Tax receivables are in line compared to the balance as at 30 June 2022, as detailed below:

	31/12/2022	30/06/2022	*Change*
Current tax receivables:			
For direct taxes	2.045.981	2.772.305	(726.324)
For indirect taxes	812.357	378.434	433.922
For other withholdings	430.913	431.374	(461)
Subtotal current taxes	3.289.251	3.582.114	(292.863)
Current deferred tax assets	1.389.325	1.144.713	244.612
TOTAL TAX RECEIVABLES	**4.678.576**	**4.726.827**	**(48.251)**

Compared to 30 June 2022, both the decrease in receivables for direct taxes and the growth in receivables for indirect taxes are mainly attributable to the parent company Selle Royal Group S.p.A. Lastly, for an examination of the change in current deferred tax assets, please refer to the relevant section of these notes.

29. OTHER CURRENT ASSETS

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

	31/12/2022	30/06/2022	*Change*
Advance costs	-	220.406	(220.406)
Accrued income and prepaid expenses	934.633	787.965	146.668
Sundry receivables	337.641	308.725	28.917
TOTAL CURRENT ASSETS	1.272.274	1.317.096	(44.822)

Prepaid costs, typically recognised at the end of the fiscal year, represent the suspension of costs in order to comply with the accrual principle as they are related to the seasonality of the sector and to the support of the launch of new products and participation in events planned for the following fiscal year; the increase in accrued income and prepaid expenses, also in this case attributable to the parent company Selle Royal Group S.p.A., is mainly attributable to insurance costs and annual software licenses for the portion pertaining to the future.

NON-CURRENT ASSETS

30. INTANGIBLE ASSETS

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

	Balance as at 30 June 2022	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 31 December 2022
Industrial patent rights and intellectual property rights	1.228.271	60.432	-	6.697	(314.978)	(10.109)	970.313
Concessions, licences, trademarks and similar rights	19.537.435	192.447	-	164.459	(187.498)	(36.557)	19.670.285
Other	13.297	-	-	-	(11.083)	(289)	1.924
Fixed assets in progress and payments on account	176.103	108.781	-	(171.156)	-	(2.018)	111.710
Total intangible assets	20.955.107	361.659	-	-	(513.560)	(48.973)	20.754.233

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 € 18,355,833; the remainder relates to the concession rights of the land on which the Selle Royal China plant stands and to licenses and costs for the implementation of non-proprietary management software.

Trademarks are considered "with an indefinite useful life" and are therefore subject to annual impairment tests.

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

Intangible assets in progress and payments on account mainly relate to expenses incurred by the Group in relation to projects for the development of new products and product lines not yet operational at the end of the year.

31. TANGIBLE 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 31 December 2022
Land and buildings	7.231.474	173.996	-	-	(308.852)	104.140	7.200.758
Right of use of leased assets	10.521.244	502.272	-	-	(1.098.619)	(21.982)	9.902.915
Plant and machinery	10.580.972	446.370	-	1.812,93	(896.776)	(263.306)	9.869.073
Industrial and commercial equipment	5.087.844	356.558	-	293.604	(1.291.319)	(39.147)	4.407.540
Other assets	1.609.658	271.730	(38.188)	72.182	(268.609)	(99.532)	1.547.242
Fixed assets in progress and payments	2.292.890	2.628.938	(63.940)	(367.599)	-	(55.108)	4.435.180
Total tangible assets	**37.324.082**	**4.379.864**	**(102.129)**	**-**	**(3.864.176)**	**(374.934)**	**37.362.707**

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

The item "rights of use of leased assets" represents the discounted value recorded in the financial statements following the adoption of IFRS 16, and relates to the premises leased by Selle Royal Group S.p.A. and the offices of Crank Brothers Inc. The increase in this item relates to the redetermination of future payments due for the lease of the Selle Royal Group S.p.A. registered office following the

signing of a new lease contract, to the lease of a property in San Clemente (California) to which personnel and equipment previously at the branch office of Crank Brothers Inc. in Ogden, Utah, have been transferred, as well as, lastly, new multi-year rental contracts that meet the criteria for recognition in the financial statements in accordance with the provisions of 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.

32. EQUITY INVESTMENTS

The balance reflects the cost incurred for the acquisition of equity investments in companies not consolidated on a line-by-line basis and relates, for € 2,403,446, to the equity investment in Highway Two LLC, with registered office in Olney (USA) and share capital of US$ 241,648, over which indirect joint control of 50% is exercised. This equity investment is measured using the equity method. The residual amount, equal to € 18,595, relates to minority interests held by Selle Royal Group S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 17,872).

Some economic and financial indicators of Highway Two LLC, relating to 2021, are listed below, as well as the balance sheet balances as at 30 June 2022, and related comparative data. For the sake of completeness, the fiscal year of the joint venture coincides with the calendar year.

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

		1st half of 2022/23		1st half of 2021/22		*Change*
Highway 2 Llc:						
Revenues	$	8.311.579	$	7.367.470	$	944.109
Cost of sales	$	(7.565.946)	$	(7.566.926)	$	980
Operating and financial costs	$	(681.629)	$	335.419	$	(1.017.048)
Net profit	**$**	**64.004**	**$**	**135.964**	**$**	**(71.960)**
Group interest (50%)	$	32.002	$	67.982	$	(35.980)

33. GOODWILL

This item had a balance at the reporting date of € 10,600,033.

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 value of goodwill as stated in the financial statements is consistent with respect to the cash flows that can reasonably be expected to be generated in the future by the cash generating units to which they refer.

34. DEFERRED TAX ASSETS

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

	31/12/2022		30/06/2022	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	242.000	67.518	29.507	8.233
Accrued leave for employees	255.365	57.371	277.171	65.197
Bad debt provision	397.206	84.220	362.965	77.029
Unrealised margin on intra-Group sales	4.261.122	1.067.848	3.669.942	920.139
Tangible assets	124.727	21.204	131.908	22.424
Other temporary differences	400.906	91.164	189.108	51.691
Subtotal current deferred tax assets	**5.681.325**	**1.389.325**	**4.660.602**	**1.144.713**
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	208.261	58.105	188.817	52.680
Inventory write-down provision	4.374.880	1.075.163	1.995.869	462.835
Intangible assets	493.726	137.750	522.773	145.854
Tangible assets	822.800	41.492	527.407	44.175
Prior tax losses - Federal taxes	1.919.550	457.778	498.454	104.675
Prior tax losses - State taxes	362.366	32.033	376.598	33.290
Subtotal non-current deferred tax assets	**8.181.584**	**1.802.322**	**4.109.917**	**843.510**
TOTAL DEFERRED TAX ASSETS	13.862.908	3.191.646	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.

Non-current deferred tax assets recorded significant changes in the items relating to the inventory write-down provision, as stated above with regard to provisions made during the period, and to previous tax losses with particular reference to the subsidiary Selle Royal USA, Inc.

35. FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 660,889, 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 € 1,657,292; 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.

36. OTHER NON-CURRENT ASSETS

This item, amounting to € 679,270, 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

37. TRADE PAYABLES

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

The balance is equal to € 19,837,432, in line with the previous year.

38. TAX PAYABLES

The item in question is detailed below:

	31/12/2022	30/06/2022	*Change*
Direct taxes	3.133.162	2.321.907	811.256
Indirect taxes	770.968	897.792	(126.824)
Local taxes	9.866	58.449	(48.583)
Withholding taxes on employees and otł	839.385	844.655	(5.271)
Payables due to tax disputes	1.678.711	2.166.486	(487.775)
TOTAL TAX PAYABLES	**6.432.093**	**6.289.289**	**142.803**

The higher payables for direct taxes are mainly attributable to the profits recorded by the Group companies and the time misalignment between the closing date of the period under review and the date of financial settlement of the payables referring to the parent company Selle Royal Group S.p.A. Payables for tax disputes refer to amounts provisionally due pending judgement and subject to existing instalment plans in place with the Italian Revenue Agency.

39. MEASUREMENTS AT FAIR VALUE

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

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

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

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

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in non-active markets;
- data other than the quoted prices observable for the asset or liability, for example:
  - 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 31 December 2022

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	38.782.240	38.782.240	-	-
Equity investments	33	2.422.041	-	-	2.422.041
Financial assets at fair value	35, 39	660.889	-	-	660.889
Derivative financial instruments	35, 39	1.657.292	-	1.657.292	-
TOTAL ASSETS		**43.522.462**	**38.782.240**	**1.657.292**	**3.082.930**
Loans	39, 40, 45	69.953.283	-	69.953.283	-
Bonds	39, 44	5.910.126	-	5.910.126	-
TOTAL LIABILITIES		**75.863.409**	-	**75.863.409**	-

As at 30 June 2022

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	26.283.940	26.283.940	-	-
Equity investments	33	2.482.007	-	-	2.482.007
Financial assets at fair value	35, 39	640.153	-	-	640.153
Derivative financial instruments	35, 39	964.394	-	964.394	-
TOTAL ASSETS		**30.370.495**	**26.283.940**	**964.394**	**3.122.160**
Loans	39, 40, 45	55.323.589	-	55.323.589	-
Bonds	39, 44	5.875.596	-	5.875.596	-
TOTAL LIABILITIES		**61.199.185**	-	**61.199.185**	-

40. SHORT-TERM LOANS

The balance of this item, as at 31 December 2022, amounting to € 29,084,125, an increase of € 5,662,319 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. The increase is mainly attributable to the current portion of new medium/long-term loans and the greater use of short-term lines by the parent company Selle Royal Group S.p.A. as at the closing date.

41. CURRENT LIABILITIES FOR LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due by 31 December 2023.

42. OTHER CURRENT LIABILITIES

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

	31/12/2022	30/06/2022	*Var.*
Payables to employees	4.380.243	6.919.323	(2.539.080)
Payables to social security institutions	1.073.686	868.326	205.360
Payables to sales agents	155.628	236.627	(81.000)
Payables for tax consolidation	1.968.292	1.968.311	(19)
Accrued expenses and deferred income	2.050.504	2.561.951	(511.447)
Sundry payables	1.117.755	743.414	374.341
TOTAL CURRENT LIABILITIES	**10.746.108**	**13.297.952**	**(2.551.844)**

This item was down as at 31 December 2022 compared to 30 June 2022, mainly due to the effect of lower payables to employees, especially due to the payment of the thirteenth monthly salary in December, by Selle Royal Group S.p.A.

The payables for tax consolidation correspond to the IRES payable on the taxable income of Selle Royal Group S.p.A. as at 30 June 2022, whose financial settlement took place on 2 January 2023. It should be noted that the participation in the tax consolidation regime under Dec. 28, 1928 Holding S.p.A. ended with the end of the 2022 fiscal year and therefore the IRES payable of the parent company Selle Royal Group S.p.A. for the half-year in question is recorded, together with the IRAP payable, among tax payables.

NON-CURRENT LIABILITIES

43. EMPLOYEE BENEFITS

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

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

- mortality rate: these data were taken from the actuary technician on the basis of the RG48 mortality tables published by the State General Accounting Office;
- disability rate: the annual probabilities of elimination from the service due to incapacity were inferred on the basis of what was published by INPS in 2000;
- annual probability of elimination from the service for other reasons: this was assumed to be 0.5%, determined on the basis of the historical trend of this parameter within the company;

- annual probability of request for employee severance indemnity advances: this was assumed to be 3.0%, based on the historical trend of this parameter within the company;
- annual discount rate: this was assumed to be 3,63% 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%;
- annual inflation rate: estimated at 2.30% 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 31 December 2022
Provisions for employees	1.531.744	63.383	(47.376)	19.575	(123.696)	(3.400)	1.440.230
TOTAL	1.531.744	63.383	(47.376)	19.575	(123.696)	(3.400)	1.440.230

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	1,386,301
-1% on the turnover rate	1,369,014
+1/4% on the annual inflation rate	1,396,509
-1/4% on the annual inflation rate	1,360,105
+1/4% on the annual discount rate	1,349,793
-1/4% on the annual discount rate	1,407,500

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	102,474
2	75,407
3	95,993
4	165,435
5	47,560

44. BONDS

The amount due for bonds is shown under current liabilities, in relation to the portion maturing within twelve months from the reporting 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 SpA, 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.

45. MEDIUM/LONG-TERM LOANS

This item, amounting to € 40,869,158, up by € 8,967,376 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. The increase in the balance is essentially attributable to the signing of three new unsecured loans.

46. 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 31 December 2022
Provision for supplementary customer indemnities	91.388	6.116	-	-	97.503
Provision for payment of foreign agents	188.817	19.444	-	-	208.261
End of mandate indemnity	496.250	45.000	-	-	541.250
TOTAL	**776.455**	**70.560**	-	-	**847.014**

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.

47. DEFERRED TAXES

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

	31/12/2022		30/06/2022	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Derivative financial instruments	1.657.292	397.750	964.394	231.455
Intangible assets	-	-	178.141	61.915
Tangible assets	1.155.696	342.264	1.998.517	583.012
Other temporary differences	-	-	83.786	17.595
TOTAL DEFERRED TAXES	**2.812.988**	**740.014**	**3.224.837**	**893.978**

48. NON-CURRENT LIABILITIES for LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due after 31 December 2023.

49. 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:

	31 december 2022		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	32.181.793	1.060.834	30.470.661	10.532.489
Difference between book value and pro-rata value shareholders' equity of consolidated companies	27.385.856	-	21.843.390	-
Pro-rata results achieved by consolidated subsidiaries	-	6.126.793	-	13.023.777
Elimination of intercompany profits included in inventories	(3.129.449)	(445.607)	(2.683.842)	(2.010.128)
Other consolidation differences	5.906.207	(59.429)	7.380.100	(160.254)
Shareholders' equity and profit for the year pertaining to the Group	**62.344.406**	**6.682.591**	**57.010.309**	**21.385.884**
Shareholders' equity and profit for the year attributable to minority interests	14.149.291	2.014.210	12.634.727	3.117.710
Shareholders' equity and profit for the year as reported in the consolidated financ	**76.493.697**	**8.696.801**	**69.645.036**	**24.503.594**

This consolidated half-yearly 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 half-year ended 31 December 2022 and is consistent with the accounting records.

* * *

Pozzoleone (VI), 28 February 2023
The Chairperson of the Board of Directors
(Barbara Bigolin)

SELLE ROYAL GROUP S.p.A.

Review report on the condensed interim consolidated financial statements as at December, 31 2022

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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Review report on the condensed interim consolidated financial statements

To the Shareholders of
SELLE ROYAL GROUP S.p.A.

[translation from the Italian original which remains the official version]

Opinion

We have reviewed the accompanying condensed interim consolidated financial statements SELLE ROYAL GROUP S.p.A. and its subsidiaries (the "Group") which comprise the statement of consolidated balance sheet, the statement of consolidated comprehensive income, the statement of changes in shareholders equity, the statement of consolidated cash flows, and notes to the interim consolidated financial statements, as at and for the six months ended 31 December 2022. The Directors of SELLE ROYAL GROUP S.p.A. are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express our conclusion on these condensed interim consolidated financial statements based on our review.

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 interim 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 interim consolidated financial statements

Management is responsible for the preparation and fair presentation of the interim consolidated 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 interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim consolidated 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.

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

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Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
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BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

Auditor’s Responsibilities for the Audit of the Interim Consolidated Financial Statements

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

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

- Identify and assess the risk of material misstatement of the interim consolidated 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 interim consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether the interim consolidated 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 interim 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 interim 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.

Milan, 28 February 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.