Selle Royal

CONSOLIDATED ANNUAL REPORT AT 30.06.2020

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

MANAGEMENT REPORT

Dear Shareholders,

The year ending 30 June 2020 reported a consolidated profit of € 3,622,704, of which € 2,582,357 pertaining to the Group.

SIGNIFICANT EVENTS OCCURRING DURING THE YEAR

"A cycling transformation is happening all across Europe, accelerating in the wake of covid-19. … As a Dutchman and cycling enthusiast, this is very exciting. Cycling is a climate friendly, affordable, and healthy alternative to society's obsession with a private car. It is where the EU Green Deal and a fair, just transition come together."

Frans Timmermans (European Commissioner for Climate and the European Green Deal) - July 2020

This sentence, in which the European Commissioner Timmermans emphasises the "cycling transformation" under way in Europe, is a great snapshot of what is actually happening in Europe. It is also important to note that Timmermans correctly stresses that the phenomenon has only "accelerated" since the onset of the Covid-19 pandemic, but it existed before and will continue after it.

It is clear, however, that the year in question was greatly impacted by the global health emergency that shocked the entire world from January 2020.

It is important to underline that the dramatic consequences on the daily lives of billions of individuals have significantly and abruptly altered certain long-established social behaviours, with major repercussions in the sector in which the Group operates.

On an almost global scale, there has been a sharp increase in demand for bicycles both for physical and mental well-being (instead of team sports and other activities, both indoor and outdoor, restricted by the health emergency) and in terms of "Dolce" (alternative) mobility, as an alternative to urban public transport. Many local administrations have quickly converted hundreds of kilometres of roadways into temporary cycle paths, with the aim of structurally rethinking urban mobility in the long term. In some countries, the regulatory codes for road traffic have also been amended in order to increase the safety of vulnerable users, i.e. pedestrians and cyclists. Lastly, some countries such as Italy have established incentive schemes for the purchase of two-wheeled means of transport that facilitate social distancing.

As mentioned above, the cycle sector benefited from this trend and these measures, which was correctly identified as one of the few able to effectively respond to the demand for normality and, at the same time, for the safety called for by the period we are currently experiencing. On the other hand, it is quite clear that the unfortunate onset of the Covid-19 pandemic has done nothing but accelerate a process already under way. For some years now, there have been signs of a change of attitude in public opinion in the main industrialised countries, starting with European ones, regarding the fundamental role the bicycle can play in improving everyone's quality of life. Individual health and well-being; environmental protection and reduction of pollution; improvement in living conditions in urban centres and road safety. These are some of the areas in which the adoption of sustainable mobility, possibly integrated between the use of two wheels and public transport, and therefore an alternative to the use of polluting private vehicles, may be a winning formula to employ. For this reason, the Selle Royal Group has always encouraged principled behaviour with targeted campaigns based on the motto adopted by the brand of the same name, Support Cyclists.

For these reasons, much more profound and long-lasting than the impetus injected, albeit positive, in the sector by the current health emergency, there are solid grounds for believing that the expansion of the market can continue in the long-term, also after the effects of the pandemic start to tail off.

Even in a crisis that has affected almost all the reference markets globally and in a substantially symmetrical manner, the Selle Royal Group, thanks to the geographical diversification of the various different distribution and product channels, has successfully capitalised on the cycle market growth opportunities. Further details are available in the chapter dedicated to the impacts of the pandemic on the Group’s activities later in this Report, to which reference is made.

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

EUROPE

2019 was a year of further growth for pedal assisted bicycles in Europe, as confirmed by the statistics made available by the various national associations in the sector.

Germany and the Netherlands were forerunners in adopting this type of bicycle, given the traditional orientation towards using bicycles as a means of alternative mobility, leisure and also travel. Although these were first-time adoption countries and therefore already had a considerably large fleet of bicycles in circulation, the growth rates recorded in 2019 were nonetheless extremely high: in Germany, 1,360,000 e -bikes were sold, marking growth of 39% in volumes when compared to 2018 (source: ZIV), on the back of growth of +36% in 2018. According to the same analysis, currently the market share of this type of vehicle is close to 32% (31.5%) of the total cycles sold, with an estimate that places them at 40% in the medium-term and projects the share to be roughly 50% in the long-term; even more surprising is the fact that the same projections drawn up in 2018 indicated the target of 30% for the medium-term (and 35% for the long-term). In the Netherlands, a total of more than 1 million bicycles were sold (stable compared to 2018), with a market close to reaching € 1.3 billion (+2.6% compared to 2018). In this context, the share of e-bikes grew to over 50% of the total, surpassing 500,000 units sold (they accounted for 40% of the market, in terms of volumes, just one year ago) (source: RAI Association).

France, the third most important continental country in the market, recorded a growth rate of +12% in electrically assisted pedal cycles, with over 388,000 units sold and a market value of just under € 700 million (source: French Bicycle Observatory). The fact that, in 2019, electric bikes held a market share of 15%, allows scope for further future growth opportunities. Similar considerations also apply to other countries, such as Italy (+13% compared to 2018, with 195,000 units sold; source: AICMA), Spain (+ 28% to over 140,000 units and with a market share of 11.3% in value; source: AMBE), Belgium (over 238,000 units, equal to approximately 50% of the market, source: Velofollies) to name but a few.

From another point of view, the dynamism and importance of the e-bike segment are also demonstrated by the data published by the European Association of bicycle manufacturers (CONEBI), according to which the growth of production in Europe of these bicycles increased by almost 60% in 2019 (with an increase in total production of bicycles equal to +11%, compared to the much more meagre +0.7% recorded in 2018 compared to the previous year). This real boom in production is also a consequence of the introduction of import protectionist measures aimed at protecting local producers with respect to Chinese production. Lastly, the "parts & accessories" market, in which the Group's aftermarket business is incorporated more specifically, at local production value, now exceeds € 2 billion (source: CONEBI), with significant effects on employment (CONEBI estimates an increase in the number of jobs created in the sector and downstream activities of +120,000 in 2019, +14.4% on 2018).

The Selle Royal Group, traditional supplier of European assemblers or their partners in the Far East, as well as an important player in the aftermarket channel, has been a leading player and has undoubtedly benefited from this trend, thanks to its significant presence on the market and market shares acquired over time.

AMERICA

The American bicycle market has experienced highs and lows in recent years, with the latter prevailing in the mountain-bike and road bike segments.

These difficulties led to a reduction in the overall offer in terms of the number of stores on the market, also affected by the rebalancing of turnover from traditional stores to the e-commerce channel. Within this context of a natural reduction in stocks present along the chain, unpredictable growth in demand for bicycles (not just electric) was recorded in the spring of 2020, which brought a production-distribution chain to its knees that was already in difficulty due to the reverberation of the effects of the closure of the production plants in the Far East in the first part of the year. As proof of the magnitude of the phenomenon, NPD Group recorded an increase in turnover of +75% in April in the bicycle sector, at retail prices, reaching a record figure of 1 billion dollars in turnover in 30 days; according to available statistics, the turnover generated by the sector, at retail prices, in the past was usually around 550-575 million dollars in the same month (source: NPD Group).

More generally, in the first four months of the year, bicycle sales recorded double-digit growth rates in all categories, including those that had suffered most in the recent past.

It is also interesting to note the increasing participation of bicycle operators (both manufacturers of bicycles and accessories, especially “wearables”) at the Consumer Electronics Show in Las Vegas, the most important event in the world dedicated to consumer electronics. This is evidence, on the one hand, of the innovative zest in the sector and, on the other hand, of the general public's ever-growing interest in this sector.

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

ASIA

As already pointed out in the past, China, in addition to being a large consumer country, is also traditionally the main country for supplying bicycles to the rest of the world.

As outlined, however, the introduction, in January 2019, of anti-dumping duties also on the import of electric bicycles into Europe (they have been applied to traditional ones for several years now) has gradually led to a migration of production volumes from continental China to

Taiwan and other South-East Asian countries, as well as to local productions for the European market (as highlighted above). In the first 9 months of 2019, almost 300,000 electric bicycles were imported into Europe from Taiwan (+88%) and over 126,000 from Vietnam (+8%), to the detriment of China, whose export volumes fell from more than 642,000 in the first 9 months of 2018 to just over 92,000 in the same period of 2019 (source: Eurostat).
Moreover, the introduction of significant protectionist measures on Chinese products introduced by the Trump Administration further reduced the production volumes *on site*.
It should also be remembered that some countries in the area (for example, Bangladesh and the Philippines) benefit from the status of developing country recognised by the European Union (the so-called GPS + status) or have signed free trade agreements with the EU such as the Vietnam (the so-called "EVFTA"), thus ultimately benefiting from the trends described above. Cambodia, despite having lost its GPS + status with effect from August 2020, was still the largest exporter of traditional bicycles to Europe (over 1.1 million bicycles in the first 6 months of 2020 alone) (source: Eurostat). On the other hand, these figures only partially reflect the changed dynamics in the sector from the point of view of global supply chains, put to the test by the impacts of the pandemic. It should also be noted that the considerations set out above only partially impact the supply of component parts such as saddles.
In fact, the Group recorded positive results in the Asian area, given its ability to capitalise on the commercial synergies deriving from its global presence, with production sites both in the principal consumption and procurement countries.

Lastly, from a corporate point of view, the Shareholders' Meeting of Selle Royal S.p.A., on the proposal of the Board of Directors, and the respective corporate bodies of the other companies involved, approved a reorganisation operation aimed at the merger by incorporation of BROOKS England S.r.l. and FIAC S.r.l. in Selle Royal S.p.A. This transaction, which was successfully concluded on 1 September 2020, the date of statutory effectiveness of the mergers, is aimed at the reorganisation, simplification and increased efficiency of the structures of the three companies present in the production-logistics site of Pozzoleone (VI). For further details, please refer to the paragraph dedicated to significant events after the reporting date of this Report on Operations.

THE SELLE ROYAL GROUP and the CORONAVIRUS-19 PANDEMIC

As is well known, the Covid-19 pandemic has spread throughout the world, for the sake of simplicity, from East to West, starting from January 2020. The Group, which boasts a widespread global presence, was therefore hit by the effects of this health emergency at different times. Also in terms of the attitude and measures adopted by the individual countries to combat the recessionary effects of this situation, quite significant differences were observed, consequently affecting the context in which each company ended up operating.

Selle Royal Vehicle (China) Co., Ltd., located in the coastal province of Jiangsu (P.R.C.), was the first Group company to be affected by the initial spread of the Coronavirus epidemic. The drastic social control measures implemented by the Government during the Chinese New Year holidays allowed the uncontrolled replication of the virus to be effectively contained, even if only once its spread beyond Chinese borders had become obvious. Ultimately, Selle Royal China was subject to a halt in production lasting just two weeks, having gradually resumed operations from 10 February, the first day on which a limited number of factories (located in the Chinese provinces less affected by the health emergency) were authorised for reopen, after having demonstrated that they had followed strict health protocols. The Taiwanese branch of Crank Brothers Inc. also remained fully operational, and at an unchanged employment level, during the entire period, also thanks to the highly effective measures put in place by the local government to contain the epidemic on the island.

The Group's European activities, on the other hand, were those most impacted by the pandemic. After the first measures to prevent the spread of the virus within the company, with the introduction of forms of remote flexible working as early as the first half of March, Selle Royal S.p.A. and the other Italian companies have ceased all production and logistics activities as from 25 March, in line with current regulations. At the same time, access to the forms of income support provided for in the Covid-19 wage guarantee fund was requested. The introduction of severe lockdown measures throughout most of Europe led to the cancellation of orders from various domestic and foreign customers. Manufacturing activity then resumed, according to legal requirements, when the first signs of a recovery in demand began became apparent, which were then strengthened and built on in the following months. However, the month of total closure, combined with the naturally slow recovery in activities following their resumption, made it impossible to achieve the turnover and profitability targets initially set for the year in question. The UK plant of BROOKS England was also temporarily closed, starting from 25 March until 11 May, due to the different dynamics of the epidemic in that country.

The American companies of the Group, while adopting the appropriate measures to prevent the virus spreading in the workplace, have never suffered a genuine interruption in their activities. Furthermore, they did not request access to the funds allocated for furlough, i.e. a form of wage guarantee fund provided for by local labour law, maintaining full employment for the entire emergency period. On the other hand, the North American market has not been subject to forms of generalised lockdown such as those enforced in Europe. The different cultural sensitivities saw economic issues take precedence over social-health issues and the limited number of closures recorded occurred in the presence of specific clusters (e.g. New York City). In addition, in the US, the activities carried out by stores in the sector were classified as essential activities (especially for repair and service), thereby stimulating sustained growth of the business, as already mentioned previously.

Lastly, the Brazilian subsidiary Royal Ciclo used, during the month of April and until mid-May, a form of flexibility in the organisation of work that made it possible to reduce shifts and to alternate working weeks with weeks off, with income support for workers through the allocation of public funding. The same requests for alternative means of mobility described above have injected life into the sector in the country, helping the subsidiary post figures in line with expectations at the beginning of the fiscal year.

ECONOMIC PERFORMANCE

The 2019/20 income statement is shown below, compared with the figures for the previous year; the comments below relate to the examination of the pro-forma 2019/20 figures, in order to neutralise the distorting effects of the adoption of IFRS 16, in comparison with the previous year (the latter not subject to restatement, as clarified in the Explanatory Notes, to which reference is made):

	2019/20		2019/20 - proforma (*)		2018/19		
				% of revenues		*% of revenues*	*Change % 2020 FP vs.*
Revenues	130.193.776	*100,0%*	130.193.776	*100,0%*	130.637.239	*100,0%*	*-0,3%*
Cost of sales	75.530.901	*58,0%*	75.530.901	*58,0%*	77.017.154	*60,2%*	*-1,9%*
GROSS MARGIN	**54.662.875**	***42,0%***	**54.662.875**	***42,0%***	**53.620.085**	***39,8%***	***1,9%***
Operating costs	38.728.181	*29,7%*	40.157.294	*30,8%*	41.013.812	*30,1%*	*-2,1%*
EBITDA	**15.934.694**	***12,2%***	**14.505.581**	***11,1%***	**12.606.273**	***9,7%***	***15,1%***
Amortisation/depreciation and write-downs of fixed assets	7.233.567	*5,6%*	5.949.049	*4,6%*	6.981.957	*5,7%*	*-14,8%*
EBIT	**8.701.127**	***6,7%***	**8.556.532**	***6,6%***	**5.624.316**	***4,0%***	***52,1%***
Financial income/(charges) and other financial components	(3.501.771)	*-2,7%*	(3.278.908)	*-2,5%*	(3.639.820)	*-2,7%*	*-9,9%*
PRE-TAX RESULT	**5.199.356**	***4,0%***	**5.277.624**	***4,1%***	**1.984.496**	***1,3%***	***n.s.***
Taxes for the year	1.576.652	*1,2%*	1.576.652	*1,2%*	1.032.849	*0,4%*	*52,7%*
NET INCOME	**3.622.704**	***2,8%***	**3.700.972**	***2,8%***	**951.647**	***0,9%***	***n.s.***
Minority interests	1.040.347	*0,8%*	1.040.347	*0,8%*	432.948	*-0,3%*	*n.s.*
NET INCOME PERTAINING TO THE GROUP	**2.582.357**	***2,0%***	**2.660.625**	***2,0%***	**518.699**	***1,2%***	***n.s.***

(*) Excluding the impacts deriving from the adoption of IFRS 16

The year in question, which ended on 30 June 2020, recorded sales of € 130.2 million, in line with the turnover of the previous year. Considering the highly adverse impact recorded in many of the most important markets for the Group (Europe *in particular*) due to the Covid-19 health emergency, and the fact that the most devastating effects of the emergency have reverberated in the months that represent the best season for the bicycle sector, the Group's performance can only be viewed in an extremely positive light.

The performance in terms of percentage gross margins was also very positive, which, for some years, has continued to grow thanks to the increasing weight of sales in the aftermarket channel.

The decrease in operating costs, even before some negative non-recurring components, is due to cost-cutting measures undertaken by the Group companies during the emergency phase of the pandemic, to counteract the negative impacts of the expected decrease in sales, which partly materialised.

Despite revenues in line with the previous year, EBITDA increased sharply compared to the previous year (+15.1%), reaching € 14.5 million, with an incidence on revenues of 11.1%.

Adjusted EBITDA, net of non-recurring items, amounted to € 15.2 million, with a percentage impact on turnover of 11.6% and growth of 11.5% compared to the previous year (when it was € 13.6 million).

The decrease in amortisation and depreciation compared to 2018/19, once the impacts deriving from the adoption of IFRS 16 were removed, is a consequence of the review of the investment policy undertaken in recent years and aimed at favouring a lower overall number of projects, selecting those with higher expected profitability and a lower payback period.
Net financial charges were down due to lower interest on loans and despite the negative impact of exchange rate differences and financial charges recognised in accordance with the provisions of the new accounting standard mentioned in the previous paragraph. For further details, please refer to the relevant section of the explanatory notes.
As outlined, the year in question closed with substantial growth in net profit compared to the previous year.

STATEMENT OF FINANCIAL POSITION

The financial position of the Group as at 30 June 2020, compared with the situation reported in the consolidated financial statements for the year ended 30 June 2019, is as follows:

	30/06/2020	30/06/2019	*Change*
in trade receivables	15.710.086	15.857.700	(147.614)
Inventories	21.744.437	23.230.417	(1.485.980)
Tax receivables	1.805.683	2.239.425	(433.742)
Other current assets	1.145.637	2.229.125	(1.083.489)
CURRENT ASSETS	***40.405.842***	***43.556.666***	***(3.150.824)***
Trade payables	13.242.049	17.132.366	(3.890.317)
Tax payables	2.012.693	1.928.798	83.895
Other current liabilities	6.419.156	9.081.409	(2.662.253)
CURRENT LIABILITIES	***21.673.898***	***28.142.573***	***(6.468.675)***
NET WORKING CAPITAL	**18.731.944**	**15.414.093**	**3.317.851**
Depreciation of tangible assets	31.301.359	25.394.668	5.906.691
Amortisation of intangible assets	22.034.087	22.376.937	(342.850)
Equity investments	2.038.869	1.919.221	119.648
Goodwill	10.470.259	10.428.649	41.611
Other non-current assets	2.388.964	1.669.506	719.458
NON-CURRENT ASSETS	***68.233.539***	***61.788.981***	***6.444.558***
Post-employment benefits and other provisions	5.126.679	5.157.946	(31.267)
Deferred taxes	938.100	982.791	(44.692)
Other non-current liabilities	5.287,68	12.017	(6.729)
NON-CURRENT LIABILITIES	***6.070.066***	***6.152.755***	***(82.688)***
NET INVESTED CAPITAL	**80.895.417**	**71.050.320**	**9.845.097**
Short-term financial debt, net	6.511.780	14.715.248	(8.203.468)
Medium/long-term financial debt	28.579.583	21.139.543	7.440.040
NET FINANCIAL POSITION	**35.091.363**	**35.854.791**	**(763.428)**
Current liabilities for leased assets	1.139.155	-	1.139.155
Non-current liabilities for leased assets	7.055.640	-	7.055.640
LIABILITIES FOR LEASED ASSETS	**8.194.795**	**-**	**8.194.795**
Share capital and other reserves	30.149.412	30.271.991	(122.579)
Group result for the year	2.582.357	518.699	2.063.658
GROUP SHAREHOLDERS' EQUITY	**32.731.770**	**30.790.690**	**1.941.079**
Share capital and other reserves	3.837.143	3.971.891	(134.748)
Profit for the year pertaining to minority interests	1.040.347	432.948	607.399
MINORITY INTERESTS	**4.877.490**	**4.404.839**	**472.651**

The growth in net working capital was mainly driven by the drop in payables to suppliers (mainly due to the interruption of purchases in the periods of full or partial lockdown that affected some Group companies during the spring) and the payment of residual payables at 30 June 2019 for the purchase of the equity investments in Royal Ciclo and BROOKS. Inventories were down, with specific reference to finished and marketed products, due to the vigorous recovery in demand, especially in the last two months of the year.
The operating investments made by the various Group companies, for a total amount of € 5.7 million, are aimed both at product innovation, one of the key elements on which the Group bases its future growth, and at the upgrading and improvement of the Group's production sites. The net invested capital and, in particular, tangible fixed assets, were affected by the first-time application of IFRS 16 (for a balance of € 8.1 million as at 30 June 2020), which makes provision for the recognition of a right of use under fixed assets, the latter an expression of the present value of future lease payments relating to leases (financial and operating) and rental and hire contracts. For further details, please refer to the Explanatory Notes.
The net financial position was instead down to € 35.1 million, with an extension of the average duration of existing loans. The self-financing generated by operations allowed the coverage of technical investments, with a surplus of liquidity for the benefit of financial management.
Lastly, the payable for leased assets (equal to € 8.2 million), recorded as a contra-entry to the right of use mentioned above, is reported.

DERIVATIVE FINANCIAL INSTRUMENTS

In compliance with the provisions of art. 2427-bis of the Italian Civil Code and in line with the interpretations contained in document no. 3 issued by the Italian Accounting Body, the parent company Selle Royal S.p.A. subscribed a derivative financial instrument, for the purpose of hedging the risk of fluctuations in interest rates on a medium/long-term loan, recorded under the item "non-current financial assets at fair value.
Since it is an instrument whose hedging was effective, the relative change in value was allocated to a specific equity reserve (so-called "cash flow hedge reserve"). For further information, please refer to the Explanatory Notes to these financial statements.

INVESTMENTS

As already outlined, during the year 2020, the company carried out operating investments of approximately € 5.7 million. This figure excludes the increase in the item tangible fixed assets following the recognition of rights of use for leased assets for a total of € 9.4 million.

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

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

RISK ANALYSIS

Credit risk

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

Liquidity risk

There are sufficient credit lines to meet liquidity requirements.

Policies related to the various hedging activities

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

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE YEAR

On 3 August 2020, a complex reorganisation of the Group's corporate structure was carried out, as resolved by the competent corporate bodies in 2019/20, which led to the merger by incorporation of the companies BROOKS England S.r.l. and FIAC S.r.l. in Selle Royal S.p.A.

BUSINESS OUTLOOK

Given the uncertainty relating to the evolution of the CoViD-19 pandemic in the various countries in which the Group is present, predicting the economic and financial performance for the fiscal year 2020-21 is extremely difficult. Excluding these considerations, it is clear that the bicycle sector is experiencing a buoyant period, following a trend that took hold before the appearance of the CoViD-19 virus and, to a certain extent, strengthened by the changes in social behaviour it brought about.

RELATIONS WITH PARENT COMPANIES, ASSOCIATES AND RELATED PARTIES

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

ENVIRONMENT, PERSONNEL and SECTOR REGULATIONS

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

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

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

The average number of employees in the current year was 1,016, a slight decrease compared to the 1,075 employees in the previous year. The decrease is fully attributable to factory personnel.

CONCLUSIONS and PROPOSALS

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

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Pozzoleone (VI), 18 November 2020

The Chairman of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

Consolidated balance sheet(*)

	30/06/2020	30/06/2019	*Change*
ASSETS			
Cash and cash equivalents	20.888.905	11.109.764	9.779.141
in trade receivables	15.710.086	15.857.700	(147.614)
Inventories	21.744.437	23.230.417	(1.485.980)
Tax receivables	1.805.683	2.239.425	(433.742)
Other current assets	1.145.637	2.229.125	(1.083.489)
TOTAL CURRENT ASSETS	**61.294.748**	**54.666.431**	**6.628.318**
Intangible assets	22.034.087	22.376.937	(342.850)
Tangible assets	31.301.359	25.394.668	5.906.691
Equity investments	2.038.869	1.919.221	119.648
Goodwill	10.470.259	10.428.649	41.610
Deferred tax assets	1.279.955	1.095.227	184.728
Financial assets at *fair value*	427.050	510.726	(83.676)
Other non-current assets	681.961	63.553	618.408
TOTAL NON-CURRENT ASSETS	**68.233.540**	**61.788.981**	**6.444.559**
TOTAL ASSETS	**129.528.288**	**116.455.412**	**13.072.876**

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

LIABILITIES

Trade payables	13.242.049	17.132.366	(3.890.317)
Tax payables	2.012.693	1.928.798	83.895
Short-term loans	27.400.685	25.825.012	1.575.673
Current liabilities for leased assets	1.139.155	-	1.139.155
Other current liabilities	6.419.156	9.081.409	(2.662.253)
TOTAL CURRENT LIABILITIES	**50.213.738**	**53.967.585**	**(3.753.847)**
Provisions for employees	1.972.904	2.039.763	(66.858)
Bonds	9.654.745	9.516.854	137.891
Medium / long-term loans	18.924.839	11.622.690	7.302.149
Provisions for risks and charges	3.153.774	3.118.183	35.591
Payables for deferred taxes	938.100	982.791	(44.691)
Financial liabilities at *fair value*	5.288	12.017	(6.729)
Non-current liabilities for leased assets	7.055.640	-	7.055.640
TOTAL NON-CURRENT LIABILITIES	**41.705.290**	**27.292.298**	**14.412.993**
TOTAL LIABILITIES	**91.919.028**	**81.259.883**	**10.659.146**

SHAREHOLDERS 'EQUITY

Share capital	6.000.000	6.000.000	-
Legal reserve	1.261.051	1.212.045	49.006
Translation reserve	393.372	836.428	(443.057)
Reserve for first-time adoption of IAS	10.716.446	10.716.446	-
Other reserves and undistributed profits	11.778.544	11.507.072	271.473
Group profit / (loss) for the year	2.582.357	518.699	2.063.658
GROUP SHAREHOLDERS' EQUITY	**32.731.770**	**30.790.690**	**1.941.080**
Share capital and undistributed profits perta	3.837.143	3.971.891	(134.748)
Profit / (loss) for the year of minority intere	1.040.347	432.948	607.399
MINORITY INTERESTS	**4.877.490**	**4.404.839**	**472.651**
TOTAL LIABILITIES and SHAREHOLDERS' EQUI	**129.528.288**	**116.455.412**	**13.072.877**

Consolidated income statement(*)

	2019/20	2018/19	% Change
Revenues	130.193.776	130.637.239	-0,3%
Cost of sales	75.530.901	77.017.154	-1,9%
GROSS MARGIN	**54.662.875**	**53.620.085**	**1,9%**
Industrial costs	4.186.936	5.831.094	-28,2%
Sales and promotion costs	10.647.069	10.629.833	0,2%
Costs of the management structure	14.114.295	14.295.336	-1,3%
General and administrative costs	10.738.749	10.521.383	2,1%
Other operating income and (expenses)	958.868	263.833	n.s.
EBITDA	**15.934.694**	**12.606.273**	**26,4%**
Amortisation/depreciation and write-downs of fixed asset	7.233.567	6.981.957	3,6%
EBIT	**8.701.127**	**5.624.316**	**54,7%**
Profits / (losses) from companies measured at equity	-	-	-
Gains / (losses) on disposal of financial assets	-	-	-
Financial income / (charges)	(3.501.771)	(3.639.820)	-3,8%
PRE-TAX RESULT	**5.199.356**	**1.984.496**	**n.s.**
Taxes for the year	1.576.652	1.032.849	52,7%
NET INCOME	**3.622.704**	**951.647**	**n.s.**
Minority interests	1.040.347	432.948	n.s.
NET INCOME PERTAINING TO THE GROUP	**2.582.357**	**518.699**	**n.s.**

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

Consolidated statement of comprehensive income

	2019/20	2018/19
Net profit	**3.622.704**	**951.647**
Change in *fair value* of hedging derivatives	6.729	109
Actuarial gains / (losses)	(4.950)	(68.583)
Changes in scope of consolidation	-	(258.350)
Translation differences of foreign financial statements	(443.057)	(1.060.085)
Total comprehensive profit / (loss) after tax	**3.181.427**	**(435.262)**

Statement of changes in shareholders' equity

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

	Balance as at 30 June 2019	Transfer of previous year result	Fair value IRS	Effect of discounting of post-employment	Dividend distribution	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 30 June 2020
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.212.045	49.006	-	-	-	-	-	1.261.051
Translation reserve	836.428	-	-	-	-	(443.057)	-	393.372
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	11.507.072	469.693	6.729	(4.950)	(200.000)	-	-	11.778.544
Group profit / (loss) for the year	518.699	(518.699)	-	-	-	-	2.582.357	2.582.357
TOTAL GROUP SHAREHOLDERS 'EQUITY	30.790.690	-	6.729	(4.950)	(200.000)	(443.057)	2.582.357	32.731.770
Share capital and undistributed profits pertaining to non-controlling interests	3.971.891	432.948	-	-	-	(567.696)	-	3.837.143
Profit / (loss) for the year of minority interests	432.948	(432.948)	-	-	-	-	1.040.347	1.040.347
TOTAL MINORITY INTERESTS	4.404.839	-	-	-	-	(567.696)	1.040.347	4.877.490
TOTAL SHAREHOLDERS 'EQUITY	**35.195.528**	**-**	**6.729**	**(4.950)**	**(200.000)**	**(1.010.752)**	**3.622.704**	**37.609.260**

Consolidated Cash flow statement

(Values in €)	Financial Year 2019/20	Financial Year 2018/19
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit/(loss) for the year	3.622.704	951.647
Adjustments relating to items with no effect on liquidity:		
Amortisation	7.233.567	6.981.957
Increase/(Decrease) in provisions for employees	(66.858)	10.640
Allocation/(use) of provision for deferred taxes	(44.692)	518.224
Capital losses (capital gains) from disposal of assets	(1.943)	19.755
Total	*10.742.778*	*8.482.223*
Changes in current assets and liabilities:		
Receivables due from customers	147.614	(684.623)
Inventories	1.485.980	(4.262.215)
Tax receivables	433.742	(252.901)
Other current assets	1.083.489	(343.814)
Trade payables	(3.890.317)	4.557.753
Tax payables	83.895	1.196.202
Current financial liabilities at *fair value*	-	(1.114)
Other current liabilities	(2.662.253)	3.029.132
Total	*(3.317.851)*	*3.238.420*
Cash flows generated / (absorbed) by operating activities	7.424.927	11.720.643
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Net (Investments)/Divestments in technical fixed assets	(14.021.297)	(3.959.429)
(Increase)/decrease in intangible assets	(920.121)	(1.268.890)
(Increase)/decrease in goodwill	-	(1.739.876)
Net (Increases)/decreases in fixed assets from acquisitions	-	(8.672.140)
(Increase)/decrease in equity-accounted investments	(119.648)	(157.700)
Cash flows generated/(absorbed) by investment activities	(15.061.067)	(15.798.035)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Obtainment of medium/long-term loans	13.731.884	7.950.000
Bond issue	-	10.000.000
Extinguishment of 2014 bond (so-called mini-bond)	-	(10.454.597)
Effect of amortised cost on medium/long-term loans	137.891	(118.881)
(Repayment) of medium/long-term loans	(6.429.735)	(2.313.616)
Change in *cash flow hedge reserve*	6.729	109
Change in reserve for discounting of post-employment benefits	(4.950)	(68.583)
Dividend distribution	(200.000)	-
Other changes in shareholders' equity	-	1.231.740
Reduction/(increase) in other non-current assets	(719.458)	666.593
Increase/(reduction) in other non-current liabilities	28.862	23.294
Change from adoption of IFRS 16	8.194.795	-
Cash flows generated/(absorbed) by financing activities	14.746.018	6.916.059
Differences from translation of financial statements in foreign currency	1.093.590	(2.446.254)
NET CASH GENERATED/(ABSORBED) in the year	**8.203.468**	**392.412**
(OPENING SHORT-TERM NET BANK DEBT)	14.715.248	15.107.660
(CLOSING SHORT-TERM NET BANK DEBT)	6.511.780	14.715.248

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2020

FOREWORD

The consolidated financial statements as at 30 June 2020 of the Selle Royal S.p.A. Group were prepared in compliance with the international accounting standards IFRS or International Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission according to the procedure pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 on the date of preparation of these financial statements as well as the provisions of Legislative Decree 38/2005.

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

The 2020 Consolidated Financial Statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes that follow.

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

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

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

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

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

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

ACCOUNTING STANDARDS, AMENDMENTS AND MANDATORY INTERPRETATIONS ADOPTED BY THE GROUP

The accounting standards adopted by the Group for the preparation of the consolidated financial statements as at 30 June 2020 are the same as those adopted to draft the consolidated financial statements in the previous year, with the exception of the following accounting standard.

Description	**Expected effective date**
IFRS 16 (Leases), replacing IAS 17	Financial years beginning on or after 1 January 2019

The other newly drafted accounting standards, interpretations and clarifications issued by the IASB adopted and entered into force during the last twelve months did not have a significant impact on the financial statements in question.

<u>IFRS 16 - Leases</u>

The new accounting standard, published by the IASB in 2016 to replace IAS 17, equates the accounting treatment of different types of contracts such as finance leases, operating leases, rental contracts and hire contracts.

The Group has chosen to adopt IFRS 16 according to the modified retrospective approach, based on which the cumulative effect of the adoption of the standard was recognised at the relevant effective date of 1 July 2019, without restating the comparative data as at 30 June 2019. The tables below show the impacts deriving from the adoption, to facilitate comparison with historical data.

This new standard was applied to lease contracts in place as at 1 July 2019 (or stipulated at a later date), with a residual duration on the same date of more than 12 months and with a material unit value. Cases of rental contracts whose substance entails the purchase of services were also excluded.

The adoption of IFRS 16 led to the recognition in the balance sheet, on 1 July 2019, of a right of use equal to the discounted sum of the contractually envisaged fees to maturity and, as a contra-entry, a corresponding lease liability. If there is a reasonable expectation of renewal on expiry, the longer time horizon is considered.

The rate used for discounting is equal to the weighted average rate of long-term loans subscribed by the Group companies or, failing that, by a similar market rate.

The asset determined in that way was posted to non-current assets under the item tangible fixed assets. During the year, it was amortised according to the residual useful life of the respective contracts.

The liability, determined as above, was recorded under "current/non-current liabilities for leased assets".

The rents, previously recognised as an operating cost in the income statement, are now separated into two components: a principal repayment portion and an interest portion, according to a "French" repayment plan, i.e. with a capital repayment portion increasing over time.

In the consolidated financial statements, all the cases that do not meet the above-mentioned criteria for recognition in accordance with the provisions of IFRS 16 are still represented as rental/leasing costs, without the recognition of the payable for the future instalments provided for in the contract.

Initial registration as at 1 July 2019

	30/06/2019 (A)	*Eff. IFRS 16* *(B)*	01/07/2019 (C=A+B)
ASSETS			
TOTAL CURRENT ASSETS	54.666.431	-	54.666.431
TOTAL NON-CURRENT ASSETS	61.788.981	9.347.160	71.136.141
TOTAL ASSETS	**116.455.412**	**9.347.160**	**125.802.572**
LIABILITIES			
TOTAL CURRENT LIABILITIES	53.967.585	2.065.144	56.032.729
TOTAL NON-CURRENT LIABILITIES	27.292.298	7.282.016	34.574.314
TOTAL LIABILITIES	**81.259.883**	**9.347.160**	**90.607.043**
SHAREHOLDERS' EQUITY			
GROUP SHAREHOLDERS' EQUITY	30.790.690	-	30.790.690
MINORITY INTERESTS	4.404.839	-	4.404.839
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY	**116.455.412**	**9.347.160**	**125.802.572**

Consolidated balance sheet as at 30 June 2020

	30/06/2020 (A)	*Eff. IFRS 16 (B)*	30/06/2020 - Pro-forma (C=A+B)	30/06/2019	*Change 2020 pro-forma vs. 2019*
ASSETS					
TOTAL CURRENT ASSETS	61.294.748	-	61.294.748	54.666.431	6.628.318
TOTAL NON-CURRENT ASSETS	68.233.540	(8.052.061)	60.181.480	61.788.981	(1.607.501)
TOTAL ASSETS	**129.528.288**	**(8.052.061)**	**121.476.228**	**116.455.412**	**5.020.816**
LIABILITIES					
TOTAL CURRENT LIABILITIES	50.213.738	(1.085.270)	49.128.469	53.967.585	(4.839.117)
TOTAL NON-CURRENT LIABILITIES	41.705.290	(7.055.640)	34.649.650	27.292.298	7.357.352
TOTAL LIABILITIES	**91.919.028**	**(8.140.910)**	**83.778.118**	**81.259.883**	**2.518.235**
SHAREHOLDERS’ EQUITY					
GROUP SHAREHOLDERS' EQUITY	32.731.770	88.850	32.820.620	30.790.690	2.029.930
MINORITY INTERESTS	4.877.490	-	4.877.490	4.404.839	472.651
TOTAL LIABILITIES and SHAREHOLDERS’ EQUITY	**129.528.288**	**(8.052.060)**	**121.476.228**	**116.455.412**	**5.020.816**

Consolidated income statement for the 2019/20 financial year

	2019/20 (A)	Eff. IFRS 16 (B)	2019/20 pro-forma (C=A+B)	2018/19	*Change % 19/20 FP vs. 18/19*
Revenues	130.193.776	-	130.193.776	130.637.239	*-0,3%*
Cost of sales	75.530.901	-	75.530.901	77.017.154	*-1,9%*
GROSS MARGIN	**54.662.875**	**-**	**54.662.875**	**53.620.085**	***1,9%***
Operating costs	38.728.181	1.429.113	40.157.294	41.013.811	*-2,1%*
EBITDA	**15.934.694**	**(1.429.113)**	**14.505.581**	**12.606.273**	***15,1%***
Amortisation/depreciation and write-downs of fixed ass	7.233.567	(1.284.517)	5.949.049	6.981.957	*-14,8%*
EBIT	**8.701.127**	**(144.595)**	**8.556.532**	**5.624.316**	***52,1%***
Financial income/(charges)	(3.501.771)	222.863	(3.278.908)	(3.639.820)	*-9,9%*
PRE-TAX RESULT	**5.199.356**	**78.267**	**5.277.624**	**1.984.496**	***n.s.***
Taxes for the year	1.576.652	-	1.576.652	1.032.849	*52,7%*
NET INCOME	**3.622.704**	**78.267**	**3.700.972**	**951.647**	***n.s.***
Minority interests	1.040.347	-	1.040.347	432.948	*n.s.*
NET INCOME PERTAINING TO THE GROUP	**2.582.357**	**78.267**	**2.660.625**	**518.699**	***n.s.***

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

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

Description	**Approved as at the date of this document**	**Expected effective date**
IFRS 17 (Insurance contracts)	Yes	Financial years beginning on or after 1 January 2020
Amendment to IFRS 16 Covid 19-Related Rent Concessions	Yes	Financial years beginning on or after 1 January 2020
Amendments to IFRS 3 Business Combinations	Yes	Financial years beginning on or after 1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	Yes	Financial years beginning on or after 1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	Yes	Financial years beginning on or after 1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	Yes	Financial years beginning on or after 1 January 2020

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

FINANCIAL STATEMENT FORMATS AND CLASSIFICATION CRITERIA

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

- Balance Sheet

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

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

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

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

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

(d) these are cash and cash equivalents.

All other assets were classified as non-current.

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

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

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

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

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

All other liabilities were classified as non-current.

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

- Income statement

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

- Statement of changes in shareholders' equity

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

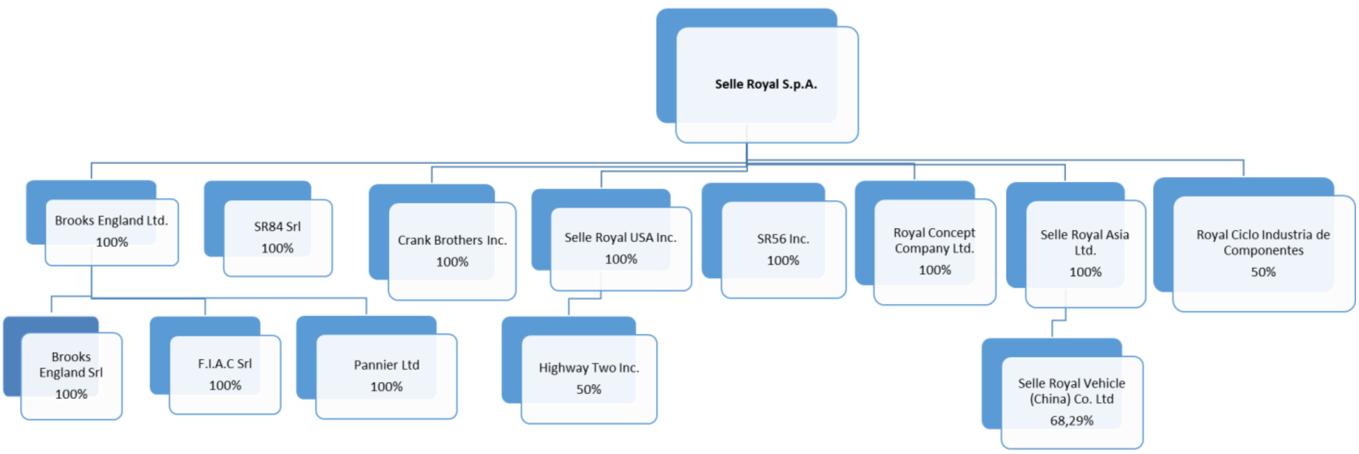
- Cash flow statement

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

ACTIVITIES OF THE GROUP COMPANIES

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

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



This structure has not changed compared to the composition of the Group as at 30 June 2019.

SIGNIFICANT EVENTS OCCURRING DURING THE YEAR

As outlined in detail in the Report on Operations, the fiscal year in question was greatly impacted by the Covid-19 pandemic which characterised the late winter and spring months, i.e. the best season of the bicycle sector. With an initial decidedly adverse effect, dynamics subsequently emerged that favoured a recovery in sales in the last part of the fiscal year.

For a more in-depth examination of the elements characterising the year under review, including significant corporate events, please refer to the Report on Operations.

GENERAL PREPARATION CRITERIA AND CONSOLIDATION PRINCIPLES

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

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

Subsidiaries are those in which the Group simultaneously has:

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

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

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

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

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

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

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

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

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

	Exact exchange rate as at 30 June			**Average exchange rate for the year**		
			Appreciation /			**Appreciation**
Currency	**2020**	**2019**	**(deprec.)**	**2019/20**	**2018/19**	**(deprec.)**
British Pound (GBP)	0,9124	0,8966	-1,74%	0,8782	0,8817	0,39%
US Dollar (USD)	1,1198	1,1380	1,63%	1,1059	1,1412	3,19%
Hong Kong Dollar (HKD)	8,6788	8,8866	2,39%	8,6203	8,9474	3,79%
Chinese Yuan Renminbi (RMB)	7,9219	7,8185	-1,31%	7,7761	7,7884	0,16%
Brazilian Real (BRL)	6,1118	4,3511	-28,81%	4,9391	4,4077	-10,76%

The consolidated financial statements as at 30 June 2020 include the data of the parent company Selle Royal S.p.A. and those of the subsidiaries in which it holds, directly or indirectly, the majority of 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 S.p.A.**, Parent company, with registered office in Pozzoleone (VI), share capital of € 6,000,000.
- **Brooks England Limited**, acquired in 2002, with registered office in Smethwick-Birmingham, United Kingdom, share capital of GBP 240,000, equal to approximately € 301,799, wholly-owned by Selle Royal S.p.A.
- **SR84 S.r.l.:** with registered office in Pozzoleone (VI) and share capital of € 2,000,000; the company is 100% owned by Selle Royal S.p.A.
- **Selle Royal USA Inc.** (previously known as Hi-Move Inc.), established in 2006, with registered office in Olney, USA, 1909 Miller Drive, share capital of USD 1,000, equal to approximately € 901. The company is wholly-owned by Selle Royal S.p.A. Also in 2006, a joint venture was established with a leading German operator for the direct distribution of products on the US market. To this end, Highway Two Llc. was established, based in the USA, currently 50% owned by Selle Royal USA Inc. In these consolidated financial statements, Highway Two Llc. is measured using the equity method. The value at the balance sheet date was € 2.026.423.
- **Royal Concept Company Limited**, with registered office in Hong Kong and share capital of HK $ 1,000, equal to approximately € 91. The company is wholly-owned by Selle Royal S.p.A.
- **Crank Brothers Inc.**, with share capital of USD 1,000, equal to approximately € 901, wholly-owned by Selle Royal S.p.A.
- SR56 Inc., with registered office in Ogden (UT) in the USA and share capital of USD 1,000, equal to approximately € 901, is wholly-owned by Selle Royal S.p.A.
- **Selle Royal Vehicle (China) Co. Ltd.**: Formerly Jiangyin Justek Vehicle Co., Ltd.; the acquisition, completed in February 2010, was effective retroactively from 1 January 2010. The interest in Selle Royal S.p.A., through its wholly-owned subsidiary Selle Royal Asia Ltd., grew in 2014/15 from 51.86% of the share capital held since the acquisition to 68.29%. currently held, following a corporate restructuring. Lastly, it should be noted that the aforementioned company Selle Royal Asia Ltd. is a pure holding company that

holds exclusively the equity investment in Selle Royal Vehicle (China) Co. Ltd and does not carry out any activities.

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

MEASUREMENT CRITERIA

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

Intangible fixed assets

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

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

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

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

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

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

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

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

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

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

- they play a key role in the Group's strategy and constitute a primary value driver;
- the corporate structure, in its concept of organised tangible assets and organisation in a broad sense, is heavily committed, at the moment, to the dissemination and development of the brands on the markets for the products marketed by the Group, although the aforementioned brands may represent assets that may be freely used in markets adjacent to those of consolidated entities;
- the trademarks are owned and are correctly registered and constantly protected from a regulatory perspective, with options for renewing the legal protection at the end of the registration periods that are inexpensive, easy to implement and without external impediments;
- the products marketed by the Group under these brands are not subject to particular technological obsolescence in consideration of the development activities carried out by the Group that allow them to qualify in the luxury market for the categories of cycling products that are subject to marketing and in which the Group is perceived by the market;

- in fact, the brands are considered by their consumers as constantly innovative and on trend, so much so that they become models to be imitated or inspired by;
- the brands are distinguished, in the typical national and/or international context for each of them, by market positioning and reputation such as to ensure their pre-eminence in the respective market segments, being constantly associated and compared to products of absolute reference;
- in the reference competitive context, it can be stated that the investments to maintain the brands are proportionally limited, compared to the substantial and favourable cash flows expected.

Goodwill

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

Tangible fixed assets

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

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

“Component approach”.

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

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

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

- Land 0%
- Buildings 3%
- Generic plants 10% -12.50%
- Machinery 10%-12.50%
- Equipment 10%-35%
- Office furniture and equipment 12%
- Electronic office equipment 18% -20%
- Motor vehicles and internal transport vehicles 20% - 25%
- Light constructions 10%
- Leasehold improvements Duration of the contract on the underlying asset
- Rights of use Duration of the lease

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

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

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

Impairment losses

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

The certification of the recoverability of the values recorded in the financial statements is obtained by comparing the book value at the reference date and the fair value net of costs to sell (if available) or the value in use. The value in use of a tangible or intangible asset is determined on the basis of the estimated future cash flows expected from the asset, discounted through the use of an after-tax discount rate, which reflects the current market valuation of the present value of money and risks related to the Group's activities, as well as cash flows deriving from the disposal of the asset at the end of its useful life. If it is not possible to estimate an independent cash flow for an individual asset, the smallest operating unit (cash generating unit) to which the asset belongs and to which it is possible to associate future cash flows that can be objectively determined and independent from those generated by others is identified. The identification of the cash generating units was carried out in line with the organizational and operating architecture of the Group.

If the impairment test shows an impairment loss on an asset, its book value is reduced to the recoverable value, through direct recognition in the income statement, unless the asset is measured at revalued value, in which case the write-down is charged to the revaluation reserve. When the reasons for a write-down no longer apply, the book value of the asset (or of the cash-generating unit), with the exception of goodwill, is increased to the new value deriving from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the write-down for impairment had not been made. The write-back is charged to the income statement immediately, unless the asset is measured at the revalued amount, in which case the write-back is charged to the revaluation reserve.

Financial fixed assets

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

Inventories

Raw materials, auxiliary materials and finished products are recorded at purchase or production cost, including accessory charges, or at the realisable value based on market trends, if lower.

The cost configuration used is that of the "weighted average cost".

Production costs include the expenses incurred to bring the assets to the state in which they are found in the financial statements; they include both the specific costs of the individual assets and the overall costs incurred in the activities carried out for their preparation.

Obsolete and slow-moving stocks are valued in relation to their possibility of use and realisation, with reference to the average duration of the production cycle, with the allocation of a specific write-down both directly and through the establishment of a provision to adjust their value.

Receivables

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

Cash and cash equivalents

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

Provisions for risks and charges

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

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

- the amount of the obligation can be reliably estimated.

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

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

The existence of contingent liabilities, represented by obligations:

- possible, but not probable, arising from past events, the existence of which will be confirmed only upon the occurrence or otherwise of one or more uncertain future events not fully under the control of the company; or
- current events, as they derive from past events, for which, however, the possibility of incurring charges in the future is considered remote, or the amount of which cannot be reliably estimated;

it does not give rise to the recognition of liabilities recorded in the financial statements, but is illustrated in a special note to the financial statements.

Provisions for employees

The liability relating to defined benefit plans, net of any assets serving the plan, is determined on the basis of actuarial assumptions and is recognised on an accrual basis in line with the work services necessary to obtain the benefits.

The valuation of the liability was carried out by independent actuaries using the projected unit credit method.

Gains and losses deriving from the actuarial calculation are recognised in the statement of comprehensive income. The amount reflects not only the payables accrued at the reporting date, but also future salary increases and the related statistical trends.

The benefits guaranteed to employees through defined contribution plans (also by virtue of recent changes in national pension legislation) are recognised on an accrual basis and at the same time give rise to the recognition of a liability measured at nominal value.

Current and deferred taxation

Provisions for income taxes for the year made by the individual companies included in the scope of consolidation are calculated in accordance with the current tax regulations of the country where the companies are based and are recorded under "tax payables", net of any tax credits legally offset during the subsequent tax period.

Deferred taxes are calculated on the cumulative amount of all temporary differences between the value of an asset or a liability determined according to statutory criteria and the value attributed to that asset or liability for tax purposes, applying the presumed tax rate in force at the moment in which the temporary differences will reverse, as well as the tax effect of the typical consolidation adjustments.

It should also be noted that no deferred taxes have been allocated against the revaluation reserves subject to taxation recognised under shareholders' equity since, at present, it is believed that no transactions are carried out that would result in taxation.

Deferred tax assets deriving from losses that can be carried forward for tax purposes are also recognised if the conditions of reasonable certainty of obtaining taxable income that will be able to absorb the losses carried forward and the losses in question derive from well-identified circumstances and it is reasonably certain that these circumstances will not be repeated.

Payables

Payables are stated at their nominal value, modified in the event of returns or invoicing adjustments. This measurement approximates the fair value in an appropriate manner.

The bond payable is recognised on the basis of the amounts collected, net of the transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

Derivative contracts

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

Share capital

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

Reserve for first-time adoption of IAS/IFRS

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

Other equity reserves

Among other things, the item includes the cash flow hedge reserve, where changes in the fair value of hedging derivatives are recognised directly in equity net of the related taxes.
It also includes the employee severance indemnity discounting reserve, where the effects of changes in the employee severance indemnity provision of employees of the Italian companies of the Group are accounted for, as resulting from the actuarial analysis carried out by professionals enrolled in the professional register to which the data in question are subjected on an annual basis.

Revenues, income, costs and charges

Revenues and income, costs and charges, including all taxes and duties not charged to income, are recorded in the financial statements net of returns, discounts, allowances and premiums, as well as taxes directly related to the sale of products and the provision of services.
The revenues deriving from the sale of goods are recognised at the time of transfer of ownership, which generally coincides with the time of delivery or shipment, unless the delivery terms are such as to cause significant risks and benefits to pass to the purchasing counterparty at a later time than the aforementioned delivery or shipment of the good, in which case, on the basis of the average delivery time, the sales revenues and the related costs are deferred to the following year.
Revenues from the provision of services are considered to have been achieved on the date on which the services are completed. Revenues of a financial nature and those deriving from the provision of continuous services are recognised on an accrual basis.
Costs are recognised on an accrual basis.

Income taxes

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

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

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

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

Deferred tax assets are recognised only if it is probable that sufficient taxable income will be generated in subsequent years for the realisation of these assets.

Income taxes relating to previous years include charges and income recognised in the year for income taxes relating to previous years.

Receivables and payables in foreign currency and liquid funds in foreign currency at the end of the accounting period are stated in the financial statements at the exchange rate in force on the date of the financial statements.

Profits and losses deriving from the translation of individual receivables and payables and of liquid funds in foreign currency, at the exchange rate in force on the date of the financial statements, are credited and debited respectively to the income statement as financial income components. If a net profit emerges from their conversion at the exchange rate in force at the end of the year, when the financial statements are approved, this net profit is recorded in a non-distributable reserve for the part not absorbed by any loss for the year.

ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires the directors to apply accounting standards and methods which, in certain circumstances, are based on difficult and

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

- Non-current assets: the Group periodically reviews the carrying amount of property, plant and equipment, intangible assets, investments in joint ventures and associates and other non-current assets, when facts and circumstances require such revision in order to determine their recoverable value. The recoverability analysis of the book value is generally carried out using estimates of expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value. When the book value of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the book value of the asset and its recoverable value through the use or sale of the same, determined with reference the cash flows inherent in the most recent business plans.
- Deferred tax assets: the Group has deferred tax assets on deductible temporary differences and theoretical tax benefits for losses carried forward that are recognises to the extent that it is probable that future taxable income will be available against which they can be recovered. The valuation of the recoverability of deferred tax assets, recognised in relation to both tax losses usable in subsequent years and deductible temporary differences, takes into account the estimate of future taxable income and is based on prudent tax planning.

- Provision for inventory obsolescence: reflects the Company management's estimate of expected impairment losses in relation to inventories, determined on the basis of past experience. Any anomalous trends in market prices could have repercussions in future inventory write-downs.
- Bad debt provision: the recoverability of receivables is measured taking into account the risk of non-collectability, their age and losses on receivables recognised in the past for similar types of receivables.
- Employee-related provisions: provisions for employee benefits and net financial charges are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial methodology considers financial parameters such as, for example, the discount rate and the growth rates of wages and considers the probability of occurrence of potential future events through the use of demographic parameters such as, for example, employee mortality rates and resignation or retirement rates.
- Contingent liabilities: the Group ascertains a liability for pending disputes and lawsuits when it deems it probable that a financial outlay will occur and when the amount of the resulting losses can be reasonably estimated. In the event that a financial outlay becomes possible but the amount cannot be determined, this fact is reported in the explanatory notes to the financial statements. The lawsuits may concern complex legal and tax issues, subject to a different degree of uncertainty against which it is possible that the value of the provisions may change as a result of future developments in the ongoing proceedings. The Group monitors the status of pending cases and consults with its legal advisors and experts.
- Depreciation/amortisation: changes in the economic conditions of the markets, in technology and in the competitive scenario could significantly affect the useful life of property, plant and equipment and of intangible assets and could result in a difference in the timing of the amortisation process, as well as on the amount of depreciation/amortisation costs.
- Income taxes: determined in each country in which the Group operates according to a prudent interpretation of current tax regulations. This sometimes involves complex estimates in determining the taxable income and the deductible and taxable temporary differences between the carrying amounts and taxable amounts.

SEGMENT REPORTING

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

EUROPE

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

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

AMERICA

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

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

ASIA

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

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

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

The following tables present the data on revenues and on certain balance sheet items relating to the Group’s business segments for the years 2019-2020 and 2018-2019.

	2019/20			2018/19		
	EUROPE	AMERICA	ASIA	EUROPE	AMERICA	ASIA
Revenues	66.521.596	42.706.375	20.965.805	69.505.718	38.951.446	22.180.075
Current assets	32.176.801	16.951.348	12.166.599	26.792.805	16.654.772	11.218.854
Non-current assets	39.192.384	21.630.448	7.410.707	32.401.739	21.271.662	8.115.580
Current liabilities	26.756.714	17.926.979	5.530.045	30.614.354	16.801.062	6.552.168
Non-current liabilities	37.205.006	4.442.603	57.680	21.260.641	5.973.214	58.443

DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2020, the parent company Selle Royal S.p.A. holds a derivative financial instrument, subscribed with a leading Italian credit institution, for the purpose of hedging against interest rate volatility (known as the so-called “IRS”).

This derivative financial instrument is found to be a hedge from the effectiveness test conducted and, as a result, the effects relating to the change in its value were reflected in a specific equity reserve (so-called "cash flow hedge reserve").

RISK MANAGEMENT

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

TRANSACTIONS with RELATED PARTIES

The main transactions with related parties are described below:

- Dec. 28, 1928 Holding S.p.A.: parent company of Selle Royal S.p.A., receives emoluments as a member of the Board of Directors of Selle Royal S.p.A.; in addition, the payable balances for IRES of the Italian companies of the Group that participated in the tax consolidation, for which Dec28, 1928 Holding S.p.A. is the parent company, are transferred to it.
- Dec. 28, 1928 Real Estate S.r.l.: the parent company Selle Royal S.p.A., by virtue of a lease contract signed in June 2013 and with a duration of 8 years, manages the property leased from Dec. 28, 1928 Real Estate S.r.l. in which the production and sales activities of Selle Royal S.p.A. and the other Italian companies of the Group are carried out. The consideration for the lease is determined as a fixed amount and provides for an adjustment, to be determined each year on the basis of financial parameters. Dec. 28, 1928 Real Estate S.r.l. is also the lessor of an office space where the secondary office of Selle Royal SpA is located.

The amounts shown as current and non-current liabilities, with counterparty Dec. 28, 1928 Real Estate S.r.l., refer to the residual payables at the balance sheet date for future lease payments on the aforementioned properties and recorded in accordance with the provisions of IFRS 16.

The economic and financial relations held during the 2019-2020 financial year are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE C.	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Dec. 28, 1928 Holding S.p.A.	80.000	-	29.403	-
Dec. 28, 1928 Real Estate S.r.l.	-	625.200	833.290	6.374.942
Directors	525.000	-	-	-
TOTAL RELATED PARTIES	**605.000**	**625.200**	**862.693**	**6.374.942**

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

CASH AND CASH EQUIVALENTS

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

The balance as at 30 June 2020, equal to € 20,888,905 (of which € 7,689,409 in the financial statements of Selle Royal S.p.A., € 5,892,684 in Selle Royal China, and € 2,861,077 in BROOKS England, the latter two with a positive net financial position), is up compared to the previous year due to the trend in collections, as well as a temporary excess of liquidity.

As at 30 June 2020 and 2019, there are no restrictions or limitations on the use of the Group's cash and cash equivalents.

TRADE RECEIVABLES

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

	30/06/2020	**30/06/2019**	***Change***
Trade receivables	16.526.874	16.689.301	(162.426)
Bad debt provision	(816.788)	(831.601)	14.813
TRADE RECEIVABLES, net	**15.710.086**	**15.857.700**	**(147.614)**

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 S.p.A. transferred receivables from certain customers, primarily domestic, through a non-*recourse* factoring transaction, to a leading bank for € 1,540,317; the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd. completed a similar transaction for a value of € 673,353. During the previous year, the cumulative value of the assignments of receivables without recourse made by the same companies was equal to € 2,633,131.

INVENTORIES

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

	30/06/2020	**30/06/2019**	***Change***
Raw materials, supplies and consumables	8.796.944	8.140.728	656.216
Work in progress and semi-finished products	3.642.547	3.968.316	(325.769)
Finished products and goods	11.387.371	14.179.402	(2.792.030)
Goods in transit	1.381.164	1.544.969	(163.806)
Gross inventories	**25.208.026**	**27.833.415**	**(2.625.388)**
Provision for obsolescence	(2.522.944)	(2.516.760)	(6.184)
Provision for unrealised intra-Group margin	(940.646)	(2.086.238)	1.145.593
INVENTORIES	**21.744.437**	**23.230.417**	**(1.485.980)**

The decrease in this item is mainly attributable to the category of finished products, whose inventories were down drastically compared to 30 June 2019, especially due to the sudden recovery in global demand for cycling-related products, as already highlighted above.

TAX RECEIVABLES

Tax receivables decreased compared to the balance as at 30 June 2019, as detailed below:

	30/06/2020	**30/06/2019**	***Change***
Current tax receivables:			
For direct taxes	1.000.050	761.817	238.232
For indirect taxes	218.150	529.117	(310.967)
For other withholdings	192.518	186.788	5.730
Subtotal current taxes	1.410.717	1.477.722	(67.005)
Current deferred tax assets	394.966	761.703	(366.737)
TOTAL TAX RECEIVABLES	**1.805.683**	**2.239.425**	**(433.742)**

The increase in direct tax receivables mainly refers to receivables recorded by some Group companies for invention and research activities, as well as the net balance of IRAP receivables recorded by the parent company.

The decrease in receivables for indirect taxes is mainly due to the lower balance present in almost all the financial statements of the Group companies due to the increased sales in the last two months of the year.

Deferred tax assets were recognised by taking into account that there is a reasonable certainty that positive results will be achieved in future years to allow the use of deferred tax assets allocated to assets. The decrease is essentially due to the tax effect on the adjustment of the provision for the intra-Group margin not realised at the reporting date.

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

OTHER CURRENT ASSETS

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

	30/06/2020	30/06/2019	*Change*
Advance costs	52.945	347.900	(294.955)
IRAP refund application	30.538	535.809	(505.271)
Accrued income and prepaid expenses	675.071	684.161	(9.090)
Sundry receivables	387.082	661.255	(274.173)
TOTAL CURRENT ASSETS	**1.145.637**	**2.229.125**	**(1.083.488)**

The decrease in this item is attributable to: lower costs advanced for the cancellation of promotional events usually held at the end of the financial year and relating to the presentation and promotion of product ranges on sale in the following financial year; the same item also decreased due to the fact that costs were not incurred for participation in industry trade fairs and shows typically planned for the first few months of the following tax year but cancelled due to the health emergency. The decrease in the item “IRAP refund application” is due to the actual collection, during the year, of a large portion of the outstanding balance.

NON-CURRENT ASSETS

INTANGIBLE ASSETS

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

	Balance as at 30 June 2019	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2020
Research and development costs	70.984	-	-	-	(70.645)	104	443
Industrial patent rights and intellectual property rights	2.200.309	349.061	-	33.829	(635.298)	19.995	1.967.896
Concessions, licenses, trademarks and similar rights	19.356.590	367.781	-	401.781	(511.181)	(12.037)	19.602.934
Others	94.410	41.212	-	-	(63.359)	(632)	71.631
Fixed assets in progress and payments on account	654.644	162.068	-	(435.611)	-	10.082	391.183
Total intangible assets	**22.376.937**	**920.122**	**-**	**(0)**	**(1.280.484)**	**17.512**	**22.034.087**

The item “Research and development costs” refers to the capitalisation of costs incurred for the implementation and realisation of new projects. The above-mentioned costs were almost fully amortised during the year. The item “Industrial patent rights” mainly includes the corresponding item recorded in the financial statements of the subsidiary Crank Brothers, Inc. at the time of the acquisition of the same company by Selle Royal S.p.A.; the value was also tested on the basis of valuations issued by independent experts who also indicated the useful life on which to calculate the depreciation; higher values are recorded in the financial statements of Crank Brothers Inc. for a total of USD 7,694,000, allocated for USD 4,780,500 to the item “Industrial patent rights”, amortised over 15 years. The residual portion was recorded under “Goodwill”, as shown below.

The item “Concessions, licenses, trademarks and similar rights” refers to the value of the trademark portfolio held by the Group companies, for a value of € 18.363.391; the remainder relates to the concession rights of the land on which the Selle Royal China plant stands and to licenses and costs for the implementation of non-proprietary management software.

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

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

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

TANGIBLE FIXED ASSETS

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

	Balance as at 30 June 2019	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2020
Land and buildings	9.443.244	400.535	(7.340)	958	(911.180)	(383.941)	8.542.276
Right of use of leased assets	-	9.347.160	-	-	(1.284.517)	(10.582)	8.052.061
Plant and machinery	9.613.477	935.612	(38.873)	-	(1.064.014)	(1.506.831)	7.939.371
Industrial and commercial equipment	4.145.723	2.274.837	-	508.785	(2.193.620)	(213.513)	4.522.212
Other assets	1.274.601	338.622	(20.220)	(4)	(499.751)	(37.146)	1.056.102
Fixed assets in progress and payments on account	917.624	792.906	-	(509.739)	-	(11.453)	1.189.338
Total tangible assets	**25.394.668**	**14.089.673**	**(66.433)**	**0**	**(5.953.083)**	**(2.163.466)**	**31.301.359**

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

The 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 SpA and the offices of Crank Brothers Inc. (both in Laguna Beach, USA and in Taichung, Taiwan) and of SR56 Inc. (in Ogden, USA).

The increases in other items, and in particular "plant and machinery", "industrial and commercial equipment" and "work in progress and advances" mainly refer to investments of an industrial nature, made mainly by the parent company and the production subsidiaries. The reclassification from the item "work in progress and advances" to the item "industrial and commercial equipment", amounting to € 508,785, refers to the successful completion of development processes, including multi-year, of new products during the year in question.

EQUITY INVESTMENTS

The balance reflects the cost incurred for the acquisition of equity investments in companies not consolidated on a line-by-line basis and relates, for € 2,026,423, to the equity investment in Highway Two Llc., with registered office in Olney (USA) and share capital of USD 241,648, over which indirect joint control of 50% is exercised. This investment is measured using the equity method. The residual amount of € 12,446 relates to minority interests held by Selle Royal S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 11,723).

GOODWILL

This item had a balance at the reporting date of € 10,470,259.

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 an impairment test. The analysis carried out by comparing the value of the goodwill recorded in the financial statements and the present value of the cash flows that it is reasonably expected will be generated by the three companies justifies the values represented.

DEFERRED TAX ASSETS

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

	30/06/2020		30/06/2019	
	TEMPORARY DIFFERENCES	**TAX EFFECT**	**TEMPORARY DIFFERENCES**	**TAX EFFECT**
Current deferred tax assets:				
Estimate of customer bonuses	9.649	2.692	46.361	12.935
Accrued leave for employees	89.286	29.511	106.985	30.854
Bad debt provision	114.217	24.792	289.432	66.978
Unrealised margin on intra-Group sales	1.026.693	259.169	2.115.033	529.593
Tangible assets	439.904	74.784	673.223	114.448
Other temporary differences	20.092	4.018	34.473	6.895
Subtotal current deferred tax assets	**1.699.841**	**394.966**	**3.265.506**	**761.703**
Non-current deferred tax assets:				
Allocation to agents' provision	115.730	32.289	115.372	32.189
Provision for write-down of finished products	1.354.725	341.741	1.293.693	319.247
Intangible assets	-	-	58.997	16.460
Tangible assets	693.170	141.040	1.241.470	251.564
Prior tax losses - Federal taxes	2.401.547	504.325	1.382.652	290.357
Prior tax losses - State taxes	1.979.614	255.042	1.280.055	179.890
Other temporary differences	23.000	5.520	23.000	5.520
Subtotal non-current deferred tax assets	**6.567.786**	**1.279.955**	**5.395.238**	**1.095.227**
TOTAL DEFERRED TAX ASSETS	**8.267.627**	**1.674.921**	**8.660.745**	**1.856.930**

The change in the current portion of deferred tax assets is mainly related to the decrease in the value of taxes allocated on the unrealised margin in intra-group transactions following a decrease in the provision itself.

The increase in non-current deferred tax assets allocated against previous tax losses is attributable to the negative result achieved by the subsidiary Selle Royal USA, Inc.

FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 427,050, 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.

OTHER NON-CURRENT ASSETS

This item, amounting to € 681,961, mainly relates to security deposits relating to lease contracts of Selle Royal S.p.A., Crank Brothers, Inc. and SR56, Inc.

CURRENT LIABILITIES

TRADE PAYABLES

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

The balance amounts to € 13,242,049, up compared to the previous year due to a different timing of purchases, which led to a decrease in the balance at the reporting date. This performance is reflected in the trend in inventories discussed above.

TAX PAYABLES

The item in question is detailed below:

	30/06/2020	**30/06/2019**	***Change***
Direct taxes	344.136	41.761	302.375
Indirect taxes	1.037.259	1.371.000	(333.740)
Local taxes	45.104	38.471	6.633
Withholding taxes on employees and others	586.193	477.566	108.627
TOTAL TAX PAYABLES	**2.012.693**	**1.928.798**	**83.895**

The balance is substantially unchanged compared to the previous year, with a different trend between the higher payables for direct taxes (as a result of the profits recorded in some companies) and various withholdings and the marked decrease in the balance of indirect taxes.

SHORT-TERM LOANS

The balance of the item in question, as at 30 June 2020, amounting to € 27,400,685, a modest increase compared to the previous year, expresses the actual payable for principal, interest and accessory charges accrued and payable and includes both credit lines whose duration does not exceed 12 months and the current portion of the medium/long-term loans.

CURRENT LIABILITIES FOR LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due by 30 June 2021.

OTHER CURRENT LIABILITIES

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

	30/06/2020	**30/06/2019**	***Change***
Payables to employees	4.786.093	4.849.113	(63.020)
Payables to social security institutions	632.742	615.214	17.528
Payables to sales agents	202.962	226.048	(23.086)
Payables for tax consolidation	136.761	212.753	(75.992)
Accrued expenses and deferred income	24.365	433.480	(409.115)
Sundry payables	636.232	2.744.800	(2.108.568)
TOTAL CURRENT LIABILITIES	**6.419.156**	**9.081.409**	**(2.662.253)**

The decrease in the balance is mainly linked to the payment, during the year in question, of the payables as at 30 June 2019 relating to the purchase of the remaining shares in Royal Ciclo and BROOKS England Ltd.

NON-CURRENT LIABILITIES

PROVISIONS FOR EMPLOYEES

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

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

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

- annual probability of request for severance pay advances: this was assumed to be 3.0%, based on the historical trend of this parameter within the company;
- annual discount rate: this was assumed to be 0,30% 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%;
- annual inflation rate: estimated at 1.20% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2019	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 30 June 2020
Provisions for employees	2.039.763	81.760	(160.700)	13.503	4.950	(6.372)	1.972.904
TOTAL	**2.039.763**	**81.760**	**(160.700)**	**13.503**	**4.950**	**(6.372)**	**1.972.904**

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	1,724,312
-1% on the turnover rate	1,756,210
+1/4% on the annual inflation rate	1,762,542
-1/4% on the annual inflation rate	1,716,783
+1/4% on the annual discount rate	1,703,061
-1/4% on the annual discount rate	1,777,168

OBLIGATIONS

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

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

MEDIUM-LONG-TERM LOANS

This item, amounting to € 18,924,839, up by € 7,302,149 compared to the same period of the previous year, relates to the portion falling due beyond the next year of medium/long-term loans (mainly unsecured loans) taken out, for the most part by the parent company Selle Royal S.p.A. with leading credit institutions. The increase in the balance is essentially attributable to the signing of an unsecured mortgage backed by a SACE guarantee, according to the methods and terms set forth in the emergency decrees issued by the Italian government to boost companies' liquidity.

PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2019	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 30 June 2020
Provision for supplementary customer indemnities	54.116	16.791	(11.164)	6.606	66.349
Provision for payment of foreign agents	115.372	17.138	(16.780)	-	115.730
End of mandate indemnity	332.250	23.000	-	-	355.250
Other provisions for risks	2.616.446	-	-	-	2.616.446
TOTAL	**3.118.183**	**56.929**	**(27.944)**	**6.606**	**3.153.774**

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

DEFERRED TAXES

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

	30/06/2020		30/06/2019	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Intangible assets	734.448	254.486	1.002.755	299.322
Tangible assets	2.299.990	683.614	2.119.029	683.468
TOTAL DEFERRED TAXES	**3.034.438**	**938.100**	**3.121.784**	**982.791**

NON-CURRENT FINANCIAL LIABILITIES AT FAIR VALUE

This item, amounting to € 5,288, relates to the market value of a hedging derivative instrument with respect to the risk of fluctuations in interest rates (“IRS”) subscribed by Selle Royal S.p.A. in June 2017 as collateral to the taking out a multi-year floating rate loan maturing in May 2022.

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

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 05/06/2017;

Notional value: € 2,000,000;

Liability hedged: medium-term loan;

Initial date: 05/06/2017;

End date: 31/05/2022;

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

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

Periodic expiry date: quarterly.

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

SHAREHOLDERS' EQUITY

The share capital is composed as follows:

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

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

	30 June 2020		30 June 2019	
	Shareholders' equ	**Profit for the year**	**Shareholders' equ**	**Group result for the yea**
Selle Royal S.p.A. as per the financial statements	26.453.650	(975.783)	27.627.654	967.387
Difference between book value and pro-rata value shareholders' equity of consolidated companies	10.604.405	-	8.554.066	-
Pro-rata results achieved by consolidated subsidiaries	-	2.784.853	-	64.194
Application of financial methodology for leased assets	24.152	(57)	24.209	(11.446)
Elimination of intercompany profits included in inventories	(705.483)	859.195	(1.564.678)	(372.647)
Other consolidation differences	(3.644.954)	(85.850)	(3.850.561)	(128.789)
Shareholders 'equity and profit for the year pertaining to the Group	**32.731.770**	**2.582.357**	**30.790.690**	**518.699**
Shareholders' equity and profit for the year attributable to non-controlling interests	4.877.490	1.040.347	4.404.839	432.948
Shareholders' equity and profit for the year as reported in the consolidated financial statements	**37.609.260**	**3.622.704**	**35.195.529**	**951.647**

ANALYSIS and COMPOSITION of the INCOME STATEMENT

REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to € 130.193.776 and were generated by the sale of saddles, pedals and other accessories, and by the provision of services. The breakdown of revenues from sales and services by business category is shown in the following table:

	30 June 2020	**30 June 2019**	***Change***
Revenues from sales of saddles	71.931.825	75.425.119	(3.493.294)
Revenues from the sale of accessory components	51.155.112	49.785.169	1.369.943
Revenues from sale of pedals	14.624.345	12.603.792	2.020.552
Revenues from the sale of sundry materials	1.491.703	1.485.310	6.393
Revenue from services	140.079	168.875	(28.796)
Total gross revenues	**139.343.064**	**139.468.265**	**(125.201)**
Unconditional discounts	(5.357.110)	(4.364.946)	(992.164)
Returns	(938.348)	(956.239)	17.891
Price changes and others	(39.514)	(67.875)	28.362
Sales tax	(2.559.973)	(3.040.255)	480.282
Year-end bonus	(254.343)	(401.710)	147.367
Total revenue from sales	**130.193.776**	**130.637.239**	**(443.463)**

COST OF SALES

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

	30 June 2020	**30 June 2019**	***Change***
Purchase of raw materials	56.890.727	55.328.323	1.562.405
Ancillary charges on RM purchases	2.505.751	1.493.816	1.011.935
Outsourcing	4.284.231	4.552.845	(268.614)
Labour	14.545.183	15.666.487	(1.121.304)
Change in inventories	(2.694.991)	(24.317)	(2.670.674)
Total cost of sales	**75.530.901**	**77.017.154**	**(1.486.253)**

INDUSTRIAL COSTS

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

	30 June 2020	30 June 2019	*Change*
Electricity	1.130.020	1.157.387	(27.367)
Consumables	1.086.692	1.595.246	(508.555)
Minor equipment	437.145	413.789	23.356
Maintenance	452.558	576.878	(124.320)
Rents	109.107	1.155.989	(1.046.882)
Research and development costs	284.978	287.676	(2.698)
Other industrial costs	686.436	644.128	42.308
Total industrial costs	**4.186.936**	**5.831.094**	**(1.644.158)**

COMMERCIAL AND PROMOTION COSTS

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

	30 June 2020	30 June 2019	*Change*
Commercial and advertising costs	4.782.399	5.098.389	(315.990)
Transports on sales	3.235.134	3.090.435	144.699
Commissions	1.815.424	1.604.840	210.584
Royalties	50.302	37.442	12.860
Gifts	517.611	476.387	41.225
Other commercial and promotion costs	246.198	322.341	(76.143)
Total sales and promotion costs	**10.647.069**	**10.629.833**	**17.236**

COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to €14.114.295 for the year in question, includes the cost of the clerical and managerial structures of the various Group companies.

GENERAL and ADMINISTRATIVE COSTS

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

	30 June 2020	30 June 2019	*Change*
Consulting	3.603.706	2.885.351	718.355
Travel expenses	978.157	1.563.226	(585.070)
Board of Directors' emoluments	645.088	647.666	(2.578)
Board of Statutory Auditors' emoluments	62.618	60.362	2.256
Utilities	326.429	314.336	12.092
Entertainment and hospitality expenses	194.100	286.616	(92.516)
Motor vehicles	452.178	450.568	1.609
Fees and IT support	760.397	723.910	36.487
Insurance	853.975	845.628	8.347
Rents	350.893	666.356	(315.463)
Bank charges	408.596	-	408.596
Other general and administrative costs	2.102.613	2.077.362	25.251
Total general and administrative costs	**10.738.749**	**10.521.383**	**217.366**

OTHER OPERATING INCOME and EXPENSES

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

	30 June 2020	30 June 2019	*Change*
Operating income:			
Minor independent works	418.315	202.294	216.021
Repayments and sundry income	154.682	210.421	(55.739)
Capital gains	4.314	6.041	(1.728)
Contingent assets and other income	434.907	313.536	121.371
Royalty income	66	49	17
Research & development	407.201	259.508	147.693
Total operating income	1.419.485	991.849	427.636
Operating expenses:			
Provisions for obsolescence	(130.006)	(235.753)	105.746
Allocation to provision for credit risks	(58.488)	(195.180)	136.692
Losses on receivables	(135.143)	(20.617)	(114.526)
Capital losses	(2.371)	(25.797)	23.426
Contingent liabilities and other charges	(134.609)	(250.669)	116.060
Total operating expenses	(460.618)	(728.016)	267.398
TOTAL OPERATING INCOME/(EXPENSES)	**958.868**	**263.833**	**695.034**

The net balance of this item was positive by € 958,868, up compared to the previous year. The change is explained by the presence of a higher value of minor, independent works for the internal development of a new line of products. An increase was also recorded in tax concessions relating to expenses incurred for research & development activities carried out by Selle Royal S.p.A. and some US subsidiaries.

OTHER FINANCIAL INCOME and EXPENSES

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

	30 June 2020	**30 June 2019**	***Change***
Financial income:			
Bank and postal interest	56.561	31.671	24.890
Dividends	480	4.421	(3.941)
Other financial income	73.130	28.270	44.860
Total financial income	130.171	64.361	65.810
Financial charges:			
Interest on bonds	(632.899)	(693.737)	60.838
Interest expense	(1.577.081)	(1.856.424)	279.342
Interest cost provision for employee severance indemnity	(13.503)	(25.167)	11.664
Discounts	(483.590)	(548.984)	65.394
Fees on loans	(285.365)	(623.050)	337.685
Other financial charges	(223.601)	-	(223.601)
Total financial charges	(3.216.039)	(3.747.362)	531.323
Net exchange rate differences	(415.903)	43.180	(459.083)
TOTAL FINANCIAL INCOME/(EXPENSES)	**(3.501.771)**	**(3.639.820)**	**138.049**

This item, negative for € 3,501,771, was affected by various phenomena: the drop in interest expense to service the debt subscribed by some Group companies; the recognition of financial charges of € 223,601 related to the adoption of IFRS 16, as well as a more accurate presentation of bank commissions, currently attributed to financial charges for the portion relating to the accessory costs to the subscription and/or repayment of loans with the remainder allocated to general and administrative costs.

By contrast, the impact of the net exchange rate differences was considerably worse, which, overall, were negative in the year in question for € -415,903 (compared to a positive balance of € 43,180 in the previous year). This item includes both exchange gains and losses realised as at 30 June 2020, and latent exchange gains and losses as at the same date deriving from the alignment of foreign currency balances with the current exchange rates at the end of the year, in addition to exchange differences resulting from the elimination of the intragroup items.

TAXES FOR THE YEAR

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

	30 June 2020	**30 June 2019**	***Change***
Current taxes	1.634.783	1.297.532	337.251
Deferred tax (assets)/liabilities	(58.132)	(264.683)	206.551
TOTAL TAXES FOR THE YEAR	**1.576.652**	**1.032.849**	**543.802**

The increase in current taxes is attributable to the better results achieved by some Group Companies. The decrease in the balance relating to deferred tax assets, as already mentioned above, is mainly due to the trend in the provision for the intra-Group margin not realised at the reporting date.

These consolidated financial statements, consisting of the Balance Sheet, the Income Statement and the Explanatory Notes, provide a true and fair view of the equity and financial position as well as the economic result for the year ended 30 June 2020 and correspond to the results of the accounting records.

* * *

Pozzoleone (VI), 18 November 2020
The Chairman of the Board of Directors
(Barbara Bigolin)

Selle Royal S.p.A.

Independent Auditors’ Report

Consolidated Financial Statements as at 30 June 2020

Tel: +39 02582010 Viale Abruzzi, 94
www.bdo.it 20131, Milan

Independent Auditors' Report

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

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Selle Royal S.p.A. Group (the Group), comprising the consolidated statement of financial position as at 30 June 2020, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders' equity, the consolidated cash flow statement for the year ending on that date and the explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as at 30 June 2020, and of its economic result and cash flows for the year ended as at said date, in compliance with the International Financial Reporting Standards adopted by the European Union.

Elements forming the basis of our opinion

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory provisions

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

The Directors of Selle Royal S.p.A. are responsible for the preparation of the report on operations of the Selle Royal S.p.A. Group as at 30 June 2020, including its consistency with the relevant consolidated financial statements and its compliance with the legal provisions.

We carried out the procedures set out in accounting standard (SA Italy) no. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Selle Royal S.p.A. Group as at 30 June 2020and on its compliance with the legal provisions, as well as issuing a declaration on any material errors.

In our opinion, the report on operations referred to above is consistent with the consolidated financial statements of the Selle Royal S.p.A. Group as at 30 June 2020 and is drafted in compliance with the legal provisions.

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

Milan, 30 November 2020
BDO Italia S.p.A.
Carlo Consonni
Shareholder
[signature]