Selle Royal

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
Vat no. 01577350240
Rea 153541

CONTENTS

REPORT ON OPERATIONS

Significant events during the year 4

The Selle Royal Group and the Coronavirus-19 pandemic 9

Economic performance 10

Statement of financial position 11

Derivative financial instruments 14

Investments 14

Data on treasury shares and any equity investments in the parent company 14

Risk analysis 15

Significant events after the end of the year 18

Business outlook 19

Relations with parent companies, affiliates and related parties 19

Environment, personnel and sector regulations 19

Conclusions and proposals 20

FINANCIAL STATEMENTS

Consolidated income statement 21

Consolidated statement of comprehensive income 22

Consolidated balance sheet 23

Statement of changes in shareholders' equity 25

Consolidated cash flow statement prepared using the indirect method 26

EXPLANATORY NOTES

Introduction	27
Accounting standards, amendments and mandatory interpretations adopted by the Group	28
Accounting standards, amendments and interpretations not yet applicable and not adopted	31
IFRS standards and interpretations adopted by the IASB and not endorsed in Europe	32
2018-2020 annual improvements	35
Financial statement formats and classification criteria	36
Activities of Group companies	37
Significant events during the year	39
General preparation criteria and consolidation principles	39
Measurement criteria	43
Estimates and assumptions	55
Segment reporting	58
Derivative financial instruments	59
Risk management	60
Transactions with related parties	60
Analysis and composition of the income statement	52
Analysis and composition of the balance sheet	68
Independent auditors 'report	

MANAGEMENT REPORT

Dear Shareholders,

the year ending 30 June 2021 reported a consolidated profit of € 18,539,926, of which € 14,917,555 pertaining to the Group.

SIGNIFICANT EVENTS OCCURRING DURING THE YEAR

During the year in question, the decisive recovery *trend* of the sector to which the Group belongs was consolidated and strengthened. As already pointed out in the financial statements for the previous fiscal year, after the initial *shock* in demand that affected the entire world last spring following the spread of the Covid-19 pandemic, and the consequent severe restrictions adopted in the main end markets of the Group, there has been rapid and robust growth in demand for bicycles and accessories at global level. This trend is justified by three main factors: growing ecological awareness; the need to identify alternative means to public transport to maintain the necessary social distancing, particularly in urban centres; the renewed *appeal* of cycling, in its most varied forms, as a tool for *fitness* and well-being, also in light of the limitations suffered by other sports-recreational activities.

Another very important aspect that characterised the year in question was the "*boom*" in the *business-to-consumer*channel. The restrictions on movement have inevitably led to an increase in purchases via*e-commerce*portals, both general and specific (the latter, both for the sector and for individual *brands*). In the case of the Selle Royal Group, the communication and promotion activities with the end consumer as a reference undertaken in recent years and the digital investments made have allowed the Group's brands to strengthen their market *leadership* in the segments covered.

The year in question was also characterised not only by the persistence of the pandemic emergency, but by two global phenomena that also posed great challenges for the cycling sector and for the Selle Royal Group: the shortage of raw materials and the increase in their cost, on the one hand, and the congestion of global logistics flows on the other.

As for the former, the Group's production in Italy and Brazil was impacted by the scarcity of raw materials (plastics, chemicals and ferrous materials in particular); in the case of the Royal Ciclo plant, it was even necessary to reduce the number of work shifts during the spring with temporary closures due to the impossibility of procuring the materials to be transformed; at the Selle Royal SpA plant, the phenomenon was less disruptive, thanks to some targeted

activities that made it possible to qualify new suppliers and materials, limiting operational criticalities. On the other hand, the production plants of the entire Group had to contend with a rapid increase in procurement costs, also due to some major impromptu phenomena (just to mention the main ones, the prolonged closure of large European chemical plants due to force majeure; severe weather conditions in the Gulf of Mexico in late winter / early spring that temporarily blocked the extraction of oil and natural gas; the Suez Canal crisis, with the blocking of the transit of container ships and oil tankers). To cite some data, the cost of polypropylene in Italy increased from around € 1,000 per tonne at the end of 2020 to around € 2,000 starting from March 2021 (source: ChemOrbis); the cost of PVC, in the twelve months covered by these financial statements, increased from around € 750 / ton to over € 1,500 / ton (source: ChemOrbis), just to mention two categories of fundamental materials in the production of saddles.
As for the second phenomenon mentioned above, the unexpected and rapid economic recovery of some major world economies (starting with the USA and China) has severely impacted global logistics, already severely tested by the effects of the pandemic. The congestion of the main global ports, both in Europe and in the USA, followed by the blocking of transit through the Suez Canal and the resurgence of CoViD-19 outbreaks in some areas of the Far East (Vietnam and Cambodia in partial *lock-down*; significant reduction in activities in the Chinese port of Yantian in late spring) reduced the daily availability of containers (expressed in TEUs), which, after the first wave of the pandemic, had risen laboriously to around 19.5 million in September 2020 and dropped to around 17.5 million in June 2021 (source: McKinsey, as cited by ChemOrbis in its Plastics Outlook 2022 *report*).
Some comments on the main markets in which the Group operates are provided below:

EUROPE

"If they had told me a year ago that I could have reserved Rue de Rivoli for bicycles, I would not have believed it".

- Anne Hidalgo - Mayor of Paris and candidate in the presidential elections

Despite being one of the European capitals with the most extensive and widespread metropolitan transport network, Paris is also known for its often congested traffic, even in the central *boulevards*; Rue de Rivoli, which, running parallel to the Seine, runs alongside the *Musée*

du Louvre and the *jardins de les Tuileries*, was no exception, at least before the first town made an ecological turnaround. The phrase quoted at the beginning therefore encapsulates the strength of a change epitomised by the French capital, but is certainly not unique on the European continent.

Other signs of this shift in paradigm, which is cultural before it is still tangible, are coming from a sector apparently some way off that of the cycle, namely that of finance: the assets of ESG funds (Environmental, Social and Governance), which have as their*benchmark* the 17 United Nations Sustainable Development Goals, increased in the last year from € 28.6 billion to € 80.8 billion (source: Assogestioni, as cited by Wall Street Italia, 11 May 2021).

Despite the critical issues highlighted above, 2020 was a *record* year for the cycle sector: according to what was reported by CONEBI (Confederation of the European Bicycle Industry) in its Market Profile Report, a total of 22 million bicycles were sold for a value. total market of € 18.3 billion (relating to EU 27 countries and the United Kingdom). Of these, € 10.6 billion (+52% compared to 2019) relate to sales of *e-bikes,* which now make up a substantial share of the market in all the main European countries: Germany: 38.7% in terms of volumes (source: ZIV); France: 56% in value (source: French Bicycle Observatory); Italy: 14% in volumes, but up by +44% compared to 2019 (source: ANCMA); Spain: 14% in volumes and 42% in value (source: AMBE). Even more astonishing is the figure for the Netherlands, a country that has been historically passionate about cycling, in relation to which market research estimates that the volume of e-bikes doubled in 2020 to over one million cycles sold (source: Multiscope, as cited by Bike) Europe, 2 February 2021).

The "*parts & accessories*" segment, to which the Group belongs, also grew significantly, reaching a value of € 3 billion at continental level.

The cycle sector also testifies to its vitality from a production point of view: again according to CONEBI, in Europe, approximately 155,000 people are employed directly and indirectly in the sector (+30% of jobs created) in over 1,000 companies, many of which are SMEs. Of the 4.5 million e-bikes sold at continental level in 2020, 3.6 million were produced in Europe.

Moreover, local production has made it possible to reduce emissions by over 2 million tonnes of CO_2 (source: CONEBI), a figure that explains the general interest of public opinion and the finance world in the sector. The *decoupling* from geographically distant production operations is a phenomenon that has already been observed for several years (as proof of this, also the development of the so-called *"bike valley"* in Portugal, and the investments made in Europe in 2020: € 1.5 billion, compared to € 1.0 billion in 2019; source: CONEBI) and which is likely to

continue in the years to come, also considering the challenges that the last few months have entailed.

The Selle Royal Group, the main domestic supplier of saddles to European assemblers and a reliable supplier also to their *partners* in the Far East thanks to its site in the People's Republic of China, has certainly contributed to the results achieved by the sector in 2020.

AMERICA

"*The trade pipeline is bursting at the seams*"

- Soren Skou - CEO of Maersk

The remarks uttered in August 2021 by the CEO of Maersk, one of the main global operators in maritime transport, has almost apocalyptic tones: global logistics are collapsing.

The United States is a country that, unlike Europe, relies almost exclusively on the import of bicycles to meet domestic demand (over 96% of the total bicycles sold are imported, while the remainder is produced *locally*). - US Dept. Of Commerce; import statistics as cited in an editorial published on 14 June 2021 in the industry magazine Bicycle Retailer). In the eleven months up to the end of November 2020, the statistics published by the US Department of Commerce (as reported by Bicycle Retailer on 7 January 2021) show an increase bicycle imports (electric and non-electric) equal to 29.4% in terms of volumes and 12.2% in value.

A paradigmatic example of the difficulties that are ravaging the logistics sector is provided by the ports of Los Angeles and Long Beach (both in Southern California): they are responsible for receiving about 50% of total American imports and have been operating for several months with a constant average *back-log* of over 50 container ships waiting to be unloaded. A Sea Intelligence report, contained in the same periodical mentioned above, illustrates how the percentage of reliability in the delivery times of *containers* fell from about 75% in July 2020 to about 40% in March 2021. This figure is a clear reflection of the difficulties that operators in the cycle sector have also encountered in planning their stocks and, likewise, that of the large groups operating in the North American market in fulfilling the orders received.

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, also by taking advantage of the favourable conditions of demand for parts and accessories such as spare parts, also determined by the continuing shortage of new bicycles.

ASIA

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

- Michael Tseng - Chairman of the Taiwan Bicycle Association (2019)

Thanks to its proximity to China and the experience accumulated during previous epidemics (such as the so-called SARS in 2002-04), Taiwan has rigorously and efficiently managed to contain the spread of the SARS-CoV-2 virus, benefitting its economy, the bicycle sector included. Thanks to the traditional openness to Western economies and the *know-how* acquired in recent decades, Taiwan is now a leading hub for the supply of *e-bikes* for Europe and, as reported in the introduction to the paragraph, had long since undergone a transition towards the production of these types of bicycles, whose exports grew by around +20% in 2020 to over 750 thousand units, and by a further +20% in the first five months of 2021, as reported by the local customs authority (source: Bike Europe). In 2020, the European Union was the main destination for local production, with the Netherlands and Germany leading in terms of volumes purchased (the former buying over 300 thousand bicycles and the latter more than 50 thousand).

Following the first wave of the epidemic, China was able to implement effective social and health control measures, minimising full lockdowns; at the same time, the state control of the country's main strategic industries, combined with considerable strategic stocks, meant that the "world's factory" suffered only in part from the shortage or even the absence of raw materials that, on the contrary, affected the economies of many other countries. In a less critical macroeconomic context than elsewhere, it was the shortage of labour that characterised the twelve months covered by these financial statements; this phenomenon is the result of the rapid, and partly unexpected, economic recovery in which China has been the main driver.

The Chinese Bicycle Association (source: Bike Europe) reported growth of 14.2% in the production of traditional bicycles in the first nine months of 2020 (to 32.2 million units), in addition to growth of approximately 1.4% of exports of parts and accessories (for a total value of around € 1.8 billion).

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.

With regard to the corporate structure, the current year saw, on 7 June 2021 to be precise, the

entry into the shareholding structure of the *private equity fund* called Wise Equity V, managed by Wise Equity SGR SpA, with a minority interest equal to 33.3% of the share capital of the parent company Selle Royal SpA. This stake was acquired from the previous sole shareholder Dec. 28, 1928 Holding SpA, which is still the majority shareholder with a stake of 66.7% of the share capital. Therefore, the transaction in question did not entail the issue of new shares by Selle Royal S.p.A..

Furthermore, as already mentioned previously, the Group implemented a number of restructuring operations, in order to simplify the corporate structure and take advantage of operating synergies deriving from a better use of common resources. In this case, during the year ended 30 June 2021, the transactions for the sale of the equity investments and the merger by incorporation of BROOKS England S.r.l. and FIAC S.r.l. into Selle Royal S.p.A. were completed successfully, as well as the merger by incorporation of SR56, Inc. in Crank Brothers, Inc. Lastly, the bodies in charge approved the liquidation of Royal Concept Co., Ltd., which has been inactive as at 30 June 2021. As at the date of approval of this annual report, said liquidation process is under way and it is reasonably expected to be completed by the end of the fiscal year that will end on 30 June 2022.

THE SELLE ROYAL GROUP and the CORONAVIRUS-19 PANDEMIC

As is well known, the fiscal year in question was characterised by the persistence of the emergency status connected to the global CoViD-19 pandemic.

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

ECONOMIC PERFORMANCE

The following table shows the 2020/21 income statement, compared with the figures for the previous year:

	2020/21	*% of revenues*	2019/20	*% of revenues*	*% Change*
Revenues	205,090,143	*100,0%*	130,193,776	*100,0%*	*57,5%*
Cost of sales	117,039,940	*57,1%*	75,530,901	*58,0%*	*55,0%*
GROSS MARGIN	**88,050,203**	***42,9%***	**54,662,875**	***42,0%***	***61,1%***
Operating costs	51,699,182	*25,2%*	38,728,181	*29,7%*	*33,5%*
EBITDA	**36,351,021**	***17,7%***	**15,934,694**	***12,2%***	***n.s.***
Amortisation/depreciation and write-downs of fixed	7,128,778	*3,5%*	7,233,567	*5,6%*	*-1,4%*
EBIT	**29,222,243**	***14,2%***	**8,701,127**	***6,7%***	***n.s.***
Financial income / (charges) and other financial comp	(3,850,941)	*-1,9%*	(3,501,771)	*-2,7%*	*10,0%*
PRE-TAX RESULT	**25,371,302**	***12,4%***	**5,199,356**	***4,0%***	***n.s.***
Taxes for the year	6,831,377	*3,3%*	1,576,652	*1,2%*	*n.s.*
NET INCOME	**18,539,926**	***9,0%***	**3,622,704**	***2,8%***	***n.s.***
Minority interests	3,622,371	*1,8%*	1,040,347	*0,8%*	*n.s.*
NET INCOME PERTAINING TO THE GROUP	**14,917,555**	***7,3%***	**2,582,357**	***2,0%***	***n.s.***

The year in question, which ended on 30 June 2021, recorded sales of € 205.1 million, substantially higher than the turnover of the previous year (+ 57.5%); please note that the previous year had been negatively impacted by the onset and subsequent spread of the pandemic. On the other hand, the global presence of the Group both at production and sales level had greatly limited this impact, to the point that the 2019-20 turnover had closed in line with that of the previous year. From this perspective, the sales *performance* in the year in question is to be considered absolutely first-rate. In addition, during the period, the Group recorded a substantial improvement in margins (from 42.0% to 42.9%), thus increasing the gross margin more than proportionally compared to turnover (+61.1%).

The increase in operating costs, and in particular in some industrial costs linked to production volumes, was partly driven by the growth in turnover; to these, there are general and administrative costs of a non-recurring nature. Overall, however, the Group greatly benefited

from significant operating leverage effect, which brought the EBITDA *margin* to 17.7% of revenues (compared to 12.2% in the year of comparison).

In absolute terms, this item reached € 36.4 million compared to € 15.9 million in the year of comparison.

*Adjusted*EBITDA, net of non-recurring items, was € 37.5 million, with a percentage impact on turnover of 18.3%, while in the year of comparison it was € 16.6 million, with a margin of 12.7%.

Depreciation and amortisation were substantially in line with the comparative figure, leading the operating result to grow in proportion to EBITDA, with an additional leverage effect if measured in percentage terms on turnover.

The financial charges, as such, are substantially in line with the previous year, also thanks to the savings of over € 300 thousand in interest on bank loans and bonds. The overall figure, including exchange rate differences, was instead up by around € 300 thousand due to the greater impact of the latter compared to the previous year (€ -962 thousand compared to € -416 thousand).

As outlined, the year in question closed with a very positive net result compared to the previous year (€ 18.5 million and € 3.6 million, respectively), with an incidence of 9.0% on the turnover (7.3% considering solely the profit pertaining to the Group).

STATEMENT OF FINANCIAL POSITION

The financial position of the Group as at 30 June 2021, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2020, is as follows:

	30/06/2021	30/06/2020	*Change*
in trade receivables	28,453,316	15,710,086	12,743,230
Inventories	26,318,545	21,744,437	4,574,109
Tax receivables	2,266,907	1,811,203	455,704
Other current assets	1,480,397	1,145,637	334,760
CURRENT ASSETS	***58,519,166***	***40,411,362***	***18,107,803***
Trade payables	22,080,469	13,242,049	8,838,420
Tax payables	6,262,892	4,629,139	1,633,753
Other current liabilities	9,690,052	6,419,156	3,270,896
CURRENT LIABILITIES	***38,033,412***	***24,290,344***	***13,743,068***
NET WORKING CAPITAL	**20,485,753**	**16,121,018**	**4,364,735**
Depreciation of tangible assets	30,529,614	31,301,359	(771,745)
Amortisation of intangible assets	21,142,693	22,034,087	(891,395)
Equity investments	2,060,638	2,038,869	21,769
Goodwill	10,320,071	10,470,259	(150,188)
Other non-current assets	2,050,345	2,383,444	(333,099)
NON-CURRENT ASSETS	***66,103,361***	***68,228,019***	***(2,124,658)***
Post-employment benefits and other provisions	2,500,819	2,510,233	(9,414)
Deferred taxes	760,993	938,100	(177,107)
NON-CURRENT LIABILITIES	***3,261,812***	***3,448,333***	***(186,520)***
NET INVESTED CAPITAL	**83,327,302**	**80,900,705**	**2,426,598**
Short-term financial debt, net	3,770,491	9,526,720	(5,756,228)
Medium/long-term financial debt	38,353,309	33,764,726	4,588,583
NET FINANCIAL DEBT	**42,123,800**	**43,291,446**	**(1,167,645)**
Share capital and other reserves	17,621,302	30,149,412	(12,528,110)
Group result for the year	14,917,555	2,582,357	12,335,198
GROUP SHAREHOLDERS' EQUITY	**32,538,857**	**32,731,770**	**(192,913)**
Share capital and other reserves	5,042,274	3,837,143	1,205,131
Profit for the year pertaining to minority interests	3,622,371	1,040,347	2,582,024
MINORITY INTERESTS	**8,664,645**	**4,877,490**	**3,787,155**

The increase in net working capital (€ +4.4 million) was mainly driven by higher trade receivables, while the increase in other items classified under current assets was more than offset by the higher balance of current liabilities compared to the year of comparison. The trend

in these figures is clearly related to the growth in size of the Group and also shows an improvement in terms of the incidence of net working capital on turnover, down from 12.4% in the previous year to 10.0% in the year in question.
The operating investments made by the various Group companies, for a total amount of € 5.5 million (substantially stable compared to the previous year), are mainly aimed at product innovation, one of the key elements on which the Group bases its future growth, at the upgrading and improvement of production sites and the protection of intellectual property, consisting in particular of the more than 70 product and / or process patents filed and the trademarks under which the Group markets its products. Net invested capital rose by € 2.4 million to € 83.3 million.
Net financial indebtedness decreased by around € 1.2 million, amounting to € 42.1 million, with a significant increase in the medium / long-term portion to the detriment of the current portion, as shown in the table below:

		30/06/2021	30/06/2020	*Change*
A	Cash on hand	19,846,067	20,888,905	(1,042,838)
B	Cash and cash equivalents	-	-	-
C	Other current financial assets	-	-	-
D	**Liquidity (A + B + C)**	**19,846,067**	**20,888,905**	**(1,042,838)**
E	Current financial debt *	12,981,772	20,544,024	(7,562,252)
F	Current portion of non-current financial debt **	10,634,787	9,871,601	763,185
G	**Current financial debt (E + F)**	**23,616,559**	**30,415,625**	(6,799,067)
H	**Net current financial debt (G-D)**	**3,770,491**	**9,526,720**	**(5,756,228)**
I.	Non-current financial debt ***	32,477,712	25,985,766	6,491,946
J	Debt instruments	5,875,597	7,778,960	(1,903,363)
K	Trade payables and other non-current payables	-	-	-
L	**Non-current financial debt (I + J + K)**	**38,353,309**	**33,764,726**	**4,588,583**
M	**Net financial debt (H + L)**	**42,123,800**	**43,291,446**	**(1,167,645)**

* Excluding current portion of non-current financial debt; includes the current financial liability at fair value (€ 1,452 and classified under other current liabilities)
** Includes the current portion of bank loans and bonds as well as lease liabilities pursuant to IFRS 16
*** Includes the non-current portion of mortgages and lease liabilities pursuant to IFRS 16 and the non-current financial liabi
at fair value

The significant operating cash flow generated in the twelve months allowed the payment of an extraordinary dividend of € 15.5 million.

DERIVATIVE FINANCIAL INSTRUMENTS

The parent company Selle Royal S.p.A. subscribed a financial derivative instrument to hedge the risk of fluctuations in interest rates on a medium / long-term loan. As at 30 June 2021, it was recorded under "current financial liabilities at *fair value"* since the underlying loan matures in May 2022.

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 mentioned, during the year 2021, the company made operating investments of approximately € 5.5 million, as shown in detail below:

	2020/21
Land and buildings	79,483
Rights of use - leased assets	122,194
Plant and machinery	1,423,485
Industrial and commercial equipment	1,404,955
Other assets	863,895
Work in progress and payments on account	937,775
Sub-total - Investments in intangible assets	**4,831,786**
Research and development costs	-
Industrial patent rights and intellectual property rights	307,010
Concessions, licences, trademarks and similar rights	291,643
Other	-
Work in progress and payments on account	26,670
Sub-total - Investments in intangible assets	**625,323**
TOTAL OPERATING INVESTMENTS	**5,457,109**

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

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

Financial risks

Credit risk

The Group is exposed to credit risk deriving mainly from commercial relations with its customers and, in particular, due to any delays or non-fulfilment of their payment obligations according to the agreed terms and methods. On the other hand, some Group companies have taken out insurance policies with a leading international institution to mitigate this risk. At the balance sheet date, approximately 64% of the consolidated receivables (gross of the bad debt provision) were covered by insurance.

Risks associated with changes in interest rates

As at 30 June 2021, approximately 76% of the Group's consolidated gross financial debt was floating rate, equal to € 41.8 million. In relation to a portion of this debt (approximately 0.7% of the total), the parent company Selle Royal SpA used a derivative financial instrument (IRS, interest rate swap) to hedge the risk of fluctuations in interest rates on a medium / long-term loan. The aggregate mark-to-market value of this derivative as at 30 June 2021 was a negative € 1,452. The remaining part of the Group's debt, equal to approximately 75% of the total, is not hedged by interest rate risk hedging instruments. Significant changes in interest rates could result in an increase in financial charges relating to floating rate debt.

Liquidity risk

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

Risks associated with exchange rate trends

Part of the Group's activities are carried out, also through subsidiaries, outside the Eurozone and the fees for some orders and transactions are agreed in currencies other than the Euro, mainly in US Dollars, Chinese Renminbi, Brazilian Real and Taiwanese Dollars. In this regard, it should be noted that any fluctuations in currencies other than the Euro could have negative effects on the Group's operating margins. In addition, fluctuations in the exchange rates used to

convert the financial statements of certain foreign companies of the Group, originally expressed in currencies other than the Euro, could affect the economic, equity and financial situation of the Group, which prepares the consolidated financial statements in Euro. At the balance sheet date, the Group does not adopt instruments to hedge exchange rate fluctuations on transactions carried out in a currency other than the reference currency of the individual companies belonging to it.

Operational risks

Risks associated with the operations of production plants

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

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

As mentioned above, during the year, the purchase prices of some key raw materials in the Group's production processes increased considerably and, in certain circumstances and limited to some geographical areas, a major problem was also encountered from a procurement perspective, which partly affected the normal operations of the plants, particularly in Brazil. In the same way, the global logistics crisis, also mentioned at the beginning of the document, has partly affected the normal operations of the Companies, both as regards the procurement of components and products marketed of Asian origin, and as regards shipments to Group customers.

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

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

supervision in terms of quality control, both during the approval of new products and during the mass production of previously approved products.

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

The Group is exposed to the risk of inventory obsolescence, against which adjustment provisions were deemed adequate by management.

Risks associated with dependence on Group brands

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

Risks associated with labour shortage and any increase in related costs

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

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

During the years 2020 and 2021, the Group had to comply with the restrictions put in place by the national governments of the individual countries in which the Group companies operate, to deal with the CoViD-19 health emergency, which caused a major international economic crisis, characterised by a significant contraction in demand on the main markets and in global gross domestic product. The bicycle sector does not fall under the sectors hardest hit by the pandemic, so much so that the Group in the year ended 30 June 2020 recorded substantially stable revenues compared to the previous year (€ 130.1 million in the year ended 30 June 2020) compared to Euro 130.6 million in the year ended 30 June 2019, equal to -0.3%), and a sustained growth during the year ended 30 June 2021 (revenues of € 205.1 million, equal to +58% compared to the previous year). Nevertheless, if the COVID-19 pandemic, whose evolution is still uncertain, should persist or worsen, leading to the adoption of more restrictions by the competent national authorities of the countries in which the Group operates, the latter could be exposed to the risk of a slowdown or decrease in sales of its products.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE YEAR

On 6 July 2021, Jiangyin Selle Royal Cycling China, Co. Ltd. was incorporated, a Chinese company 68.29% owned by the Selle Royal Group, through the Hong Kong holding company Selle Royal Asia Ltd., and for the remaining part by a Chinese holding company (the shareholding structure is the same of Selle Royal Vehicle (China) Co., Ltd.). This company is currently involved in the negotiations for the concession of a plot of land for industrial use within the urban perimeter of Jiangyin City, the same municipality in which Selle Royal Vehicle (China) Co., Ltd. operates. This activity became necessary following the notification, formally issued on 23 September 2021, regarding the future expropriation of the concession of the land on which the production site of the latter stands. At the moment, the date on which this expropriation will actually take place has not been defined, as a complex valuation will first be necessary of the assets that stand on this area of land and the subsequent definition of a settlement agreement with the relevant local authorities by way of compensation for what will be subject to expropriation.

At the date of presentation of these financial statements, a plot of land was also identified on which to build the future headquarters of Selle Royal Cycling China Co., Ltd. and the negotiations of the terms of the relative concession are at an advanced stage.

Given the structuring of the two transactions and the fact that they are carried out independently of each other, it is currently too early to be able to provide indications on the possible impact that these activities could have in the future on the normal performance of the *business*. At the same time, however, there are currently no detailed indications that could lead to a forecast of a significant adverse impact in the future, which will be readily accounted for when they materialise.

On 16 July 2021, the plan was drafted for the merger by incorporation of SR84 Srl, the company that manages some of the Group's brands, into Selle Royal SpA. At the state of the art, it is considered reasonable that the merger can be finalised by the end of 2021.

BUSINESS OUTLOOK

Given the uncertainty relating to the evolution of the CoViD-19 pandemic in the various countries in which the Group is present, the continuing turbulence in the global markets of some strategic raw materials and the critical issues which the global logistics sector has been experiencing for several months, predicting the economic and financial performance for the fiscal year 2021-22 is extremely difficult. Excluding these considerations, it is clear that a

context of sustained demand continues to characterise the cycle sector, 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 1,153, a significant increase compared to the 1,070 employees in the previous year. The increase is mainly attributable to factory personnel (+84 units), as shown in the table below:

Average workforce	**Financial Year**	**Financial Year**	**Change**
Executives	25,5	21,0	4,5
Employees	227,2	233,2	(6,1)
Workers	899,5	815,2	84,3
Others	1,0	1,0	-
Total	**1,153,2**	**1,070,5**	**82,7**

CONCLUSIONS and PROPOSALS

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

* * *

Pozzoleone (VI), 28 September 2021

The Chairman of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

Consolidated income statement(*)

	NOTES	2020/21	2019/20	% Change
Revenues	17	205,090,143	130,193,776	*57,5%*
Cost of sales	18	117,039,940	75,530,901	*55,0%*
GROSS MARGIN		**88,050,203**	**54,662,875**	***61,1%***
Industrial costs	19	6,582,481	4,186,936	*57,2%*
Sales and promotion costs	20	13,771,565	10,647,069	*29,3%*
Costs of the management structure	21	17,806,989	14,114,295	*26,2%*
General and administrative costs	22	14,534,680	10,738,749	*35,3%*
Other operating income and (expenses)	23	996,534	958,868	*3,9%*
EBITDA		**36,351,022**	**15,934,694**	***n.s.***
Amortisation, depreciation and write-downs of fixed assets		7,128,778	7,233,567	*-1,4%*
OPERATING PROFIT (EBIT)		**29,222,244**	**8,701,127**	***n.s.***
Profits / (losses) from companies measured at equity		-	-	-
Gains / (losses) on disposal of financial assets		19,173	-	-
Financial income / (charges)	24	(3,870,114)	(3,501,771)	*10,5%*
PRE-TAX RESULT		**25,371,303**	**5,199,356**	***n.s.***
Taxes for the year	25	6,831,377	1,576,652	*n.s.*
NET PROFIT		**18,539,926**	**3,622,704**	***n.s.***
Minority interests		3,622,371	1,040,347	*n.s.*
NET INCOME PERTAINING TO THE GROUP		**14,917,555**	**2,582,357**	***n.s.***

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

Consolidated statement of comprehensive income

	NOTES	2020/21	2019/20
Net profit		**18,539,926**	**3,622,704**
Change in *fair value* of hedging derivatives		3,835	6,729
Actuarial gains / (losses)		(33,276)	(4,950)
Translation differences of foreign financial statements		418,970	(443,057)
Total comprehensive profit / (loss) after tax		**18,929,456**	**3,181,427**

Consolidated balance sheet(*)

ASSETS	NOTES	30/06/2021	30/06/2020	*Change*
Cash and cash equivalents	26, 40	19,846,067	20,888,905	(1,042,838)
Trade receivables	27	28,453,316	15,710,086	12,743,230
Inventories	28	26,318,546	21,744,437	4,574,109
Tax receivables	29	2,266,907	1,811,203	455,704
Other current assets	30	1,480,397	1,145,637	334,760
TOTAL CURRENT ASSETS		**78,365,233**	**61,300,268**	**17,064,965**
Intangible assets	31	21,142,693	22,034,087	(891,395)
Tangible assets	32	30,529,614	31,301,359	(771,745)
Equity investments	33	2,060,638	2,038,869	21,769
Goodwill	34	10,320,071	10,470,259	(150,188)
Deferred tax assets	35	871,708	1,274,435	(402,726)
Financial assets at *fair value*	36, 40	509,813	427,050	82,763
Other non-current assets	37	668,824	681,961	(13,137)
TOTAL NON-CURRENT ASSETS		**66,103,361**	**68,228,020**	**(2,124,659)**
TOTAL ASSETS		**144,468,594**	**129,528,288**	**14,940,306**

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

		30/06/2021	30/06/2020	*Change*
LIABILITIES				
Trade payables	38	22,080,469	13,242,049	8,838,420
Payables to other Group companies		0	0	0
Tax payables	39	6,262,892	4,629,139	1,633,753
Bonds - Portion falling due within 12 months	40, 46	1,903,363	1,875,785	27,578
Short-term loans	40, 41	20,630,896	27,400,685	(6,769,789)
Provisions for risks and charges		0	-	0
Financial liabilities at *fair value*	40, 42	1,452	-	1,452
Current liabilities for leased assets	43	1,080,847	1,139,155	(58,308)
Other current liabilities	44	9,690,052	6,415,595	3,274,457
TOTAL CURRENT LIABILITIES		**61,649,971**	**54,702,408**	**6,947,563**
Provisions for employees	45	1,874,444	1,972,904	(98,460)
Bonds - Portion maturing beyond 12 months	40, 46	5,875,597	7,778,960	(1,903,363)
Medium / long-term loans	40, 47	26,731,370	18,924,839	7,806,531
Provisions for risks and charges	48	626,375	540,889	85,486
Payables for deferred taxes	49	760,993	938,100	(177,107)
Financial liabilities at *fair value*		-	5,288	(5,288)
Non-current liabilities for leased assets	50	5,746,342	7,055,640	(1,309,297)
Other non-current liabilities		0	-	-
TOTAL NON-CURRENT LIABILITIES		**41,615,121**	**37,216,619**	**4,398,501**
TOTAL LIABILITIES		**103,265,092**	**91,919,028**	**11,346,064**
SHAREHOLDERS 'EQUITY				
Share capital		6,000,000	6,000,000	-
Legal reserve		1,244,082	1,244,082	0
Translation reserve		807,389	388,420	418,970
Reserve for first-time adoption of IAS		10,716,446	10,716,446	-
Other reserves and undistributed profits		(1,146,615)	11,800,466	(12,947,081)
Group profit / (loss) for the year		14,917,555	2,582,357	12,335,198
GROUP SHAREHOLDERS' EQUITY	**51**	**32,538,857**	**32,731,770**	**(192,913)**
Share capital and undistributed profits pertaining to nc		5,042,274	3,837,143	1,205,131
Profit / (loss) for the year of minority interests		3,622,371	1,040,347	2,582,024
MINORITY INTERESTS	**51**	**8,664,645**	**4,877,490**	**3,787,155**
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		**144,468,594**	**129,528,288**	**14,940,306**

Statement of changes in shareholders' equity

	Balance as at 30 June 2019	Transfer of previous year result	Fair value IRS	Effect of discounting of post-employment benefits	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	32,036	-	-	-	-	-	1,244,081
Translation reserve	836,428	-	-	-	-	(448,009)	-	388,420
Reserve for first-time adoption of IAS	10,716,446	-	-	-	-	-	-	10,716,446
Other reserves and undistributed profits	11,507,072	486,663	6,729	(4,950)	(200,000)	4,952	-	11,800,466
Group profit / (loss) for the year	518,699	(518,699)	-	-	-	-	2,582,359	2,582,359
TOTAL GROUP SHAREHOLDERS ’EQUITY	30,790,690	-	6,729	(4,950)	(200,000)	(443,057)	2,582,359	32,731,771
Share capital and undistributed profits pe	3,971,891	432,948	-	-	-	(567,696)	-	3,837,143
Profit / (loss) for the year of minority inte	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)**	**3,622,706**	**37,609,261**

	Balance as at 30 June 2020	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 2021
Share capital	6,000,000	-	-	-	-	-	-	6,000,000
Legal reserve	1,244,081	-	-	-	-	0	-	1,244,082
Translation reserve	388,420	-	-	-	-	418,970	-	807,389
Reserve for first-time adoption of IAS	10,716,446	-	-	-	-	-	-	10,716,446
Other reserves and undistributed profits	11,800,466	2,582,359	3,835	(33,276)	(15,500,000)	-	-	(1,146,615)
Group profit / (loss) for the year	2,582,359	(2,582,359)	-	-	-	-	14,917,555	14,917,555
TOTAL GROUP SHAREHOLDERS’ EQUITY	32,731,771	-	3,835	(33,276)	(15,500,000)	418,970	14,917,555	32,538,857
Share capital and undistributed profits pe	3,837,143	1,040,347	-	-	-	164,785	-	5,042,274
Profit / (loss) for the year of minority inte	1,040,347	(1,040,347)	-	-	-	-	3,622,371	3,622,371
TOTAL MINORITY INTERESTS	4,877,490	-	-	-	-	164,785	3,622,371	8,664,645
TOTAL SHAREHOLDERS 'EQUITY	**37,609,261**	**-**	**3,835**	**(33,276)**	**(15,500,000)**	**583,755**	**18,539,926**	**41,203,502**

Consolidated cash flow statement prepared using the indirect method

		2020/21	2019/20
Profit before taxes		**25,371,303**	**5,199,356**
Adjustments for			
+/-	**non-monetary elements**		
	Depreciation of tangible fixed assets	4,762,167	4,668,566
	Amortisation of intangible assets	1,098,663	1,280,484
	Amortisation of Right Of Use	1,267,949	1,284,517
	Net financial charges	3,834,970	3,496,636
	Minor independent works	(186,043)	(418,315)
	(Gains) / losses on the sale of property, plant and equipment and financial assets	9,601	(1,943)
	Change in the bad debt provision	95,418	(14,813)
	Changes in deferred taxes, provisions and employee benefits	(1,124,234)	175,553
	Change in cash flow hedge reserve	3,835	6,729
	Change in actuarial reserves	(28,366)	(4,950)
Cash and cash equivalents generated by transactions before working capital		**35,105,263**	**15,671,819**
+/-	**change in working capital**		
+/-	Change in inventories	(4,219,174)	1,479,797
+/-	Change in trade receivables	(13,244,196)	162,427
+/-	Change in trade payables	10,561,861	(3,781,786)
+/-	Change in other current assets	(334,760)	1,083,488
+/-	Change in other current liabilities	2,711,478	(735,259)
Cash and cash equivalents generated by transactions		**30,580,472**	**13,880,487**
+	Interest collected	363,097	155,737
-	Interest paid	(3,210,239)	(2,191,657)
-	Taxes paid	(4,208,792)	(1,105,030)
Net cash and cash equivalents from operating activities (A)		**23,524,538**	**10,739,536**
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES			
-	Payments for acquisitions of property, plant, machinery and other tangible fixed assets	(4,523,549)	(4,324,198)
+	Collections (consideration obtained) for the sale of property, plant, machinery and other tangible fixed assets	35,295	64,062
-	Payments for acquisitions of intangible assets and capitalised costs	(625,323)	(920,122)
-	Payments for the granting of advances or loans to third parties	(1,324,121)	(810,905)
+	Collections for repayment of advances or loans to third parties	0	0
-	Payments for derivatives	(4,120)	(5,135)
+	Collections from financial instruments	0	0
-	Payments for acquisitions of investments in subsidiaries and associates in joint ventures	-	(2,302,838)
+	Collections (consideration obtained) for the sale of subsidiaries and associates in joint ventures	0	0
+	Interest and dividends collected	0	0
Net cash and cash equivalents from / used in investing activities (B)		**(6,441,817)**	**(8,299,136)**
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES			
+	Collections from the issue of shares or other equity securities	-	-
-	Payments for the acquisition of treasury shares	-	-
+	Collections from obtaining loans	28,437,427	34,702,834
-	Payments for rents that fall under the application of IFRS 16	(1,662,301)	(1,339,082)
+	Bond issue (so-called mini-bond)	-	-
-	(Redemption) bond loan (known as mini-bond)	(2,000,000)	-
-	Loan repayments	(27,400,685)	(25,825,012)
-	Dividends paid	(15,500,000)	(200,000)
Net cash from / used in financing activities (C)		**(18,125,559)**	**7,338,741**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)		(1,042,838)	9,779,141
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		20,888,905	11,109,764
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F) = (D + E)		19,846,067	20,888,905

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2021

1. FOREWORD

The consolidated financial statements as at 30 June 2021 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 2021, 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 2021 Consolidated Financial Statements consist of the Income Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes that follow.

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

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

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

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

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

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

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

The accounting standards adopted by the Group for the preparation of the Consolidated Report as at 30 June 2021 are the same as those adopted for the preparation of the consolidated financial statements as at 30 June 2020, with the exception of the following accounting standards, amendments and interpretations:

Amendments to References to the Conceptual Framework in IFRS Standards

The amendments to the Conceptual Framework, issued by the IASB in March 2018, include:

- a new chapter on measurement;
- some indications on financial performance reporting;
- improved definitions of assets and liabilities and guidelines to support these definitions;
- clarifications in some important areas, such as the roles of administration, prudence and measurement uncertainty in financial reporting.

The IASB also updated the process of *References* to the IFRS *Conceptual Framework* to support the transition to a revised *Conceptual Framework* for companies that develop accounting policies that use the *Conceptual Framework* when no IFRS standard applies to a given transaction. The amendments were issued on 29 March 2018 by the IASB and are mandatory from 1 January 2020. The amendments had no significant impact on the Group’s consolidated financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IAS 1 and IAS 8 clarified the definition of materiality for the financial statements and the application methods for the definition of materiality. In particular, the new definition provides that information is relevant if it is expected that its omission, incorrect measurement or its concealment could reasonably influence the decisions that the primary

users of the financial statements prepared for general purposes envisage on the basis of these financial statements. The amendments were issued on 31 October 2018 by the IASB and are mandatory from 1 January 2020. The amendments had no significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3 Business Combinations

These amendments were issued following the *post-implementation review* of IFRS 3 to assist companies in determining whether an acquisition is a business or a group of assets. The main changes made refer to:

- updating of the *business*definition,
- the addition of a *concentration test* (optional), and
- the addition of a supplementary guide, including new illustrative examples.

In particular, the definitions of 'outputs' and 'business activities' are restricted, focusing on revenues from the sale of products and services to customers, rather than on a reduction in costs. In addition, it is clarified that, to be considered a business, the set of acquired assets and activities must include, at a minimum, an 'input' and a 'substantive process' that together significantly contribute to the ability to create. An optional 'concentration test' was also added as a simplification to conclude that certain types of acquisitions are not business combinations. Finally, the guidance on inputs, processes and outputs (paragraph B7 of IFRS 3) is adjusted to adapt it to the new definition of business combination and broad guidance has been provided on what is meant by "substantive process". The amendments were issued on 22 October 2018 by the IASB and are mandatory from 1 January 2020. The amendments had no significant impact on the Group's consolidated financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments refer to some specific accounting requirements for hedging transactions. In particular, these amendments were designed to support the provision of useful financial information by the companies during the period of uncertainty deriving from the gradual elimination of the reference parameters on interest rates such as the interbank rates offered (IBOR). In addition, the amendments require companies to provide additional information to investors regarding their hedging relationships that are directly affected by these uncertainties. The amendments were issued on 26 September 2019 by the IASB and are mandatory from 1 January 2020. The amendments had no significant impact on the Group's

consolidated financial statements.

Amendment to IFRS 16 Covid 19-Related Rent Concessions

IFRS 16 was amended in order to provide lessees with an exemption from the obligation to determine whether a concession on lease payments related to the spread of COVID-19 was a modification of the lease agreement. If the exemption is applied by the lessees, these concessions on the rents must be treated without changing the conditions of the original contract. The satisfaction criteria necessary in order to apply the envisaged exemption were included in the same standard. The amendment was issued on 28 May 2020 and was approved on 9 October 2020. The amendments had no significant impact on the Group's consolidated financial statements.

Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Phase 2

Issued on 27 August 2020 and approved on 13 January 2021, it implemented a collection of amendments to the IFRS standards relating to the reform of the interbank rates offered (IBOR) and other interest rate reference parameters. The amendments are intended to help entities provide investors with useful information on the effects of the reform on entities' financial statements. The amendments focus on the effects on the financial statements when an entity replaces the old benchmark of the interest rate with an alternative reference rate following the reform. The changes, in this final phase, concern:

- changes to contractual cash flows - an entity will not have to eliminate or adjust the book value of financial instruments following the changes required by the reform, but will have to update the effective interest rate to reflect the change in the alternative reference rate;
- hedge accounting - an entity must not stop accounting for hedging transactions just because it makes the changes required by the reform to the hedging documentation, if the hedge continues to meet the other hedge accounting criteria;
- disclosure: an entity will be required to disclose information on the new risks deriving from the reform and on how it manages the transition to alternative reference rates.

The amendments had no significant impact on the Group's consolidated financial statements.

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

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

IFRS 17 Insurance Contracts

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

- A specific adaptation for contracts with direct participation features (the *variable fee approach*)
- A simplified approach (the premium allocation approach) mainly for short-term contracts.

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

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

Below are the international accounting standards, interpretations, amendments to existing

accounting standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB that have not yet been endorsed for adoption in Europe at the date of these financial statements. .

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

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

- what is meant by the right to postpone the expiry;
- that the right of postponement must exist at the end of the year;
- the classification is not affected by the probability with which the entity will exercise its right of postponement;
- only if an embedded derivative in a convertible liability is itself an equity instrument does the liability's maturity have no impact on its classification.

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

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

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

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

From February 2021, changes were introduced to the definition of accounting estimates,

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

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

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

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

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

Reference to the Conceptual Framework - Amendments to IFRS 3

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

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

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

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

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

satisfied all its obligations at the beginning of the year of first application.

5. 2018-2020 ANNUAL IMPROVEMENTS

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

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

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

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

6. FINANCIAL STATEMENTS AND CLASSIFICATION CRITERIA

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

- Income statement

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

- Balance Sheet

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

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

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

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

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

(d) these are cash and cash equivalents.

All other assets were classified as non-current.

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

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

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

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

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

All other liabilities were classified as non-current.

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

- Statement of changes in shareholders' equity

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

- Cash flow statement

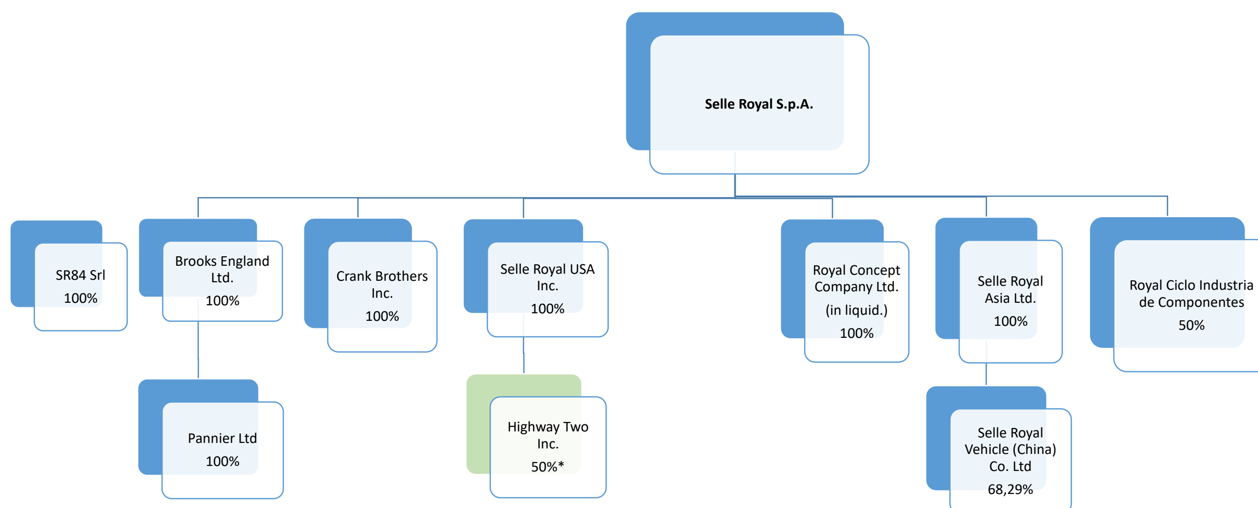
The cash flows from operating activities are presented using the indirect method as permitted by IAS 7, as this criterion was considered the most appropriate to the business sector in which the company operates. By means of this criterion, the result for the year was adjusted for the

effects of non-monetary transactions, operating, investing and financial activities.

7. ACTIVITIES OF THE COMPANIES BELONGING TO THE GROUP

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

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



* Consolidated using the equity method

This structure changed with respect to the composition of the Group as at 30 June 2020, due to the corporate restructuring operations described above, and resulted in the mergers by incorporation of BROOKS England Srl and FIAC Srl into Selle Royal SpA and of SR56 Inc. into Crank Brothers Inc. Finally, as reported in the Management Report, Royal Concept Co., Ltd. prepared its liquidation financial statements at the end of November 2020 and is currently inactive and awaiting formal closure, expected by the end of the fiscal year as at 30 June 2022.

The consolidated financial statements as at 30 June 2021 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 239,100, equal to approximately €

301,799, 100% 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 Chicago (Illinois), share capital of USD 1,000, equal to approximately € 901. The company is 100% 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 € 2,045,238.
- **Royal Concept Company Limited**, with registered office in Hong Kong and share capital of HK $ 1,000, equal to approximately € 91. The company is 100% owned by Selle Royal S.p.A. This company is currently inactive and in liquidation.
- **Crank Brothers Inc.**, with share capital of USD 2,000, equal to approximately € 1,802, 100% 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.
- **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.
- **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 11,601,802 Brazilian Real, is 50% owned by Selle Royal S.p.A. It is included in the scope of consolidation in compliance with the provisions of accounting standard IFRS 10, par. 7, letter c) on the

basis of which an investor controls an entity if it has the ability to exercise its power over the investee to affect the amount of its returns.

8. SIGNIFICANT EVENTS OCCURRING DURING THE YEAR

As detailed extensively in the Report on Operations, the fiscal year in question was characterised by the persistence of the CoViD-19 pandemic, which was offset by the sustained economic recovery of some of the major global economies (US and Chinese, *first of all*); this phenomenon, largely unexpected, triggered huge *shocks* on the raw material markets and significant compromising of global logistics chains. In this complex and changing macroeconomic context, the cycle sector has nevertheless proved to be extremely dynamic.

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

9. GENERAL BASIS OF PREPARATION 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			Average exchange rate for the year		
	30 June	30 June	ιppreciation /			Appreciation
Currency	**2021**	**2020**	**(depreciati**	**2020/21**	**2019/20**	**(deprec.)**
British Pound (GBP)	0,8581	0,9124	6,34%	0,8865	0,8782	-0,93%
US Dollar (USD)	1,1884	1,1198	-5,77%	1,1928	1,1059	-7,29%
Hong Kong Dollar (HKD)	9,2293	8,6788	-5,96%	9,2519	8,6203	-6,83%
Chinese Yuan Renminbi (RMB)	7,6742	7,9219	3,23%	7,8968	7,7761	-1,53%
Brazilian Real (BRL)	5,9050	6,1118	3,50%	6,4236	4,9391	-23,11%

10. 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.

Revenues, income, costs and charges

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

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

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

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

d) the contract has commercial substance; and

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

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

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

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

Income taxes

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

Taxes for the period include current and deferred taxes. Income taxes are generally recognised in the income statement, except when they relate to items recorded directly in 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.

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

Fair value measurement
In compliance with IFRS 13 - Fair value measurement, the Group measures financial instruments like derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement of fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the main market or, in the absence of a main market, in the most advantageous market for the asset or liability.
The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient data are available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which the fair value is measured or disclosed in the financial statements are classified in the fair value hierarchy, described below, based on the lowest level input that is significant for the measurement of fair value in its complex:
- Level 1 - Listed (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant for the

measurement of fair value is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant for the measurement of fair value is unobservable.

Cash and cash equivalents

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

Trade receivables

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

Inventories

Inventories of raw materials, semi-finished products and finished products are measured at the lower of cost and net realisable value.
The cost configuration used is that of the "weighted average cost".
Production costs include the expenses incurred to bring the assets to the state in which they are found in the financial statements; they include both the specific costs of the individual assets and the overall costs incurred in the activities carried out for their preparation.
Obsolete and slow-moving stocks are valued in relation to their possibility of use and realisation, with reference to the average duration of the production cycle, with the allocation of a specific write-down both directly and through the establishment of a provision to adjust

their value.

Tangible 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.

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.

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 theimpairment 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.

Leasing

The Group assesses at the beginning of the contract whether a contract is, or contains, a *lease*. This occurs if the contract transfers, in exchange for consideration, the right to control the use of an identified asset for a period of time.

According to IFRS 16 - Leases, the Group applies a recognition and measurement approach for all leases, with the exception of short-term leases and leases of low-value assets. Consequently, the lease payments for short-term leases and the leases of low-value assets are recognised as expenses on a straight-line basis for the duration of the lease.

The Group recognises the lease liabilities that represent the obligations to pay the lease payments and the right-of-use assets that represent the right of use for the underlying assets.

The Group recognises the right-of-use assets at the start date of the lease and measures them at cost, less accumulated depreciation and impairment, and adjusted for any re-measurement of lease liabilities. Right-of-use assets are measured at cost, which includes the following: (i) the amount of the initial measurement of the lease liability; (ii) any lease payment made on or before the commencement date, less any lease incentive received; (iii) any initial direct costs and, if applicable, (iv) restoration costs. Right-of-use assets are depreciated on a straight-line basis for the shorter of the lease term and the estimated useful life of the assets.

Financial fixed assets

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

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.

Employee benefits

The Group has defined benefit pension plans with employees. Defined benefit pension plans typically define the amount of benefit that employees will receive at the time of retirement and which, usually, depends on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is equal to the present value of the pension obligation at the end of the period, also including any adjustment deriving from unrecognised costs relating to past benefits, less the fair value of pension assets ("Plan asset"). The pension obligation is calculated annually,

with the help of external actuaries, using the “Projected Unit Credit Method”. The present value of the pension obligation is calculated by discounting the disbursements expected in the future on the basis of the interest rate applied to bonds issued by leading companies in the same currency in which the benefits will be paid and which have a maturity similar to that of the pension obligation. Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions used or from changes in the plan conditions are recognised in the statement of comprehensive income in the year in which they occur. The amount reflects not only the payables accrued at the reporting date, but also future salary increases and the related statistical trends. Costs relating to services provided in previous periods are recognised immediately in the income statement.
The benefits guaranteed to employees through defined contribution plans (also by virtue of recent changes in national pension legislation) are recognised on an accrual basis and at the same time give rise to the recognition of a liability measured at nominal value.

Current and deferred taxation

Provisions for income taxes for the year made by the individual companies included in the scope of consolidation are calculated in accordance with the current tax regulations of the country where the companies are based and are recorded under “tax payables”, net of any tax credits legally offset during the subsequent tax period.
Deferred taxes are calculated on the cumulative amount of all temporary differences between the value of an asset or a liability determined according to statutory criteria and the value attributed to that asset or liability for tax purposes, applying the presumed tax rate in force at the moment in which the temporary differences will reverse, as well as the tax effect of the typical consolidation adjustments.
It should also be noted that no deferred taxes have been allocated against the revaluation reserves subject to taxation recognised under shareholders’ equity since, at present, it is believed that no transactions are carried out that would result in taxation.
Deferred tax assets deriving from losses that can be carried forward for tax purposes are also recognised if the conditions of reasonable certainty of obtaining taxable income that will be able to absorb the losses carried forward and the losses in question derive from well-identified circumstances and it is reasonably certain that these circumstances will not be repeated.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the course of ordinary activities. Trade payables are classified as current liabilities if payment is due within one year or less from the reference date. Otherwise, they are presented as non-current liabilities.
Trade payables are stated at their nominal value, modified in the event of returns or invoicing adjustments. This measurement approximates the fair value in an appropriate manner.
The Group recognises payables from other taxes and social security and other non-financial payables at the amount payable on the due date.

Payables to banks and other lenders

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

Derivative contracts

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

11. 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:

- 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.
- 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. The company uses a simplified approach to calculate the ECL (Expected Credit Loss) for trade receivables and contractual assets, initially based on the historical default rates observed . The Company adjusts the historical experience of credit loss with forward-looking information. At each reporting date, the historical default rates observed are updated and changes in forward-looking estimates are analysed. The assessment of the correlation between the historical default rates observed, the expected economic conditions and the "ECLs" is a significant estimate. The amount of the "ECL" is sensitive to changes in circumstances and expected economic conditions. The company's historical experience of credit loss and the forecast of economic conditions may not be representative of the actual default of the customer in the future.
- Non-current assets: the Group periodically reviews the carrying amount of property, plant and equipment, intangible assets, investments in joint ventures and associates and other non-current assets, when facts and circumstances require such revision in order to determine their recoverable value. The recoverability analysis of the book value is generally carried out using estimates of expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value. When the book value of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the book value of the asset and its recoverable value through the use or sale of

the same, determined with reference 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.
- Employee benefits: provisions for employee benefits and net financial charges are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial methodology considers financial parameters such as, for example, the discount rate and the growth rates of wages and 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.

12. SEGMENT REPORTING

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

EUROPE

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 2020-21 and 2019-20.

	2020/21			2019/20		
	EUROPE	AMERICA	ASIA	EUROPE	AMERICA	ASIA
Revenues	104,397,649	68,447,906	32,244,588	66,521,596	42,706,375	20,965,805
Current assets	32,570,097	25,938,873	19,856,263	32,176,801	16,951,348	12,166,599
Non-current assets	38,290,469	20,423,318	7,389,573	39,192,384	21,630,448	7,410,707
Current liabilities	35,786,701	18,289,299	7,573,971	31,245,384	17,926,979	5,530,045
Non-current liabilities	38,417,919	3,137,661	59,541	32,716,336	4,442,603	57,680

13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2021, 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 hedgereserve").

14. RISK MANAGEMENT

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

15. TRANSACTIONS with RELATED PARTIES

The main transactions with related parties are described below:

- Dec. 28, 1928 Holding S.p.A.: parent company of Selle Royal S.p.A., received emoluments as a member of the Board of Directors of Selle Royal S.p.A. until 7 June 2021; in addition, the payable balances for IRES of the Italian companies of the Group that participated in

the tax consolidation 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. 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 lease agreement was renegotiated with effect from 1 July 2021 and for a further 6 years.

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 entertained during the 2020-21 financial year are summarised in the following table:

CONTROPARTE	C. GENERALI ed AMM.VI	PROVENTI/ (ONERI) FINANZIARI	ATTIVITA' CORRENTI	ALTRE ATTIVITA' NON CORRENTI	PASSIVITA' CORRENTI	PASSIVITA' NON CORRENTI
Wise Equity SGR	13.808	-	-	-	13.810	-
Dec. 28, 1928 Holding S.p.A.		1.027	1.027	-	1.339.644	-
Dec. 28, 1928 Real Estate S.r.l.	-	-	-	625.200	833.290	5.270.876
Azionisti	56.724	-	-	-	-	-
Amministratori	2.042.807	-	-	-	2.227	-
TOTALE PARTI CORRELATE	**2.113.339**	**1.027**	**1.027**	**625.200**	**2.188.971**	**5.270.876**

ANALYSIS and COMPOSITION of the INCOME STATEMENT

16. SEGMENT REPORTING

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

	2020/21					
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	68,390,557	37,485,616	18,859,383	35,547,990	44,806,597	205,090,143
Gross margin	32,585,297	18,903,207	10,921,093	16,395,355	9,245,251	88,050,203
	47,6%	*50,4%*	*57,9%*	*46,1%*	*n.s.*	*42,9%*

	2019/20					
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	42,248,995	24,576,812	12,938,500	20,028,818	30,400,652	130,193,776
Gross margin	19,575,357	12,461,107	6,911,921	9,939,148	5,775,341	54,662,875
	46,3%	*50,7%*	*53,4%*	*49,6%*	*n.s.*	*42,0%*

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

17. REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to € 205,090,143 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:

	2020/21	2019/20	*Change*
Revenues from sales of saddles	108,011,066	69,421,745	38,589,321
Revenues from the sale of accessory c	94,836,435	59,434,106	35,402,329
Revenues from the sale of sundry mat	2,823,722	1,491,703	1,332,018
Revenue from services	224,934	140,079	84,855
Total gross revenues	**205,896,157**	**130,487,633**	**75,408,524**
Price changes and others	(118,458)	(39,514)	(78,944)
Year-end bonus	(687,555)	(254,343)	(433,212)
Revenue adjustments	(806,013)	(293,857)	(512,156)
Total revenue from sales	**205,090,143**	**130,193,776**	**74,896,368**

RECOGNITION of REVENUES

	2020/21	2019/20	*Change*
Realised at a specific point in time	205,090,143	130,193,776	74,896,368
Realised over time	-	-	-
Total revenue from sales	**205,090,143**	**130,193,776**	**74,896,368**

18. COST OF SALES

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

	2020/21	2019/20	*Change*
Purchase of raw materials	84,965,430	56,890,727	28,074,703
Ancillary charges on RM purchases	4,398,552	2,505,751	1,892,801
Outsourcing	6,298,710	4,284,231	2,014,479
Labour	21,305,407	14,545,183	6,760,224
Change in inventories	71,842	(2,694,991)	2,766,833
Total cost of sales	**117,039,940**	**75,530,901**	**41,509,039**

19. 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”.

	2020/21	2019/20	*Change*
Electricity	1,447,793	1,130,020	317,773
Consumables	1,633,289	1,086,692	546,598
Minor equipment	666,216	437,145	229,071
Maintenance	774,002	452,558	321,444
Rents	128,345	109,107	19,238
Research and development costs	902,968	284,978	617,990
Other industrial costs	1,029,866	686,436	343,430
Total industrial costs	**6,582,481**	**4,186,936**	**2,395,545**

20. 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.

	2020/21	2019/20	*Change*
Commercial and advertising costs	5,096,298	4,782,399	313,899
Transports on sales	5,295,475	3,235,134	2,060,340
Commissions	2,657,573	1,815,424	842,149
Royalties	13,360	50,302	(36,942)
Gifts	397,413	517,611	(120,199)
Other commercial and promotion costs	311,447	246,198	65,249
Total sales and promotion costs	**13,771,565**	**10,647,069**	**3,124,496**

21. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to €17,806,989 for the year in question, includes the cost of the clerical and managerial structures of the various Group companies.

22. GENERAL and ADMINISTRATIVE COSTS

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

	2020/21	2019/20	*Change*
Consulting	5,842,995	3,603,706	2,239,289
Travel expenses	261,955	978,157	(716,202)
Board of Directors' emoluments	2,056,615	645,088	1,411,527
Board of Statutory Auditors' emoluments	48,308	62,618	(14,310)
Utilities	322,094	326,429	(4,335)
Entertainment and hospitality expenses	166,058	194,100	(28,041)
Motor vehicles	431,054	452,178	(21,123)
Fees and IT support	1,113,562	760,397	353,165
Insurance	945,230	853,975	91,255
Rents	306,307	350,893	(44,585)
Bank charges	565,916	408,596	157,320
Other general and administrative costs	2,474,586	2,102,613	371,973
Total general and administrative costs	**14,534,680**	**10,738,749**	**3,795,932**

As previously mentioned, this item includes some non-recurring costs linked to the positive outcome of the corporate restructuring that saw the entry into the shareholding structure of Selle Royal SpA by Wise Equity SGR, through its own fund called Wise Equity V.

23. 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.

	2020/21	2019/20	*Change*
Operating income:			
Minor independent works	186,043	418,315	(232,272)
Repayments and sundry income	836,155	154,682	681,472
Capital gains	11,935	4,314	7,621
Contingent assets and other income	479,289	434,907	44,383
Royalty income	38	66	(28)
Research & development	261,343	407,201	(145,858)
Total operating income	1,774,804	1,419,485	355,318
Operating expenses:			
Provisions for obsolescence	(251,980)	(130,006)	(121,974)
Allocation to provision for credit risks	(271,269)	(58,488)	(212,781)
Losses on receivables	(6,196)	(135,143)	128,947
Capital losses	(21,536)	(2,371)	(19,165)
Contingent liabilities and other charges	(227,289)	(134,609)	(92,680)
Total operating expenses	(778,270)	(460,618)	(317,652)
TOTAL OPERATING INCOME / (EXPENSES)	**996,534**	**958,868**	**37,666**

The net balance of this item was substantially unchanged compared to the previous year and was positive for € 996,534. The most significant changes relate to the decrease in the item "minor independent works", positively impacted in the previous year by minor independent works for the internal development of a new product line. Tax concessions relating to expenses incurred for research & development activities carried out by Selle Royal S.p.A. and some US subsidiaries also fell.

On the other hand, the item "reimbursements and miscellaneous income" bucks the trend, whose growth is influenced, among other things, by the recognition as non-repayable contributions of the incentives disbursed to the American companies of the Group during 2019/20 in the form of loans to support the maintenance of employment levels (so-called "paycheck protection program"). In greater detail, it should be noted that this program was issued by the US Administration to support small and medium-sized enterprises that had not reduced their workforce, by 30 June 2020, due to the effects of the CoViD-19 pandemic. Since Crank Brothers Inc., Selle Royal USA, Inc. and SR56, Inc. demonstrated compliance with the conditions necessary to obtain the conversion of the loans into grants, during the year in question income was recorded for a total of € 387,911, subject to obtainment the formal waiver of the repayment obligation from the lending institutions.

24. OTHER FINANCIAL INCOME and EXPENSES

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

	2020/21	2019/20	*Change*
Financial income:			
Bank and postal interest	115,381	56,561	58,821
Dividends	4,684	480	4,204
Other financial income	250,866	73,130	177,737
Total financial income	370,932	130,171	240,761
Financial charges:			
Interest on bonds	(569,715)	(632,899)	63,184
Interest expense	(1,307,210)	(1,577,081)	269,872
Interest cost provision for employee seve	(2,525)	(13,503)	10,978
Discounts	(859,168)	(483,590)	(375,578)
Fees on loans	(302,253)	(285,365)	(16,888)
Other financial charges	(238,081)	(223,601)	(14,480)
Total financial charges	(3,278,951)	(3,216,039)	(62,912)
Net exchange rate differences	(962,095)	(415,903)	(546,191)
TOTAL FINANCIAL INCOME / (EXPENSES)	**(3,870,114)**	**(3,501,771)**	**(368,343)**

This item, negative for € 3,870,114, was positively affected by the decrease in interest expense to service the debt subscribed by some Group companies, as well as lower interest on the bond loan issued by Selle Royal SpA. The item “other financial charges” includes the recognition of financial charges related to the adoption of IFRS 16.

On the other hand, the item relating to cash discounts increased significantly, in line with the increase in turnover.

Lastly, the impact of the net exchange rate differences was considerably worse, which, overall, was negative in the year in question for € -962,095 (compared to a negative balance of € -415,903 in the previous year). This item includes both exchange gains and losses realised as at 30 June 2021, 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.

25. 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.

	2020/21	**2019/20**	***Change***
Current taxes	6,669,049	1,634,783	5,034,266
Deferred tax (assets)/liabilities	162,327	(58,132)	220,459
TOTAL TAXES FOR THE YEAR	**6,831,377**	**1,576,652**	**5,254,725**

The increase in current taxes is attributable to the better results achieved by the Group companies. The decrease in the balance relating to deferred tax assets is mainly due to lower deferred tax assets recognised during the period.

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

26. 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 2021, amounting to € 19,846,067 (of which € 7,702,004 in Selle Royal S.p.A. and € 9,620,850 in Selle Royal China, the latter with a positive net financial position), was down compared to the previous year, mainly due to the cash outlay related to the distribution of the extraordinary dividend mentioned above.

As at 30 June 2021 (similar to 30 June 2020) there are no restrictions or limitations on the use of the Group's cash and cash equivalents.

27. 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:

	30/06/2021	**30/06/2020**	***Change***
Trade receivables	29,365,523	16,526,874	12,838,648
Bad debt provision	(912,207)	(816,788)	(95,418)
TRADE RECEIVABLES, net	**28,453,316**	**15,710,086**	**12,743,230**

Receivables insured at the date of the Report amounted to € 18.8 million, compared to € 12.8 million at 30 June 2020.

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 foreign and domestic customers, through a non -*recourse*factoring transaction, to a leading bank for € 2,947,761; the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd. completed a similar transaction for a value of € 1,066,741. During the previous year, the cumulative value of the assignments of receivables without recourse made by the same

companies was equal to € 2,213,670.

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

	Balance as at 30 June 2020	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2021
Bad debt provision	816,788	281,716	(10,448)	(176,558)	707	912,207
TOTAL BAD DEBT PROVISION	**816,788**	**281,716**	**(10,448)**	**(176,558)**	**707**	**912,207**

28. 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:

	30/06/2021	**30/06/2020**	***Change***
Raw materials, supplies and consumables	9,767,182	8,796,944	970,238
Work in progress and semi-finished products	4,631,511	3,642,547	988,964
Finished products and goods	12,649,871	11,387,371	1,262,500
Goods in transit	2,378,635	1,381,164	997,471
Gross inventories	**29,427,199**	**25,208,026**	**4,219,173**
Provision for obsolescence	(2,210,367)	(2,522,944)	312,577
Provision for unrealised intra-Group margin	(898,287)	(940,646)	42,359
INVENTORIES	**26,318,546**	**21,744,437**	**4,574,109**

The growth of this item can be seen in each inventory category and is conducive to the higher business volumes. On the other hand, the index relating to inventory days, calculated by comparing inventories to the cost of goods sold, shows a marked decrease from 105 days as at 30 June 2020 to 82 days as at 30 June 2021.

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

	Balance as at 30 June 2020	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2021
Provisions for obsolescence	2,522,944	265,855	-	(559,170)	(19,261)	2,210,367
Provision for unrealised intra-Group margin	940,646	171,625	(213,983)	-	-	898,287
TOTAL ADJUSTMENT PROVISIONS of INVENTORIE	**3,463,590**	**437,479**	**(213,983)**	**(559,170)**	**(19,261)**	**3,108,654**

29. TAX RECEIVABLES

Tax receivables increased compared to the balance as at 30 June 2020, as detailed below:

	30/06/2021	30/06/2020	*Change*
Current tax receivables:			
For direct taxes	1,555,585	1,000,050	555,535
For indirect taxes	137,865	218,150	(80,285)
For other withholdings	149,963	192,518	(42,555)
Subtotal current taxes	1,843,413	1,410,717	432,695
Current deferred tax assets	423,494	400,486	23,009
TOTAL TAX RECEIVABLES	**2,266,907**	**1,811,203**	**455,704**

The increase in receivables for direct taxes refers entirely to the Brazilian subsidiary which, following the favourable outcome of a tax dispute, recorded a receivable for direct taxes that can be offset against future tax payables.

The other items did not undergo substantial changes during the period.

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

30. OTHER CURRENT ASSETS

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

	30/06/2021	30/06/2020	*Change*
Advance costs	154,547	52,945	101,602
IRAP refund application	-	30,538	(30,538)
Accrued income and prepaid expenses	598,724	675,071	(76,347)
Sundry receivables	727,126	387,082	340,044
TOTAL CURRENT ASSETS	**1,480,397**	**1,145,637**	**334,760**

The higher costs advanced mainly relate to expenses incurred close to the end of the tax year and relating to promotional events or activities to be held in the following year; in this regard, it should be noted that the comparison figure is abnormally low due to the cancellation of all sector events and internal promotion in the third and fourth quarter of 2020, due to the pandemic.

The residual balance as at 30 June 2020 of the item “IRAP refund application” was prudentially reversed during the year, as it was considered at risk in terms of possible collectability.

Lastly, the growth in the item “sundry receivables” relates to a financial lease transaction for a new production plant that will be installed at the Selle Royal SpA facility during the following

year and aimed at increasing production capacity. as well as the expected improvement in efficiency.

NON-CURRENT ASSETS

31. 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 2020	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2021
Research and development costs	443	-	-	-	(455)	12	-
Industrial patent rights and intellectual property rights	1,967,896	307,010	-	-	(632,974)	(53,578)	1,588,355
Concessions, licenses, trademarks and similar rights	19,602,934	291,643	(3,059)	-	(418,699)	5,003	19,477,822
Others	71,631	-	-	-	(46,535)	456	25,552
Fixed assets in progress and payments on account	391,183	26,670	-	(365,506)	-	(1,382)	50,964
Total intangible assets	**22,034,087**	**625,323**	**(3,059)**	**(365,506)**	**(1,098,663)**	**(49,490)**	**21,142,693**

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 € 18,258,042; 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.

32. 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 2020	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2021
Land and buildings	8,542,276	79,483	-	-	(992,282)	(65,087)	7,564,390
Right of use of leased assets	8,052,061	122,194	-	-	(1,267,949)	(52,782)	6,853,524
Plant and machinery	8,125,287	1,423,485	(969)	-	(1,200,345)	190,108	8,537,565
Industrial and commercial equipment	4,336,295	1,404,955	(2,227)	1,306,078	(2,200,701)	(19,970)	4,824,429
Other assets	1,056,101	863,895	(34,636)	(97,679)	(368,839)	38,167	1,457,009
Fixed assets in progress and payments on account	1,189,338	937,775	-	(842,893)	-	8,477	1,292,697
Total tangible assets	**31,301,359**	**4,831,786**	**(37,832)**	**365,506**	**(6,030,116)**	**98,912**	**30,529,614**

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.; in this regard, the office in Ogden, USA, previously managed by SR56, Inc., is still active as a secondary office of Crank Brothers, Inc.
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 items "work in progress and advances" (both tangible and intangible) to the item "industrial and commercial equipment", amounting to € 1,306,078, refers to the successful completion of development processes, including multi-year, of new products during the year in question.

33. 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 € 2,045,238, 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 € 15,400 relates to minority interests held by Selle Royal S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 14,677).

Below are some economic indicators of Highway Two Llc., relating to the first half of the 2021 fiscal year, as well as the balance sheet figures as at 30 June 2021, and related comparative data. For the sake of completeness, the tax year of the joint venture coincides with the calendar year.

		30/06/2021		30/06/2020		*Change*
Highway 2 Llc:						
Current assets	$	23,813,171	$	21,244,119	$	2,569,053
Non-current assets	$	1,043,037	$	1,184,613	$	-141,577
Current liabilities	$	-19,918,573	$	-17,801,337	$	-2,117,236
Non-current liabilities	$	-63,444	$	-71,972	$	8,528
Shareholders' equity	**$**	**4,874,191**	**$**	**4,555,423**	**$**	**318,768**
Group interest (50%)	$	2,437,095	$	2,277,711	$	159,384
Carrying amount of the investment in Highway 2 Llc. (in €)		2,045,238		2,026,423		18,815
Other equity investments *(in €)*		15,400		12,446		2,954
Total equity investments		**2,060,638**		**2,038,869**		**21,769**

		1st half of 2021		1st half of 2020		*Change*
Highway 2 Llc:						
Revenues	$	13,144,730	$	4,926,192	$	8,218,538
Cost of sales	$	-7,566,926	$	-4,478,079	$	-3,088,847
Operating and financial costs	$	-5,441,840	$	-291,624	$	-5,150,216
Net profit	**$**	**135,964**	**$**	**156,489**	**$**	**-20,525**
Group interest (50%)	$	67,982	$	78,244	$	-10,262

34. GOODWILL

This item had a balance at the reporting date of € 10,320,071.

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.

35. DEFERRED TAX ASSETS

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

	30/06/2021		30/06/2020	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	18,818	5,250	9,649	2,692
Accrued leave for employees	133,686	40,481	89,286	29,511
Bad debt provision	247,858	52,857	114,217	24,792
Unrealised margin on intra-Group sales	989,788	250,100	1,026,693	259,169
Tangible assets	243,538	41,401	439,904	74,784
Other temporary differences	106,959	33,403	43,092	9,538
Subtotal current deferred tax assets	**1,740,647**	**423,494**	**1,722,841**	**400,486**
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	144,961	40,444	115,730	32,289
Inventory write-down provision	1,685,361	394,650	1,354,725	341,741
Intangible assets	580,859	162,060	-	-
Tangible assets	227,614	30,652	693,170	141,040
Prior tax losses - Federal taxes	566,552	118,976	2,401,547	504,325
Prior tax losses - State taxes	1,296,687	124,926	1,979,614	255,042
Subtotal non-current deferred tax assets	**4,502,033**	**871,708**	**6,544,786**	**1,274,435**
TOTAL DEFERRED TAX ASSETS	**6,242,681**	**1,295,202**	**8,267,627**	**1,674,921**

The change in the current portion of deferred tax assets is mainly related to the deferred tax effect on the higher value of the bad debt provision.

The decrease in non-current deferred tax assets, allocated against previous tax losses, relates to the relative use in light of the profits achieved by the companies to which they referred.

36. FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 509,813, 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.

37. OTHER NON-CURRENT ASSETS

This item, amounting to € 668,824, mainly relates to security deposits relating to lease contracts of Selle Royal S.p.A. and Crank Brothers, Inc.

CURRENT LIABILITIES

38. 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 amounted to € 22,080,469, a significant increase compared to the previous year due to the increase in business.

39. TAX PAYABLES

The item in question is detailed below:

	30/06/2021	**30/06/2020**	***Change***
Direct taxes	1,175,186	344,136	831,049
Indirect taxes	931,773	1,037,259	(105,486)
Local taxes	54,327	45,104	9,223
Withholding taxes on employees and otl	1,485,159	586,193	898,966
Payables from tax disputes	2,616,446	2,616,446	-
TOTAL TAX PAYABLES	**6,262,892**	**4,629,139**	**1,633,753**

The higher payables for direct taxes are attributable to the significant profits recorded by the Group companies; the increase in payables for withholding taxes, almost entirely borne by the parent company Selle Royal SpA, reflects the portion withheld by the employer as withholding agent for the higher performance bonuses recognised by virtue of the extremely positive results achieved.

During the current year, steps were taken to reclassify under this item the payables from tax disputes, against which a provision for risks had already been allocated. For a better representation and comparability of the data, as required by IFRIC 21, the balance as at 30 June 2020 was restated accordingly.

40. MEASUREMENTS AT FAIR VALUE

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

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

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

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

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

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

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

As at 30 June 2021

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	26, 40	19,846,067	19,846,067	-	-
Equity investments	33	2,060,638	-	-	2,060,638
Financial assets at fair value	36, 40	509,813	-	-	509,813
TOTAL ASSETS		**22,416,519**	**19,846,067**	**-**	**2,570,452**
Loans	40, 41, 50	47,362,266	-	47,362,266	-
Bonds	40, 46	7,778,960	-	7,778,960	-
Derivative financial instruments	40, 42	1,452	-	1,452	-
TOTAL LIABILITIES		**55,142,678**	**-**	**55,142,678**	**-**

As at 30 June 2020

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	26, 40	20,888,905	20,888,905	-	-
Equity investments	33	2,038,869	-	-	2,038,869
Financial assets at fair value	36, 40	427,050	-	-	427,050
TOTAL ASSETS		**23,354,825**	**20,888,905**	**-**	**2,465,920**
Loans	40, 41, 50	46,325,523	-	46,325,523	-
Bonds	40, 46	9,654,745	-	9,654,745	-
Derivative financial instruments	40, 42	5,288	-	5,288	-
TOTAL LIABILITIES		**55,985,556**	**-**	**55,985,556**	**-**

41. SHORT-TERM LOANS

The balance of this item, as at 30 June 2021, amounting to € 20,630,896, a marked decrease 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. The decrease is essentially attributable to the non-use of short-term credit lines by Selle Royal SpA at the balance sheet date.

42. CURRENT FINANCIAL LIABILITIES AT FAIR VALUE

This item, amounting to € 1,452, 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 ”).

43. 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 2022.

44. OTHER CURRENT LIABILITIES

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

	30/06/2021	**30/06/2020**	***Change***
Payables to employees	6,099,043	4,725,475	1,373,568
Payables to social security institutions	825,331	632,742	192,589
Payables to sales agents	305,035	202,962	102,073
Payables for tax consolidation	1,339,644	136,761	1,202,883
Accrued expenses and deferred income	168,747	24,365	144,382
Sundry payables	952,253	693,290	258,963
TOTAL CURRENT LIABILITIES	**9,690,052**	**6,415,595**	**3,274,457**

All components of this nature were up compared to the previous year; the most significant changes concern payables to employees, which include the amount due for the month's salary for June (typically paid in the following month), holidays accrued and thirteenth month's pay (where this entitlement or other similar payments are present) and payables for bonuses on the following results that are allocated on an accrual basis. The higher value of payables for tax consolidation corresponds to the higher IRES balance transferred by Selle Royal SpA to Dec. 28, 1928 Holding SpA, the latter a lead company in the national tax consolidation, by virtue of the profit achieved by the parent company in the year object.

NON-CURRENT LIABILITIES

45. EMPLOYEE BENEFITS

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

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

- mortality rate: these data were taken from the actuary technician on the basis of the RG48 mortality tables published by the State General Accounting Office;
- disability rate: the annual probabilities of elimination from the service due to incapacity were inferred on the basis of what was published by INPS in 2000;
- annual probability of elimination from the service for other reasons: this was assumed to be 0.5%, determined on the basis of the historical trend of this parameter within the company;
- annual probability of request for 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 0.25% based on the average financial duration of the liabilities to employees;
- annual rate of increase in employee severance indemnity: as envisaged by art. 2120 of the Italian Civil Code, is determined as 75% of the inflation rate plus 1.5% and equal to 2.10%;
- annual inflation rate: estimated at 0.80% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2020	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 30 June 2021
Provisions for employees	1,972,904	37,883	(168,996)	2,525	28,366	1,762	1,874,444
TOTAL	**1,972,904**	**37,883**	**(168,996)**	**2,525**	**28,366**	**1,762**	**1,874,444**

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	1,787,986
-1% on the turnover rate	1,826,420
+1/4% on the annual inflation rate	1,833,337
-1/4% on the annual inflation rate	1,779,188
+1/4% on the annual discount rate	1,762,882
-1/4% on the annual discount rate	1,850,859

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

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

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

YEARS	EXPECTED PAY-OUTS
1	131,908
2	164,692
3	68,464
4	75,694
5	97,374

46. OBLIGATIONS

The amount due for bonds is represented in current liabilities, in relation to the portion due within twelve months from the date of the financial statements, and in non-current liabilities for the residual portion.

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

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

During the year, the first repayment instalment of € 2,000,000 was paid. For a more adequate representation, the portion repaid during the period in question was reclassified to the appropriate item of current liabilities.

47. MEDIUM-LONG-TERM LOANS

This item, amounting to € 26,731,370, up by € 7,806,531 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 some unsecured mortgages backed by a government guarantee, according to the methods and terms set forth in the emergency decrees issued by the Italian government to support the liquidity of companies.

48. PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2020	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 30 June 2021
Provision for supplementary customer	69,910	9,259	-	(4,005)	75,164
Provision for payment of foreign agent	115,730	29,231	-	-	144,961
End of mandate indemnity	355,250	51,000	-	-	406,250
TOTAL	**540,889**	**89,490**	**-**	**(4,005)**	**626,375**

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.

49. DEFERRED TAXES

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

	30/06/2021		30/06/2020	
	TEMPORARY DIFFERENCES	**TAX EFFECT**	**TEMPORARY DIFFERENCES**	**TAX EFFECT**
Intangible assets	423,877	97,121	734,448	254,486
Tangible assets	2,379,229	650,196	2,299,990	683,614
Other temporary differences	65,123	13,676	-	-
TOTAL DEFERRED TAXES	**2,868,228**	**760,993**	**3,034,438**	**938,100**

50. NON-CURRENT LIABILITIES for LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due after 30 June 2022.

51. SHAREHOLDERS' EQUITY

The share capital is composed as follows:

Ordinary shares - 6,000,000.00 (with no par value)

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 2021		30 June 2020	
	Shareholders' equ	**Profit for the year**	**Shareholders' equ**	**Group result for the yea**
Selle Royal S.p.A. as per the financial statements	21,372,116	10,144,396	26,453,650	(975,783)
Difference between book value and pro-rata value shareholders' equity of consolidated companies	5,214,939	-	10,604,405	-
Pro-rata results achieved by consolidated subsidiaries	-	11,415,016	-	2,784,853
Application of financial methodology for leased assets	-	-	24,152	(57)
Elimination of intercompany profits included in inventories	(673,714)	31,769	(705,483)	859,195
Other consolidation differences	6,625,516	(6,673,626)	(3,644,954)	(85,850)
Shareholders 'equity and profit for the year pertaining to the Group	**32,538,857**	**14,917,555**	**32,731,770**	**2,582,357**
Shareholders' equity and profit for the year attributable to non-controlling intere:	8,664,645	3,622,371	4,877,490	1,040,347
Shareholders' equity and profit for the year as reported in the consolidated financ	**41,203,502**	**18,539,926**	**37,609,260**	**3,622,704**

These consolidated financial statements, consisting of the Income Statement, the Balance Sheet, the Cash Flow Statement and the Explanatory Notes, provide a true and fair view of the equity and financial position as well as the economic result for the year ended 30 June 2021 and

correspond to the results of the accounting records.

* * *

Pozzoleone (VI), 28 September 2021
The Chairman of the Board of Directors
(Barbara Bigolin)

Selle Royal S.p.A.

Independent Auditors’ Report

Consolidated Financial Statements as at 30 June 2021

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 2021, 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 2021, 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 company'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.

Bari, Bergamo, Bologna, Brescia, Cagliari, Florence, Genoa, Milan, Naples, Padua, Palermo, Pescara, Rome, Turin, Treviso, Trieste, Verona, Vicenza

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

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

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

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

- we identified and evaluated the risks of material errors in the consolidated financial statements, due to fraud or unintentional behaviour or events; we defined and performed the audit procedures in response to said risks; we obtained sufficient and appropriate evidence on which to base our opinion. The risk of not identifying a material error due to fraud is higher than the risk of not identifying a material error deriving from unintentional behaviour or events, since fraud may imply the existence of collusion, falsifications, intentional omissions, misleading representations or forcing of internal control;
- we acquired an understanding of the relevant internal control system for the purposes of the audit, in order to define the appropriate audit procedures in the circumstances and not to express an opinion on the effectiveness of the company'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 2021, 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 2021 and on its compliance with the legal provisions, as well as issuing a declaration on any material errors.

In our opinion, the report on operations referred to above is consistent with the consolidated financial statements of the Selle Royal S.p.A. Group as at 30 June 2021 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, 26 October 2021
BDO Italia S.p.A.
Carlo Consonni
Shareholder
[signature]