

SelleRoyalGroup

CONSOLIDATED
NINE-MONTH
FINANCIAL
REPORT AS AT
31.03.2022

Selle Royal Group 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

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REPORT ON OPERATIONS

Dear Shareholders,

the nine months that ended on 31 March 2022 show a consolidated profit of € 19,542,309 of which € 17,151,253 pertaining to the Group.

SIGNIFICANT EVENTS DURING THE PERIOD

During the nine months in question, the factors that characterised the cycle sector in the previous twelve months continued. The rapid and robust growth in demand for bicycles and accessories at global level continued thanks to some trends that emerged before or in conjunction with the pandemic crisis: the growing ecological awareness, supported by significant public investments for the benefit of an increasingly widespread and safe use of bicycles also in urban contexts; product innovation, of which pedal assisted bicycles are, in their various applications, the most important example; the appeal of cycling, as a unique way of being in contact with the environment.

The nine months in question were also characterised, in addition to the persistence of the pandemic emergency, by two enduring global phenomena already described in the past: the increase in the cost of raw materials and energy on the one hand and the congestion of global logistics flows, on the other hand.

As regards the first, the production plants of the entire Group had to face a rapid increase in the procurement costs of the main categories of materials (plastic, chemical, ferrous and, also, paper derivatives).

As for the second phenomenon, global logistics congestion shows no signs of abating, on the contrary it is further exacerbated by the increase in the cost of oil and the shortage of labour, as highlighted by the Global Supply Chain Pressure Index (GSCPI): this index, calculated monthly by the Federal Reserve of New York, measures the standard deviations with respect to a "normal" situation in the world supply chain, and is calculated by taking 27 variables into account, of both production and logistic nature. With respect to a value of "0", which would indicate a situation of normality and positive values that highlight a situation worse than the average, the index jumped to an unprecedented level of 4.50 at the end of December 2021, and then retraced to 3.31 in February 2022 (before the opportunity to take into account the effects of the war in Ukraine). To give a perspective of the severity of the situation, starting from September 1997 and up to the pre-Covid period, the index had reached an all-time high

of 1.72 in April 2011, when the Japanese automotive sector was blocked by the effects of the tsunami of 11 March; in April 2020, in full pandemic emergency, the index had reached 3.60; post 11 September 2001 and post sub-prime crisis of 2008, to mention two other crucial events, the index had fallen into negative territory (source: <https://libertystreeteconomics.newyorkfed.org/2022/03/global-supply-chain-pressure-index-march-2022-update>).

2022 finally opened in the shadow of growing tensions on the eastern Ukrainian border, culminating in the country's invasion by the Russian Federation army and in the continuing war scenario, which further accentuated the tensions on the currency, capital and commodities markets, causing a further deterioration to a macroeconomic framework which was already under pressure due to the forecast of an inflation-driven slowdown in global growth.

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

On 12 January 2022, the Shareholders' Meeting of Selle Royal Group S.p.A., in addition to the change of company name (it should be recalled that the company was previously named Selle Royal S.p.A.), resolved to approve a project aimed at the listing of the same on the electronic equity market Euronext Milan organised and managed by Borsa Italiana S.p.A., and in particular on the Euronext STAR Milan segment, if the conditions are met. This placement will be completed in accordance with market conditions and subject to obtaining the required approvals from Borsa Italiana S.p.A. and CONSOB.

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

Further relevant events that occurred in the current fiscal year, which had already been acknowledged in the consolidated half-yearly report as at 31 December 2021, are reported below.

As regards the corporate structure, on 6 July 2021, Jiangyin Selle Royal Cycling Co., Ltd., a company under Chinese law, 68.29% owned by the Selle Royal group, was established through the Hong Kong holding Selle Royal Asia Limited (the remaining interest is held by the

same minority shareholder of Selle Royal Vehicle (China) Co., Ltd). This company was established in order to take over the concession of land for industrial use located in the municipality of Jiangyin (province of Jiangsu, People's Republic of China), to be used for the construction of a new production plant. The land was optioned and the necessary discussions are underway with the relevant local administration in order to obtain the necessary authorisations and building permits. This new initiative became necessary due to the expropriation notification received by the subsidiary Selle Royal Vehicle (China) Co., Ltd. during the first half of the current fiscal year, and relating to the land on which its production plant stands. The date of execution of the expropriation measure and the amount to be paid as compensation have not yet been defined.

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

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

THE SELLE ROYAL GROUP and the CORONAVIRUS-19 PANDEMIC

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

As regards the Selle Royal Group, the adoption of 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 occurred within the facilities, thus making it possible to increase the output volumes, needed to deal with the increased demand from the various markets in which the Group operates.

THE SELLE ROYAL GROUP and the WAR EVENTS in UKRAINE

Despite having commercial relations with counterparties residing in Ukraine, the Russian

Federation and Belarus, the Selle Royal Group is not significantly exposed to the risks deriving from the ongoing war events in Ukraine. The turnover generated for the Group in these countries, even in aggregate form, represents an essentially insignificant portion of the consolidated turnover. At the same time, none of the Group's direct suppliers are based in those countries, so no significant impacts on the supply chain are expected at present.

ECONOMIC PERFORMANCE

The income statement for the first nine months of 2021/22 is shown below, compared with the same period of the previous year:

	9 months as at 31 March				% change
	2022	% of revenues	2021	% of revenues	
Revenues	166.059.497	100,0%	146.600.113	100,0%	13,3%
Cost of sales	92.461.325	55,7%	82.385.932	56,2%	12,2%
GROSS MARGIN	73.598.172	44,3%	64.214.180	43,8%	14,6%
Operating costs	40.346.481	24,3%	35.296.464	24,1%	14,3%
EBITDA	33.251.691	20,0%	28.917.716	19,7%	15,0%
Amortisation/depreciation and write-downs of asset:	5.690.838	3,4%	5.290.230	3,6%	7,6%
EBIT	27.560.853	16,6%	23.627.487	16,1%	16,6%
Financial income / (charges) and other financial comp	(1.921.968)	-1,2%	(3.299.584)	-2,3%	-41,8%
PRE-TAX RESULT	25.638.884	15,4%	20.327.903	13,9%	26,1%
Taxes for the year	6.096.576	3,7%	6.097.123	4,2%	0,0%
NET PROFIT FOR THE YEAR	19.542.309	11,8%	14.230.780	9,7%	37,3%
Minority interests	2.391.056	1,4%	2.637.444	1,8%	-9,3%
PROFIT FOR THE YEAR PERTAINING TO THE GROUP	17.151.253	10,3%	11.593.336	7,9%	47,9%

The period in question, which ended as at 31 March 2022, recorded sales of € 166.1 million, a marked increase compared to the turnover in the same period of the previous year (+13.3%). Moreover, during the nine-month period, the Group's margins increased (from 43.8% to 44.3%), despite the impact deriving from the increase in the procurement costs of raw materials.

The increase in operating costs, and in particular in some industrial costs linked to production volumes, was partly driven by the growth in turnover; to these, there are general and

administrative costs of a non-recurring nature and linked to the listing process currently in progress. Overall, however, the Group continues to benefit from an operating leverage effect, which brought the EBITDA margin to 20.0% of revenues (compared to 19.7% in the comparison period). In absolute terms, this item reached € 33.3 million compared to € 28.9 million in the comparison period, indicating a significant growth of +15.0%.

Net of non-recurring items, adjusted EBITDA was € 34.8 million, with an impact on turnover of 21.0%, while in the period of comparison it was € 28.5 million, with a margin of 19.4% (a growth of +22.2%).

In spite of the increase in amortisation and depreciation compared to the comparative figure, the operating result grew more than proportionally with respect to EBITDA (+16.6%).

The actual financial charges are down compared to the same period of the previous year by approximately € -0.3 million. Including exchange rate differences, the overall figure was down by approximately € -1.4 million also due to the lower impact of the latter compared to the previous year (€ +264 thousand compared to € -785 thousand in the first nine months of 2020/21).

As outlined, the first nine months closed with a strongly growing net result (+37.3%) compared to the previous period (€ 19.5 million and € 14.2 million, respectively), with an incidence of 11.8% on turnover (10.3% when considering only the profit pertaining to the Group; +47.9% compared to the first nine months of 2020/21).

FINANCIAL POSITION

The financial position of the Group as at 31 March 2022, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2021, is as follows:

	31/03/2022	30/06/2021	Change
Trade receivables	37.283.413	28.453.316	8.830.097
Inventories	45.894.041	26.318.545	19.575.496
Tax receivables	4.045.368	2.266.907	1.778.461
Other current assets	1.249.733	1.480.397	(230.664)
CURRENT ASSETS	88.472.555	58.519.166	29.953.389
Trade payables	26.406.543	22.080.469	4.326.074
Tax payables	5.957.000	6.262.892	(305.892)
Other current liabilities	11.173.256	9.690.052	1.483.205
CURRENT LIABILITIES	43.536.799	38.033.412	5.503.387
NET WORKING CAPITAL	44.935.756	20.485.753	24.450.002
Tangible assets	37.654.110	30.529.614	7.124.496
Intangible assets	20.783.709	21.142.693	(358.984)
Equity investments	2.283.673	2.060.638	223.034
Goodwill	10.492.994	10.320.071	172.923
Other non-current assets	2.761.942	2.050.345	711.597
NON-CURRENT ASSETS	73.976.427	66.103.361	7.873.066
Employee severance indemnity and other provisions	2.536.443	2.500.819	35.624
Deferred taxes	956.938	760.993	195.946
NON-CURRENT LIABILITIES	3.493.382	3.261.812	231.570
NET INVESTED CAPITAL	115.418.801	83.327.302	32.091.499
Short-term financial debt, net	6.840.383	3.770.491	3.069.891
Medium/long-term financial debt	45.058.127	38.353.309	6.704.819
NET FINANCIAL DEBT	51.898.510	42.123.800	9.774.710
Share capital and other reserves	34.439.529	17.621.302	16.818.227
Group profit for the year	17.151.252	14.917.555	2.233.697
GROUP SHAREHOLDERS' EQUITY	51.590.781	32.538.857	19.051.924
Share capital and other reserves	9.538.454	5.042.274	4.496.179
Profit for the year pertaining to minority interests	2.391.056	3.622.371	(1.231.315)
MINORITY INTERESTS	11.929.510	8.664.645	3.264.865

The increase in net working capital (€ +24,4 million) was basically driven by higher inventories and higher trade receivables, while the increase in other items classified under current assets was more than offset by the higher balance of current liabilities with respect to the comparison date. The dynamics of this data clearly refer to the growth in size of the Group; furthermore, the complex global logistics situation continues to affect the balance of

inventories, as well as the higher unit value resulting from the increase in procurement costs. With specific reference to products originating in Asia, the marked lengthening of the time elapsing between the booking of sea freight and the delivery of goods to destination led to a significant increase in the level of stocks as at 31 March, both as regards finished products and goods in transit. The continuous increase in the costs of raw materials and some episodic critical issues in the procurement of the same have also led to the evaluation of an increase, where possible, of stocks, both in order to reduce possible production inefficiencies and to mitigate the inflationary impact; as previously commented, the result of these strategic choices, together with the revision of the sales price lists, made it possible to increase the Group's gross profitability.

The operating investments ("capital expenditure") made by the various Group companies, for a total amount of € 11.5 million (of which € 4.8 million pertaining to the increase in the item "rights of use" recognised in accordance with the IFRS 16 accounting standard), are mainly aimed at product innovation, one of the key elements on which the Group bases its future growth, the renewal and improvement of production sites and the protection of intellectual assets consisting in particular of the over 70 registered product and/or process patents and trademarks under which the Group markets its products. Net invested capital rose by € 32.1 million to € 115.4 million, mainly driven by the trend in net working capital.

Net financial debt increased by around € 9.8 million to € 51.9 million, with an increase mainly concentrated in the medium/long-term portion, as shown in the table below:

		31/03/2022	30/06/2021	Change
A	Cash on hand	20.949.873	19.846.067	1.103.806
B	Cash equivalents	-	-	-
D	Liquidity (A + B + C)	20.949.873	19.846.067	1.103.806
E	Current financial debt **	15.699.456	10.963.212	4.736.244
F	Current portion of non-current financial debt ***	12.090.800	12.653.347	(562.547)
G	Current financial debt (E + F)	27.790.256	23.616.559	4.173.697
H	Net current financial debt (G-D)	6.840.383	3.770.491	3.069.891
I	Non-current financial debt ****	41.110.053	32.477.712	8.632.341
J	Debt instruments	3.948.074	5.875.597	(1.927.523)
K	Trade payables and other non-current payables	-	-	-
L	Non-current financial debt (I + J + K)	45.058.127	38.353.309	6.704.819
M	Net financial debt (H + L)	51.898.510	42.123.800	9.774.710

* Excluding current portion of non-current financial debt; includes the current financial liability at fair value (equal to € 65 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

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

DERIVATIVE FINANCIAL INSTRUMENTS

The parent company Selle Royal Group S.p.A. subscribed three derivative financial instruments, with the aim of hedging the risk of fluctuations in interest rates on as many medium/long-term loans. As at 31 March 2022, the market value of one of these is recognised under “current financial liabilities at fair value” since the underlying loan matures in May 2022. The market value of the other two, on the other hand, is recorded under non-current assets, as they expire in September 2027.

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

INVESTMENTS

As already mentioned, during the current year the Group incurred operating investments (capital expenditure) of approximately € 11.5 million, as shown in the following detail:

9 months as at 31 March 2022

Land and buildings	124.819
Right of use of leased assets	4.796.896
Plant and machinery	2.560.001
Industrial and commercial equipment	967.376
Other assets	376.272
Fixed assets in progress and payments on account	2.331.986
Sub-total - Investments in tangible assets	11.157.350
Research and development costs	-
Industrial patent rights and intellectual property rights	57.516
Concessions, licences, trademarks and similar rights	182.426
Other	-
Fixed assets in progress and payments on account	96.545
Sub-total - Investments in tangible assets	336.487
TOTAL OPERATING INVESTMENTS	11.493.837

As shown in the previous table, € 4.8 million relates to the recognition of rights of use on assets under lease, leases or similar contracts, for which the application of IFRS 16 is required.

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

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

RISK ANALYSIS

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

Financial risks

Credit risk

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

Risks associated with changes in interest rates

As at 31 March 2022, approximately 77% of the Group's consolidated gross financial debt was floating rate, equal to € 48.9 million. In relation to a portion of this debt (approximately 31% of the total), the parent company Selle Royal Group S.p.A. made use of derivative financial instruments (known as IRS, interest rate swap) to hedge the risk of fluctuations in interest rates on three medium/long-term loans. The aggregate mark-to-market of these derivatives as at 31 March 2022 was positive for € 534,112. The remaining part of the consolidated gross financial debt at floating rate, equal to approximately 46% of the total, is not hedged by interest rate risk hedging instruments. Significant changes in interest rates could result in an increase in financial charges relating to floating rate debt.

Liquidity risk

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

Risks associated with exchange rate trends

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

Operational risks

Risks associated with the operations of production plants

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

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

As mentioned previously, the purchase prices of some key raw materials in the Group's production processes increased significantly during the half-year. In the same way, the global logistics crisis has partly affected the normal operations of the Group companies, both as regards the procurement of components and products sold of Asian origin, and as regards shipments to customers.

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

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

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

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

Risks associated with dependence on Group brands

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

Risks associated with labour shortage and any increase in related costs

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

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

During the years 2020 and 2021, the Group had to comply with the restrictive measures adopted by the national governments of the individual countries in which the Group companies operate to deal with the Covid-19 health emergency ("Coronavirus"), which caused a major international economic crisis, characterised by a significant contraction in demand on the main markets and in global gross domestic product. The cycle sector was marginally impacted by the pandemic, to the extent that the Group recorded substantially stable revenues in the year ended 30 June 2020 compared to the previous year (€ 130.1 million in the year ended 30 June 2020 compared to € 130.6 million in the year ended 30 June 2019, equal to -0.3%), and strong growth during the year ended 30 June 2021 (revenues of € 205.1 million, an increase of +58% compared to the previous year). Nevertheless, if the Covid-19 pandemic, whose evolution is still uncertain, were to persist or worsen, leading to the adoption of new restrictive measures by the competent national authorities (as, in fact, it is the case in China; please refer to the next paragraph for a more detailed examination of this issue), the Group could be exposed to the risk of a slowdown or decrease in sales of its products. Any occurrence of these circumstances could have negative effects on the Group's business and economic, equity and financial situation.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Starting from March, the "Omicron" variant became widespread in the People's Republic of China. In spite of the fact that the official data on the spread of the virus are absolutely contained compared to the similar data in the main European countries and beyond, the "zero tolerance" policy adopted by the local government has imposed draconian measures to limit the possibility of movement which have affected tens of millions of inhabitants; moreover, unlike in the past, it is a metropolis such as Shanghai, the economic heart of the country and the country's main export port, to be literally blocked. The impact of these containment measures on global logistics and the components market cannot yet be fully assessed; on the other hand, the performance of the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd in April was partially affected. Lastly, the subsequent worsening of the health situation in the province of Jiangsu, where the Group's Chinese plant is based, prompted the local government to adopt stringent measures to combat the spread of the epidemic, including significant restrictions on personal freedom of movement and forced closure of economic activities, including the Group's factory. At the date of approval of this interim report, the plant is closed

and discussions are underway with the local authorities to define the reopening date; the local management, in coordination with that of the parent company, is evaluating and will adopt the most appropriate measures to limit the impact of this event in terms of customer service and on the Group's economic and financial results.

BUSINESS OUTLOOK

The current context is significantly affected by the uncertainty relating to the evolution of the Covid-19 pandemic in the various countries where the Group is present, by the persistent turbulence in the global markets of some strategic raw materials and by the critical global logistics issues which the sector has been experiencing for months. 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 outbreak of the Covid-19 pandemic and, to a certain extent, strengthened by the changes in social behaviour it brought about.

The performance in the first nine months of the year, despite the critical issues highlighted above, testifies to the solidity and resilience of the business model adopted by the Group. At present, despite the fears relating to the possible impacts of the spread of Omicron in China, as described above, the economic and financial objectives set for the current tax year are considered achievable, and in the first nine months of the year they are in line with the forecasts made.

RELATIONS WITH PARENT COMPANIES, AFFILIATES AND RELATED PARTIES

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

ENVIRONMENT, PERSONNEL and SECTOR REGULATIONS

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

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

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

The average number of employees in the current year was 1,127, essentially stable compared to the 1,153 employees in the previous year. The net decrease of around 26 units is entirely attributable to the production employees of the Brazilian subsidiary Royal Ciclo Industria de Componentes Ltda. In addition to the employees hired by the Group companies, a total of an additional 327 employees were hired in the current period through temporary work agencies.

Average workforce	9 months as at 31 March 2021/22	Financial Year 2020/21	Change
Executives	27,0	25,5	1,5
Employees	237,1	227,2	10,0
Workers	861,8	899,5	(37,7)
Others	1,0	1,0	-
Total	1.126,9	1.153,2	(26,3)

* * *

Pozzoleone (VI), 16 May 2022

The Chairperson of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

Consolidated income statement^(*)

		9 months as at 31 March		
		2022	2021	% Change
	NOTES			
Revenues	16	166.059.497	146.600.113	13,3%
Cost of sales	17	92.461.325	82.385.932	12,2%
GROSS MARGIN		73.598.172	64.214.180	14,6%
Industrial costs	18	4.851.914	4.255.177	14,0%
Commercial and promotion costs	19	10.731.369	10.232.223	4,9%
Costs of the management structure	20	13.312.409	11.988.376	11,0%
General and administrative costs	21	12.314.017	8.668.859	42,0%
Other operating income and (expenses)	22	863.228	(151.829)	n.s.
EBITDA		33.251.691	28.917.716	15,0%
Amortisation/depreciation and write-downs of fixed assets		5.690.838	5.290.230	7,6%
EBIT		27.560.853	23.627.487	16,6%
Profits / (losses) from companies measured at equity		-	-	-
Gains / (losses) on acquisition/disposal of financial assets		-	-	-
Financial income / (charges)	23	(1.921.968)	(3.299.584)	-41,8%
PRE-TAX RESULT		25.638.884	20.327.903	26,1%
Taxes for the year	24	6.096.576	6.097.123	0,0%
NET PROFIT FOR THE YEAR		19.542.309	14.230.780	37,3%
Minority interests		2.391.056	2.637.444	-9,3%
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP		17.151.253	11.593.336	47,9%

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

Consolidated statement of comprehensive income

	NOTES	9 months as at 31 March 2022	9 months as at 31 March 2021
Net profit		19.542.309	14.230.780
Change in fair value of hedging derivatives net of the tax effect		407.362	(1.923)
Actuarial gains / (losses)		101.368	4.910,00
Acquisition of shares in companies already subject to control		(684.950)	-
Translation differences of foreign financial statements		2.076.891	89.140
Total comprehensive profit / (loss) after tax		21.442.980	14.322.908

Consolidated balance sheet^(*)

		31/03/2022	30/06/2021	Change
ASSETS	NOTES			
Cash and cash equivalents	25, 39	20.949.873	19.846.067	1.103.806
Trade receivables	26	37.283.413	28.453.316	8.830.097
Inventories	27	45.894.041	26.318.546	19.575.495
Tax Receivables	28	4.045.368	2.266.907	1.778.461
Other current assets	29	1.249.733	1.480.397	(230.664)
TOTAL CURRENT ASSETS		109.422.428	78.365.233	31.057.195
Intangible Assets	30	20.783.709	21.142.693	(358.984)
Tangible Assets	31	37.654.110	30.529.614	7.124.496
Equity Investments	32	2.283.673	2.060.638	223.034
Goodwill	33	10.492.994	10.320.071	172.923
Deferred tax assets	34	956.226	871.708	84.518
Financial assets at fair value	35, 39	1.166.753	509.813	656.939
Other non-current assets	36	638.962	668.824	(29.861)
TOTAL NON-CURRENT ASSETS		73.976.427	66.103.361	7.873.066
TOTAL ASSETS		183.398.855	144.468.594	38.930.261

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

		31/03/2022	30/06/2021	Change
LIABILITIES				
Trade payables	37	26.406.543	22.080.469	4.326.074
Tax payables	38	5.957.000	6.262.892	(305.892)
Bonds - Portion maturing within 12 months	39, 45	1.903.363	1.903.363	-
Short-term loans	39, 40	23.859.950	20.630.896	3.229.054
Current financial liabilities at fair value	39, 41	65	1.452	(1.388)
Current liabilities for leased assets	42	2.026.878	1.080.847	946.031
Other current liabilities	43	11.173.256	9.690.052	1.483.205
TOTAL CURRENT LIABILITIES		71.327.055	61.649.971	9.677.084
Provisions for employees	44	1.782.762	1.874.444	(91.682)
Bonds - Portion maturing beyond 12 months	39, 45	3.948.074	5.875.597	(1.927.523)
Medium / long-term loans	39, 46	33.354.258	26.731.370	6.622.889
Provisions for risks and charges	47	753.681	626.375	127.306
Payables for deferred taxes	48	956.939	760.993	195.946
Non-current liabilities for leased assets	49	7.755.795	5.746.342	2.009.453
TOTAL NON-CURRENT LIABILITIES		48.551.509	41.615.121	6.936.388
TOTAL LIABILITIES		119.878.564	103.265.092	16.613.472
SHAREHOLDERS' EQUITY				
Share capital		6.000.000	6.000.000	-
Legal reserve		1.244.082	1.244.082	-
Translation reserve		2.884.280	807.389	2.076.891
Reserve for first-time adoption of IAS		10.716.446	10.716.446	-
Other reserves and undistributed profits		13.594.721	(1.146.615)	14.741.336
Group profit/(loss) for the year		17.151.252	14.917.555	2.233.697
GROUP SHAREHOLDERS' EQUITY	50	51.590.781	32.538.857	19.051.924
Share capital and undistributed profits pertaining to mi		9.538.454	5.042.274	4.496.179
Profit/(loss) for the year pertaining to minority interest:		2.391.056	3.622.371	(1.231.315)
MINORITY INTERESTS	50	11.929.510	8.664.645	3.264.865
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		183.398.855	144.468.594	38.930.261

Statement of changes in shareholders' equity

	Balance as at 30 June 2020	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance indemnity	Dividend distribution	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 30 June 2021
Share capital	6,000,000	-	-	-	-	-	-	6,000,000
Legal reserve	1,244,082	-	-	-	-	-	-	1,244,082
Translation reserve	388,420	-	-	-	-	418,969	-	807,389
Reserve for first-time adoption of IAS	10,716,446	-	-	-	-	-	-	10,716,446
Other reserves and undistributed profits	11,800,466	2,582,359	3,835	(33,276)	(15,500,000)	-	-	(1,146,616)
Group profit/(loss) for the year	2,582,359	(2,582,359)	-	-	-	-	14,917,555	14,917,555
TOTAL GROUP SHAREHOLDERS' EQUITY	32,731,773	-	3,835	(33,276)	(15,500,000)	418,969	14,917,555	32,538,856
Share capital and undistributed profits pe	3,837,143	1,040,347	-	-	-	164,784	-	5,042,274
Profit/(loss) for the year pertaining to mi	1,040,347	(1,040,347)	-	-	-	-	3,622,371	3,622,371
TOTAL MINORITY INTERESTS	4,877,490	-	-	-	-	164,784	3,622,371	8,664,645
TOTAL SHAREHOLDERS' EQUITY	37,609,263	-	3,835	(33,276)	(15,500,000)	583,753	18,539,926	41,203,501

	Balance as at 30 June 2021	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance	Increase in Group interests	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 31 March 2022
Share capital	6,000,000	-	-	-	-	-	-	6,000,000
Legal reserve	1,244,082	-	-	-	-	-8,381,903,504,606	-	1,244,082
Translation reserve	807,389	-	-	-	-	2,076,891	-	2,884,280
Reserve for first-time adoption of IAS	10,716,446	-	-	-	-	-	-	10,716,446
Other reserves and undistributed profits	(1,146,616)	14,917,555	407,362	101,368	-	(684,950)	-	13,594,721
Group profit/(loss) for the year	14,917,555	(14,917,555)	-	-	-	-	17,151,253	17,151,253
TOTAL GROUP SHAREHOLDERS' EQUITY	32,538,856	-	407,362	101,368	-	1,391,941	17,151,253	51,590,781
Share capital and undistributed profits pe	5,042,274	3,622,371	-	-	(79,205)	953,014	-	9,538,454
Profit/(loss) for the year pertaining to mi	3,622,371	(3,622,371)	-	-	-	-	2,391,056	2,391,056
TOTAL MINORITY INTERESTS	8,664,645	-	-	-	(79,205)	953,014	2,391,056	11,929,510
TOTAL SHAREHOLDERS' EQUITY	41,203,501	-	407,362	101,368	(79,205)	2,344,955	19,542,309	63,520,291

Consolidated cash flow statement prepared using the indirect method

	31.03.2022	31.03.2021
STATEMENT OF CASH FLOWS FROM OPERATIONS		
Pre-tax result	25.638.884	20.327.904
<i>Adjustments for</i>		
+/- non-monetary elements		
Depreciation of tangible assets	3.739.984	3.517.093
Amortisation of intangible assets	802.494	823.381
Amortisation of Right Of Use	1.148.361	949.756
Net financial charges	1.866.426	3.296.317
Minor independent works	(5.131)	(4.604)
(Gains)/losses on the sale of property, plant and equipment and financial assets	29.679	119.395
Change in the bad debt provision	101.774	203.948
Changes in deferred taxes, provisions and employee benefits	2.622.901	295.887
Change in cash flow hedge reserve	(407.362)	0
Change in actuarial reserves	(101.369)	(4.910)
Cash and cash equivalents generated by transactions before working capital	35.436.641	29.524.165
+/- change in working capital		
+/- Change in inventories	(22.136.922)	(8.576.314)
+/- Change in trade receivables	(8.931.871)	(15.680.736)
+/- Change in trade payables	4.326.074	9.398.127
+/- Change in other current assets	(308.542)	(337.748)
+/- Change in other current liabilities	212.562	638.313
Cash and cash equivalents generated by transactions	8.597.943	14.965.807
+ Interest collected	69.324	66.412
- Interest paid	(1.467.543)	(1.395.952)
- Taxes paid	(4.260.846)	(2.403.664)
Net cash and cash equivalents from operating activities (A)	2.938.877	11.232.604
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES		
- Payments for acquisitions of property, plant, machinery and other tangible fixed assets	(6.360.455)	(3.001.843)
+ Collections (consideration obtained) for the sale of property, plant, machinery and other tangible assets	4.111	-
- Payments for acquisitions of intangible assets and capitalised costs	(336.487)	(602.685)
- Payments for the granting of advances or loans to third parties	(1.331.257)	(1.040.807)
- Payments for derivatives	(55.543)	(3.267)
Net cash and cash equivalents derived from/used in investing activities (B)	(8.079.630)	(4.648.603)
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES		
+ Collections from obtaining loans	35.563.329	23.882.066
- Payments for rents that fall under the application of IFRS 16	(1.607.383)	(1.217.406)
- (Redemption) bond loan (so-called mini-bond)	(2.000.000)	(2.000.000)
- Loan repayments	(25.711.387)	(17.142.995)
Net cash and cash equivalent derived from/used in financing activities (C)	6.244.559	3.521.665
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)	1.103.806	10.105.666
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	19.846.067	20.888.905
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F) = (D + E)	20.949.873	30.994.571

EXPLANATORY NOTES TO THE CONSOLIDATED INTERIM REPORT AS AT 31 MARCH 2022

1. INTRODUCTION

The consolidated interim report as at 31 March 2022 of Selle Royal Group S.p.A. was prepared in compliance with the IFRSs or International Financial Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission in accordance with the procedure pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 on the date of preparation of this report as well as the provisions of Legislative Decree 38/2005. This consolidated interim financial report was also prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. The consolidated interim report as at 31 March 2022 was prepared for inclusion in the Prospectus envisaged as part of the listing process on the Euronext Milan market organised and managed by Borsa Italiana S.p.A., whose launch was approved by the Board of Directors of Selle Royal Group S.p.A. on 12 January 2022, and is subject to voluntary audit by the independent auditors.

IFRS also means all the revised international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called 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 interim report as at 31 March 2022 consists of the Income Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes that follow.

This interim report was prepared on the basis of the best knowledge of IFRSs and taking into account the best practice on the subject; any future guidelines and interpretative updates will be reflected in subsequent years, according to the methods envisaged from time to time by the reference accounting standards.

All amounts included in this report are presented in Euro, which is the currency of the main economic environment in which the Group operates, unless otherwise indicated.

The consolidated interim report was prepared on a going concern basis, as the directors verified that there were no financial, operational or other indicators that could indicate

critical issues regarding the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

The consolidated interim report was prepared using the interim reports of the Group companies as a basis.

The reference date of the consolidated interim report coincides with the closing date of the first nine months of the financial year of the Parent Company and of the other companies included in the scope of consolidation.

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

The accounting standards adopted by the Group for the preparation of the consolidated interim report as at 31 March 2022 are the same as those adopted for the preparation of the consolidated financial statements as at 30 June 2021.

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

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

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

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

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

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

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

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

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

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

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

Issued in May 2021, IAS 12 requires the recognition of deferred taxes whenever there are temporary differences, i.e. taxes due or recoverable in the future. In particular, it was established that companies, in specific circumstances, may be exempted from recognising deferred tax when they recognise assets or liabilities for the first time. This provision

previously raised some uncertainty as to whether the exemption would apply to transactions such as leasing and dismantling obligations, transactions for which the companies recognise both an asset and a liability. With the amendment to IAS 12, the IFRS clarifies that the exemption does not apply and that companies are required to recognise deferred tax on these transactions. The objective of the amendments is to reduce the diversity in the reporting of deferred taxes on lease agreements and dismantling obligations. The amendments are effective for years starting on 1 January 2023 and early application is envisaged. No material impacts are expected for the Group with reference to this amendment.

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

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

IFRS 17 Insurance Contracts

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

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

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

In May 2020, the IASB published *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits the entity from deducting from the cost of property, plant and equipment any revenue deriving from the sale of items produced while the company is preparing the asset for its use in testing. These revenues must be recognised in the income statement under income from sales as well as the related costs. The amendments were approved on 28 June 2021. The amendment will be effective for years beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for

use at or after the start date of the period prior to the period in which the entity applies this amendment for the first time. No material impacts are expected for the Group with reference to these amendments.

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

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

5. 2018-2020 ANNUAL IMPROVEMENTS

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

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

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

As part of the 2018-2020 annual improvements process of the IFRS standards, the IASB published an amendment to IFRS 9. This amendment clarifies the fees that an entity includes

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

6. FINANCIAL STATEMENT FORMATS AND CLASSIFICATION CRITERIA

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

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

- (a) it will be realised, or held for sale or consumption, in the normal course of the entity's operating cycle;
- (b) it is held primarily for the purpose of trading;
- (c) it is expected to be realised within twelve months of the interim 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 interim reporting date;
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the interim reporting date.

All other liabilities were classified as non-current.

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

- Statement of changes in shareholders’ equity

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

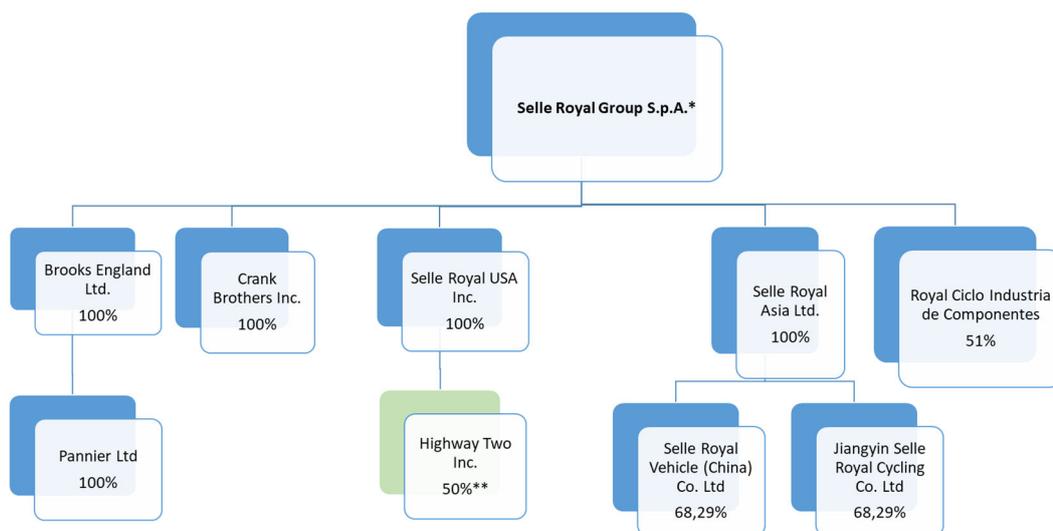
- Cash flow statement

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

7. ACTIVITIES OF GROUP COMPANIES

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

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



* Following the change of company name resolved by the shareholders’ meeting of 12 January 2022

** Consolidated using the equity method

This structure has changed compared to the composition of the Group as at 30 June 2021, due to the establishment, on 6 July 2021, of Jiangyin Selle Royal Cycling Co., Ltd., a company under Chinese law, 68.29% controlled by the Group through the Hong Kong holding company Selle Royal Asia Limited and, for the remainder, by the same local shareholder holding the minority interest in Selle Royal (Vehicle) Co., Ltd. For further details, please refer to the section “Significant events during the period”. On 6 December 2021, the merger by incorporation of SR84 S.r.l. into Selle Royal Group S.p.A. was completed, as resolved by the respective corporate bodies on 28 September 2021. The statutory effects of this transaction became effective as from 31 December 2021, while the taxation effect applied as from 1 July 2021.

Furthermore, please note that on 22 December 2021 Selle Royal Group S.p.A. signed an agreement with M J K Participações Ltda., equal shareholder in the Brazilian company Royal Ciclo Industria de Componentes Ltda., for the purchase of an additional shareholding equal to 1% of the latter's share capital. As a result of this transaction, the parent company holds 51% of the subsidiary's share capital. The higher value recognised to the minority shareholder in the acquisition, with respect to the portion of shareholders' equity of Royal Ciclo Industria de Componentes Ltda. subject to transfer, was recorded as a decrease in shareholders' equity reserves, as required by international accounting standards in the event of increase of interest in companies already subject to control. Finally, during the period in question, the liquidation procedure of the Hong-Kong company Royal Concept Co., Ltd. was concluded.

The consolidated interim report as at 31 March 2022 includes the data of the parent company Selle Royal Group S.p.A. and those of the subsidiaries in which it has, directly or indirectly, the majority of the votes that can be exercised at the Shareholders' Meeting or in which it has decision-making power, i.e. the ability to direct the relevant activities of the investee, i.e. those activities that have a significant influence on the investee's returns.

In particular, the scope of consolidation is broken down as follows:

- **Selle Royal Group S.p.A.**, parent company, with registered office in Pozzoleone (VI), share capital of € 6,000,000. It should be noted that, as already described above, following a shareholders' meeting resolution of 12 January 2022, Selle Royal S.p.A. changed its company name as indicated above.
- **Brooks England Limited**, acquired in 2002, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 239,100, equal to approximately € 301,799, 100% owned by Selle Royal Group S.p.A.
- **Selle Royal USA Inc.** (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 Group S.p.A. A joint venture was also established in 2006 with a leading German operator for the direct distribution of products on the US market. To this end, Highway Two Llc. was established, based in the USA, currently 50% owned by Selle Royal USA Inc. In these consolidated financial statements, Highway Two Llc. is measured using the equity method. The value at the reporting date was € 2.266.022.

- **Crank Brothers Inc.**, with share capital of US\$ 2,000, equal to approximately € 1,802, 100% owned by Selle Royal Group S.p.A.
- **Selle Royal Vehicle (China) Co. Ltd.**, formerly Jiangyin Justek Vehicle Co., Ltd.; the acquisition, completed in February 2010, was effective retroactively from 1 January 2010. The interest in Selle Royal Group S.p.A., through its wholly-owned subsidiary Selle Royal Asia Ltd., grew in 2014/15 from 51.86% of the share capital held since the acquisition to the 68.29% currently held, following a corporate reorganisation. Lastly, it should be noted that the aforementioned company Selle Royal Asia Ltd. is a pure holding company that holds exclusively the equity investment in Selle Royal Vehicle (China) Co. Ltd and does not carry out any activities.
- **Selle Royal Jiangyin Cycling Co. Ltd.**: established on 6 July 2021, with registered office in Jiangyin (Jiangsu province, People's Republic of China), the company is 68.29% owned by Selle Royal Asia Limited.
- **Pannier Ltd.**, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 100.00 (corresponding to approximately € 120), fully subscribed and paid in by the subsidiary Brooks England Ltd. 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, equal to 11,601,802 Brazilian Real, is 51% owned by Selle Royal Group S.p.A.

8. GENERAL PREPARATION CRITERIA AND CONSOLIDATION PRINCIPLES

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

- the book value of the equity investments held by the Parent Company or by the other

companies subject to consolidation is eliminated against the relative shareholders' equity as a result of the assumption of the assets and liabilities of the investee companies;

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

Subsidiaries are those in which the Group simultaneously has:

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

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

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

Subsidiaries are consolidated on a line-by-line basis from the date on which control is actually acquired and cease to be consolidated from the date on which control is transferred to third

parties. The criteria adopted for line-by-line consolidation are as follows:

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

contract expires without a delivery, the accounting amount of the liability is transferred to shareholders' equity. The contractual obligation for the acquisition of own equity instruments gives rise to a liability for the present value of the redemption amount even if the obligation is subordinated to the exercise by the counterparty of the redemption right.

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:

Currency	Exact exchange rate as at			Average exchange rate in 9 months to		
	31 March 2022	30 June 2021	Appreciation / (deprec.)	31/03/2022	31/03/2021	Appreciation / (deprec.)
British Pound (GBP)	0,8460	0,8581	1,43%	0,8466	0,8521	0,65%
US Dollar (USD)	1,1101	1,1884	7,05%	1,1483	1,1725	2,11%
Chinese Yuan Renminbi (RMB)	7,0403	7,6742	9,00%	7,3548	7,6812	4,44%
Brazilian Real (BRL)	5,3009	5,9050	11,40%	6,1397	6,7409	9,79%

9. MEASUREMENT CRITERIA

The measurement criteria, 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 shareholders' equity. In this case, income taxes are also charged directly to shareholders' equity.

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

Profits and losses deriving from the translation of individual receivables and payables and of liquid funds in foreign currency, at the exchange rate in force on the date of the financial statements, are credited and debited respectively to the income statement as financial income components. If a net profit emerges from their conversion at the exchange rate in force at the

end of the year, when the financial statements are approved, this net profit is recorded in a non-distributable reserve for the part not absorbed by any loss for the year.

Fair value measurement

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

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

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

Cash and cash equivalents

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

Trade receivables

Trade receivables are measured on the basis of the impairment model introduced by IFRS 9 on the basis of which the Group measures receivables by adopting an expected loss approach, replacing the IAS 39 framework based on the measurement of incurred losses. The Group has

applied a simplified approach in the calculation of Expected Credit Losses (“ECL”), therefore it does not keep track of changes in credit risk, but recognises a provision for losses based on “ECL” calculated over the entire life of the loan (known as lifetime ECL) at each reference date, based on its historical experience of credit loss, adjusted for specific forward-looking factors of the debtors and the economic context. The amount of the receivables is shown in the balance sheet net of the related bad debt provision. The write-downs reported pursuant to IFRS 9 (including recoveries or write-backs) are recognised in the income statement under the other operating income and charges item.

Inventories

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

The cost configuration used is that of the “weighted average cost”.

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

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

Tangible assets

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

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

requirements to be separately classified as an asset or part of an asset by applying the “Component approach”.

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

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

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

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

The depreciation rates of 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 assets

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

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

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

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

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

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

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

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

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

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

- they play a key role in the Group's strategy and constitute a primary value driver;

- the corporate structure, in its concept of organised tangible assets and organisation in a broad sense, is heavily committed, at the moment, to the dissemination and development of the brands on the markets for the products marketed by the Group, although the aforementioned brands may represent assets that may be freely used in markets adjacent to those of consolidated entities;
- the trademarks are owned and are correctly registered and constantly protected from a regulatory perspective, with options for renewing the legal protection at the end of the registration periods that are inexpensive, easy to implement and without external impediments;
- the products marketed by the Group under these brands are not subject to particular technological obsolescence in consideration of the development activities carried out by the Group that allow them to qualify in the luxury market for the categories of cycling products that are subject to marketing and in which the Group is perceived by the market;
- in fact, the brands are considered by their consumers as constantly innovative and on trend, so much so that they become models to be imitated or inspired by;
- the brands are distinguished, in the typical national and/or international context for each of them, by market positioning and reputation such as to ensure their pre-eminence in the respective market segments, being constantly associated and compared to products of absolute reference;
- in the reference competitive context, it can be stated that the investments to maintain the brands are proportionally limited, compared to the substantial and favourable cash flows expected.

Goodwill

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

Impairment losses

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

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

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

Leases

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

of an identified asset for a period of time.

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

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

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

Financial assets

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

Provisions for risks and charges

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

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

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

statement under “financial income” or “financial charges”.

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

The existence of contingent liabilities, represented by obligations:

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

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

Employee benefits

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

The benefits guaranteed to employees through defined contribution plans (also by virtue of

recent changes in national pension legislation) are recognised on an accrual basis and at the same time give rise to the recognition of a liability measured at nominal value.

Current and deferred taxation

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

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

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

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

Trade and other payables

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

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

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

Payables to banks and other lenders

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

Derivative contracts

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

Share capital

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

Reserve for first-time adoption of IAS/IFRS

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

Other shareholders' equity reserves

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

changes in the severance indemnity provision of employees of the Italian companies of the Group are accounted for, as resulting from the actuarial analysis carried out by professionals enrolled in the professional register to which the data in question are subjected on an annual basis.

10. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated 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 balance sheet, the income statement and the cash flow statement, as well as the information provided.

The final results of the items in the consolidated financial statements for which the above-mentioned estimates and assumptions were used, may differ from those reported in the financial statements of the individual companies due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

The estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement of the period in which the estimate is revised.

Below is a summary of the financial statement items that require greater subjectivity than others on the part of the directors in preparing the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial statements:

- Depreciation/amortisation: changes in the economic conditions of the markets, in technology and in the competitive scenario could significantly affect the useful life of property, plant and equipment and intangible assets and could result in a difference in the timing of the amortisation process, as well as on the amount of depreciation/amortisation costs.
- Income taxes: determined in each country in which the Group operates according to a prudent interpretation of current tax regulations. This sometimes involves complex estimates in determining the taxable income and the deductible and taxable temporary differences between the carrying amounts and taxable amounts.

- Provision for inventory obsolescence: reflects the Company management's estimate of expected impairment losses in relation to inventories, determined on the basis of past experiences. Any anomalous trends in market prices could have repercussions in future inventory write-downs.
- Bad debt provision: the recoverability of receivables is measured taking into account the risk of non-collectability, their age and losses on receivables recognised in the past for similar types of receivables. The 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 "ECLs" is sensitive to changes in circumstances and expected economic conditions. The company's historical experience of credit loss and the forecast of economic conditions may not be representative of the actual default of the customer in the future.
- Non-current assets: the Group periodically reviews the carrying amount of property, plant and equipment, intangible assets, investments in joint ventures and associates and other non-current assets, when facts and circumstances require such revision in order to determine their recoverable value. The recoverability analysis of the book value is generally carried out using estimates of expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value. When the book value of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the book value of the asset and its recoverable value through the use or sale of the same, determined with reference to the cash flows inherent in the most recent business plans.
- Deferred tax assets: the Group has deferred tax assets on deductible temporary differences and theoretical tax benefits for losses carried forward that are recognised to the extent it is probable that future taxable income will be available against which they can be recovered. The valuation of the recoverability of deferred tax assets, recognised in relation to both tax losses usable in subsequent years and deductible temporary differences, takes into account the estimate of future taxable income and is based on

prudent tax planning.

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

11. SEGMENT REPORTING

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

EUROPE

From a corporate point of view, this area is represented by the parent company Selle Royal Group S.p.A. and its direct and indirect subsidiaries, whose registered office and whose operating activities are mainly concentrated in the territory of the European Union.

From a business point of view, this sub-scope includes both industrial activities, carried out in the factories of Selle Royal Group S.p.A. in Pozzoleone (VI) and of Brooks England Ltd. in Smethwick (GB), as well as purely commercial activities. The latter consist of the sale and distribution of own-brand products, the result of both internal production and pure

marketing, and the distribution of third-party brand products. With specific reference to this latter aspect, please note that the parent company Selle Royal Group S.p.A. has, for years now, supported the traditional sales in the OEM ("original equipment") and aftermarket (sales of spare products to national/regional distributors) channels with direct sales to retailers in Italy, France and Austria, under the A4 Selection brand name.

AMERICA

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

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

ASIA

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

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

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

The following tables present data on revenues for the first nine months as at 31 March 2022 and the same period of the previous year and on certain balance sheet items relating to the Group's business segments as at 31 March 2022 and 30 June 2021.

	9 months as at 31 March 2022			2020/21		
	EUROPE	AMERICA	ASIA	EUROPE	AMERICA	ASIA
Revenues	89.313.653	49.940.227	26.805.618	74.118.691	48.437.521	24.043.900
Current assets	44.646.952	40.810.569	23.964.907	32.570.097	25.938.873	19.856.263
Non-current assets	44.417.714	21.772.482	7.786.232	38.290.469	20.423.318	7.389.573
Current liabilities	45.998.919	20.426.676	4.901.460	35.786.701	18.289.299	7.573.971
Non-current liabilities	44.307.380	4.179.227	64.902	38.417.919	3.137.661	59.541

12. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March 2022, the parent company Selle Royal Group S.p.A. held three derivative financial instruments, subscribed with a leading Italian bank, for the purpose of hedging against interest rate volatility ("IRS").

The first financial derivative was subscribed in May 2019 and will expire in May 2022. The other two derivative financial instruments were subscribed on 29 October 2021, at the same time as the opening of two multi-year unsecured mortgages at variable rates. For further information, please refer to the sections on financial assets measured at fair value and to financial liabilities measured at fair value in these Explanatory Notes.

These derivative financial instruments are found to be hedges from the effectiveness tests carried out and, as a result, the effects relating to the change in their value were reflected in a specific equity reserve ("cash flow hedge reserve"), net of the related tax effect.

13. RISK MANAGEMENT

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

14. TRANSACTIONS with RELATED PARTIES

The main transactions with related parties are described below:

- Dec. 28, 1928 Holding S.p.A.: parent company of Selle Royal Group S.p.A., of which it holds 66.6% of the share capital; the debit balances for IRES are transferred to it. Following the merger by incorporation of SR84 S.r.l. already mentioned, Selle Royal Group S.p.A. and its majority parent company participate in the related tax

consolidation.

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

The economic and financial transactions carried out during the nine months as at 31 March 2022 are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE C.	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Wise Equity SGR	157.500	-	-	-
Dec. 28, 1928 Real Estate S.r.l.	-	600.000	1.087.075	4.983.532
Minority shareholders in subsidiaries	115.356	-	-	-
Directors	1.180.019	-	1.058	-
Family members of the controlling shareholders of th	-	25.200	47.077	89.289
TOTAL RELATED PARTIES	1.452.876	625.200	1.135.210	5.072.821

ANALYSIS and COMPOSITION of the INCOME STATEMENT

15. SEGMENT REPORTING

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

9 months as at 31 March 2022							
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	53.604.858	35.358.793	15.052.411	31.357.057	1.990.145	28.696.232	166.059.497
Gross margin	25.131.882 46,9%	17.849.463 50,5%	8.782.501 58,3%	13.776.454 43,9%	1.066.241 53,6%	6.991.630 n.s.	73.598.172 44,3%

9 months as at 31 March 2021							
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	49.636.687	25.875.814	13.203.391	25.668.146	1.768.597	30.447.478	146.600.113
Gross margin	23.401.778 47,1%	13.211.609 51,1%	7.659.596 58,0%	11.556.725 45,0%	901.600 51,0%	7.482.872 n.s.	64.214.180 43,8%

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

16. REVENUES

Revenues for the current period (1 July 2021 - 31 March 2022) deriving from the Group's ordinary operations amounted to a total of € 166,059,497 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:

	9 months as at 31 March 2022	9 months as at March 2021	Change
Revenues from sales of saddles	85.864.319	77.127.455	8.736.864
Revenues from the sale of accessory c	77.286.972	68.514.101	8.772.870
Revenues from the sale of sundry mat	3.333.654	1.270.211	2.063.443
Revenue from services	152.842	100.109	52.732
Total gross revenues	166.637.786	147.011.876	19.625.910
Price changes and others	(42.415)	(81.147)	38.732
Year-end bonus	(535.874)	(330.616)	(205.258)
Revenue adjustments	(578.289)	(411.763)	(166.526)
Total revenue from sales	166.059.497	146.600.113	19.459.384

RECOGNITION of REVENUES

Realised at a specific point in time	166.059.497	146.600.113	19.459.384
Realised over time	-	-	-
Total revenue from sales	166.059.497	146.600.113	19.459.384

17. COST OF SALES

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	Change
Purchase of raw materials	81.093.400	66.845.042	14.248.357
Ancillary charges on RM purchases	4.411.129	2.723.948	1.687.181
Outsourcing	5.335.647	4.678.222	657.425
Labour	17.343.890	15.516.887	1.827.003
Change in inventories	(15.722.741)	(7.378.167)	(8.344.573)
Total cost of sales	92.461.325	82.385.932	10.075.393

18. INDUSTRIAL COSTS

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	<i>Change</i>
Electricity	1.137.063	1.089.522	47.541
Consumables	1.166.484	1.130.090	36.393
Minor equipment	372.523	476.730	(104.206)
Maintenance	485.182	545.034	(59.852)
Lease payments	89.231	97.547	(8.316)
Research and development costs	526.269	239.655	286.614
Other industrial costs	1.075.161	676.598	398.564
Total industrial costs	4.851.914	4.255.176	596.738

19. SALES AND PROMOTION COSTS

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	<i>Change</i>
Sales and advertising costs	4.235.844	3.972.875	262.969
Transports on sales	3.905.361	3.786.120	119.241
Commissions	1.674.505	2.083.320	(408.816)
Royalties	23.679	51.194	(27.515)
Gifts	231.506	190.622	40.883
Other sales and promotion costs	660.473	148.090	512.383
Total sales and promotion costs	10.731.369	10.232.223	499.146

20. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to €13.312.409 for the period in question, includes the cost of the clerical and managerial structures of the various Group companies.

21. GENERAL and ADMINISTRATIVE COSTS

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	<i>Change</i>
Consulting	4.854.769	3.074.408	1.780.361
Travel expenses	634.542	140.797	493.745
Board of Directors' fees	1.337.519	874.977	462.542
Board of Statutory Auditors' fees	44.948	31.500	13.448
Utilities	243.025	336.124	(93.099)
Entertainment and hospitality expenses	173.159	218.328	(45.169)
Motor vehicles	363.120	280.283	82.837
Fees and IT support	950.483	789.305	161.178
Insurance	1.084.249	613.049	471.201
Lease payments	262.476	224.292	38.184
Bank charges	429.335	250.844	178.491
Other general and administrative costs	1.936.392	1.834.954	101.439
Total general and administrative costs	12.314.017	8.668.859	3.645.158

As previously mentioned, this item includes some non-recurring costs linked to the listing project of the parent company Selle Royal Group S.p.A. on the Italian electronic market Euronext Milan.

22. OTHER OPERATING INCOME and EXPENSES

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	Change
Operating income:			
Minor independent works	4.826	4.604	222
Repayments and sundry income	614.080	34.892	579.188
Capital gains	555	1.000	(445)
Contingent assets and other income	658.355	535.740	122.615
Research & development	64.439	197.117	(132.678)
Total operating income	1.342.255	773.353	568.903
Operating expenses:			
Allocation to provision for obsolescence	(92.722)	(445.475)	352.752
Allocation to provision for credit risks	(91.684)	(203.948)	112.264
Losses on receivables	13.882	(1.754)	15.636
Capital losses	(30.234)	(120.395)	90.160
Contingent liabilities and other charges	(278.268)	(153.609)	(124.659)
Total operating expenses	(479.027)	(925.181)	446.154
TOTAL OPERATING INCOME/(EXPENSES)	863.228	(151.829)	1.015.057

The net balance of this item is positive for € 863.228.

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

The greater balance of the item “contingent assets and other income” is mainly attributable to the reimbursement deriving from winning the tax dispute by Royal Ciclo Industria de Componentes Ltda. This amount, net of the costs for consultancy incurred as part of the proceedings, was subject to normalisation in the calculation of the “adjusted” EBITDA, as it is non-recurring.

23. OTHER FINANCIAL INCOME and CHARGES

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	<i>Change</i>
Financial income:			
Bank and postal interest	66.188	65.639	548
Dividends	470	-	470
Other financial income	72.430	15.869	56.562
Total financial income	139.088	81.508	57.580
Financial charges:			
Interest on bonds	(353.565)	(438.983)	85.418
Interest expense	(923.126)	(1.135.200)	212.074
Interest cost provision for employee serv	(4.284)	-	(4.284)
Discounts	(685.768)	(556.995)	(128.774)
Fees on loans	(150.630)	(226.689)	76.060
Other financial charges	(207.782)	(238.312)	30.530
Total financial charges	(2.325.155)	(2.596.179)	271.024
Net exchange rate differences	264.098	(784.912)	1.049.010
TOTAL FINANCIAL INCOME / (CHARGES)	(1.921.968)	(3.299.583)	1.377.615

This item, negative for € 1,921,968, was positively affected by the decrease in interest expense to service the debt subscribed by some Group companies, as well as lower interest on the bond loan issued by Selle Royal Group S.p.A. The item “other financial charges” mainly includes the recognition of financial charges related to the adoption of IFRS 16.

On the other hand, the item relating to cash discounts increased, in line with the increase in turnover and fees on loans, mainly due to the higher commissions paid to SACE S.p.A. for the guarantees offered by the latter on some loan agreements signed by the parent company with leading Italian banks, pursuant to Law Decree no. 23 of 8 April 2020, as converted with amendments into Law no. 40 of 5 June 2020.

Lastly, the impact of the net exchange rate differences significantly improved. On the whole, these were positive in the nine months in question for € 264,098 (compared to a negative balance of € -784,912 in the same period of the previous year). This item includes both exchange gains and losses realised as at 31 March 2022 (which show a negative net balance of € -199,900), and unrealised exchange gains and losses at the same date deriving from the alignment of foreign currency balances with the current exchange rates at the end of the year, in addition to exchange differences resulting from the elimination of intragroup items (which cumulatively show a positive net balance of € +463,997).

24. TAXES FOR THE YEAR

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

	9 months as at 31 March 2022	9 months as at 31 March 2021	Change
Current taxes	7.138.047	6.414.424	723.623
Deferred tax (assets) / liabilities	(1.041.471)	(317.301)	(724.169)
TOTAL TAXES FOR THE YEAR	6.096.576	6.097.122	(547)

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

The increase in the balance relating to deferred tax assets is mainly attributable to higher deferred tax assets allocated during the period, and in particular to the increase in the provision for the reversal of the unrealised intra-Group margin.

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

25. CASH AND CASH EQUIVALENTS

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

The balance as at 31 March 2022, amounting to € 20,949,873 (of which € 5,448,559 in Selle Royal Group S.p.A. and € 11,611,708 in Selle Royal China, the latter with a positive net financial position), was up compared to the previous year thanks to the liquidity generated during period.

As at 31 March 2022 (and as at 30 June 2021) there were no restrictions or limitations on the use of the Group's cash and cash equivalents.

26. TRADE RECEIVABLES

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

	31/03/2022	30/06/2021	Change
Trade receivables	38.297.393	29.365.523	8.931.870
Bad debt provision	(1.013.980)	(912.207)	(101.774)
TRADE RECEIVABLES, net	37.283.413	28.453.316	8.830.097

Receivables insured at the date of this Report amounted to € 22.3 million, compared to € 18.8 million as at 30 June 2021.

For receivables of uncertain collectability, for which legal procedures for collection have been initiated, and for some receivables from customers with a potential lower degree of collectability, specific provisions for write-downs have been allocated up to the presumed realisable value.

It should be noted that the parent company Selle Royal Group S.p.A. transferred receivables from certain foreign and domestic customers, through a factoring transaction without recourse, to a leading bank for € 2.264.567. During the previous year, the cumulative value of the transfers of receivables without recourse made by Selle Royal Group S.p.A. and by the subsidiary Selle Royal Vehicle (China) Co., Ltd. amounted to € 4,014,502.

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

	Balance as at 30 June 2021	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 31 March 2022
Bad debt provision	912.206	91.684	-	(17.517)	27.607	1.013.980
TOTAL BAD DEBT PROVISION	912.206	91.684	-	(17.517)	27.607	1.013.980

27. INVENTORIES

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

	31/03/2022	30/06/2021	Change
Raw materials, supplies and consumables	13.631.384	9.767.182	3.864.202
Work in progress and semi-finished products	6.649.841	4.631.511	2.018.329
Finished products and goods	25.217.979	12.649.871	12.568.107
Goods in transit	6.064.918	2.378.635	3.686.283
Gross inventories	51.564.122	29.427.199	22.136.922
Provision for obsolescence	(2.286.729)	(2.210.367)	(76.362)
Provision for unrealised intra-Group margin	(3.383.352)	(898.287)	(2.485.065)
INVENTORIES	45.894.041	26.318.546	19.575.495

The growth of this item can be seen in each inventory category and is conducive to the higher business volumes.

Furthermore, the global logistical congestion, to which reference was made previously, led to a lengthening of transit times, especially for products from Asia and destined to the North American market, with a consequent increase in both the balance of finished products and the goods in transit. At the state of the art, the global situation remains critical and there are still no signs of normalisation.

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

	Balance as at 30 June 2021	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 31 March 2022
Provisions for obsolescence	2.210.367	92.722	-	(91.683)	75.322	2.286.729
Provision for unrealised intra-Group margin	898.287	2.421.705	-	-	63.360	3.383.352
TOTAL ADJUSTMENT PROVISIONS of INVENTORIE	3.108.654	2.514.427	-	(91.683)	138.682	5.670.080

28. TAX RECEIVABLES

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

	31/03/2022	30/06/2021	Change
Current tax receivables:			
For direct taxes	649.260	1.555.585	(906.325)
For indirect taxes	1.572.829	137.865	1.434.964
For other withholdings	422.895	149.963	272.933
Subtotal current taxes	2.644.984	1.843.413	801.571
Current deferred tax assets	1.400.384	423.494	976.890
TOTAL TAX RECEIVABLES	4.045.368	2.266.907	1.778.461

Compared to 30 June 2021, the receivables for direct taxes of the subsidiaries Crank Brothers Inc. and Royal Ciclo Industria de Componentes Ltda were down.

The growth in receivables for indirect taxes is mainly due to the growth in the VAT credit of Selle Royal Group S.p.A. and of the Taiwanese branch of Crank Brothers Inc.

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

29. OTHER CURRENT ASSETS

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

	31/03/2022	30/06/2021	Change
Advance costs	53.027	154.547	(101.520)
Accrued income and prepaid expenses	788.176	598.724	189.452
Sundry receivables	408.530	727.126	(318.596)
TOTAL CURRENT ASSETS	1.249.733	1.480.397	(230.664)

The lower advance costs compared to 30 June 2021 derive from the seasonality of the sector and from incurring, at the end of the fiscal year, costs related to the launch of new products and participation in events in the following fiscal year, which are therefore suspended under this item as at 30 June of each year to comply with the accrual principle. The decrease in sundry receivables is attributable to the completion of the financial lease transaction connected with the installation of a new production plant at Selle Royal Group S.p.A.; this plant went into operation in the first quarter of 2022.

NON-CURRENT ASSETS

30. INTANGIBLE ASSETS

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

	Balance as at 30 June 2021	Increases (+)	Decreases (-)	Reclassificati on	Amortisation (-)	Translation diff.	Balance as at 31 March 2022
Industrial patent rights and intellectual property rights	1.588.355	57.516	-	-	(458.624)	47.220	1.234.467
Concessions, licences, trademarks and similar rights	19.477.822	182.426	-	-	(335.882)	45.081	19.369.446
Other	25.552	-	-	-	(7.988)	1.921	19.484
Fixed assets in progress and payments on account	50.964	96.545	-	-	-	12.802	160.311
Total intangible assets	21.142.693	336.487	-	-	(802.494)	107.023	20.783.709

The item “Industrial patent rights” mainly includes the corresponding item recorded in the financial statements of the subsidiary Crank Brothers, Inc. at the time of the acquisition of the same company by Selle Royal Group S.p.A.; the value was also tested on the basis of valuations issued by independent experts who also indicated the useful life on which to calculate the amortisation; higher values for a total of US\$ 7,694,000 are recognised in the financial statements of Crank Brothers Inc., allocated for US\$ 4,780,500 to the item “Industrial patent rights”, amortised over 15 years. The residual portion was recorded under “Goodwill”, as shown below.

The item “Concessions, licences, trademarks and similar rights” refers to the value of the trademark portfolio held by the Group companies, for a value of € 18.301.251; 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. As at 31 December 2021, Board of Directors checked the consistency of the assumptions underlying the business plan used in preparing the impairment tests as at 30 June 2021 and the results provided therein; this audit confirmed the validity of the annual impairment test conducted and, consequently, the consistency of the value of the trademarks as represented in the financial statements. In light of the results achieved in the period, also with reference to the quarter from the date of the last check to that of this interim report, the previous determination is confirmed with reference to the appropriate valuation of the brands in the financial statements.

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

Intangible assets in progress and payments on account mainly relate to expenses incurred by

the Group in relation to projects for the development of new products and product lines not yet operational at the end of the year.

31. TANGIBLE ASSETS

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

	Balance as at 30 June 2021	Increases (+)	Decreases (-)	Reclassification	Depreciation (-)	Translation diff.	Balance as at 31 March 2022
Land and buildings	7.564.390	124.819	-	-	(428.073)	(67.531)	7.193.605
Right of use of leased assets	6.853.524	4.796.896	-	-	(1.148.361)	61.758	10.563.816
Plant and machinery	8.537.565	2.560.001	(3.956)	-	(1.052.700)	606.591	10.647.501
Industrial and commercial equipment	4.824.429	967.376	(2.611)	407.907	(1.889.126)	113.184	4.421.161
Other assets	1.457.009	376.272	(1.210)	(8.535)	(370.086)	114.452	1.567.902
Fixed assets in progress and payments on account	1.292.697	2.331.986	(15.007)	(399.372)	-	49.821	3.260.124
Total tangible assets	30.529.614	11.157.350	(22.784)	-	(4.888.345)	878.274	37.654.110

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

The item “rights of use of leased assets” represents the discounted value recorded in the financial statements following the adoption of IFRS 16, and relates to the premises leased by Selle Royal Group S.p.A. and the offices of Crank Brothers Inc. The increase in this item relates to the redetermination of future payments due for the lease of the Selle Royal Group S.p.A. headquarters following the signing of a new lease contract, to the recognition of the rights of use of the above mentioned new industrial plant, to the lease of a property in San Clemente (California) to which personnel and equipment previously at the branch office of Crank Brothers Inc. in Ogden, Utah, have been transferred, as well as, lastly, new multi-year rental contracts that meet the criteria for recognition in the financial statements in accordance with the provisions of accounting standard IFRS 16.

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

32. EQUITY INVESTMENTS

The balance reflects the cost incurred for the acquisition of equity investments in companies not consolidated on a line-by-line basis and relates, for € 2,266,022, to the equity investment in Highway Two Llc., with registered office in Olney (USA) and share capital of US\$ 241,648, over which indirect joint control of 50% is exercised. This investment is measured using the equity method. The residual amount, equal to € 17,651, relates to minority interests held by Selle Royal Group S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 16,928).

Some economic indicators of Highway Two LLC, relating to 2021, are listed below, as well as the balance sheet figures as at 31 March 2022, and related comparative data. For the sake of completeness, the tax year of the joint venture coincides with the calendar year.

	31/03/2022	30/06/2021	Change
Highway 2 Llc:			
Current assets	\$ 29.347.052	\$ 23.813.171	\$ 5.533.881
Non-current assets	\$ 794.947	\$ 1.043.037	\$ -248.090
Current liabilities	\$ -25.048.577	\$ -19.918.573	\$ -5.130.004
Non-current liabilities	\$ -50.752	\$ -63.444	\$ 12.692
Shareholders' equity	\$ 5.042.670	\$ 4.874.191	\$ 168.479
Group interest (50%)	\$ 2.521.335	\$ 2.437.095	\$ 84.240
Carrying amount of the equity investment in Highway 2 Llc. (in €)	2.266.022	2.045.238	220.783
Other equity investments (in €)	17.651	15.400	2.251
Total equity investments	2.283.672	2.060.638	223.034

	Financial year 2021	Financial year 2020	Change
Highway 2 Llc:			
Revenues	\$ 24.958.248	\$ 21.082.877	\$ 3.875.372
Cost of sales	\$ -13.929.547	\$ -10.725.502	\$ -3.204.045
Operating and financial costs	\$ -10.751.125	\$ -10.018.082	\$ -733.043
Net profit	\$ 277.577	\$ 339.293	\$ -61.716
Group interest (50%)	\$ 138.789	\$ 169.647	\$ -30.858

33. GOODWILL

This item had a balance as at 31 March 2022 of € 10,492,994.

This item includes the goodwill recorded in the financial statements of the subsidiary Crank Brothers Inc., as well as the higher value recognised at the time of acquisition of the shares in the same American subsidiary, in the Chinese subsidiary Selle Royal Vehicle (China) Co. Ltd.

and the Brazilian subsidiary Royal Ciclo Industria de Componentes Ltda.

In line with the provisions of IAS 36, goodwill is not subject to amortisation but to impairment testing. As already represented with reference to trademarks, at the date of this interim report, the outcome of the control carried out as at 31 December 2021, which confirmed the consistency of the value of goodwill as represented in the financial statements, with respect to the cash flows that it can reasonably be expected that the cash generating units to which they refer will generate in the future, is confirmed to maintain its validity in the light of the results achieved with respect to the data expected for the period as well as in light of the trend in the cycle sector.

34. DEFERRED TAX ASSETS

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

	31/03/2022		30/06/2021	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	532.183	148.479	18.818	5.250
Employee bonuses	861.461	240.348	-	-
Accrued leave for employees	151.796	39.444	133.686	40.481
Bad debt provision	263.444	56.130	247.858	52.857
Unrealised margin on intra-Group sales	3.476.161	871.732	989.788	250.100
Tangible assets	142.429	24.213	243.538	41.401
Other temporary differences	84.027	20.038	106.959	33.403
Subtotal current deferred tax assets	5.511.502	1.400.384	1.740.647	423.494
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	192.162	53.613	144.961	40.444
Inventory write-down provision	1.844.124	434.321	1.685.361	394.650
Intangible assets	580.859	162.060	580.859	162.060
Tangible assets	251.766	45.127	227.614	30.652
Prior tax losses - Federal taxes	606.513	127.368	566.552	118.976
Prior tax losses - State taxes	-	133.738	1.296.687	124.926
Subtotal non-current deferred tax assets	3.475.424	956.226	4.502.033	871.708
TOTAL DEFERRED TAX ASSETS	8.986.926	2.356.610	6.242.681	1.295.202

The change in the current portion of deferred tax assets is mainly related to the deferred tax effect on the higher value of the provision for unrealised margin on intra-Group sales.

Non-current deferred tax assets, as a whole, did not record significant changes.

35. FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 632.576, the value of a financial asset recognised in the financial statements of the subsidiary Royal Ciclo and refers to the amounts paid by the latter to a financing consortium in which it participates. The increase in value compared to the data

as at 30 June 2021 is significantly influenced by the appreciation, in the current year, of the Brazilian Reals, the currency in which this asset is recognised in the financial statements of the subsidiary, compared to the reference currency of the Group.

Furthermore, this item includes the market value of two hedging derivative instruments with respect to the risk of fluctuations in interest rates (“IRS”), for an amount of €534,177; these derivatives were subscribed by Selle Royal Group S.p.A. in October 2021 as collateral for the opening of the same number of long-term floating rate loans maturing in September 2027, previously recognised under financial liabilities at fair value.

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

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 29/10/2021;

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

Liability hedged: medium-term loan;

Initial date: 31/10/2021;

End date: 30/09/2027;

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

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

Periodic expiry date: quarterly.

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

36. OTHER NON-CURRENT ASSETS

This item, amounting to € 638.963, mainly refers to security deposits relating to lease contracts pertaining to Selle Royal Group S.p.A. and Crank Brothers, Inc. The balance is in line with that as at 30 June.

CURRENT LIABILITIES

37. TRADE PAYABLES

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

The balance is equal to € 26.406.543, up compared to the previous year, also due to the effect of what is described with reference to inventories.

38. TAX PAYABLES

The item in question is detailed below:

	31/03/2022	30/06/2021	Change
Direct taxes	1.997.488	1.175.186	822.302
Indirect taxes	895.257	931.773	(36.516)
Local taxes	62.007	54.327	7.679
Withholding taxes on employees and other	647.450	1.485.159	(837.710)
Payables due to tax disputes	2.354.799	2.616.446	(261.647)
TOTAL TAX PAYABLES	5.957.000	6.262.892	(305.892)

The higher payables for direct taxes are attributable to the significant profits recorded by the Group companies; the decrease in payables for withholdings, almost entirely pertaining to the parent company Selle Royal Group S.p.A., is due to the payment of the amount withheld as at 30 June 2021 for the higher performance bonuses recognised by virtue of the extremely positive results achieved in the previous fiscal year.

39. MEASUREMENTS AT FAIR VALUE

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

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

- the main market for the asset or liability or, in the absence of a main market, the

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

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

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

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

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

As at 31 March 2022

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	20.949.873	20.949.873	-	-
Equity investments	32	2.283.673	-	-	2.283.673
Financial assets at fair value	35, 39	632.576	-	-	632.576
Derivative financial instruments	35, 39	534.177	-	534.177	-
TOTAL ASSETS		23.866.121	20.949.873	-	2.916.248
Loans	39, 40, 49	57.214.208	-	57.214.208	-
Bonds	39, 45	5.851.437	-	5.851.437	-
Derivative financial instruments	39, 41	65	-	65	-
TOTAL LIABILITIES		63.065.710	-	63.065.710	-

As at 30 June 2021

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	19.846.067	19.846.067	-	-
Equity investments	32	2.060.638	-	-	2.060.638
Financial assets at fair value	35, 39	509.813	-	-	509.813
TOTAL ASSETS		22.416.519	19.846.067	-	2.570.452
Loans	39, 40, 49	47.362.266	-	47.362.266	-
Bonds	39, 45	7.778.960	-	7.778.960	-
Derivative financial instruments	39, 41	1.452	-	1.452	-
TOTAL LIABILITIES		55.142.678	-	55.142.678	-

40. SHORT-TERM LOANS

The balance of this item, as at 31 March 2022, amounting to € 23,859,950, up compared to 30 June 2021, reflects the actual payable for principal, interest and accessory charges accrued and payable and includes both credit lines whose duration does not exceed 12 months and the current portion of medium/long-term loans.

41. CURRENT FINANCIAL LIABILITIES AT FAIR VALUE

This item, amounting to € 65, 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 Group S.p.A. in June 2017 as collateral for a new 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 Group S.p.A.: basic product index rate act/360 paid at the end of the quarter - 3-month Euribor at the beginning of the period;

Bank debtor: 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").

42. CURRENT LIABILITIES FOR LEASED ASSETS

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

43. OTHER CURRENT LIABILITIES

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

	31/03/2022	30/06/2021	Change
Payables to employees	5.974.635	6.099.043	(124.408)
Payables to social security institutions	630.948	825.331	(194.383)
Payables to sales agents	235.197	305.035	(69.838)
Payables for tax consolidation	2.756.153	1.339.644	1.416.509
Accrued expenses and deferred income	330.127	168.747	161.380
Sundry payables	1.246.196	952.253	293.944
TOTAL CURRENT LIABILITIES	11.173.256	9.690.052	1.483.205

The growth in this item is essentially attributable to the higher value of payables for tax consolidation corresponding to the allocation of IRES on the taxable income of Selle Royal

Group S.p.A. for the current period.

NON-CURRENT LIABILITIES

44. EMPLOYEE BENEFITS

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

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

- mortality rate: these data were taken from the actuary technician on the basis of the RG48 mortality tables published by the State General Accounting Office;
- disability rate: the annual probabilities of elimination from the service due to incapacity were inferred on the basis of what was published by INPS in 2000;
- annual probability of elimination from the service for other reasons: this was assumed to be 0.5%, determined on the basis of the historical trend of this parameter within the company;
- annual probability of request for employee severance indemnity advances: this was assumed to be 3.0%, based on the historical trend of this parameter within the company;
- annual discount rate: this was assumed to be 1.36% 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 2.813%;
- annual inflation rate: estimated at 1.75% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2021	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains)/losses	Translation diff.	Balance as at 31 March 2022
Provisions for employees	1.874.444	66.483	(67.130)	4.284	(101.368)	6.050	1.782.762
TOTAL	1.874.444	66.483	(67.130)	4.284	(101.368)	6.050	1.782.762

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	1,700,157

-1% on the turnover rate	1,721,838
+1/4% on the annual inflation rate	1,734,369
-1/4% on the annual inflation rate	1,686,765
+1/4% on the annual discount rate	1,672,712
-1/4% on the annual discount rate	1,749,434

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

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

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

Years	Expected disbursements
1	204,270
2	69,896
3	68,757
4	169,233
5	44,195

45. BONDS

The amount due for bonds is shown under current liabilities, in relation to the portion maturing within twelve months from the interim reporting date, and under non-current liabilities for the residual portion.

These items refer to the value of the liability in the books of the parent company Selle Royal Group S.p.A. relating to the bond loan (so-called mini-bond) listed on the Pro³ 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 first half-year of the tax current tax year, the second repayment instalment was paid, amounting to € 2,000,000.

46. MEDIUM/LONG-TERM LOANS

This item, amounting to € 33,354,258, up by € 6,622,889 compared to 30 June 2021, relates to the portion falling due beyond the next year of medium/long-term loans (mainly unsecured loans) taken out for the most part by the parent company Selle Royal Group S.p.A. with leading credit institutions. The increase in the balance is essentially attributable to the signing of two unsecured mortgages backed by a government guarantee, according to the methods and terms set forth in the emergency decrees issued by the Italian government to support the liquidity of companies.

47. PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2021	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 31 March 2022
Provision for supplementary customer	75.164	12.605	-	-	87.769
Provision for payment of foreign agent	144.961	47.201	-	-	192.162
End of mandate indemnity	406.250	67.500	-	-	473.750
TOTAL	626.375	127.306	-	-	753.681

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

48. DEFERRED TAXES

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

	31/03/2022		30/06/2021	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Derivative financial instruments	534.177	128.202	-	-
Intangible assets	453.774	103.973	423.877	97.121
Tangible assets	2.585.286	708.300	2.379.229	650.196
Other temporary differences	78.397	16.463	65.123	13.676
TOTAL DEFERRED TAXES	3.651.634	956.939	2.868.228	760.993

The increase in the balance of this item is mainly attributable to the recognition of deferred taxes calculated on the market value of the derivatives described above.

49. NON-CURRENT LIABILITIES for LEASED ASSETS

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

50. SHAREHOLDERS' EQUITY

The share capital is composed as follows:

Ordinary shares – 37.500.000,00 (with no par value). For the sake of completeness, please note that the Shareholders' Meeting, which met on 18 February 2022, resolved to split the shares of the parent company Selle Royal Group S.p.A., on the basis of a ratio of 6.25 new shares for each previously outstanding share.

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

	31 March 2022		30 June 2021	
	Shareholders' equ Profit for the year		Shareholders' equ Profit for the year	
Selle Royal S.p.A. as per the financial statements	27.949.915	8.492.716	21.372.116	10.144.396
Difference between book value and pro-rata value of shareholders' equity of consolidated companies	21.138.460	-	5.214.939	-
Pro-rata results achieved by consolidated subsidiaries	-	10.767.353	-	11.415.016
Elimination of intercompany profits included in inventories	(2.537.512)	(1.863.798)	(673.714)	31.769
Other consolidation differences	5.039.919	(245.018)	6.625.516	(6.673.626)
Shareholders' equity and profit for the year pertaining to the Group	51.590.782	17.151.252	32.538.857	14.917.555
Shareholders' equity and profit for the year attributable to minority interests	11.929.510	2.391.056	8.664.645	3.622.371
Shareholders' equity and profit for the year as reported in the consolidated financ	63.520.292	19.542.308	41.203.502	18.539.926

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 nine-month period ended 31 March 2022 and correspond to the results of the accounting records.

* * *

Pozzoleone (VI), 16 May 2022
The Chairperson of the Board of Directors
(*Barbara Bigolin*)

Selle Royal Group S.p.A.

Report of the independent auditors

Consolidated interim financial statements as at 31 March 2022

CCN/FBL/AZN/cpt – RC015932022BD0132

BDO

Report of the independent auditors

To the Board of Directors of
Selle Royal Group S.p.A.

Report on the independent audit of the consolidated interim financial statements

Introduction

We have carried out the limited independent audit of the attached consolidated condensed financial statements, constituted by the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the relative explanatory notes of Selle Royal S.p.A. and its subsidiaries (Selle Royal Group) as at 31 March 2022. The Directors are responsible for the preparation of the nine-month consolidated condensed financial statements in compliance with the international accounting standard applicable for interim financial disclosure (IAS 34) adopted by the European Union. It is our responsibility to express an opinion on the nine-month consolidated condensed financial statements on the basis of the limited independent audit carried out.

Extent of the limited independent audit

Our work was carried out in compliance with the International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. The limited independent audit of the nine-month consolidated condensed financial statements consists in holding interviews, mainly with the company's personnel responsible for the financial and accounting aspects, preparing budgetary analyses and other limited audit procedures. The extent of a limited independent audit is substantially reduced compared to that of a full independent audit carried out in compliance with international accounting standards (ISA Italy) and, consequently, does not allow us the certainty we have become aware of all the significant facts that may be identified in the performance of a full independent audit. Therefore, we do not express a professional opinion on the nine-month consolidated condensed financial statements.

Conclusions

On the basis of the limited independent audit carried out, we have not become aware of any elements such as to make us consider that the nine-month consolidated condensed financial statements of the Selle Royal Group as at 31 March 2022 have not been prepared, in all significant aspects, in compliance with the international accounting standard applicable for interim financial disclosure (IAS 34) adopted by the European Union.

Milan, 16 May 2022

BDO Italia S.p.A.

[illegible signature]

Carlo Consonni

Partner