Selle Royal Group

Consolidated annual report at 30.06.2024

Selle Royal Group S.p.A.
Legal seat in Via Vittorio Emanuele n. 119 – Pozzoleone (VI)
Authorized share capital Euro 6.315.200,00 of which subscribed and paid Euro 6.000.000,00
Vicenza Companies House and tax ID no. 00231010281
Vat no. 01577350240
Rea 153541

CONTENTS

REPORT on OPERATIONS 4

SIGNIFICANT EVENTS DURING the YEAR 4

THE SELLE ROYAL GROUP and the ON-GOING WAR EVENTS in UKRAINE 12

ECONOMIC PERFORMANCE 12

FINANCIAL POSITION 14

DERIVATIVE FINANCIAL INSTRUMENTS 16

INVESTMENTS 16

DATA on TREASURY SHARES and any EQUITY INVESTMENTS in the PARENT COMPANY 16

RISK ANALYSIS 16

ENVIRONMENT, PERSONNEL and SECTOR REGULATIONS 19

TRANSACTIONS with PARENT COMPANIES, AFFILIATES and RELATED PARTIES 20

SIGNIFICANT EVENTS AFTER the END of the YEAR 20

BUSINESS OUTLOOK 20

CONCLUSIONS and PROPOSALS 20

FINANCIAL STATEMENTS 21

CONSOLIDATED INCOME STATEMENT (*) 21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 22

CONSOLIDATED BALANCE SHEET (*) 23

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 24

CONSOLIDATED CASH FLOW STATEMENT PREPARED USING THE INDIRECT METHOD 25

EXPLANATORY NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL REPORT AS AT 30 JUNE 2024 26

1. INTRODUCTION 26

2. MANDATORY ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED by THE GROUP 27

3. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE by THE GROUP 29

4. IFRS and INTERPRETATIONS APPROVED by the IASB and NOT ENDORSED in EUROPE 30

5. FINANCIAL STATEMENT FORMATS and CLASSIFICATION CRITERIA 32

6. ACTIVITIES of GROUP COMPANIES 33

7. GENERAL PREPARATION CRITERIA and CONSOLIDATION PRINCIPLES 35

8. MEASUREMENT CRITERIA 38

9. ESTIMATES AND ASSUMPTIONS 49

10. SEGMENT REPORTING 51

11. DERIVATIVE FINANCIAL INSTRUMENTS 53

12. RISK MANAGEMENT 53

13. TRANSACTIONS with RELATED PARTIES 54

ANALYSIS and COMPOSITION of the INCOME STATEMENT 55

INDEPENDENT AUDITORS' REPORT 73

Some figures in the document have been rounded. Consequently, homogeneous data presented in different tables may undergo modest variations and some totals, in some tables, may not be the algebraic sum of the respective addends.

REPORT on OPERATIONS

Dear Shareholders,

the year ended 30 June 2024 reported a consolidated profit of € 1,768,928, with a Group loss of € -374,780.

SIGNIFICANT EVENTS DURING the YEAR

The global context in which the year under review unfolded was characterised, once again, by instability and uncertainty, which have become the hallmark of recent years.

After the anomalous jump in the cost of natural gas and electricity and, with it, the strongly inflationary trend of the consumer price index in the world's major economies, Europe has "discovered" itself fragile and vulnerable. Also due to an austerity-oriented and slow-reacting monetary policy, hyper-regulation and a lack of vision in industrial policy, many sectors are going through a phase of involution, starting with a crucial one such as the automobile industry; not to mention the delay that the Old Continent is accumulating, without concrete prospects of turning points, in the technological field.

Moreover, geopolitics continues to dominate the daily news, with the war in Ukraine becoming chronic and the enduring tensions in the Indo-Pacific to which have been added, in the last twelve months, the dramatic consequences of the attack against Israel on 7 October 2023 that are destabilising the Middle East, from Bab-El-Mandeb to Iran.

Finally, as is well known, 2024 is the "busiest" election year in history, with over 60 countries and about a quarter of the world's population going to the polls (source: https://www.santannapisa.it/it/news), with its considerable uncertainty regarding the direction that the foreign policies of dominant global actors may take in the years.

In this context of extreme turbulence, the cycle sector experienced its *annus horribilis:* as already commented on in previous financial reports, the years from 2020 onwards were characterised by strong excesses, first of demand (until the beginning of 2022, indicatively) and then of supply. In the year under review, it was the Original Equipment Manufacturer channel that suffered the most from the excess of stock that has been created in the supply chain; the aftermarket channel (that is, the spare parts dealers, distributors and retailers), on the other hand, began to show some initial signs of liveliness during the spring and early summer months of 2024, a sign that the persistent demand from end consumers has allowed a gradual normalisation of stock levels (which is still in progress), albeit in an uneven manner both geographically and in product categories. This de-stocking phenomenon has, on the other hand, usually been achieved through the recognition of significant price reductions. This,

as a result, affected the capital strength of many players in the sector, especially those with a small size, limited capacity for innovation, high concentration of risk (due to a lack of geographical diversification, distribution channel and/or product range) or more than one of these elements together.

This contraction of margins, coupled with high stock levels, proved disastrous in a phase of high interest rates, leading to bankruptcy in some operators (actually, not as many as might be expected in light of the difficulties of the period) and the need for significant recapitalisation or renegotiation of financial debts in many others.

At the same time, however, the cycle sector is still resilient and has excellent prospects for the future, given that the current context is the result of imbalances among the various actors in the production-logistics chain rather than a demand crisis.

In fact, according to a study published by the McKinsey Center for Future Mobility (as cited in an article in the Bike Europe trade magazine of 20 June 2024), the bicycle (electric or traditional) is already the preferred means of transport globally; it is not surprising, therefore, that McKinsey envisages its use to grow by 50% in the future, accompanied also by an expected increase in prices (again according to the same study, current users of pedal-assisted bicycles are willing to spend an average of at least 9% more when they buy a new one - *ibid.*).

Central to achieving these results will be, among others, the policies implemented at national and supranational level on the one hand and the analytical study of local urban mobility on the other.

With reference to the first aspect, it is certainly relevant to mention the adoption of the "European Declaration on Cycling", which appeared in the 3 April 2024 edition of the Official Journal of the European Union, identifying cycling as a "strategic priority" capable of producing enormous benefits for Europe, reducing greenhouse gas emissions which, with reference to the transport sector alone, represent a quarter of total emissions in our continent.

Regarding the second aspect, research such as the one conducted by the Boston Consulting Group in cooperation with the Swiss University of St. Gallen ("Putting micromobility at the center of urban mobility", 2022) and involving more than 11,000 consumers/respondents from 23 cities in 10 countries, can provide fundamental information to those who, at the local level, are involved in outlining and giving a specific response to the demands of the different categories of users, taking into account the flexibility of the offer but also, if not above all, the current barriers to the adoption of "micro-mobility", in order to make this phenomenon a real revolution.

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

EUROPE

Europe represents the best case study for understanding the dynamics affecting the cycle sector as it is a major consumer market (11.7 million bicycles were sold in the EU-27 and the UK; source: European Bicycle Industry and Market Profile 2023 by CONEBI) but also an important production market, with 12 million bicycles produced in the same period and geographical area (*ibid.*).

The first substantial aspect is that, even during 2023, more bicycles were produced than were sold, not counting the imported ones that will be mentioned shortly. The comparison of these figures with 2022 is also interesting: in terms of "consumption", the 11.7 million bicycles sold represent a decrease of -20% compared to the previous year (when 14.7 million were sold, adding together traditional and pedal-assisted cycles), while in terms of domestic production, the decrease was -21% (around 15 million bicycles were produced in 2022; *ibid.*). The supply-demand imbalance is due, on the one hand, to the "distance" of cycle manufacturers from the market (which limits their ability to promptly intercept significant changes in demand) and, on the other hand, to the rigidity in production adjustment due to lead times for components and the assembly of the finished vehicle. The correction in locally produced volumes in 2023, however painful, was an important first step towards the normalisation of inventories, but it is not enough on its own.

The second, equally substantial, aspect is that the contraction is even more pronounced when analysing the data on cycle imports into the Old Continent: these fell by -35.4% in 2023 to 4.6 million units, compared to an average over the last decade of between 6.8 and 7.8 million (source: CONEBI). The decrease in imports of electric bikes is "only" -24.6%, corresponding to a volume of just under one million units (about 954 thousand; source: CONEBI). The reduction of imports compared to historical data is also a reflection of the change in supply chains, with the renewed centrality of production close to consumption (referred to as reshoring and near-shoring), but its magnitude suggests that this cannot be the only explanation.

Returning briefly to local production, muscle bicycles suffered more than electric bicycles, with the latter "only" decreasing by -14% (to 4.6 million units - *ibid.*) while the volumes of the former can be deduced to have dropped by about -25%.

The "perfect storm" that has hit the sector in Europe over the last 18 months is therefore also a consequence of an acceleration in the dynamics of changing preferences, which has been taking place for a few years now, on the part of consumers who are increasingly oriented towards the purchase of assisted vehicles as opposed to traditional ones, with the former having market shares of more than 50% in the Netherlands (56% in volume; around 80% in value; source: RAI), Germany (53% in volume; source: ZIV) and Belgium (52%; source: Bike Europe) while are below but growing in all other

major markets (Italy: 25% in volume; source: ANCMA. France: 30% in volume: source Vèlo Et Territoires. Spain: 20% in volume; source: AMBE, to name a few). In light of this, it would be interesting to have estimates of the volumes of traditional bicycles in stock along the production-distribution chain, but aggregate data are unfortunately not available. However, it is likely that much of the excess stock, given by the sum of domestic production and imports and net of consumption and exports, is related to traditional and mid-to-low range bicycles.

In conclusion to this examination of the sector with reference to Europe, however, some positive elements cannot be omitted. Taking up a theme mentioned at the beginning of this section, the adoption of the "European Cycling Declaration", which took place in April 2024, follows several moments in which the European institutions have demonstrated the growing interest in the cycle sector. At a meeting held in Brussels on 29 November 2023 and promoted by CONEBI in collaboration with the European Transport Committee, for example, it was emphasised that every Euro invested in the sector can have a double return (source: article in Bike Europe on 14 December 2023). Moreover, the cycle sector, if adequately supported, may potentially create one million quality jobs, mainly in SMEs, by 2030 (*ibid.*).

This will be possible if Europe, in this circumstance, puts in place a comprehensive set of measures that include, by way of example and without claiming to be comprehensive: support for the construction of safer infrastructures (the main barrier to the adoption of micro-mobility by bicycle along with the weather, according to evidence collected by the BCG/University of St. Gallen study cited above); adequate incentives for the sector (France has earmarked a € 2 billion programme to be invested by 2030 to support local R&D production and activities) and for the purchase of bicycles, for example by reducing VAT on these products (Portugal has been a forerunner in this regard); road awareness-raising and education, aimed at both cyclists and other road users; promotion of inter-modal transport; incentives for medium-term rental or leasing, as an alternative to purchase, which are having excellent success in some Central European countries such as Germany and the Netherlands (with double-digit "CAGR" growth rates). Furthermore, it will be essential to continue to protect the sector from unfair competition, including by confirming the protectionist measures already in place towards those countries that "dump" inefficiencies deriving from excess installed production capacity abroad in the form of price dumping, being able to count on public subsidies at home.

Finally, the strengthening of the sector in Europe will not only have repercussions on employment and on the wealth produced, but will also be instrumental in achieving carbon neutrality: a study conducted by the Politecnico di Milano, using the Life Cycle Assessment (LCA) methodology, while estimating the CO_2 equivalent emissions of traditional and electric bicycles "from cradle to grave" - namely from

production to disposal -, found that the production of an electric bicycle in Europe already has less of an impact than the production of a traditional bicycle produced in China and intended for sale on our continent. The potential marginal impact in the case of a traditional Chinese-made bicycle compared to the same one made locally has been estimated at 104 kg of CO_2 equivalent, rising to 144 kg in the case of an electric bicycle (source: article in Bike Europe on 14 December 2023). It can therefore be concluded that not believing in this sector and its prospects, beyond this transitory phase of difficulty, is an act of short-sightedness rather than a "strategic" choice.

AMERICA

America, specifically North America which is the second end-user market for the Group's products is, as is well known, a pure consumer market, having delocalised production to Asia since the early 1990s. In order to give an indicative representation of the oversupply phenomenon that has also affected this market, it is therefore interesting to analyse the data on the number of imported bicycles and the related trend in recent years: in 2023, 5.4 million traditional bicycles were imported into the United States (data from the U.S. Department of Commerce, as cited in an article in Bicycle Retailer of 11 March 2024). This figure, in addition to being the lowest recorded since at least 1981, represents a decrease of -41% compared to 2022 (!), which in turn had seen volumes shrink by about -31% compared to 2021 (*ibid.*). In contrast, the number of electric bicycles imported in 2023 was about 990 thousand, showing a reduction of only -10% compared to 2022 but a growth of +25% compared to 2021. The market share of (imported) electric bicycles in the US is therefore now close to 20% (*ibid.*).
Looking now at the stock data, and before analysing the sales data, we have a clear picture of what is meant by "overstocking" in the supply chain: according to analyses conducted by PeopleForBikes (as cited in an editorial in Bicycle Retailer 12 February 2024), on a sample of wholesale operators (namely the suppliers of the retail channel), the average value of aggregate stocks before the onset of the pandemic ranged, on average, between $250 and $300 million, also depending on the seasonality of the sector. By the end of 2020, the same figure had contracted to a figure of less than about $50 million during 2021 (for an examination of the causes, please refer to the Group's Financial Report for the 2021/22 fiscal year), and then literally "exploded" to a value of almost $800 million in the autumn of 2023 (*ibid.*). Even if we strip out the inflationary effect recorded in that two-year period, the magnitude of the problem (which becomes dramatic when also read in light of the cost of debt in recent years) is evident. The same analysis, updated at the end of 2023, shows that the trend has been downward since the fourth quarter of that year and, anecdotally and while awaiting public data, it is believed that the figure has been progressively declining since then. In fact, analysts at PeopleForBikes confirm that,

as early as the beginning of 2024, stock levels at retailers have substantially returned to normal (source: Bicycle Retailer - 8 January 2024), but to the detriment of stocks upstream in the chain, i.e., at distributors and manufacturers (as mentioned above), for the normalisation of which much, if not all, of 2024 will be necessary.

Finally, we come to the analysis of consumption, which represents the main way of solving the aforementioned problem, and market sentiment.

As for the first aspect, again PeopleForBikes envisages bicycle sales of just under 14 million units in 2024 (13.8 million; source: Global Risk and Opportunity Forecast produced by S&P for PeopleForBikes and as cited in Bicycle Retailer of 8 January 2024), down from the historical average of about 15-16 million, and decreased by about -22% from the average units sold in the years 2015-2019. There were 22 million sold in 2020 (*ibid.*). On the other hand, the forecast for the current year is up +9% compared to 2023, while an initial estimate for the 2025 assumes a sales volume of 15.8 million units, which would bring the market back in line with historical data.

These projections are supported by data from the National Sporting Goods Association (NSGA), which show that the rate of bicycle use (ridership) is the highest since 2005 (source: NSGA as quoted in Bicycle Retailer of 8 July 2024) and has suffered only a modest decline since 2022 (-4.5%; *ibid.*). These figures are also confirmed by joint research by the Physical Activity Council (PCA) and PeopleForBikes, which shows that the number of people over the age of 6 who used a bicycle at least once in 2023 is slightly higher than 80 million, in line with 2022, and growing by more than 10% since 2017 (*ibid.*). One of the big questions for sector insiders in the peak years of 2020-2021 was how many people would continue to use the bicycle once the health emergency had passed: the data seem to confirm that the feared decline is not happening, quite the contrary.

Finally, with reference to market sentiment, according to the Bicycle Industry Confidence Survey published in January 2024 (https://peopleforbikes.org), the retailers surveyed did confirm the negative performance in 2023 compared to the previous year (around 80%, compared to 7% of respondents who declared an increase in sales over the same period), but at the same time expressed cautious optimism for 2024 (with 84% of respondents expecting a year in line with or better than 2023), and positive performance expected in the e-bikes, gravel and consumer service revenue segments. The main threats to the sector? Overstocking was the most frequent answer (60%), followed by discounts (40%) and only third in importance (32%) was falling demand (editor's note: each respondent was asked to identify 3). Even in this key consumer market for the sector, the data support the prospects for a revival of growth in the years to come.

ASIA

As is well known, Asia has for several years now been the continent where the largest number of bicycles are produced, both for local consumption and for export. In the light of the data presented in the previous sections regarding the collapse of imports to Europe and America, it is easy to understand how the last 18 months have also been extremely critical for assemblers of finished bicycles and manufacturers of component parts in the Far East.

The top 3 countries in terms of export volumes in Europe (Cambodia, China and Bangladesh) each lost about one third of demand in 2023 compared to 2022; Taiwan lost only -18.5%, also thanks to a more upmarket positioning of its offer, including e-bikes (Bike Europe; 26 March 2024). This is corroborated by the export data measured in value: in this case, Taiwan has regained the top position as European "supplier", thanks to a growth of +9.4%, made possible by the increase in the average price per bicycle sold, both with reference to traditional (+39%, from € 691 in 2022 to € 957 in 2023) and assisted bicycles (*ibid.*). The average price of pedal-assisted bicycles even grew by +35% between 2019 and 2023, reaching € 1,420 (*ibid.*).

In general, the average price of bicycles sold by the other main exporting countries increased only in Cambodia (+13%, also supported by the recognition of developing country status, with the elimination of import duties in the Old Continent, according to the Generalised System of Preferences - GSP scheme), while it even fell in China (-10% to € 161) and Bangladesh (-10% to € 189) in the same four-year period (*ibid.*). It is in the comparison of these data that the distance, even competitive, between Taiwan's offerings and those of its neighbouring countries becomes apparent.

Price competition has been shown to be a double-edged sword in these last two years of shrinking volumes. To face these difficulties, local component manufacturers (but not only) responded with both temporary production shutdowns and particularly aggressive sales campaigns, a mix that certainly posed challenges for those among western competitors who were not as "protected" as the Selle Royal Group by the uniqueness of its value proposition, made up of a combination of brand distinctiveness and technological innovation.

The dynamics of the Chinese market dampened, albeit partially, the effects deriving from sharply declining exports. Domestic demand gradually increased in the post-pandemic years in terms of volumes, which has also been accompanied by a growth in the average value of bicycles sold. Road bicycles and, in part, recreational bicycles are also growing strongly, as reported by large local producer groups. In addition, the Chinese consumer approaching the cycle sector is demonstrating increasing competence and interest in the search for excellent products, certainly to the benefit of the renowned European and American brands; nevertheless, local brands are also beginning to make

inroads, taking advantage of the technological know-how developed during the years when factories produced exclusively to serve Western demand. Also contributing to this trend is a purely local phenomenon, namely the live video broadcasts on TikTok, during which influencers, opinion makers and local experts present new products that can be purchased directly, in a business-to-consumer format that is still largely unknown in Europe and America, but very popular in China.
The local Chinese market, properly interpreted and served as it evolves, can therefore be a great opportunity for those who, like the Selle Royal Group, have an established presence on the ground.

With reference to the Selle Royal Group, on 29 September 2023, the subsidiary Selle Royal USA, Inc., finalised the acquisition of the 50% interest previously held by Continental Tire The Americas in the US-registered joint venture Highway 2, Llc. This company, incorporated in 2006 in the state of Delaware and with operations in California and Illinois, is active in the distribution of the Group's brands (and other complementary and premium cycle brands) in the American and Canadian markets. With this transaction, the Selle Royal Group strengthens its presence in a strategic and high-potential market, in spite of the context described above.
During the financial year, the parent company Selle Royal Group S.p.A. settled the disputes pending with the Italian Revenue Agency as part of the initiatives aimed at deflation of the tax dispute in Italy.
On 3 November 2023, the sale of a 20% stake in Selle Royal Romania S.r.l. was completed, as part of a strategic process that strengthens the skills available to the Group's management to start sports footwear production in the related plant.
In addition, in March 2024, the company under Chinese law Jiangyin Selle Royal Cycling Co., Ltd., previously owned 68.29% through the Hong-Kong holding company Selle Royal Asia Limited, was liquidated. The company, which was never operational, was initially set up as part of a project to transfer the Chinese plant (operating as Selle Royal Vehicle (China) Co., Ltd.) following the urban redevelopment project of the area in which the latter's headquarters are located; this initiative was subsequently abandoned by the authorities of the city of Jiangyin, Jiangsu province, in the years following the onset of the pandemic, thus eliminating the need to transfer the production activity and therefore to maintain the company liquidated during the year.
Lastly, on 31 May 2024, the parent company Selle Royal Group S.p.A. transferred to the subsidiary Selle Royal USA, Inc. the 100% stake previously held in Crank Brothers, Inc. This sale is part of a broader reorganisation operation of the Group's presence in North America, which will be completed in the current year and from which a more organic and effective operational management in the territory is expected, as well as significant commercial and cost synergies.

THE SELLE ROYAL GROUP and the ON-GOING WAR EVENTS in UKRAINE

Despite having commercial relations with counterparties residing in Ukraine, the Russian Federation and Belarus, the Selle Royal Group is not significantly exposed to the risks deriving from the ongoing war events. The turnover generated for the Group in these countries, even in aggregate form, represents an essentially insignificant portion of the consolidated turnover. At the same time, none of the Group's direct suppliers are based in those countries, therefore, there has been no significant impact on the supply chain since the start of the conflict, nor is there reasonably expected to be any in the future should the situation remain unchanged.

ECONOMIC PERFORMANCE

The following table shows the 2023/24 income statement, compared with the figures for the previous year:

	2023/24		2022/23		
		% of revenues		*% of revenues*	*% Change*
Revenues	135.306.982	*100,0%*	176.477.279	*100,0%*	*-23,3%*
Cost of sales	78.623.966	*58,1%*	97.558.547	*55,3%*	*-19,4%*
GROSS MARGIN	**56.683.016**	***41,9%***	**78.918.732**	***44,7%***	***-28,2%***
Operating costs	43.386.218	*32,1%*	57.837.791	*32,8%*	*-25,0%*
EBITDA	**13.296.799**	***9,8%***	**21.080.941**	***11,9%***	***-36,9%***
Amortisation / depreciation and write-downs of fixed assets	9.179.020	*6,8%*	8.923.159	*5,1%*	*2,9%*
EBIT	**4.117.779**	***3,0%***	**12.157.782**	***6,9%***	***-66,1%***
Financial income / (charges) and other financial components	(4.162.269)	*-3,1%*	(3.456.685)	*-2,0%*	*20,4%*
PRE-TAX RESULT	**(44.490)**	***0,0%***	**8.701.097**	***4,9%***	***n.s.***
Taxes for the year	(1.813.419)	*-1,3%*	485.815	*0,3%*	*n.s.*
NET PROFIT FOR THE YEAR	**1.768.928**	***1,3%***	**8.215.282**	***4,7%***	***-78,5%***
Minority interests	2.143.709	*1,6%*	2.927.347	*1,7%*	*-26,8%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	**(374.780)**	***-0,3%***	**5.287.935**	***3,0%***	***n.s.***

Sales for the year under review, which ended on 30 June 2024, amounted to € 135.3 million, a decrease of -23.3% compared to the same period of the previous year. The decrease in gross margin, from 44.7% to 41.9%, is mainly attributable to commercial initiatives to reduce stocks of third-party brands, with particular reference to those taken over by the Group as part of the acquisition of the 50% stake in Highway 2, Llc. described above. These sales are a non-recurring phenomenon in their scope and negative effect on the margin, also because they relate to brands with which the distribution relationship in the US and Canada was terminated following the aforementioned acquisition. The "normal" gross margin, excluding the aforementioned effects, was 45.2%, a significant

increase compared to the previous year, despite the price pressure experienced in the market during the financial year, testifying to the solidity of the Group and the allure of its brands.
Operating costs, excluding “other income and charges”, decreased by -11.3% compared to the previous year, with significant savings on all items, particularly on costs of an industrial nature, management personnel and general and administrative costs.
Other net operating income (amounting to € 5.1 million in 2023/24 compared to net charges of € 3.1 million in 2022/23) is in contrast with the previous year, mainly due to the release of a portion of the significant provisions made, mainly in the previous financial year, to the inventory adjustment provisions in the financial statements of the Group companies. The release of a portion of the previously allocated funds was made possible by the increase in stock rotations and the overall improvement in the quality of the same, which had been affected more specifically by the acquisition of 50% of Highway 2, Llc. and its full consolidation for the first time during the financial year under review.
The decrease in turnover also led to a drop in EBITDA, which amounted to € 13.3 million compared to € 21.1 million in the comparison period. Adjusted EBITDA, net of non-recurring net costs related to the start-up of Selle Royal Romania and the closure of Jiangyin Selle Royal Cycling Co. Ltd., amounted to € 13.6 million, accounting for 10% of revenues.
The operating result of € 4.1 million was down by -66.1% compared to the financial year ended 30 June 2023, due to depreciation and amortisation resulting from the significant investments undertaken during the financial year and the previous three-year period, the returns of which are already expected as early as the 2024/25 fiscal year.
Financial charges increased, amounting to € 4.4 million compared to € 3.7 million in the previous year, mainly due to the increase in interest rates in both the Euro and the US Dollar area. The effect of net exchange rate differences was in line with the previous financial year, contributing a positive value of € 245 thousand compared to € 261 thousand in the previous financial year.
As anticipated, the financial year under review closed with a net profit of € 1.8 million and an impact of 1.3% of turnover, a positive result overall in light of the contraction in turnover and the trend in the sector, as described at the beginning of the Report.

FINANCIAL POSITION

The financial position of the Group as at 30 June 2024, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2023, is as follows:

	30/06/2024	30/06/2023	*Change*
Trade receivables	22.833.007	21.355.698	1.477.309
Inventories	32.728.549	40.966.066	(8.237.517)
Tax receivables	5.006.131	5.018.310	(12.179)
Other current assets	1.514.557	1.438.877	75.679
CURRENT ASSETS	***62.082.244***	***68.778.952***	***(6.696.708)***
Trade payables	13.170.747	11.937.682	1.233.065
Tax payables	1.944.155	3.500.928	(1.556.773)
Other current liabilities	9.135.329	8.773.315	362.014
CURRENT LIABILITIES	***24.250.231***	***24.211.926***	***38.305***
NET WORKING CAPITAL	**37.832.013**	**44.567.026**	**(6.735.013)**
Tangible assets	40.209.039	42.168.105	(1.959.066)
Intangible assets	22.368.279	21.953.812	414.466
Equity investments	18.922	1.137.206	(1.118.284)
Goodwill	10.590.081	10.549.755	40.326
Other non-current assets	7.447.615	5.551.210	1.896.405
NON-CURRENT ASSETS	***80.633.936***	***81.360.088***	***(726.153)***
Employee severance indemnity and other provisions	2.272.754	2.271.947	807
Deferred taxes	522.551	788.757	(266.206)
Other non-curren liabilities	136.211	-	136.211
NON-CURRENT LIABILITIES	***2.931.516***	***3.060.704***	***(129.188)***
NET INVESTED CAPITAL	**115.534.433**	**122.866.410**	**(7.331.977)**
Short-term financial debt, net	2.336.739	2.164.871	171.868
Medium/long-term financial debt	43.436.039	49.607.480	(6.171.441)
NET FINANCIAL DEBT	**45.772.779**	**51.772.351**	**(5.999.573)**
Share capital and other reserves	53.029.066	50.552.428	2.476.637
Group profit for the year	(374.780)	5.287.935	(5.662.716)
GROUP SHAREHOLDERS' EQUITY	**52.654.285**	**55.840.364**	**(3.186.078)**
Share capital and other reserves	14.963.660	12.326.348	2.637.312
Profit for the year pertaining to minority interests	2.143.709	2.927.347	(783.638)
MINORITY INTERESTS	**17.107.369**	**15.253.694**	**1.853.674**

The change in net working capital (€ -6.7 million) is basically driven by the reduction in stocks; this figure is extremely important in light of an extremely complex and not very receptive market context and also of the effects of the first-time consolidation of the stocks held by Highway Two, Llc., the latter amounting to a gross value, at the date of acquisition, of approximately € 6.4 million.

The growth in trade receivables is mainly a reflection of the turnover trend during the year, with the last quarter accounting for a more significant portion of the annual total than the previous financial year. In fact, during the year under review, and more specifically in the spring months, the aftermarket channel showed a moderate recovery, whereas in the previous year it had set the pace, highlighting the slowdown that subsequently characterised the sector as a whole.

The operating investments ("capital expenditures") made by the various Group companies, for a total amount of € 7.7 million (excluding € 0.5 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 decreased by € 7.3 million, mainly due to the effect of what has been described regarding working capital, to € 115.5 million.

Net financial debt decreased by around € 6.0 million to € 45.8 million; this decrease is entirely concentrated in the medium/long-term portion, as shown in the table below:

		30/06/2024	30/06/2023	*Change*
A	Cash on hand	27.310.510	27.511.313	(200.803)
B	Cash and cash equivalents	-	-	-
C	Other current financial assets	-	-	-
D	**Liquidity (A + B + C)**	**27.310.510**	**27.511.313**	**(200.803)**
E	Current financial debt *	6.264.645	8.084.439	(1.819.794)
F	Current portion of non-current financial debt **	23.382.604	21.591.745	1.790.859
G	**Current financial debt (E + F)**	**29.647.250**	**29.676.184**	**(28.934)**
H	**Net current financial debt (G-D)**	**2.336.739**	**2.164.871**	**171.868**
I.	Non-current financial debt ***	43.436.039	47.621.383	(4.185.343)
J	Debt instruments	-	1.986.098	(1.986.098)
K	Trade payables and other non-current payables	-	-	-
L	**Non-current financial debt (I + J + K)**	**43.436.039**	**49.607.480**	**(6.171.441)**
M	**Net financial debt (H + L)**	**45.772.779**	**51.772.351**	**(5.999.573)**

* Excluding current portion of non-current financial debt;
** Includes the current portion of bank loans and bonds as well as lease liabilities pursuant to IFRS 16
*** Includes the non-current portion of mortgages and lease liabilities pursuant to IFRS 16

In spite of a gloomy year for the sector, as extensively described above, it is therefore notable that the Group managed to generate net cash of EUR 6.0 million (with a cash conversion rate on EBITDA of 45.1%), while not sacrificing operating investments and carrying out a strategic transaction such as the acquisition of 50% of Highway 2, Llc., which will be the foundation of future growth.

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. Their market value is recorded in the specific non-current asset item, as their maturity is consistent with the underlying loans.

As these instruments were effective, the initial recognition and subsequent changes in value were recognised in a special equity reserve ("cash flow hedge reserve"), net of the related tax effect.

For further information, please refer to the Explanatory Notes to this consolidated annual financial report.

INVESTMENTS

As already mentioned, during the current year the Group incurred operating investments (capital expenditure) of approximately € 8.1 million (including increased rights of use), as shown in the following detail:

	30/06/2024
Land and buildings	280.375
Right of use of leased assets	464.094
Plant and machinery	2.963.350
Industrial and commercial equipment	826.630
Other assets	516.760
Work in progress and advances	1.722.524
Sub-total - Investments in tangible assets	**6.773.734**
Industrial patent rights and intellectual property rights	184.332
Concessions, licences, trademarks and similar rights	1.021.363
Work in progress and advances	147.986
Sub-total - Investments in tangible assets	**1.353.681**
TOTAL OPERATING INVESTMENTS	8.127.415

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

Neither the parent company Selle Royal Group S.p.A. nor its affiliated and controlled companies as of the balance sheet date held shares in the parent company.

RISK ANALYSIS

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

Financial risks

Credit risk

The Group is exposed to credit risk deriving mainly from commercial relations with its customers and, in particular, due to any delays or non-fulfilment of their payment obligations according to the agreed terms and methods. On the other hand, some Group companies have taken out insurance policies with a leading international institution to mitigate this risk. At the reporting date, approximately 59% of the consolidated receivables (gross of the bad debt provision) were covered by insurance.

Risks associated with changes in interest rates

As at 30 June 2024, approximately 97% of the Group's consolidated gross financial indebtedness was floating rate, equal to € 65.5 million. In relation to a portion of this debt (approximately 29% of the total), the parent company Selle Royal Group S.p.A. made use of derivative financial instruments (known as IRS, interest rate swap) to hedge the risk of fluctuations in interest rates on three medium/long-term loans. The aggregate mark-to-market of these derivatives as at 30 June 2024 is positive in the amount of € 807,934. The remaining part of the consolidated gross financial debt at floating rate, equal to approximately 68.4% of the total, is not hedged by interest rate risk hedging instruments. Significant changes in interest rates could result in an increase in financial charges relating to floating rate debt.

Liquidity risk

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

Risks associated with exchange rate trends

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

Operational risks

Risks associated with the operations of production plants

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

Risks associated with fluctuations in the price of raw materials and procurement difficulties

During the twelve months in question, the tensions that had arisen on the purchase prices of raw materials and on the cost of electricity experienced in the previous year eased. These phenomena were nevertheless monitored by the Group. Any resurgence of these inflationary tensions, accompanied by a persistent drop in demand in the sector, could result in a lower capacity for full and timely reaction and could therefore have negative effects on the Group's economic, equity and financial situation.

Risks linked 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.

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 1,049, a slight decrease compared to the 1,084 employees in the previous year. The net decrease of approximately 35 units is entirely attributable to production employees due to the reduction in volumes. In this regard, it should be noted that the parent company Selle Royal Group S.p.A., starting from May 2023, and for the entire financial year ending 30 June 2024, requested and obtained access to the temporary lay-off scheme, which is used on an as-needed basis in a logic of efficient use of production resources. For further details, please refer to the information provided in the individual financial statements of the Company.

The following tables show, detailed by category, the average workforce and the total workforce for the year 2024.

Average workforce	Financial Year 2023/24	Financial Year 2022/23	Change
Executives	26	25	1
Employees	281	271	10
Workers	740	784	(44)
Others	2	4	(2)
Total	**1.049**	**1.084**	**(35)**

Workforce *(in units)*	30/06/2024	30/06/2023	Change
Executives	23	25	(2)
Employees	275	266	9
Workers	705	760	(55)
Others	1	4	(3)
Total	**1.004**	**1.055**	**(51)**

TRANSACTIONS with PARENT COMPANIES, AFFILIATES and RELATED PARTIES

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

SIGNIFICANT EVENTS AFTER the END of the YEAR

Given the continuing weakness of the market, especially as regards the OEM channel, also during the first months of the fiscal year that will end on 30 June 2025, the parent company Selle Royal Group S.p.A. continued to use, albeit to a reduced extent, the flexibility provided by access to the temporary lay-off scheme, more specifically to clerical staff.

In addition, the Group is pursuing the plan to reorganise its presence in North America, as described above, which is expected to be completed by 30 June 2025.

BUSINESS OUTLOOK

The current context is significantly affected by numerous factors of uncertainty and disruption of economic activities as described in detail above: the continuation of the Russian-Ukrainian conflict; the dramatic resurgence of tensions in the Middle East; the continuing geopolitical tensions between China and the United States over the “Taiwan issue” and, more generally, doubts about the United States’ posture in the coming years, following the outcome of the November 2024 elections; interest rates, although falling, are still at high levels compared to the average of the last decade. These global phenomena, which reduce the propensity to consume, especially with reference to non-primary consumer goods, are accompanied by a persistent imbalance in stock volumes, especially at bicycle assemblers. Consistent with the foregoing, it is believed and hoped that the fiscal year in progress at the date of approval of this Report may be a transition towards a context of greater stability, in the sector but not only.

CONCLUSIONS and PROPOSALS

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

* * *

Pozzoleone (VI), 26 November 2024

The Chairperson of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT (*)

	NOTE	2023/24	2022/23	*% Change*
Revenues	15	135.306.982	176.477.279	*-23,3%*
Cost of sales	16	78.623.966	97.558.547	*-19,4%*
GROSS MARGIN		**56.683.016**	**78.918.732**	***-28,2%***
Industrial costs	17	5.601.321	6.773.375	*-17,3%*
Sales and promotion costs	18	13.829.092	15.542.103	*-11,0%*
Costs of the management structure	19	15.751.395	16.826.576	*-6,4%*
General and administrative costs	20	13.334.332	15.564.917	*-14,3%*
Other operating income and (expenses)	21	5.129.923	(3.130.820)	*n.s.*
EBITDA		**13.296.799**	**21.080.941**	***-36,9%***
Amortisation / depreciation and write-downs of fixed assets		9.179.020	8.923.159	*2,9%*
EBIT		**4.117.779**	**12.157.782**	***-66,1%***
Financial income / (charges)	22	(4.162.269)	(3.456.685)	*20,4%*
PRE-TAX RESULT		**(44.490)**	**8.701.097**	***n.s.***
Taxes for the year	23	(1.813.419)	485.815	*n.s.*
NET PROFIT FOR THE YEAR		**1.768.928**	**8.215.282**	***-78,5%***
Minority interests		2.143.709	2.927.347	*-26,8%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP		**(374.780)**	**5.287.935**	***n.s.***

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2023/24	2022/23
Net profit	1.768.928	8.215.282
Change in fair value of hedging derivatives net of the tax effect	(564.253)	445.343
Actuarial gains / (losses)	32.460	150.269
Translation differences of foreign financial statements	(194.451)	(2.446.572)
Total comprehensive profit / (loss) after tax	1.042.685	6.364.323

CONSOLIDATED BALANCE SHEET [(*)]

ASSETS	NOTE	30/06/2024	30/06/2023	*Change*
Cash and cash equivalents	24, 38	27.310.510	27.511.313	(200.803)
Trade receivables	25	22.833.007	21.355.698	1.477.309
Inventories	26	32.728.549	40.966.066	(8.237.517)
Tax receivables	27	5.006.131	5.018.310	(12.179)
Other current assets	28	1.514.557	1.438.877	75.680
TOTAL CURRENT ASSETS		**89.392.755**	**96.290.265**	**(6.897.510)**
Intangible assets	29	22.368.279	21.953.812	414.466
Tangible assets	30	40.209.039	42.168.105	(1.959.066)
Equity investments	31	18.922	1.137.206	(1.118.284)
Goodwill	32	10.590.081	10.549.755	40.326
Deferred tax assets	33	5.618.848	2.562.740	3.056.108
Financial assets at fair value	34, 38	1.179.814	2.305.376	(1.125.561)
Other non-current assets	35	648.953	683.094	(34.141)
TOTAL NON-CURRENT ASSETS		**80.633.936**	**81.360.088**	**(726.153)**
TOTAL ASSETS		**170.026.690**	**177.650.353**	**(7.623.663)**
LIABILITIES	**NOTE**			
Trade payables	36	13.170.747	11.937.682	1.233.065
Tax payables	37	1.944.155	3.500.928	(1.556.773)
Bonds - Portion maturing within 12 months	38, 39	1.986.098	1.958.557	27.540
Short-term loans	38, 40	25.252.834	25.133.411	119.423
Current liabilities for leased assets	41	2.408.318	2.584.216	(175.897)
Other current liabilities	42	9.135.329	8.773.315	362.014
TOTAL CURRENT LIABILITIES		**53.897.480**	**53.888.110**	**9.371**
Provisions for employees	43	1.288.934	1.373.602	(84.668)
Bonds - Portion maturing beyond 12 months	38, 39	-	1.986.098	(1.986.098)
Medium / long-term loans	38, 44	40.229.051	42.468.789	(2.239.737)
Provisions for risks and charges	45	983.820	898.345	85.475
Payables for deferred taxes	46	522.551	788.757	(266.206)
Non-current liabilities for leased assets	47	3.206.988	5.152.594	(1.945.606)
Other non-current liabilities	48	136.211	-	136.211
TOTAL NON-CURRENT LIABILITIES		**46.367.556**	**52.668.185**	**(6.300.629)**
TOTAL LIABILITIES		**100.265.036**	**106.556.294**	**(6.291.258)**
SHAREHOLDERS' EQUITY	**NOTE**			
Share capital		6.000.000	6.000.000	-
Legal reserve		1.244.082	1.244.082	-
Translation reserve		947.011	1.141.462	(194.451)
Reserve for first-time adoption of IAS		10.716.446	10.716.446	-
Other reserves and undistributed profits		34.121.528	31.450.439	2.671.088
Group profit / (loss) for the year		(374.780)	5.287.935	(5.662.716)
GROUP SHAREHOLDERS' EQUITY	49	**52.654.286**	**55.840.364**	**(3.186.078)**
Share capital and undistributed profits pertaining to minority interests		14.963.660	12.326.348	2.637.312
Profit / (loss) for the year of minority interests		2.143.709	2.927.347	(783.638)
MINORITY INTERESTS	49	**17.107.369**	**15.253.694**	**1.853.674**
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		**170.026.690**	**177.650.353**	**(7.623.662)**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Balance as at 30 June 2023	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance indemnity	Increase in Group interests	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 30 June 2024
Share capital	6.000.000	-	-	-	-	-	-	6.000.000
Legal reserve	1.244.082	-	-	-	-	-	-	1.244.082
Translation reserve	1.141.462	-	-	-	-	(194.451)	-	947.011
Reserve for first-time adoption of IAS	10.716.446	-	-	-	-	-	-	10.716.446
Other reserves and undistributed profits	31.450.439	5.287.935	(564.253)	32.460	-	(2.085.054)	-	34.121.528
Group profit / (loss) for the year	5.287.935	(5.287.935)	-	-	-	-	(374.780)	(374.780)
TOTAL GROUP SHAREHOLDERS' EQUITY	55.840.364	-	(564.253)	32.460	-	(2.279.505)	(374.780)	52.654.286
Share capital and undistributed profits pertaining to minority interests	12.326.348	2.927.347	-	-	-	-	(290.034)	14.963.660
Profit / (loss) for the year of minority interests	2.927.347	(2.927.347)	-	-	-	-	2.143.709	2.143.709
TOTAL MINORITY INTERESTS	15.253.694	-	-	-	-	-	1.853.674	17.107.369
TOTAL SHAREHOLDERS' EQUITY	**71.094.058**	**-**	**(564.253)**	**32.460**	**-**	**(2.279.505)**	**1.478.894**	**69.761.654**

CONSOLIDATED CASH FLOW STATEMENT PREPARED USING THE INDIRECT METHOD

		2023/24	2022/23
STATEMENT OF CASH FLOWS FROM OPERATIONS			
Pre-tax result		**(44.490)**	**8.701.097**
Adjustments for			
+/-	**non-monetary elements**		
	Depreciation of tangible assets	8.143.997	7.986.261
	Amortisation of intangible assets	1.035.023	936.898
	Net financial charges	4.162.269	3.456.685
	Minor independent works	(169.265)	(151.614)
	(Gains) / losses on the sale of property, plant and equipment and financial assets	4.767	(21.433)
	Change in the bad debt provision	(1.975)	34.794
	Changes in deferred taxes, provisions and employee benefits	(1.850.825)	2.333.384
Cash and cash equivalents generated by transactions before working capital		**11.279.501**	**23.276.072**
+/-	**change in working capital**		
+/-	Change in inventories	13.585.440	355.766
+/-	Change in trade receivables	2.000.305	10.197.966
+/-	Change in trade payables	(6.538.313)	(9.839.802)
+/-	Change in other current assets	(634.898)	1.317.352
+/-	Change in other current liabilities	(546.330)	(3.051.816)
Cash and cash equivalents generated by transactions		**19.145.704**	**22.255.537**
+	Interest collected	494.876	538.278
-	Interest paid	(5.054.428)	(3.615.637)
+/-	Net realized exchange differences	41.117	1.518.109
-	Taxes paid	(1.984.379)	(8.854.193)
Net cash and cash equivalents from operating activities (A)		**12.642.891**	**11.842.094**
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES			
-	Payments for acquisitions of property, plant, machinery and other tangible assets	(5.859.174)	(10.817.915)
+	Recepits from the sale of property, plant, and equipment and other tangible assets	7.807	32.248
-	Payments for acquisitions of intangible assets and capitalised costs	(1.353.681)	(1.632.203)
-	Payments for the granting of advances or loans to third parties	(295.289)	(1.342.004)
+	Receipts for the granting of advances or loans to third parties	448.166	-
-	Payments for derivatives	734.423	270.934
-	Payments for acquisitions of investments in subsidiaries, associates or joint venture entities	(189.934)	-
+	Receipts for acquisitions of investments in subsidiaries, associates or joint venture entities	200.000	-
Net cash and cash equivalents from / used in investing activities (B)		**(6.307.682)**	**(13.488.940)**
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES			
+	Collections from obtaining loans	59.313.214	58.313.420
-	Payments for rents that fall under the application of IFRS 16	(2.856.197)	(2.805.044)
-	(Redemption) bond loan (known as mini-bond)	(2.000.000)	(2.000.000)
-	Loan repayments	(59.447.431)	(46.034.809)
-	Dividends paid	(1.757.575)	(2.529.316)
Net cash from / used in financing activities (C)		**(6.747.989)**	**4.944.251**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)		(412.780)	3.297.405
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		27.511.313	26.283.940
CONVERSION DIFFERENCE ON CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)		211.977	(2.070.033)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G) = (D + E + F)		27.310.510	27.511.313

EXPLANATORY NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL REPORT AS AT 30 JUNE 2024

1. INTRODUCTION

The consolidated annual financial report as at 30 June 2024 of the Selle Royal Group was prepared in compliance with the International Financial Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission in accordance with the procedure pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 on the date of preparation of this report as well as the provisions of Italian Legislative Decree 38/2005.

IFRS also means all the revised international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC"), which, at the date of approval of the consolidated annual financial report for the financial year ended 30 June 2024, were subject to endorsement by the European Union in accordance with the procedure envisaged by Regulation (EC) no. 1606/2002 by the European Parliament and Council of 19 July 2002.

The consolidated annual financial report as at 30 June 2024 consists of the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes to the Financial Statements that follow.

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

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

The consolidated annual financial report was prepared on a going concern basis, as the directors verified that there were no financial, operational or other indicators that could indicate critical issues regarding the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

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

The reference date of the consolidated annual financial report coincides with the closing date of the financial year of the parent company Selle Royal Group S.p.A. and the other companies included in the consolidation area.

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

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

The accounting standards adopted by the Group for the preparation of the consolidated annual financial report as at 30 June 2024 are the same as those adopted for the preparation of the consolidated annual financial report as at 30 June 2023, with the exception of the following accounting standards, amendments and interpretations.

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

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

The document provides for the immediate application of the temporary exception, while the disclosure obligations are only applicable to annual financial statements starting on 1 January 2023 (or at a later date). There was no material impact on the Group with reference to this amendment.

Amendments to IFRS 17 – Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information

On 9 December 2021, the IASB published a further amendment to IFRS 17. The amendment to the transitional provisions of IFRS 17 allows companies to overcome the one-off classification differences of the comparative information of the previous year at the time of the first application of IFRS 17 and IFRS 9 Financial Instruments.

The optional classification overlay introduced by this amendment allows companies to make the comparative information presented at the time of first-time application of IFRS 17 and IFRS 9 more useful. The scope of application includes financial assets linked to insurance liabilities, which until now have not been restated in accordance with IFRS 9. The amendment is effective from 1 January 2023 or later. There was no material impact on 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. There was no material impact on 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 are 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 are

applicable from 1 January 2023. There was no material impact on the Group with reference to this amendment.

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 is in force for years that began on or after 1 January 2023 and requires the presentation of comparative balances. There was no material impact on the Group with reference to this amendment.

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 consolidated annual financial report or were not adopted early.

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

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

These amendments will be applicable for financial years beginning on or after 1 January 2024. No material impacts are expected for the Group with reference to these amendments.

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

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

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

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

These amendments will be applicable for financial years beginning on or after 1 January 2024. No material impacts are expected for the Group with reference to these amendments.

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

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

IFRS 19 Subsidiaries without Public Accountability: Disclosures

Published on 9 May 2024, IFRS 19, “Subsidiaries without Public Accountability: Disclosures”, aims to reduce the disclosure requirements for the preparation of the financial statements and, where appropriate, consolidated financial statements of companies controlled, directly or indirectly, by a company that prepares its own IFRS consolidated financial statements, available for public use. These provisions will be effective for financial years beginning on or after 1 January 2027. No material impacts are expected for the Group with reference to these amendments.

IFRS 18 Presentation and Disclosure in Financial Statements

On 9 April 2024, IFRS 18, "Presentation and Disclosure in Financial Statements", was published, which will replace IAS 1, with a view to enhancing comparability and transparency of information:

a) it requires the presentation of specific partial results in the income statement and makes limited changes, essentially, to the cash flow statement and balance sheet;
b) it introduces specific disclosures, to be provided in the explanatory notes to the financial statements, on management-defined performance measures and new principles of aggregation and disaggregation of information presented in financial statements.

The standard is to be applied as from financial years beginning on or after 1 January 2027. No material impacts are expected for the Group with reference to these amendments.

Annual Improvements to IFRS Standards - Volume 11

Published on 18 July 2024, the document "Annual Improvements to IFRS Standards - Volume 11", contains changes of a technical and editorial nature to international accounting standards. The amendments will be effective for financial years beginning on or after 1 January 2026. No material impacts are expected for the Group with reference to these amendments.

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

Published on 30 May 2024, the amendments to IFRS 9 and IFRS 7 "Classification and Measurement of Financial Instruments" are intended to clarify the timing of the derecognition of financial liabilities settled through electronic payment systems and to provide clarification on the classification of financial assets with environmental, social and governance characteristics. The amendments will be effective for financial years beginning on or after 1 January 2026. No material impacts are expected for the Group with reference to these amendments.

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

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

5. FINANCIAL STATEMENT FORMATS and CLASSIFICATION CRITERIA

When preparing the formats of the documents that make up the consolidated annual financial report, the Group adopted the following criteria:

- Income statement

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

- Balance Sheet

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

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

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

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

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

(d) these are cash and cash equivalents.

All other assets were classified as non-current.

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

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

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

(c) it must be settled within twelve months from the consolidated annual financial report;

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the consolidated annual financial report.

All other liabilities were classified as non-current.

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

- Statement of changes in shareholders' equity

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

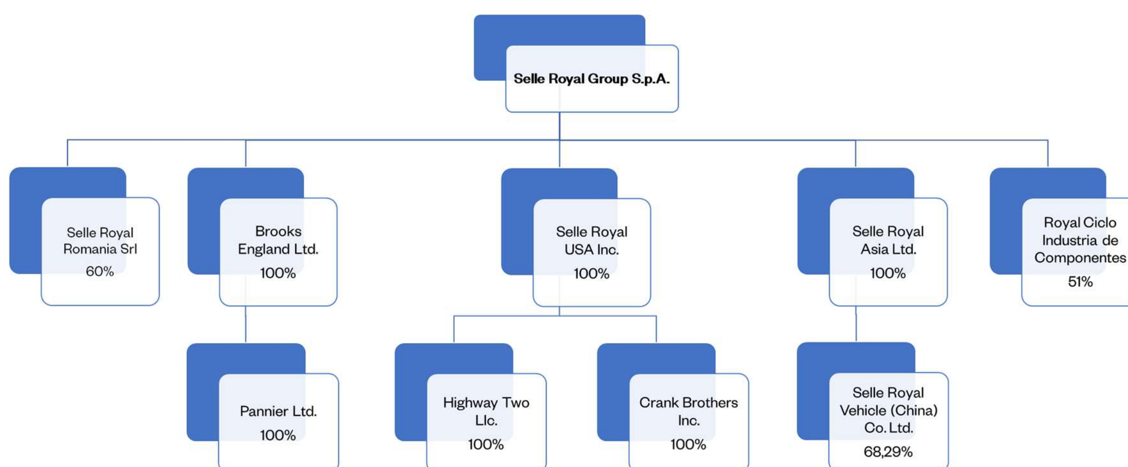
- Cash flow statement

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

6. ACTIVITIES of GROUP COMPANIES

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

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



This structure changed compared to the composition of the Group as at 30 June 2023, due to the effect:

a) of the sale of a 20% stake in Selle Royal Romania S.r.l. to two minority shareholders;
b) of the acquisition of the 50% stake of Highway Two Llc. previously held by Continental Tire The Americas;
c) of the contribution to Selle Royal Usa Inc. of the shareholding previously held by Selle Royal Group S.p.A. in Crank Brothers Inc;
d) of the liquidation of Jiangyin Selle Royal Cycling Co. Ltd..

For further details, please refer to the section “Significant events during the period”.

The consolidated financial annual report as at 30 June 2024 includes the data of the parent company Selle Royal Group S.p.A. and those of the subsidiaries in which it has, directly or indirectly, the majority of the votes that can be exercised at the Shareholders’ Meeting or in which it has decision-making power, i.e. the ability to manage the relevant activities of the investee or those activities that have a significant influence on the investee’s returns.

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

- **Selle Royal Group S.p.A.,** parent company, with registered office in Pozzoleone (VI), share capital resolved of € 6,315,200.00, subscribed and paid in for € 6,000,000.
- **Brooks England Limited** , acquired in 2002, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 239,100, equal to approximately € 301,799, 100% owned by Selle Royal Group S.p.A..
- **Selle Royal USA Inc.** (formerly Hi-Move Inc.), established in 2006, with registered office in Chicago (Illinois), share capital of US$ 17,305,000, equal to approximately € 16,165,000. The company is wholly owned by Selle Royal Group S.p.A..
- **Highway Two Llc** ., incorporated in 2006, with registered office in Olney (USA) and share capital of USD 241,648, equal to approximately € 224,000, currently wholly owned by Selle Royal USA Inc. and subject to a full line-by-line consolidation during the financial year under review.
- **Crank Brothers Inc.** , with share capital of US$ 2,000, equal to approximately € 1,802, wholly owned by Selle Royal USA, Inc.
- **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 engage in any other activity.
- **Pannier Ltd.** , with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 100.00 (corresponding to approximately € 120), fully subscribed and paid in by the subsidiary Brooks England Ltd.
- **Royal Ciclo Industria de Componentes, Ltda** ., with registered office in Rio do Sul, in the State of Santa Catarina, Brazil. The share capital of R$ 11,601,802 and is 51% owned by Selle Royal Group S.p.A.
- **Selle Royal Romania S.r.l.** , with registered office in Sacueni, Romania. Selle Royal Group S.p.A. holds 60% of the share capital of 4,956,000 Romanian LEUs (equal to approximately € 1,000,000).

7. GENERAL PREPARATION CRITERIA and CONSOLIDATION PRINCIPLES

Consolidation methodologies

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

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

Subsidiaries are those in which the Group simultaneously has:

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

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

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

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

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

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

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

Conversion into Euro of the financial statements of foreign companies

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

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

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

	Exact exchange rate as at			Average exchange rate of the year		
Currency	30 June 2024	30 June 2023	Appreciation / (deprec.)	2023/24	2022/23	Appreciation / (deprec.)
British Pound (GBP)	0,8464	0,8583	1,41%	0,8590	0,8696	1,23%
US Dollar (USD)	1,0705	1,0866	1,50%	1,0816	1,0468	-3,22%
Chinese Yuan Renminbi (RM	7,7748	7,8983	1,59%	7,8153	7,2800	-6,85%
Brazilian Real (BRL)	5,8915	5,2788	-10,40%	5,4054	5,4034	-0,04%
New Romanian Leu (RON)	4,9773	4,9635	-0,28%	4,9667	4,9256	-0,83%

8. MEASUREMENT CRITERIA

The measurement criteria, the accounting standards and the principles applied to the preparation of the consolidated annual financial report, based on a prudent approach and on a going concern basis, were as follows.

Revenues, income, costs and charges

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

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

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

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

d) the contract has commercial substance; and

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

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

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

on the basis of the average delivery time, the sales revenues and the related costs are deferred to the following year.

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

Income taxes

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

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

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

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

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

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

Criteria for the translation of currency items

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

Profits and losses deriving from the translation of individual receivables and payables and of liquid funds in foreign currency, at the exchange rate in force on the date of the financial statements, are credited and debited respectively to the income statement as financial income components. If a net profit emerges from their translation 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 debtors and 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 assets' residual possibility of use. If the asset being depreciated is composed of distinctly identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is carried out separately for each of the parts that make up the asset in application of the "component approach" principle.

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

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

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

The depreciation rates of tangible assets are reviewed and updated, where necessary, at least at the end of each year.

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

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

Intangible assets

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

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

If there is objective evidence that an individual asset may have suffered a reduction in value, a comparison is made between the carrying amount of the asset and its recoverable value, equal to the higher of the fair value, less costs to sell, and the related value in use, intended as the present value of

future cash flows that are expected to originate from the asset. Any value adjustments are recognised in the income statement.

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

In the case of write-back 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 that are 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 representing the right of use for the underlying assets.
The Group recognises the right-of-use assets at the start date of the lease and measures them at cost, less accumulated depreciation and impairment, and adjusted for any re-measurement of lease liabilities. Right-of-use assets are measured at cost, which includes the following: (i) the amount of the initial measurement of the lease liability; (ii) any lease payment made on or before the commencement date, less any lease incentive received; (iii) any initial direct costs and, if applicable, (iv) restoration costs. Right-of-use assets are depreciated on a straight-line basis for the shorter of the lease term and the estimated useful life of the assets.
At the start date of the lease, the Group recognises the lease liabilities, measured at the present value of the lease payments to be made during the lease term, relating to the following: (i) fixed lease payments less any lease incentives to be received, (ii) variable lease payments that are based on an index or rate and, if applicable, (iii) amounts that are expected to be paid based on residual value guarantees, and (iv) the exercise price of a purchase option if the lessee is reasonably certain of exercising this option. Variable lease payments that do not depend on an index or rate are recognised

as costs in the period in which the event or condition that triggers the payment occurs. Lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be determined, the incremental financing rate of the reference entity is used, i.e. the rate that the same would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic context with similar terms and conditions. Each lease payment is divided into main payable and interest expense. Interest expense is charged to the income statement over the lease period using the effective interest rate method.

Financial assets

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

Provisions for risks and charges

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

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

Provisions are recognised at the value representing the best estimate of the amount that the company would reasonably pay to extinguish the obligation or to transfer it to third parties at the end of the year. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting back the expected cash flows determined taking into account the risks associated with the obligation; the increase in the provision related to the passage of time is recognised in the income statement under “financial income” or “financial charges”. The provisions are periodically updated to reflect changes in cost estimates, realisation times and the discount rate; revised estimates are charged to the same income statement item that previously included the provision.

Contingent liabilities exist, represented by obligations that are:

- 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;

this 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 conditions exist of reasonable certainty of obtaining taxable income that will be able to absorb the losses carried forward, 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 under 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 actually 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 Group's Italian companies are accounted for, as resulting from the actuarial analysis carried out by professionals enrolled in the professional register which examine the data in question on an annual basis.

9. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated annual financial report requires the directors to apply accounting standards and methods, which, in certain circumstances, are based on difficult and subjective assessments and estimates based on historical experience and assumptions that are considered reasonable and realistic from time to time depending on the relevant circumstances.
The application of these estimates and assumptions affects the amounts shown in the financial statements, such as the balance sheet, the income statement and the cash flow statement, as well as the information provided.
The final results of the items in the consolidated financial statements for which the above-mentioned estimates and assumptions were used, may differ from those reported in the financial statements of the individual companies due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.
The estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement of the period in which the estimate is revised.

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

- Depreciation/amortisation: changes in the economic conditions of the markets, in technology and in the competitive scenario could significantly affect the useful life of property, plant and equipment and intangible assets and could result in a difference in the timing of the amortisation process, as well as on the amount of depreciation/amortisation costs.
- Income taxes: determined in each country in which the Group operates according to a prudent interpretation of current tax regulations. This sometimes involves complex estimates in determining the taxable income and the deductible and taxable temporary differences between the carrying amounts and taxable amounts.
- Provision for inventory obsolescence: reflects the Group management's estimate of expected impairment losses in relation to inventories, determined on the basis of past experiences. Any anomalous trends in market prices could have repercussions in future inventory write-downs.
- Bad debt provision: the recoverability of receivables is measured taking into account the risk of non-collectability, their age and losses on receivables recognised in the past for similar types of receivables. The Group uses a simplified approach to calculate the ECL (Expected Credit Loss) for trade receivables and contractual assets, initially based on the historical default rates observed. The Group adjusts the historical experience of credit loss with forward-looking information. At each reporting date, the historical default rates observed are updated and changes in forward-looking estimates are analysed. The assessment of the correlation between the historical default rates observed, the expected economic conditions and the "ECLs" is a significant estimate. The amount of the "ECLs" is sensitive to changes in circumstances and expected economic conditions. The company's historical experience of credit loss and the forecast of economic conditions may not be representative of the actual default of the customer in the future.
- Non-current assets: the Group periodically reviews the book value 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, which are recognised to the extent it is probable that future taxable income will be available in order for the losses to 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.

10. SEGMENT REPORTING

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

EUROPE

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

From a business point of view, this sub-scope includes both industrial activities, carried out in the factories of Selle Royal Group S.p.A. in Pozzoleone (VI), of Brooks England Ltd. in Smethwick (GB) and which will take place at the Selle Royal Romania S.r.l. plant in Sacueni in the Bihor district, as well as purely commercial activities, such as those conducted by Pannier Ltd.

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

AMERICA

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

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

ASIA

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

These are primarily industrial activities carried out in the Chinese plants of Selle Royal Vehicle (China) Co., Ltd., whose products are intended for both the domestic market and the export market. The main sales channel that includes these products is the so-called "OEM" channel, in which the Group's direct customers are bicycle assemblers, who operate both on their own behalf and on behalf of third

parties. In the latter case, the Group exploits its relations and its sales force by negotiating supplies with Western brands (mainly European and American), which then decide to allocate production to its own and/or third-party plants, mainly in Europe or in the Far East.
Overall, it should be emphasised that the global presence, both in production and commercial terms, and the portfolio of own brands, which is also accompanied by a service for the development of specific products at the request of customers, make the Selle Royal Group a privileged counterparty for the large groups/agglomerations of brands that have formed over the years in the cycle sector.
The following tables present the data on revenues and on certain balance sheet items relating to the Group's business segments for the years 2023-24 and 2022-23.

	2023/24			2022/23		
	EUROPA	AMERICA	ASIA	EUROPA	AMERICA	ASIA
Revenues	59.741.714	51.076.926	24.488.342	86.645.148	56.780.677	33.051.454
Current assets	33.255.107	31.833.346	24.304.304	39.216.334	34.470.482	22.603.449
Non-current assets	38.830.657	35.472.121	6.331.158	52.736.190	21.384.765	7.239.133
Current liabilities	35.904.762	15.027.323	2.965.396	34.758.007	16.818.513	2.311.589
Non-current liabilities	43.424.438	2.884.347	58.771	49.347.743	3.262.590	57.852

11. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2024, the parent company Selle Royal Group S.p.A. held three derivative financial instruments, subscribed with leading Italian banks, for the purpose of hedging against interest rate volatility ("IRS").
Two of the three derivative financial instruments were subscribed on 29 October 2021, at the same time as the opening of two multi-year unsecured loans at variable rates. A third, on the other hand, was signed on 30 November 2022 at the same time of a similar loan transaction.
These derivative financial instruments are found to be hedges from the effectiveness tests carried out and, as a result, the effects relating to the change in their value were reflected in a specific equity reserve ("cash flow hedge reserve"), net of the related tax effect.
For further information, please refer to the section on financial liabilities measured at fair value in these Explanatory Notes.

12. RISK MANAGEMENT

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

13. 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. No transactions were carried out during the financial year.
- Dec. 28, 1928 Real Estate S.r.l.: the parent company Selle Royal Group S.p.A., based on a lease agreement signed on July 1, 2021, which renewed the agreement previously signed in June 2013, with a duration of 6 years, leases the property from Dec. 28, 1928 Real Estate S.r.l. where the production and commercial 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.

The economic and financial relations entertained during the 2023-24 financial year are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE COSTS	CURRENT ASSETS	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Wise Equity SGR	138.000	-	-	-	-
Dec. 28, 1928 Real Estate S.r.l.	-	-	600.000	1.316.191	2.746.630
Minority shareholders in subsidiaries	215.324	139.780	-	-	-
Directors	992.767	-	-	10.450	-
TOTAL RELATED PARTIES	1.346.091	139.780	600.000	1.326.641	2.746.630

ANALYSIS and COMPOSITION of the INCOME STATEMENT

15. REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to € 135,306,982 and were generated by the sale of saddles, pedals and other accessories, and, residually, from the sale of raw materials and semi-finished goods as well as the provision of services. The breakdown of revenues from sales and services by business category is shown in the following table:

	2023/24	2022/23	*Change*
Revenues from sales of saddles	70.012.122	98.321.371	(28.309.250)
Revenues from the sales of accessory components	64.483.657	75.705.830	(11.222.173)
Revenues from the sales of sundry materials	822.082	2.700.156	(1.878.074)
Revenue from services	208.853	234.869	(26.016)
Total gross revenues	**135.526.713**	**176.962.227**	**(41.435.514)**
Price changes and others	(66.405)	(176.085)	109.679
Year-end bonus	(153.326)	(308.864)	155.538
Total revenue from sales	**135.306.982**	**176.477.279**	**(41.170.297)**
RECOGNITION of REVENUES			
Realised at a specific point in time	135.306.982	176.477.279	(41.170.297)
Realised over time	-	-	-
Total revenue from sales	**135.306.982**	**176.477.279**	**(41.170.297)**

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

2023/24	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER/NOT ALLOCATED (*)	CONSOLIDATED
Revenues	39.732.824	26.246.960	8.815.667	24.956.756	2.809.375	32.745.400	135.306.982
Gross margin	18.686.090	13.645.738	5.061.508	10.979.925	1.489.856	6.819.900	56.683.016
	47,0%	*52,0%*	*57,4%*	*44,0%*	*53,0%*	*n.s.*	*41,9%*

2022/23	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER/NOT ALLOCATED (*)	CONSOLIDATED
Revenues	55.644.227	35.102.524	15.256.854	34.451.340	3.059.470	32.962.863	176.477.279
Gross margin	26.272.302	17.919.121	8.773.179	14.734.189	1.628.658	9.591.281	78.918.732
	47,2%	*51,0%*	*57,5%*	*42,8%*	*53,2%*	*n.s.*	*44,7%*

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

16. COST of SALES

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

	2023/24	2022/23	*Change*
Purchase of raw materials	48.619.032	76.697.283	(28.078.251)
Ancillary charges on RM purchases	1.790.528	3.385.545	(1.595.017)
Outsourcing	3.304.484	3.661.069	(356.585)
Labour	14.883.712	18.146.779	(3.263.068)
Change in inventories	10.026.210	(4.332.130)	14.358.340
Total cost of sales	**78.623.966**	**97.558.547**	**(18.934.581)**

17. INDUSTRIAL COSTS

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

	2023/24	2022/23	*Change*
Electricity	1.419.280	1.628.860	(209.579)
Consumables	1.029.379	962.171	67.208
Minor equipment	291.171	394.135	(102.963)
Maintenance	887.446	1.167.530	(280.084)
Lease payments	122.881	124.604	(1.723)
Research and development costs	740.159	1.102.710	(362.551)
Other industrial costs	1.111.003	1.393.364	(282.361)
Total industrial costs	**5.601.321**	**6.773.375**	**(1.172.054)**

18. SALES and PROMOTION COSTS

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

	2023/24	2022/23	*Change*
Sales and advertising costs	5.308.655	6.402.947	(1.094.292)
Transports on sales	5.630.898	4.812.005	818.893
Commissions	1.250.047	2.101.570	(851.523)
Gifts	410.608	735.247	(324.639)
Other sales and promotion costs	1.228.885	1.490.334	(261.450)
Total sales and promotion costs	**13.829.092**	**15.542.103**	**(1.713.011)**

19. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to € 15,751,395 for the period in question, includes the cost of the clerical and managerial structures of the various Group companies.

20. GENERAL and ADMINISTRATIVE COSTS

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

	2023/24	2022/23	*Change*
Consulting	4.171.085	4.702.634	(531.549)
Travel expenses	1.159.837	1.388.588	(228.751)
Board of Directors' fees	1.130.767	1.771.932	(641.165)
Board of Statutory Auditors' fees	45.583	44.720	863
Utilities	355.216	376.820	(21.604)
Entertainment and hospitality expenses	217.027	331.603	(114.576)
Motor vehicles	374.587	485.561	(110.974)
Fees and IT support	1.689.240	1.736.321	(47.081)
Insurance	1.126.401	1.146.148	(19.747)
Lease payments	302.596	346.144	(43.548)
Bank charges	722.553	689.364	33.190
Other general and administrative costs	2.039.440	2.545.082	(505.642)
Total general and administrative costs	**13.334.332**	**15.564.917**	**(2.230.584)**

21. OTHER OPERATING INCOME and EXPENSES

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

	2023/24	2022/23	*Change*
Operating income:			
Minor independent works	169.265	151.614	17.651
Repayments and sundry income	693.835	310.314	383.521
Capital gains	7.807	33.206	(25.399)
Contingent assets and other income	4.340.985	463.567	3.877.418
Royalty income	12.583	62.459	(49.876)
Research & development	629.970	391.913	238.057
Total operating income	5.854.444	1.413.072	4.441.372
Operating expenses:			
Allocation to provision for obsolescence	(58.719)	(3.028.107)	2.969.388
Allocation to provision for credit risks	(75.247)	(239.678)	164.431
Losses on receivables	(32.880)	(28.556)	(4.324)
Capital losses	(12.574)	(11.773)	(801)
Contingent liabilities and other charges	(545.102)	(1.235.778)	690.676
Total operating expenses	(724.522)	(4.543.892)	3.819.370
TOTAL OPERATING INCOME / (EXPENSES)	5.129.923	(3.130.820)	8.260.743

As discussed above, the main reason for the increase in net operating income is the partial release of provisions for the adjustment of stocks prudentially set aside in previous fiscal years; at the same time, the provisions for the adjustment of stocks still held in the financial statements of Group companies, vis-à-vis their presumed realisable value, are considered adequate.

22. OTHER FINANCIAL INCOME and CHARGES

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

	2023/24	2022/23	*Change*
Financial income:			
Bank and postal interest	406.772	402.159	4.613
Dividends	1.437	1.019	418
Other financial income	86.668	118.508	(31.841)
Total financial income	494.876	521.686	(26.810)
Financial charges:			
Interest on bonds	(189.943)	(316.559)	126.616
Interest expense	(3.623.437)	(2.741.612)	(881.825)
Interest cost provision for employee severance indemnity	(46.145)	(43.944)	(2.202)
Discounts	(316.674)	(446.316)	129.642
Fees on loans	(485.806)	(350.838)	(134.968)
Other financial charges	(240.344)	(339.781)	99.437
Total financial charges	(4.902.349)	(4.239.049)	(663.300)
Net exchange rate differences	245.203	260.679	(15.475)
TOTAL FINANCIAL INCOME / (CHARGES)	(4.162.269)	(3.456.685)	(705.585)

This item, negative for € 4,162,269, was affected by the increase in interest expense (€ 3,623,437) to service the debt subscribed by some Group companies, mainly due to the effect of the underlying interest rate trend.

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

Net exchange rate differences, which, on the whole, amounted to a positive € 245,203 (in line with the previous financial year, which showed a positive balance of € 260,679), include both exchange gains and losses realised as at 30 June 2024 (which show a positive net balance of € 41,117), 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 balance of € 204,087).

23. TAXES for the YEAR

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

	2023/24	2022/23	*Change*
Current taxes	1.560.384	1.437.983	122.401
Deferred tax (assets) / liabilities	(3.373.803)	(952.168)	(2.421.635)
TOTAL TAXES FOR THE YEAR	(1.813.419)	485.815	(2.299.234)

The decrease in taxes for the financial year is mainly attributable to the provision for deferred tax assets on tax losses of the parent company Selle Royal Group S.p.A..

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

24. CASH and CASH EQUIVALENTS

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

The balance as at 30 June 2024 was € 27,310,510 (of which € 6,362,514 in Selle Royal Group S.p.A. and € 16,401,409 in Selle Royal China, the latter with a positive net financial position), and was in line compared to the previous year.

As at 30 June 2024 (as well as at 30 June 2023) there were no restrictions or limitations on the use of the Group's cash and cash equivalents.

25. TRADE RECEIVABLES

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

	30/06/2024	30/06/2023	*Change*
Trade receivables	24.186.319	22.505.921	1.680.397
Bad debt provision	(1.353.311)	(1.150.223)	(203.088)
TRADE RECEIVABLES, net	**22.833.007**	**21.355.698**	**1.477.309**

The receivables insured as at 30 June 2024 amounted to € 14.3 million, equal to approximately 59% of the total receivables gross of the related adjustment provision.

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

It should be noted that the parent company Selle Royal Group S.p.A. transferred receivables from certain foreign and domestic customers through a non-recourse factoring transaction to a leading bank for € 2,324,061; the Chinese subsidiary Selle Royal Vehicle (China) Co., Ltd. completed a similar transaction for a value of € 1,904,299. During the previous year, the cumulative value of the assignments of receivables without recourse was € 4,954,055.

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

	Balance as at 30 June 2023	Acquisitions (+)	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2024
Bad debt provision	1.150.223	201.711	88.592	(90.962)	-	3.747	1.353.311
TOTAL BAD DEBT PROVISION	1.150.223	201.711	88.592	(90.962)	-	3.747	1.353.311

26. INVENTORIES

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

	30/06/2024	30/06/2023	*Change*
Raw materials, supplies and consumables	7.143.460	15.376.380	(8.232.919)
Work in progress and semi-finished products	5.364.489	4.485.276	879.214
Finished products and goods	29.154.946	28.703.855	451.091
Goods in transit	550.324	698.013	(147.689)
Gross inventories	**42.213.219**	**49.263.523**	**(7.050.305)**
Provision for obsolescence	(7.174.528)	(5.267.673)	(1.906.855)
Provision for unrealised intra-Group margin	(2.310.142)	(3.029.785)	719.643
INVENTORIES	32.728.549	40.966.066	(8.237.517)

Gross inventories recorded a decrease of € 7,050,305 mainly attributable to the decrease in stocks at the finished products and goods level. The decrease would be even more significant if the effect of the purchase of the third-party brand inventories held by Highway 2 Llc were to be separated out.

The balance of the obsolescence provision is considered adequate with respect to the presumed realisable value of the same, also in light of the current market context.

On the other hand, the provision that adjusts the unrealised margin recorded a decrease of € 719,643, due to the stocks value reduction initiatives carried out during the year.

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

	Balance as at 30 June 2023	Acquisitions (+)	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 30 June 2024
Provisions for obsolescence	5.267.672	3.068.549	659.155	(1.817.646)	-	(3.202)	7.174.529
Provision for unrealised intra-Group margin	3.029.785	-	(765.210)	-	-	45.567	2.310.142
TOTAL ADJUSTMENT PROVISIONS of INVENTORIES	8.297.458	3.068.549	(106.055)	(1.817.646)	-	42.365	9.484.670

27. TAX RECEIVABLES

Tax receivables are in line compared to the balance as at 30 June 2023, as detailed below:

	30/06/2024	30/06/2023	*Change*
Current tax receivables:			
For direct taxes	3.111.026	3.223.041	(112.015)
For indirect taxes	265.954	190.442	75.511
For other withholdings	454.036	431.429	22.607
Subtotal current taxes	3.831.015	3.844.912	(13.897)
Current deferred tax assets	1.175.117	1.173.399	1.718
TOTAL TAX RECEIVABLES	5.006.131	5.018.310	(12.179)

28. OTHER CURRENT ASSETS

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

	30/06/2024	30/06/2023	*Change*
Advance costs	439.903	185.084	254.819
Accrued income and prepaid expenses	951.982	940.393	11.589
Sundry receivables	122.672	313.401	(190.729)
TOTAL CURRENT ASSETS	1.514.557	1.438.877	75.680

The prepaid costs relate to the expenses connected to the seasonality of the sector and costs incurred in connection with the start-up of footwear production in the new Romanian factory, as well as, to a lesser extent, at the end of the fiscal year, to costs related to the launch of new products and participations in events that will be held in the following fiscal year, and which are therefore suspended under this item as at 30 June of each year to comply with the accrual principle.

NON-CURRENT ASSETS

29. INTANGIBLE ASSETS

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

	Balance as at 30 June 2023	Acquisitions (+)	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 30 June 2024
Industrial patent rights and intellectual property rights	979.960	-	184.332	-	49.798	(289.875)	7.580	931.796
Concessions, licences, trademarks and similar rights	20.766.943	64.327	1.021.363	(22.626)	163.729	(745.148)	5.655	21.254.243
Fixed assets in progress and payments on account	206.909	40.820	147.986	-	(213.527)	-	52	182.240
Total intangible assets	21.953.812	105.147	1.353.681	(22.626)	-	(1.035.023)	13.287	22.368.279

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 € 18,488,929; the remainder relates to the concession rights of the land on which the Selle Royal China plant stands and to licences and costs for the implementation of non-proprietary management software.

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

30. TANGIBLE ASSETS

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

	Balance as at 30 June 2023	Acquisitions (+)	Increases (+)	Decreases (-)	Reclassification	Depreciation (-)	Translation diff.	Balance as at 30 June 2024
Land and buildings	7.405.898	13.898	280.375	-	556.977	(598.432)	(140.597)	7.518.120
Right of use of leased assets	8.920.985	256.998	464.094	-	-	(2.444.271)	4.951	7.202.757
Plant and machinery	11.078.370	-	2.963.350	(62.783)	5.764.946	(2.259.722)	(373.892)	17.110.270
Industrial and commercial equipment	4.820.104	116.761	826.630	(46.450)	1.262.646	(2.321.530)	(92.289)	4.565.872
Other assets	1.394.535	22.330	516.760	(23.430)	9.767	(520.042)	1.320	1.401.241
Fixed assets in progress and payments on account	8.548.213	-	1.722.524	(233.962)	(7.594.336)	-	(31.659)	2.410.780
Total tangible assets	**42.168.105**	**409.987**	**6.773.734**	**(366.624)**	**-**	**(8.143.997)**	**(632.165)**	**40.209.040**

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 Crank Brothers Inc. and the warehouse managed by Highway Two Llc., as well as to other leases and multi-year leases of both production facilities and equipment and other assets. The

increase in this item is mainly related to the recalculation of future fees due for the lease of the Selle Royal Group S.p.A. headquarters following the envisaged contractual inflation adjustment, as well as to new multi-year rental contracts that meet the criteria for recognition in the financial statements according to the provisions of the accounting standard IFRS 16.

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

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

31. EQUITY INVESTMENTS

Following the elimination of the stake in Highway Two Llc. previously valued using the equity method as a result of the acquisition of the remaining 50% already mentioned above, the balance of the item as at 30 June 2024 exclusively includes minority shareholdings held by Selle Royal Group S.p.A. (€ 723) and the subsidiary Royal Ciclo (amounting to € 18,199).

	30/06/2024	30/06/2023	*Change*
Highway 2 Llc:			
Current assets		$ 16.297.053	$ (16.297.053)
Non-current assets		$ 277.614	$ (277.614)
Current liabilities		$ (14.122.356)	$ 14.122.356
Non-current liabilities		$ (9.728)	$ 9.728
Shareholders' equity	**$ -**	**$ 2.442.583**	**$ (2.442.583)**
Group interest (50%)	$ -	$ 1.221.292	$ (1.221.292)
Carrying amount of the investment in Highway 2 Llc. (in €)		1.117.689	(1.117.689)
Other equity investments *(in €)*	18.922	19.517	(595)
Total equity investments	**18.922**	**1.137.206**	**(1.118.284)**

32. GOODWILL

This item had a balance as at 30 June 2024 of € 10,590,081.

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

In line with the provisions of IAS 36, goodwill is not subject to amortisation but to an impairment test. The analysis carried out by comparing the value of the goodwill recorded in the financial statements and the present value of the cash flows that are reasonably expected to be generated by the three companies justifies the values represented.

33. DEFERRED TAX ASSETS

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

	30/06/2024		30/06/2023	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	167	47	806	225
Accrued leave for employees	493.257	115.989	436.366	101.682
Bad debt provision	838.250	204.110	451.245	98.912
Unrealised margin on intra-Group sales	2.402.904	603.416	3.121.261	782.968
Tangible assets	241.415	41.041	204.026	34.684
Other temporary differences	886.236	210.514	594.956	154.926
Subtotal current deferred tax assets	**4.862.229**	**1.175.116**	**4.808.660**	**1.173.398**
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	217.383	60.650	209.754	58.521
Inventory write-down provision	6.811.555	1.877.004	4.838.554	1.343.382
Intangible assets	406.527	113.421	464.649	129.637
Tangible assets	1.460.593	315.647	347.378	59.054
Prior tax losses - Federal taxes	3.276.696	753.454	4.126.438	942.582
Prior tax losses - State taxes	10.675.423	2.498.673	334.428	29.563
Subtotal non-current deferred tax assets	**22.848.177**	**5.618.848**	**10.321.200**	**2.562.740**
TOTAL DEFERRED TAX ASSETS	27.710.406	6.793.964	15.129.860	3.736.138

The value of the current portion of deferred tax assets is in line with that of the previous financial year. Non-current deferred tax assets, on the other hand, recorded a positive change mainly attributable to the allocation made by the parent company Selle Royal Group S.p.A. against the tax losses recorded during the period.

34. FINANCIAL ASSETS at FAIR VALUE

This item includes, for an amount of € 371,880, the value of a financial asset recognised in the financial statements of the subsidiary Royal Ciclo and refers to the amounts paid by the latter to a financing consortium in which it participates.

In addition, this item includes the market value of three derivative instruments hedging against the risk of fluctuations in interest rates (“IRS”) for an amount of € 807,934; two of the three derivative financial instruments were subscribed on 29 October 2021 and the third on 30 November 2022, at the same time multi-year unsecured loans at variable rates were taken out.

The two derivatives subscribed on 29 October 2021, maturing at the same time, have the following characteristics:

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 29/10/2021;

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

Liability hedged: medium-term loan;

Initial date: 31/10/2021;

End date: 30/09/2027;

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

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

Periodic expiry date: quarterly.

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

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 01/12/2022;

Notional value: € 5,000,000;

Liability hedged: medium-term loan;

Initial date: 30/11/2022;

End date: 30/11/2027;

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

Debtor Bank: basic product index rate 30E/360 paid at the end of the quarter - 3-month Euribor at the beginning of the period, with a minimum rate ("floor") of -1.50%;

Periodic expiry date: quarterly.

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

35. OTHER NON-CURRENT ASSETS

This item, amounting to € 648,953, 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 at 30 June of the previous year.

CURRENT LIABILITIES

36. TRADE PAYABLES

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

The balance amounted to € 13,170,747, an increase compared to the previous financial year; excluding the impact of the full line-by-line consolidation of Highway Two Llc., the value would have decreased compared to 30 June 2023.

37. TAX PAYABLES

The item in question is detailed below:

	30/06/2024	30/06/2023	*Change*
Direct taxes	342.838	434.659	(91.821)
Indirect taxes	1.113.853	887.133	226.720
Local taxes	47.036	55.568	(8.532)
Withholding taxes on employees and others	440.427	523.778	(83.351)
Payables due to tax disputes	-	1.599.791	(1.599.791)
TOTAL TAX PAYABLES	1.944.155	3.500.928	(1.556.773)

Payables for tax disputes referred to amounts provisionally due pending judgement and already subject to existing instalment plans in place with the Italian Revenue Agency and settled during the year. Such settlement did not result in additional costs for taxes for the year.

38. MEASUREMENTS at FAIR VALUE

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

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

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

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

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

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

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

As at 30 June 2024

		fair value measurements			
	Notes	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	24, 38	27.310.510	27.310.510	-	-
Equity investments	31	18.922	-	-	18.922
Financial assets at fair value	34, 38	371.880	-	-	371.880
Derivative financial instruments	34, 38	807.934	-	807.934	-
TOTAL ASSETS		**28.509.247**	**27.310.510**	**807.934**	**390.802**
Loans	38, 40, 44	65.481.885	-	65.481.885	-
Bonds	38, 39	1.986.098	-	1.986.098	-
TOTAL LIABILITIES		**67.467.983**	**-**	**67.467.983**	**-**

As at 30 June 2023

	Notes	fair value measurements			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	24, 38	27.511.313	27.511.313	-	-
Equity investments	31	1.137.206	-	-	1.137.206
Financial assets at fair value	34, 38	755.004	-	-	755.004
Derivative financial instruments	34, 38	1.550.372	-	1.550.372	-
TOTAL ASSETS		30.953.895	27.511.313	1.550.372	1.892.210
Loans	38, 40, 44	67.602.200	-	67.602.200	-
Bonds	38, 39	3.944.655	-	3.944.655	-
TOTAL LIABILITIES		71.546.855	-	71.546.855	-

39. BONDS

The amount due for bonds is shown under current liabilities, in relation to the portion maturing within twelve months from the consolidated annual financial report's date.

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 ("mini-bond") listed on the Pro^3 segment of the ExtraMOT list managed by Borsa Italiana S.p.A., and issued on 24 September 2018 for a nominal amount equal to € 10,000,000.00.

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

During the first half-year of the current tax year, the fourth repayment instalment was paid, amounting to € 2,000,000.

40. SHORT-TERM LOANS

The balance of this item, as at 30 June 2024, amounting to € 25,252,834, in line compared to 30 June 2023, 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 LIABILITIES for LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due by 30 June 2025.

42. OTHER CURRENT LIABILITIES

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

	30/06/2024	30/06/2023	*Change*
Payables to employees	4.687.068	5.186.672	(499.604)
Payables to social security institutions	570.563	525.689	44.874
Payables to sales agents	166.709	210.774	(44.065)
Accrued expenses and deferred income	2.770.839	1.766.905	1.003.933
Sundry payables	940.151	1.083.275	(143.124)
TOTAL CURRENT LIABILITIES	9.135.329	8.773.315	362.014

The increase in this item is essentially attributable to the net effect of the lower value of payables to employees and the increase in the item relative to deferred income, entirely attributable to the parent company Selle Royal Group S.p.A..

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

NON-CURRENT LIABILITIES

43. EMPLOYEE BENEFITS

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

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

- Mortality rate: these data were taken from the actuary technician on the basis of the ISTAT [Italian National Statistics Institute] 2022 tables;
- Disability rate: the annual probabilities of elimination from the service due to incapacity were inferred on the basis of INPS [Italian National Institute for Social Security] Tables broken down by age and gender;
- Annual probability of elimination from the service for other reasons: this was assumed to be 0.5%, determined on the basis of the historical trend of this parameter within the company;

- Annual probability of request for employee severance indemnity advances: this was assumed to be 3.0%, based on the historical trend of this parameter within the company;
- Annual discount rate: this was assumed to be 3.49% based on the average financial duration of the liabilities to employees;
- Annual rate of increase in employee severance indemnity: as envisaged by art. 2120 of the Italian Civil Code, is determined as 75% of the inflation rate plus 1.5% and equal to 3.00% at the balance sheet date;
- Annual inflation rate: estimated at 2.00% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2023	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 30 June 2024
Provisions for employees	1.373.602	27.823	(127.095)	46.145	(32.460)	919	1.288.934
TOTAL	**1.373.602**	**27.823**	**(127.095)**	**46.145**	**(32.460)**	**919**	**1.288.934**

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	1,237,493
-1% on the turnover rate	1,223,099
+1/4% on the annual inflation rate	1,245,924
-1/4% on the annual inflation rate	1,215,711
+1/4% on the annual discount rate	1,207,182
-1/4% on the annual discount rate	1,254,994

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	108,809
2	90,436
3	48,591
4	132,379
5	43,838

44. MEDIUM/LONG-TERM LOANS

This item, amounting to € 40,229,051, down by € 2,239,737 compared to 30 June 2023, 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 subsidiary Selle Royal Group S.p.A. with leading credit institutions.

45. PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2023	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 30 June 2024
Provision for supplementary customer indemnities	102.342	-	(1.579)	(10.575)	90.188
Provision for payment of foreign agents	209.754	7.629	-	-	217.383
End of mandate indemnity	586.250	90.000	-	-	676.250
TOTAL	**898.345**	**97.629**	**(1.579)**	**(10.575)**	**983.820**

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

46. DEFERRED TAXES

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

	30/06/2024		30/06/2023	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Derivative financial instruments	807.934	193.904	1.550.372	372.089
Tangible assets	905.793	287.058	1.383.023	406.964
Other temporary differences	189.227	41.889	46.485	9.704
TOTAL DEFERRED TAXES	**1.902.953**	**522.851**	**2.979.881**	**788.757**

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

47. NON-CURRENT LIABILITIES for LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due after 30 June 2025.

48. OTHER NON-CURRENT LIABILITIES

The balance of the item in question relates entirely to the subsidiary Royal Ciclo and refers to transactions carried out with the financing consortium in which it participates.

49. SHAREHOLDERS' EQUITY

The share capital is composed as follows:

Ordinary shares – 6,000,000.00 (with no par value). For the sake of completeness, please note that the Shareholders' Meeting, which met on 18 February 2022, resolved the spin-off and split of the shares of the parent company Selle Royal Group S.p.A., on the basis of a ratio of 6.25 new shares for each previously outstanding share. This split was completed in September 2022.

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

	30 June 2024		30 June 2023	
	Shareholders' equity	Profit for the year	Shareholders' equity	Profit for the year
Selle Royal Group S.p.A. as per the financial statements	38.182.241	3.823.405	34.890.629	3.824.356
Difference between book value and pro-rata value shareholders' equity of consolidated companies	8.921.135	(7.005.060)	15.867.509	(15.555)
Pro-rata results achieved by consolidated subsidiaries	-	5.914.640	-	6.323.972
Elimination of intercompany profits included in inventories	(1.732.606)	539.733	(2.272.339)	411.504
Other consolidation differences	7.283.516	(3.647.499)	7.354.566	(5.256.342)
Shareholders' equity and profit for the year pertaining to the Group	**52.654.286**	**(374.780)**	**55.840.364**	**5.287.935**
Shareholders' equity and profit for the year attributable to minority interests	17.107.369	2.143.709	15.253.694	2.927.347
Shareholders' equity and profit for the year as reported in the consolidated financial statements	**69.761.654**	**1.768.928**	**71.094.058**	**8.215.282**

This consolidated annual financial report, consisting of the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Shareholders' Equity, Cash Flow Statement and Explanatory Notes to the Financial Statements, gives a true and fair view of the financial position and results of operations for the year ended 30 June 2024 and is consistent with the accounting records.

* * *

Pozzoleone (VI), 26 November 2024

The Chairperson of the Board of Directors

(Barbara Bigolin)

Selle Royal Group S.p.A.

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

Consolidated Financial Statements as at 30 June 2024

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

CCN/AZN/xxx/xxxxxxxxxxxx

BDO

Tel: +39 02 58.20.10
www.bdo.it

Viale Abruzzi, 94
20131 Milano

INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE N. 39

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Selle Royal Group (the "Group"), which comprise the statement of consolidated balance sheet as at 30 June 2024, the statement of consolidated comprehensive income, the statement of changes in shareholders equity, the statement of consolidated cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2024 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of this report. We are independent of the company in accordance with ethical requirements and standards applicable in Italy that are relevant to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and, within the limits of the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance,

Bari, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Roma, Torino, Verona

BDO Italia S.p.A. – Sede Legale: Viale Abruzzi, 94 – 20131 Milano – Capitale Sociale Euro 1.000.000 i.v.
Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013
BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- Obtain and understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting principles used and the reasonableness of accounting estimates and related disclosures made management;
- Conclude on the appropriateness of management's use of the going concern and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions in a manner that achieves fair presentation;
- Obtain sufficent appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at the appropriate level as required by the ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

The directors of Selle Royal Group S.p.A. are responsible for the preparation of the report on operations of Selle Royal Group S.p.A. as at 30 June 2024, including its consistency with the financial statements and the compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of Selle Royal Group as at 30 June 2024and on its compliance with the applicable laws and regulations, and in order to assess whether its contain material misstatements.

In our opinion, the report on operations is consistent with the consolidated financial statements of Selle Royal Group as at 30 June 2024 and is compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 3 December 2024

BDO Italia S.p.A.

Signed by Carlo Consonni
Partner

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.