Leather 2 S.p.A.
as the issuer of
€340,000,000 Senior Secured Floating Rate Notes due 2028

Annual Report
as of and for the period ended
December 31, 2021

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SUMMARY HISTORICAL AND CERTAIN OTHER FINANCIAL DATA

The following tables set forth certain of our historical consolidated financial and other information. We present here below our summary historical consolidated financial and other information for the years ended December 31, 2020 and 2021. Such historical consolidated financial and other information has been prepared in accordance with Italian GAAP.

On June 15, 2021, Conceria Pasubio S.p.A., acquired 100% of Hewa Leder Gmbh and the consolidation took effect on July 1, 2021 (the "Hewa Acquisition"). On June 22, 2021, PAI Partners entered into an acquisition agreement to acquire the entire issued and outstanding share capital of Conceria Pasubio S.p.A. (the "Acquisition"). The Acquisition closed on October 27, 2021 and took effect on consolidation on October 31, 2021. Our income statement, cash flow statement and certain other information as of and for the year ended December 31, 2021 is presented pro forma as if both the Hewa Acquisition and the Acquisition occurred on January 1, 2021.

Leather 2 S.p.A. ("Leather 2" and, together with Conceria Pasubio S.p.A. and its subsidiaries, the "Group" or the "Pasubio Group") was incorporated on August 6, 2021 by its parent company Leather S.p.A. , a company indirectly controlled by PAI Partners. On October 21, 2021 as part of the Acquisition, the shareholders' meeting approved a paid share capital increase for a total of € 145,950 thousand.

The Acquisition was financed through (i) the proceeds from an offering of € 340.0 million of senior secured floating rate notes (the "Notes") issued by Leather 2 S.p.A. and (ii) a € 128.7 shareholder loan between Leather S.p.A., as lender, and Leather 2 S.p.A., as borrower. A Revolving Credit Facility of € 65.0 million was also put in place in connection with the Acquisition.

The situation as of December 31, 2020 and 2021 is presented for informational purposes only. For comparison purposes, we are presenting in this report: (x) for 2021, the financial information of Leather 2, pro forma for the Hewa Acquisition and the Acquisition and (y) for 2020, the consolidated financial information of Conceria Pasubio. Audited financials of Leather 2 are included elsewhere in the report.

The summary consolidated financial information below includes certain non-GAAP measures that we use to evaluate our economic and financial performance. These measures are not identified as accounting measures under Italian GAAP and therefore should not be considered a substitute for, or superior to, the equivalent measures calculated and presented in accordance with Italian GAAP or those calculated using financial measures that are prepared in accordance with Italian GAAP.

Summary Consolidated Income Statement

€ million	*Pro - Forma* 12 month at December 31, 2021	12 month at December 31, 2020
Revenue	330.9	269.0
Total revenue and other income	*333.0*	*270.9*
Total operating costs	*(316.0)*	*(239.5)*
Operating profit / (loss)	**17.0**	**31.4**
Profit (Loss) before tax	*3.4*	*23.5*
Profit (Loss) for the period	**(4.1)**	**12.3**

Summary Consolidated Statement of Balance Sheet

€ million	As of December 31, 2021	As of December 31, 2020
Non-current Assets	568.8	186.8
Current Assets	161.9	166.7
Total Assets	**730.7**	**353.4**
Non-Current Liabilities	494.1	128.2
Current Liabilities	99.0	66.5
Total Liabilities	**593.1**	**194.7**
Total shareholders' equity	137.5	158.7
Total Liabilities and Shareholders' Equity	**730.7**	**353.4**

Summary Consolidated Cash Flow Statement

€ million	*Pro-Forma* 12 month at December 31, 2021	12 month at December 31, 2020
Cash flow from operating activities	8.6	27.8
Cash flow used in investing activities	(486.4)	(12.8)
Cash flow used in financing activities	510.7	(6.5)
Increase/(Decrease) cash and cash equivalents	32.9	8.5

Other Financial Information and As Adjusted Data

	€ million	*Pro - Forma* 12 month at December 31, 2021	12 month at December 31, 2020
(1)	Net Revenue	322.2	263.5
(2)	EBITDA	50.6	57.9
(2)	Adjusted EBITDA	62.2	65.0
(3)	Adjusted EBITDA Margin	19.3%	24.7%
(4)	Capital Expenditure	13.6	11.2
(5)	Cash Conversion	96.3%	95.4%
(6)	Working Capital	55.4	37.4
(7)	Adjusted free operating cash flow	30.5	43.7
(2)	Pro Forma Adjusted EBITDA	67.4	
(8)	Pro Forma Adjusted EBITDA Margin	20.9%	
(9)	Net Debt	385.7	
(10)	As adjusted cash interest expenses	15.4	
	Ratio of net debt to Pro Forma Adjusted EBITDA	5.7x	
	Ratio of Pro Forma Adjusted EBITDA to as adj. cash interest expense	4.4x	

(1) We define net revenue as revenue excluding sales of unfinished leather and certain after sale discounts that we sometimes apply in case of disputes in connection with our products.

The following table reconciles revenue, presented under Italian GAAP, to net revenue for each of the periods indicated:

	€ million	*Pro - Forma* 12 month at December 31, 2021	12 month at December 31, 2020
	Revenue	**330.9**	**269.0**
(a)	Disputes (discounts on sales)	(2.4)	(3.0)
(b)	Sales of not finished leathers	10.8	8.7
(c)	Late adjustments	0.3	(0.2)
	Net revenue	**322.2**	**263.5**

(a) Represents commercial discounts on sales for which a customer has raised a quality complaint. When this happens, our customer service team analyzes the case and can decide to take back the leather as physical returns and issue a credit note or agree with the relevant customer a discount of the selling price and issue a credit note.

(b) Represents sales of the sub-product that we obtain from processing raw hides which are the split leather to reduce the thickness of the raw material. These products are then sold back to the supplier or to specific customers. These products are not classified in the net revenue because they are treated as a recovery of the purchase price of raw material and are not part of our core business.

(c) Represents differences between management account closing and statutory closing. Certain unaccrued invoices at management closing can accrue before the statutory account closing, which usually takes place a couple of months after management account closing.

Net revenue is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

We define Pro Forma net revenue as net revenue adjusted for the Hewa Acquisition and the Acquisition. The following table sets forth a reconciliation of Pro Forma Net Revenue, our most directly comparable measure under Italian GAAP, for the period ended December 31, 2021.

€ million	Period ended December 31, 2021
Net revenue	**49.4**
Pasubio Group inclusion in consolidation	259.1
Hewa Acquisition inclusion in consolidation	13.8
Pro-Forma Net Revenue	**322.2**

Pasubio Group adjustments of €259.1 million represents net revenues of Pasubio Group for ten months ended October 31, 2021 as if Conceria Pasubio S.p.a. had been acquired on January 1, 2021. Hewa Acquisition adjustments of €13.8 million represents net revenue of Hewa for the six months ended June 30, 2021 as if Hewa had been acquired on January 1, 2021. The presentation of net revenue is for informational purposes only. This information does not represent the results we would have achieved has the Hewa Acquisition occurred and Hewa had fully integrated on January 1, 2021. Furthermore, the net revenue of Hewa has not been audited, reviewed or verified by any independent accounting firm. This information is inherently subject to risks and uncertainties.

(2) We define EBITDA as profit (loss) for the period before financial income (expenses), income taxes, depreciation—tangible assets and amortization—intangible assets. We define Adjusted EBITDA as EBITDA adjusted for certain non-cash items, including net exchange rate gain (losses) and write-down of trade receivables, certain items we believe are non-recurring or exceptional in nature, including start-up costs, one-off / non-operating adjustments and the impact of COVID-19, and certain other adjustments not reflective of the ongoing performance of our business, including capital gain/loss and financial income/expenses (bank charges). We define Pro Forma Adjusted EBITDA as Adjusted EBITDA adjusted for (i) estimated purchasing synergies resulting from the Hewa Acquisition and (ii) the run rate effect of our cost improvement operational projects as if cost improvements resulting therefrom had full effect from January 1, 2021.

We believe Adjusted EBITDA and Pro Forma Adjusted EBITDA are useful metrics for investors to understand our results of operations and profitability because it permits investors to evaluate our recurring profitability from underlying operating activities. Additionally, we believe that Adjusted EBITDA and Pro Forma Adjusted EBITDA provide investors with a tool to compare the historical performance of our business across different periods as our adjustments to net profit from continuing operations and the exclusion of certain costs and expenses include items not considered by management to be attributable to the day-to-day operation of our business. We also use this measure internally to establish forecasts, budgets and operational goals to manage and monitor our business, as well as evaluating our underlying historical performance. Our presentation of Adjusted EBITDA and Pro Forma Adjusted EBITDA may be different from the presentation used by other companies and therefore comparability may be limited. Adjusted EBITDA and Pro Forma Adjusted EBITDA are Non-GAAP Measures and the terms Adjusted EBITDA and Pro Forma Adjusted EBITDA are not defined under Italian GAAP or any other generally accepted accounting principles. Consequently, the use of Adjusted EBITDA and Pro Forma Adjusted EBITDA has certain limitations. Adjusted EBITDA and Pro Forma Adjusted EBITDA are not measures of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP. Adjusted EBITDA and Pro Forma Adjusted EBITDA as presented herein differ from Consolidated EBITDA as defined in the Indenture.

The following table reconciles Profit (Loss) for the period, presented under Italian GAAP, to EBITDA, EBITDA to Adjusted EBITDA for each of the periods indicated, and Adjusted EBITDA to Pro Forma Adjusted EBITDA for the twelve months ended December 31, 2021. The data as of December 31, 2021 is presented pro forma for the Hewa Acquisition and for the Acquisition as if they occurred on January 1, 2021.

	€ million	Pro - Forma 12 month at December 31, 2021	12 month at December 31, 2020
	Profit (Loss) for the period	**(9.2)**	**12.3**
	Financial income (expenses)	6.9	6.6
	Income taxes	(0.2)	11.2
	Depreciation - tangible assets	1.8	5.7
	Amortization - intangible assets	5.2	22.1
(a)	Inclusion in consolidation area	46.1	
	EBITDA	**50.6**	**57.9**
	Net exchange rate gain (losses)	(0.9)	1.3
(b)	Non-recurring adjustments	12.1	4.5
(c)	Other adjustments	0.4	1.3
	Adjusted EBITDA	**62.2**	**65.0**
(d)	Hewa Acquisition adjustments	4.2	
(e)	Run Rate Saving OPS	1.0	
	Pro Forma Adjusted EBITDA	**67.4**	

(a) We define inclusion in consolidation area the amount of €46.1 million related to the contribution at the total value of EBITDA of six months of Hewa Leder and of ten months of Conceria Pasubio Group (as if the consolidation took effect on January 1, 2021).

(b) For the year ended December 31, 2020, non-recurring adjustments consisted of (A) €0.9 million of one-off / non-operating adjustments consisting of (i) €0.7 million related to scraps related to a project with Bentley, who asked to test certain technical features on the leather resulting in extra scraps; (ii) €0.1 million related to non-recurring consultancy costs for the setup of our accounting reporting system set-up in Serbia and our acquisition of Faster S.p.A.; and (iii) €0.1 million for losses on the disposal of Faster S.p.A. assets; and (B) €3.6 million of one-off COVID-19 related adjustments consisting of (i) €1.9 million related to the extraordinary devaluation of goods following the sudden change in market outlook which resulted in the sale of certain items at a significantly lower price than in the past; (ii) €0.7 million related to extraordinary bonuses paid to employees who were benefitting from the wages guarantee fund in Italy (*Cassa Integrazione Guadagni*) in order to reintegrate them during the lockdown periods; (iii) €0.5 million related to healthcare measures put in place (i.e. personal protective equipment, sanitizing gel, etc.); (iv) a €0.3 million donation made to the Municipality of Arzignano in connection with lockdowns resulting from the COVID-19 pandemic; and (v) €0.1 million related to one-off financial consultancies.

For the year ended December 31, 2021, non-recurring adjustments consisted of (A) €0.2 million of one-off COVID-19 related adjustments related to healthcare measures put in place (i.e. personal protective equipment, sanitizing gel, etc.); (B) €8.0 million related to extraordinary scraps due to non conformity of tannage process performed by a third party supplier that lead to an increase of scrap rate in comparison to the historical performance; (C) €0.2 million related to the rearrangement of the new plant in Arzignano, viale Vicenza; (D) €1.3 million related to consultancies connected to the M&A projects; (E) €2.4 million related to extraordinary personnel costs such as start-up of new projects, extraordinary wages and leaving incentives.

(c) For the year ended December 31, 2020, other adjustments consisted of (i) €0.4 million of capital gain/loss; (ii) €0.1 million of bank charges; (iii) €0.4 million of late adjustments between management closing and statutory closing and (iv) €0.4 million consisting of gains from taxes paid in excess in 2019 and then recognized in 2020 as a gain.

For the year ended December 31, 2021, other adjustments consisted of (i) € -0.1 million of capital gain/loss; (ii) €0.1 million million of bank charges and (iii) €0.4 million of late adjustments between management closing and statutory closing.

(d) Represents €4.2 million of of estimated purchasing synergies resulting from having Hewa i) purchase raw materials under our arrangements with our suppliers, which provide for better commercial terms, compared to Hewa's existing supply contracts and ii) Perform at our efficiency level in the use of raw materials related to hides. These savings are expected to come into effect contemporaneously with the integration of Hewa into our business. The presentation of Pro Forma Adjusted EBITDA is for informational purposes only. This information does not represent the results we would have achieved had the Hewa Acquisition occurred and Hewa had been fully integrated on January 1, 2021. Although it is our objective to reach the levels of projected synergies reflected above, no assurance can be given that such levels will be achieved in the time frame indicated or at all or that additional unanticipated costs will not arise. Our synergy estimates are based on a number of assumptions made in reliance on the information available to us and our judgments based on such information. The assumptions used in estimating synergies are inherently uncertain and are subject to significant business, economic and competitive risks and uncertainties that could cause our actual results to differ materially from those contained in these benefit estimates.

(e) Represents the run rate effect of our operational cost improvement projects as if we benefited from the full cost savings from January 1, 2021. Although it is our objective to reach such cost savings, no assurance can be given that they will be achieved in the predicted time frame or at all or that additional unanticipated costs will not arise. Our cost savings estimates are based on a number of assumptions made in reliance on information available to us at the time such estimates were made and on our judgment. Assumptions are inherently uncertain and are subject to significant business, economic and competitive risks and uncertainties that could cause our actual results to differ materially from the estimates.

(3) Adjusted EBITDA Margin is defined as as Adjusted EBITDA *divided by* net revenue, expressed as a percentage. Adjusted EBITDA Margin is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(4) We define capital expenditure as payments for intangible assets *plus* payments for tangible assets. Capital expenditure excludes the consideration paid by us for the acquisition of other businesses. Capital expenditure is not a measure recognized by Italian GAAP. For further information see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital expenditure*." The following table sets forth a calculation of capital expenditure to payments for intangible assets and payments for tangible assets, our most directly comparable measures under Italian GAAP, as at the dates indicated:

€ millions	*Pro-Forma* 12 month at December 31, 2021	12 month at December 31, 2020
Payments for tangible assets	10.6	6.2
Proceeds from sale of tangible assets	-	(0.1)
Payments for intangible assets	3.0	5.0
Capital Expenditure	**13.6**	**11.2**

(5) We define cash conversion as Adjusted EBITDA *less* maintenance capital expenditure *divided by* Adjusted EBITDA, expressed as a percentage. Cash conversion is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(6) We define Working Capital as inventories, trade receivables, other receivables and prepaid expenses and accrued income *less* trade payables, social security payables, current tax payables and accrued expenses.

The following table sets forth a reconciliation of Working Capital to current assets and current liabilities, our most directly comparable measures under Italian GAAP, as at the dates indicated:

	As of *Pro-Forma* December 31, 2021	As of December 31, 2020
Inventories	93.8	55.7
Trade receivables	30.1	31.0
Prepaid expenses and accrued income	2.9	1.2
Other receivables	0.7	0.9
Calculated current assets	*127.5*	*88.9*
Trade payables	66.7	47.3
Tax payables	2.6	2.2
Social security payables	1.6	1.7
Accrued expenses	1.2	0.3
Calculated current liabilities	*72.1*	*51.5*
Working Capital	**55.4**	**37.4**

Working Capital is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(7) We define free operating cash flow as Adjusted EBITDA *less* capital expenditures and change in Working Capital.

The following table shows a reconciliation of free operating cash flow to Adjusted EBITDA for the periods presented:

	Pro - Forma 12 month at December 31, 2021	12 month at December 31, 2020
Adjusted EBITDA	**62.2**	**65.0**
Capital Expenditures	13.6	11.2
Change in Working Capital	18.0	10.1
Adjusted free operating cash flow	**30.5**	**43.7**

(a) For a reconciliation of Adjusted EBITDA to net profit from continuing operations, our most directly comparable measure under Italian GAAP, for each of the periods indicated, please see footnote (2) above.

Adjusted free operating cash flow is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(8) Pro Forma Adjusted EBITDA Margin is defined as as Pro Forma Adjusted EBITDA *divided by* Pro Forma net revenue, expressed as a percentage. Pro Forma Adjusted EBITDA Margin is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(9) Net financial position represents our consolidated total indebtedness, consisting of €340.0 million of proceeds of the Notes, €22.0 million of drawn Super Senior Revolving Credit Facility and other existing debt of the Group, less cash and cash equivalents.

(10) As adjusted cash interest expense reflects the as adjusted interest expense of the Group for the twelve months ended December 31, 2021, as if the Notes had been issued on January 1, 2021 and assumes no drawings of the RCF or interest, or fees in respect of undrawn commitments, under the Revolving Credit Facility. As adjusted cash interest expense is being presented for illustrative purposes only and does not purport to represent what our interest expense would have actually been had the issue of the Notes occurred on the date assumed, nor does it purport to project our interest expenses for any future period or our financial condition at any future date.

Certain Key Performance Measures

The following table includes a breakdown of certain selected key performance measures for the periods indicated. These key performance measures are operating measures that have not been audited or reviewed by the auditors of the Group.

	€ million	*Pro - Forma* 12 month at December 31, 2021	12 month at December 31, 2020
	Volumes sold (in thousand gross square meters)	9,415.0	7,706.0
(a)	First margin	212.5	188.0
(b)	Industrial margin (in %)	29%	30%

(a) First margin represents net revenue *less* cost of raw material attributable to purchases of raw hides.

(b) Industrial margin represents the ratio of our net revenue *less* certain material consumption costs, chemicals and other auxiliaries costs, direct labor cost, third party processing costs and other industrial costs *divided by* our net revenue, expressed as a percentage.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis below provides information that we believe is relevant to an assessment and understanding of our historical consolidated financial position and results of operations.

This section includes forward-looking statements, including those concerning future sales, costs, capital expenditures, acquisitions and financial condition. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Results of operations for prior years are not necessarily indicative of the results to be expected for the full year or any future period.

Our financial statements have been prepared in accordance with Italian GAAP. We have not prepared a qualitative or quantitative reconciliation of our financial statements between Italian GAAP and IFRS. You should consult your own professional advisers for an understanding of the differences between Italian GAAP and IFRS and how those differences might affect the financial information included in this document.

The following discussion of our results of operations also makes reference to certain non-GAAP measures. Prospective investors should bear in mind that these non-GAAP measures are not financial measures defined in accordance with Italian GAAP, may not be comparable to other similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under Italian GAAP.

Overview

We are one of the leading suppliers of premium leather for the automotive industry producing high-quality finished leather for seats, dashboards and steering wheels, and other upholstering. We focus on all segments of the premium and luxury automotive market, and on high-quality leather (full-grain and nappa) in particular, combining artisanal excellence with mastery of industrial processes. We sell our products in Europe, our core market, and North America, Asia and Africa. According to an independent third-party consultant, we held a 10.9% market share for high-quality automotive leather globally in 2019, prior to giving effect to the Hewa Acquisition. For the year ended December 31, 2021, we generated pro forma revenue of €330.9 million, pro forma net revenue of €322.2 million, Adjusted EBITDA of €62.2 million and Pro Forma Adjusted EBITDA of €67.4 million.

Key Factors Affecting Results of Operations and Financial Condition

Our results of operations are affected by a combination of factors, including factors which are beyond our control. We believe that our results of operations, and particularly the results of operations during the periods under review, have been primarily affected by the following factors.

Price of materials

A significant part of our cost base consists of purchases of materials which are variable in nature. The primary materials used in our production facilities are mainly raw hides and chemicals. For the years ended December 31, 2020, and 2021, the purchase of goods and changes in inventory has represented 47.2% and 53.0%, respectively, of our revenue. Materials and other supplies are valued at the lower of historical purchase price and net realizable value. While prices of materials affect our revenue and costs, historically, our profit margins have not been significantly affected by changes in prices of materials. We have not experienced any significant shortages of materials. We are generally able to pass through increases in the cost of raw materials to our customers. In situations where we renegotiate terms with OEMs in order to pass on cost increases of materials, we must bear the increased costs until the negotiations are finalized, which often takes between three and six months. Therefore during 2021 we experienced temporary cost increase due to the rebound of the raw material market, conversely, in the year ended December 31, 2020, we took advantage of favorable short-term price fluctuations in raw materials, resulting in lower cost of raw materials.

Impact of COVID-19 and related global supply chain impacts

Since COVID-19 was first identified in December 2019, the virus has spread to nearly all regions of the world, resulting in the World Health Organization declaring the outbreak a pandemic and governments in most countries taking unprecedented steps to try to contain and slow down the spread of this virus, in an attempt to reduce the rate and risks of infection. In light of the foregoing, widespread and onerous social distancing measures have been introduced in many countries and regions, including lock-downs, stay at home orders, restrictions on travel and bans on gatherings in workspaces, public places and at events. Businesses that have been deemed non-essential have been required to heavily curtail or cease their operations entirely. In addition, many governments and central banks have intervened in economies by introducing various schemes to try to mitigate against the negative economic consequences of the foregoing social distancing measures. The pandemic and the steps taken in relation to it have caused significant and unprecedented disruption to the global, national and regional economies. Some of the widespread effects of the COVID-19 pandemic so far include volatility in markets, problems with supply chains, increased unemployment levels, reduced economic growth and recessions, and large debts incurred by many governments for their economic intervention schemes. The spread of COVID-19 has caused most businesses, including ours, to modify business practices, including travel, employee work locations, and the cancellation of in-person meetings, events, and conferences.

While during 2020 both our production volumes and revenue were impacted due to severe measures imposed by governments that forced us to temporarily close some of our production facilities and halt production in others; during financial year ended December 31, 2021, our business was positively effected by the general market rebound with specific focus on the automotive market.

The year 2021 saw the continuation of the emergency status resulting from the outbreak of the Covid-19 pandemic, which began in the first quarter of 2020. During the year, the vaccination campaign was launched across Italy, encouraging the gradual immunization of the majority of the population, laying the foundations for achieving endemic status for the virus. Although new waves of contagion occurred during the year, with the necessity to maintain restrictions on normal social relations, thanks to the full compliance with safety, prevention and virus containment rules, we were able to operate under normal conditions. In the first half of the year 2021, automotive market demand and orders from customers returned to pre-Covid levels. In the second half of the year, however, the aftermath of the negative effects of the pandemic impacted on global supply chains, leading to shortages of particular components, specifically in the semiconductor market, which are key to the success of the automotive industry. This supply crisis led to a postponement of orders to the first quarter of the following year and a slight reduction in turnover compared to forecasts. The negative impact on sales can be considered mild compared to the automotive market as a whole, since car manufacturers have channelled their raw material supplies into the luxury segment, which is also the segment mainly supplied by the Group's business.

Global automotive market and vehicle cycles

We operate within the global automotive leather sector and our business growth is primarily driven by trends in the global automobile market. The cycles of the global automotive industry, which are correlated with general global macroeconomic conditions, impact our OEM customers' production requirements and consequently impact the volume of purchases of our products by our OEM customers. With increased economic activity in certain of our growth markets and recovery in our more traditional markets, we have experienced and expect to experience increased vehicle production levels, with a consequent increase in the demand for our products and a positive impact on our revenue. Slower economic growth would have the opposite effect.

In our industry, once a project has been nominated to a preferred supplier, it is rare for an OEM to switch to another supplier, given the significant operational, technical and logistical costs of switching suppliers, particularly during the life cycle of a specific vehicle model. Vehicle models typically have long, multi-year product life cycles. For example, we have supplied Porsche's Panamera continuously since 2012 and Porsche's Macan continuously since 2013. Given these factors, while the actual revenue which we derive from a project ultimately depend on our OEM customers' production volumes achieved for the respective car models, we have strong visibility on mid-term revenue within a relatively small range of sensitivity.

Russia/Ukraine Conflict

The outbreak of the conflict between Russia and Ukraine in February 2022 resulted in geopolitical instability, which in turn impacted the global economy. Despite the fact that the Group does not bear any direct risk, it is necessary to evaluate certain indirect effects, with particular reference to the European automotive market: on the basis of analysis provided by major automotive market research companies, a supply shock has impacted the European automotive supply chain. Additionally, the major European OEMs are enduring temporary shortages of some certain components relevant in the vehicles assembly process, such as electrical cables. Although strong market demand has not changed, components shortages have led to OEMs slowing production, and in some cases shutting down production lines, leading to a temporary reduction of the European light vehicles production.

In general, we expect the market to contract by single-digit percentage points, but expect a limited impact on our business. We believe that the premium and luxury market segments in which we operate are generally favored by OEMs which, in such component shortage situations, tend to prioritize high-margin vehicles (typically the models served by the Group), in line with what happened in 2021 as a result of semiconductor shortages.

Seasonality

Our business is seasonal. Our working capital requirements typically increase during the first and third quarters of the year and reduce towards the end of the year. OEMs typically slow down vehicle production during certain portions of the year. For instance, our European customers slow down vehicle production in August and during the holiday season in December during which they also often conduct internal maintenance and adjustments to inventory. Further, there are a fewer number of working days at the end of the year as opposed to the beginning of a year and this results in a reduction in vehicle production towards the end of such year.

Key Factors Affecting the Comparability of Our Results of Operations

The COVID-19 Pandemic

Our operating performance is subject to global, economic and market conditions, including their impact on the global automotive industry. Restrictions imposed in response to the COVID-19 pandemic have severely negatively impacted the level of economic activity in many countries, including in countries in which we and our customers operate. These restrictions have impacted our operational and financial performance for the year ended December 31, 2020. Our revenue for the year ended 2020 decreased by 15.4% compared to the prior year, mainly due to a significant drop in demand in the automotive industry. However, in 2021 we experienced a strong recover of our revenue by 11.0% (excluding the acquisition of HEWA) reflecting the overall market rebound.

Description of Key Income Statement Items

A summary description of certain key income statement line items follows.

Revenue

Revenue means revenue from sales of finished products.

Purchase of goods and changes in inventory

Purchase of goods and changes in inventory mainly consist of purchases of raw materials, supplies and consumables (e.g., raw hides and chemicals) used in the production of finished products and the related change in inventories.

Cost of services

Cost of services comprises (i) outsourced processing costs; (ii) cleaning and ecology costs related to expenses incurred in the production cycle; (iii) domestic and international transportation costs on purchases and sales; and (iv) maintenance costs required to maintain machinery.

Personnel costs

Personnel costs refer to salaries and wages, social security expenses, post-employment benefits, restructuring and reorganization personnel costs and other personnel costs. Salaries and wages include personnel costs related to holidays and leave pays, indemnities, overtime and bonuses.

Other operating costs

Other operating costs include residual items not included in other captions related to operative costs, such as capital losses from disposals of assets, taxes and non-income taxes and other operating charges and expenses.

Depreciation—tangible assets

Depreciation includes depreciation of property, plant and equipment.

Amortization—intangible assets

Amortization includes amortization of goodwill and intangible assets.

Financial income (expenses)

Financial income (expenses) includes interest income and expenses.

Income taxes

Income taxes consist of current taxes and deferred taxes. Income taxes for any period are estimated based the profit (loss) before tax for the period as well as applicable laws and regulations, and represent management’s best estimate of the expected tax charge due for the period.

Results of Operations

Year Ended December 31, 2021 compared with Year Ended December 31, 2020

€ million	*Pro - Forma* 12 months at December 31, 2021	12 months at December 31, 2020	
Revenue	330.9	269.0	23.0%
Other revenue and income	2.1	1.9	8.0%
Total revenue and other income	**333.0**	**270.9**	**22.9%**
Purchase of goods and changes in inventory	(175.5)	(127.7)	37.5%
Cost of services	(58.3)	(45.8)	27.2%
Use of third party assets	(1.1)	(0.8)	37.3%
Personnel costs	(49.2)	(36.2)	35.8%
Other operating costs	(0.7)	(2.2)	-66.7%
Capitalization in fixed assets for internal work	1.9	1.4	32.8%
Depreciation - tangible assets	(8.4)	(5.7)	46.4%
Amortization - intangible assets	(24.3)	(22.1)	10.0%
Write-down of trade receivables	(0.4)	(0.4)	-3.1%
Total operating costs	**(316.0)**	**(239.5)**	**31.9%**
Operating profit / (loss)	**17.0**	**31.4**	**-45.9%**
Financial income (expenses)	(14.6)	(6.6)	119.9%
Net exchange rate gain (losses)	0.9	(1.3)	-171.4%
Profit (Loss) before tax	**3.4**	**23.5**	**-85.5%**
Income taxes	(7.5)	(11.2)	-33.2%
Profit (Loss) for the period	**(4.1)**	**12.3**	**-133.3%**
ATTRIBUTABLE TO:			
Owners of the parent	(4.0)	12.0	
Non-controlling interests	(0.1)	0.3	[1]

Revenue

Revenue for the year ended December 31, 2021 increased by €61.9 million, or 23.0%, to €330.9 million, from €269.0 million for the year ended December 31, 2020, primarily due to higher volume compared to the prior year when the COVID-19 pandemic led to a significant drop in demand in the automotive industry and to closures of production plants for approximately two months. During the 12 months ended December 31, 2021, we saw an increase in revenue as the automotive sector recovered and demand from our customers resumed.

Purchase of goods and changes in inventory

Purchase of goods and changes in inventory for the year ended December 31, 2021 increased by €47.8 million, or 37.5%, to €175.5 million, from €127.7 million for the year ended December 31, 2020,

[1] Our income statement for the year ending 2021 is presented pro forma as if both the Hewa Acquisition and the Acquisition occurred on January 1, 2021.

primarily due to the increase in volumes in 2021 as a result of the COVID-19 pandemic during 2020. This increase in purchase of goods and changes in inventory is proportionally greater than the corresponding increase in revenue, primarily due to the recovery trends in the raw hides market described under "*—Key Factors Affecting Results of Operations and Financial Condition—Price of materials*" and "*—Key Factors Affecting the Comparability of Our Results of Operations—The COVID-19 Pandemic*." Part of the increase is due to extraordinary scrap affecting our purchase of good and changes in inventory by €6.6 million in the period ended December 31, 2021.

Cost of services

Cost of services for the year ended December 31, 2021 increased by €12.5 million, or 27.2%, to €58.3 million, from €45.8 million for the year ended December 31, 2020, primarily due to the increase in volumes sold and (i) extraordinary scrap that lead to extraordinary cost increase by €1.0 million (ii) the relocation of one of our cutting plant in the Arzignano area by €0.1 million and (i) one off consulting expenses amounting to €1.3 million in relation to acquisitions projects.

Personnel costs

Personnel costs for the year ended December 31, 2021 increased by €13.0 million, or 35.8%, to €49.2 million, from €36.2 million for the year ended December 31, 2020, primarily due to organic growth, the consolidation of HEWA and one-off costs related to (i) extraordinary scraps by €0.5 million, (ii) leaving incentives and extraordinary wages by €2.3 million and (iii) cutting plant relocation and rump up costs amounting to €0.2 million.

Other operating costs

Other operating costs for the year ended December 31, 2021 decreased by €1.5 million, or 66.7%, to €0.7 million, from €2.2 million for the year ended December 31, 2020.

Depreciation—tangible assets

Depreciation—tangible assets for the year ended December 31, 2021 increased by €2.7 million, or 46.4%, to €8.4 million, from €5.7 million for the year ended December 31, 2020, primarily due to the impact of investments in plants and machinery.

Amortization—intangible assets

Amortization—intangible assets for the year ended December 31, 2021 increased by €2.2 million, or 10.0%, to €24.3 million, from €22.1 million for the year ended December 31, 2020, primarily due to the Goodwill for the acquisition of Pasubio SpA.

Financial expenses

Financial expenses for the year ended December 31, 2021 increased by €7.9 million, or 120.0%, to €14.6 million, from €6.6 million for the year ended December 31, 2020, mainly due to the new debt structure.

Income taxes

Income taxes for the year ended December 31, 2021 decreased by €3.7 million, or 33.2%, to negative €7.5 million, from negative €11.2 million for the year ended December 31, 2020, primarily due to a decrease in profit before tax.

Liquidity and Capital Resources

Overview

Historically, the principal sources of our liquidity have been (i) cash flow from operating activities, (ii) bank credit lines, (iii) existing bank loans and (iv) revolving credit borrowings. In addition, we engage in the sale of the receivables related to certain specific customers on the basis of uncommitted framework non-recourse factoring agreements in order to support our working capital and liquidity needs. To ensure access to credit for our suppliers and given the importance of the supply chain to the leather industry, in January 2021, we entered into a reverse factoring agreement with certain suppliers. Pursuant to this reverse factoring agreement, the relevant suppliers have the discretionary option to sell receivables we owe to them to an independent third-party finance company and to receive the amount owed to them before the due date. In exchange for this arrangement, some of these suppliers have granted us longer due dates for payments. Payables related to our reverse factoring program are included in the line item "trade payables" in our financial statements. This reverse factoring program has a volume cap of €18.0 million increased by € 8 million during 2021.

Historically, our principal uses of cash have been (i) funding capital expenditures, (ii) providing working capital, (iii) meet debt service requirements and (iv) fund acquisitions. We believe that the current cash flow from operating activities and existing bank financing will provide us with sufficient liquidity to meet current working capital needs.

We or an affiliate may, from time to time, depending on market conditions and other factors, repurchase or acquire an interest in our outstanding indebtedness, whether or not such indebtedness trades above or below its face amount, for cash and/or in exchange for other securities or other consideration, in each case in open market purchases and/or privately negotiated transactions or otherwise.

Cash Flows

The table below sets forth a summary of our consolidated statements of cash flows as of and for the periods indicated:

€ million	*Pro-Forma* 12 month at December 31, 2021	12 month at December 31, 2020
Cash flow from operating activities	8.6	27.8
Cash flow used in investing activities	(486.4)	(12.8)
Cash flow used in financing activities	510.7	(6.5)
Increase/(Decrease) cash and cash equivalents	32.9	8.5

Cash flow from operating activities

Cash flow from operating activities amounted to €8.6 million for the pro-forma twelve months ended December 31, 2021, a decrease of €19.2 million compared to the twelve months ended December 31, 2020, primarily driven by (i) a decrease of cash flow from operating activities before changes in working capital of €7.8 million due to a decrease in profit for the period of €16.3 million; (ii) an increase in negative changes in working capital of €14.6 million; and (iii) a decrease in other adjustments of €3.1 million, primarily related to a lower cash outflow for taxes of €8.0 million partially offset by higher cash outflow for interest paid of €4.9 million. During 2021 the cost of Raw Material started to recover. We started accumulating what we considered to be the desirable level of stock of raw materials in order to protect our margins.

Cash flow used in investing activities

Cash flow used in investing activities amounted to €486.4 million for the pro-forma twelve months ended December 31, 2021, an increase of €473.6 million compared to the twelve months ended December 31, 2020, primarily driven by €458.0 million incurred in connection with the Pasubio Acquisition (net of cash) and €14.8 million incurred in connection with the Hewa Acquisition.

Cash flow used in financing activities

Cash flow used in financing activities amounted to €510.7 million for the pro-forma year ended December 31, 2021, an increase of €517.2 million compared to the year ended December 31, 2020, primarily driven by (i) the proceeds of new long term loan of €231.5 million from the issuance of the notes net of the prior debt existing in Conceria Pasubio SpA in relation to its acquisition and (ii) shareholders' contribution amounting to €274.7 million.

Working Capital

Working Capital consists of inventories, trade receivables, other receivables and prepaid expenses and accrued income *less* trade payables, social security payables, current tax payables and accrued expenses. Our finished product inventories generally have a short shelf-life and our raw materials and work in progress inventories are primarily affected by production management, invoicing and inventory management. The change in accounts payables and receivables is primarily linked to varying terms and the timing of payment and the ability to recover payments from customers.

The following table summarizes our change in Working Capital as of the dates and for the periods indicated:

€ million	As of December 31, 2021	As of December 31, 2020
Inventories	93.8	55.7
Trade receivables	30.1	31.0
Prepaid expenses and accrued income	2.9	1.2
Tax receivables	5.3	4.1
Other receivables	0.7	0.9
Calculated current assets	*132.8*	*93.0*
Trade payables	66.7	47.3
Tax payables	2.6	2.2
Social security payables	1.6	1.7
Accrued expenses	1.2	0.3
Other payables	8.2	5.8
Calculated current liabilities	*80.2*	*57.3*
Working Capital	**52.5**	**35.6**
Change in Working Capital	**16.9**	

* Consists of the change in Working Capital compared to the prior period.

Working Capital increased by €16.9 million, or 47.5%, from €35.6 million as of December 31, 2020 to €52.5 million as of December 31, 2021. This increase was primarily due to increases in inventories of €38.1 million offset by increases in trade payables of €19.4 million. Inventories increased as a result of our accumulation of raw materials due to the raw material market recovery in order to protect our margins as soon as we negotiated new prices for the upcoming year.

Capital expenditure

To support our business strategy and development plans and to further expand our business, we regularly incur capital expenditure.

The table below sets forth our capital expenditure based on cash flows for the periods indicated:

€ million	*Pro-Forma* 12 month at December 31, 2021	12 month at December 31, 2020
Payments for tangible assets	10.6	6.2
Proceeds from sale of tangible assets	-	(0.1)
Payments for intangible assets	3.0	5.0
Capital Expenditure	**13.6**	**11.2**
Of which: maintenance capital expenditure	2.3	1.0
Of which: expansion capital expenditure	11.3	10.2

For the year ended December 31, 2021, capital expenditures were €13.6 million, compared to €11.2 million for the year ended December 31, 2020.

Capital expenditures amounted to 4.2% of revenue both for the years ended December 31, 2020 and 2021. For the year ending December 31, 2021, we have considered the total Net Revenue for the full year 2021 for Conceria Pasubio Group.

Contractual Obligations

Our contractual obligations and financial commitments owed to third parties (excluding any interest payments under such contractual obligations and commitments), as of December 31, 2021 primarily consist of the €340.0 million of Notes, which will mature on September 30, 2028 and of the €128.7 million of Shareholders' Loan, which will mature on September 30, 2029. Other existing debt of the Group as of December 31, 2021, comprises € 22.0 million related to a Revolving Credit Facility put in place in connection to the Transaction,€ 15.4 million of Pasubio Credit lines like import/export or other cash credits, €2.9 million of lease liabilities, €0.5 million of a loan entered into with Simest, €0.1 million of a loan entered into by GDI U.S.A., €4.1 million of local credit facilities entered into by Hewa and €1.7 million of Hewa overdrafts.

Contingent Liabilities and Off Balance Sheet Arrangements

Contingent Liabilities

As of the date of this report, we had no contingent liabilities outstanding.

Off-Balance Sheet Arrangements

As of the date of this report, we had no material off balance sheet arrangements.

Risk Factors

Other than as disclosed elsewhere in this report, risks to which we are subject have not materially changed from previous disclosure.

Management

There have been no material changes to our mangagement from previous disclosure.

Shareholders and Corporate Structure

There have been no material changes to our shareholders from previous disclosure. It is intended for Leather 2 S.p.a. to merge into Conceria Pasubio S.p.a., with Conceria Pasubio S.p.a. being the surviving entity (the "Merger"). The Boards of Directors of Leather 2 S.p.a. and of Conceria Pasubio S.p.a. have met to review and approve details of the Merger. In addition, the Court of Vicenza has appointed KPMG S.p.a., with registered office in Milan, via Vittor Pisani n. 25 (VAT number and tax code 00709600159) as an expert pursuant to art. 2501 bis of the Italian Civil Code.

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INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2021

To the Board of Directors of
Leather 2 S.p.A.

Opinion

We have audited the accompanying consolidated financial statements of Leather 2 S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2021, the consolidated statement of income, the consolidated statement of changes of shareholders' equity and the consolidated statement of cash flows for the period then ended and the explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with the Italian GAAP.

Basis for 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 our report. We are independent of Leather 2 S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

This audit report is not issued pursuant to the law, because the Company has prepared the consolidated financial statements on a voluntary basis adopting the exemption to the preparation of the statutory consolidated financial statements provided by the Italian law.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Italian GAAP, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an 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 risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not 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 an 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 Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient 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.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, 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.

DELOITTE & TOUCHE S.p.A.

Filippo Fabris
Partner

Padua, Italy
May 26, 2022

LEATHER 2 GROUP

Consolidated Financial Statements
as of and for the period ended
December 31, 2021

CONSOLIDATED BALANCE SHEET

For the period ended December 31, 2021

€ thousand	Notes	As of December 31, 2021
Goodwill	7	486,759
Intangible assets	8	25,887
Property, plant and equipment	9	56,028
Investments in associated and other companies	10	90
Other assets		6
Non-current Assets		**568,770**
Inventories	11	93,767
Trade receivables	12	30,081
Tax receivables	13	5,336
Deferred tax assets	14	1,136
Other receivables	15	662
Prepaid expenses and accrued income	16	2,940
Cash at bank and on hand	17	27,969
Total current Assets		**161,891**
Total Assets		**730,662**
Shareholders' equity		
Share capital		14,645
Reserve		131,375
Retained earnings		0
Profit/(loss) for the period		(9,041)
Equity attributable to the owners of the parent		**136,979**
Equity attributable to non-controlling interests	19	**542**
Total Shareholders' equity	18	**137,521**
Non-Current Liabilities		
Deferred tax liabilities	20	6,324
Provisions for employee severance indemnities	21	1,530
Provision for risks and charges	22	686
Bank Loan	25	26,410
Notes	24	325,979
Shareholders' loan	23	131,095
Other financial liabilities	26	2,090
Non-Current Liabilities		**494,114**
Current Liabilities		
Bank Loan	25	15,801
Notes	24	42
Other financial liabilities	26	2,538
Trade payables	27	66,657
Shareholders' loan	23	407
Tax payables	28	2,619
Social security payables	29	1,635
Other payables	30	8,162
Accrued expenses	31	1,166
Current Liabilities		**99,027**
Total Liabilities and Shareholders' equity		**730,662**

CONSOLIDATED INCOME STATEMENT

For the period ended December 31, 2021

€ thousand	Notes	Period ended December 31, 2021
Revenue	32	50,574
Other revenue and income	32	213
Total revenue and other income		**50,787**
Purchase of goods and changes in inventory	33	(29,130)
Cost of services	35	(10,228)
Use of third party assets	34	(178)
Personnel costs	36	(7,130)
Other operating costs	37	(135)
Capitalization in fixed assets for internal work	38	293
Depreciation - tangible assets	39	(1,783)
Amortization - intangible assets	39	(5,158)
Write-down of trade receivables	40	(6)
Total operating costs		**(53,454)**
Operating profit / (loss)		**(2,667)**
Financial income (expenses)	41	(6,908)
Net exchange rate gain (losses)	41	211
Profit (Loss) before tax		**(9,364)**
Income taxes	42	207
Profit (Loss) for the period		**(9,158)**
ATTRIBUTABLE TO:		
Owners of the parent		(9,041)
Non-controlling interests		(117)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period ended December 31, 2021

€ thousands	Share capital	Share premium reserve	Translation Reserve	Fiscal year profit/loss	Total Group shareholders' equity	Minority	Total shareholders' equity
Balance as of December 31, 2020					**-**	**-**	**-**
Allocation of profit (loss) for the year					**-**	-	**-**
Incorporation of the Company	50				**50**		**50**
Increase of Equity	14,595	131,355			**145,950**		**145,950**
Inclusion in consolidation area					**-**	659	**659**
Other movements			20		**20**		**20**
Result for the period ended December 31, 2021				(9,041)	**(9,041)**	(117)	**(9,158)**
Balance as of December 31, 2021	**14,645**	**131,355**	**20**	**(9,041)**	**136,979**	**542**	**137,521**

CONSOLIDATED CASH FLOW STATEMENT

For the period ended December 31, 2021

€ thousands	For the period ended at December 31, 2021
Cash flow from operating activities	
Profit (Loss) for the year	**(9,158)**
Income Taxes	(207)
Net financial expenses	6,908
(Capital gains) Capital losses deriving from disposal assets	(28)
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains / losses on disposal	**(2,483)**
Non cash adjustments	
Depreciation and Amortization	6,941
Non-monetary adjustments that have not had a counterpart in working capital	-
Provisions (Uses) for contingencies	21
Total non-monetary adjustments without effects in working capital	**6,962**
2. Cash flow from operating activities before changes in net working capital	**4,479**
Changes in Net Working Capital	
Decrease (Increase) of inventories	(2,312)
Decrease (Increase) of trade receivables	5,115
(Decrease) Increase in trade payables	(1,764)
Decrease (Increase) in accrued income and prepaid expenses	(1,017)
(Decrease) Increase in accrued expenses and deferred income	(120)
Other working capital items	(2,846)
Total changes in working capital	**(2,943)**
3. Cash flow from operating activities after changes in working capital	**1,536**
Other Adjustments	
(Income tax paid)	(5,559)
(Interests paid)	(4,230)
(Use of provisions)	-
Total other adjustments	**(9,789)**
Cash flow from operating activities (A)	**(8,253)**
Cash flow from investing activities	
(Payments for tangible assets)	(2,431)
Proceeds from sale of tangible assets	80
(Payments for intangible assets)	(871)
(Payments for financial fixed assets)	-
Proceeds from sale of financial fixed assets	-
Net cash flow for the acquisition of Conceria Pasubio Group	(457,992)
Cash flow from investing activities (B)	**(461,213)**

CONSOLIDATED CASH FLOW STATEMENT

For the period ended December 31, 2021

€ thousands	For the period ended at December 31, 2021
Cash flow from financing activities	
Debt Financing	
Proceeds and repayment of short term loan	(3,983)
Proceeds of new long term loan	351,881
Proceeds of new long term loan vs Leather	128,700
Repayment of long term loan	(125,163)
Increase of share capital and share premium reserve	146,000
Cash flow from financing activities (C)	**497,435**
Increase/(Decrease) cash and cash equivalents (A ± B ± C)	**27,969**
Cash at hand and on bank at beginning of the year	**-**
Cash at hand and on bank at the end of the year	**27,969**
Net cash used in acquisition of Conceria Pasubio Group	
Consideration paid to the vendor	(528,111)
Additional fees (ancillary charges)	(7,389)
(1) Cash and cash equivalent obtained from the acquisition	77,508
Net cash flow for the acquisition	**(457,992)**

[1] *Considering that Conceria Pasubio Group has been consolidated started from November 1, 2021 to represent also the significant cash flows occurred on October 27, 2021 during its acquisition this amount represents the cash and cash equivalent of Conceria Pasubio Group as of October 27, 2021 before the reimbursement of the pre-existing debt for Euro 124,674 thousand concluded through the cash and cash equivalent of Conceria Pasubio Group for Euro 62,250 thousand and through the support granted by Leather 2 S.p.A. for Euro 62,424 thousand.*

LEATHER 2 GROUP

Explanatory Notes
to the Consolidated Financial Statements
as of and for the period ended
December 31, 2021

Note 1. General information about the group

Leather 2 S.p.A. was incorporated on August 6, 2021, by the parent company Leather S.p.A. as part of the acquisition process of Conceria Pasubio S.p.A. (for more detail please refer to the Note 5. "*Significant events throughout the period"*). Given the incorporation in 2021, these consolidated financial statements do not contain comparative information.
Leather 2 Group (hereinafter also referred as to the "Group") includes Leather 2 S.p.A. (hereinafter also the "Newco") that on October 27, 2021, acquired Conceria Pasubio S.p.A. (hereinafter also the "Target Company") and its subsidiaries (hereinafter also the "Target Group") Arzignanese S.r.l., GDI Assemblies LLC ("GD" or "GDI U.S.A."), GD Servicios Internationales del Norte S. de R.L. ("GDI" or "GDI Mexico") and Hewa Leder Gmbh ("Hewa").

The Target Group is one of the world's leading players in the market for high-quality leather for the interiors of the most prestigious luxury brands in the automotive industry and, residually, also supplies leather goods.

The Target Group manages the entire production cycle which includes tanning, selection, dyeing, finishing, and cutting activities operating through ten production sites, of which one is related to Arzignanese S.r.l. for the first tanning phase, six others attributable to Conceria Pasubio S.p.A. for the subsequent phases. The remaining three sites are attributable one to GDI Mexico and the last two to Hewa. Four of these ten sites are located outside of Italy. In particular, a production site opened in 2017 is located in Serbia and operates through the branch constituted by the Target Company. One is located in Mexico and was acquired at the end of 2019 with the strategic aim of reinforcing its know-how and its share in the specific sector of steering wheel leathers. The latest two are located in Germany and they are connected with the strategic acquisition occurred on June 15, 2021 of Hewa, a tannery that permitted to reinforce the presence of Pasubio in the automotive and yachting luxury market.

Note 2. Basis of presentation

The Consolidated Financial Statements include the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of changes in Shareholders' equity, the Consolidated Cash Flow Statement and the Explanatory Notes which had been approved by the Board of Directors on May 25, 2022. These Consolidated Financial Statements have been prepared on voluntary basis in accordance with the accounting standards issued by the Italian Accounting Organization (Organismo Italiano di Contabilità, "O.I.C.") ("Italian GAAP"), and do not constitute the Company's statutory consolidated financial statements for the year ended December 31, 2021 since it adopts the exemption to the consolidation provided by the Article 27, paragraph 3 of Italian Legislative Decree 127/1991.

In preparing the Consolidated Financial Statements, however, Conceria Pasubio reclassified and renamed certain Italian GAAP line items in a manner that makes them more easily comparable to the financial information of businesses that apply IFRS.

The items reported in the Consolidated Financial Statements are stated in accordance with the general principles of prudence and accruals, taking into consideration the economic function of the assets and liabilities.
The Consolidated Financial Statements are shown in Euro, which is the functional currency of the Group and its subsidiaries. All amounts shown in this document are expressed in thousands of Euro, unless otherwise specified.

At the end of the period the assets and liabilities measured in foreign currencies, with the exception of non-current non-monetary assets (which maintain the carrying value of the transaction date) are recorded at the exchange rates at the reporting date and the relative gains or losses on exchange are recorded in the income statement.
The main exchange rates (currency for 1 euro) used to translate the financial statements in currencies other than the euro for the period ended December 31, 2021 are summarized below:

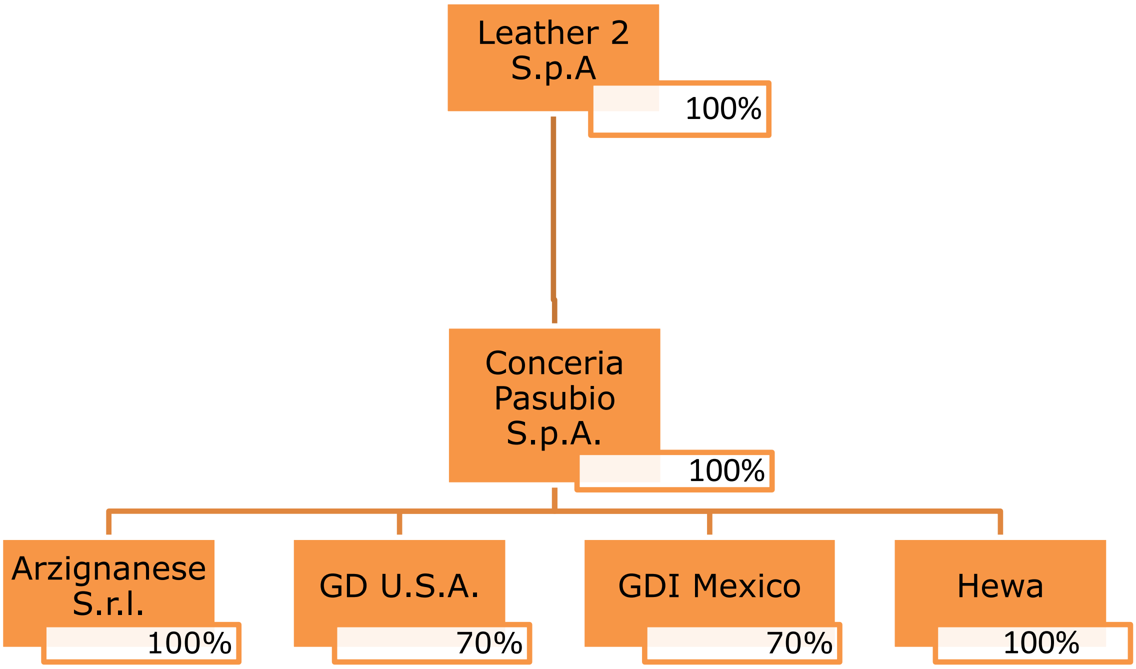
Currency		Average Rate	Closing Rate
		2021	As of December 31, 2021
USD	US Dollar	1.183	1.133
MXN	Mexican Peso	23.985	23.144

Going concern

The Consolidated Financial Statements have been prepared on a going concern taking into account also consideration and uncertainties still enhanced by COVID-19 pandemic and also the uncertainties related to the conflict between Russia and Ukraine raised at the beginning of 2022.
Considering what above, the relevant amount of liquidity, the undrawn Revolving Credit Facility Line for Euro 43.0 million and the maturity date of the Notes, the RCF and the shareholder loan (respectively September 30, 2028, April 28, 2028 and September 30, 2029) we do not identify conditions or events that raised substantial doubts about the entity's ability to continue as a going concern and consequently the Consolidated Financial Statements have been prepared on a going concern basis.
In this context it has not been identified critical estimates and critical judgements in addition to those highlighted in the "Use of estimates" paragraph included in the note 6: "Significant accounting policies".

Note 3. Scope of consolidation and presentation of the consolidated Financial Statements

The scope of consolidation of the Group has been determined by referring to the legal control that the Leather 2 S.p.A. exercises over its subsidiaries.



On the table below are detailed the acquisition and consolidation dates of the company acquired throughout the period:

COMPANY	Acquisition Date	Consolidation Date
CONCERIA PASUBIO S.P.A.	October 27, 2021	October 31, 2021

The Consolidated Financial Statements consist of the Financial Statements of the Newco Leather 2 S.p.A., Conceria Pasubio S.p.A., and the subsidiaries: Arzignanese S.r.l., GDI Assemblies LLC, GD Servicios Internacionales de Norte S. de R.L and Hewa Leder Gmbh in which the Newco, from the Acquisition Date, directly and indirectly holds the majority of voting rights and over whose activities it exercises control.
It should be noted that, as required by paragraph 52 of OIC 17, the Consolidation Date (October 31, 2021) was considered to be the closest to the Acquisition Date (October 27, 2021) in which a complete accounting situation was available. Starting from November 1, 2021 the income Statement of Conceria Pasubio Group has been fully consolidated.

Note 4. Consolidation Accounting Principles

The Consolidated Financial Statements are prepared in accordance with the provisions of the Italian Legislative Decree 127/1991 and those of the accounting standard OIC 17 (Italian GAAP principle N.17).
The subsidiaries are included in the Consolidated Financial Statements from the date in which the Newco acquired control or from the closest date with available data. The subsidiaries will be deconsolidated on the date in which the Newco is no longer the controlling entity.
The Consolidated Financial Statements are consolidated on a line-by-line basis. The main consolidation criteria, which have been consistently applied year over year are described herein as follows:

• the carrying amount of investments in consolidated subsidiaries is eliminated against the corresponding net equity; positive differences are allocated, where possible, to the subsidiaries' assets considering moreover the related tax effect. Any non-attributable residual amount calculated at the date of acquisitions, represents goodwill and is recognized as intangible assets and amortized over its estimated useful life;

• all payables, receivables, revenue, and costs, including any unrealized profit and losses, deriving from transactions between subsidiaries and the Newco or between subsidiaries are eliminated upon consolidation.

Reconciliation of net equity and result for the financial period as reported in the Financial Statements of Conceria Pasubio and those reported in the Consolidated Financial Statements as of December 31, 2021 is presented here below:

€ thousand	Shareholders' Equity as of December 21, 2021	Result for the year ended December 31, 2021
Leather 2	139,662	(6,338)
Elimination of the book value of consolidated shareholdings (Differences between book value and relevant shareholders' equities)	(501,849)	1,505
Goodwill	486,759	(4,090)
Concession, licences and similar rights	16,642	(331)
Deferred Tax on Concession, licenses and similar rights	(4,651)	92
Other Consolidation adjustments	958	5
Consolidated Leather 2 Group	**137,521**	**(9,158)**
Shareholders' equity and third - party result	542	(117)
Shareholders' equity and Group result	**138,063**	**(9,274)**

Note 5. Significant events throughout the period

Leather 2 S.p.A acquired Conceria Pasubio S.p.A.

Leather 2 S.p.A. was incorporated on August 6, 2021 by its parent company Leather S.p.A., a company indirectly controlled by the funds PAI Partners. On October 21, 2021 as part of the acquisition of Conceria Pasubio S.p.A (the "Transaction"), the shareholders' meeting approved a paid share capital increase for a total of Euro 145,950 thousand.
On October 27, 2021, Leather 2 S.p.A. completed the acquisition from Puccini Investments S. à r.l., a company related to the CVC Private Equity funds, of the entire capital share of Conceria Pasubio S.p.A.
As part of the Transaction on the same day Conceria Pasubio Group reimbursed the pre-existing debt for Euro 124,674 thousand through its cash and cash equivalent for Euro 62,250 thousand and through the support granted by Leather 2 S.p.A. for Euro 62,424 thousand.

The Transaction was financed through (i) the proceeds from an offering of Euro 340.0 million of senior secured floating rate notes (the "Notes") issued by Leather 2 S.p.A. and currently listed on the Euro MTF of the Luxembourg Stock Exchange and (ii) a Euro 128.7 shareholder loan between Leather S.p.A., as lender, and Leather 2 S.p.A., as borrower. A Revolving Credit Facility of Euro 65.0 million was also put in place in connection with the Transaction.

It is outlined that the Notes and the Revolving Credit Facility introduced specific reporting requirements for Leather 2 S.p.A. For these purposes, Conceria Pasubio S.p.A., as the main holding company of the group, added a specific "Investor Relations" page on its website.

The acquisition of the Conceria Pasubio Group is accounted for in compliance with the provisions of OIC 17. In particular, the management carried out, also with the support of an independent expert, the Purchase Price Allocation ("PPA") that included the fair value analysis of the assets and liabilities, based on the information on facts and circumstances available at the acquisition date, the allocation of the residual goodwill to the Cash Generating Units ("CGUs") and the determination of the useful lives of the goodwill and assets identified.

The following table highlight the outcome of the PPA of Conceria Pasubio Group as of October 31, 2021:

€ thousand	PASUBIO GROUP
Goodwill	125,265
Intangible assets	9,112
Property, plant and equipment	55,433
Investments in associated and other companies	90
Other non-current assets	6
Non-current Assets	**189,905**
Inventories	91,455
Trade receivables	35,196
Tax receivables	3,982
Deferred tax assets	1,112
Other receivables	240
Prepaid expenses and accrued income - current portion	509
Cash at bank and on hand	15,258
Total current Assets	**147,751**
Total Assets	**337,655**

€ thousand	PASUBIO GROUP
Deferred tax liabilities	(1,578)
Provisions for employee severance indemnities	(1,509)
Provision for risks and charges	(686)
Bank Loan	(5,035)
Shareholders' loan	(62,463)
Other financial liabilities	(2,263)
Non-Current Liabilities	**(73,533)**
Bank Loan	(19,441)
Other financial liabilities	(2,802)
Trade payables	(57,642)
Shareholders' loan	(394)
Tax payables	(6,901)
Social security payables	(1,277)
Other payables	(10,402)
Accrued expenses	(1,286)
Current Liabilities	**(100,147)**
Total Liabilities	**(173,681)**
Equity attributable to the owners of the parent	(163,324)
Equity attributable to non-controlling interests	(650)
Total Shareholders' equity	**(163,975)**
Elimination of previous Goodwill	125,265
Shareholders' equity net elimination of previous Goodwill	(38,060)
Price consideration	541,139
Excess Price to be allocated	**503,079**
Concession, licences and similar rights	16,973
of which Pasubio	*10,557*
of which Arzignanese	*6,416*
Deferred Tax	(4,743)
Goodwill ITA GAAP	**490,850**

As highlighted above, the assessments conducted by management with the support of an independent expert, regarding the fair value of tangible and intangible assets, led to the identification of the Concession Licences and similar rights and the related deferred taxes. Residually, a goodwill has been identified, that has been allocated to the different CGUs as following highlighted:

- CGU Pasubio: Euro 411,7 million
- CGU Hewa: Euro 27,2 million
- CGU GDI: Euro 24,2 million
- CGU Arzignanese: Euro 27,9 million.

In the analysis of the PPA, the useful lives for the amortization of the emerging assets were also identified as indicated below.

Asset	Amortization rate
Goodwill	5%
Concession, licences and similar rights - Pasubio	6.66%
Concession, licences and similar rights - Arzignanese	20%

Consequences of COVID-19 Pandemic

The year 2021 saw the continuation of the emergency status resulting from the outbreak of the Covid-19 pandemic, which began in the first quarter of 2020.
During the year, the vaccination campaign was launched across the country, encouraging the gradual immunisation of the majority of the population, laying the foundations for achieving endemic status for the virus.

Although new waves of contagion occurred during the year, with the necessity to maintain restrictions on normal social relations, thanks to the full compliance with safety, prevention and virus containment rules, the Target Company was able to operate under normal conditions.
In the first half of the year 2021, automotive market demand and orders from customers returned to pre-Covid levels.
In the second half of the year, however, the aftermath of the negative effects of the pandemic impacted on global supply chains, leading to shortages of particular components, specifically in the semiconductor market, which are key to the success of the automotive industry. This supply crisis led to a postponement of orders to the first quarter of the following year and a slight reduction in turnover compared to forecasts.
The negative impact on sales can be considered mild compared to the automotive market as a whole, since car manufacturers have channelled their raw material supplies into the luxury segment, which is also the segment mainly supplied by the Target Group’s business.

Note 6. Significant accounting policies

The most significant accounting policies adopted in the preparation of the Consolidated Financial Statements, in accordance with legislative requirements, are the following:

Goodwill

Goodwill is related to business combinations and is determined as the excess of the consideration transferred in the business combination, included the fees related to the acquisition, over the fair value of the net assets acquired and liabilities assumed at the acquisition date. The share of equity attributable to non-controlling interests, at the acquisition date, is in proportion to the equity of the acquired entity.

Goodwill is systematically amortised during its useful life within a period not exceeding twenty years.
When it is not possible to reliably estimate the useful life, is amortized within a period not exceeding ten years.
The useful life of the goodwill has been determined in the PPA process, and better explained in the paragraph “Leather 2 S.p.A acquired Conceria Pasubio S.p.A.” included in the Note 5.

In accordance with OIC 9, and to support the valuation of the goodwill on the Balance Sheet of the Group, the Directors perform impairment test every time there is an impairment indicator. Where the value of goodwill, net of the amortization already recorded, reports a permanent impairment, a write-down is recognized through the Income Statement.

Intangible assets

Intangible assets are recorded at the cost of purchase, including acquisition costs and are systematically amortised over their expected useful life. Intangible assets are recognised with the approval of the Board of Statutory Auditors in the cases foreseen under the law.

Costs associated with the purchase of rights are capitalised under intangible fixed assets. The cost comprises the fair value of the right and any other direct costs incurred for its adaptation or for implementation within the operating or productive context of the entity.
Leather tannery production activity requires the availability of water. Italian legislation requires companies that are engaged in the preparation and tannery of the leather to use and dispose water for the production activity only through specific rights

and authorizations. Having the rights is a necessary condition for running the tannery business. For this reason, rights have identified during the PPA process.
Rights and authorizations are usually granted for a period of 15 years, but it is a business common practice to have them constantly renewed according to the evolution of the plants and production activities. The cost of the renewal of the Rights are negligible. The period of amortisation does not exceed the lower between the useful life and the duration of the legal/contractual rights.

Advertising and research costs are entirely recognised at cost during the financial year in which they are sustained.
Leasehold improvements are capitalised and recognised among “other intangible assets” if they cannot be separated from the assets themselves (otherwise, they are recognised among “property, plant and equipment” in the specific relative item). They are amortised/depreciated in a systematic manner at the lesser of the expected period of future utility and the remainder of the lease, considering any renewal periods, if these depend on the Company.

The amortisation criteria applied to the various intangible asset items are summarised below, reflecting the residual useful lives and the estimated useful lives of these capitalised costs:

Asset	Amortization rate
Start-up and expansion costs	12.5% - 20%
Development costs	20%
Concession, licences and similar rights	6.66% - 20%
Other intangible assets	20%

In accordance with OIC 9, and to support the valuation of the intangible assets on the Balance Sheet of the Group, the Directors performed impairment test every time there is an impairment indicator. Where the value of intangible assets, net of the amortization already recorded, reports a permanent impairment, a write-down is recognized in the Income Statement.

Property, plant and equipment

Property, plant and equipment are recognized at cost of purchase, inclusive of directly attributable acquisition costs, and increased cost occurred for improvements of the asset. Property, plant and equipment under construction and advances are recognized at cost of purchase and are not depreciated until their construction has been completed. The values of property, plant and equipment are depreciated on a straight-line basis. Purchases of assets with a value of less than Euro 516.46 are expensed through the Income Statement.

The annual rates used for depreciation are indicated in the following table:

Asset	Amortization rate
Land	0%
Building	4%
Plants and machinery	10% - 20%
Industrial and commercial equipment	10% - 25%
Other tangible assets	10% - 25%

Land is not subject to depreciation.

In accordance with OIC 9, and to support the valuation of the property, plant and equipment on the Balance Sheet of the Group, the Directors performed impairment test every time there is an impairment indicator. Where the value of property, plant and equipment, net of the depreciation already recorded, reports a permanent impairment, a write-down is recognized through the Income Statement.

In accordance with OIC 17 and OIC 12, financial leasing transactions were accounted for in accordance with IAS 17.

In accordance with OIC 9, and to support the valuation of the tangible assets on the Balance Sheet of the Group, the Directors performed impairment test every time there is an impairment indicator. Where the value of tangible assets, net of the depreciation already recorded, reports a permanent impairment, a write-down is recognized in the Income Statement.

Impairment of goodwill, intangibles assets and property, plant and equipment

At the end of each reporting period, goodwill, intangibles assets and property, plant and equipment are analysed to determine whether there are any indicators of impairment. If such indicators are found, an impairment test is performed allocating any write-down to the Income Statement. The recoverable value of an asset is the greater of its fair value or its value in use, when the latter is the current value of the estimated future financial cash flows for such asset. In calculating the value in use, the forecast future cash flows are discounted using a discount rate that reflects the current market value of the cost of money for the period when the investment was made and the specific risks related to the asset.

A reduction of value is recognized in the Income Statement when the recognition value of the asset is greater than the recoverable value. If the reason for a write-down previously made no longer apply, the carrying value of the asset, excluded when the asset is Goodwill, is restored and allocated to the Income Statement, up to the amount of the net carrying value that the asset in object would have had if the write-down had not been made but it only has been amortized.

Investments in associates, controlled entities not fully consolidated and other companies

Investments in associates or in controlled entities not fully consolidated are accounted for using equity method, which implies the value of the investment to be adjusted by the share of loss / profit of the investee (which is accounted for in the line item "Share of (loss) / profit of the investee") and/or other movement in the equity such as capital contribution or dividends distribution.

Investments in other companies are accounted for at cost.

Inventory

Inventories of raw materials, semi-finished and finished products are stated at the lower of purchase or manufacturing cost and net realizable value.

Purchase cost includes ancillary charges; production cost includes directly attributable costs and a portion of indirect cost, reasonably attributable to the products.

Raw materials

Raw materials have been calculated using different methods (weighted average cost or specific cost) depending on the type of batch.

In particular, the cost of inventories that have heterogeneous characteristics has been calculated at specific costs, attributing to the individual assets the costs specifically incurred for them. The value thus determined has been appropriately compared with net realisable value.

The cost of raw materials of a fungible nature has been calculated using the weighted average cost method. The value thus determined has been appropriately compared with net realisable value.

Work in progress and semi-finished products

Work in progress and semi-finished products were calculated at specific costs, allocating to individual assets the costs specifically incurred for them during the year.

Finished products

Finished products have been calculated using different methods (weighted average cost or specific cost) depending on the type of batch.

In particular, the cost of finished products that have heterogeneous characteristics has been calculated at specific costs, attributing to the individual goods the costs specifically incurred for them. Hence, the value determined has been appropriately compared with net realisable value.

The cost of inventories of finished products of a fungible nature has been calculated using the weighted average cost method. The value thus determined has been appropriately compared with net realisable value.

Trade receivables

Receivables are recognised to the Financial Statements according to the amortised cost criteria, taking account of their timing and the expected realisable value. The amortised cost criteria is not applied where the effects are insignificant or

where the settlement costs, commissions paid between the parties and any other difference between the initial value and the value on maturity is insignificant or where the receivables are short-term (i.e. with maturity of less than 12 months).
The value of receivables, established as above, is adjusted where necessary by a write-down provision, presented as a direct reduction of the value of the receivables to their expected realisable value. The write-down to the Financial Statements is equal to the difference between the book value and the value of estimated future cash flows, less amounts which are not expected to be received. The write-down is recognised in the Income Statement.

Receivables in foreign currency under current assets are registered at the current exchange rates on the date when the relative transactions take place. They are adjusted to the year-end exchange rate and any gains or losses are recorded on the Income Statement for the year. Any net profit is set aside in a specific reserve which may only be distributed upon realization.
A trade receivable is derecognized from the financial statements when: the right to receive the cash flows of the asset terminate; the entity retains the contractual right to receive the cash flows from the asset, but assumes a contractual obligation to pay the cash flows fully and without delay to a third party; the entity has transferred its right to receive the cash flows from the asset and (i) has transferred substantially all of the risks and rewards of ownership of the trade receivable or (ii) has not transferred or retained substantially all of the risks and rewards of the asset, but has transferred control. Where the entity has transferred all the contractual rights to receive the cash flows from a receivable and has not transferred or withheld substantially all the risks and rewards or has not lost control, the receivable is recorded in the financial statements of the entity up to the amount of its residual holding in the receivable.

Cash at bank and on hand

Cash at bank and on hand are stated at nominal value.

Accruals and deferrals

Accrued income are related to the portion of revenue or income already earned but not yet invoiced.

Prepaid expenses are related to the portion of costs related to future periods/years for which invoices and the related payables have been already received/paid.

Accrued expenses are related to the portion of costs already occurred but for which the invoice has not been received.

Deferred income is related to the portion of revenue or income related to future years for which invoices and the related receivables have been already received/paid.

Provisions for risks and charges

Provisions for risks and charges are recorded based on the principles of prudence and accruals and include provisions made to cover losses and debts of a certain nature and of a certain and probable existence, with uncertain amount and occurrence date. The valuation of risks and charges which are dependent on future events also considers the information available after the fiscal year end and up to the preparation of the present Financial Statements. The provisions reflect the best estimate based on available information at the reporting date. Potential liabilities which are only considered possible are described in the notes.

Provisions for employee severance indemnities

The provision reflects the amounts accrued at the reporting date in favour of employees, in accordance with contractual and legislative requirements. Additionally, this liability is subject to indexation. It shall be noted that as of 1 January 2007, the Finance Law and related implementing decrees introduced significant changes in the regulation of provisions for employment termination benefits, including the employee's choice concerning the allocation of severance indemnities accruing (to the supplementary pension funds or the "Treasury Fund" managed by INPS – the national social welfare institution). The amount recorded in the Financial Statements is therefore net of payments to the mentioned funds.

Loans, trade and other payables

Loans, trade and other payables are recognised according to the amortised cost method, taking account of their timing. The amortised cost criterion is not applied to loans and payables where the effects are insignificant. Effects are considered insignificant for short-term loans and payables (i.e., with maturity of less than 12 months). For the amortised cost method reference should be made to loans and payables.

Trade payables in foreign currency are registered at the exchange rate at the date of the transaction. Then, they are adjusted on a year-end exchange rate and the difference between the two values are registered in the Income Statement for the year. The net profit is set apart in a specific reserve, which may be distributed only upon realization.

In order to ensure easier access to credit for its suppliers and given the importance of the supply chain to the leather industry, Conceria Pasubio S.p.A. has entered, with the suppliers that have chosen to apply for the program, into a reverse factoring agreement. Based on this agreement, the suppliers, some of whom have granted to the entity a longer due date for the payments, have the discretionary option to sell receivables due from the entity to a finance company and receive the amount owed before the due date. The payables referring to reverse factoring transactions are classified in the item “Trade payables”.

Other financing

Other financing includes financial debt with counterparties who are not banks and are stated at nominal value.

Recognition of revenue and costs

Revenues from the sale of products are recognized at the time ownership passes, which is generally upon shipment. Revenues for services rendered are recorded at the time the service is completed and are shown in the financial statements in accordance with the principles of prudence and accrual, with recognition of the related accrued income and prepaid expenses.

Costs are recognized in the financial statements in accordance with the principles of prudence and accrual, with recognition of the associated accrued income and prepaid expenses.

Revenue and income, costs and charges are net of discounts, rebates, and premiums, as well as taxes directly connected with the sale of products and the provision of services.

Intra-group operations are carried out under normal market conditions.

Revenue and income, costs, and the related charges for operations in currency are determined at the exchange rate on the date that the relevant operation is completed.

Income and charges of a financial nature are recognized based on the relevant accounting period.

Financial income and expenses

All the positive and negative components of the economic result for the year related to the company's financial activities are recorded based upon the accruals principle.

Gains and losses arising from the conversion of foreign currency items are respectively credited and debited to the income statement under line item “Net exchange gains (losses)”.

Income taxes

Taxes are provided in accordance with the accruals principle; they therefore represent the amount for taxes paid or payable for the financial year, determined in accordance with the rates and regulations in force.

Conversion of items in foreign currency

Assets and liabilities originally expressed in foreign currency of a non-monetary nature are recorded in the Balance Sheet at the exchange rate at the time of purchase, i.e., at the cost of initial recording.

Assets and liabilities originally expressed in foreign currency of a monetary nature are translated into the financial statements at the spot exchange rate on the balance sheet date. At year-end, foreign currency assets and liabilities, except for fixed assets, are recorded at spot exchange rates as of the balance sheet date; the related foreign exchange gains and losses are recognized in the income statement and any net profit is allocated to a special fund reserve that cannot be distributed until realized.

Deferred tax assets and liabilities

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as of the Balance Sheet date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends

Dividend income is recognized when the investor's right to receive payment is established, following the declaration of a dividend by the investee's shareholders in general meeting.

Other information

Waivers

It should be noted that there were no exceptional cases that required waivers from the provisions of the law relating to financial statements pursuant to Article 2423 of the Italian Civil Code. 4 of the Italian Civil Code.

There were no exceptional events that made it necessary to resort to the waivers provided for in art. 2423- bis para. 2 of the Civil Code.

There was no grouping of items in the balance sheet or income statement.
There are no asset or liability items that fall under more than one item of the scheme referred to in Article 2424 of the Italian Civil Code.

Use of estimates

For Financial Statements preparation, it is necessary that the Management make estimates and assumptions which have effects on the values of assets and liabilities accounted for the Balance Sheet and even on potential assets and liabilities at the Financial Statements date. The estimates and assumptions used are based on experience and on other relevant factors. For this reason, the actual results could be different from these estimates. The estimates and assumptions are reviewed periodically and the effects of each variation are reflected on the Income Statement in the year when the estimate is revised. The Balance Sheet items that are affected by use of estimate are the bad debt reserve, the provisions for risks and charges and the evaluation of the recoverable value of goodwill, intangible assets and plant and equipment.

Regarding the provisions for risks and charges and the write-down of doubtful receivables, the Financial Statements reflects the estimate based on the best knowledge of the state of litigation, using the information provided by the legal and tax advisors, who assist the Company and of the solvency of the counterparts. The estimate of risks is subject to the risk of uncertainty of any estimate of a future event and the outcome of litigation, and it cannot be excluded that in future fiscal years, costs which cannot currently be estimated, might arise due to a worsening of the state of litigation and the level of counterparts' solvency.

In case of impairment indicators goodwill, intangible assets and property, plant and equipment are tested for impairment through the calculation of the recoverable amount of the CGU as the value in use using the discounted cash flow method applying assumptions, such as estimates of future increases in sales, operating costs, the growth rate of the terminal value, investments, changes in working capital and the weighted average cost of capital (discount rate). The value in use may change if the main estimates and assumptions made in the plan change and, so the impairment test. Therefore, the recoverable value of the recognized assets may also change. The impairment test takes into consideration the effects of the Covid-19 pandemic, especially regarding the forecasted cash flows which are estimated using the information available to the directors regarding market conditions and the prospects of recovery from the crisis.

Analysis of Balance Sheet items

Note 7. Goodwill

€ thousand	As of August 06, 2021	Inclusion in consolidation area	Increase	(Amortization)	(Decrease)	Other	As of December 31, 2021
Leather 2			490,850	(4,090)			486,759
Total goodwill	**-**	**-**	**490,850**	**(4,090)**	**-**	**-**	**486,759**

Goodwill arising from the acquisition of Conceria Pasubio Group amounts to Euro 490,8m. It has been determined as the sum of the consideration transferred included the fees related to the acquisition minus the net identifiable assets acquired and liabilities assumed measured at fair value in accordance with OIC 17. Please refer to section Notes 5. Significant events throughout the period, for more details on the PPA process.

Based on the considerations that most significant part of the Goodwill is attributable to Conceria Pasubio's customer relation and on specific customer relationship analysis performed during the PPA process, the useful life of the goodwill has been determined in 20 years.
The Goodwill has been allocated to the different CGUs as following highlighted:

- CGU Pasubio: Euro 411,7 million
- CGU Hewa: Euro 27,2 million
- CGU GDI: Euro 24,2 million
- CGU Arzignanese: Euro 27,9 million.

Indicators of potential impairment have not been identified considering moreover that the goodwill and intangible values expressed were recognized on the basis of the price determined in the recent third-party acquisition completed on October 27, 2021.

Note 8. Intangible assets

As of December 31, 2021 Intangible Assets amount is Euro 25.887 thousand.

Intangible assets are detailed as follow:

€ thousand	As of August 06, 2021	Inclusion in consolidation area	Increase	(Amortization)	(Decrease)	Currency translation difference	As of December 31, 2021
Start-up and expansion costs	-	3.820	450	(151)	-	-	4.119
Development costs	-	3.369	293	(375)	-	-	3.287
Concessions, licenses and similar rights	-	16.981	0	(331)	-	-	16.650
Other intangible assets	-	1.915	127	(211)	-	-	1.832
Total intangible assets	**-**	**26.085**	**871**	**(1.068)**	**-**	**-**	**25.887**

Start-up and expansion costs

The net book value of the item "start-up and expansion costs" mainly refers to "lump sum" contributions that Conceria Pasubio S.p.A. recognises to car manufacturers when they are awarded new long-term projects.

Development costs

The net book value of the item "development costs" mainly involves the expenses that Conceria Pasubio S.p.A. has sustained to develop new products that are considered innovative and technologically advanced.

Concessions, Licences and similar rights

The rights, which net book value amounts to Euro 16.642 thousand, refer to the use and dispose water for the production activity only through specific rights and authorizations. Having the rights is a necessary condition for running the tannery business. They have been identified during the PPA process (Euro 16.973 thousand) and refer to Conceria Pasubio (Euro 10.557 thousand, amortized over 15 years) and to Arzignanese (Euro 6.416 thousand, amortized over 5 years).

Other intangible assets

The net book value of the item "other intangible assets" mainly refers to software, mainly attributable to Conceria Pasubio S.p.A..

Note 9. Property, plant and equipment

As of December 31, 2021 property, plant and equipment amount is Euro 56.028 thousand.

Depreciation allocated during the period has been calculated on all depreciated property, plant, and equipment, applying tax rates representative of their technical and economic life, as specified in the significant accounting policies.
Property, plant and equipment, are detailed as follow:

€ thousand	As of August 06, 2021	Inclusion in consolidation area	Increase	(Amortization)	(Decrease)	Currency translation difference	As of December 31, 2021
Land and building	-	27,254	262	(187)	-	-	27,330
Plants and machinery	-	21,104	2,168	(1,449)	-	-	21,824
Industrial and commercial equipment	-	2,778	-	(120)	(13)	-	2,645
Other tangible assets	-	496	-	(28)	(2)	-	466
Constructions in progress	-	3,801	-	-	(38)	-	3,763
Total tangible assets	**-**	**55,433**	**2,431**	**(1,783)**	**(53)**	**-**	**56,028**

Land and building refers to the properties owned by the Group, mainly related to Conceria Pasubio for Euro 27.330 thousand as of December 31, 2021. Specifically, the value of land is Euro 6.493 thousand, while the remainder relates to industrial and civil buildings.

Plant and Machinery mainly refers to the substantial investment plan that Conceria Pasubio S.p.A. has undertaken over the years and that has involved all the factories to carry out a technological renewal of existing plants and increase production capacity.

Industrial and commercial equipment includes the cost of purchase of various equipment for warehouse (trestles, platforms, stainless steel tanks, etc.) and laboratory.

Other tangible assets throughout the period are mainly related to vehicles and cars as well as other office equipment.

Note 10. Investment in subsidiaries and other companies

The relevant information referring to the associated companies is set forth below:

€ thousand	As of December 31, 2021
Other companies	90
Total Investiments in associated and other companies	**90**

The value of equity investments as of December 31, 2021 was Euro 90 thousand, of which Euro 24 thousand pertaining to Conceria Pasubio (Euro 22 thousand in Utiac S.p.A., Euro 2 thousand in Consorzio Concerie Vicenza) and Euro 63 thousand pertaining to Arzignanese (Utiac S.p.A.).

Note 11. Inventories

As of December 31, 2021, inventory amount to Euro 93.767 thousand.

Inventory is detailed as follow:

€ thousand	As of December 31, 2021
Raw Materials	25,033
Work in progress and semi-finished products	58,627
Finished products	10,107
Total inventories	**93,767**

Inventory is stated net of provisions for warehouse stock write-downs, to report its estimated realisable value. These provisions both reflect the economic and physical obsolescence of inventories.

Note 12. Trade receivables

Trade Receivables are specified below:

€ thousand	As of December 31, 2021
Trade receivables	
- of which within 12 months	31,733
- of which beyond 12 months	-
Total trade receivables	**31,733**
Bad debt provision	(1,652)
Total trade receivables net of bad debt provision	**30,081**

Write-downs are made based on a careful analysis of past due accounts, customers in financial difficulties and clients with whom legal action has been initiated, in addition to estimated expected losses on receivables.

The doubtful debt provision reflects management's estimate based on the expected losses by the Group, based on past experience for similar receivables, such as current and historic amounts overdue, losses incurred, receipts, careful monitoring of the credit quality and projections on economic and market conditions, with the information known at the reporting date.
The annual provision is included under "Write-down of trade receivables".

The movements of the "Bad debt provision" for trade receivables during the periods are detailed as follows:

€ thousand	As of December 31, 2021
Balance of bad debt provisions trade receivables as of December 31, 2020	**-**
Use for losses on receivables	(189)
Releases	(88)
Inclusion in consolidation area	1,930
Provision	-
Balance of bad debt provisions trade receivables as of December 31, 2021	**1,652**

Note 13. Tax receivables

Tax Receivables are specified below:

€ thousand	As of December 31, 2021
VAT recoverable from the tax authorities	1,441
Direct tax credits	3,548
Other tax credits	347
Total tax receivables	**5,336**

The VAT receivables derive from the periodic settlement of VAT in the various Group companies, which resulted in a receivable towards the tax authorities. This receivable is mainly attributable to Conceria Pasubio, which has a VAT credit of Euro 1.036 thousand as of December 31, 2021.

The value of direct tax receivables as of December 31, 2021 arose since Conceria Pasubio S.p.A. paid higher tax advances than the amount determined with the final tax calculation on December 31, 2021.

Note 14. Deferred tax assets

€ thousand	As of December 31, 2021
Deferred tax assets	
Conceria Pasubio S.p.A.	1,057
Arzignanese S.r.l.	77
Total deferred tax assets	**1,134**
Rights	-
Consolidation IAS 17	1
Total deferred tax assets after consolidation	**1,136**

Deferred tax assets relate to the temporary differences on customer indemnity provided for by collective economic agreements, the write-down of receivables, and differences between tax and statutory amortisation/depreciation rates.

This item also includes a balance of Euro 1 thousand relating to consolidation entries (adoption of IAS 17 for financial leasing) as of December 31, 2021.

Note 15. Other receivables

Other receivables are composed as follows:

€ thousand	As of December 31, 2021
Advanced payments to suppliers	428
Social security istitutions	6
Other receivables	229
Total other receivables	**662**
Other non current assets	6
Total other non current assets	**6**

Advanced payments to suppliers are entirely attributable to Conceria Pasubio S.p.A.
The figure other receivables are deemed to be fully collectable and no value adjustments have been made.

Note 16. Prepaid expenses and accrued income

The prepaid expenses and accrued income amount to Euro 2.940 thousand as of December 31, 2021.

Note 17. Cash at bank and on hand

Cash at bank and on hand comprise cash on hand and demand deposits. The line item amounts to Euro 27.969 thousand in 2021.For more details, please refer to Cash Flow Statement.

LIABILITIES AND SHAREHOLDERS' EQUITY

Note 18. Shareholders' Equity

€ thousands	Share capital	Share premium reserve	Translation Reserve	Fiscal year profit/loss	Total Group shareholders' equity	Minority	Total shareholders' equity
Balance as of December 31, 2020					**-**	**-**	**-**
Allocation of profit (loss) for the year					**-**	-	**-**
Incorporation of the Company	14,645	131,355			**146,000**		**146,000**
Inclusion in consolidation area					**-**	659	**659**
Other movements			20		**20**		**20**
Result for the period ended December 31, 2021				(9,041)	**(9,041)**	(117)	**(9,158)**
Balance as of December 31, 2021	**14,645**	**131,355**	**20**	**(9,041)**	**136,979**	**542**	**137,521**

Share capital
The share capital subscribed to and paid-in amount to Euro 14.646 thousand as of December 31, 2021.

Share premium reserve
The share premium reserve amount to Euro 131.355 thousand as of December 31, 2021.

Translation reserve
The translation reserve amount to Euro 20 thousand as of December 31, 2021.
The Translation reserve includes exchange rate differences arising from the translation of the opening shareholders' equity of foreign companies included in the consolidation scope at the exchange rates prevailing at the end of the period and from the translation of their net income at the average exchange rates for the period.

Note 19. Equity attributable to non-controlling interests

The non-controlling interest equity on December 31, 2021 amounted to Euro 542 thousand. The account includes the minority interests in the subsidiaries GD and GDI.

Note 20. Deferred tax liabilities

Deferred tax liabilities are as follows:

€ thousand	As of December 31, 2021
Deferred tax liabilities	
Conceria Pasubio S.p.A.	1,280
Arzignanese S.r.l.	19
Total deferred tax liabilities	**1,300**
Rights	4,651
Consolidation IAS 17	373
Total deferred tax liabilities after consolidation	**6,324**

The amount related to Conceria Pasubio S.p.A. mainly refers to the revaluation of the land carried out only for statutory purposes for Euro 4.000 thousand, according to Law n.2/2009.

The item also includes:

- a balance equal to Euro 373 thousand related to consolidation effect of the accounting according to IAS 17 of the assets purchased by Conceria Pasubio S.p.A. and Arzignanese S.r.l.;

- a balance equal to Euro 4.651 thousand related to the Rights arising in accordance with OIC 24. The period of amortizing is strictly related to the Goodwill (20 years).

Note 21. Provisions for employee severance indemnities

Provisions for employee severance indemnities has changed as follows:

€ thousand	Conceria Pasubio S.p.A.	Arzignanese S.r.l.	Total
As of August 06, 2021	-	-	-
Uses/releases	-	-	-
Inclusion in consolidation area	662	848	1,509
Accrual	5	16	21
Other	-	-	-
As of December 31, 2021	667	863	1,530

The amount is calculated in relation to contractual obligations and applicable law.

Note 22. Provisions for risks and charges

Provisions for risks and charges are as follows:

€ thousand	As of December 31, 2021
Provision for agents' termination benefits	634
Other provision	52
Total provision for risks and charges	**686**

The movements of the provisions for risks and charges throughout the period are set forth below:

€ thousand	
As of August 06, 2021	-
Uses/releases	-
Accrual	-
Inclusion in consolidation area	686
Provision for the period	-
As of December 31, 2021	686

The provision for agents' termination indemnity represents the estimated liability resulting from the application of current legislation and contractual clauses regarding the termination of agency relationships.
The provision for agents' termination indemnity amounts to Euro 634 thousand as of December 31, 2021.
The other provision amount to Euro 52 thousand as of December 31, 2021 and it manly refers to other potential liabilities.

Note 23. Shareholders' Loan

Shareholders' Loan amount to Euro 131.502 thousand for the period ended December 31, 2021.

€ thousand	As of December 31, 2021
Shareholders' loan	129,097
Leather 2	*128,700*
GD US	*397*
Accrued Interest	2,404
Leather 2	*2,395*
GD US	*9*
Total Shareholders' Loan	**131,502**

The amount represents:

- the shareholder loan granted to Leather 2 on October 26, 2021. The interest rate is 10% and provides the liquidation of the interest on September 30, 2029. The repayment of this shareholder loan is subordinated to the Notes;
- the shareholder loan granted by the minority on June 30, 2020 to GDI Assemblies LLC. The interest rate is 1.5% and provides for interests to be paid on an annual basis.

Note 24. Notes

Notes amount to Euro 326.020 thousand for the period ended December 31, 2021.

€ thousand	As of December 31, 2021
- Notes	340,000
- Accrued interest	42
- Amortized Costs	(14,021)
Total Notes	**326,020**

Leather 2 S.p.A. issued Euro 340.0 million of senior secured notes currently listed on the Euro MTF of the Luxembourg Stock Exchange. The Notes will mature on September 30, 2028. Interest on the Notes accrues at a rate of three-month EURIBOR (with a 0% floor) plus 4.5% and provides for interest payments on a quarterly basis.

Note 25. Bank Loan

Borrowing from banks are analysed in the following table:

€ thousand	As of December 31, 2021
Bank loan	
- of which within 12 months	15,801
- of which beyond 12 months	26,410
Total bank loan	**42,211**

The main Bank loans represented can be split as follows:

- Hewa Financing with Commerzbank: amount to Euro 1.080 thousand as of December 31, 2021; the interest rate is 2.00%
- Hewa Financing with Commerzbank: amount to Euro 2.967 thousand as of December 31, 2021; the interest rate is 1.57%
- Hewa Financing with Commerzbank: amount to Euro 11 thousand as of December 31, 2021; the interest rate is 1.57%
- Several Pasubio short term Credit lines like import/export or other cash credits: amount to Euro 13.175 thousand as of December 31, 2021; the interest rate is between 0,35% and 0,55%

- "Revolving Credit Facility": amounts to Euro 22.000 thousand as of December 31, 2021; the interest rate is 3.25%. The total available amount is equal to Euro 65.000 thousand, the interest rate applied on the undrawn is 0.98% (30% of 3.25%).

Note 26. Other financial liabilities

Other financial liabilities are as follows:

€ thousand	As of December 31, 2021
Other financial liabilities	
- of which within 12 months	2,538
- of which beyond 12 months	2,090
Total other financial liabilities	**4,628**

In particular, the amounts due other financial liabilities, throughout the period, are as follows:

€ thousand	As of December 31, 2021
Leasing Debt of Arzignanese S.r.l.	1,049
Leasing Debt of Conceria Pasubio S.p.A.	1,896
Debts to factoring companies	1,203
Other financial liabilities (Simest Loan)	480
Total other financial liabilities	**4,628**

Leasing debts mainly refer to contracts signed by Arzignanese S.r.l. and Conceria Pasubio S.p.A. for the purchase of machinery and equipment.

Note 27. Trade payables

The following table shows the breakdown trade payables throughout the period:

€ thousand	As of December 31, 2021
- of which within 12 months	66,657
Leather 2 S.p.A.	10,800
Conceria Pasubio S.p.A.	49,232
Arzignanese Srl	2,086
GDI Assemblies LLC	2,322
GD Servicios Internacionales del Norte, S. de R.L. de CV	134
Hewa Leder Gmbh	2,083
Total Trade payables	**66,657**

Trade payables include payables mainly refer to raw material suppliers. The only exception is the amount of Leather 2 S.p.A. that is related to the acquisition fees of Conceria Pasubio S.p.A. and financing fees in relation to the Notes and RCF issuance.

Note 28. Tax payables

€ thousand	As of December 31, 2021
Payables for withholding tax	1,200
Payables for VAT	661
Income tax liabilities for the period	625
Other	132
Total tax payables	**2,619**

"Payables for withholding tax", throughout the period, mainly refer to Conceria Pasubio S.p.A. and Arzignanese S.r.l.

"Income tax liabilities for the period" mainly refers to the debit balance of taxes.

Note 29. Social Security payables

These amounts, related mainly to contributions for the month of December of the period, can be broken-down as follows:

€ thousand	As of December 31, 2021
Payables to INPS	**1,234**
Conceria Pasubio S.p.A.	1,151
Arzignanese Srl	82
Payables to INAIL	**14**
Conceria Pasubio S.p.A.	8
Arzignanese Srl	6
Payables to PREVINDAI and others	**154**
Conceria Pasubio S.p.A.	153
Arzignanese Srl	1
Payables to ENASARCO	**19**
Conceria Pasubio S.p.A.	19
Arzignanese Srl	-
Expenses for vacation matured but not taken	**106**
Conceria Pasubio S.p.A.	-
Arzignanese Srl	106
Payables to other entities	**109**
GD Servicios Internacionales del Norte, S. de R.L. de CV	73
Hewa Leder Gmbh	35
Total social security payables	**1,635**

Note 30. Other payables

€ thousand	As of December 31, 2021
Payables to employees and contractors for remuneration accrued but not yet paid	6,364
Miscellaneous other payables	1,798
Total other payables	**8,162**

Payables to employees and contractors for remuneration accrued but not yet paid include, throughout the period, payables related to the allocation of the bonuses matured by registered personnel and linked to the seasonal objectives achieved.

Miscellaneous other payables are mainly related to Conceria Pasubio S.p.A. and include payables to directors, collaborators and supplementary pension funds. As of December 31, 2021, there is also the unpaid portion related to the acquisition of Hewa Leder Gmbh.

Note 31. Accrued expenses

The accrued expenses amount to Euro 1.166 thousand as of December 31, 2021.

Analysis of Income Statement items

REVENUE AND OTHER INCOME

Note 32. Revenue and other revenue and income

Revenue are detailed in the following table:

€ thousands	Period ended December 31 2021
Proceeds from the sale of goods	48,810
Revenues for service provided	1,764
Total Revenue	**50,574**

Pasubio is a specialised producer of luxury automotive upholstery and manufactured leather. It produces finished articles from wet-blue or wet-white leather.

The Group controls the entire production cycle which includes the tanning, selection, dyeing, finishing and cutting activities operating through 10 production sites. One of these sites, opened in 2017, is located in Serbia and operates through the branch established by the Target Company while another, acquired at the end of 2019, is located in Mexico and operates in the saddling leather for steering wheels.
Revenue amount to Euro 50.574 thousand as of December 31, 2021. Revenues are shown net of discounts and rebates. To provide adequate disclosure, a breakdown of revenues by region is provided below:

€ thousands	Period ended December 31 2021
Europe	43,063
Asia	2,854
Africa	1,192
America	2,955
Rest of the World	510
Total Revenue	**50,574**

In terms of geographical areas, the EMEA remains the Company's primary market, accounting for 87% of total revenue in 2021.

Other revenue and income are detailed in the following table:

€ thousands	Period ended December 31 2021
Other revenue from third parts	185
Capital gains	28
Total other revenue and income	**213**

"Other revenue from third parts" mainly relate to ancillary sales services, releases of provisions related to litigation with former employees, and government labour incentives provided in connection to the COVID-19 pandemic outbreak.

"Capital gains" mainly relate to disposals of assets.

TOTAL OPERATING COSTS

Note 33. Purchase of goods and changes in inventory

Purchase of goods and changes in inventory comprise costs of raw materials, supplies and consumables as listed below:

€ thousands	Period ended December 31 2021
Raw material	*30,500*
Finished goods	*18*
Other purchases	*867*
Purchase of raw materials, components and finished goods	31,385
Change in inventories of finished goods and semi-finished products	(415)
Change in inventories of raw materials and goods	(1,839)
Total Purchase of goods and changes in inventory	**29,130**

Purchase of raw materials, consumables and goods and changes in inventory amount to Euro 29.130 thousand as of December 31, 2021.

Note 34. Use of third-party assets

Rent, leasing and similar costs amount to Euro 178 thousand as of December 31, 2021.

Note 35. Costs of services

Costs of services consist of the following:

€ thousands	Period ended December 31 2021
Outsourced processing	3,694
Cleaning and ecology	1,300
Consulting, Board Compensation and Statutory Auditors	1,000
Other cost of services	964
Maintenance performance	657
Utilities	1,299
Transport costs	623
Agents, depositaries and collaboration awards	229
Insurance	309
Travel expenses	77
Postal, telephone and telex costs	53
Representation expenses	23
Advertising, propaganda and sales services	1
Total Costs of Services	**10,228**

Outsourced processing is determined by the production methods of the Group, which concentrates internally processing, high value added and core activities.
Cleaning and ecology costs relate to the expenses sustained by the Group after the ordinary production cycle.
Consulting, Board Compensation and Statutory Auditors include fees to the Statutory Auditors and to the Independent Auditing Firm ("auditors' fees") and fees to the Directors calculated based on the resolution determining the fees for the office of the Directors, also considering the benefits and indemnities in the case of the early termination of the mandate.
Other cost of services mainly refers to miscellaneous cost sustained by the Group.
Transport costs on purchases and sales is linked to business performance and a different mix of countries to which the Group sells.
Maintenance performance is related to the expanses that the Group sustained to maintain the machinery and guarantee their functionality.

Note 36. Personnel costs

These are broken down as follows:

€ thousands	Period ended December 31 2021
Salaries and wages	4,741
Social security contributions	1,351
Employee severance indemnities	321
Other personnel costs	716
Total Personnel costs	**7,130**

Other personnel costs mainly refer to temporary worker costs.
The average number of people employed by the Group is composed as follows:

Average workforce	Conceria Pasubio S.p.A	Arzignanese S.r.l.	GDI e GD	Hewa Leder Gmbh	totals
Managers	32	0	9	1	42
Executives	11	1	3	2	17
Employees	149	5	45	17	216
Workers	707	39	440	134	1320
	899	**45**	**497**	**154**	**1595**

Note 37. Other operating costs

Other operating expenses consist of:

€ thousands	Period ended December 31 2021
Other operating charges	41
Other expenses	27
Taxes and non-income taxes	67
Total Other operating costs	**135**

Note 38. Capitalization in fixed assets for internal work

Capitalization in fixed assets for internal work amount to Euro 293 thousand as of December 31, 2021.

The capitalized amount is consistent with the capitalization provisions as best described under "Intangible assets".

Note 39. Depreciation and amortization

Please refer to Note 7. Goodwill, Note 8. Intangible assets and Note 9. Property, plant, and equipment for more details.

Note 40. Write-down of trade receivables

The write-down of doubtful account receivables included in current assets reflect the prudential write-downs of some receivables. For more details, please refer to Note 12 "Trade receivables".

Note 41. Net financial expenses

Financial income and expenses are detailed below:

€ thousands	Period ended December 31 2021
Financial income (expenses)	**(6,908)**
- Financial Expenses on Notes	(4,291)
- Financial Expenses on Shareholders' Loan	(2,396)
- Financial Expenses on RCF	(192)
- Other Financial Expenses	(30)
Net exchange rate gain (losses)	**211**
- Profit on exchange rates	395
- Losses on exchange rates	(184)
Net financial expenses	**(6,697)**

Financial expenses

Financial expenses mainly refer to the interest on the Bank loans and the interest on the Shareholder Loan related to Leather 2.

Net exchange rate gain (losses)

These gains have been calculated considering the exchange rate of the transaction occurred or the exchange rate as of December 31, 2021.

Note 42. Income Taxes

The allocation for the period income taxes for the consolidated companies was made based on the presumed tax liability under current law.

Income taxes throughout the period are calculated as follows:

€ thousands	Period ended December 31 2021
Current taxes	(185)
Deferred Taxes	(21)
Total Income taxes	**(207)**

Note 43. Guarantees, commitments and liabilities not arising from the Balance Sheet

Notes and Shareholders' loan subscribed in 2021 in order to finance the acquisition of the entire share capital of Conceria Pasubio S.p.A., as described in Note 5 Significant events throughout the period - *Leather 2 S.p.A acquired Conceria Pasubio S.p.A.,* provides the following guarantees:

- pledge on all the shares of the target company Conceria Pasubio S.p.A.;
- pledge on the intercompany loan granted by Leather S.p.A. to Leather 2 S.p.A..

Note 44. Remuneration of Directors and Statutory Auditors

Remuneration of Directors, Statutory Auditors are detailed below:

€ thousand	As of December 31, 2021
Board of Directors	-
Board of Statutory Auditors	4
Total	**4**

Remuneration of Independent Audit Firm are detailed below:

€ thousands	Period ended December 31
	2021
Audit of the Consolidated Financial Statements	110
Other Services *	510

* Comfort Letters on the Offering Memorandum for the €340,000,000 Senior Secured Floating Rate Notes due 2028 of Leather 2 S.p.A.

Note 45. Subsequent events occurred after December 31, 2021

Russia/Ukraine Conflict

During the first few months of 2022, there has been a feeling of instability regarding the geo-political situation, in light of the conflict between Russia and Ukraine which burst in February 2022. Despite the fact that the Group does not bear any direct risk, it is necessary to evaluate certain indirect effects, with particular reference to the European automotive market: from the analysis provided by main automotive market search companies, it is clear that a shock in the supply has impacted the European supply chain. Additionally, the major European OEMs are enduring temporary shortages of some certain components relevant in the vehicles assembly process, such as electrical cables. Although strong market demand has not changed, components shortages have led to OEMs slowing production, and in some cases shutting down production lines, these effects have led to a temporary reduction of the European light vehicles production.

In general, the market is expected to contract by some percentage points, but a limited impact on the Group business is expected. In fact, the group is positioned in the premium and luxury market segments that are generally favored by OEMs which, in such component shortage situations, tend to prioritize high-margin vehicles (typically the models served by the group), in line with what happened in 2021 with the semiconductor shortage.

Leather 2 S.p.a. and Conceria Pasubio S.p.a. Reverse Merger

In connection with the Transaction, it is intended for Leather 2 S.p.A. to merge into Conceria Pasubio S.p.A. with Conceria Pasubio S.p.A. being the surviving entity (the “Merger”). The Boards of Directors of Leather 2 S.p.A. and of Conceria Pasubio S.p.A. have met to review and approve details of the Merger. In addition, the Court of Vicenza has appointed a KPMG S.p.a., with registered office in Milan, via Vittor Pisani n. 25 (VAT number and tax code 00709600159) as an expert pursuant to art. 2501 bis of the Italia Civil Code.