LEATHER 2 GROUP

Condensed consolidated interim financial statements
as of and for the three-months period ended
March 31, 2022
(unaudited)

Use of this report is subject to the disclaimer included in the back.

Condensed Consolidated Interim Balance Sheet (Unaudited)

€ thousand	Notes	As of March 31, 2022	As of December 31, 2021
Goodwill	1	480,624	486,759
Intangible assets	2	25,685	25,887
Property, plant and equipment	3	55,735	56,028
Investments in associated and other companies		106	90
Other assets		6	6
Non-current Assets		**562,155**	**568,770**
Inventories	4	90,999	93,767
Trade receivables		41,896	30,081
Tax receivables		6,051	5,336
Deferred tax assets		1,135	1,136
Other receivables		722	662
Prepaid expenses and accrued income		2,132	2,940
Cash at bank and on hand		29,499	27,969
Total current Assets		**172,433**	**161,891**
Total Assets		**734,588**	**730,662**
Shareholders' equity			
Share capital		14,645	14,645
Reserve		140,720	131,387
Reserve		140,637	131,355
Currency Translation Reserves		83	32
Retained earnings		(18,347)	100
Profit/(loss) for the period		(5,302)	(9,153)
Equity attributable to the owners of the parent		**131,716**	**136,979**
Equity attributable to non-controlling interests		**612**	**542**
Total Shareholders' equity		**132,329**	**137,521**
Non-Current Liabilities			
Deferred tax liabilities		6,073	6,324
Provisions for employee severance indemnities		1,552	1,530
Provision for risks and charges		686	686
Bank Loan	7	40,348	26,410
Notes	5	326,408	325,979
Shareholders' loan	6	134,371	131,095
Other financial liabilities	8	1,849	2,090
Non-Current Liabilities		**511,287**	**494,114**
Current Liabilities			
Bank Loan	7	17,112	15,801
Notes	5	42	42
Other financial liabilities	8	1,930	2,538
Trade payables		56,937	66,657
Shareholders' loan	6	416	407
Tax payables		2,957	2,619
Social security payables		1,048	1,635
Other payables		9,347	8,162
Accrued expenses		1,183	1,166
Current Liabilities		**90,973**	**99,027**
Total Liabilities and Shareholders' equity		**734,588**	**730,662**

Condensed Consolidated Interim Income Statement (Unaudited)

€ thousand	Notes	3 month at March 31, 2022
Revenue	9	93,930
Other revenue and income		234
Total revenue and other income		**94,164**
Purchase of goods and changes in inventory	10	(50,855)
Cost of services		(14,637)
Use of third party assets		(256)
Personnel costs		(13,101)
Other operating costs		(227)
Capitalization in fixed assets for internal work		-
Depreciation - tangible assets		(2,479)
Amortization - intangible assets		(7,407)
Write-down of trade receivables		-
Total operating costs		**(88,963)**
Operating profit / (loss)		**5,201**
Financial income (expenses)	11	(7,964)
Net exchange rate gain (losses)	11	108
Profit (Loss) before tax		**(2,655)**
Income taxes		(2,592)
Profit (Loss) for the period		**(5,247)**
ATTRIBUTABLE TO:		
Owners of the parent		(5,302)
Non-controlling interests		55

Condensed Consolidated Interim Cash Flow Statement (Unaudited)

€ thousands	3 month at March 31, 2022
Cash flow from operating activities	
Profit (Loss) for the year	**(5,247)**
Income Taxes	2,592
Net financial expenses	7,964
(Capital gains) Capital losses deriving from disposal assets	(95)
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains / losses on disposal	**5,214**
Non cash adjustments	
Depreciation and Amortization	9,886
Non-monetary adjustments that have not had a counterpart in working capital	-
Provisions (Uses) for contingencies	22
Total non-monetary adjustments without effects in working capital	**9,908**
2. Cash flow from operating activities before changes in net working capital	**15,122**
Changes in Net Working Capital	
Decrease (Increase) of inventories	2,768
Decrease (Increase) of trade receivables	(11,815)
(Decrease) Increase in trade payables	(4,223)
Decrease (Increase) in accrued income and prepaid expenses	1,048
(Decrease) Increase in accrued expenses and deferred income	17
Other working capital items	(2,616)
Total changes in working capital	**(14,821)**
3. Cash flow from operating activities after changes in working capital	**301**
Other Adjustments	
(Income tax paid)	-
(Interests paid)	(3,942)
(Use of provisions)	-
Total other adjustments	**(3,942)**
Cash flow from operating activities (A)	**(3,641)**
Cash flow from investing activities	
(Payments for tangible assets)	(2,159)
Proceeds from sale of tangible assets	69
(Payments for intangible assets)	(1,069)
(Payments for financial fixed assets)	(16)
Proceeds from sale of financial fixed assets	-
Net cash flow for the acquisition of Conceria Pasubio Group	(4,362)
Net cash flow for the acquisition of GD and GDI	-
Net cash used in acquisition of HEWA	-
Cash flow from investing activities (B)	**(7,537)**
Cash flow from financing activities	
Debt Financing	
Proceeds and repayment of short term loan	457
Proceeds of new long term loan	13,506
Proceeds of new long term loan vs Leather	-
Repayment of long term loan	(1,255)
Increase in Share Capital	-
Cash flow from financing activities (C)	**12,708**
Increase/(Decrease) cash and cash equivalents (A ± B ± C)	**1,530**
Cash at hand and on bank at beginning of the period	**27,969**
Cash at hand and on bank at the end of the period	**29,499**

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (Unaudited)

€ thousands	Share capital	Share premium reserve	Translation Reserve	Retained earnings/losses	Fiscal year profit/loss	Total Group shareholders' equity	Minority	Total shareholders' equity
Balance as of December 31, 2021	**14,645**	**131,355**	**20**	**-**	**(9,041)**	**136,979**	**542**	**137,521**
Allocation of profit (loss) for the year				(9,041)	9,041	**-**	-	**-**
Incorporation of the Company						**-**		**-**
Increase of Equity						**-**		**-**
Inclusion in consolidation area						**-**		**-**
Other movements			63	(24)		**39**	15	**54**
Result for the period ended December 31, 2021					(5,302)	**(5,302)**	55	**(5,247)**
Balance as of March 31, 2022	**14,645**	**131,355**	**83**	**(9,065)**	**(5,302)**	**131,716**	**612**	**132,329**

Operating & Financial Review

Significant events throughout the period

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 Conceria Pasubio S.p.A. (the "Company," or "Conceria Pasubio" and, together with its subsidiaries and its direct parent, Leather 2 S.p.A., the "Group" or the "Conceria Pasubio Group") and its subsidiaries do not bear any direct risk, we evaluate the potential certain indirect effects, particularly on 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.

Raw Material Price fluctuation

The spread of the COVID-19 pandemic and the effects of responses thereto imposed by governments worldwide, resulted in shortages in the availability of certain raw materials, including raw hides, the primary raw material used in our manufacturing processes, and increases in their cost as well as the cost of utilities and of transport. As a result, we adopted a raw hides and preprocessed hides purchasing strategy that seeks to cover the risk of raw materials price variances, a strategy that can influence the changes in working capital across periods.

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.

Results of Operations

Limitation to financial figures

Leather 2 S.p.A. ("Leather 2") was incorporated on August 6, 2021 by its parent company Leather S.p.A., a company indirectly controlled by PAI Partners. 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 November 1, 2021. Given that completion of the Acquisition occurred on October 27, 2021; and that Conceria Pasubio S.p.A. is consolidated into Leather 2 as of November 1, 2021, these consolidated financial statements do not contain comparative information. For the results of operations discussion we have included Conceria Pasubio S.p.A. unaudited consolidated financial figures for the three months ended March, 31 2021 for comparison purposes.

€ million	3 month at March 31, 2022	3 month at March 31, 2021	
Revenue	93,930	85,528	9.8%
Other revenue and income	234	284	-17.6%
Total revenue and other income	**94,164**	**85,812**	**9.7%**
Purchase of goods and changes in inventory	50,855	39,480	28.8%
Cost of services	14,637	13,684	7.0%
Use of third party assets	256	170	50.4%
Personnel costs	13,101	11,055	18.5%
Other operating costs	227	113	100.8%
Capitalization in fixed assets for internal work	0	(484)	-100.0%
Depreciation - tangible assets	2,479	1,617	53.3%
Amortization - intangible assets	7,407	5,643	31.3%
Write-down of trade receivables	0	200	-100.0%
Total operating costs	**88,963**	**71,479**	**24.5%**
Operating profit / (loss)	**5,201**	**14,333**	**-63.7%**
Financial income (expenses)	(7,964)	(1,559)	410.9%
Net exchange rate gain (losses)	108	819	-86.8%
Profit (Loss) before tax	**(2,655)**	**13,593**	**-119.5%**
Income taxes	(2,592)	(4,995)	-48.1%
Profit (Loss) for the year	**(5,247)**	**8,598**	**-161.0%**
ATTRIBUTABLE TO:			
Owners of the parent	(5,302)	8,564	
Non-controlling interests	55	34	

Revenue

Revenue for the three months ended March 31, 2022 amounts to € 93.9 million, an increase of € 8.4 million compared to the three months ended March 31, 2021, primarily due to to the contribution of HEWA as well as price increase that took effect from January 1, 2022.

Purchase of goods and changes in inventory

Purchase of goods and changes in inventory for the three months ended March 31, 2022 amount to € 50.9, an increase of € 11.4 million compared to the three months ended March 31, 2021, primarily due to cost increases in the price of raw hides, inflation effects on chemicals as well as the inclusion of HEWA.

Cost of services

Cost of services for the three months ended March 31, 2022 amounts to € 14.6, an increase of € 0.1 million compared to the three months ended March 31, 2021, primarily as a result of incidence reduction of outsourcing activities partially offset by an increase in costs for outsourcing operations as well as water treatment usage due to inflation.

Personnel costs

Personnel costs for the three months ended March 31, 2022 amount to € 13.1, an increase of € 2.0 million compared to the three months ended March 31, 2021, primarily due to the inclusion of HEWA and salary increases outside of Italy such as in Serbia and Mexico.

Other operating costs

Other operating costs for the three months ended March 31, 2022 amounts to € 0.2 million, an increase of € 0.1 million compared to the three months ended March 31, 2021.

Depreciation—tangible assets

Depreciation—tangible assets for the three months ended March 31, 2022 amounts to € 2.5 million, an increase of € 0.9 million compared to the three months ended March 31, 2021, primarily as a result of increase in expansion capital expenditures.

Amortization—intangible assets

Amortization—intangible assets for the three months ended March 31, 2022 amounts to € 7.4 million, an increase of € 1.8 million compared to the three months ended March 31, 2021, primarily as a result of the higher acquisition Goodwill resulting from the acquisition of Conceria Pasubio S.p.A. by Leather 2 S.p.A.

Financial expenses

Financial expenses for the three months ended March 31, 2022 amount to € 8.0 million, an increase of € 6.4 million compared to the three months ended March 31, 2021, primarily as a result of the new debt structure. For the three months ended March 31, 2022 financial expenses primarily consisted of (i) interests on the Notes amounting to €3.3 million and (ii) non-cash interests expenses on shareholders' loan amounting to € 4.2 million.

Income taxes

Income taxes for the three months ended March 31, 2022 amount to € 2.6 million, a decrease of € 2.4 million compared to the three months ended March 31, 2021, primarily as a result of lower profit before tax due to the new debt structure.

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 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	3 month at March 31, 2022	3 month at March 31, 2021
Cash flow from operating activities	(3.6)	10.8
Cash flow used in investing activities	(7.5)	(2.3)
Cash flow used in financing activities	12.7	(2.6)
Increase/(Decrease) cash and cash equivalents	1.5	5.8
Cash at hand and on bank at beginning of the period	28.0	72.6
Cash at hand and on bank at the end of the period	**29.5**	**78.4**

Cash flow from operating activities

Cash flow used in operating activities amounted to €3.6 million for the three months ended March 31, 2022, a decrease of €7.2 million compared to the three months ended March 31, 2021, primarily as a result of increase in working capital due to the overstock built as well as higher interests expenses paid for the Notes.

Cash flow used in investing activities

Cash flow used in investing activities amounted to €7.5 million for the three months ended March 31, 2022, an increase of €5.2 million compared to the three months ended March 31, 2021, primarily as a result of €4.4 million consulting and services fees paid in connection to the Acquisition.

Cash flow used in financing activities

Cash flow from financing activities amounted to €12.7 million for the three months ended March 31, 2022, primarily as a result of additional drawings of €15.0 million under our Revolving Credit Facility, compared to the three months ended March 31, 2021 in order to finance our working capital needs.

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	3 month at March 31, 2022
Payments for tangible assets	2.2
Proceeds from sale of tangible assets	(0.1)
Payments for intangible assets	1.1
Capital Expenditure	**3.2**

For the three months ended March 31, 2022, capital expenditure amounted to €3.2 million..

Other Information

In these Condensed Consolidated Interim Financial Statements, we present certain financial measures that are not recognized by Italian GAAP or any other generally accepted by accounting principles. We refer to these measures as "non-GAAP measures" as they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with Italian GAAP, or are calculated using financial measures that are not calculated in accordance with Italian GAAP.

Non-GAAP measures may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Pasubio Group's operating results as reported under Italian GAAP.

Last Twelve Months ("LTM") represents the twelve months ended March 31, 2022, presented pro forma as if both the Hewa Acquisition and the Acquisition occurred on January 1, 2021.

	€ million	3 month at March 31, 2022	3 month at March 31, 2021	LTM March 31, 2022
(1)	Net Revenue	91.4	83.0	316.9
(2)	EBITDA	15.2	22.4	42.9
(2)	Adjusted EBITDA	15.3	22.1	54.9
(3)	Working Capital	70.3	41.0	70.3
(4)	Pro Forma Net Revenue			323.4
(2)	Pro Forma Adjusted EBITDA			66.7
(5)	Net Financial Position (NFP)			371.0
	Ratio of NFP to Pro Forma Adjusted EBITDA			5.6x

(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	3 month at March 31, 2022	3 month at March 31, 2021
	Revenue	**93.9**	**85.5**
(a)	Disputes (discounts on sales)	(0.6)	(0.4)
(b)	Sales of not finished leathers	3.0	2.8
(c)	Late adjustments	0.0	0.1
	Net revenue	**91.4**	**83.0**

(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 few 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.

(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 (A) estimated purchasing synergies resulting from the Hewa Acquisition; (B) the run rate effect of our cost improvement operational projects as if cost improvements resulting therefrom had full effect from January 1, 2021 and (C) seasonality normalization of 2021 monthly financial results. Figures presented for the three months ended March 31, 2021 are impacted by seasonality experienced in 2021 and as such are not directly comparable to full-year 2021 figures.

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 EBITDA to Adjusted EBITDA for each of the periods indicated, and Adjusted EBITDA to Pro Forma Adjusted EBITDA for the twelve months ended March 31, 2022:

	€ million	3 month at March 31, 2022	3 month at March 31, 2021	LTM March 31, 2022
	EBITDA	**15.2**	**22.4**	**42.9**
	Net exchange rate gain (losses)	(0.1)	(0.8)	(0.2)
(a)	Non-recurring adjustments	0.1	0.3	11.9
(b)	Other adjustments	0.1	0.2	0.3
	Adjusted EBITDA	**15.3**	**22.1**	**54.9**
(c)	Hewa Acquisition adjustments			4.3
(d)	Run Rate Saving OPS			2.3
(e)	Seasonality Normalization			5.2
	Pro Forma Adjusted EBITDA			**66.7**

(a) For the three months ended March 31, 2022, non-recurring adjustments consisted of (A) €6.5 thousand of one-off COVID-19 related to extraordinary healthcare measures to protect our employees; (B) € 54.0 thousand related to one-off consulting and professional expenses connected to one off projects; (C) € 2.0 thousand consisting of one off costs related to the relocation of our Italian cutting plant and (D) € 65.2 thousand related to extraordinary personnel costs.

For the three months ended March 31, 2021, non-recurring adjustments consisted of (A) €63.4 thousand of one-off COVID-19 related to extraordinary healthcare measures to protect our employees; (B) € 203.0 thousand related to extraordinary scraps.

For the twelve months ended March 31, 2022, non-recurring adjustments consisted of (A) €0.1 million of one-off COVID-19 related to extraordinary healthcare measures to protect our employees; (B) €1.3 million related to consultancies connected to the

M&A projects; (C) € 0.2 million consisting of one off costs related to the location change of our Italian cutting plant; (D) € 7,8 million related to extraordinary scraps, (E) €2.4 million related to extraordinary personnel costs such as start-up of new projects, extraordinary wages and leaving incentives.

(b) For the three months ended March 31, 2022, other adjustments consisted of €0.1 million of capital gain/loss; bank charges and late adjustments between management closing and statutory closing.

For the three months ended March 31, 2021, other adjustments consisted of €0.2 million of capital gain/loss; bank charges and late adjustments between management closing and statutory closing.

For the twelve months ended March 31, 2022, other adjustments consisted of (i) €0.1 million of capital gain/loss and bank charges; (ii) €0.2 million late adjustments between management closing and statutory closing.

(c) Represents €4.3 million of estimated purchasing synergies resulting from Hewa (i) purchasing raw materials under Conceria Pasubio's arrangements with suppliers, which provide for better commercial terms, compared to Hewa's existing supply contracts and (ii) perform at Conceria Pasubio's efficiency level in the use of raw hides. These savings are expected to come into effect contemporaneously with the integration of Hewa into Conceria Pasubio's 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 had Hewa been fully integrated on April 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

(d) Represents the run rate effect of our operational cost improvement projects as if we benefited from the full cost savings from April 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.

(e) Represents the normalization of financial year 2021 monthly results based on the raw material cost fluctuation as our inventory is not valued at weighted average, but at purchasing cost, and we have recorded the negative effect of more expensive materials during the last three quarters of 2021, as a result of the fact that our cost increase is not pass-through in the short term but has a temporary delay. Typically, we define new selling prices in the last quarter of the year based on the historical costs and review selling prices with validity date from January 1, of the subsequent year. At the end of 2021 we renegotiated prices that were applied from January 1, 2022.

(3) Working Capital consists of inventories, trade receivables, tax receivable, other current receivables and prepaid expenses and accrued income less trade payables, social security payables, current tax payables, other current 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 March 31, 2022	As of December 31, 2021
Inventories	91.0	93.8
Trade receivables	41.9	30.1
Prepaid expenses and accrued income	2.1	2.9
Tax receivables	6.1	5.3
Other receivables	0.7	0.7
Calculated current assets	*141.8*	*132.8*
Trade payables	56.9	66.7
Tax payables	3.0	2.6
Social security payables	1.0	1.6
Accrued expenses	1.2	1.2
Other payables	9.3	8.2
Calculated current liabilities	*71.5*	*80.2*
Working Capital	**70.3**	**52.5**
Change in Working Capital	**17.8**	

Working Capital increased by €17.8 million, or 33.9%, from €52.5 million as of December 31, 2021 to €70.3 million as of March 31, 2022. This increase was primarily due to increases in trade receivables of €11.8 million and decreases in trade payables of €9.8 million.

(4) We define Pro Forma net revenue as net revenue adjusted for the Hewa Acquisition. The following table sets forth a reconciliation of Pro Forma net revenue to net revenue, our most directly comparable measure under Italian GAAP, as of and for the twelve months ended March 31, 2022.

€ million	LTM March 31, 2022
Net revenue	**316.9**
Hewa Acquisition inclusion in consolidation	6.5
Pro-Forma Net Revenue	**323.4**

(5) Net financial position represents our consolidated total indebtedness, consisting of €340.0 million of proceeds of the Notes, €37.0 million drawn under our Revolving Credit Facility and other existing debt of the Group, less cash and cash equivalents.

Subsequent Events

It is intended for Leather 2 to merge into Conceria Pasubio, with Conceria Pasubio being the surviving entity (the "Merger"). The Boards of Directors of Leather 2 and of Conceria Pasubio 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.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

General information about the Conceria Pasubio Group

The Conceria Pasubio Group is 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. The Conceria Pasubio Group has long-term, strategic relationships with global luxury and premium OEMs and is the partner of choice of Porsche, Jaguar Land Rover, Lamborghini, Bentley and Rolls-Royce. Given its history and geographical location, the Conceria Pasubio Group's customer base also includes leading Italian OEM luxury brands such as Maserati and Alfa Romeo.

Although the Conceria Pasubio Group operates across the entire leather value chain, which includes tanning, processing & finishing and cutting activities, the Conceria Pasubio Group focuses on the most value-added steps of the leather value chain: processing & finishing and cutting. The Conceria Pasubio Group considers these to be the more profitable steps of the leather value chain and the ones that require the most highly-skilled labor. Lower value-added, less skilled and more labor-intensive work is outsourced to third-party suppliers. As a result, the Conceria Pasubio Group's tanning operations are minimal, and it fully outsources sewing and wrapping work.

The Conceria Pasubio Group operates eleven state-of-the-art manufacturing plants comprising five production facilities in Italy, two production facilities in Germany and four cutting and lamination facilities in Italy, Serbia, Mexico and Germany, respectively. Over the course of its history, Conceria Pasubio Group has invested in building and maintaining advanced operations, driving its ability to operate on short lead times. Conceria Pasubio Group exclusively manufactures its products in Italy and Germany. Facilities in Serbia and Mexico are dedicated to re-tanning, finishing, cutting, lamination and wrapping.

Basis of presentation

These condensed consolidated interim financial statements of the Company for the three months ended March 31, 2022 (the "Condensed Consolidated Interim Financial Statements") include the Condensed Consolidated Interim Balance Sheet, the Condensed Consolidated Interim Income Statement, the Condensed Consolidated Interim Statement of Changes in Shareholders' Equity, the Condensed Consolidated Interim Cash Flow Statement and the Notes to the Condensed Consolidated Interim Financial Statements, all of which were approved by the Board of Directors of the Company on May 25, 2022. These Condensed Consolidated Interim Financial Statements have been prepared in accordance with the accounting standards issued by the Italian Accounting Organization (*Organismo Italiano di Contabilità*) ("Italian GAAP"), including OIC 30 (Interim Financial Reporting), and do not include all the information required for annual financial statements. Accordingly, these Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2021.

In preparing the Condensed Consolidated Interim Financial Statements, the Company reclassified and renamed certain Italian GAAP line items in a manner that makes them more easily comparable to the financial information of businesses that do not adopt Italian GAAP.

The items reported in the Condensed Consolidated Interim Financial Statements are stated in accordance with the general principles of prudence and accruals and considering the economic function of the assets and liabilities.

The Condensed Consolidated Interim Financial Statements are shown in euros, which is the accounting currency of the Conceria Pasubio Group.

Scope of consolidation and presentation of the Condensed Consolidated Interim Financial Statements

The scope of consolidation of the Group has been determined by referring to the legal control that the Leather 2 exercises over its subsidiaries.
On the table below are detailed the acquisition and consolidation dates of the Company, which we acquired in 2021:

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 Leather 2, Conceria Pasubio, 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 Leather 2, from the acquisition date of Conceria Pasubio, directly and indirectly holds the majority of voting rights and over whose activities it exercises control.

Consolidation Accounting Principles

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with Italian Legislative Decree 127/1991 and OIC 17 (Consolidated Financial Statements). These Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements. Accordingly, these Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2021.

These Condensed Consolidated Interim Financial Statements consolidate subsidiaries from the date on which Leather 2 acquired control of that subsidiary or from the first available date of consolidation. Should any subsidiary be disposed of, such subsidiary will be deconsolidated from the date on which Leather 2 is no longer the controlling entity of such subsidiary.

These Condensed Consolidated Interim Financial Statements are consolidated on a line-by-line basis. The main consolidation criteria, which has been consistently applied across the periods described herein are as follows:

- the carrying amount of investments in consolidated subsidiaries is eliminated against the corresponding net equity; positive differences are allocated, where possible and gross of the related tax effect, to the subsidiaries' assets; 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 parent company or between subsidiaries are eliminated upon consolidation.

Judgments and estimates

In preparing its Condensed Consolidated Interim Financial Statements, Leather 2 occasionally makes judgments in applying its accounting policies. In addition, the preparation of consolidated financial statements in conformity with Italian GAAP requires the use of estimates that may affect the amounts reported and disclosed in the consolidated financial statements and related notes in future periods. These estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ materially from the amounts included in the consolidated financial statements. The significant accounting policy judgments and areas of estimation uncertainty in the preparation of the Condensed Consolidated Interim Financial Statements are consistent with those applied and disclosed in Leather 2's audited consolidated financial statements for the year ended December 31, 2021.

Goodwill (note 1)

€ thousand	As of December 31, 2021	Increase	(Amortization)	(Decrease)	Other	Inclusion in consolidation area	As of March 31, 2022
Leather 2	486,759		(6,136)				480,624
Total goodwill	**486,759**	**-**	**(6,136)**	**-**	**-**	**-**	**480,624**

Goodwill arising from the Conceria Pasubio acquisition amounts to €490,8m. It has been determined as the sum of the consideration transferred minus the net identifiable assets acquired and liabilities assumed measured at fair value in accordance with OIC 24. Conceria Pasubio's pre-existing goodwill has been reassessed and redetermined after this business combination.

The Goodwill is attributable to (i) Conceria Pasubio's customer relationships and its ability to renew them and (ii) to the skills and technical talent of Conceria Pasubio's work force and to business and process organization of its operating activities.

Based on the considerations that major part of the Goodwill is attributable to Conceria Pasubio's customer relationships and on specific customer relationship analysis performed, the Board of Directors of Leather 2 considers it reasonable to straight-line amortize goodwill over 20 years.

Intangible assets (note 2)

As of March 31, 2022, Intangible Assets amounted to €25,685 thousand, and as of December 31, 2021, Intangible Assets amounted to €25,887 thousand.

Intangible assets are detailed as follows:

€ thousand	As of December 31, 2021	Increase	(Amortization)	(Decrease)	Currency translation difference	Inclusion in consolidation area	As of December 31, 2021
Start-up and expansion costs	4,119	1,000	(213)	-	-	-	4,906
Development costs	3,287	-	(318)	-	-	-	2,969
Rights	-	-	-	-	-	-	-
Concessions, licenses and similar rights	16,650	-	(497)	-	0	-	16,153
Other intangible assets	1,832	68	(243)	-	0	-	1,657
Total intangible assets	**25,887**	**1,068**	**(1,271)**	**-**	**1**	**-**	**25,685**

Start-up and expansion costs

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

Development costs

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

Concessions, licenses and similar rights

The rights, which net book value amounts to Euro 16,153 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 the Company.

Property, plant and equipment (note 3)

As of March 31, 2022 property, plant and equipment amounted to €55,735 thousand, and as of December 31, 2021, property, plant and equipment amounted to €56,028 thousand.

Depreciation allocated throughout the periods was calculated on all of the property, plant and equipment depreciated, applying the tax rates representing the technical-economic life, specified in the significant accounting policies.

Property, plant and equipment are detailed as follows:

€ thousand	As of December 31, 2021	Increase	(Amortization)	(Decrease)	Currency translation difference	Inclusion in consolidation area	As of December 31, 2021
Land and building	27,330	70	(340)	-	3	-	27,063
Plants and machinery	21,824	646	(1,834)	-	10	-	20,646
Industrial and commercial equipment	2,645	26	(247)	-	5	-	2,430
Other tangible assets	466	48	(58)	-	8	-	464
Constructions in progress	3,763	1,369	-	-	-	-	5,132
Total tangible assets	**56,028**	**2,159**	**(2,479)**	**-**	**26**	**-**	**55,735**

Land and building refers to properties owned by the Conceria Pasubio Group, mainly related to the Company for an amount equivalent to €27,063 thousand as of March 31, 2022. Specifically, the value of land is €6,493 thousand, while the remainder relates to industrial and civil buildings.

Plant and Machinery mainly refers to the substantial investment plan that the Company undertook during the previous year and that involved all plants 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 fiscal years are mainly related to vehicles and cars as well as other office equipment.

Inventory (note 4)

As of March 31, 2022, inventories amounted to €90,999 thousand; and as of December 31, 2021 inventories amounted to €93,767 thousand.

Inventories are detailed as follow:

€ thousand	As of March 31, 2022	As of December 31, 2021
Raw Materials	18,100	25,033
Work in progress and semi-finished products	62,811	58,627
Finished products	10,087	10,107
Total inventories	**90,999**	**93,767**

Inventories are stated net of provisions for warehouse stock write-downs, in order to report their estimated realizable value. These provisions reflect both the economic and physical obsolescence of inventories. Inventories are shown net of a provision for slow moving items.

Notes (note 5)

Notes amounted to €326,450 thousand as of March 31, 2022; and amounted to €326,020 thousand as of December 31, 2021

€ thousand	As of March 31, 2022	As of December 31, 2021
- Notes	340,000	340,000
- Accrued Interest	42	42
- Amortized Costs	(13,592)	(14,021)
Total Notes	**326,450**	**326,020**

Leather 2 issued € 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.

Shareholders' Loan (note 6)

Shareholders' Loan amounted to Euro 134,787 thousand as of March 31, 2022; and it amounted to Euro 131,502 as of December 31, 2021.

€ thousand	As of March 31, 2022	As of December 31, 2021
Shareholders' loan	129,105	129,097
Leather 2	*128,700*	*128,700*
GD US	*405*	*397*
Accrued Interest	5,681	2,404
Leather 2	*5,671*	*2,395*
GD US	*11*	*9*
Total Shareholders' Loan	**134,787**	**131,502**

The amount represents:

- the shareholder loan granted to Leather 2 on September 27, 2021. The loan matures on September 30, 2029.
- the shareholder loan granted on June 30, 2020 to GDI Assemblies LLC. The interest rate is 1.5% and provides for interest payments on an annual basis.

Bank Loan (note 7)

Borrowings from banks are detailed in the following table:

€ thousand	As of March 31, 2022	As of December 31, 2021
Bank loan		
- of which within 12 months	17,112	15,801
- of which beyond 12 months	40,348	26,410
Total bank loan	**57,460**	**42,211**

The main Bank loans represented can be split as follows:

- Hewa Financing with Commerzbank: amount to Euro 1,020 thousand as of March 31, 2022; the interest rate is 2.00%
- Hewa Financing with Commerzbank: amount to Euro 2,843 thousand as of March 31, 2022; the interest rate is 1.57%
- Hewa Financing with Commerzbank: amount to Euro 8 thousand as of March 31, 2022; the interest rate is 1.57%
- Several Pasubio short term Credit lines like import/export or other cash credits: amount to Euro 14.343 thousand as of March 31, 2022; the interest rate is between 0,35% and 0,55%;
- “Revolving Credit Facility”: amount to Euro 37,000 thousand as of March 31, 2022; 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%).

Certain residual local lines are open across the Conceria Pasubio Group.

Other financial liabilities (note 8)

Other financial liabilities are as follows:

€ thousand	As of March 31, 2022	As of December 31, 2021
Other financial liabilities		
- of which within 12 months	1,930	2,538
- of which beyond 12 months	1,849	2,090
Total other financial liabilities	**3,779**	**4,628**

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

€ thousand	As of March 31, 2022	As of December 31, 2021
Leasing Debt of Arzignanese S.r.l.	960	1,049
Leasing Debt of Conceria Pasubio S.p.A.	1,581	1,896
Debts to factoring companies	758	1,203
Other financial liabilities (Simest Loan)	480	480
Total other financial liabilities	**3,779**	**4,628**

Leasing debts mainly refers to contracts signed by Arzignanese and the Company for the purchase of machinery and equipment.

Revenue (note 9)

Revenue is detailed in the following table:

€ thousands	3 months at March
	2022
Proceeds from the sale of goods	90,691
Revenues for service provided	3,239
Total Revenue	**93,930**

Revenue amounted to €93,930 thousand for the three months ended March 31, 2022. Revenues are shown net of discounts and rebates.

A breakdown of revenue by geographic region is provided below:

€ thousands	3 months at March
	2022
Europe	11,197
Asia	3,815
Africa	63,910
America	12,804
Rest of the World	2,205
Total Revenue	**93,930**

Purchase of goods and changes in inventory (note 10)

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

€ thousands	3 months at March
	2022
Raw material	*46,579*
Finished goods	*29*
Other purchases	*1,443*
Purchase of raw materials, components and finished goods	48,051
Change in inventories of finished goods and semi-finished products	(4,609)
Change in inventories of raw materials and goods	7,413
Total Purchase of goods and change in inventory	**50,855**

Purchase of raw materials, consumables and goods and changes in inventories amount to €50,855 thousand as of March 31, 2022.

Net financial expenses (notes 11)

Financial income and expenses are detailed below:

€ thousands	3 months at March
	2022
Financial income (expenses)	**(7,964)**
- Financial Expenses on Banks Loans	(7,886)
- Other financing fees	(78)
Net exchange rate gain (losses)	**108**
- Profit on exchange rates	234
- Losses on exchange rates	(126)
Net financial expenses	**(7,856)**

Financial expenses

Throughout the periods presented, financial expenses refer to interests on Notes and on bank loans primarily entered into by the Company.

Gains and losses on exchange

These gains and losses have been calculated considering the exchange rate as the end date of each period.

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