



(Translation from the Italian original which remains the definitive version)

Annual Report

2021





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DIRECTORS' REPORT

DIRECTORS' REPORT

Key financial figures

€'000	31.12.2021	31.12.2020
Profit and loss statement		
Net revenues		
- products	544,164	478,130
- R&D services	17,912	14,477
Gross operating profit	81,448	80,055
Operating profit	16,710	24,339
Pre-tax profit	4,415	11,021
Profit for the year	10,566	17,923
Balance sheet		
Non-current assets	367,077	378,474
Current assets	445,597	362,650
Current liabilities	(234,428)	(190,481)
Operating net working capital	211,169	172,169
Non-current liabilities	(40,444)	(44,753)
Net invested capital	537,801	505,891
Net equity	248,978	238,018
Convertible bonds	51,925	51,554
Medium to long-term net financial position	211,718	232,302
Short-term net financial position (debt)	25,180	(15,984)
Net equity and net financial position	537,801	505,891
Financial indicators		
ROE (profit/net equity)	4.3%*	8.5%
ROI (operating profit/net invested capital)	2.0%*	3.2%
ROS (operating profit/net revenues)	3.0%*	4.9%
Gross operating profit/revenues	14.5%	16.1%
Net financial position/gross operating profit	2.91	2.70
Net financial position/net equity	0.95	0.91
Other information		
Capital expenditure	48,944	35,153
Employees at year end (no.)	1,920	1,849

* Net of the effect of the revaluation of assets at 31 December 2020 on depreciation, these estimated financial indicators would be: ROE 6.4%, ROI 4.1%, ROS 3.9%.

Company profile

F.I.S. – Fabbrica Italiana Sintetici S.p.A. is an Italian company specialised in the production of chemical products for the pharmaceutical industry. It has operated on the international markets since its incorporation in 1957. With over 60 years of experience, from its early pioneering days, FIS has cunningly interpreted the market and the industrial segment with intuitive strategies and innovative development decisions that have enabled it to become the leader it is today.

Its core businesses are:

- custom synthesis, or the exclusive production of intermediates, advanced intermediates and main active ingredients for pharmaceutical companies that own the patents;
- the market of generics, for which it develops and sells active ingredients such as tranquilisers, anxiolytics, antibacterials, anticonvulsants, anti-inflammatories, diuretics, analgesics and cardiovasculars;
- the veterinary market, be that for generic or custom products.

With the support of roughly 250 R&D experts, FIS also provides a series of integrated services that range from the optimisation of the synthesis process to large-scale commercial production.

F.I.S. – Fabbrica Italiana Sintetici S.p.A. has a global production capacity of more than 3,500 cubic metres and has approximately 1,850 employees, based in three production facilities in Italy:

- the Montecchio Maggiore (Veneto) production facility and head office, which is the company's historical base and houses the units engaged in research, development and production of active ingredients for pharmaceutical companies; it was accredited by the Italian Ministry for Health in 1958 and has undergone FDA (Food and Drug Administration) inspections since 1968;
- the Termoli (Molise) facility, which initially produced intermediates and now produces active ingredients as well; it is also certified by the Italian Ministry for Health and the FDA;
- the Lonigo (Veneto) facility, which was contributed to the company with its acquisition of the Zach System business unit, which produces active ingredients; like the other two facilities, it is certified by the Italian Ministry for Health and the FDA.

FIS is part of Nine Trees Group, the Ferrari family's holding company, which also owns Delmar (Canada), FIS North America (USA), PHF Finanziaria (Switzerland), Fulton (Italy), Anemocyte (Italy) and Brenta (Italy). FIS wholly owns FIS Japan (Japan).



Brand manifest

We work on the essence, we synthesise to create value. A way of being rather than a way of working. A vision built over time, generation after generation, a fusion of passion and expertise.

We are the expression of the environment that shaped us and that grows healthy with us in a mutual exchange that enriches and defines both.

Here we learnt to align elements that are in apparent conflict.

Silent but present. Agile but structured. Local but global. Large but small.

We do not just rely on the knowledge we inherited from our fathers, we preserve it and innovate upon it for our next generations.

Guard the future.

Positioning and values

FIS is a brand that levers its *modus operandi*, its attitude to work and focus on its surroundings. The cornerstones are top quality, safety and sustainability.

FIS has a holistic vision looking to improve the entire ecosystem, looking to the future without compromising its values.

FIS' mission is to develop and produce quality pharmaceutical active ingredients, which represent the essence of the curative properties, efficiently, with quality, safety, and in a sustainable and responsive manner.

FIS' values are business acumen, resourcefulness, leadership, integrity, responsibility, credibility, reliability, practicality, passion and humility.

The Brand's pillars

Responsiveness

The company's Italian roots can be seen in its responsiveness. The capacity and ability to adapt and, if necessary, to reinvent itself to meet the needs of customers and markets. An approach borne of the close-knit team and the company's size. This feature sets the company apart in its sector.

Stability

Governance is another of the company's distinguishing traits. A hands-on family that intends to safeguard and transmit continuity, stability and foresight. This approach has two advantages: externally, a long-term vision, unconstrained by the classic short to medium-term management rules imposed by the market, while internally, it leads to continuous investment in the company and its people, who are part of the family and are asked to share its values.

Proximity

The company understands that its excellence and growth go hand-in-hand with those of its people. Individuals that are encouraged to develop their full potential as part of their jobs. The company is very aware of the direct link between results and people. Therefore, it does not tie its growth solely to making profits but to developing the entire ecosystem and the local communities to continue and expand this virtuous circle.

Discretion

The awareness that results and reputation are achieved through constancy: a solid, sustainable and gradual journey which has brought the brand to where it is today. This business approach hinges on a discrete way of working, based more on substance than form.

Company bodies

Board of directors	
Chairman	Giampaolo FERRARI
Chief executive officer	Alberto FERRARI
Chief executive officer	Alessandro FERRARI
Chief executive officer	Michele GAVINO

Board of statutory auditors	
Chairman	Paolo NICOLAI
Standing statutory auditor	Gaetano TERRIN
Standing statutory auditor	Giuseppe MANNELLA

Supervisory body	
Chairwoman	Martina CARON
	Giulio PERDONCIN
	Maria CALZOLARI

Independent auditors	
	KPMG S.p.A.

Background

Developments in both the general situation and the company's reference market were positive this year and in line with the growth forecasts made in the company's business plan.

Due to its countercyclical nature, the pharmaceutical market was not spared the impacts of the Covid-19 pandemic again in 2021. As a whole, it is one of the few sectors that provide decisive support to the generation of GDP, playing an essential part in ensuring continued supplies of drugs, though in conditions of objective logistical difficulties raised by critical supply chain issues.

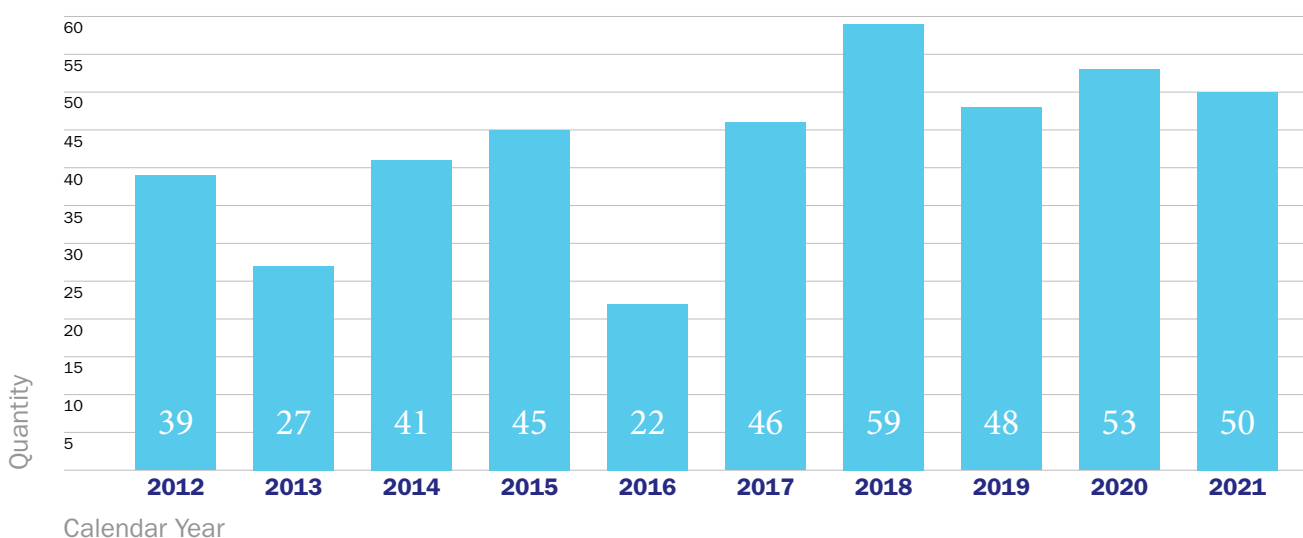
Considering this situation, FIS and its personnel undertook remarkable, constant production work, even developing the first commercial productions of three new products that are critical for the company's future growth. This effort meant the company could provide a significant contribution to customers and patients, also playing a key role in the production of one of the most important anti-viral drugs approved to treat Covid-19.

With restrictions still in place on the circulation of people and goods, the ongoing pandemic with its various waves of infection and the pressing need to cope with a profusion of medicines underlined the problem of strongly depending on the Chinese and Indian active ingredients production sector and the potential vulnerability of such sector. Governments have formulated various actions to implement policies aimed at mitigating these risks.

The European Commission shone a light on the issue by stressing the importance of a suitable resilience policy for the entire European drug supply chain, especially focusing on active ingredients and the need for continuity in supplies of the relevant raw materials and intermediates. This focus took different forms in the various member states (e.g., the National Recovery and Resilience Plans) which the company is naturally watching with interest.

Registrations of new **custom products** increased at a fast pace.

The FDA (Food and Drug Administration) approved 50 NCEs (new chemical entities) in 2021, compared to 53 in 2020, 48 in 2019 and 59 in 2018 (a record year), and also small molecules (66% of the total), with 33 new drugs out of 50 approved, continuing to be the most significant area (source: fda.gov).



Certain trends that had already been seen in previous years are confirmed: the development of new drugs is no longer the prerogative of the big multinationals and is increasingly often undertaken and successfully completed by the mid-sized or start-up companies. In 2021, over 50% of the new drugs approved were developed by non-big pharma.

On the other hand, the strategic reorganisation undertaken by many multinationals continues with a strong emphasis on outsourcing chemical development and production activities, which although being critical in terms of their management, are no longer considered to be a core business. What is no longer core for a big pharma can become core for a CDMO (contract development and manufacturing organisation) like FIS, as long as it has a suitable industrial structure, the skill-set and capacity.

The recent trend of increased specialisation and strategic focusing by pharmaceutical companies bucking the trend in previous decades continued in 2021, marked by numerous acquisitions and mergers. The reasoning behind this strategy is the need to concentrate investments and to increase innovation capacity in the specific business areas, recouping resources by disposing of business areas that are no longer considered core.

The **generic product** market continues its transition phase which has led to changes in the main players' competitiveness. The breadth and nature of the transition will need continuous monitoring to understand the various risks and opportunities.

The main generic market (the US) has felt the impact of relentless price pressure, forcing top players to reassess their strategies and positioning in an attempt to maintain their revenues and recover internal efficiency. By exporting to over 60 countries, the company's strategy continues to be growth-focused, always with an eye on its profitability levels including via tweaks to the business model where necessary.

The **animal healthcare** market's growth continued in 2021, leveraged by several factors including the supply chain's restructuring to ensure suitable quality and continuity guarantees, the increasingly strict regulatory and quality requirements, a larger pipeline and the molecules' relative complexity.

Certain risk factors prevail in this market. They include the hot issue of the fragility of the drug supply chain, which is dependent on certain Far East regions for supplies of materials, together with reshoring actions aimed at gradually returning drug production back to the region or even the country of origin.

Outsourcing, which has triggered strong growth in the CDMO market in recent years, is tied to the implementation of pharmaceutical companies' restructuring policies. By its nature, it cannot be considered a permanent growth driver.

Performance

The ongoing pandemic continued to hold sway over daily operations in 2021.

The company never ceased to closely monitor and manage the public health emergency, continuing the activities set out and constantly updated in company protocols, focused mostly on ensuring production continuity while prioritising the health and safety of workers.

The main repercussion of the enduring pandemic situation was undoubtedly critical supply chain issues, in terms of both shortages in some supplies and surging procurement costs.

The company's well-established relationships with the sector's leading players, especially in custom synthesis, helped it tackle these two problems. With regard to procurement, in agreement with its customers and often with their support, in many cases the company was

able to deal with shortages by gradually, though not yet completely, diversifying its suppliers, always in agreement with the affected customers. Though without fully eliminating the impact on production capacity, the company managed to contain it thanks to the emergency stock built up for key building blocks. FIS purchased the key raw materials for its production process, often in advance, to ensure its customers' business continuity, especially in the second half of the year.

The impact of rising raw materials and supplies prices on production costs became increasingly more evident starting from September. As well as diversifying suppliers as mentioned above, the company began to share such increases with its customers and pass-through the higher costs, thereby maintaining a level of profitability in line with the forecasts updated during the year. During the year, FIS advanced and reinforced its der-

isking process, aimed at expanding its products and therapeutic categories to develop its business. Specifically, it rolled out commercial production of three important products which will be the backbone of the company's future growth.

Set in motion in previous years, these actions led to a considerable rise in the company's turnover, with sales of products and R&D services up 14% on the previous year, underlining FIS' well-known ability to grow in the face of adversity.

The company hired roughly 70 people during the year (equal to an approximate 4% increase in its workforce) in order to support current and future production capacity growth.

During the year, the company also focused on cutting overheads along with optimising its working capital. Both these measures were essential to generate cash and achieve the year's financial targets. The company's free cash flow was enough to cover requirements related to investment plans and repaying the two principal instalments and interest on bank debt as renegotiated in 2019.

At both 30 June and 31 December 2021, the company complied with the covenants agreed during the debt restructuring negotiations in 2019.

Finally, one of the key processes developed during the year was the company's business plan which top management began working hard on in early 2021. The pivotal point in this process was the approval of the 2022-2026 business plan by the company's and parent's boards of directors at the end of September. The plan sets out the company's strategic directions for the next five years, also outlining the actions and projects needed to support them.

The business plan's strategic weight, along with the confirmed and reinforced focus on the ongoing development of company growth in terms of business volume, backed by a strong push on organic growth, led to a review of how sources of funds are balanced in order to support the plan.

In this regard, the company, along with its financial and legal advisors, began evaluating the most suitable form of funding for its plans in September. It decided on sustainability-linked bonds, which would refinance the company's bank and non-bank financial debt at the reporting date.

These bonds were deemed the best type of funding to suit the company's planned growth strategies as they are bullet bonds that strongly engage in identifying a sustainability framework and relevant monitoring KPIs. The process to define and issue these bonds is still under way at the reporting date. The results are detailed in the "Outlook" section of this report and in the notes to the financial statements.



Marketing & Sales

The global contract development and manufacturing business grew considerably from USD177 billion in 2020 to roughly USD202 billion in 2021, confirming it as a profitable, stable business that is still in bloom. Active ingredient manufacturers account for 66% of turnover.

By strengthening its partnership relationships, diversifying its portfolio and strongly penetrating the market, the company recorded new growth in its **custom business** in 2021, despite the pandemic which damaged even the company's sector. Growth was possible thanks to the company's efforts to honour supply contracts, finding solutions to the shortage of raw materials and reagents and one-off logistics problems.

Growth was recorded in both established products, which showed a positive trend, and pipeline products, for which preparatory work (R&D services) performed extremely well. Indeed, FIS proved itself a perfect partner for rapid registering processes given the growing demand on the advanced technology and complex molecules market, as well as the need for quick turnaround times and flexibility.

The company continued its commercial strategy to strengthen and expand partnerships with strategic customers in 2021, enabling it to acquire new projects in commercial and clinical stages.

FIS also strove to balance its customer portfolio by promoting and reinforcing collaborations with new customers, in order to diversify its portfolio and reduce its dependence on its main customers (derisking). It sought out new customers in a targeted manner, choosing those with the best development potential and product portfolios that match the company's technologies, experience, know-how and production capacity.

The company acquired 27 new projects in 2021 from companies with different profiles, ranging from large pharmaceutical multinationals to small European, US and Japanese start-ups, thus confirming the derisking process described above.

These projects, which entail pilot and/or commercial production activities, are expected to boost product portfolio growth in 2022-2026.

The pipeline of new products mainly comprises active ingredients for treating cancer and disorders of the nervous system, with FIS leading the market for the latter.

With respect to the **generic product** segment, FIS is focused on reinforcing its pipeline of main products, enhancing its production processes and bolstering its supply chain to boost its competitive edge on the market. It also rolled out a process to critically assess its pipeline to better place high-profit products and implement an exit strategy for low-profit products.

In this respect, the inter-departmental new generics launching unit (NGLU), which reports to the marketing, sales & business development department, represents a distinctive organisational model for focusing the scope and integrated level of expertise. Its mission is to introduce new generic products and support the commercial development of the existing product portfolio. The latter also plays a significant role in growing generic products via a market targeting and segmentation strategy and actions for customers with high potential.

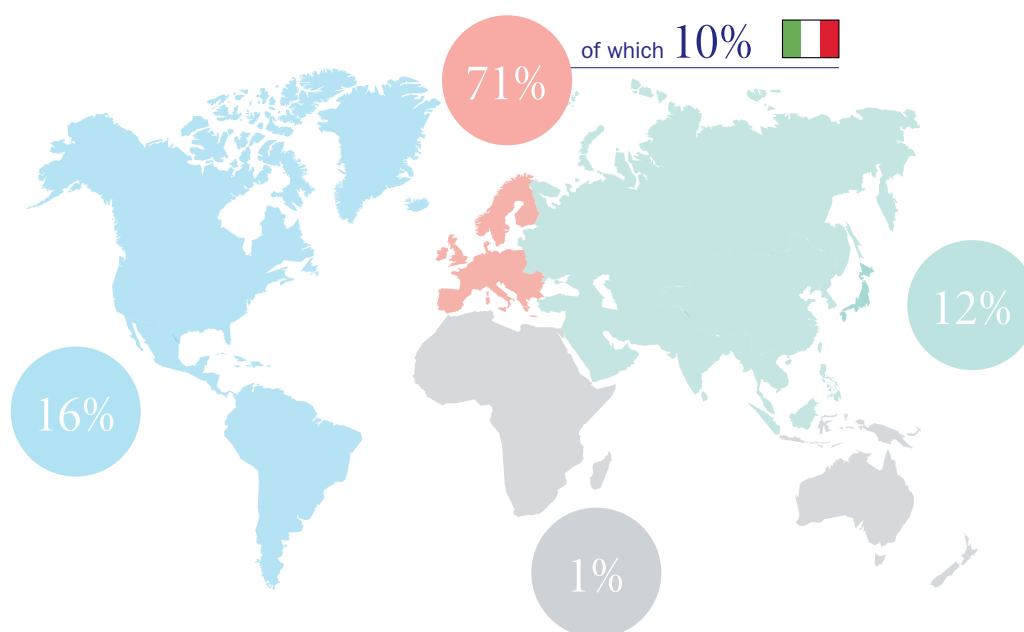
Though the pandemic had a negative impact on sales volumes of certain generic products in 2020/2021, recording a downswing in specific therapeutic categories such as ophthalmic products, flu treatments or products used in surgery, it led to an upswing in all products used in treating patients hospitalised with Covid-19.

FIS became a global leader in producing the latter products, even collaborating with national governments along with the top international pharmaceutical companies fighting the emergency.

FIS continued to tackle the **animal healthcare** business with a start-up mentality and unique approach for the European CDMO sector. This market did not undergo any downturn globally due to the Covid-19 pandemic. Specifically, it grew with an average CAGR of 6-7% per year overall and is broken down into products for companion animals (approximately 40% of the sector, with higher growth rates, though geographically concentrated, and higher profit margins for manufacturers) and products for livestock animals (roughly 60% of the sector, more reduced growth rates but more widespread geographically, lower profit margins for manufacturers and focus on cost management). Manufacturers of animal healthcare active pharmaceutical ingredients (APIs) recorded an even higher growth rate (7-8% per year).

Growing regulatory pressure, the spotlight on product safety and growing focus on production sustainability and correct use of animal healthcare products have created a particularly favourable environment for a CDMO like FIS which can provide an integrated offer and unique, cutting-edge R&D know-how that fully comply with good manufacturing practice (GMP), right from the initial development phases of an API through to its scale-up and launch on the market.

Leveraged by its well-established customer relations, dedicated animal healthcare production structure and technical and commercial know-how of the sector, FIS has recorded a constant growth rate over the past three years, thanks to the acquisition and gradual completion of important projects with many of the sector's top 20 global players.





Production

Budget production targets were largely reached in 2021, regarding both products already on the market and newly-launched products.

Due to some delays, mostly a result of supply issues generated by the ongoing pandemic, the only product that did not fully reach its sales targets was a new product being launched at the Termoli facility. This, however, does not impair production and sales plans for 2022.

Employment rates at the plants increased significantly, especially at the Montecchio Maggiore facility. Termoli's Unit A also recorded high saturation rates, while the new Unit B stepped up equipment usage, mostly for the commercial roll-out of a new product. Finally, there was a considerable lull in activities at the Lonigo facility due to falling demand for certain generic products as a result of Covid-19.

The Termoli facility adhered to its production workforce growth plan regarding the various production units and focused on gradually boosting production at Unit B, mainly to take on new productions for certain big pharma companies. Conversely, personnel numbers at the Lonigo facility remained more or less unchanged due to the above-mentioned production slowdown. Finally, the Montecchio Maggiore facility solely made some *ad hoc* additions to complete and integrate its production workforce.

The quality and quantity of main productions met expectations. There were just some issues, that were duly resolved, for certain generic products (nitrofurantoin, indometacin, phloroglucinol) largely linked to problems with chemical processes developed in the past.

Significant difficulties arose throughout the year regarding raw materials supplies as a result of pressures on supply processes caused by the enduring pandemic situation. Sourcing a key raw material for one company product on the Chinese market proved particularly complex. In order to mitigate the risk and swiftly react to the supply shortage, the company decided to in-source production of the raw material pending approval of additional suppliers.

The production planning process was put under a lot of strain, with the above-mentioned procurement issues and copious demand adjustments by customers, also caused by inefficiencies generated by Covid-19.

The Montecchio Maggiore facility still needs to work explicitly on debottlenecking its production processes. Indeed, the plant saturation rate is still very high despite new large-scale processings being transferred to the Termoli facility, as the new small to medium-sized productions are still pending development at Montecchio due to technology shortages. Some of the investments planned for 2022 will be earmarked to debottlenecking these processes.

Finally, the Lonigo facility is continuing its work on fixing certain technical issues with a view to gradually amplify production of animal healthcare products.

Multiple new products completed the validation process during the year, including six new customer products and three new animal healthcare products.



Research and Development

The R&D unit is fundamental to the company's ongoing growth and to assist customers with their development projects and to optimise processes. Over the years, FIS has invested in developing this unit and it now has around 240 researchers, grouped into numerous teams that work on diverse projects at different stages of the products' life (phase 1, 2 and 3 clinical trials and commercial phases). The unit is one of the company's strengths and places it among the top European operators in terms of its R&D project management capacity. The unit was extremely busy during the year. It fine-tuned the ongoing organisational projects designed to improve efficiency and effectiveness during the project implementation phases. R&D activities continued in 2021 throughout the Covid-19 pandemic. The public health emergency had a considerably lower impact compared to 2020 in terms of employee absences and did not stop the company's revenue and delivery targets being met. Revenue from custom project services outperformed the target by 32%. This was possible by maximising the use of resources and managing implementation times, thus maintaining sales margins. Another factor was the partial adoption of an R&D services business model that was rolled out during the year. It is based on monthly invoicing (FTE-based) rather than milestone payments. This result is constantly monitored in the sales & operations planning (S&OP) cycle via the flagging and reporting system, interfaced with the project cost and revenue management system.

The acquisition of projects that apply flow chemistry was cemented further in 2021. This specific activity to develop flow processes is garnering increased interest from some of the company's key customers. Industrial applications in this regard have already been implemented in recent years and two new applications will be introduced on new major products with one of the company's key customers in 2021-2022.

The R&D unit continued developing some new strategic anti-Covid-19 products during the year, especially certain anti-viral drugs with two of the company's key customers.

The operations of the new products analytical unit, which reports to the R&D unit as well as to the quality & compliance unit, were strengthened during the year. Following the AIFA (the Italian Medicines Agency) authorisations obtained in July 2020, this unit was subject to an AIFA inspection at the end of October 2021 which it passed.

Finally, the company continued its specific actions on key suppliers in 2021. Specifically, it is currently vetting an Indian supplier for the commercial production of an important intermediary for a custom active ingredient. The company has already successfully used such supplier to prepare some regulatory intermediaries for new products.



The project management unit is made up of ten professionals who play a role of critical importance to the company. The project managers ensure that the multi-departmental teams achieve their projects on time, within the budget for costs and resources and in line with the end product objectives and quality. They manage projects for both custom and generic products which span different stages of the products' life: from the initial research, development and new process optimisation stages and the initial industrial production up to the testing of the new process and its approval by the competent regulators for subsequent commercial production.

During the year, this unit was very busy managing 45 projects, including 23 for which initial industrial production has been completed or the process has been approved (13) with the subsequent AIFA authorisation to deliver to customers. A total of 23 tonnes of products were delivered in 2021, with 23 new custom and veterinary product projects launched to continue into 2022.

The project management unit was also involved in completing the implementation of the sales & operations planning (S&OP) process with its formal monthly reviews. With the support of other company units, it oversaw the drafting of the procedures for such monthly reviews, an activity that was completed during the year. Pegged as a fundamental company process, the S&OP process helps the company align its strategy and daily activities, fostering collaboration between sales & marketing and operations in a broad sense (for supplies) and defining a shared production plan. The guidelines will enable the operating scheduling to remain in line with the budget, supply chain capacity, demand, sales targets and other specific variables of the individual units. The S&OP processes will span all of these areas, connecting them to one another, and will require the participation of people working in production, sales, marketing, procurement, logistics, administration and financial management.



Logistics and procurement

Dominated by uncertainty stemming from waves of Covid-19 infection resulting in temporary shutdowns and/or production slowdowns at some supplier facilities, 2021 saw product shortages and sharp price fluctuations, especially for raw materials and solvents.

The price hikes affecting FIS were chiefly driven by surging demand for basic raw materials on the markets and extenuating circumstances faced by manufacturers in the US, Europe and China. In addition, price trends were also impacted by two new environmental laws that came into effect in China. The Yangtze River Protection Law prohibits the transport of a range of highly toxic and harmful chemical products along the Yangtze river basin, while the China Dual Control System Law sets limits to CO₂ emissions per unit of GDP for Chinese provinces. Moreover, these are added to the effects of the “green revolution”, also seen in 2020, which saw local authorities temporarily and/or definitively close down numerous Chinese companies as they did not meet safety and environmental standards.

As well as the above factors, the restrictions still in place to tackle the pandemic also had a detrimental effect on relationships with existing suppliers, as the company was unable to visit their facilities. This also hindered the possibility of finding alternatives that could support the supply chain and ensure continuity.

Overall, 2021 can be summarised in the following key words:

- *uncertainty* about the availability of raw materials, in terms of both quantity and average procurement times. As a result, the supply chain was, and continues to be, obstructed by severe critical issues regarding prices and availability for both air and sea (increased cases of blank sailing and port congestion) charters.
- *severe price volatility* linked to demand outweighing supply on average for many intermediates and base chemical products; this created, and continues to create, complications in negotiating raw materials prices for the medium to long term (over three months);
- *electricity and natural gas* prices for 2021 which had already been set in 2020, confirming the prices estimated in the budget. Prices surged in the second half of 2021, mostly due to signs of a post-Covid global upswing and other contingent factors, such as CO₂ quota trends, the fall in stock levels that had amassed over the peak pandemic months, geopolitical factors and expected production inefficiencies from renewable sources;
- *derisking* actions rolled out by the company during the year. These aim to identify alternative suppliers to support the company’s expected production growth and mitigate the risk of shortages.



Quality (QA, QC) and regulatory affairs (RA)

The Covid-19 emergency caused interruptions in QC activities in 2021, slowing down in the first half of the year and then gradually picking up again in the second half. This was particularly critical at the Montecchio Maggiore and Termoli facilities. The situation required more flexibility in allocating personnel to various activities or, at times, led to the postponement of activities. The company passed some quality inspections during the year. The Montecchio Maggiore and Termoli facilities successfully passed the Certiquality audit for the renewal of the ISO 9001 certification in May. AIFA inspections were carried out at the Termoli and Montecchio Maggiore facilities to renew GMP certification in September and October. Specifically, the inspection at Montecchio Maggiore focused on the sterile unit and certain other units (warehouse, Unit G and laboratories). The inspectors informed the facility of a follow-up inspection, probably in 2022.

The testing and release of commercial lots sped up during the year. Overall, releases increased at Montecchio Maggiore (+11%) and Termoli (+39%), while they fell at Lonigo (-13.7%). As with production, this decrease at Lonigo is due to the ongoing pandemic. The surge in testing and release at Montecchio Maggiore and Termoli led to a considerable saturation of the relevant warehouses in the second half of the year, as well as higher usage of resources.

The emergency situation afflicting the raw materials market also caused a wave of new suppliers vetting (+150%) and verifications of performance (+50%). The company consulted closely with its main custom product customers in these processes.

The company recorded considerable improvement in qualitative KPIs, spread over all indicators except for corrective and preventive actions (CAPA) on time. In addition, there was significant progress in the number of lots released on schedule and a better ratio of complaints to deliveries. Certain critical issues remain, such as the number of complaints about packaging. Regulatory affairs remained in line with 2020, with a higher number of claims. AIFA's review and approval times slowed down in the second half of the year due to personnel shortages and the agency prioritising the backlog of GMP inspections suspended starting from early 2020 because of Covid-19.

Health, safety and the environment

Ensuring safe operations, safeguarding employee health and safety and protecting the environment are key to FIS' economic-financial, social and environmental sustainability. As a result, risk prevention and management are vital for implementing such policies.

Though the Covid-19 pandemic rages on, the health safety and the environment (HSE) unit never ceased tackling the challenges linked to ordinary and extraordinary activities in compliance with ruling legislation and to meet the requests of internal and external stakeholders.

The following tables summarise changes in the key injury rates:

Montecchio Maggiore facility	31.12.2021	31.12.2020	31.12.2019
Injuries (no.)	13	9	17
Injury rate	7.1	4.8	9.0
Severity rate	0.23	0.16	0.17
Termoli facility	31.12.2021	31.12.2020	31.12.2019
Injuries (no.)	6	6	12
Injury rate	12.4	9.8	36.7
Severity rate	0.26	0.21	0.63
Lonigo facility	31.12.2021	31.12.2020	31.12.2019
Injuries (no.)	3	2	4
Injury rate	5.7	3.8	7.3
Severity rate	0.07	0.16	0.17

For internal purposes, incidents with sick leave of more than three days are considered to be injuries. Most of the injuries did not involve the use of chemical substances.

FIS had a good year with regard to injury rates, despite the slight increase on 2020. Though the company continued its plant engineering interventions and training and targeted actions to constantly raise safety awareness, there was an increase in injuries as a result of more hours worked compared to 2020, a year more profoundly impacted by production slowdowns due to Covid-19.

In compliance with ruling legislation, the company continued to update its **risk assessment** process during the year at all three facilities, issuing 45 new documents.

With regard to managing "**risks of significant accidents**" (as per Legislative decree no. 105/2015, the "Seveso" decree), FIS maintains its precise systematic assessment of instances of "no increase in risk" in

newly introduced or modified synthesis processes and the installation/roll-out of new equipment and/or units at the three facilities.

Environmental protection is a core issue in the company's sustainable development strategy for its local area. Also in order to comply with the requirements of the integrated environmental authorisations (AIA) obtained to date, the company has launched assorted actions to improve its environmental performance, especially with respect to the control of fugitive emissions of volatile organic compounds (LDAR) and monitoring API and fluorinated (PFAS) content in the water.

With reference to AIA requirements regarding LDAR of volatile organic compounds, the annual check was carried out at the Montecchio facility in the second half of the year, with emissions falling below the threshold. The Lonigo facility obtained the AIA (chemical and incinerator) no. 15/2021 during the year, rolling out an upgrade plan for the management and plant engineering work necessary to meet requirements. This

includes an LDAR of fugitive emissions, scheduled for the first quarter of 2022.

As every year, 2021 saw the inspection/renewal of **environmental protection system and health and safety system** certification (ISO 14001 Environmental management and ISO 45001 Occupational health and safety).

The systems were inspected by the certification body Certiquality.

The company does not have any pending disputes with health and safety regulators.



Facilities and projects

2021 saw FIS, and specifically the Termoli facility, rolling out certain new key productions after developing products acquired in previous years. The expected production volumes will be reached in early 2022, gradually saturating the new Unit B. These productions will significantly expand FIS' overall production scope for the next few years.

Operations at the three facilities were hampered by delayed arrivals in raw materials in the first half of the year. This was due to the closure of some sites in China, following new regulations brought in to restrict emissions of pollutants, and some one-off events, such as an explosion at a chemical product facility in Germany and a polar storm in Texas. These issues abated in the second half of the year, allowing production to return to normal and, in some cases, make up for some of the delays accumulated.

The Lonigo facility recorded a dip in demand for the products it makes in high volumes and also an active ingredient of the "respiratory" segment, as there were very few cases of the flu during the year due to the widespread use of masks and devices to fight the spread of Covid-19.

Despite the third wave of the pandemic in early 2021, vigilance over compliance with the Covid-safe protocol prevented any clusters at the company, avoiding health issues for workers and enabling full-scale operations at the facilities. Only Termoli saw a significantly higher than average rate of absenteeism and only in the first quarter. In the fight against Covid-19, the committees in charge of applying the Covid-safe protocol met regularly throughout the year.

The injury frequency rate at Lonigo and Montecchio increased in 2021. It dropped considerably at Termoli in the first half of the year and then climbed back up in the second half, in any case improving on 2020 overall. The severity rate at Montecchio rose compared to 2020 and fell at Lonigo, especially in the second half of the year. Termoli recorded a net improvement in severity rate in the first six months. Though it rose again in the second half, the rate closed the year better than it began.

In addition to the safety inspections performed by the HSE unit, the industrial operations unit coordinated safety audits by external experts at all three facilities in June and July. These covered electrical hazard, work

at height and confined spaces. Based on the results, which showed a high level of compliance, the company fine-tuned action plans aimed at improving management of the above aspects in order to continue surveillance of principal HSE issues.

Traces of a micro-pollutant were found by ARPAV (the Agency for Environmental Prevention and Protection of Veneto) at some monitor wells at Montecchio. The company took immediate action, diverting flows of the contaminated product from the biological plant to the incinerator and installing a sturdy activated carbon filter at the outlet of the biological plant to prevent any spillage into the public drainage system.

Though the company incurred costs to manage the Covid-safe protocol and higher extra incineration costs due to some waste water previously treated by the biological plant being diverted to the waste to energy plant, the total of the three facilities' main cost items remained in line with or under budget. This is partly due to the production output underperforming as a result of the exceptional circumstances mentioned above.

The pace of work was subdued at all three facilities in January and February due to the above-mentioned issues, but bounced back to good absorption levels at Termoli and exceptionally high levels at Montecchio for most of the year. The slump in demand meant a slower production pace at Lonigo towards the end of the year. A heftier plan to use up accrued untaken holidays was put into effect to dampen these effects.

The company's implementation capacity regarding plant engineering was boosted by new hires and significantly reduced negative impacts due to the pandemic compared to 2020. This meant that more regular and efficient plant upgrades were possible, with total expenses just exceeding €45 million against roughly €35 million in 2020.

With regard to technological innovation, the company drafted a substantial action plan in early 2021 and began implementing some of the initiatives during the year.

After Lonigo and Termoli, Montecchio also replaced the obsolete inventory management system Cube with the new WMS (Warehouse Management System) between late December 2021 and early January 2022.

Finally, the former manager of the Termoli facility, Mr. Tomio, took the reins at the Montecchio facility in the last quarter of the year following Mr. Maci's retirement. He was replaced at the Termoli facility by Mr. Marinucci who came from a similar role at another API development and production company.

Montecchio Maggiore

The facility ended 2021 with worse injury rates than 2020 following an exceptional number of injuries, mostly regarding lifting loads and slips/trips/falls. The rising number of injuries and the falling number of safe-

ty observations are addressed in the 2022 action plan under the "behavioural safety" objective.

Though it began sluggishly due to procurement delays for certain raw materials, the production schedule picked up rapidly for the rest of the first six months, even requiring some units to adopt the special 5 days on, 1 day off shift schedule, leading to record weekly batch numbers. As a result, elevated absorption rates were recorded some weeks during the second quarter. An extremely high 96% of the production schedule was met in the first half of the year.

The pace dropped in the second half of the year, though labour absorption remained high and machinery absorption was closer to normal.

As in 2020, there was a critical shortage of suitable and sufficient warehouse space. The facility is currently taking action to both reduce stock levels, and thus the demand for space, and find internal solutions, including by coordinating with the warehouses at the other facilities or third parties, to boost storage capacity. The facility underwent important inspections by regulatory and certification bodies in 2021, passing with full marks or with manageable irregularities/recommendations. These included the follow-up ISO 9001 audit, AIFA's GMP inspection, the inspection for the renewal of ISO 45001 certification and the ISO 14001 certificate inspection.

The inspection as per Legislative decree no. 105/15 (mandatory safety management system for companies at risk of major accidents) and the inspection for the 2021 safety report as per article 15 of Legislative decree no. 105/15 were still under way at 31 December 2021 by multidisciplinary ministerial commissions (VVF – the National Fire Service, ARPAV, INAIL – the National Institute for Insurance against Accidents at Work).

In collaboration with the on-site technical services unit, the facility rolled out projects to improve production continuity by installing suitable back-up systems, such as the new refrigerator unit, the new electricity substation and the new compressed air system.

All of the facility's cost items were below budget, thanks to both careful cost-containing actions and lower overall production output.

Finally, the facility installed various items of equipment during the year, especially at Unit H and the pilot unit. It modified and adjusted plant for the numerous new product processes at the facility, specifically upgrading an intermediary synthesis line for a custom product (carbamic acid). The second step for the virtualisation of the DeltaV system was also completed.

Lonigo

The facility's injury rates were good in 2021, especially in the second half of the year with the last quarter recording zero injuries.

Operations at Lonigo were held up during the year due to difficulties in procuring certain raw materials and the dip in demand for some established products that have historically recorded steady sales volumes.

Raw materials procurement issues, especially in the first six months, led to an exceptional amount of production rescheduling which, in some cases, led to consignment delays.

The fall in demand led to a slight under-absorption of labour, which was maintained at an acceptable level of around 85%, however, by putting into effect a heftier plan to use up accrued untaken holidays and transferring workers to support other FIS facilities.

In the end, around 95% of the production schedule was met. The “on time in full” (OTIF) service KPI always remained above target, as did the quality KPIs (customer complaints and rejected lots).

With respect to synergy between facilities, the process to obtain the new AIA (chemical and incinerator) was completed at the end of the year. This means that, from 2022, Lonigo will be able to receive and incinerate certain specific waste from Montecchio and Termoli that would otherwise be disposed of externally, thus cutting ecological costs and improving environmental sustainability KPIs.

The regulatory bodies included provisions in the new authorisation which, in some cases, will require significant work over the coming years and the need for considerable investment.

The facility obtained authorisations for the first two new veterinary products for the new Unit 3C and began production of two intermediaries used by the Montecchio facility.

The facility's costs fell roughly 9% below budget.

Finally, the facility completed and rolled out the pilot line for veterinary APIs and completed some equipment used for synthesis in the same segment. It also installed two pressure filters at Unit 3B and upgraded some equipment and lines for new products.

With respect to service plant, it installed a new refrigerator unit for the HVAC plant and completed the virtualisation of the DeltaV system.

Termoli

The facility ended 2021 with better injury rates than 2020. However, due to the six injuries occurred during the year, health and safety surveillance will be intensified with the upgrading of the actions already in place (i.e., the STOP programme).

Important new products developed in previous years were introduced and rolled out into production at Termoli in 2021, mainly at the newly-built Unit B.

As a result, the first half of the year was dominated by the implementation of these new products, which was not always smooth, with the completion of the authorisation phase and the performance of the initial

commercial phases. The second half of the year was focused on establishing these new processes, again with some glitches and difficulties, though without compromising the year-end results.

With respect to established products, there were some significant disruptions in the early part of the year, especially due to raw material procurement issues and, in one case, due to quality issues. However, production became more regular in the second half of the year, thanks to restored continuity in raw material supplies and resolved quality issues via tweaks to certain operating practices. This improvement meant the OTIF KPI was over 80% on-time and 100% in-full in the last quarter of the year.

This production expansion exacerbated the need to change how chemical products are stored and warehouse spaces are managed. The facility implemented actions to streamline flows and stocks, pending the availability of a new automated warehouse currently being completed and scheduled to become operational in the second half of 2022. In the meantime, it also began using a third-party warehouse in San Salvo.

A new production manager took over Unit B during the year. The facility continued to increase its workforce in the second half of the year and, accordingly, upgraded the spaces and services provided to personnel, such as changing rooms, the canteen and parking, with new installations.

To match its expansion, the facility will continue to carry out structural works and build its workforce, in terms of both numbers and skills, by hiring qualified personnel and providing targeted training programmes.

The facility's costs were more or less in line with the budget (-2%).

The facility's most significant plant works included: fitting out new finishing rooms for Unit B, including a second dryer for a new product; setting up two cryogenic reactors for a new process; installing and rolling out our new equipment at Unit B (two dryer filters, nine reactors and two loading boxes); rolling out the new quality control laboratory area to support the increased production capacity; completing work on the “anoxia” project; and upgrading the power unit.

With regard to the renewal of the AIA, the facility is still waiting to hear back from the last local authorities planning conference which was held back in July 2020. AIFA carried out its scheduled inspection in September, finding a series of corrective actions which are currently under scrutiny by the authority.

Finally, the facility's safety management system was inspected by the regional technical committee (CTR). The final report included one requirement and 12 recommendations. The facility immediately acted to comply with the requirement and sent the committee its schedule for implementing the recommendations.



Labour relations

Maintaining labour relations was key in 2021, with particular focus on the effects that the ongoing national state of emergency imposed to tackle the Covid-19 pandemic is having on such relations.

In addition to the customary talks between company management and the union representatives of the three facilities, additional discussions and negotiations were held to deal with exceptional issues, regarding the application of the Covid-safe protocol to curb contagion and making plans for the “new normal” after the pandemic.

Towards the end of the first half of the year and the start of the second half, the company focused on the renewal of the second-level employment contract.

Specifically, the company agreed measures for the payment of the collective remuneration, defining a process to establish how production bonuses are assigned, for 2021 and future years, based on continuing compliance with covenants.

An “interim agreement” for 2021 was signed with the union representatives of the three facilities, while endeavouring to reach a new second-level employment contract for 2022-2023. This interim agreement maintained the same method for assigning **production bonuses** and updated the relevant targets, parameters and terms, including meeting June and December covenants. The following were revised:

- **income support provision:** suspension confirmed, until a possible reassessment of the conditions required to activate the provision;
- **maternity support:** extended to include Termoli. Unlike in previous years, only days actually worked will be calculated for the purposes of production bonuses, thus excluding days on mandatory or optional maternity leave;
- **first-time buyer mortgages:** eliminated as of 2021. Applications regarding 2020 and not yet paid out (4/5 requests) will be granted;
- **corrective maintenance, reprocessing and lean bonuses** (worker’s portion): eliminated as of 2021.

A round of important negotiations was held in the second half of the year to discuss the platform for renewing the second-level employment contract for 2022-2023. The company made accommodations to begin discussions in coordination with the union representatives of the three facilities.

The observatory, provided for by the ruling second-level employment contract, played an important role in the negotiations with the trade unions, especially given the critical issues under discussion.

These discussions and negotiations led to the joint analysis of the most important issues affecting the entire company, and its overall performance.



Human Resources

As the public health emergency triggered by the Covid-19 pandemic dragged on throughout the year, all HR personnel continued to constantly monitor and safeguard employee health and safety. The contact tracing process was upheld and standardised to map any cases of infection on a daily basis. Regular reports were sent to employees to update them on any positive cases and constantly remind them of proper conduct as set out in the company's Covid-safe protocol.

Thanks to preventative measures and the Covid-safe protocol, there were no clusters of infection at any company facilities in 2021. There were some isolated positive cases among employees, but infection proved to occur outside the company.

Employees continued to work from home, ensuring low numbers of personnel at facilities in compliance with company protocols and government measures.

The HR unit applied and implemented the actions set out in the merit-based promotion plan. Following a detailed analysis of the annual people reviews, the principles of equality and merit were applied, in line with a payroll model that considers both the internal structure and relevant labour market data.

With regard to personnel development, the company continued to map potential in 2021 in order to best place resources within either the production and specialist units and in managerial positions. Following this mapping, the company defined a development plan suited to the resources involved, to support their skills and help them grow personally and professionally. A set of skills was defined for certain critical cross-unit functions, such as the quality assurance and quality control unit, compiling specific training modules for developing basis functional and operational know-how.

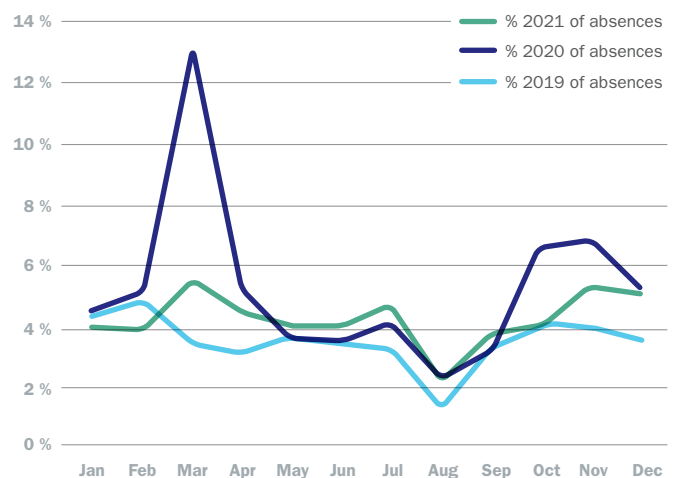
Headcount and personnel expenses

The headcount was 1,920 at 31 December 2021, up on the previous year end (1,849). Actual figures matched the budget. In order to ensure production and logistics continuity, the company gradually and logically hired temporary workers – suitably trained in safety and quality issues and GMP, health and safety and production process regulations – thus preventing any peaks of absenteeism during the waves of the pandemic.

Due to the fresh waves of Covid-19, leading to high levels of absenteeism due to sickness and preventative quarantine and extensive working from home, the target of using up roughly 30% of residual untaken holidays was not met. However, there was a steady improvement in the last few months of the year, especially with the company closing early for Christmas holidays.

The impact of overtime on personnel expenses peaked solely in May and June, when the modified shift schedule was introduced (5 days on, 1 day off).

Absenteeism 2019-2021



The above graph shows absenteeism trends in 2021 compared with the two previous years. The lines and peaks coincide with the waves of the pandemic, even more evident looking at 2020. Though the public health emergency was still fully under way in 2021, the rate is more controlled, though higher than 2019 which represents a “normal” year. The upwards curve in December 2021, which leaps up in January 2022, is similar to the peak recorded in March 2020.

Employee turnover

The departure rate was 4.81% in 2021, higher than 2020 (3.84%), though that year was affected by the widespread uncertainty during by the pandemic. The 2021 rate is in line with 2018 and 2019 however.

In any case, the 2021 departure rate was more than offset by the new hire rate of 7.19%, partly due to the talent acquisition process. Indeed, the personnel recruitment process continued to use the set of tests implemented in 2020 to improve the talent screening and assessment phase. A more structured and sophisticated platform was designed in the last quarter to develop this crucial area for the company in terms of both talent attraction and talent retention. This set of specifically calibrated and fine-tuned tools will be implemented in 2022.

Training

In order speed up transition to the “new normal” phase of living with Covid-19 and preparing for the post-pandemic phase, the company spent the first two months of the year compiling all the training requirements needed to maintain core competency and put the business plan into effect and then provided the relevant training. It used the individual results and results grouped by similar categories emerged from the personnel reviews to design and plan training in line with expectations.

Training activities continued despite the obstacles imposed by social distancing and restrictions to in-person training/hands-on activities. Indeed, personnel managed to obtain licences and certificates (forklifts, first aid, etc.) and new appointments were made (persons in charge, toxic gases). Training new employees as set out in the company’s induction plan remained top priority. Technical training was also provided to personnel where refresher courses and specific training courses were available via synchronous distance learning.

Despite social distancing rules imposed due to Covid-19, training was duly provided thanks to the launch of the Insegna training platform, developing and refreshing individual and team skills as required. In addition to technical training programmes, the company focused on providing refresher courses on health, safety and the environment regarding licences and certificates, as well as training required by law.

The new training platform Insegna went live during the year, marking an organisational and cultural turning point for the company. The platform provides for synchronous (e.g., webinars) and asynchronous (e.g., e-learning) distance learning, allowing all training to be recorded, including in-person training, cutting paper usage by 90% (residual usage in the event of disaster recovery). Once the platform had been installed, the company’s academy trained the key users and trainers at the three facilities on how to correctly use the tool. As is customary, 2021 honed in on providing ongoing support to personnel skills and know-how, constantly upskilling employees as required at a highly technological and innovative company like FIS. Training on health, safety and the environment and training on quality are provided constantly on a rolling basis throughout the year (i.e., training under the State-Regions agreement, as per Legislative decree no. 105/15, GMP). Refresher and upskilling courses on specific tool usage and training for specific licences were next on the list of priorities. In line with business paths and company developments, numerous development programmes took place regarding chemical-technical hard skills (e.g., flow chemistry), finance (updates on accounting standards, advanced industrial controlling), procurement (Kaizen engineer project), planning (planning and strategy) and IT (WMS). Courses to upgrade soft skills were also provided to both operating personnel and middle management with the goal of forming current and future managers. A total of 46,162 hours of training were provided in the three facilities, the equivalent of three days of annual training per capita.

Training provided in 2021





Information Technology

During the year, the IT unit continued to supervise completion of the new internal projects focusing on process efficiency, maximising existing related support systems and implementing new digital solutions. It maintained its strategic objective of simplifying and streamlining the currently used applications and infrastructure. The unit also reinforced particular initiatives to guarantee business continuity and the safety of company data.

Cybersecurity

The security awareness training programme continued throughout 2021 via online training on cybersecurity. The company's "Stop the Hack" programme was upgraded to raise awareness about cybersecurity risks.

FIS boosted its IT security system and agreed key partnerships with leaders in the cyber sector, improving how it monitors, detects, protects against and reacts to cyber-attacks as part of the cybersecurity roadmap.

FIS' customers have also become more aware of cybersecurity. The IT unit receives a growing number of requests from customers regarding the gathering and sharing of information on security measures installed at the company as integrations to the framework service agreements.

Corporate projects

The roll out of the WMS (warehouse management system) was completed at the Termoli facility in early 2021. The Ground Zero project was launched in partnership with the AFC team in order to adapt the main finance processes (budgeting and forecasting, reporting, investment management and financial planning) to the company's evolving needs. The first project phases were completed during the year, introducing a new IT solution (CPM – corporate performance management) to the application platform.

The Microbiology unit was installed with a new microbiological analysis management system, progressing from a manual/hard copy system to a digital solution.

Following on from the pilot phase in 2020, the new e-learning platform was rolled out for the entire workforce in April 2021. The company slashed paper usage thanks to this online training format.

The IT unit also helped develop the S&OP process, analysing information flows between the various company units and the current status of the support systems. It

then designed a development roadmap to reinforce this process by creating new functions to support the process and streamlining the data presentation format (KPI).

The unit carried out a critical review of the data processed by the MRP system in the last two quarters of the year, while also making some adjustments to the CRM system to make it easier to use.

The IT unit supported two important digital transformation initiatives towards the end of 2021. Work on the DMA (digital maturity assessment) and Digital Twin projects led to the drafting of a digital development roadmap.

IT projects

IT systems development during the year included upgrading the Oracle BI reporting system and preparatory work for the 2022 go-live of the upgraded version of the Empower system (chromatographic quality control system). With regard to quality and compliance processes, the company took the important step of making certain laboratory systems virtual.

Based on business impact analysis results, the level of technical-operating support provided by the IT unit was upgraded to ensure business continuity.

Carrying on from 2020, the IT unit lent a hand during the Covid-19 pandemic. The increase in the company's workforce and the need to limit the number of personnel present at the facilities meant the unit had to quickly prepare and supply devices and provide user-support services to employees working from home.

IT structure

The IT unit was reorganised in 2021, dividing it up into four different units corresponding to different service areas to bring it into line with company requirements:

- **TECHNOLOGY & SECURITY:** managing software, IT and data security support services;
- **BUSINESS PARTNERING:** managing and analysing company requests, proposing solutions aimed at improving business process and making them more efficient;
- **PROJECT & QUALITY SYSTEMS:** managing project activities, coordinating quality and compliance of IT services and managing economics;
- **INFRASTRUCTURE:** designing, installing and maintaining IT infrastructure.

Internal control system & internal audit

Procedure



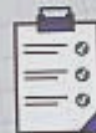
Risk

INTERNAL AUDIT

Communication



Testing



System



Scope



Risk management

FIS views risk management and control as crucial for ensuring reliable and sustainable creation of value in a controlled risk environment, protecting the company's financial soundness and reputation and representing company risk in a transparent manner.

To this end, the company appointed an internal audit manager and set up an internal audit unit in October 2021, as part of a project aimed at shoring up internal controls and measuring company risks in an integrated manner. This project will help standardise the company's organisational and control values and generally improve corporate governance.

The project will take an approach focused on integrated risk mapping, qualitative risk assessment and setting up a database to monitor, update and manage such risks.

Depending on their nature, frequency and potential impact, risks are managed by constantly combining mitigating/protective actions, control procedures/processes and, as a last resort, asset protection actions.

To ensure sound and prudent risk management, FIS combines profitability with knowledgeable assumption of risks and an operating approach based on proper conduct. To this end, it has set up an internal control system that can detect, measure and constantly check the risks typical of the company's business.

As a whole, the internal control system is built around a set of rules, procedures and organisational structures that aim to ensure compliance with company strategies and to achieve the following goals:

- effective and efficient company processes;
- safeguarding the value of activities and protecting against losses;
- reliable and complete accounting and management reporting;
- compliance of operations with the law, as well as policies, plans and internal procedures.

The internal control system includes a set of documents that provides systematic and standard access to the guidelines, procedures, organisational structures, risks and controls at the company, in addition to company guidelines and supervisory body instructions, including legislation and the provisions of Legislative decree no. 231/2001.

FIS is organised around specific governance documents which regulate the running of the company, including the by-laws, code of ethics, policies, guidelines, organisational charts and organisational model, along with more strictly operating documents which regulate company processes, individual activities and relevant controls.

Specifically, company rules adopted and/or being adopted enable the design of organisational solutions that:

- ensure sufficient segregation of duties between operating and control units, avoiding conflicts of interest in assigning duties;
- can adequately identify, measure and monitor the main risks taken on in the various operating segments;
- record, with an adequate level of detail, all management-related issues, specifically all transactions, ensuring that they are allocated the correct time;
- ensure reliable IT systems and adequate reporting procedures to the various levels of management in charge of governance and control;
- ensure that irregularities detected by operating units, or control units, are promptly reported to the right management level and handled immediately.

Furthermore, the company's organisational structure provides an unequivocal and formal outline of responsibilities, specifically regarding the control and fixing of irregularities.

From an operating standpoint, FIS has pinpointed the following macro-types of controls:

- line controls, aimed at ensuring day-to-day operations and transactions are performed correctly. These are generally performed by (business and support) production units or incorporated into IT procedures;
- risk management controls, aimed at helping define risk measurement methods, checking that the limits assigned to the various operating functions are not exceeded and checking that the operations of the individual production units match the assigned risk objectives;
- compliance controls, comprising policies and procedures that identify, assess, control and manage risks arising on non-compliance with laws and regulations;
- internal audit controls, aimed at identifying irregular trends, violations of procedures and regulations, as well as assessing how the entire internal control system is working. These are carried out by different units and do not involve production units.

The internal control system is periodically reviewed and upgraded to match developments in the company's operations and the reference sector.

FIS has created a lean control structure. Alongside its sophisticated line control system involving all unit managers and personnel, it has set up a risk management structure, comprising the internal audit unit and supervisory body, together with the board of directors, which provides overall risk consultancy, management and control.

Internal audit

The internal audit unit's mission is to monitor the adequacy of the company's internal control system, ensuring ongoing improvement of its efficiency and effectiveness through independent, autonomous and objective checking, authorisation and consultancy activities.

The internal audit unit – which reports directly to the board of directors – is in charge of guaranteeing constant, independent monitoring of the regular performance of company operations and processes, in order to prevent or detect any irregular and risky behaviour or situations. It assesses how the entire internal control system is working and checks that it is adequate to ensure effective and efficient company processes, safeguard the value of activities and protect against losses, ensure reliable and complete accounting and management reporting, and guarantee compliance of operations with the policies set by company bodies and both internal and external regulations.

In addition, the unit provides consultancy services to other company units, also taking part in projects, in order to create added value and boost effectiveness of control, risk management and governance processes.

The internal audit manager is not in charge of any operating units and does not report to any unit head. They have constant, unlimited access to all company information, data, people, files and assets that they need to perform their duties. They report to the board of directors, constantly confer with the managing director and the board of statutory auditors and works with the supervisory body and legal unit in performing related duties. Where necessary, they engage an external consultancy firm – fully independent of the company – to provide specific technical expertise not found within the unit.

As it was only set up in October 2021, this unit is still under development. It was structured using a lean approach in order to ensure effective and efficient monitoring of such a constantly evolving area. The unit works through personnel and/or external consultants with suitable know-how and professional expertise and makes sure that its activities are performed in line with recognised best practices and standards for the professional practice of internal auditing.

The control model was designed to match FIS' organisational structure. In order to provide risk-based audit activities, the internal audit unit had begun an integrated mapping of company risks. The results will then be used to develop a specific audit plan for areas at greater risk.

Indeed, in performing its duties, the unit used preliminary analysis methods for risks inherent to the different areas. Using the resulting assessments and priorities, it will draft an action plan, to be submitted to the audit & controls committee and the board of statutory auditors for approval and then discussed with the directors.

Targeted assessments were rolled out for specific company areas. The results will be available in 2022.

The targeted audit activities, based on an analysis and prioritisation of main risks, will pinpoint weaknesses. These will be systematically detected and reported to the company units involved. Corrective actions will be requested, with subsequent follow-ups carried out.

Assessments of the internal control system deriving from these checks will be periodically reported to the audit & controls committee, the board of statutory auditors and the directors. They will also need regular updates on the solutions put in place to mitigate weaknesses. More significant events are also promptly reported to the audit & controls committee.

The unit also holds periodic meetings and uses a similar approach with the supervisory body and the legal unit.

Audit and inspection plans – inspections and audits at the production facilities

To guarantee product quality and safety and check compliance of suppliers with quality, environmental and health and safety laws and regulations, FIS' policies provide for periodic audit plans along with ongoing inspections by ruling regulatory authorities and self-inspections at its production facilities.

The production facilities regularly undergo audits, both internal and external, by FIS customers, or inspections by ruling authorities, to certify their compliance with product quality regulations.

The production facilities operate in compliance with good manufacturing practices (GMP), regularly checked via inspections by ruling national and international authorities.

The quality control unit is in charge of checking incoming raw materials and outgoing finished goods, in accordance with the relevant procedures.

Sixty-three product quality and safety inspections or audits were carried out at the production facilities in 2021.

These include:

- 52 by company customers, of which:
 - 27 at the Montecchio Maggiore facility;
 - 10 at the Termoli facility;
 - 15 at the Lonigo facility;
- 4 paper-based checks at the Montecchio Maggiore facility;
- 1 ISO 9001 inspection;
- 2 by ruling authorities (AIFA);
- 1 self-inspection at company facilities.

With regard to HSE, there is a coordinated annual audit plan for the three facilities that covers all issues pertaining to ISO 45001 (occupational health and safety management system) and ISO 14001 (environmental management system) certification. The plan is approved annually as part of the unit's review performed in the first quarter of the year.

Indeed, the company's environmental management system is ISO-14001 certified as proof of its commitment to protecting the environment and ongoing improvement approach. This certification demonstrates that the production facilities have an adequate system for managing and mitigating the environmental impact of their operations and strive to constantly improve in a consistent, efficient and, above all, sustainable manner.

Moreover, FIS places great emphasis on health and safety in the workplace and encourages employees to participate in identifying and reporting any relevant issues or possible unsafe conditions they could be exposed to. In this regard, its health and safety system is ISO-45001 certified.

Operations at each production facility are also checked and monitored via inspections and audits, both internally and by external companies.

Audit and inspection plans – Audit plans for suppliers

One of the main ways FIS monitors the supply chain is through its audit plans for suppliers.

As well as undergoing assessments for approval during the vetting phase, suppliers are also subject to regular quality checks on all supplies in order to keep a constant eye on the level of quality and compliance with previously-agreed specifics.

Under the current vetting procedures, all suppliers undergo periodic checks, especially suppliers of active ingredients and packaging materials. Thirty-seven such audits were carried out at suppliers in 2021.

Compliance with laws and regulations

The company operates in compliance with laws and regulations in various areas using dedicated, qualified personnel.

As referenced in the code of ethics, acting in compliance with the law and applicable codes of professional conduct is a binding requirement for FIS and all of its partners, in all countries where it operates.

The main company figures involved in this area include the quality assurance manager, regulatory affairs manager, qualified person, health, safety and environmental manager and compliance officer.

Checks on compliance with laws and regulations are carried out in line with international best practices and are subject to constant scrutiny during inspections by commercial partners, authorities or certification bodies.

In this regard, FIS complies with regulations issued by sector certification bodies and is regularly inspected by AIFA.

The company counts on the support of the legal unit regarding any civil, criminal and administrative disputes, as well as in protecting the rights and interests of the company in all circumstances.

Specifically, the legal unit:

- represents FIS in litigation brought by or against the company, using external legal advisors, directors and employees in civil and/or administrative and/or accounting trials for matters or causes inherent to performing their duties or services, should they request defence and there is no, even potential, conflict of interest with the company;
- provides legal consultancy to other units and expresses opinions, also about initiating, discontinuing, abandoning or settling legal disputes;
- organises court or out-of-court settlements, in agreement with and with the collaboration of the units involved, or express opinions on settlement deeds;
- suggests the measures to be adopted or drafts replies concerning claims, complaints, injunctions or other matters that could lead to litigation;
- supports other units in revising contractual clauses and provides ongoing assistance in managing contracts in the event of penalties, termination, etc..

The general counsel is currently a member of FIS' supervisory body.



Financial management

The company took out three new short-term loans during the year. Each for €10 million and with a term of 18 months less one day, the loans were signed between September and November with Cassa Depositi e Prestiti, UniCredit and Banca Nazionale del Lavoro.

The company repaid two further instalments of bank borrowings in June and December, as per the debt renegotiation agreement, in addition to the interest thereon, as discussed in more detail later on in this report and in the notes to the financial statements. It partially drew down the committed revolving credit facility when it most needed cash for short-term working capital management.

It also resorted to reverse factoring to improve its working capital management and obtain more favourable payment times while ensuring that its suppliers would be paid at the regular payment dates or in advance. Like in the previous year, the company factored some selected trade receivables during the year.

The company did not change its prudent currency hedging policy implemented by agreeing various hedges during the year rather than through one single transaction as provided for by its internal policies. This approach meant that the company was sufficiently covered which, once more, enabled it to perform above the market average. As the company has a large exposure in US dollars, the derivatives it had in place meant it avoided losses of several millions of Euro due to the depreciation of the dollar, especially in the first half of the year.

Following the NFP/EBITDA ratio recorded in 2020 (under 3), the company obtained an initial step-down in interest rates on bank borrowings and the private placement with Pricoa during the year, allowing it to make considerable savings in terms of borrowing costs.

Finally, one of the key projects currently being implemented by the company is the Ground Zero project, which aims to update current finance processes and boost their effectiveness and efficiency over a two-year period (2021-2022). Specifically, the project covers reporting, budgeting and forecasting, costing, financial planning and cash flows, inventory and investment management, also to support company units. It will update processes and systems to match the company's increased complexity, in order to support the company in decision-making processes, monitoring management-related issues and future development. The project is coordinated by company personnel with the support of external consultants. Finally, due to the significant activities in scope, the project steering committee is comprised of members of the board of directors and the managing director along with the members of the operating team and the CFO.

Results

Reclassified profit and loss statement - €'000	31.12.2021	31.12.2020
Production revenues	614,164	571,892
Production cost	(408,099)	(369,552)
Added value	206,065	202,370
Personnel expenses	(124,617)	(122,316)
EBITDA [gross operating profit]	81,448	80,055
Amortisation, depreciation and provisions	(64,738)	(55,716)
EBIT [operating profit]	16,710	24,339
Net financial charges	(12,372)	(13,716)
Adjustments to financial assets and liabilities	77	398
Pre-tax profit	4,415	11,021
Income taxes	6,152	6,902
PROFIT FOR THE YEAR	10,566	17,923

The company's gross operating profit and operating profit are in line with the business plan approved by the board of directors in September and used as the basis for the issue of the sustainability-linked bonds. Moreover, the main financial KPIs linked to the performance of the business show improvement on the previous year, mostly due to the ongoing development of the top line.

Revenues from the sale of top line products increased by roughly €66 million, up 14% on 2020. This was the result of the 23% rise in custom product sales and the 70% surge in those of veterinary products. Conversely, sales of generic products fell in 2021 as this segment was most impacted by the ongoing pandemic.

Revenues from R&D services, concerning optimising synthesis processes and large-scale commercial production, came to roughly €18 million, up 24% on 2020. The increase in production revenues is chiefly attributable to higher sales of products and services, as well as the rise in internal work capitalised following more substantial investments made during the year (+€11 million on 2020). This is partly offset by the negative effect of changes in work in progress, semi-finished products and finished goods, due to the fact that sales were mainly concentrated in the final quarter of 2021 and inventory management improved with a direct impact on stock rotation.

Production cost increased by approximately €39 million, which was more than proportional to the increase in revenues from sales of products and R&D servic-

es (10% vs 7%). The rise in production cost reflects both higher purchases of direct and indirect production materials, due to higher production volumes, and an overall hike in market prices. In more detail, the bullish trend seen in 2021 impacted both key raw materials prices and the cost of precious metals, mostly rhodium and palladium, used to produce catalysts deployed in the production of active ingredients, which has increased steadily in recent years.

Personnel expenses increased during the year (+€2.3 million) chiefly due to the larger workforce which rose from 1,849 at 31 December 2020 to 1,920 at 31 December 2021. This was due to the hiring of new direct and indirect employees following the roll out of Termoli's Unit B. In addition, the increase in expenses was also due to the planned contractual and merit-based raises, in addition to higher bonuses due to the company's better performance.

Gross operating profit rose slightly by roughly €1.4 million on 2020. Though less than proportional to the rise in profit on top line products, this increase was achieved thanks to targeted actions to reduce the impact of higher raw materials and precious metals prices by passing through the cost to customers, in agreement with them. The impact of gross operating profit as a percentage of revenues from sales and services is partly attributable to increased personnel expenses, to match the company's higher production capacity which will develop significantly in 2022 with the launch of three new custom products on the market, and part-

ly due to the increase in preventative maintenance costs incurred at the facilities, again attributable to the increased production capacity.

Unlike gross operating profit, operating profit decreased in 2021 (-€7.6 million), partly due to greater amortisation and depreciation expense following the roll out of important investment projects at all facilities, and especially Termoli (Unit B) and Lonigo (Unit 3C), and partly due to the revaluation of assets completed in 2020, which were subject to depreciation in 2021 (€5.3 million).

Net financial charges decreased on the previous year, mainly due to the payment of two instalments of a medium/long-term syndicated loan (as discussed in

more detail in the notes to the financial statements), as well as the reduced interest rate obtained on bank borrowings thanks to the company achieving a satisfactory NFP/EBITDA ratio. As in 2020, the caption also includes the interest accrued on the convertible bonds, which were paid to the bondholders in January and July 2021 as per the relevant regulation.

With respect to the income tax expense, the company was entitled to tax benefits on Industry 4.0 projects in line with the tax regulations about super and hyper depreciation. It also recognised tax benefits from the patent box scheme in 2021 and income of €6,708 thousand from the domestic tax consolidation scheme.

Reclassified balance sheet - €'000	31.12.2021	31.12. 2020
Net working capital	211,718	172,169
Tangible fixed assets	332,500	344,234
Intangible fixed assets	30,057	33,300
Financial fixed assets	4,520	940
Provisions and other non-current payables	(40,444)	(44,753)
Net invested capital	537,801	505,891
Net short-term financial position (debt)	25,180	(15,984)
Net medium to long-term financial position	211,718	232,302
Convertible bonds	51,925	51,554
Net equity	248,978	238,018
Sources of funds	537,801	505,891

The **net invested capital** increased on the previous year end, mainly driven by the rise in net working capital. Inventory increased by roughly €60 million (+25% on 2020) due to higher raw materials and precious metals prices, measured at weighted average cost, and the need to prepare for the expected surge in production in 2022. As a result, trade payables and trade receivables also rose on the previous year end, due to increased purchases made in preparation for 2022 production and higher turnover levels, respectively.

The rise in net invested capital was partially offset by the decrease in tangible and intangible fixed assets, as a result of higher depreciation and amortisation expense due to some significant plant becoming subject to depreciation during the year, as well as increased depreciation due to revaluations completed at the end of 2020.

A significant part of the **sources of funds** relates to medium to long-term debt. As described in detail in the “Outlook” section, between 31 December 2021 and the date of approval of the financial statements, the company completed the issue of sustainability-linked bonds, in order to restructure the sources of funds and, thus, repay loans currently in place. In accordance with OIC 29, which regulates, *inter alia*, the recognition

of post-balance sheet events, the issue of the bonds after 31 December 2021, the company's cut-off date, is not recognised but adequate disclosure must be provided in the notes.

The company drew down part of the committed revolving credit facility during the year to better manage working capital fluctuations. This amount was higher on average than the amount drew down in 2020.

Finally, liquid funds at year end increased on the previous year end (+€18.9 million), confirming the company's ability to generate sufficient operating cash flows to cover the cash requirements of the investment plan, along with the funds used to meet financial commitments, in terms of both repaying the principal of borrowings and paying interest thereon. FIS continued to take action in 2021 to optimise working capital, in order to improve cash generation, through effective collection management processes, including resort to factoring and reverse factoring arrangements.

Reclassified balance sheet - €'000	31.12.2021	31.12.2020
Opening net financial debt	(216,318)	(232,985)
Operating cash flow	80,115	80,395
Decrease in working capital	(30,298)	(13,316)
Decrease in net investments	(49,763)	(37,963)
Decrease in financing activities	(20,635)	(12,450)
Total changes	(20,581)	16,666
Closing net financial debt	(236,899)	(216,318)
NFP/EBITDA	2.91	2.70

Operating cash flow amounts to approximately €80 million, in line with the previous year.

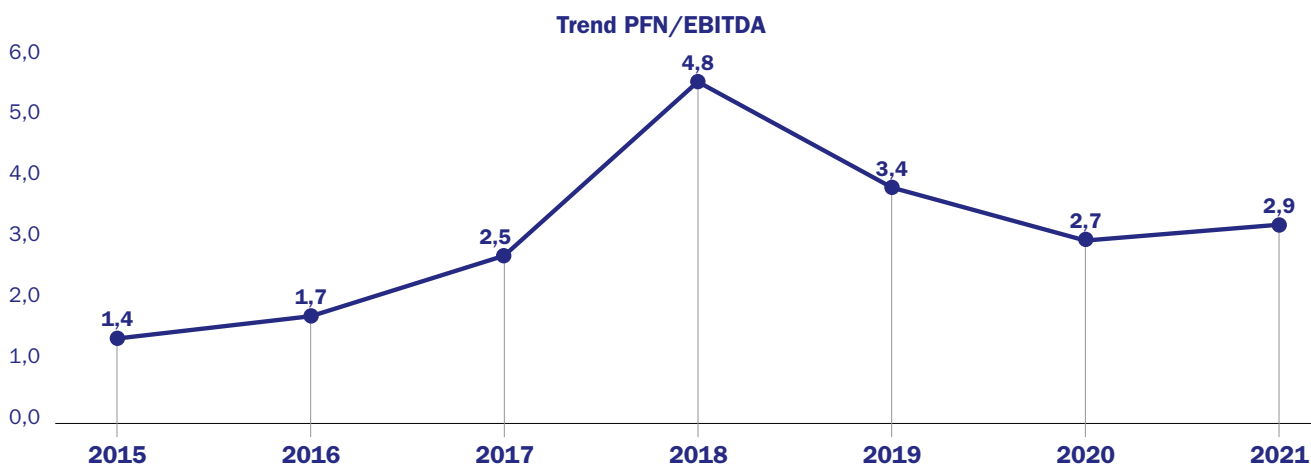
There was a higher decrease in working capital, mainly due to the increase in inventory, along with higher receivables and payables as a result of greater turnover levels thanks to increased production and sales.

Similarly, there was a higher decrease in net investments, which made a significant contribution to the increase in net financial debt.

The decrease in financing activities comprises cash flows from new short-term and/or long-term loans, repayments of principal and interest. There was an increase in short-term loans compared to the previous

year end, in order to optimise working capital, and a decrease in medium/long-term loans following the repayment of two instalments during the year as per the relevant contracts.

The company continued to focus on managing net financial debt in 2021. Based on the gross operating profit for the year of €81,448 thousand, the NFP/EBITDA ratio came to 2.9, which was in line with 2020 and shows a significant improvement on previous years. This allowed the company to comply with the covenants agreed with its lending stakeholders at the reporting date.



Performance indicators

Reclassification of the balance sheet and profit and loss statement from a financial and management viewpoint, respectively, facilitates an analysis of the company's financial position and performance. It also allows the extrapolation of some of the key indicators used by the company.

Profitability indicators

ROE This is the ratio of the net profit or loss to net equity and shows the company's profitability and return on equity.

ROI This is the ratio of operating profit or loss to total assets and shows the return on invested capital, excluding financial income and charges, non-recurring items and income taxes.

ROS This is the ratio of the net operating profit or loss to revenues and shows the company's ability to generate profits from its sales.

EBITDA This shows the company's profit or loss from operations before amortisation, depreciation and write-downs, interest, non-recurring items and income taxes. As a percentage of revenue, it shows the company's ability to generate profits and cash flows.

	31.12.2021	31.12.2020
ROE (net profit/net equity)	4.3%	8.5%
ROI (operating profit/net invested capital)	2.0%	3.2%
ROS (operating profit/net revenues)	3.0%	4.9%
Gross operating profit/revenues	14.5%	16.1%

Financial ratios

Liquidity ratios

These ratios show the company's ability to repay its debts within one year of the reporting date showing current assets except inventory less/divided by current

liabilities (treasury margin and quick ratio, respectively) or all current assets less/divided by all current liabilities (net working capital and current ratio, respectively).

	31.12.2021	31.12.2020
Treasury margin	(115,887)	(54,148)
Quick ratio	0.65	0.76
Current assets less current liabilities	186,989	188,153
Current ratio	1.56	1.82

Equity and financial soundness ratios

The gearing ratio compares total liabilities to equity, while the leverage ratio shows the ratio of debt to equity.

Both ratios show the extent of the company's reliance on third party lenders.

	31.12.2021	31.12.2020
Gearing ratio	2.56	2.35
Leverage ratio	0.66	0.60

The following ratios show the company's ability to repay its debt (NFP/EBITDA, debt cover ratio) and to pay its financial charges using cash flows generated by operating activities. Banks use the debt cover ratio to assess

a company's ability to repay its debts and it is the main financial covenant included in medium-term financing agreements.

	31.12.2021	31.12.2020
NFP/EBITDA	2.91	2.70
EBIT/Financial expense	1.35	1.77

Net equity to fixed assets ratios

These indicators show the company's ability to finance its fixed assets as an amount and a percentage using own funds (own funds less fixed assets) or using own funds and medium to long-term debt ((Own funds plus non-current liabilities) less fixed assets).

	31.12.2021	31.12.2020
Own funds less fixed assets	(118,099)	(140,455)
Own funds to fixed assets ratio	0.68	0.63
(Own funds plus non-current liabilities) less fixed assets	185,989	188,153
(Own funds plus non-current liabilities) to fixed assets ratio	1.51	1.50



Outlook

As described earlier, the ongoing pandemic weakened the stability of the supply chain, with raw materials costs and utilities beginning to shoot up in the second half of 2021. Though the world is gradually adjusting to a “new normal” post-pandemic existence, the recent exacerbation of the geopolitical situation has had further repercussions on the availability and prices of key production materials.

As a result, constant monitoring and daily management of procurement processes has become crucial, along with passing through such higher costs, as the company has already done, periodically adjusting sales prices.

Potential key critical issues with procurement processes include rising purchase costs and possible palladium shortages with Russia and Ukraine accounting for 50% of global production between them. The company uses palladium to produce catalysts deployed in the production of some key products. This issue is mitigated by improvements made to internal waste management which have led to greater recycling of palladium, thus reducing the need for new purchases.

To ensure production continuity internally and for its customers even should geopolitical tensions continue, the company has decided, together with some customers, to build up emergency stock of raw materials and intermediates, largely funded by the customers.

This will mitigate the risk of procurement shortages, simultaneously softening the financial impact for the company.

Also linked to the current geopolitical situation, the currently most significant, and perhaps less controllable, risk refers to the ongoing surge in electricity and natural gas prices, both critical production factors for the company. In order to mitigate the price risk, the company has agreed with its main customers that it will perform a quarterly review of production costs which will then inform decisions on sales prices. Potential procurement shortages could generate risks of production disruptions.

The conflict between Russia and Ukraine could lead to issues with the company’s procurement processes with regard to distribution logistics, possibly causing delays and/or increased costs. At present, the related effects are not significant and cannot be estimated.

Finally, with regard to the impact on business and going concern, the company records minimal turnover with these two countries and, as a result, any embargo on Russia and Ukraine would not have significant effects on the company’s turnover.

As mentioned earlier, the company's board of directors approved the 2022-2026 business plan, comprising business, industrial, organisational and financial plans, at its September meeting. Specifically, in order to adequately support forecast growth over the plan period, the company revised and restructured its sources of funds, deciding on sustainability-linked bonds as the most suitable tool for its purposes.

The company chose these bonds due to their bullet redemption format and focus on sustainability issues. It was also interested in opening to international investors. The process began immediately after the above board of directors' meeting and was completed in early February 2022 with the bond pricing and subscription by leading operators on the bond market.

The process was coordinated by a team of employees supported by leading international financial and legal advisors. They contacted three top rating firms to issue a public rating, along with a company to assess the soundness of the sustainability framework and KPIs and two leading banks, as global coordinators. The pre-marketing, public roadshow and marketing activities took place between 17 January and 4 February 2022 (the pricing day), with over 60 international investment funds involved.

The bonds were issued for €350 million redeemable in 5.5 years with a coupon of 5.625% and a non-callable period of two years. Linked to these bonds, the company also agreed a revolving credit facility, expiring six months before the redemption of the bonds, with an opening interest rate of 3% and step-down correlated to the NFP/EBITDA ratio. The bonds do not include a maintenance covenant.

The income on the bonds was chiefly used to refinance borrowings at the reporting date. The bullet redemption format will allow the company to optimise future cash flow generation to support its future growth.

The bond issue and subscription process has meant that the company has to pay greater attention to relations with institutional investors. It will have to make quarterly reports, via calls with the investors and by setting up a specific investor relations section of the company website (fisvi.com). This will have a positive impact by optimising the company's management and finance practices.



Main risks

The risks faced by the custom manufacturing sector are linked directly to those of the company's customers, as the outcome of the clinical trials of a new drug affect the requirements for the APIs. Moreover, a change in a customer's senior management can sometimes lead to a change in outsourcing strategies that affect the CMOs (custom manufacturing organisations) such as FIS.

The company's strategy to mitigate this risk is to build up a dynamic portfolio of new projects to convert into products as part of its customers' clinical-pharmaceutical development.

In this respect, the generic manufacturing sector represents stability, to be monitored with care, paying attention to innovation and the more remunerative niche productions.

In order to mitigate the risk that the strict Italian patent rules could prevent development of a larger generic drugs line, the company continues to work in partnership with companies in areas where the patents have already expired, so that it can produce and sell APIs during the launch stage of new generic drugs. When these patents expire in Italy as well, FIS can act as the second or main supplier depending on market demand and the required production capacity. In any case, consolidation and the ongoing development of a portfolio of new generic API is essential to be successful in this strategic area.

The risk linked to the sector's strong dependency on Chinese suppliers for key starting materials emerged in 2020 and was confirmed in 2021, exacerbated by the spread of the Covid-19 pandemic especially in the early part of the year. As mentioned earlier, the fragility of the drug supply chain, which is dependent on certain Far East

regions for supplies of materials, is a hot issue together with reshoring actions aimed at gradually returning drug and API production back to the region or even the country of origin.

Finally, a significant inflation risk began to materialise at the end of 2021. Not only does this affect prices for certain raw materials and transport costs, as well as the already mentioned precious metals price trend, but also electricity and natural gas prices which have not been so high for many years. As a result, it is crucial that the company maintains and reinforces the process of passing such costs through to customers, in order to partially or fully mitigate the impact on the profitability of its products.

Financial risks

As required by article 2428.2.6-bis of the Italian Civil Code, the main risks identified and managed by the company relate to its business operations and are described below:

- **market risk** (chiefly interest rate risk): the risk of changes in interest rates;
- **credit risk**: the possible default of a counterparty or deterioration in its credit rating;
- **liquidity risk**: the risk that the company's financial resources are insufficient to allow it to meet its payment commitments;
- **currency risk**: the risk related to foreign currency trade transactions.

The company monitors the financial risks to which it is exposed regularly so as to anticipate any potential negative effects and take the necessary remedial actions.

Its main financial instruments are private placements, bank financing and demand and short-term bank deposits. Their principal purpose is to fund the company's operations. FIS can also access other financial instruments, leveraging trade receivables and payables.

Interest rate risk

This risk relates to unforeseeable changes in interest rates that could generate higher financial charges for the company.

At year end, the company's outstanding loans and borrowings, including short-term advances, variable rate medium-term bank financing and private placements expose it to the risk that future hikes in interest rates could significantly increase its financial charges.

When the company took out the medium-term financing, it also agreed interest rate swaps with leading counterparties to hedge this risk by mitigating the risk of an increase in interest rates and, hence, to stabilise its financial charges over time. The existing derivatives and their effects are described in detail in the notes to the financial statements.

Credit risk

The company is not particularly exposed to credit risk on its trade receivables as its customers are mostly high standing multinational pharma companies with low insolvency risks. Bad debts of previous years were immaterial compared to the company's turnover levels.

Liquidity risk

The company aims to maintain a balance between its need for cash and flexibility by using bank financing and other sources of funds. The main factors that affect its liquidity are the funds generated or used by operating and investing activities, its credit standing and the repayment and renewal conditions of its bank debt.

With respect to its ordinary operating activities, FIS has put in place policies and processes to optimise the management of its financial resources:

- maintenance of a sufficient level of available liquidity;
- diversification of its sources of funds;
- agreement of adequate short-term lines of credit and medium-term financing with its banks;
- monitoring its future liquidity requirements in line with its business plans.

Currency risk

The company's foreign currency trade transactions mostly take place in US dollars. It hedges currency risk to soften the effects of fluctuations in exchange rates on its financial position and performance, based on its expectations of foreign currency future net cash flows (cash inflows less cash outflows).

During the year, the company agreed derivatives to mitigate the effect of risks arising from changes in the Euro/US dollar exchange rate.

Management and coordination

F.I.S. – Fabbrica Italiana Sintetici S.p.A. is wholly owned by Nine Trees Group S.p.A., with registered office in Montecchio Maggiore. Since 14 June 2011, the parent has managed and coordinated FIS in accordance with the provisions of article 2497 and following articles of the Italian Civil Code.

Transactions carried out with the parent and other group companies are described in the "Related party transactions" table in the notes to the financial statements.

Specifically, transactions with Nine Trees Group S.p.A. included:

- the joint exercise of the option to participate in the domestic tax consolidation scheme;
- the recharging of costs for personnel seconded from Nine Trees Group S.p.A..

Own shares

The company does not hold own shares nor did it repurchase or sell shares during the year directly or indirectly through trustees or nominees.

Branches

The company carries out its business from its head office in Viale Milano 26, Montecchio Maggiore (VI) and its branches in Via Massimo D'Antona 13, Termoli (CB) and Via Dovaro, Lonigo (VI).

Montecchio Maggiore, 14 April 2022

Chairman of the board of directors
Ferrari Giampaolo





A photograph of an industrial facility, likely a refinery or chemical plant. The image shows a complex network of pipes, valves, and machinery. In the foreground, there are several large, cylindrical vessels with red and silver components. Above them, a series of vertical pipes are supported by a metal structure. A blue control panel is visible on the right side. The background shows more industrial equipment and a blue wall. The overall scene is brightly lit, suggesting an indoor or well-lit outdoor environment.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Profit and loss statement

€'000

	31.12.2021	31.12.2020	Variation
A) PRODUCTION REVENUES			
Turnover from sales and services	562,077	492,607	69,469
Change in work in progress, semi-finished products and finished goods	(3,395)	26,443	(29,838)
Contract work in progress	(1,679)	2,658	(4,337)
Internal work capitalised	45,416	34,135	11,281
Other revenues and income	11,745	16,050	(4,305)
TOTAL PRODUCTION REVENUES	614,164	571,892	42,272
B) PRODUCTION COST			
Raw materials, consumables, supplies and goods	(364,772)	(293,161)	(71,611)
Services	(98,051)	(82,651)	(15,400)
Use of third party assets	(1,477)	(1,311)	(166)
Personnel expenses			
Wages and salaries	(87,991)	(87,263)	(728)
Social security contributions	(28,240)	(28,883)	642
Employees' leaving entitlement	(6,033)	(5,570)	(462)
Other costs	(2,354)	(917)	(1,437)
	(124,617)	(122,632)	(1,985)
Amortisation and depreciation			
Amortisation of intangible fixed assets	(6,422)	(6,668)	246
Depreciation of tangible fixed assets	(58,316)	(49,048)	(9,268)
	(64,738)	(55,716)	(9,022)
Change in raw materials, consumables, supplies and goods	60,896	11,638	49,257
Other operating costs	(4,694)	(4,037)	(657)
TOTAL PRODUCTION COST	(597,454)	(547,554)	(49,900)
(A - B) OPERATING PROFIT	16,710	24,339	(7,629)

€'000		31.12.2021	31.12.2020	Variation
C)	FINANCIAL INCOME AND CHARGES			
	Other financial income			
	Financial income from subsidiaries of parents	61	62	(1)
		61	62	(1)
	Interest and other financial charges			
	Financial charges to subsidiaries of parents	(149)	(222)	74
	Other interest expense	(11,698)	(13,031)	1,333
		(11,846)	(13,253)	1,407
	Net exchange rate losses	(587)	(525)	(62)
	NET FINANCIAL CHARGES	(12,372)	(13,716)	1,343
D)	ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES			
	Write-backs of derivatives	77	398	(321)
	TOTAL ADJUSTMENTS	77	398	(321)
	PRE-TAX PROFIT (A-B+C+D)	4,415	11,021	(6,606)
	Income taxes			
	Current taxes	(720)	(825)	104
	Taxes relative to prior years		447	(447)
	Change in deferred tax assets and liabilities	164	702	(538)
	Income from domestic tax consolidation scheme	6,708	6,577	131
	Total income taxes	6,152	6,902	(750)
	NET PROFIT FOR THE YEAR	10,566	17,923	(7,356)

Balance sheet

ASSETS €'000

	31.12.2021	31.12.2020	Variation
B) FIXED ASSETS			
I. Intangible fixed assets			
Start-up and capital costs	393	33	360
Industrial patents and intellectual property rights	6,564	7,942	(1,378)
Concessions, licences, trademarks and similar rights	1,261	1,574	(313)
Goodwill	14,812	18,323	(3,511)
Other	81	211	(129)
Assets under development and payments on account	6,946	5,216	1,730
	30,057	33,299	(3,242)
II. Tangible fixed assets			
Land and buildings	105,481	107,782	(2,301)
Plant and machinery	170,870	168,922	1,948
Industrial and commercial equipment	514	509	5
Other assets	10,236	13,667	(3,431)
Assets under construction and payments on account	45,400	53,355	(7,954)
	332,501	344,234	(11,733)
III. Financial fixed assets			
Investments in subsidiaries	40	40	
Investments in other companies	4	4	
	44	44	
TOTAL FIXED ASSETS	362,603	377,577	(14,975)
C) CURRENT ASSETS			
I. Inventory			
Raw materials, consumables and supplies	127,900	67,004	60,896
Work in progress and semi-finished products	102,313	102,981	(669)
Contract work in progress	979	2,658	(1,679)
Finished goods	61,562	64,288	(2,726)
Payments on account	9,121	5,369	3,752
	301,876	242,301	59,574
II. Receivables			
Trade receivables	102,476	87,949	14,527
From subsidiaries		376	(376)
From parents	22,851	16,145	6,707
From subsidiaries of parents	2,512	3,227	(715)
Tax receivables			
- Due within one year	4,069	1,075	2,994
- Due after one year	4,082	661	3,421
Deferred tax assets	5,406	5,577	(171)
From others			
- Due within one year	5,297	5,635	(338)
- Due after one year	392	235	157
	147,086	120,881	26,205
IV. Liquid funds			
Bank and postal accounts	74,756	55,883	18,874
Cash-in-hand and cash equivalents	14	15	(2)
	74,770	55,898	18,872
TOTAL CURRENT ASSETS	523,732	419,081	104,651
D) PREPAYMENTS AND ACCRUED INCOME			
Prepayments and accrued income	1,109	364	745
TOTAL PREPAYMENTS AND ACCRUED INCOME	1,109	364	745
TOTAL ASSETS	887,443	797,022	90,422

Equity and liabilities		€'000	31.12.2021	31.12.2020	Variation
A)	NET EQUITY				
	I. Share capital		10,000	10,000	
	III. Revaluation reserves		94,801	94,801	
	IV. Legal reserve		2,395	2,395	
	VI. Other reserves				
	- Undistributed net profits reserve		44,662	27,200	17,463
	- Extraordinary reserve		81,002	81,002	
	- Negative goodwill		2,415	2,415	
	- Reserve for state and regional aid		1,045	1,045	
	- Reserve for derivatives		1,969	1,969	
	- Reserve for unrealised exchange rate gains		460		
	VII. Hedging reserve		(338)	(732)	393
	IX. Net profit for the year		10,566	17,923	(7,356)
	TOTAL NET EQUITY		248,978	238,018	10,960
B)	PROVISIONS FOR RISKS AND CHARGES				
	Pension and similar provisions		291	320	(28)
	Tax provision, including deferred tax liabilities		439	650	(211)
	Hedging provision		445	1,039	(594)
	Other provisions			400	(400)
	TOTAL PROVISIONS FOR RISKS AND CHARGES		1,176	2,409	(1,233)
C)	EMPLOYEES' LEAVING ENTITLEMENT		4,800	4,899	(100)
D)	PAYABLES				
	Bonds				
	- Due after one year		98,881	98,889	(7)
			98,881	98,889	(7)
	Convertible bonds		51,925	51,554	371
	Bank loans and borrowings				
	- Due within one year		86,454	36,282	50,172
	- Due after one year		112,837	133,414	(20,577)
			199,291	169,695	29,595
	Loans and borrowings from other financial backers		13,497	3,632	9,864
	Payments on account		25,052	16,161	8,891
	Trade payables		155,752	122,721	33,031
	Payables to subsidiaries		157	334	(176)
	Payables to parents				
	- Due within one year		1,075	4,311	(3,236)
	- Due after one year		31,000	31,000	
			32,075	35,311	(3,236)
	Payables to subsidiaries of parents				
	- Due within one year		9,862	9,984	(122)
			9,862	9,984	(122)
	Tax payables		3,230	5,151	(1,921)
	Social security charges payable				
	- Due within one year		11,544	8,656	2,888
			11,544	8,656	2,888
	Other payables				
	- Due within one year		22,668	27,441	(4,773)
			22,668	27,441	(4,773)
	TOTAL PAYABLES		623,934	549,529	74,406
E)	ACCRUED EXPENSES AND DEFERRED INCOME				
	Accrued expenses and deferred income		8,556	2,166	6,389
	TOTAL ACCRUED EXPENSES AND DEFERRED INCOME		8,556	2,166	6,389
	TOTAL LIABILITIES		887,443	797,022	90,422

Cash Flow Statement

Amounts in € 000

	31.12.2021	31.12.2020
Net profit for the year	10,566	17,923
Income taxes	(6,152)	(6,902)
Interest expense	12,372	13,716
1. Profit before taxes, interest, dividends and gains/losses	16,787	24,736
Adjustments for non-monetary items		
Accruals to provisions	6,628	6,207
Amortisation and depreciation	64,738	55,716
Adjustments to financial assets and liabilities	(77)	(398)
Total adjustments for non-monetary items	71,289	61,526
2. Cash flows before changes in net working capital	88,076	86,262
Changes in net working capital		
Decrease/(increase) in inventory	(59,574)	(39,540)
Decrease/(increase) in trade receivables	(20,142)	(13,695)
Increase/(decrease) in trade payables	48,252	34,379
Decrease/(increase) in prepayments and accrued income	(745)	(89)
Increase/(decrease) in accrued expenses and deferred income	6,389	409
Other changes in net working capital: assets	89	10,841
Other changes in net working capital: liabilities	(4,566)	(5,621)
Total changes in net working capital	(30,298)	(13,316)
3. Cash flows after changes in net working capital	57,778	72,946
Other adjustments		
Interest paid	(11,142)	(10,743)
Utilisation of provisions	(7,961)	(5,866)
Total other adjustments	(19,102)	(16,610)
4. Cash flows after other adjustments	38,676	56,336
Investing activities		
Tangible fixed assets	(48,312)	(35,810)
Intangible fixed assets	(1,451)	(2,153)
Cash flows used in investing activities	(49,763)	(37,963)
Financing activities		
Third party funds		
Increase (decrease) in short-term bank loans and borrowings	26,979	5,403
Increase in financing	30,000	
Decrease in financing	(27,020)	(26,153)
Cash flows from (used in) financing activities	29,959	(20,750)
TOTAL CASH FLOWS	18,872	(2,377)
OPENING LIQUID FUNDS	55,898	58,275
CLOSING LIQUID FUNDS	74,770	55,898
CHANGE IN LIQUID FUNDS	18,872	(2,377)





A photograph of an industrial facility at night, illuminated by bright lights. The scene shows a complex network of pipes, valves, and large cylindrical tanks. The lighting creates a high-contrast, somewhat dramatic atmosphere. The text 'NOTES TO THE FINANCIAL STATEMENTS' is overlaid on the bottom right of the image.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Company information

Name	F.I.S. – Fabbrica Italiana Sintetici S.p.A.
Registered office	36075 MONTECCHIO MAGGIORE (VI) VIALE MILANO
Share capital	10,000,000.00
Fully-paid up share capital	yes
Chamber of commerce no.	VI
VAT no.	01712670247
Tax code	01712670247
REA no.	179183
Legal form	COMPANY LIMITED BY SHARES
Main business sector code (ATECO)	211000
In liquidation	no
Single-member company	yes
Managed and coordinated by another company	yes
Name of the company that manages and coordinates it	NINE TREES GROUP S.P.A.
Membership of a group	yes
Name of parent	NINE TREES GROUP S.P.A.
Country of parent	ITALY (I)

Introduction

Dear shareholder, these financial statements, drafted for your review and approval, have been prepared in accordance with the provisions of article 2423 and following articles of the Italian Civil Code, interpreted in the context of and integrated by the reporting standards promulgated by the Italian Accounting Standard Setter (“OIC”). They consist of a balance sheet, a profit and loss statement, a cash flow statement and these notes.

These financial statements incorporate the changes introduced by Legislative decree no. 139/2015 applicable for annual reporting periods beginning on or after 1 January 2016 and the resulting amendments to the OIC.

Each balance sheet, profit and loss statement and cash flow statement caption presents the corresponding figures of the previous year. Where necessary, the latter are adjusted for comparative purposes and the related effects are disclosed in the notes, if material.

The cash flow statement shows the reasons for increases and decreases in liquid funds during the year and has been prepared under the indirect method, using the layout provided for by OIC 10.

The amounts presented in the balance sheet, profit and loss statement and cash flow statement are in Euros, without decimal points, while those disclosed in the notes are expressed in thousands of Euros, except as otherwise specified.

Captions with a nil balance in both the current and previous years have been omitted.

Under the principle of materiality set out in article 2423.4 of the Italian Civil Code, these notes do not include disclosures on the financial statements captions whose amount or related disclosure are immaterial for the purposes of giving a true and fair view of the company’s financial position, financial performance and cash flows, including those specifically required by article 2427 of the Italian Civil Code or other provisions. If the mandatory disclosures are not sufficient to give a true and fair view, additional disclosures are provided as necessary.

Reference should be made to the directors’ report that accompanies these financial statements for information on the company’s business, transactions with subsidiaries, associates, parents, subsidiaries of parents and other related parties.

The post-balance sheet events, the proposed allocation of the net profit for the year and the total off-balance sheet commitments, guarantees and contingent liabilities are presented in specific sections of these notes.

Pursuant to article 2497 and following articles of the Italian Civil Code, the company is managed and coordinated by Nine Trees Group S.p.A. and, therefore, these notes present the key figures derived from the most recent financial statements of this company. The company is controlled by Nine Trees Group S.p.A., with registered office in Montecchio Maggiore, which prepares the consolidated financial statements of the largest group of companies to which the company belongs as a subsidiary.

Despite holding controlling interests, the company has not prepared consolidated financial statements under the exemption provided for by article 27.3/4 of Legislative decree no. 127/91 as its parent Nine Trees Group S.p.A., with registered office in Montecchio Maggiore, prepares the consolidated financial statements of the largest group of companies to which the company belongs. These consolidated financial statements will be filed, with the related directors’ report and that of the board of statutory auditors, with the Vicenza Company Registrar.

The financial statements are accompanied by a directors’ report, to which reference should be made for information about the company’s business activities.

Basis of preparation

The financial statements captions have been measured in accordance with the general principles of prudence and accruals on a going-concern basis. Reference should be made to the directors' report for information on how the company optimised its sources of funds. Captions have been recognised and presented in accordance with the substance over form principle, if in compliance with the Italian Civil Code and the OIC.

Under the prudence principle, the company measures the individual assets and liabilities separately, in order to avoid offsetting losses that should be recognised against unrealised profits that should not be recognised. Specifically, the company recognises profits only if realised before the reporting date, whereas it considers risks and losses on an accruals basis, even when they become known after the reporting date.

In accordance with accruals-based accounting, the company recognises the effects of transactions in the year to which the transaction relates rather than that in which the associated collections and payments occur.

The accounting policies are unchanged from the previous year to ensure the comparability of the financial statements from one year to the next.

No exceptional events took place during the year, which would have led the company to depart from the accounting policies, as permitted by article 2423.5 of the Italian Civil Code, in order to give a true and fair view of its financial position and performance. Moreover, the company did not make any revaluations under specific laws.

The accounting policies section describes how the company applied the accounting treatments required by the OIC based on the principle of materiality.

The preparation of financial statements requires management to make estimates that affect the carrying amount of assets and liabilities and the related disclosures. Actual results may differ. Estimates are revised regularly and the effect of any changes, if not due to errors, are recognised in the profit and loss statement when the estimates are changed, if they affect just one year, and also in the following years, if they affect both the current and subsequent years.

Intangible fixed assets

Intangible fixed assets are recognised at acquisition or development cost, with the prior consent of the board of statutory auditors, where required. They are stated net of accumulated amortisation and any impairment losses. The acquisition cost includes the related transaction costs. The development cost includes all directly attributable costs and the reasonably attributable portion of other costs incurred from development up to when the asset is available for use.

Deferred charges, which include start-up and capital costs and development costs are recognised when their income generating potential can be demonstrated, the related future economic benefits flowing to the company can be objectively matched thereto and their recovery can be reasonably estimated.

Intangible fixed assets, comprising patents, intellectual property rights, copyrights, concessions, licences and know-how, are recognised as assets only if they can be identified individually, the related future economic benefits will flow to the company, which can limit third-party access to such benefits, and their cost can be estimated with sufficient reliability.

Goodwill is recognised as an asset only if acquired against consideration, may be quantified, originates from charges and costs with a long-term useful life which ensure future economic benefits and can, therefore, be recovered.

Leasehold improvements are recognised under other intangible fixed assets when they cannot be separated from the related assets, otherwise they are recognised under the relevant tangible fixed assets captions.

Payments on account to suppliers for intangible fixed assets are recognised when the related payments are due. Assets under development are recognised when the initial costs to develop the asset are incurred and they include the related internal and external costs.

Intangible fixed assets are amortised systematically and the amortisation expensed each year reflects the allocation of the cost incurred over their entire useful life. Amortisation begins when the asset is available for use.

The amortisation pattern depends on how the benefits are expected to flow to the company.

Intangible fixed assets are amortised on a straight-line basis, as follows:

- start-up and capital costs are amortised over five years;
- development costs are amortised over their useful life and, in any case over a period not exceeding five years;
- patents, intellectual property rights, concessions, licences, trademarks and know-how are amortised over the shorter of the legal or contractual term and their expected useful life. The estimated useful life of trademarks cannot exceed 20 years;
- goodwill is amortised systematically over its useful life, i.e., the period of time within which the related economic benefits will probably arise which, in any case, cannot exceed twenty years. When the company is unable to reliably estimate its useful life, goodwill is amortised over a period not longer than ten years;
- other – leasehold improvements are amortised over the shorter of their useful life and the residual lease term, considering any renewal period, if at the company's option.

Assets under development are not amortised. The amortisation process begins when these assets are reclassified to their relevant intangible fixed asset caption.

The amortisation rates applied are usually calculated on a straight-line basis over five years, except for the cost of software programme licences, which are amortised systematically over three years.

Intangible fixed assets are revalued, to the extent of their recoverable amount, only if special laws require or permit so.

The straight-line amortisation pattern is in line with that applied in previous years.

At year end, the conditions that allowed the capitalisation of these costs in previous years still existed and, therefore, the company was not required to recognise the write-downs as per article 2426.1.3 of the Italian Civil Code, other than those provided for in the existing amortisation pattern.

Tangible fixed assets

Tangible fixed assets are recognised at purchase or production cost, adjusted by accumulated depreciation and write-downs. The purchase cost is the cost actually incurred to purchase the asset and includes the related transaction costs. The production cost includes all directly attributable charges and the reasonably attributable portion of other costs incurred from production up to when the asset is available for use.

Ordinary maintenance costs related to recurring maintenance and repairs to keep assets in good working order to ensure their expected useful life, capacity and original productivity, are expensed when incurred.

Extraordinary maintenance costs incurred to expand, modernise, replace or improve an asset are capitalised within the limits of its recoverable amount if they result in a significant and measurable increase in its production capacity, safety or useful life.

Depreciation is calculated systematically and on a straight-line basis, using rates held to reflect the asset's estimated useful life.

Depreciation begins when the asset becomes available for use.

In accordance with the principle of materiality set out in article 2423.4 of the Italian Civil Code and the applicable reporting standard, the depreciation rates are halved in the first year in which the asset is available for use.

Temporarily unused assets are also depreciated.

Land is not depreciated, except when its useful life is finite. If the carrying amount of a building also includes the underlying land, the carrying amount of the building is separated, including based on estimates, for depreciation purposes.

The amount to be depreciated is the difference between the cost of the asset and, when it can be calculated, the residual amount at the end of its useful life which is estimated when the depreciation plan is prepared and periodically revised in order to check that the initial estimate is still valid.

When the check shows that an asset's estimated residual value is equal to or higher than its carrying amount, the asset is no longer depreciated.

The company refers to the maximum rates in the table attached to the Ministerial decree of 31 December 1988 (updated by the Ministerial decree of 17 Novem-

ber 1992) for Group IX, Species 9 (Pharmaceutical, chemical-pharmaceutical and related production) to define its depreciation pattern and rates. These maxi-

imum rates are deemed to reflect the assets' residual useful lives in accordance with the provisions of article 2426.1.2 of the Italian Civil Code.

The depreciation rates applied are as follows:

Asset category	Rate
Industrial buildings and appurtenance land	5.5%
Buildings for corrosive processing	10.0%
General plant	10.0%
Plants for slightly corrosive processing	12.0%
Plants for corrosive processing	17.5%
Purification plants	12.0%
Vehicles and internal means of transport	20.0%
Sundry and small equipment	40.0%
Office furniture and equipment Electronic office equipment	12.0%
Electronic office equipment	20.0%
Cars	25.0%

Assets with a unit value of less than €516 purchased during the year are not depreciated when they will not be used by the company in the long term due to their modest value and characteristics. Therefore and as required by OIC 16, these assets are not depreciated but their cost is expensed.

Assets under finance leases are recognised in the balance sheet assets if and when the purchase option is exercised. During the lease term, the lease payments are recognised in the profit and loss statement as production costs on an accruals basis. The notes disclose the effects that would have affected the financial statements captions, net equity and the net profit (loss) for the year had the "financial method" been applied.

Tangible fixed assets held for sale are reclassified to current assets only if they can be sold at their present conditions, their sale is highly probable and it is expected to be completed in the short term. They are not depreciated but measured at the lower of their carrying amount and estimated realisable value based on market trends.

Obsolete tangible fixed assets and, in general, those that are no longer used or can no longer be used in production permanently are not depreciated and are measured at the lower of their carrying amount and recoverable amount.

The cost of some assets is adjusted to comply with specific monetary, mandatory or optional laws (details are given in the relevant note caption).

Tangible fixed assets are revalued, to the extent of their recoverable amount, only if special laws require or permit so.

Write-downs for impairment losses on tangible and intangible fixed assets

If, at the reporting date, there are indications of impairment losses on tangible and intangible fixed assets, the recoverable amount of such assets is estimated. If the recoverable amount, being the higher of value in use and fair value less costs to sell, is lower than the corresponding carrying amount, the assets are written down.

When the recoverable amount of an asset cannot be estimated, it is tested for impairment at cash-generating unit ("CGU") level, that is, the lowest identifiable level for assets, which includes the assets to be measured and generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets.

Value in use is calculated on the basis of the present value of the future cash flows that the company expects to derive from the asset over its useful life, based on the most recent plans approved by the board of directors. Future cash flows are estimated for the asset in its current condition. Therefore, they do not include estimated future cash inflows or outflows that are expected to arise from a future restructuring to which the company is not yet committed or improving or enhancing the asset's performance.

The discount rate applied to calculate the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

This rate is estimated based on the implicit rate used for similar assets or in current market transactions or the company's weighted average cost of capital.

Fair value is determined based on the price agreed in a binding sales agreement in an orderly transaction, or as market price on an active market. If there is no binding sales agreement or an active market, fair value is determined on the basis of the best available information such to reflect the amount the company could obtain, at the reporting date, from the sale of the asset in an orderly transaction between knowledgeable and willing parties. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry.

Costs of disposal are subtracted from fair value in the calculation of the recoverable amount.

If an impairment loss is identified, it is firstly recognised as a decrease in goodwill, if any, and then in the other assets proportionally to their carrying amount.

The write-down is not maintained in subsequent years if the reasons therefor cease to exist. The write-down is reversed up to the amount the asset would have had if the write-down had never taken place, that is, net of the amortisation/depreciation that would have been recognised in the absence of the write-down. Write-downs of goodwill and deferred charges cannot be reversed.

Financial fixed assets

Equity investments and debt instruments which the company intends and has the capacity to hold in the long term are recognised under financial fixed assets. Otherwise, they are recognised under current assets. Transfers in or out of the two categories are recognised in accordance with the accounting policies applicable to the portfolio which the asset comes from.

Receivables are recognised under fixed or current assets depending on their intended use in relation to the company's ordinary activities that generate them. Accordingly, financial receivables are recognised under financial fixed assets, whereas trade receivables are recognised under current assets, regardless of their due date.

Equity investments

Equity investments in subsidiaries and other companies are measured at cost. They are initially recognised at acquisition or incorporation cost, including the related transaction costs. The latter comprise costs that are directly attributable to the transaction such as, for example, bank and finan-

cial brokerage fees, commissions, expenses and taxes.

The carrying amount of investments rises as a result of capital increases against consideration or the company's waivers of repayment of receivables from the investees. Any bonus issue does not increase the investments' carrying amount.

They are written down for impairment, when their carrying amount decreases to below their recoverable amount at the reporting date. The recoverable amount is calculated based on the economic benefits the company expects to receive from the investment. They are written down to the extent of the carrying amount. If the company has an obligation to cover an investee's losses, it sets up a provision under liabilities to cover its share of the investee's deficit.

Equity investments are written back up to their original cost if the reasons for the write-downs cease to exist.

Inventory

Inventory is initially recognised at purchase or production cost and subsequently measured at the lower of cost and estimated realisable value based on market trends.

Purchase cost is the actual cost paid upon purchase including related charges. The purchase cost of materials includes their price, transport costs, customs and other duties and other directly attributable costs. Returns, commercial discounts, rebates and bonuses are deducted from costs.

Production cost includes all direct costs and the reasonably attributable portion of indirect costs incurred from production up to when the asset is available for use, based on normal production capacity. Production cost excludes general and administrative costs, distribution costs and research and development costs.

The company has adopted the weighted average cost model.

The estimated realisable value based on market trends is the estimate of ordinary sales prices of goods and finished products, net of estimated completion costs and direct sales costs. Obsolescence and turnover are also taken into account in calculating the estimated realisable value based on market trends.

Raw materials and supplies used in manufacturing finished goods are not written down if the realisable value

of such goods is expected to be equal to or higher than their production cost. Moreover, should the price of raw materials and supplies decrease and the cost of finished goods exceed their realisable value, the raw materials and supplies are written down to their net realisable value, assumed to be the best estimate of their market price.

Contract work in progress is recognised based on the percentage of completion, whereby the work is measured on the basis of the contractual fee accrued. This allows a more accurate presentation of the contract on an accruals basis.

Therefore, inventory items whose estimated realisable value based on market trends is lower than their carrying amount are written down.

Should the reasons for the write-down applied as an adjustment to the realisable value based on market trends cease to exist, in whole or in part, the write-down is reversed to the extent of the originally incurred cost.

Receivables

Receivables are rights to receive fixed or determinable amounts of cash or its equivalent from customers or other third parties at identified or identifiable due dates.

Receivables arising from the sale of goods and supply of services are recognised in accordance with the requirements set out in the section on revenues. Receivables arising for other reasons are recognised if they result in a right to a receivable, i.e., if they actually give rise to a third party obligation to the company.

Receivables are recognised at amortised cost, considering the time value of money and their estimated realisable value.

The amortised cost method is not applied when its effects are irrelevant, which is usually the case for current receivables or when transaction costs, commissions paid between the parties and any other difference between the original and recoverable amounts at the due date are insignificant.

Furthermore, pursuant to article 12.2 of Legislative decree no. 139/2015, the company opted not to recognise financial receivables arising before 1 January 2016 at amortised cost and did not discount them.

In this case, receivables are initially recognised at their nominal amount, net of bonuses, discounts and allowanc-

es contractually provided for or, in any case, granted. They are subsequently measured at their nominal amount plus interest calculated at the nominal interest rate, reduced by principal and interest collected and net of estimated write-downs and expected credit losses recognised to adjust their carrying amount to their estimated realisable value.

Cash discounts and allowances, that were not included in the calculation of the estimated realisable value as they could not be determined when the receivable was originally recognised, are recognised upon collection as financial charges.

When the company recognises receivables at amortised cost, their carrying amount at initial recognition is their nominal amount, unless discounting is necessary, as described later on, net of any bonuses, discounts and allowances, as well as any directly attributable transaction costs.

The amortised cost calculation using the effective interest method includes transaction costs, commissions and any other difference between the receivables' initial carrying amount and the nominal amount at their due date. The effective interest rate is calculated upon initial recognition and maintained for subsequent measurements, except when variable rates indexed to market rates have been contractually agreed.

At each reporting date, the carrying amount of receivables measured at amortised cost is the present value of future cash flows, less impairment losses recognised to bring them into line with their estimated realisable value, discounted using the effective interest rate.

Cash discounts and allowances that were not included in the calculation of the amortised cost as they could not be determined when the receivable was originally recognised, are recognised upon collection as financial charges.

Trade receivables due after one year upon initial recognition that do not bear interest or bear contractual interest at rates that significantly differ from market rates are initially recognised at their present value by discounting future cash flows using market interest rates. The difference between the carrying amount at initial recognition and the terminal value is recognised in the profit and loss statement as interest income over the receivable's life, using the effective interest method.

The company recognises these receivables at their estimated realisable value by writing down their carrying amount through the provision for bad debts, in order to provide for any risk of impairment. To this end, the company considers specific indicators based on past trends

and any other useful information about a probable impairment. The write-downs are estimated on an individual basis for significant receivables and collectively for the others, by calculating the expected impairment losses at the reporting date.

The amount of the impairment loss on receivables measured at amortised cost is the difference between their carrying amount and the estimated present value of future cash flows discounted using the receivables' original effective interest rate, net of any expected irrecoverable amounts.

Receivables are derecognised when the contractual rights to the cash flows from the receivable are extinguished or title thereto is transferred along with nearly all the related risks. To verify transfer of the risks, the company considers all the contractual clauses.

When the above-mentioned conditions are met and the receivable is derecognised, any difference between the amount collected and the receivable's carrying amount is recognised as an impairment loss in the profit and loss statement, unless another classification, including financial, may be identified based on the transfer agreement.

Current financial assets

They include securities held for trading purposes and are initially recognised at acquisition cost, including the related transaction costs, and are subsequently measured individually at the lower of acquisition cost and estimated realisable value based on market trends. When the reasons for previous write-downs entirely or partially cease to exist due to a recovery in market value, the write-down is reversed up to, but not exceeding, the investment's original cost.

Liquid funds

These are the positive balances of bank and postal accounts and cheques, as well as the cash-in-hand and cash equivalents at year end. Bank and postal account deposits and cheques are recognised at their estimated realisable value, cash and revenue stamps at their nominal amount, while foreign currency is measured at the closing rate.

Prepayments and accrued income and accrued expenses and deferred income

Accrued income and expenses are respectively portions of income and expenses pertaining to the year but that will be collected/paid in subsequent years.

Prepayments and deferred income are respectively portions of expenses and income collected/paid during the year or in previous years but pertaining to one or more subsequent years.

Accordingly, these captions comprise only portions of expenses and income relating to two or more years, whose amount varies on a time or economic accruals basis.

At each year end, the company analyses the conditions underlying their initial recognition and makes any necessary adjustments. Specifically, the balance of accrued income varies not only over time, but also based on its expected realisable value, whereas that of prepayments is based on the existence of future economic benefits matching the deferred costs.

Net equity

Transactions between the company and its owners (acting as owners) may result in receivables/payables from/to them. The company recognises a receivable when its owners take on an obligation and a payable when it takes on an obligation to them.

Capital injections with no repayment obligation are recognised under the relevant net equity caption, while shareholder loans with a repayment obligation are recognised under payables.

Provisions for risks and charges

Provisions for risks and charges are recognised to cover specific liabilities that are certain or probable, but whose amount or due date is unknown at the reporting date. Specifically, provisions for risks relate to specific liabilities whose occurrence is probable and amount estimated, while provisions for charges relate to specific liabilities, whose occurrence is certain and amount or due date estimated, that arise from obligations already taken on at the reporting date but which will be paid in subsequent years.

Accruals to provisions for risks and charges are primarily recognised in the profit and loss statement section to which the transaction relates, privileging the classification of costs by nature. The amount of the accruals to the provisions is based on the best estimate of costs, including the legal expenses, at each reporting date and is not discounted.

If the measurement of the accruals gives a range of values, the accrual represents the best possible esti-

mate between the upper and lower thresholds of the range.

The provisions are subsequently used directly and solely for those costs and liabilities for which they were originally set up. If they are not sufficient or are redundant, the shortfall or surplus is recognised in the profit and loss statement in line with the original accrual.

Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the underlying);
- b) it requires no initial net investment or an initial net investment that is smaller than that required for other types of contracts that would be expected to have a similar response to changes in market factors;
- c) it is settled at a future date.

Derivatives include contracts to purchase or sell commodities that give either one of the parties the right to settle the contract in cash or using other financial instruments unless the following conditions concurrently arise:

- the contract was agreed or maintained to purchase, sell or use commodities;
- they have had that purpose since when they were entered into;
- their expected performance is the delivery of the non-financial item.

The company recognises a derivative when it becomes party to its contractual provisions, i.e., when it signs the contract and is, therefore, subject to its rights and obligations. It recognises derivatives, including embedded derivatives, at fair value.

Derivatives embedded in hybrid contracts are separated from the non-derivative host and recognised separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative provided for in OIC 32. The company assesses whether

it is required to separate an embedded derivative and recognise it separately only at the hybrid instrument's initial recognition or at the date when its contractual clauses are amended.

At each reporting date, the company measures derivatives at fair value and presents them in the specific balance sheet captions as current or fixed (in the case of hedges of fixed assets or liabilities due after one year) assets, if their fair value is positive or under provisions for risks and charges, if their fair value is negative. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The company measures the fair value of unlisted derivatives using adequate valuation techniques and the assumptions, parameters and fair value hierarchy levels required by the relevant OIC.

Fair value gains or losses on derivatives that do not meet the hedge accounting requirements are recognised in the specific profit and loss statement captions.

Hedge accounting

A derivative qualifies for hedge accounting if all of the following criteria are met:

- a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- c) the hedging relationship meets the qualitative and quantitative hedge effectiveness requirements.

Therefore, if the company uses derivatives as hedges from a management perspective but the hedging relationship does not fully meet hedge accounting requirements, it recognises them based on the general treatment described earlier.

The hedge effectiveness is documented at initial recognition and also on an ongoing basis. At each reporting date, the company assesses whether the hedging relationship is still effective. If all the requirements mentioned above are met, hedging relationships may be accounted for using the following models.

Fair value hedges

If a derivative is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment that is attributable to a particular risk and could affect the net profit or loss, the gain or loss on both the hedging instrument and the hedged

item attributable to the hedged risk is recognised in the specific profit and loss statement caption, to the extent that the gain or loss on the hedged item does not exceed the fair value gain or loss of the hedging instrument. Any surplus is recognised in the profit and loss statement caption affected by the hedged item. The fair value gain or loss attributable to the hedged risk adjusts the carrying amount of the hedged item in the balance sheet to the extent, for assets, of their recoverable amount.

Cash flow hedges

If a derivative is designated as a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction and could affect the net profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the specific net equity reserve, whereas the ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss statement.

The gains or losses accumulated in the net equity reserve are reclassified to the profit and loss statement in the year or over the years during which the hedged future cash flows affect the net profit or loss. If a firm commitment or a highly probable forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses that were recognised in the specific reserve are reclassified from net equity to the carrying amount of the asset (to the extent of its recoverable amount) or liability upon its recognition.

When the company discontinues hedge accounting for a cash flow hedge, but the hedged future cash flows are still expected to occur, the amount that has been accumulated in the reserve remains in net equity until the future cash flows occur. If the hedged future cash flows are no longer expected to occur or the forecast transaction is no longer highly probable, that amount is immediately reclassified from the reserve to the profit and loss statement.

When hedging relationships only relate to derivatives with characteristics very similar to those of the hedged item and the derivative has been entered into at market conditions (for example, forwards or swaps with a fair value approximating nil) at initial recognition, the company applies the treatment applicable to simple hedges described below, if:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship there is formal designation and documentation of the hedg-

ing relationship and the entity's risk management objective and strategy for undertaking the hedge;

- the main elements of the hedging instrument and hedged item (nominal amount, settlement date of cash flows, due date and underlying variable) match or are closely in line and the counterparty's credit risk does not significantly affect the fair value of the hedging instruments and hedged item.

At each reporting date, the company checks that the effectiveness requirements described above are still met, including the credit risk of the counterparty to the hedging instruments and hedged item, which may cause the discontinuation of the hedging relationship if it becomes significant.

Employees' leaving entitlement

The Italian employees' leaving entitlement (TFR) is the benefit to which employees are entitled in any case of termination of employment pursuant to article 2120 of the Italian Civil Code and considering the changes in legislation introduced by Law no. 296/2006. The overall accrued benefit considers any type of continuous remuneration and is net of any payments on account and partial advances paid by virtue of national or individual labour contracts or company agreements which are not required to be repaid.

The related liability is the amount that the company would have paid had all employees left at the reporting date. The amount due to employees who had already left the company at the reporting date but that will be paid in the following year is reclassified to payables.

Payables

Payables are specific and certain liabilities that are obligations to pay fixed or determinable sums of cash or its equivalent to financial backers, suppliers or other parties.

Payables arising from the purchase of goods are recognised when the production process for the goods has been completed and the substantial transfer of title has taken place, with the transfer of risks and benefits being the key parameter. Payables relating to services are recognised once the services have been delivered, i.e., when they have been carried out. Loans and borrowings and payables unrelated to the procurement of goods and services are recognised when the company has an obligation vis-a-vis the counterparty. Payables for advances from customers are recognised when the right to collect the advance arises.

Payables are recognised at amortised cost, considering the time value of money.

The amortised cost method is not applied when its effects are irrelevant, which is usually the case for current payables or when transaction costs, commissions paid between the parties and any other difference between the original and settlement amounts at the due date are insignificant.

Furthermore, pursuant to article 12.2 of Legislative decree no. 139/2015, the company opted not to recognise payables arising before 1 January 2016 at amortised cost and did not discount them.

In this case, payables are initially recognised at their nominal amount, net of bonuses, discounts and allowances contractually provided for or, in any case, granted. They are subsequently measured at their nominal amount plus interest calculated at the nominal interest rate, reduced by principal and interest paid.

In the event of early settlement, the difference between the residual outstanding amount and the outlay to settle the obligation is recognised as financial income or charges.

Cash discounts and allowances that were not included in the calculation of the carrying amount at initial recognition as they could not be determined when the payable was originally recognised, are recognised upon settlement as financial income.

When the company recognises payables at amortised cost, their carrying amount at initial recognition is their nominal amount, unless discounting is necessary, as described later on, net of any bonuses, discounts and allowances, as well as any directly attributable transaction costs.

The amortised cost calculation using the effective interest method includes transaction costs, initial commission income and expense, issue costs, premiums and discounts and any other difference between the initial carrying amount and the nominal amount at the payable's due date. The effective interest rate is calculated upon initial recognition and maintained for subsequent measurements, except when variable rates indexed to market rates have been contractually agreed. At each reporting date, the carrying amount of payables measured at amortised cost is the present value of future cash flows discounted using the effective interest rate.

In the event of early settlement, the difference between the residual outstanding amount and the outlay to settle the obligation is recognised as financial income or charges.

Cash discounts and allowances that were not included in the calculation of the amortised cost as they could not be determined when the payable was originally recognised, are recognised upon settlement as financial income.

Trade payables due after one year upon initial recognition that do not bear interest or bear contractual interest that significantly differs from market rates and the related costs are initially recognised at their present value by discounting future cash flows at market interest rates. The difference between the carrying amount at initial recognition and the terminal value is recognised in the profit and loss statement as interest expense over the payable's life, using the effective interest method.

With regard to loans and borrowings, the company recognises the difference between the cash received and the present value of future cash flows calculated using the market rate as financial income or charges upon initial recognition, except when the transaction's or contract's substance requires its allocation to another caption and a different accounting treatment.

Payables are derecognised, in whole or in part, when the relevant contractual and/or legal obligations are extinguished for settlement or other reasons, or are transferred.

Foreign currency transactions, assets and liabilities

Assets and liabilities generated by foreign currency transactions are initially recognised in Euros, applying the transaction-date spot rate between the Euro and foreign currency to the foreign currency amount.

Foreign currency monetary items, including the provisions for risks and charges related to foreign currency liabilities, are translated using the closing spot rates. Any resulting gains or losses are taken to the profit and loss statement.

Non-monetary foreign currency assets and liabilities are maintained in the balance sheet at the transaction-date exchange rate. Consequently, any exchange rate gains or losses are not recognised separately.

Any unrealised net exchange rate gain on foreign currency monetary items forms part of the net profit or loss for the year and, when the financial statements and consequent allocation of the net profit or loss for the year are approved, it is recognised in a undistributable reserve. Should the net profit for the year be lower than the unrealised net exchange rate gain, the amount recognised in the undistributable reserve is equal to the net profit for the year.

If foreign currency items are designated as hedged items or hedging instruments in a hedging relationship, the company applies the accounting treatment described in the “Derivatives” section.

Revenues and costs

Revenues and income, costs and charges are stated net of returns, allowances, discounts and premiums, as well as taxes directly related to the sale of goods or provision of services, in compliance with the accruals and prudence concepts. Revenues from the sale of goods are recognised when the production process for the goods has been completed and the exchange has already taken place i.e., upon the substantial rather than formal transfer of title, with the transfer of risks and benefits being the key parameter. Revenues from the provision of services are recognised once the services have been provided, i.e., when they have been carried out.

Revenues and income, costs and charges relating to foreign currency transactions are translated using the spot exchange rate ruling on the date of the relevant transaction.

Gains and losses from repurchase agreements, including those arising from the difference between the spot and forward prices, are recognised on an accruals basis.

When the amortised cost method is applied, interest is recognised using the effective interest method. Financial charges are recognised for the amount accrued during the year.

Revenues and costs, whose amount or impact is exceptional, are disclosed in a specific section of these notes.

Income taxes

Current income taxes for the year are calculated on the basis of a realistic forecast of the taxable profit under the relevant tax legislation and applying the enacted tax rates at the reporting date. The related tax payable is stated at its nominal amount in the balance sheet, net of payments on account, withholding taxes and tax receivables which may be offset and have not been claimed for reimbursement. A tax asset is recognised for payments on account, withholdings and receivables exceeding the taxes payable. Tax receivables and payables are measured at amortised cost, except when they are due within one year.

The company participates in its parent’s domestic tax consolidation scheme for IRES (corporate income tax) purposes (see the relevant section of these notes). Deferred tax assets and liabilities are calculated on the accumulated amount of all temporary differences between the carrying amounts of assets and liabilities and their tax base that will reverse in subsequent years.

Deferred tax liabilities arising from taxable temporary differences relating to investments in subsidiaries and transactions giving rise to reserves taxable on distribution are always recognised unless the specific requirements provided for by the relevant standard are met.

Deferred taxes related to transactions that directly affect net equity are not recognised in the profit and loss statement but are initially recognised in the provisions for risks and charges by reducing the matching net equity caption.

Deferred tax assets and liabilities are recognised when the temporary differences arise and are calculated at the tax rates that will be applicable in the year in which the temporary differences reverse, if they have already been established at the reporting date, otherwise at the enacted tax rates at the reporting date.

The deferred tax assets on deductible temporary differences and on the benefit connected with the carry forward of tax losses are recognised and maintained only when the company is reasonably certain, through the availability of future taxable profits against which the deferred tax assets may be used or the availability of sufficient taxable temporary differences to recover them in the years in which they reverse.

Deferred tax assets not recognised or impaired in prior years as the requirements for their recognition were not met are recognised or reinstated in the year in which the relevant requirements are met.

These notes present a schedule of the temporary differences which led to the recognition of deferred tax assets and liabilities, specifying the rate applied, changes over the previous year, amounts taken to the profit and loss statement or net equity, captions excluded from the calculation, the amount of deferred tax assets recognised on net losses for the current or previous years and the amount of taxes not yet recognised.

Income taxes are recognised on the taxable profit in accordance with the ruling regulations and include current and deferred taxes.

Current taxes are calculated by applying:

- the ordinary 24% IRES rate to the taxable profit;
- the IRAP (tax on production activities) rate of 3.90% for the taxable profit earned in the Veneto region and 4.97% for that earned in the Molise region.

Deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities and their tax bases are calculated in accordance with the guidance of OIC 25 using the rates of 24% and 3.90% for IRES and IRAP, respectively.

Domestic tax consolidation scheme

In 2017, the company joined the domestic tax consolidation scheme as per articles 117 to 129 of Presidential decree no. 917/1986, as subsequently amended and supplemented, as the subsidiary while its parent is the tax consolidator.

Pursuant to article 119.1.c) of Presidential decree no. 917/1986, the company elected its domicile at its parent's registered office in Viale Milano 26, Montecchio Maggiore for the notification of tax communications and measures for the tax periods covered by the scheme.

In line with the provisions of the domestic tax consolidation scheme for the Nine Trees Group companies, signed with the tax consolidator, and as recommended by the OIC in Interpretation 2, the company recognised the following:

- the income taxes for the year, calculated in accordance with the OIC (including deferred tax assets and liabilities);
- the payable to the tax consolidator for the transfer of the IRES tax base with the tax withholdings and credit given that the scheme is not applicable for IRAP purposes.

Post-balance sheet events

These events modify conditions existing at the reporting date. They require adjustments to the carrying amounts of recognised assets and liabilities in accordance with the relevant accounting policy. They are recognised on an accruals basis to present their reporting-date effect on the company's financial position, financial performance and cash flows.

The post-balance sheet events that modify situations existing at the reporting date but do not require adjustments to the carrying amounts under the relevant accounting policy as they relate to the subsequent year are not recognised but are disclosed in the notes if necessary to give a more complete view of the company's position.

The date within which an event shall be considered a post-balance sheet event is the date on which the directors prepare the draft financial statements, unless events that take place during the period from such date to the date on which the financial statements are expected to be approved by the shareholder have a significant impact on the financial statements.

Comments on the balance sheet and profit and loss statement captions are provided below.

BALANCE SHEET – ASSETS

B) FIXED ASSETS

I. Intangible fixed assets

The following table shows changes in this caption during the year.

Changes in intangible fixed assets

€'000	Start-up and capital costs	Patents, intellectual property rights and know-how	Concessions, licences, trademarks and similar rights	Goodwill	Other assets	Assets under development and payments on account	Total
Opening balance							
Cost	326	20,527	10,236	35,113	1,294	5,216	72,713
Accumulated amortisation	(293)	(12,585)	(8,663)	(16,790)	(1,084)		(39,414)
Carrying amount	33	7,942	1,573	18,323	211	5,216	33,299
Variations							
Increases	491	91	868			1,730	3,180
Amortisation	(131)	(1,469)	(1,180)	(3,511)	(129)		(6,422)
Reclassifications							
Total variations	360	(1,378)	(313)	(3,511)	(129)	1,730	(3,242)
Closing balance							
Cost	818	20,618	11,104	35,113	1,294	6,946	75,893
Accumulated amortisation	(424)	(14,054)	(9,843)	(20,301)	(1,213)		(45,836)
Carrying amount	393	6,564	1,260	14,812	81	6,946	30,057

Start-up and capital costs, amounting to €393 thousand at 31 December 2021 and €33 thousand at 31 December 2020, include the capitalised costs of two new projects, regarding upgrading internal processes, that will reap benefits over the long term. They are recognised net of amortisation which is charged systematically over five years.

Industrial patents, intellectual property rights and know-how amount to €6,564 thousand at 31 December 2021 and €7,942 thousand at 31 December 2020. The decrease is mainly due to the amortisation of know-how gained along with the business unit acquired from Zach System S.p.A. in December 2016. Such transaction became effective for accounting and tax purposes on 1 January 2017. The know-how was recognised at cost with the approval of the heads of governance and was amortised at 20% up to 31 December 2018. Following an in-depth valuation of the business unit's processes and thanks to three years of experience in the integration of processes among the facilities, a particular issue was identified in the Lonigo facility's processes, partly applicable to the company's other facilities as well, which justifies an amortisation pattern in line

with the appraisal prepared by an independent expert when the company acquired the business unit (an annual rate of 10%). This amortisation period matches the asset's estimated useful life as shown in the internally-prepared technical reports.

Concessions, licences, trademarks and similar rights, amounting to €1,260 thousand at 31 December 2021 and €1,573 thousand at 31 December 2020, include the cost of software programme licences, amortised systematically over three years.

Goodwill, amounting to €14,812 thousand at 31 December 2021 and €18,323 thousand at 31 December 2020, arose on the acquisition of the PHF business unit in 2016 and the business unit from Zach System S.p.A. in 2017 (described earlier). In both cases, the goodwill was recognised at cost with the board of statutory auditors' approval. It is amortised over ten years which reflect its estimated useful life. The goodwill's cost is supported by a sworn independent expert report prepared for the purposes of the acquisitions.

Pursuant to OIC 9, the company tests the goodwill for impairment at each reporting date if it identifies impairment indicators. Given the positive performance of the two businesses acquired and their profitability, the company deemed that no indicators of impairment as defined by OIC 9 existed.

Other assets, amounting to €81 thousand at 31 December 2021 and €211 thousand at 31 December 2020, include the borrowing costs for financing taken out in previous years. As required by the OIC, transaction and borrowing costs for financing have been included in the calculation of amortised cost using the effective interest method since 2016. This implies that they are amortised over the payable's term.

II. Tangible fixed assets

The following table shows changes in this caption during the year.

Changes in tangible fixed assets

€'000	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Opening balance						
Cost	168,429	584,986	12,984	62,936	53,355	882,689
Accumulated depreciation	(60,646)	(416,064)	(12,475)	(49,270)		(538,455)
Carrying amount	107,782	168,922	509	13,666	53,355	344,234
Variations						
Increases	2,212	13,088	396	1,548	28,520	45,764
Reclassifications	2,419	34,874			(37,293)	
Variation payments on account					819	819
Depreciation	(6,773)	(46,014)	(391)	(4,979)		(58,157)
Total variations	(2,142)	1,948	5	(3,431)	(7,954)	(11,575)
Closing balance						
Cost	173,060	632,948	13,379	64,484	45,400	929,272
Accumulated depreciation	(67,420)	(462,078)	(12,866)	(54,249)		(596,612)
Carrying amount	105,640	170,870	514	10,235	45,400	332,659

Land and buildings, amounting to €105,481 thousand at 31 December 2021 and €107,782 thousand at 31 December 2020, comprise all industrial and office buildings at Lonigo and Termoli, as well as the headquarters at Montecchio Maggiore.

Plant and machinery amount to €170,870 thousand at 31 December 2021 and €168,922 thousand at 31 December 2020. The increases of the year mostly relate to new assets purchased to boost production capacity and improve efficiency at all three production facilities.

Industrial and commercial equipment amount to €514 thousand at 31 December 2021 and €509 thousand at 31 December 2020.

Other assets amount to €10,235 thousand at 31 December 2021 and €13,666 thousand at 31 December 2020.

Assets under construction and payments on account amount to €45,400 thousand at 31 December 2021 and €53,355 thousand at 31 December 2020.

In 2020, the company adopted the option to revalue assets as per Decree law no. 104 of 14 August 2020 (the "August decree"), amended by Law no. 126 of 13 October 2020 (effective as of 14 October 2020). This law gives companies that adopt the OIC the option, as an exception to article 2426 of the Italian Civil Code, to revalue company assets and investments in subsidiaries and associates, excluding buildings constructed or traded as part of the company's activities. In addition, the revaluation may be carried out separately for individual assets, not necessarily by categories of similar assets.

The company opted to avail of this option, recognising buildings, the Montecchio incinerator and plant at the higher amounts of €19,450 thousand, €4,695 thou-

sand and €16,355 thousand, respectively, as the recoverable amounts of the relevant assets. The company adopted the market value approach in calculating the recoverable amount, engaging an external expert to certify that the revalued amount does not exceed the recoverable amount.

As the revaluation method, the company used the historical cost approach as provided by the legislation. The revaluation did not modify the estimated useful life of the assets in accordance with the legislation. Furthermore, depreciation is calculated on the original carrying amounts in 2020 as it is calculated on revalued amounts only starting from the subsequent year.

In addition, the company decided to recognise such higher amounts also for IRES and IRAP purposes by paying a 3% substitute tax that was recognised as a direct reduction of net equity. As the directors' decision had been made and formalised by the date of preparation of these financial statements, it was reflected in the 2020 financial statements with the non-recognition of deferred taxes on the higher amounts recognised as the carrying amount is equal to the amount for tax purposes.

In compliance with OIC 29, paragraph 40, accordingly with the process of revaluation of assets occurred at the end of 2020, during 2021 the Company (engaging an external expert) updated the estimate of the residual useful life of the assets subject to revaluation, thanks to information acquired in the meantime, regarding the assumptions on which the original estimate was based. This residual useful life corresponds to the application of the ordinary rates provided for by Ministerial Decree of October 29, 1974 and Ministerial Decree of December 31, 1988, which correspond to the effective deterioration and use of the asset.

The assets revalued as per article 10 of Law no. 72 of 19 March 1983 are listed in the following table. No write-downs were made in excess of ordinary depreciation as per article 2426.3 of the Italian Civil Code as there was no indication of impairment.

REVALUATIONS

€'000	Historical cost	Law no. 576/75	Law no. 72/83	Law no. 413/91	Law no. 342/00	Law no. 350/03	Decree law no. 185/08	1989	Decree law no. 104 /20	Total revaluation
Land	507						501			501
Appurtenance land	777	52	46	62			14655	2,452		17,267
Civil buildings	310						3			3
Industrial buildings	69,680		124	276		1,627		675	19450	22,152
Light construction	2,704		36	89		361		220		706
Land and buildings	73,978	52	206	427		1,988	15,159	3,347	19,450	40,629
General plant	15,437				2,181	1,146		468		3,795
Plant for slightly corrosive processing	23,415		81		1,582	953		921	4695	8,232
Plants for corrosive processing	134,189	8	143		27,190	7,865		1,083	16,355	52,644
Purification plants	3,533					533				533
Plant and machinery	176,574	8	224		30,953	10,497		2,472	21,050	65,204
Vehicles and internal means of transport	198					47		3		50
Sundry and small equipment						270				270
Industrial and commercial equipment	198					317		3		320
Office furniture and equipment										
Electric and electronic equipment	725					113		15		128
Cars	5,685					1,987				1,987
Other assets	6,410					2,100		15		2,115
Total	257,160	60	430	427	30,953	14,902	15,159	5,837	40,500	108,268

III. Financial fixed assets

Financial fixed assets did not undergo any variations during the year.

Changes in equity investments

€'000	Investments in subsidiaries	% held	Investments in other companies	Total investments
Cost	40	100%	4	44
Carrying amount	40		4	44

Breakdown of investments in other companies

€'000	Carrying amount
Consorzio C.PA.	1,549
Consorzio I.S.A.W.	1,549
Caf Rag.Comm. Srl	1
Cad Cdl s.r.l.	1
Consorzio Selco	859
3R Associati S.p.A.	2
C.a.a.f. Assoc. Ind. VI	1
Banca Terre Venete	516
Total	4,478

C) CURRENT ASSETS

I. Inventory

At year end, inventory may be analysed as follows:

€'000	31.12.2021	31.12.2020	Variation
Raw materials, consumables and supplies	127,900	67,004	60,896
Work in progress and semi-finished products	102,313	102,981	(669)
Contract work in progress	979	2,658	(1,679)
Finished goods	61,562	64,288	(2,726)
Payments on account	9,121	5,369	3,752
Total	301,876	242,301	59,574

The increase in inventory is due to the reasons set out below.

The main impact on raw materials and production intermediates is the rise in the price of precious metals, especially rhodium, used to produce catalysts which are needed to produce certain key products. Precious metals are a listed commodity, therefore their price is set by the metal exchange and cannot be negotiated in any way with suppliers on the market. In addition, the increase is also a result of both higher prices for certain key raw materials for the company's production and the emergency stock operation put into effect to ensure continuity of supply to customers in view of potential supply chain issues caused by the ongoing pandemic.

Despite the considerable rise in turnover and the increased stock of certain new products launched on the market in 2021 and expected to prosper in 2022, the company's integrated management of planning demand and production allowed it to significantly improve its turnover of finished goods, which decreased on the previous year end, along with the turnover of work in progress and semi-finished products, which remained more or less unchanged on the previous year end.

Contract work in progress comprises accruals made for costs incurred for development contracts with various customers which will be invoiced in the future.

Payments on account mainly relate to the group company Delmar Chemicals Inc. for future supplies of raw materials and finished goods.

The caption's carrying amount is net of the accrual to the provision for inventory write-down, set up to adjust the carrying amount of some technical materials, raw materials, work in progress and finished goods that are obsolete or slow-moving to their estimated realisable value. The company continued to apply the calculation method adopted in 2020 based on an analysis of inventory turnover and *ad-hoc* write-down rates which reflect the ageing of inventory and its possibility of use/sale, also taking into account the residual shelf life of the products.

Changes in the provision are shown below. It decreased overall following the utilisation during the year for technically obsolete products.

€'000	Raw materials	Semi-finished products	Finished goods	Technical items	Total
Opening balance	(860)	(1,066)	(8,036)	(533)	(10,495)
Accruals	(816)	(1,206)		(122)	(2,144)
Utilisations	860	1,066	2,608		4,534
Total	(816)	(1,206)	(5,428)	(655)	(8,105)

II. Receivables

Trade receivables

Trade receivables are recognised at their estimated realisable value rather than at amortised cost as they are due within one year.

The receivables' nominal amount is adjusted to their estimated realisable value through the provision for bad debts, considering impairment indicators.

They arise on normal sales transactions and may be analysed as follows:

€'000	31.12.2021	31.12.2020	Variation
Italian customers	7,782	3,580	4,202
Foreign customers	97,254	80,469	16,785
Invoices to be issued - Italian customers	231		231
Invoices to be issued - foreign customers	2,069	10,255	(8,186)
Credit notes to be issued	(4,425)	(4,600)	175
Net exchange rate gains (losses)	80	(815)	895
Provision for bad debts	(515)	(940)	425
Total	102,476	87,949	14,527

Trade receivables from both Italian and foreign customers increased, in line with the growth in turnover, especially in the last few months of the year. The DSO remained basically unchanged.

Conversely, invoices to be issued dropped considerably. This refers to a price escalation clause agreed with a key customer in 2020 to offset some additional production costs incurred by the company for a specific product. At the date of preparation of the 2020 financial statements, the relevant invoice had not yet been

issued. In 2021, however, all the main price revision arrangements to offset bullish trends in key raw materials prices were agreed and invoiced within the date of preparation of these financial statements, with the exception of some minor amounts.

In November and December 2021, the company assigned trade receivables of USD25,045 thousand and €28,975 thousand to factoring companies without recourse.

Changes in the provision for bad debts are as follows:

€'000	31.12.2021	31.12.2020	Variation
Opening balance	(940)	(1,940)	1,000
Utilisations	(515)		(515)
Releases	940	1,000	(60)
Closing balance	(515)	(940)	425

The provision for bad debts at 31 December 2021 is in line with tax legislation and amounts to 0.5% of total trade receivables at such date.

The company does not have receivables or payables subject to repurchase agreements as per article 2424-bis.5 of the Italian Civil Code.

Receivables from parents

€'000	31.12.2021	31.12.2020	Variation
Receivables for the domestic tax consolidation scheme	22,759	16,051	6,708
Receivables for services provided	92	94	(1)
Receivables from parents	22,851	16,145	6,707

Receivables from subsidiaries of parents

€'000	31.12.2021	31.12.2020	Variation
Receivables from subsidiaries of parents	2,512	3,227	(715)

The balance at 31 December 2021 mainly refers to:

- invoices issued to the Canadian related company Delmar Chemicals Inc. for services and sundry materials (€1,993,026);
- invoices to be issued to FIS North America Inc. (approximately €229,068);
- invoices issued to the related company Brenta S.r.l. for know-how consultancy services (€289,838).

Receivables from subsidiaries

€'000	31.12.2021	31.12.2020	Variation
Receivables from subsidiaries		376	(376)

Tax receivables

This caption comprises:

€'000	31.12.2021	31.12.2020	Variation
IRES on IRAP reimbursement	32	32	
Other	4,584	1,514	3,070
VAT	3,536	191	3,345
Total	8,151	1,736	6,415

Other tax receivables chiefly refer to the tax benefits for Industry 4.0 investments.

Deferred tax assets

Deferred tax assets of €5,406,475 included in caption CII 4-ter show a decrease of €170,715 and are recognised on negative temporary differences. They are analysed in the table required by article 2427.14 of the Italian Civil Code.

Deferred tax assets are recognised as due within one year given that the company does not currently know the time limit for the tax deductibility of the related expense. It is reasonably certain that they will be recovered based on forecasts of its taxable profits in a reasonable period of time that should be sufficient to allow the use of the recognised deferred tax assets.

Receivables from others

This caption may be analysed as follows:

€'000	31.12.2021	31.12.2020	Variation
Advances to employees	3,394	3,520	(126)
Guarantee deposits	186	67	119
Sundry receivables	2,109	2,284	(175)
Total	5,689	5,870	(181)

The decrease in advances to employees refers to loans given to them as provided for by the internal labour agreement and relevant repayments as the instalment of the year was higher than the loans paid out.

Variations and due dates of current receivables

€'000	Opening balance	Variations	Closing balance	Due within one year	Due after one year	Due after five years
Trade receivables	87,949	14,527	102,476			
Receivables from subsidiaries	376	(376)				
Receivables from parents	16,145	6,707	22,851			
Receivables from subsidiaries of parents	3,227	(715)	2,512			
Tax receivables	1,736	6,415	8,151	4,082		
Deferred tax assets	5,577	(171)	5,406			
Receivables from others	5,870	(181)	5,689	392		
Total	120,881	26,205	147,086	4,474		

Breakdown of current receivables by geographical segment

The following table provides a breakdown of receivables by geographical segment as required by article 2427.1.6 of the Italian Civil Code. The large amount of receivables from non-EU customers relates mainly to multinationals based outside Europe.

Breakdown of current receivables by geographical segment

€'000	Italy	UE	Non-EU	Total
Trade receivables	7,957	30,029	64,490	102,476
Receivables from parents	22,851			22,851
Receivables from subsidiaries of parents	290		2,222	2,512
Tax receivables	8,151			8,151
Deferred tax assets	5,406			5,406
Receivables from others	5,689			5,689
Total	50,345	30,029	66,712	147,086

III. Liquid funds

This caption includes liquidity held in bank accounts and as petty cash (reference should be made to the cash flow statement).

Liquid funds increased by €18,872 thousand on the previous year end, despite the considerable use of funds to repay two principal instalments of the medium/long-term loan (€8,106 thousand at 30 June 2021 and €18,914 thousand at 31 December 2021). The increase was due to the company's continuous actions to optimise working capital, in order to improve cash generation, through effective collection management processes, including resort to factoring and reverse factoring arrangements.

Changes in liquid funds

€'000	Opening balance	Variations	Closing balance
Bank and postal accounts	55,883	18,874	74,756
Cash-in-hand and cash equivalents	15	(2)	14
Total	55,898	18,872	74,770

D) PREPAYMENTS AND ACCRUED INCOME

Changes in this caption are shown below:

Breakdown of changes in prepayments and accrued income

€'000	Prepayments
Opening balance	364
Variations	745
Closing balance	1,109

The caption mainly comprises lease and maintenance prepayments for services provided around the year end. There are no prepayments or accrued income relating to more than five years.

BALANCE SHEET – LIABILITIES

A) NET EQUITY

This section describes the main net equity items and changes therein during the year.

I. Share capital

The share capital of €10,000,000 is unchanged from the previous year end, is fully subscribed and paid-up and comprises 2,000,000 ordinary shares with a nominal amount of €5 each.

III. Revaluation reserves

This caption increased following the revaluation of assets, as per article 110 of Decree law no. 104 of 14 August 2020 (the “August decree”), amended by Law no. 126 of 13 October 2020 (effective as of 14 October 2020).

Changes in this caption are shown below.

€'000	31.12.2021	31.12.2020
Law no. 342 of 21 November 2000	25,992	25,992
Law no. 350 of 24 December 2003	12,498	12,498
Decree law no. 185 of 29 November 2008	17,026	17,026
Article 110 of Decree law no. 104 of 14 August 2020	39,285	39,285
Total	94,801	94,801

IV. Legal reserve

This reserve of €2,394,966 did not change during the year as its balance complies with the amount required by article 2430 of the Italian Civil Code and article 41.2 of the company's by-laws.

VI. Other reserves

Other reserves include:

- *undistributed net profits reserve*: €44,662,493;
- *extraordinary reserve*: €81,002,237;
- *reserve for unrealised exchange rate gains*: €459,941;
- *negative goodwill*: this caption was recognised after the merger of S.T.S. S.p.A.; it is unchanged from the previous year end;
- *reserve for state and regional aid*: unchanged from the previous year end;
- *convertible bonds reserve*: in 2019, after the issue of convertible bonds subscribed by the sole shareholder, the company recognised a specific non-distributable reserve of €1,969,271 for the related derivatives, i.e., the option to convert the bonds into equity instruments (as defined by OIC 32).

VII. Riserva per operazioni di copertura dei flussi finanziari attesi

As required by OIC 32 (Derivatives), caption A) VII “Hedging reserve” includes the fair value gains and losses on hedging derivatives in place at the reporting date, net of tax.

Changes in the reserve during the year are shown in the next table, net of tax:

€'000	31.12.2021
Opening balance	732
Fair value losses	(517)
Tax effect	124
Total	338

The company took out new interest rate swaps on the syndicated loan granted in 2019. They expire with the repayment of the loan instalments and therefore are considered non-speculative. The hedging reserve reflects their fair value (€445 thousand) net of tax (€107 thousand).

The currency sales forwards entered into in 2020 expired during the year, thus releasing the hedging reserve and relevant deferred taxes. The same hedges entered into in 2021 expired within the same year and did not entail any changes in the reserve.

Reserves taxable on distribution

The revaluation reserves and the reserve for state and regional aid are only taxed when distributed. The company does not recognise deferred taxes as transactions that would require the reserves' taxation are not envisaged and, therefore, the reserves are a permanent part of the company's net equity. Should they be used for purposes other than to cover net losses, they would be taxed immediately. The new reserve recognised for the revaluation of assets in 2020 is also only taxed when distributed.

Unavailability of reserves in accordance with article 2426.5 of the Italian Civil Code

As shown in the table required by article 2427.7-bis of the Italian Civil Code, the company may distribute dividends using the available reserves for the amount that exceeds the unamortised balance of start-up and capital costs as provided for by article 2426.1.5 of the Italian Civil Code.
(article 2427.1.4/7/7-bis of the Italian Civil Code)

Changes in net equity

The two tables below show changes in the net equity items and their origin, possible use, distribution and use in previous years.

Variations 2020

€'000	Opening balance	Allocation of net profit	Increases	Decreases	Dividend payouts	Net profit	Closing balance
Share capital	10,000						10,000
Revaluation reserves	55,516		39,285				94,801
Legal reserve	2,395						2,395
Extraordinary reserve	73,926	7,076					81,002
Negative goodwill	2,415						2,415
Undistributed net profits reserve	27,200						27,200
Convertible bonds reserve	1,969						1,969
Sundry other reserves	1,045						1,045
Total other reserves	106,555	7,076					113,632
Hedging reserve	124			(856)			(732)
Net profit for the year	7,076	(7,076)				17,923	17,923
Total net equity	181,667		39,285	(856)		17,923	238,018

Variations 2021

€'000	Opening balance	Allocation of net profit	Increases	Decreases	Dividend payouts	Net profit	Closing balance
Share capital	10,000						10,000
Revaluation reserves	94,801						94,801
Legal reserve	2,395						2,395
Extraordinary reserve	81,002						81,002
Negative goodwill	2,415						2,415
Undistributed net profits reserve	27,200	17,463					44,662
Convertible bonds reserve	1,969						1,969
Sundry other reserves	1,045						1,045
Reserve for unrealised exchange rate gains		460					460
Total other reserves	113,632	17,923					131,554
Hedging reserve	(732)		517	(124)			(338)
Net profit for the year	17,923	(17,923)				10,566	10,566
Total net equity	238,018		517	(124)		10,566	248,978

Origin, possible use and distribution of net equity items

€'000	Amount	Possible use	Available portion	Non-distributable portion	Distributable portion	Use in the last three years
Share capital	10,000					
Income-related reserves						
Revaluation reserves	94,801	A-B-C	94,801		94,801	
Legal reserve	2,395			2,395		
Undistributed net profits reserve	44,662	A-B-C	44,662		44,662	26,000
Extraordinary reserve	81,002	A-B-C	81,002		81,002	
Negative goodwill	2,415	A-B-C	2,415		2,415	
Convertible bonds reserve	1,969			1,969		
Hedging reserve	(338)		(338)		(338)	
Reserve for state and regional aid	1,045	A-B-C	1,045		1,045	
Reserve for unrealised exchange rate gains	460					
Net profit for the year	10,566		10,566		10,566	
Total at 31 December 2021	248,978		234,154	4,364	234,154	26,000

Key A: Share capital increases B: To cover losses C: Dividends

B) PROVISIONS FOR RISKS AND CHARGES

Changes in provisions for risks and charges

€'000	31.12.2020	Variation	31.12.2021
Provision for Lonigo integration costs	320	(28)	291
Tax provision, including deferred tax liabilities	650	(211)	439
Hedging provision	1,039	(594)	445
Income support provision	400	(400)	
Total	2,409	(1,233)	1,176

At 31 December 2021, this caption comprises:

€'000	31.12.2020	Accruals	Utilisations	31.12.2021
Pension and similar provisions	320		(28)	291
Tax provision, including deferred tax liabilities	650	233	(444)	439
Hedging provision	1,039	454	(1,048)	445
Income support provision	400		(400)	
Total	2,409	687	(1,920)	1,176

The income support provision accrued in 2020 was utilised during the year.

Pension and similar provisions

This provision includes benefits accrued for the employees of the Lonigo facility payable after a set number of years of service.

Tax provision, including deferred tax liabilities

This caption at B2) of the liabilities side of the balance sheet includes deferred tax liabilities on temporary differences between the carrying amounts of assets and liabilities and their tax base, calculated in accordance with OIC 25. More information about this caption is available in the note to income taxes in the profit and loss statement.

					Decreases 2021		Increases 2021							
	31.12.2020 Temporary differences	IRES 24,00%	IRAP 3,90%	Total taxes	Temporary differences	Total tax effect	Temporary differences	IRES 24,00%	IRAP 3,90%	31.12.2021 Temporary differences	IRES 24,00%	IRAP 3,90%	Total taxes	P&L amounts
€'000														
DEFERRED TAX ASSETS														
- Excess accruals														
- Write-downs of inventory	10,495	2,519		2,519	10,495	2,519	8,105	1,945		8,105	1,945		1,945	(574)
- Costs and charges deductible in the future														
- Goodwill - PHF	6,099	1,464	238	1,702			1,220	293	48	7,319	1,756	285	2,042	340
- Goodwill - Zach	1,363	327	53	380			341	82	13	1,704	409	66	475	95
- Depreciation of former Zach buildings	1,298	312		312			117	28		1,415	340		340	28
- Unpaid membership fees	13	3		3	13	3	13	3	3	13	3		3	(0)
- Income support provision	400	96		96	400	96								(96)
- Unrealised exchange rate losses	815	196		196	815	196	1,089	261		1,089	261		261	66
- Fair value losses on derivatives	126	30		30	126	30								(30)
- Passive financial derivatives	1,416	340		340						1,416	340		340	
Total deferred tax assets (A)	22,026	5,286	291	5,577	11,849	2,844	10,884	2,612	64	21,061	5,055	352	5,406	(171)
DEFERRED TAX LIABILITIES														
- Income taxable in the future														
- Unrealised exchange rate gains	1,275	306		306	1,275	306	85	20		85	20		20	(286)
- Income taxable in the future														
- Cost items deducted off the books														
- Accelerated amortisation and depreciation	680	163		163	206	49				474	114		114	(49)
- Off-the-books amortisation and depreciation														
- Of assets purchased in 2008														
- Bad debts	299	72		72						299	72		72	(0)
- Fair value losses on derivatives														
- Passive financial derivatives	454	109		109	454	109	971	233		971	233		233	
Total deferred tax liabilities (B)	2,254	541		650	1,935	464	1,056	253		1,829	439		439	(335)
Net deferred tax assets (A-B)	19,772	4,745		4,927	9,914	2,379	9,828	2,359		19,232	4,616		4,967	

Hedging provision

At the reporting date, the fair value of derivatives hedging interest rate and currency risks was a negative €445 thousand. Accordingly, the company adjusted the related provision.

The provision decreased following the reduction of the notional amount of the currency hedge transactions as a result of the payment of the medium-term loan instalments due during the year.

Changes in the provision are shown below:

€'000	31.12.2020	Accruals	Utilisations	31.12.2021
Hedging provision	1,039	454	(1,048)	445

The following tables show the derivatives in place at year end and their accounting effect.

Breakdown of derivatives

Hedging derivatives

No.	Type	Counterparty	Agreement date	Maturity date	Fair value 31/12/2020	Fair value 31/12/2021
1	IRS	Mediobanca	30/07/20	13/09/24	(49,045)	(14,859)
2	IRS	Mediobanca	30/07/20	13/09/24	(116,873)	(37,831)
3	IRS	UBI Banca	30/07/20	13/09/24	(117,139)	(37,345)
4	IRS	BNL	30/07/20	13/09/24	(58,179)	(17,519)
5	IRS	BNL	30/07/20	13/09/24	(49,156)	(14,802)
6	IRS	BPM	30/07/20	13/09/24	(147,996)	(46,395)
7	IRS	Unicredit	30/06/20	13/09/24	(48,492)	(14,947)
8	IRS	Unicredit	30/06/20	13/09/24	(101,514)	(31,281)
9	IRS	Unicredit	30/06/20	13/09/24	(272,138)	(88,735)
10	IRS	Intesa	30/07/20	13/09/24	(49,144)	(14,679)
11	IRS	Intesa	30/07/20	13/09/24	(134,297)	(40,115)
12	IRS	Intesa	30/07/20	13/09/24	(272,330)	(86,828)
					(1,416,301)	(445,335)

Non-hedging derivatives

No.	Type	Counterparty	Agreement date	Maturity date	Fair value 31/12/2020	Fair value 31/12/2021
1	IRS	Intesa	05/12/16	30/04/21	(26,125)	
2	IRS	Unicredit	02/12/16	30/04/21	(26,126)	
3	IRS	Mediobanca	02/12/16	30/04/21	(11,234)	
4	IRS	UBI Banca	24/03/17	30/04/21	(13,237)	
					(76,722)	

Accounting effect of derivatives

€'000	31.12.2021
Effect on profit or loss	
Effect on equity	(445)

C) EMPLOYEES' LEAVING ENTITLEMENT

This caption complies with the new regulations governing supplementary pension plans in place since 1 January 2017.

Changes in employees' leaving entitlement

The caption is substantially unchanged from the previous year end.

€'000	31.12.2020	Accruals	Utilisations	31.12.2021
Employees' leaving entitlement	4,899	5,941	(6,041)	4,800

D) PAYABLES

They comprise:

€'000	due within one year	due after one year	31.12.2021	31.12.2020	Variation
Long-term bonds		98,881	98,881	98,889	(7)
Convertible bonds		51,925	51,925	51,554	371
Short-term bank loans and borrowings	86,454		86,454	36,282	50,172
Medium/long-term bank loans and borrowings		112,837	112,837	133,414	(20,577)
Loans and borrowings from other financial backers	13,497		13,497	3,632	9,864
Payments on account	25,052		25,052	16,161	8,891
Trade payables	155,752		155,752	122,721	33,031
Payables to subsidiaries	157		157	334	(176)
Payables to parents	1,075	31,000	32,075	35,311	(3,236)
Payables to subsidiaries of parents	6,906	2,956	9,862	9,984	(122)
Tax payables	3,230		3,230	5,151	(1,921)
Social security charges payable	11,031	513	11,544	8,656	2,888
Other payables	22,668		22,668	27,441	(4,773)
Total	325,822	298,112	623,934	549,529	74,406

Bonds, banks loans and borrowings and payables to parents which are classified as short or long term depending on their due dates. At year end, the company was negotiating the issue of bonds in order to, *inter alia*, repay bank borrowings at 31 December 2021. At such date, it was deemed very likely that the company would successfully complete the bond issue. Indeed, at the date of preparation of these financial statements, the bonds were effectively issued and the previous bank borrowings repaid using the income on the bond issue. In accordance with OIC 29 which regulates the recognition of post-balance sheet events, an update on such transaction after the reporting date is not recognised but adequate disclosure must be provided in the notes thereto.

Bonds include a private placement of €50 million subscribed in January 2018 (redemption to take place in five equal instalments starting in 2024) and another private placement of €50 million subscribed in October 2017 (bullet redemption in 2024). The interest rates of such bonds were 3.250% and 2.747%, respectively, at 31 December 2021. They are measured at amortised cost.

In 2019, the company issued convertible bonds with a nominal amount of €53.1 million, all subscribed by its sole shareholder and originally redeemable in 2024. The interest rate at 31 December 2021 was 2%.

Bank loans and borrowings are broken down between due within and after one year on the basis of the due dates of the loans.

Bank loans and borrowings due within one year comprise:

- €34,799 thousand related to the current portion of the syndicated loan of which two principal instalments were repaid in 2021 (€8,106 thousand at 30 June 2021 and €18,914 thousand at 31 December 2021);
- €15,000 thousand related to the revolving credit facility entered into at year end;
- €9,000 thousand related to the short-term loan with Banca delle Terre Venete;
- €8,000 thousand related to an advance cash account with Banca IFIS;
- €4,286 thousand related to an export advance account with Banco BPM;
- €15,000 thousand related to the current portion of three new loans with a total nominal amount of €30,000 thousand (€10,000 thousand each), taken out with Cassa Depositi e Prestiti, Banca Nazionale del Lavoro and Unicredit during the year;
- €368 thousand related to other loans and borrowings.

Bank loans and borrowings due after one year comprise:

- €97,837 thousand related to the non-current portion of the syndicated loan;
- €15,000 thousand related to the non-current portion of the three new loans mentioned above.

Loans and borrowings from other financial backers relate to the assignment of receivables to factors, which the company collects directly and transfers to the factors.

The payments on account were received from customers for deliveries scheduled in 2021. The balance shows an increase on the previous year end, mostly due to an advance provided by a key customer for the purchase of precious metals required specifically for its products to be produced in 2022.

Trade payables increased by roughly €33 million on 31 December 2020 due to higher purchases made at year end in preparation for the considerable production planned for early 2022. In addition, the cost of numerous raw materials went up during the year due to the widespread rise in market prices. However, these increased purchase costs were largely passed through to final sales prices.

Payables to parents at year end mostly consist of dividends not yet distributed to the parent. The issue of the sustainability-linked bonds provides for a dividend recap to the parent, amounting to €40 million, to be paid in one or more instalments by 30 June 2022

Payables to subsidiaries of parents chiefly refer to the acquisition of the PHF business unit on 19 January 2016, payment for which had originally been deferred over four years but was deferred further during renegotiations of bank borrowings in the first half of 2019. This payable is measured at amortised cost and amounts to €5,867,650 at the reporting date.

Social security charges payable increased as a result of higher costs incurred for employees.

The decrease in other payables is due to the payment of the final instalment of the consideration for the business unit acquired from Zach System S.p.A.. This caption also includes the payable for performance bonuses. Such amount is recognised under other payables as the relevant quantitative and qualitative parameters were considered reasonably certain at year end.

A breakdown of the payables by due date is as follows:

Variations and due dates of payables

€'000	Opening balance	Variation	Closing balance	Due within one year	Due after one year	Due after five years
Long-term bonds	98,889	(7)	98,881		98,881	
Convertible bonds	51,554	371	51,925		51,925	
Short-term bank loans and borrowings	36,282	50,172	86,454	86,454		
Medium/long-term bank loans and borrowings	133,414	(20,577)	112,837		112,837	
Loans and borrowings from other financial backers	3,632	9,864	13,497	13,497		
Payments on account	16,161	8,891	25,052	25,052		
Trade payables	122,721	33,031	155,752	155,752		
Payables to subsidiaries	334	(176)	157	157		
Payables to parents	35,311	(3,236)	32,075	1,075	31,000	
Payables to subsidiaries of parents	9,984	(122)	9,862	6,906	2,956	
Tax payables	5,151	(1,921)	3,230	3,230		
Social security charges payable	8,656	2,888	11,544	11,031	513	288
Other payables	27,441	(4,773)	22,668	22,668		
Total	549,529	74,406	623,934	325,822	298,112	288

Breakdown of payables by geographical segment

€'000	Italy	EU	Non-EU	Total
Long-term bonds	98,881			98,881
Convertible bonds	51,925			51,925
Short-term bank loans and borrowings	86,454			86,454
Medium/long-term bank loans and borrowings	112,837			112,837
Loans and borrowings from other financial backers	13,497			13,497
Payments on account	3,303	1,738	20,011	25,052
Trade payables	94,867	9,084	51,801	155,752
Payables to subsidiaries			157	157
Payables to parents	32,075			32,075
Payables to subsidiaries of parents			9,862	9,862
Tax payables	3,230			3,230
Social security charges payable	11,544			11,544
Other payables	22,668			22,668
Total	531,282	10,822	81,831	623,934

Breakdown of payables secured by collateral on company assets

The company does not have any payables secured by collateral on company assets at the reporting date.

The next table provides a breakdown of unsecured payables:

€'000	31.12.2021
Long-term bonds	98,881
Convertible bonds	51,925
Short-term bank loans and borrowings	86,454
Medium/long-term bank loans and borrowings	112,837
Loans and borrowings from other financial backers	13,497
Payments on account	25,052
Trade payables	155,752
Payables to subsidiaries	157
Payables to parents	32,075
Payables to subsidiaries of parents	9,862
Tax payables	3,230
Social security charges payable	11,544
Other payables	22,668
Total	623,934

E) ACCRUED EXPENSES AND DEFERRED INCOME

The caption of €8,555,609 is comprised of accrued interest expense on the medium-term financing and export advances and deferred income related to allocation of tax benefits on investments over the depreciation period of the assets.

Breakdown of changes in accrued expenses and deferred income

€'000	Accrued expenses	Deferred income	Total
Opening balance	1,563	603	2,166
Variations	(43)	6,433	6,389
Closing balance	1,519	7,036	8,556

PROFIT AND LOSS STATEMENT

A) PRODUCTION REVENUES

Production revenues amount to €614,671 thousand in 2021 and €571,892 thousand in 2020.

The following tables provide a breakdown of the captions, changes during the year and specific information for each year. Further details and descriptions of each caption are provided below.

€'000	31.12.2021	31.12.2020	Variation
Turnover from sales and services	562,077	492,607	69,469
Change in work in progress, semi-finished products and finished goods	(3,395)	26,443	(29,838)
Contract work in progress	(1,679)	2,658	(4,337)
Internal work capitalised	45,416	34,135	11,281
Other revenues and income	11,745	16,050	(4,305)
Total	614,164	571,892	42,272

Turnover from sales and services

€'000	31.12.2021	31.12.2020	Variation
Turnover from sales of products	544,164	478,130	66,034
Turnover from R&D services	17,912	14,477	3,435
Total	562,077	492,607	69,469

The changes in this caption are described in detail in the directors' report. The company confirmed itself as a valid partner not only for the "under patent" business lines but also for generic products.

The following reclassifications were made in 2021 and were also made to 2020 figures for the purposes of comparability and to comply with OIC regulations on comparative data:

- in order to present revenues from the company's core business in a single item, caption A1 of the profit and loss statement now comprises revenues from sales of products, including discounts, allowances and true-ups of the year, along with revenues from R&D services, concerning optimising synthesis processes and large-scale commercial production. This latter item had been classified under A5 up to 2020;
- revenues from the resale of raw materials, previously recognised under caption A1, have been reclassified to caption A5 as they are not deemed part of the company's core business;
- resales of raw materials regarding precious metals swaps, previously classified under revenues from sales with a balancing entry under production cost, are now recognised with a net balance under caption B6.

Turnover from sales and services amounts to €562,077 thousand in 2021 and €492,607 thousand in 2020.

Turnover from sales of goods amounts to €544,164 thousand in 2021 and €478,130 thousand in 2020. Turnover from services amounts to €17,912 thousand in 2021 and €14,477 thousand in 2020.

Turnover from sales of goods is recognised when the production process for the goods has been completed and the exchange has already taken place, i.e., upon the substantial rather than formal transfer of title, with the transfer of risks and benefits being the key parameter. Turnover from services is recognised once the services have been provided, i.e., when they have been carried out.

There was a surge in turnover during the year thanks to the custom products business segment. Specifically, the company began commercial production of three new products during the year. These are expected to grow considerably in future years.

Conversely, generic products experienced a downswing in 2021, principally due to the ongoing effects of the pandemic which caused reduced usage of specific drugs in certain therapeutic areas (e.g., respiratory diseases). Finally, the veterinary product segment recorded satisfactory growth rates, though not yet achieving significant revenues.

The company continued its strategy designed to diversify its customer/product portfolio in order to minimise concentration risks, which are never fully unavoidable in the company's sector however.

Finally, there was a significant rise in sales of R&D services, proof of the company's solid reputation with leading big pharma customers which continue to outsource the final process research phases to FIS. This reputation is founded on having one of Europe's largest and most skilled R&D teams.

Breakdown of revenues by geographical segment

€'000	31.12.2021	31.12.2020	Variation
Italy	54,562	49,371	5,191
EU countries	345,668	247,520	98,148
North America	84,775	94,677	(9,902)
South America	6,861	6,195	666
Asia	68,257	92,512	(24,255)
Other countries	1,953	2,332	(379)
Total	562,077	492,607	69,469

The increase in revenues from products and services in 2021 is chiefly due to rising turnover from EU countries and Italy.

Change in work in progress, semi-finished products, contract work in progress and finished goods

This caption includes changes in finished goods and work in progress at year end after the accrual to the provision for inventory write-down.

Changes in finished goods and semi-finished products decreased by €29.8 million on 2020. This was caused by significant invoicing in the final months of the year when some commercial lots of the above-mentioned new products were invoiced. The company had built up stocks of such products for the purpose of being approved by ruling medicines authorities. The company's improved inventory management process was also a factor.

Internal work capitalised

The following costs were capitalised under tangible fixed assets during the year:

€'000	31.12.2021	31.12.2020	Variation
Labour (included in personnel expenses)	2,698	3,500	(802)
Materials (included in purchases)	26,458	18,153	8,305
Subcontracting (included in services)	16,260	12,482	3,778
Total	45,416	34,135	11,281

The directors' report provides more details about the investments made in 2021.

Other revenues and income

€'000	31.12.2021	31.12.2020	Variation
Other revenues from services	1,940	4,244	(2,304)
Resale of materials	3,976	2,915	1,061
Reimbursements from customers	2,936	3,000	(64)
Tax benefits	279	951	(672)
Other	2,613	4,940	(2,327)
Total	11,745	16,050	(4,305)

This caption fell by €4,305 thousand on 2020, mainly due to other revenues from services which mostly comprise recharges to customers for raw materials purchased on their behalf.

There was also a decrease in tax benefits due to the new legislation applicable from 2021.

As required by Law no. 124/2017 on transparency about public aid, it is noted that the company did not receive any grants during the year.

B) PRODUCTION COST

Changes in production cost compared to the previous year are shown in the following table:

€'000	31.12.2021	31.12.2020	Variation
Raw materials, consumables and supplies	364,772	293,161	71,611
Services	98,051	82,651	15,400
Use of third party assets	1,477	1,311	166
Wages and salaries	87,991	86,830	1,161
Social security contributions	28,240	28,883	(642)
Employees' leaving entitlement	6,033	5,645	388
Other costs	2,354	959	1,394
Amortisation of intangible fixed assets	6,422	6,668	(246)
Depreciation of tangible fixed assets	58,316	49,048	9,268
Change in raw materials, consumables and supplies	(60,896)	(11,638)	(49,257)
Other operating costs	4,694	4,037	657
Total	597,454	547,554	49,900

The captions that underwent the most change are described below:

Raw materials, consumables and supplies

This caption includes raw materials to be used in production, consumables and packaging and materials to be used in investment projects. The considerable rise in these costs is mainly attributable to higher raw materials prices, as well as more purchases made during the year as a result of increased production and relevant sales. As already described in detail, the increase in raw materials costs is above all due to the hike in the price of precious metals (rhodium and palladium) once more in 2021 and the rising prices of main raw materials and supplies. Finally, the company's increased investment projects also led to a rise in these costs.



Services

€'000	31.12.2021	31.12.2020	Variation
Assembly	16,401	14,821	1,580
Utilities	14,297	14,351	(55)
Ecological costs	11,040	10,964	76
Maintenance	10,364	8,944	1,421
Other services	13,425	6,283	7,142
Consultancy	6,864	5,904	960
Transport	8,878	5,478	3,399
Fees	3,363	4,281	(919)
Insurance	3,078	2,686	392
Civil works	3,062	2,265	798
Canteen	1,658	1,515	143
Secondment of personnel	1,400	1,400	
Cleaning	1,299	1,110	189
Outsourcing services	778	1,046	(268)
Directors' and statutory auditors' fees	842	1,019	(177)
CO ₂ quotas	1,045	424	621
Training	258	160	97
Total	98,051	82,651	15,400

Services increased by approximately €15 million. Some of the items were impacted by the inefficiencies generated by the public health emergency, while others increased mainly as a result of the new investment projects.

The cost of utilities (electricity and natural gas) was more or less in line with the previous year as the prices had already been gradually set throughout 2021. This allowed the company to avoid higher costs as a result of the bullish trend on the market in the last quarter.

The increase in maintenance costs is a result of preventative maintenance constantly carried out at all of the company's facilities, which were stepped up in 2021 due to investments made to boost production capacity.

Other services also increased in 2021, mainly as a result of the raw materials purchased and outsourced for processing to the related party Delmar Chemicals Inc. Transport costs rose due to the different mix of carriers used and the hike in charter rates. In order to ensure production continuity to its customers, the company resorted significantly to air transport rather than sea transport, especially during times of more acute supply chain issues. In any case, the company passed through such higher costs to the relevant customers.

Finally, there was rise in costs to purchase CO₂ quotas, mainly a result of the price effect, as the quantities purchased remained in line with the previous year.

Personnel expenses

The company continued work on getting Termoli's Unit B up and running during the year. It rolled out important new productions at the unit, which required an increase in the direct and indirect workforce.

Specifically, the company's workforce rose from 1,849 at 31 December 2020 to 1,920 at 31 December 2021. This was the main factor in the increase in personnel expenses (from €122.3 million to €124.6 million). In addition to the rise in employee numbers, the €2.3 million increase in expenses was also due to the planned contractual and merit-based raises, in addition to higher bonuses due to the company's better performance.

Amortisation, depreciation and write-downs

Tables providing a breakdown of amortisation and depreciation are included in the notes to fixed assets. The 2021 increase is due to new investments and the testing and placement in service of assets under construction in previous years with the related commencement of their depreciation. The caption also increased due to the depreciation of assets revalued at 31 December 2020, amounting to €5.3 million.

Other operating costs

This caption may be analysed as follows:

€'000	31.12.2021	31.12.2020	Variation
Stamp duty	44	50	(5)
Waste disposal tax	38	44	(6)
Other taxes and duties	327	289	38
IMU (local property tax)	619	605	14
Government concession tax	1	1	(0)
Motor tax	1	1	
Non-deductible taxes and duties		6	(6)
Databases	451	474	(23)
Sundry costs	8	118	(110)
Membership fees	233	214	18
Magazines, books and publications	34	37	(3)
Donations	51	50	1
Renewal of annual payments and licences	208	190	18
Ordinary losses	37	347	(310)
Charities	7	6	2
Penalties for breach of contract	408	1,289	(881)
Settlement agreements	95	299	(204)
Prior year losses	2,133	19	2,115
Total	4,694	4,037	657

C) FINANCIAL INCOME AND CHARGES

Other financial income

This caption may be analysed as follows:

€'000	31.12.2021	31.12.2020	Variation
Interest income	61	62	(1)
Total	61	62	(1)

Interest and other financial charges

This caption comprises:

€'000	31.12.2021	31.12.2020	Variation
Interest on medium to long-term transactions	5,407	7,317	(1,910)
Interest on short-term bank loans and borrowings	815	394	421
Interest on payables to subsidiaries of parents	149	222	(74)
Interest on bonds	3,085	3,308	(223)
Interest on convertible bonds	1,433	1,398	35
Other	957	613	344
Total	11,846	13,253	(1,407)

Interest on medium to long-term transactions decreased on the previous year following the repayment of two principal instalments of the medium/long-term syndicated loan (€8,106 thousand at 30 June 2021 and €18,914 thousand at 31 December 2020). In addition, the interest rate on the loan was stepped down to 2.58% as of 1 July 2021, significantly reduced from the rate applied in 2020 (3.17%). This reduced interest rate was granted under the renegotiations of bank borrowings thanks to the company achieving a satisfactory NFP/EBITDA ratio.

Interest on short-term bank loans and borrowings increased, on the other hand, due to the company's increased use of export and factoring facilities.

The interest on bonds is in line with the previous year.

“Other” includes interest on the revolving credit facilities. The company drew down higher amounts on average from such facilities in 2021.

Exchange rate gains and losses

The next table provides a breakdown of this caption:

€'000	31.12.2021	31.12.2020	Variation
Realised exchange rate gains	8,255	7,997	258
Realised exchange rate losses	(7,837)	(8,982)	1,144
Unrealised exchange rate gains	85	1,275	(1,190)
Unrealised exchange rate losses	(1,089)	(815)	(274)
Net exchange rate losses	(587)	(525)	(62)

Net exchange rate losses are in line with the previous year.

D) ADJUSTMENTS TO FINANCIAL ASSETS

As required by OIC 32, this caption includes the fair value gains and losses on derivatives that do not qualify for hedge accounting.

More information is available in the note to the provisions for risks and charges.

INCOME TAXES

Current taxes

The current taxes include the IRAP tax (due to the Veneto and Molise regions at the related ordinary rates).

The IRES tax expense is nil as the company has a loss for tax purposes as a result of the tax add-backs, mostly for the super and hyper depreciation.

Change in deferred tax liabilities

The balance reflects the difference between deferred tax assets generated during the year and their reversal for costs and charges of previous years that are deductible in the future.

Change in deferred tax assets

The balance reflects the difference between deferred tax assets generated during the year and their reversal for costs and charges of previous years that are deductible in the future.

They are broken down in the relevant table as per article 2427.14 of the Italian Civil Code while the next table shows a reconciliation of the theoretical and effective tax expense for the year.

RECONCILIATION OF THE THEORETICAL AND EFFECTIVE TAX EXPENSE FOR THE YEAR			
In Euros			
IRES			
Pre-tax profit		4,414,686	
Theoretical IRES			1,059,525
Temporary differences deductible in subsequent years:			
Write-downs of inventory		8,104,643	
Income support provision			
Temporary differences taxable in subsequent years:		1,016,859	
Prior year temporary differences			
Reversal of prior year temporary differences			
Utilisation of taxed provisions:			
Write-downs of inventory	(10,494,542)		
Other costs	46,863		
		(10,447,679)	
Permanent differences			
Taxes relative to prior years, IMU (local property tax)	247,628		
Tax benefits and hyper depreciation	(22,975,492)		
Patent box	(10,080,718)		
Reduction in IRAP	(460,961)		
Transport costs	167,162		
Deduction on transfers to supplementary pension plans	(336,625)		
Other non-deductible costs	2,138,144		
		(31,300,862)	
Profit taxable for ires purposes		(28,212,353)	
Deduction of ace (aid for economic growth) 3%			
Current taxes - ires			
IRAP			
Operating profit	140,922,235		
Net costs not deductible for IRAP purposes	(123,228,380)		
Profit taxable for IRAP purposes		17,693,855	
IRAP expense (3.90% for Veneto region)		579,166	
IRAP expense (4.97% for Molise region)		141,319	
Theoretical IRAP (3.90% and 4.97%)			720,485
Current taxes - IRAP			720,485
DEFERRED TAX ASSETS AND LIABILITIES			
Deferred tax assets:			
Deferred tax assets related to previous years		5,577,190	
Change in the reserve for derivatives (not recognised in profit or loss)			
Variations		(170,715)	
Deferred tax assets at 31 December 2021		5,406,475	
Change in deferred tax assets			(170,715)
Deferred tax liabilities:			
Deferred tax liabilities related to previous years		649,893	
Change in the reserve for derivatives (not recognised in profit or loss)		124,135	
Variations		335,003	
Deferred tax liabilities at 31 December 2021		439,025	
Change in deferred tax liabilities			335,003
Total theoretical IRES and IRAP			
Total income taxes for 2021			556,197
Taxes relative to prior years			
Adjustment for domestic tax consolidation scheme 2020			(63,012)
Income from the domestic tax consolidation scheme			6,770,964
Total income taxes recognised in profit or loss			(6,151,755)

Workforce

The company's average workforce is as follows:

Number of employees by category

Managers: 27

Middle managers: 215

White collars: 684

Blue collars: 994

Total: 1,920

Fees of the directors and statutory auditors

The fees paid to the directors and statutory auditors are disclosed herein as required by law.

Fees and advances to and receivables from directors and statutory auditors and commitments

Directors: €784,840

Statutory auditors: €54,906

Audit fees

As required by law, the fees paid to the independent auditors and companies of its network for services provided during the year are set out below:

Audit fees

Statutory audit: €63,000.

Categories of shares issued by the company

Commitments, guarantees and contingent liabilities

Pursuant to article 2427.1.9 of the Italian Civil Code, this section provides information about the off-balance sheet commitments, guarantees and contingent liabilities.

	Type	Risk	Amount	Start date	Repayment date
Zurich	Deposit	Vicenza provincial authorities, storage of waste	55,777	28.12.1999	30.04.2021
Coface	Deposit	Vicenza customs authorities, electricity duty	7,320	16.09.2016	16.09.2021
Coface	Deposit	Montecchio's integrated environmental authorisation to the Vicenza provincial authorities	775,000	07.07.2015	07.07.2022
Coface	Surety	Lonigo waste-to-energy plant	841,740	15.12.2021	15.11.2027
Cassa di risparmio Veneto	Surety	Vicenza provincial authorities	11,303	2006	
Cassa di risparmio Veneto	Surety	Molise region	8,090	2006	
Liberty Mutul Insurance Europe	Surety	New Viale Europa car park	68,200	03.03.2021	03.03.2022
Coface	Surety	Vicenza customs authorities for customs duties	6,494,960	09.03.2021	28.06.2022

Post-balance sheet events

As described earlier, the ongoing pandemic weakened the stability of the supply chain, with raw materials costs and utilities beginning to shoot up in the second half of 2021. Though the world is gradually adjusting to a “new normal” post-pandemic existence, the recent exacerbation of the geopolitical situation has had further repercussions on the availability and prices of key production materials.

As a result, constant monitoring and daily management of procurement processes has become crucial, along with passing through such higher costs, as the company has already done, periodically adjusting sales prices.

Potential key critical issues with procurement processes include rising purchase costs and possible palladium shortages with Russia and Ukraine accounting for 50% of global production between them. The company uses palladium to produce catalysts deployed in the production of some key products. This issue is mitigated by improvements made to internal waste management which have led to greater recycling of palladium, thus reducing the need for new purchases.

To ensure production continuity internally and for its customers even should geopolitical tensions continue, the company has decided, together with some customers, to build up emergency stock of raw materials and intermediates, largely funded by the customers. This will mitigate the risk of procurement shortages, simultaneously softening the financial impact for the company.

Also linked to the current geopolitical situation, the currently most significant, and perhaps less controllable, risk refers to the ongoing surge in electricity and natural gas prices, both critical production price factors for the company. In order to mitigate the price risk, the company has agreed with its main customers that it will perform a quarterly review of production costs which will then inform decisions on sales prices. Potential procurement shortages could generate risks of production disruptions.

The conflict between Russia and Ukraine could lead to issues with the company’s procurement processes with regard to distribution logistics, possibly causing delays and/or increased costs. At present, the related effects are not significant and cannot be estimated.

Finally, with regard to the impact on business and going concern, the company records minimal turnover with these two countries and, as a result, any embargo on Russia and Ukraine would not have significant effects on the company’s turnover.

As mentioned earlier, the company’s board of directors approved the 2022-2026 business plan, comprising business, industrial, organisational and financial plans, at its September meeting. Specifically, in order to adequately support forecast growth over the plan period, the company revised and restructured its sources of funds, deciding on sustainability-linked bonds as the most suitable tool for its purposes.

The company chose these bonds due to their bullet redemption format and focus on sustainability issues. It was also interested in opening to international investors. The process began immediately after the above board of directors’ meeting and was completed in early February 2022 with the bond pricing and subscription by leading operators on the bond market.

The process was coordinated by a team of employees supported by leading international financial and legal advisors. They contacted three top rating firms to issue a public rating, along with a company to assess the soundness of the sustainability framework and KPIs and two leading banks, as global coordinators. The pre-marketing, public roadshow and marketing activities took place between 17 January and 4 February 2022 (the pricing day), with over 60 international investment funds involved.

The bonds were issued for €350 million redeemable in 5.5 years with a coupon of 5.625% and a non-callable period of two years. Linked to these bonds, the company also agreed a revolving credit facility, expiring six months before the redemption of the bonds, with an opening interest rate of 3% and step-down correlated to the NFP/EBITDA ratio. The bonds do not include a maintenance covenant.

The income on the bonds was chiefly used to refinance borrowings at the reporting date. The bullet redemption format will allow the company to optimise future cash flow generation to support its future growth.

The bond issue and subscription process has meant that the company has to pay greater attention to relations with institutional investors. It will have to make quarterly reports, via calls with the investors and by setting up a specific investor relations section of the company website (fisvi.com). This will have a positive impact by optimising the company's management and finance practices.

These financial statements were prepared assuming the company's ability to continue as a going concern and, therefore, all available information in this regard was analysed. Specifically, though no factors have been detected that would impact the company's business continuity in the long term considering the markets, profitability and competition, should Covid-19 continue to spread globally, as mentioned above, it could hinder future growth prospects with a certain degree of uncertainty, as could the current geopolitical situation. However, the measures taken by the company and its order backlog, available liquid funds, short-term cash flow forecasts and financial obligations indicate that there are no doubts about its ability to continue as a going concern.



Name and registered office of the companies that prepare consolidated financial statements of the largest/smallest group of companies which FIS is part of

Name	NINE TREES GROUP S.P.A.
City (if in Italy) or foreign country	MONTECCHIO MAGGIORE (VI)
Tax code (for Italian companies)	04041380249
Place of filing of consolidated financial statements	VIALE MILANO 26, MONTECCHIO MAGGIORE

Membership of a group

Since 14 June 2011, the parent Nine Trees Group S.p.A. has managed and coordinated F.I.S. – Fabbrica Italiana Sintetici S.p.A., in accordance with article 2497 and subsequent articles of the Italian Civil Code. On 15 July 2016, Nine Trees Group S.p.A. acquired 100% of the company becoming its sole shareholder. As required by article 2497-bis of the Italian Civil Code, a table with the key figures from the parent's most recently approved financial statements is included.

Key figures from the parent's balance sheet

€'000

	31.12.2020	31.12.2019
B) Fixed assets	265,586	264,982
C) Current assets	53,365	53,097
D) Prepayments and accrued income	38	40
Total assets	318,989	318,119
A) Net equity		
Share capital	5,063	5,063
Reserves	201,347	199,110
Net profit (loss) for the year	(2,745)	2,238
Total net equity	203,665	206,410
B) Provisions for risks and charges	846	846
C) Employees' leaving entitlement	71	41
D) Payables	114,355	109,918
E) Accrued expenses and deferred income	52	904
Total liabilities	318,989	318,119

Key figures from the parent's profit and loss statement

€'000

	31.12.2020	31.12.2019
A) Production revenues	2,852	2,258
B) Production cost	(5,248)	(3,746)
C) Net financial income (charges)	(820)	5,934
D) Adjustments to financial assets	(44)	(2,460)
Income taxes	515	252
Net profit (loss) for the year	(2,745)	2,238

Allocation of net profit for the year

Dear shareholder,

We propose that the net profit for the year be allocated to retained earnings or as you deem fit.

Greenhouse gas emissions

Since July 2015, FIS falls under the scope of the EU directive on emission trading for the reduction of greenhouse gas (GHG) emissions. Each year, it is required to report its CO₂ emissions to the relevant authorities and pay an amount calculated considering the emissions in tonnes to the competent bodies.

Pursuant to OIC 8, it is noted that GHG emissions quotas in 2021 were equal to €18,394.

Disclosure required by article 1.125 of Law no. 124 of 4 August 2017

Pursuant to the requirements of article 1.125 of Law no. 124/2017 about the disclosure of grants, subsidies, paid positions and financial benefits of any kind received during the year from the public administrations or parties as per article 1.125 and the provisions of article 1.127, reference should be made to the note to Other revenues and income for the related disclosures.

Related party transactions

During the year, the company engaged in trade and financial transactions with group companies and other related parties, as per the definition of IAS 24 referred to by the OIC as a result of the amendment to article 2427.22-bis of the Italian Civil Code by article 1.1 of Legislative decree no. 173/2008. These transactions are part of the company's normal business activities, take place at the contractually established conditions and, moreover, on an arm's length basis.

The required disclosures are provided in the table below.

€'000	Parent	Subsidiaries of parents	Subsidiaries	Total related parties	Total carrying amount	% impact
Assets and liabilities						
Advances		9,067		9,067	9,121	99.4%
Trade receivables		2,512		2,512	104,988	2.4%
Trade payables		3,680	17	3,697	187,984	2.0%
Other receivables	22,851			22,851	44,074	51.8%
Other payables	32,075	3,025		35,100	42,194	83.2%
Revenues and costs						
Revenues		93		93	562,077	0.0%
Other revenues and income		260		260	11,745	2.2%
Purchases		13,412		13,412	364,772	3.7%
Services	2,145	9,008	667	11,820	98,051	12.1%
Financial income and charges						
Financial income						
Financial charges		149		149	11,846	1.3%
Dividends approved during the year						

Conclusions

These financial statements, which comprise a balance sheet, profit and loss statement, cash flow statement and notes thereto, give a true and fair view of the company's financial position, financial performance and cash flows. They are consistent with the accounting records.

Montecchio Maggiore, 14 April 2022

Chairman of the board of directors
Giampaolo Ferrari

A handwritten signature in blue ink, appearing to read 'Giampaolo Ferrari', written in a cursive style.



RI 965



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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

*To the sole shareholder of
F.I.S. Fabbrica Italiana Sintetici S.p.A.*

Report on the audit of the financial statements

Opinion

We have audited the financial statements of F.I.S. Fabbrica Italiana Sintetici S.p.A. (the "company"), which comprise the balance sheet as at 31 December 2021, the profit and loss statement and cash flow statement for the year then ended and notes thereto.

In our opinion, the financial statements give a true and fair view of the financial position of F.I.S. Fabbrica Italiana Sintetici S.p.A. as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the Italian regulations governing their preparation.

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 "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of F.I.S. Fabbrica Italiana Sintetici S.p.A. does not extend to such data.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian regulations governing their preparation and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the 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 company'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 the directors' 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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;



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

We communicate with those charged with governance, identified at the appropriate level 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.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The company's directors are responsible for the preparation of a directors' report at 31 December 2021 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's financial statements at 31 December 2021 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2021 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Padua, 29 March 2022

KPMG S.p.A.

(signed on the original)

Silvia Di Francesco
Director of Audit









F.I.S. — Fabbrica Italiana Sintetici S.p.A.

Company managed and coordinated by the sole shareholder Nine Trees Group S.p.A.

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