



# Annual Report

2022





ETANOL  
DEN...

ETANOL  
ASSOLU...

N-E...

DRI 1036

SI 1029B

SI 1030A



# Contents

## **Directors' report**

|                                    |    |
|------------------------------------|----|
| Key financial and earnings figures | 6  |
| Company profile                    | 7  |
| Company bodies                     | 9  |
| Background                         | 10 |
| Performance                        | 12 |
| Financial and operating results    | 49 |
| Performance indicators             | 52 |
| Outlook                            | 54 |
| Main risks                         | 56 |
| Management and coordination        | 57 |
| Own shares                         | 57 |
| Branches                           | 57 |

## **Financial statements at 31 December 2022**

|                           |    |
|---------------------------|----|
| Profit and loss statement | 60 |
| Balance sheet             | 62 |
| Cash flow statement       | 64 |

|  |    |
|--|----|
| <b>Notes to the financial statements</b> | 68 |
|--|----|

|                                     |     |
|-------------------------------------|-----|
| <b>Independent auditor's report</b> | 118 |
|-------------------------------------|-----|





# DIRECTORS' REPORT



# DIRECTORS' REPORT

## Key financial and earnings figures

| €'000  | 2022           | 2021           |
|--|----------------|----------------|
| <b>Profit and loss statement</b>               |                |                |
| Net revenues                                   |                |                |
| - <i>products</i>                              | 656,650        | 544,164        |
| - <i>R&amp;D services</i>                      | 15,831         | 17,912         |
| Gross operating profit                         | 93,797         | 80,984         |
| Operating profit                               | 28,467         | 16,246         |
| Pre-tax profit                                 | (6,639)        | 3,951          |
| Profit for the year                            | 2,911          | 7,615          |
| <b>Balance sheet</b>                           |                |                |
| Non-current assets                             | 357,658        | 367,077        |
| <i>Current assets</i>                          | 546,279        | 441,557        |
| <i>Current liabilities</i>                     | (271,709)      | (234,220)      |
| Operating net working capital                  | 274,571        | 207,337        |
| Non-current liabilities                        | (6,626)        | (40,444)       |
| <b>Net invested capital</b>                    | <b>626,003</b> | <b>533,970</b> |
| Net equity                                     | 239,896        | 245,147        |
| Mandatory convertible bonds                    | 52,306         | 51,925         |
| Medium to long-term net financial position     | 340,051        | 211,718        |
| Short-term net financial position (debt)       | (6,250)        | 25,180         |
| <b>Net equity and net financial position</b>   | <b>626,003</b> | <b>533,970</b> |
| <b>Financial indicators</b>                    |                |                |
| ROE (profit/net equity)                        | 1,2%           | 3,1%           |
| ROI (operating profit/net invested capital)    | 4,6%           | 3,0%           |
| ROS (operating profit/net revenues)            | 4,2%           | 2,9%           |
| EBITDA/revenues                                | 14,0%          | 14,4%          |
| Net financial position*/gross operating profit | 3,66           | 2,93           |
| Net financial position*/net equity             | 1,43           | 0,97           |
| <b>Other information</b>                       |                |                |
| Capital expenditure                            | 55,646         | 48,944         |
| Employees at year end (no.)                    | 1,988          | 1,920          |

## 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 cardiovascular drugs;
- 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 2,000 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), PHF Finanziaria (CH), Fulton (IT), Anemocyte (IT) and Brenta (IT). FIS wholly owns FIS Japan (Japan) and, as from this year, also FIS North America (USA), formerly held by the holding Company Nine Trees Group S.p.A..



Fabbrica  
Italiana  
Sintetici



## Brand Manifesto

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.

**We 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

| <b>Board of directors</b> |                    |
|---------------------------|--------------------|
| Chairman                  | Giampaolo FERRARI  |
| Chief executive officer   | Alberto FERRARI    |
| Chief executive officer   | Alessandro FERRARI |
| Chief executive officer   | Michele GAVINO     |

| <b>Board of statutory auditors</b> |                   |
|------------------------------------|-------------------|
| Chairman                           | Paolo NICOLAI     |
| Standing statutory auditor         | Gaetano TERRIN    |
| Standing statutory auditor         | Giuseppe MANNELLA |

| <b>Supervisory body</b> |                  |
|-------------------------|------------------|
| Chairwoman              | Martina CARON    |
|                         | Giulio PERDONCIN |
|                         | Maria CALZOLARI  |

| <b>Independent auditors</b> |                               |
|-----------------------------|-------------------------------|
|                             | PricewaterhouseCoopers S.p.A. |

# Background

Developments in both the general situation and the Company's reference market were positive during this year too and in line with the growth forecasts made in the Company's Business Plan; however, despite the gradual resolution of the pandemic crisis during 2022, external mega-factors such as the conflict in Ukraine, the energy crisis and general cost inflation temporarily slowed its growth and impacted its margins.

As a whole, it remains 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, due to the present geo-political and economic environment.

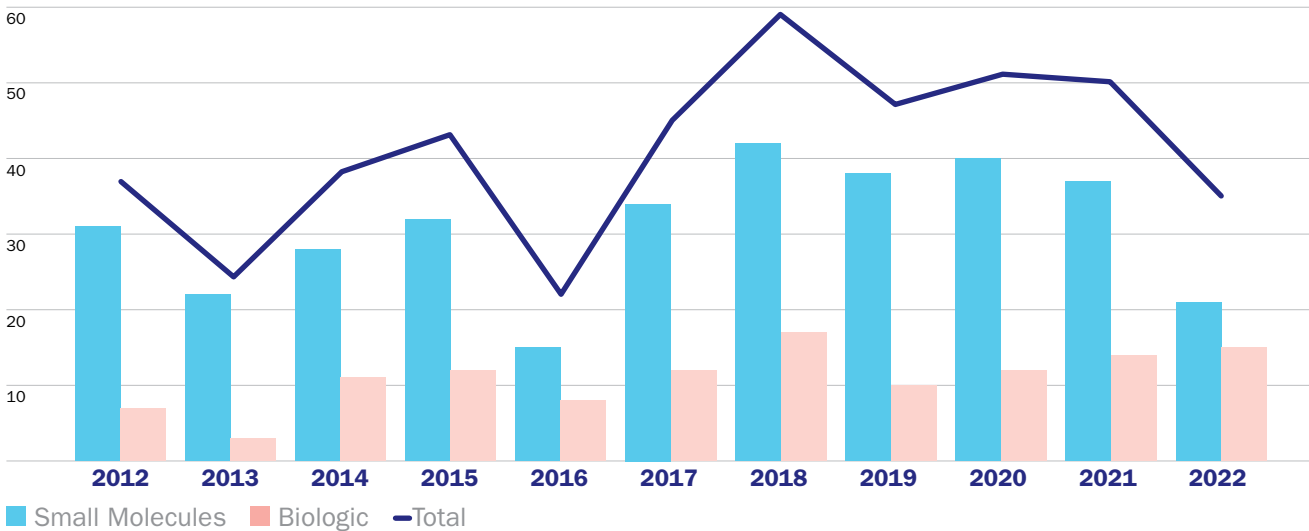
Considering this situation, FIS and its personnel undertook remarkable, constant production work, developing the first commercial productions of 3 new custom products and launching 17 new projects, as well as 12 re-supplies of projects already in progress, which are critical for the Company's future growth. The generics sector also held up in terms of volumes, recording value growth that is mostly driven by inflationary trends in raw materials and energy, which are then passed on, at least partially, to prices.

The ongoing pandemic in certain geographical areas such as China, with the consequent restrictions on the circulation of people and goods, strongly underlined the problem of dependence and potential vulnerability of the manufacturing sector for active ingredients coming from these regions. Governments and companies in the sector such as FIS have put in place various actions to mitigate 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** showed a decline in the US market, which is traditionally a driver for innovation. Historically, some cyclicity has been observed (as per the graph below), and, therefore, growth can be expected again from 2023.

Small Molecules vs Biologic Approvals (2012-2022)



In 2022 the FDA (Food and Drug Administration) approved 37 NCEs (New Chemical Entities), of which 22 small molecules and 15 biologics, compared to 50 in 2021, 53 in 2020 and 48 in 2019. Small molecules, accounting for 59% of total, continue to be the most significant area, although decreasing, while biologics have been growing on an ongoing basis since 2019 (source: *fda.gov*). FIS is holding negotiations to participate in two of these new projects.

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 2022 too, about 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 skillset 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.

On the **generic product** front, there is some indication of a propensity on the part of more profitable and mature markets to shift production to countries with notoriously lower costs, chief among them India. Among these, 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. In particular, FIS will pay increasing attention to all those specialist products with high market value, where the added value of the quality expressed by its production can have an economic return in line with the values expressed by the same products at sell-out.

The **animal healthcare** market's growth continued, leveraged by several factors, including strong developments in the companion sector in more developed and mature countries. However, some growth should not be underestimated too, which is being recorded in the livestock sector in emerging countries. In addition, there are reports of a process of supply chain's restructuring to ensure suitable quality and continuity guarantees, and an increasingly strict regulatory and quality requirements.

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 affect daily operations of Company processes in 2022.

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, mainly in terms of both shortages in some supplies and above all surging procurement costs.

This critical situation was further exacerbated by the conflict between Russia and Ukraine and the surge in electricity prices, resulting in significant price increases in supplies of natural gas and electricity.

The chart below clearly shows the growing trend in the cost of utility procurement for the Company, which has only partly been mitigated by cost-pass-through actions, as described further below, as well as by government subsidies granted to Italian energy-intensive companies. These subsidies will continue to be awarded through the first quarter of 2023 too.



The Company's well-established relationships with the sector's leading players, especially in custom synthesis, continue to allow it to 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 critical supply chain issues 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. During 2022, the use of incremental safety stock compared to the past proved to be a critical success factor in ensuring the continuity of supply to our customers, while not impacting the Company's

working capital, as a large part of this incremental safety stock was financed through their advance payment on the part of the customers.

The impact of rising purchase prices of production factors on production costs continued to show an incremental incidence even during 2022, particularly due to the aforementioned increases in natural gas and electricity costs.

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 becoming able to contain the effects of the inflationary impact on business margins.

The inflationary macroeconomic scenario has also led the Company to consider and pursue a change in its

inventory valuation processes, which has shifted from measurement at weighted average cost to measurement using the FIFO (First In – First Out) method, which better represents inventory values from an accounting point of view in a context of changing costs. It should be emphasised that the change of method in inventory valuation, shared with the Audit Firm, was supported by an implementation on the Company's management systems operated by Company staff, with the support of a third-party consultant, with a process that is extremely limited in terms of costs and timing.

In 2022 FIS also advanced and reinforced its derisking 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 20% on the previous year, underlining FIS' well-known ability to grow in the face of adversity.

Obviously, the macroeconomic scenario did not allow for an equal growth in terms of profit margins. Nevertheless, the continuous focus on process efficiencies and cost containment supported the Company in achieving a major step of growth in its EBITDA, which increased from approximately €81.5 million in 2021 to approximately €93.5 million 2022, up by 15% on 2021.

The Company hired roughly 70 people during the year (equal to an approximate 3.5% increase in its workforce) in order to support current and future production capacity growth. It should be noted that the personnel selected and hired by the Company include highly skilled people who, once they become part of its workforce, are involved in a training process aimed at becoming acquainted with and mastering tools and systems, as well as gaining knowledge about and complying with health and safety regulations and procedures.

During 2022, the use of remote working continued, which however was accompanied and supplemented by a more comprehensive and advanced corporate welfare package that emphasises the central role of human resources as the Company's human capital, a pillar for the sustainable growth of FIS.

The Talent Program has also been launched in partnership with CUOA. This pilot project, which has a time horizon of 12 months, aims to support the talents identified by the various Company departments with a dedicated and accelerated training process.

From a corporate point of view, the financial year just ending saw the completion of the purchase and sale of the shares of the sister Company FIS North America Inc., which, previously wholly held by the holding Company Nine Trees Group S.p.A., are now wholly held by the Company.

With the approval of the Financial Statements as at 31 December 2021, the three-year term of office of the previous Audit Firm expired in relation to the parent Company and all sister companies of FIS. Since the holding Company Nine Trees Group S.p.A.'s choice was to change the Audit Firm, upon the reasoned proposal of its Board of Statutory Auditors, FIS proceeded with such a change, despite the fact that the three-year term had not yet come to an end, in order to align the timing of the auditing engagements and to hire a single Audit Firm for the Group. Therefore, the Audit Firm of FIS is PricewaterhouseCoopers S.p.A. as from the 2022 Financial Statements.

Finally, it should be mentioned that on 10 February 2022, a key process for the Company and for the pursuit of the stated financial targets was concluded with the definition and subsequent approval of the Strategic Plan 2022-2026 at a dedicated Board of Directors' meeting. 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.

The bond was 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 this bond, the Company also agreed a revolving credit facility (RCF), expiring six months before the redemption of the bond, with an opening interest rate of 3% and step-down correlated to the NFP/EBITDA ratio. The bond does not include a maintenance covenant.

This bond was deemed the best type of funding to suit the Company's planned growth strategies as it is a bullet bond that strongly engages in identifying a sustainability framework and relevant monitoring KPIs.

Despite the fact that the financial market was beginning to show the first signs of difficulties, the collection (book) of requests for investment from leading international investors came close to €500 million. At the end of the primary market placement process, the amount of €350 million was subscribed by about 40 international and domestic institutional investors, and the fixed rate was set at 5.625%. The duration of the instrument was set at 5.5 years, maturing on 10 August 2027.

This instrument is linked to three sustainability KPIs, which once again emphasise the Company's long-standing focus on ESG issues. Specifically, the KPIs selected under this framework relate to scope 1 & scope 2 GHG emissions, a reduction in the use of water, and process waste management. The Company has set ambitious targets for improvements in all three of these areas, the KPIs of which shall be verified periodically by a third-party Company, which will certify the performance of the KPIs in relation to the preset targets.

This instrument has been listed, since the date of issue, on the multilateral trading facility or "MTF" known as the "Euro MTF Market" managed by the Luxembourg Stock Exchange; therefore, the Company – as an issuer with financial instruments listed on an MTF – is required (in the same way as issuers with financial instruments listed on regulated markets) to comply with the EU regulations on market abuse laid down in Regulation (EU) No. 596/2014 (Market Abuse Regulation or "MAR"). In addition, at a Board of Directors meeting following the pricing of the instrument, the Company appointed the Chief Financial Officer as the reference manager for Investor Relations work as well.

Finally, in compliance with the guidelines provided in the Strategic Plan, the Company continues with its development plan, which is strongly focused on investment projects at its plants and factories. During the first months of 2022, the Company identified those projects that comply with the requirements set out in the NRRP, within its investment framework, and, on 19 July 2022 it applied for admission under said plan. The process was still ongoing as at the date of preparation of this report.



## Marketing & Sales

The global API (Active Pharmaceutical Ingredients) Contract Development & Manufacturing business showed an increase in line with forecasts, from USD79.6 billion in 2021 to roughly USD85 billion in 2022, confirming it as a profitable, stable business that is still in bloom. The growth forecast is estimated with a C.A.G.R. of 7% over the next five years.

The Company recorded new growth in its **custom business** in 2022, despite the unfavourable context of cost inflation, particularly in raw materials and utilities. Thanks to well-established partnerships, it was possible to pass on a good portion of these costs to the market while honouring 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 2022, enabling it to acquire new projects in commercial and clinical stages, and establish two new strategic alliances.

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.

In 2022, 17 new projects were acquired 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 generic 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. As early as from the second half of 2022, NGLU & Sales produced a new subset of potential molecules, ready to be developed in house, including thanks to

new hires of technical and business professionals and after a long and complex market analysis of products that are currently under patent and will expire between 2026 and 2031 in the main markets.

The positive effect on flu product volumes continued, both due to the effect of the Covid-19 pandemic that is still present in several countries not fully covered by an effective vaccine, and the extraordinary peaks of influenza reached in other countries (including Italy) during 2022, which had been protected by the same anti-Covid-19 measures until the previous year.

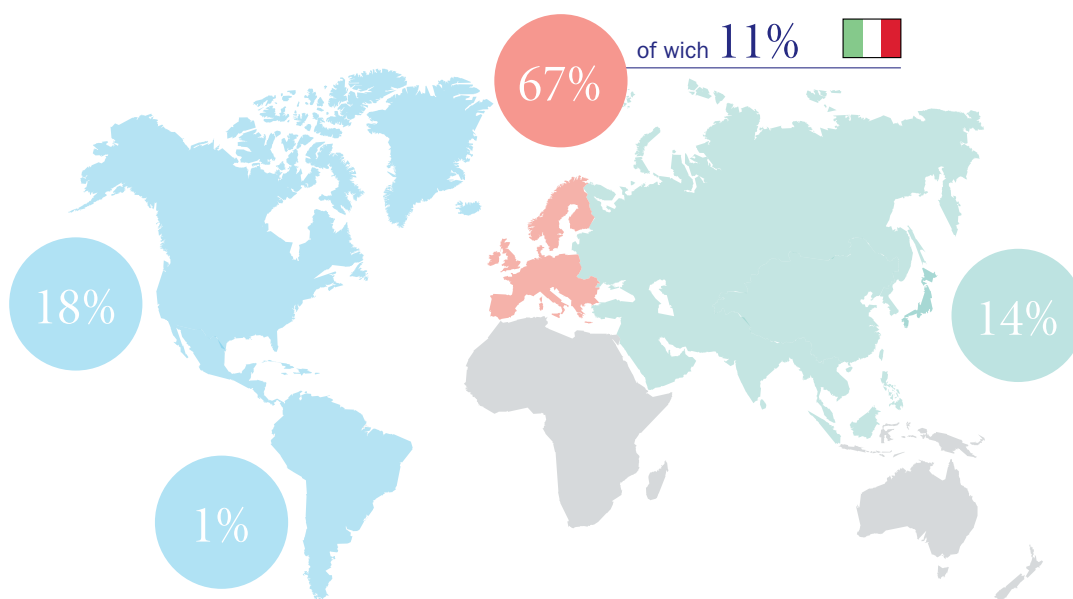
FIS became a global leader in producing the latter products, even collaborating with national governments along with the top international pharmaceutical companies fighting the emergency.

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 C.A.G.R. of 6-7% 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 and business structure and technical and commercial know-how of the sector, FIS has in turn shown a significant and distinctive growth rate over the past two years; more importantly, it is forecasting an even more significant growth rate over the next three-five years, thanks to the gradual completion of major projects and the continued acquisition of new projects with many of the world's top 20 players in the industry.





## Production

Budget production targets were largely reached in 2022, regarding both products already on the market and newly-launched products, except for one product at Termoli, for which there was a reduction of more than 30% due to a delay caused by the need to repeat the validation of the second drying line, which was then successfully repeated.

At all three plants, after a somewhat underwhelming start in January, production activities ran in full operation throughout the rest of the year, and employment rates were high at plants, as were saturation rates of labour, which, at certain times of the year, were complex to manage, so much so that new personnel and synergies between plants were needed, with temporary movement of labour from one site to another.

Due to the effects of the pandemic not having run its course in full, labour saturation also suffered from a high absenteeism rate, with peaks of up to 9-10% and an annual average of about two percentage points higher than the historical pre-pandemic figure of about 4%.

On the raw materials front, the improved situation in the post-pandemic international scene and the now proven and more efficient management of procurement policies allowed for better subservience to production lines; unlike the previous year, critical issues due to delays in material supplies were recorded, in any case to a reduced extent, only in the first months of the year and then occasionally during the course of 2022. When coupled with careful planning of production schedules, this allowed the achievement of appropriate values of the main service KPIs (OTIF and PA – Planning Adherence), which recorded, at all three plants, clearly increasing and improving values during the last quarter of the year. Finally, the qualitative results (OOS – Out Of Specifications) of the main production operations were also in line with expectations.

## Research and Development

The R&D unit is fundamental to the Company's ongoing growth; the inclusion of new projects and products aims to maintain and increase Company sales through ongoing renewal of FIS's product portfolio, resulting in higher average profit margins, reduced risk associated with patent expiration and the related decline in sales of some important products. 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 development of new drugs (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 capacity to manage, develop and industrialise its new complex R&D projects.

The unit was extremely busy during the year. R&D activities continued to be managed in the first half of 2022 throughout the Covid-19 pandemic. The public health emergency had a lower impact in 2022 compared to 2020 and 2021 in terms of employee absences and did not stop the sales and delivery targets being met. Revenues from custom project services were achieved in line with forecasts and the preset target. The result of revenues from R&D services 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.

2022 was marked by strengthening and validating industrial production operations, which provide for the application of flow chemistry on new major products with a key customer of ours. This latter technological application, which is specific to the continuous flow process development, is garnering increased interest from

some of the Company's key customers. In response to this emerging and growing trend, interventions to enhance flow chemistry were approved in 2022. The interventions concern an up-front investment with design and commissioning of flow reactors, ready to use, to be installed in the production lines of potential new projects involving the use of these technologies. Along with this investment, the expansion of the R&D laboratory areas in Montecchio Maggiore was approved, with delivery scheduled for mid-2023, to allow further growth of the R&D team dedicated to flow chemistry and the expansion of the process modelling area, with the recruitment of a Crystallisation Engineer and instrumentation dedicated to the study and development of intermediate crystallisation and isolation processes and final APIs, a critical area in the industrialisation of new production operations.

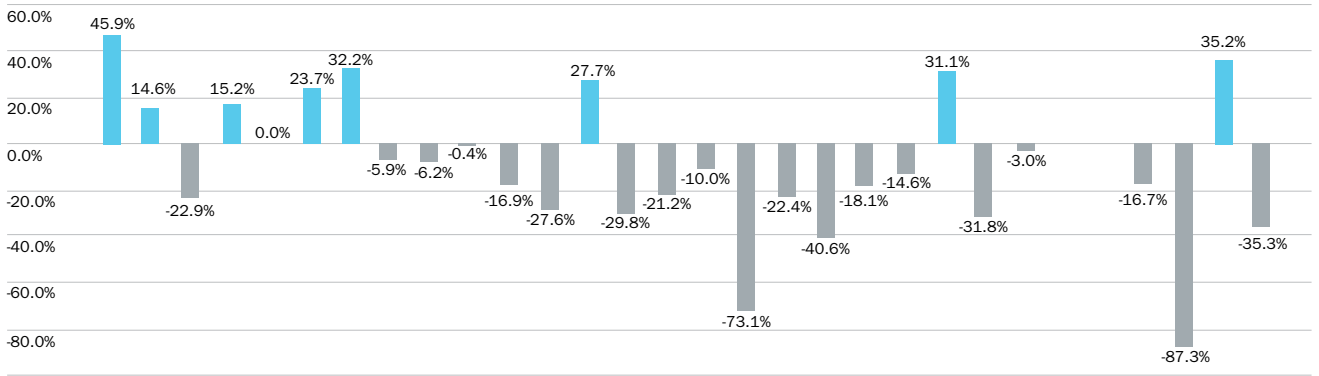
In 2022, 21 new projects were started, while the remaining 21 projects are a continuation of new activities and campaigns on already acquired projects. The total portfolio included 8 projects in toll manufacturing, then already in post-launch commercial phase (3 in industrialisation phase from 2021 and 5 newly entered), 23 projects in advanced phase, then Phase 3 (10 newly entered in 2022), five Veterinary projects, 2 HIPO (High Potent) projects, and 4 projects in early phase. The New Product Analytical Unit (NPAU) in Montecchio Maggiore and Lonigo was engaged in following up 22 production campaigns for new products, 6 of which were full validation.

On the sustainability front, since 2022 FIS R&D has introduced the calculation of the Relative Process Greenness (RPG) parameter to assess the ability to develop

more sustainable processes. The measurement of RPG on the entire R&D project portfolio for 2022 shows, for 67% of the projects, an improvement in this sustainability index achieved in the R&D phase. Relative Process Greenness is linked to another industry index, **PMI** (Product Mass Intensity), which indicates how much waste is produced per unit of API – the lower the value the more sustainable a process is.

Out of 30 projects considered, 19 of them show improvement (63%), while 3 of them show no change. The R&D target for 2022 was to reduce PMI by 15% in at least 30% of the entire new portfolio of ongoing projects. The result achieved, with an average reduction of 25.5% in PMI in 63% of the projects, was therefore above the target set.

### PMI fine R&D



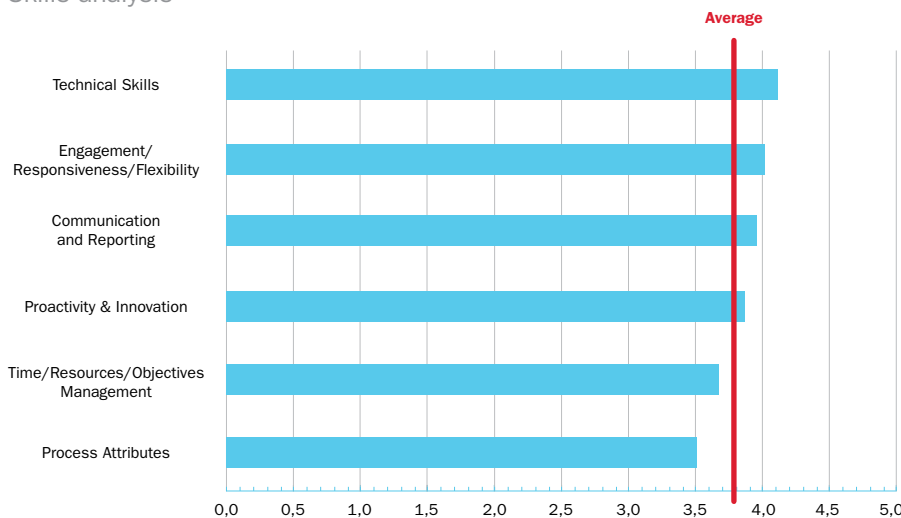
R&D Project portfolio 2022

In 2022 FIS R&D prepared a structured questionnaire to ask Customers for a formal performance appraisal of R&D teams in relation to the projects they managed and completed during the year

(1 = far below expectations, 2 = below expectations, 3 = in line with expectations, 4 = above expectations, 5 = far above expectations). Performance expectations are assessed on six parameters, including: technical capability, involvement, accountability and operational flexibility, communication and reporting, proactivity and innovation, timing, resources and management, study of process parameters.

The result was very positive, both in the acceptance and completion of the questionnaire on the part of customers and of average overall index achieved, which stands at 3.9 points (above expectations) on a 1-5 scale

### Customer Satisfaction Index Skills analysis



## Project Management



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 47 projects, including:

- 23 for which initial industrial production has been completed;
- 8 for which the process has been approved, with the related AIFA (the Italian Medicines Agency) authorisation for molecules with pharmacological activity.

A total of 5.7 tons of products were delivered in 2022, with 17 new custom and veterinary product projects launched to continue into 2023.

The Project Management unit was also involved in managing the first sales campaigns of projects that have reached full validation.

This phase of the active ingredient industrialisation process is extremely important, since it requires special care and attention in moving from the prototype, validation phase to mass production.

Project managers are therefore called upon to convey all the knowledge and experience, gained during project development, to the group that will manage industrial production, thus providing all such details and advice as are indispensable for production to be as efficient and robust as possible on a large scale.



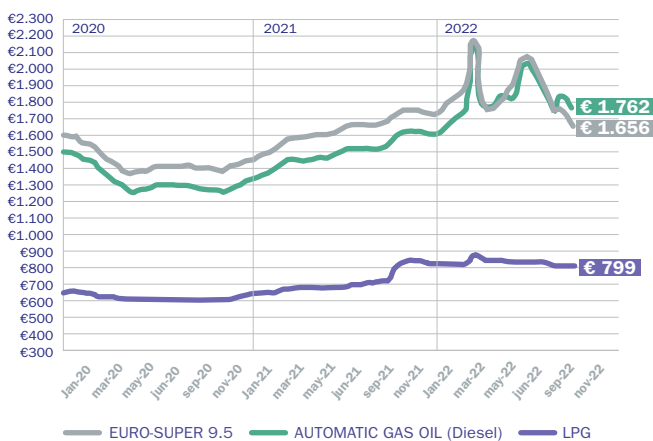
# Supply Chain

The year 2022, heralded to be characterised by an extreme rally in rising costs of raw materials and a climate of uncertainty due to pandemic waves, confirmed the forecasts with a strong focus on key topics:

- uncertainty about the availability of raw materials in the process of being purchased;
- severe price volatility linked to demand outweighing supply on average;
- energy crisis and speculation on the cost of natural gas, combined with the simultaneous water and wind crisis.

To these issues must be added shortage effects due to sanctions imposed by the EU on Russia, hence the unavailability of raw materials from Ukraine and/or Russia due to disruption in supply chains (benzene, propylene, soda, toluene, ammonia), as well as the simultaneous crisis in the cost of fuels.

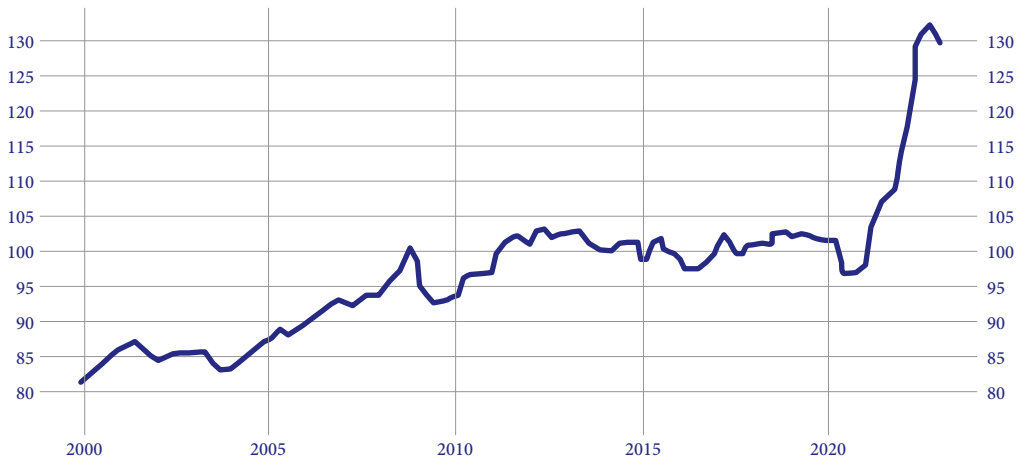
Market fuel prices, taxes included      Fuel Prices based on Italy's data



China GDP % change on a year earlier



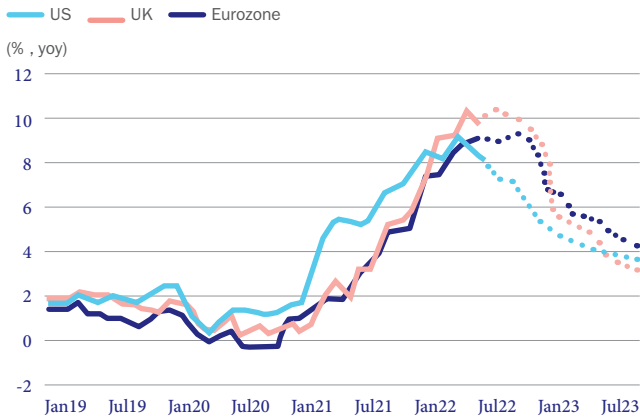
Source: Fitch Ratings, BLS, ONS, Eurostat, Haver Analytics



The effects of the Covid-19 pandemic, combined with geopolitical tensions derived from the Ukrainian conflict, were felt with high impact in 2022 too. The market for raw materials in the pharma and chemical sectors was still affected by strong price volatility, particularly for all intermediates used in the synthesis of potential treatments for Covid-19 or having a relevant weight of alcohol solvents in their synthesis. In general, almost no supplier has proposed price stability beyond 2- to 3-month visibility, with continuous adjustments on the peaks in March and September. Rising energy costs in 2022 had a double effect: increased costs of raw materials purchased from third

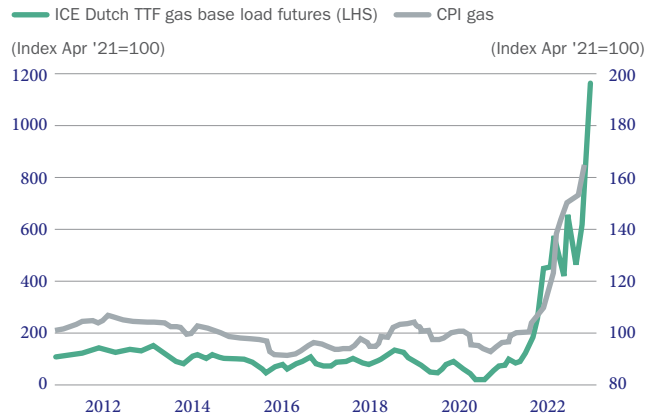
parties and increased production costs for intermediates and finished goods. To this must be added heavy inflationary tensions during the year, which contributed to the increase in production costs and, in general, to considerable pessimism about future trends. Only thanks to close and ongoing monitoring of the entire production and logistics transit time cycle of new orders, FIS strongly mitigated any risk of delayed supplies due to plant downtime or reduced production capacity in the areas that are most impacted by the aforesaid phenomena. Tensions on utilities were accompanied by inflationary factors, especially in the first half of the year, which reached peaks of 9%.

### CPI Inflation Monthly Forecasts



Source: Fitch Rartings, BLS, ONS, Eurostat, Haver Analytics

### Eurozone Gas CPI Wholesale Gas Prices

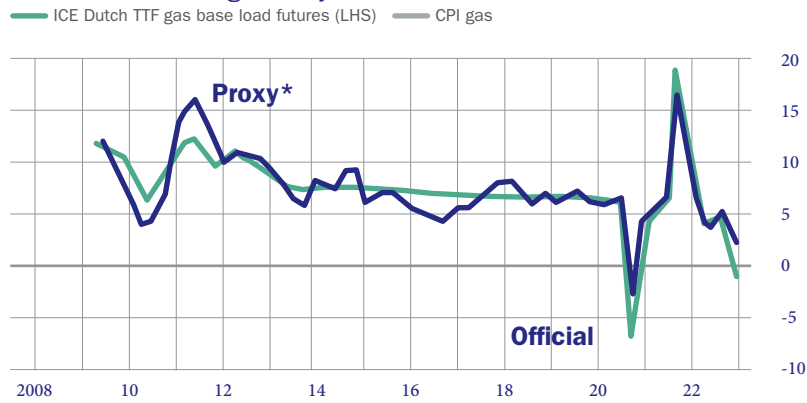


Source: Fitch Rartings, BLS, ONS, Eurostat, Haver Analytics

With reference to logistics issues, 2022 can be divided into the two half-years: the first one, in continuity with 2021, where logistics chains suffered high freight rates and shortage of availability; the second one, with a steady decrease in sea and air freight rates, coupled with an improvement in supply times and reduced

variability. The key words were "visibility" and "digitisation"; a real-time tracking platform was also developed, aimed at governing procurement timelines from China, India and the U.S., a project that will be developed with an integration with ERP in 2023.

**China GDP % change on a year earlier**



Source: Fitch Rartings, BLS, ONS, Eurostat, Haver Analytics

A macroeconomic outlook for 2023 of waning growth, falling inflation, and peak monetary tightening continues to be the most likely scenario. Growth in the global economy in the fourth quarter was better than expected, but the commodity market (especially pharma) was heavily affected by the gap caused by the wave of Omicron variant contagion in China, with 2022 ending with an expansion in real terms by 3.4%, well below the Chinese government's 5% target. In early 2023, the rather unfavourable outlook for the full year was – partially – revised upward thanks to a combination of post-pandemic reopening in China as early as from the first quarter and the gradual easing of restrictions due to the Dual Control System Law.

The expected growth in the Chinese system during the first half of 2023 could generate a new wave of price increases in the second half of the year, which is why FIS positions are being monitored to cover production needs in advance of such possible negative trends. FIS is also continuing the strong derisking policy implemented in the last 12 months, through the definition of the risk matrix of strategic raw materials on which to focus scouting activities, particularly towards new safe-haven markets for supply chains, such as India. These actions aim to identify alternative suppliers, shall support the Company's expected production growth and mitigate the risk of shortages (if any).



## Quality (QA, QC) and Regulatory Affairs (RA)

Also in the area of quality, 2022 was still partially affected by the tail end of the pandemic emergency in some respects at the beginning of the year, and then continued back to pre-emergency conditions.

The Company passed 81 inspections during the year, including agency inspections and customer audits for all three sites. Specifically, as far as regulatory bodies are concerned:

- at the beginning of May the second part of the AIFA inspection took place at the Montecchio Maggiore plant, aimed at a general review for the renewal of the Manufacturing Authorisation and GMP Certificate, which was obtained in November, following the closure of all the actions set out in the CAPA Plan (follow-up announced by the inspectors as FIS is now very large and the source of many product and equipment instances);
- at the end of May, the Certiquality inspection took place for all three sites, Montecchio Maggiore, Termoli and Lonigo, embarking on a path to integration of the three systems (ISO 9001, ISO 14001 and ISO 45001), which will continue in the current year until completeness in 2024;
- in July, the follow-up of the September 2021 inspection was completed at the Termoli site with the issuance of the new Manufacturing Authorisation decree and the new GMP Certificate;
- in October the AIFA inspection was held at the Lonigo plant, aimed at a general review for renewal of the Manufacturing Authorisation and GMP Certificate. The process is still to be completed following the submission of the CAPA Plan with actions in response to the observations found.

The testing and release of commercial lots at the three sites as a whole recorded a slight decline compared to 2021 (-2%). Releases increased at Termoli (+27%), while they fell at Lonigo (-8%) and Montecchio (-8%). As with production, this decline at Montecchio was due to the greater complexity of processing carried out in the year (increase in isolated intermediates by +12%) while for Lonigo it was due to a slight decline in demand. The variable trend in testing and release at the three plants led to a constant need for balancing analytical personnel among sites to cope with variable workload at different times of the year.

There remains a continuing emergency situation in the raw materials market and thus the increase continues in new suppliers vetting and verifications of performance (increased by more than 50%). The uneven arrival of raw materials caused by the various transport

emergencies at the beginning of the year has led to difficulties in release analysis, with spikes in activity making it difficult to maintain production plans.

With regard to the main quality KPIs, trends and data on the percentage of rejected lots are confirmed to be good in both categories (from serious irregularities and from OOS), customer complaints (although the number of complaints remains high for packaging issues), and audit non-conformities for all three plants. In the sterile unit, the trend towards a significant improvement in rejection rate is also confirmed (from 28% in 2020 to 21% in 2021 and 13% in 2022). However, the KPIs that are most affected by the number of resources, lack of close monitoring, and collaboration between functions, such as irregularities and CAPAs closed on time and the release of lots on time (lots released late: 39.7% in Montecchio Maggiore, 7.9% in Termoli, 18.3% in Lonigo) remain negatively unchanged or worsening for all three sites. These activities were affected by absences due to maternity leave and resignations, and in Montecchio in particular, where the worst figure was recorded, also by the absence of the team leader, in addition to peaks of considerable intensity in June/July and December.

For the sterile unit, six process simulation trials were performed during 2022. All tests were completed with a favourable outcome supporting the robustness of the processes, systems and maturity achieved by the operators. The project started in the last four months of the year, which yielded excellent results, was the attack on the batch record backlog of intermediate products to be serviced, conducted successfully at all three plants, and in particular at Montecchio, where at midyear there were more than 1,000 batches to be serviced that were later cut down by 50% at the end of the year. A second Company project on all three sites, aimed at reducing inventory, was conducted with considerable success on the part of the Q&C function: again with the goal of improving corporate release times, QC worked on a basket of selected products, greatly reducing their approval lead times, while QA worked, on the same basket of products, to capture the root causes of delayed release, highlighting a set of actions to be implemented during 2023.

Regulatory work increased compared to previous years. In particular, the following areas of work and focus were outlined during 2022:

- product registrations, both generic and custom, in emerging countries such as China, Brazil, and South Korea, with preparation of documentation to support requests from authorities and customers. The work was characterised by a high level of complexity, due to the type of required documents, continuous requests for additions on the part of auditors, long approval timelines, and the need for in-depth study of these countries' regulations and application guidelines, most of which have been recently introduced, in order to ensure the proper interpretation and preparation of the required documents;
- registration activities, with national authorities, concerning new products and filing of applications for essential changes related to equipment/production lines. In particular, there were new registrations in support of veterinary products, thus completing FIS's entry into the sector of animal healthcare. In total, the number of instances handled was in line with those of the previous year;
- improved support for technical and regulatory requests from customers in collaboration with other Company functions;
- increase in the number of evaluations of possible nitrosamine derivatives and potential genotoxic impurities in accordance with regulatory requirements;
- review and preparation of quality agreements with customers for both custom and generic products (doubled in 2022 compared to 2021).

There was the confirmation of an increase in AIFA's review and approval times, which was due to personnel shortages and the priority given to recovering the backlog of GMP inspections, which had been previously suspended as a result of the Covid-19 pandemic. However, special attention was paid to business needs in the case of urgent reporting and an extremely positive resumption of dialogue between the Company and agency auditors, the result of ongoing dialogue and sharing of any possible specific critical issues of projects.

## Safety, Health and 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:

|                                     |      |      |      |      |
|-------------------------------------|------|------|------|------|
| <b>Montecchio Maggiore facility</b> | 2022 | 2021 | 2020 | 2019 |
| Injuries (no.)                      | 8    | 13   | 9    | 17   |
| Injury rate                         | 4.5  | 7.1  | 4.8  | 9.0  |
| Severity rate                       | 0.04 | 0.23 | 0.16 | 0.17 |
| <b>Termoli facility</b>             | 2022 | 2021 | 2020 | 2019 |
| Injuries (no.)                      | 7    | 6    | 6    | 12   |
| Injury rate                         | 12.3 | 12.4 | 9.8  | 36.7 |
| Severity rate                       | 0.35 | 0.26 | 0.21 | 0.63 |
| <b>Lonigo facility</b>              | 2022 | 2021 | 2020 | 2019 |
| Injuries (no.)                      | 2    | 3    | 2    | 4    |
| Injury rate                         | 3.8  | 5.7  | 3.8  | 7.3  |
| Severity rate                       | 0.10 | 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 involved the use of chemical substances, as well as bruises, cuts and wounds.

In any case, FIS posted a good performance with regard to injury rates, with a downward trend compared to the average of the previous three years. In 2022, work continued on both plant engineering interventions and training and targeted actions to raise safety awareness on an ongoing basis, and there was an overall decrease in injuries despite more hours worked compared to 2021.

In compliance with ruling legislation, work continued in 2022 to update the **risk assessment** process at all three sites, while also harmonising the evaluation methodologies applied.

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 sites.

**Environmental management** 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 sources of fugitive emissions (LDAR) of volatile organic compounds, monitoring campaigns were carried out at all three sites in 2022, with emissions falling below the threshold.

As every year, 2022 saw the inspection/renewal of **Environmental Management System** and Safety Management System certification (ISO 14001 Environmental management and ISO 45001 Occupational health and safety). In 2022, the systems were subject to audits planned and carried out by the certification body Certiquality in order to have a single, integrated certification for all sites. In addition, integration into the surveillance work of quality certification will take place in May 2023. The Company does not have any pending disputes with health and safety regulators.

## Facilities and projects



Based on the accident rates and in relation to the values at the end of 2021, both of them (frequency and severity) were lower at the end of 2022 and therefore better than the average values during the previous three years at all three sites. The injury rate was then lower at the three facilities than the previous year; the severity rate was better only at Montecchio, due to two accidents, one at Lonigo and one at Termoli, with unusually long prognosis.

The operations at the three sites were, in terms of production rates, more intense and more regular than those recorded in 2021; the gradual wearing off of the distorting effects on supplies, together with a more well-established management of production programme planning, made it possible to express, as previously mentioned, positive service KPI values in 2022, which steadily improved in the second half of the year.

At Montecchio, production rates were high throughout the year; the introduction of new processes for development, regulatory validation, and manufacturing campaigns on a pilot and industrial scale was particularly intense as well.

In 2022, the Lonigo site recorded a rebound compared to the previous year as regards the volumes of some traditional production operations, which kept the facility engaged for the entire year, imposing particularly challenging production rates, especially in terms of labour absorption. In addition, some preparatory activities were completed for the manufacturing of some products that will be housed at the new 3C - veterinary department. Moreover, some major contracts were gained for products to be manufactured in the new wing of department 3c (west side), which will be completed in the two-year period from 2023 to 2024.

As expected, volumes were brought up to standard at the Termoli site in 2022, in relation to the new production operations started in the previous year; this allowed growth in employment levels for the plants at the new department B, whose complete saturation will take place in the two-year period from 2023 to 2024.

As far as the expenditure lines of the three facilities are concerned, the final balances of all the main items were in line or lower than the budget values, despite the highly discontinuous trend in the prices of utilities (electricity and gas). Expenditure values were decidedly higher than those of 2021 precisely because of the disruptive rise in utility prices due to the geopolitical and economic situation caused by the conflict in Ukraine.

In this context, it is worth mentioning that some actions put in place in the recent past, as well as in 2022, such as the utilisation of the full capacity of the tri-generation plant in Montecchio, the installation of an additional nitrogen self-generation plant and the sludge centrifuge in Termoli, the optimal use of the Lonigo waste-to-energy plant in cooperation with the other facilities, and other minor ones, helped to lower expenses and thus achieve budget targets, as well as contributing positively to sustainability and environmental KPIs.

Execution capacity in the engineering area also increased in 2022, managing to make investments of about €50 million, with a particularly challenging level of complexity and splitting of the panel of initiatives, but nevertheless well below the budgeted value of more than €70 million. By virtue of the level of investment that the strategic plan calls for (€70-80 million a year) over the next few years, the function is expected to be reinforced in terms of staffing and execution capacity in 2023, precisely to enable the implementation of the planned projects.

In this context, it is worth mentioning that in July, FIS submitted to the Ministry of Economic Development a Proposal for an Industrial Development Agreement within the framework of the NRRP (National Recovery and Resilience Plan); the multi-year framework of strategic investments at the two plants in Veneto and that in Molise was detailed in order to try to access the funds provided by the Plan so as to best support the aforesaid programme in the areas of both “plant engineering” and industrial digitalisation. The application was received and accepted, while official feedback on the possibility of accessing the funds and their amount is expected to arrive in the first half of 2023.

In 2022 some interventions started in previous years were completed and, above all, work commenced at many of the construction sites for the most important projects envisaged in the strategic plan.

#### **At Montecchio:**

- the implementation of an improvement of the GMP standards of the department G and the preparation for the revamping of the production lines of an important generic API;
- the start-up of the construction of a new plant to refine quality and reduce water discharge into the sewage system (Zero Liquid Discharge project);
- the installation of a new spray-drying system.

#### **At Lonigo:**

- the setting up of Department 3C, “west” area, for human use;
- the start of the revamping project of Department 3A, renamed 3D, with emptying and demolition in the north area. This is a particularly important three-year project, of which the first phase (4 lines out of the total 7) will be worth more than €35 million;
- the construction of the new waste-to-energy plant, the foundations of which have been laid;
- the construction of the co-generator, for which the concrete slab and some ancillary works have been built.

#### **At Termoli:**

- the fitting out of the new automated warehouse, which will be completed in 2023;
- the installation of new equipment at department B;
- the implementation of the new finishing area at department B;
- the expansion of the tank farm to be completed in 2023.

In the field of technological innovation, work continued on the projects started or planned in 2021, such as that of ERM (Enterprise Recipe Management), aimed at introducing a tool for rationalising and standardising the writing of MBRs (Master Batch Records) or asset management, which is preparatory, among other things, to the future introduction of the MES (Manufacturing Execution System). In particular, it is worth mentioning the successful conclusion in Termoli of the TCBM (On-board Machine Parcel Tracking), a pilot project that allowed the introduction of a digital tool at department B to manage the critical process of loading material in parcels into the equipment, reducing the risk of error and increasing safety and quality factors.

## Montecchio Maggiore



The trend in injury rates showed a significant improvement in both frequency and severity indices (from 0.23 to 0.04) in 2022, due to a decrease in the number of accidents and the associated reduced days of prognosis. The related area of “safety observations” also showed an improvement.

2022 saw production volumes with very high labour absorption, which was also accentuated by a pandemic-related absenteeism rate about two percentage points higher than the pre-Covid average, historically around 3-4%.

After some initial difficulties in complying with production plans, linked to the unavailability of some raw materials for the well-known geo-economic reasons, the situation improved during the year, which then ended with a good performance, with PA (Planning Adherence) and OTIF KPIs on the rise and production close to 1,000 tons of finished products, in line with previous years.

However, despite making new outdoor spaces fit for use, 2022 recorded some criticalities in terms of internal storage capacity for both raw material packages and intermediates and finished products, which should be remedied in 2023, both by increasing storage capacity and improving management, and through programmes to improve the efficiency of stock quantities.

A good performance was recorded in the field of Quality too, in line with other years, with reduced numbers of lots rejected due to being “out of specification”.

Worthy of note are the increased requests for two important APIs in the custom sector, including the site's largest production, including in relation to recent favourable developments in the cases associated with patent validity. In 2022, too, work continued, with intensity and

without significant problems, on the projects of periodically adding new processes for development, regulatory validation and manufacturing campaigns on a pilot and industrial scale, and in particular, a project was gained from a new major customer.

A prudent management made it possible to keep site expenses below budget values, although they were well above those of the previous year, as already expected, due almost exclusively to the well-known price effect on utilities.

In the area of investment, we must note the revamping of the production lines of an important generic API at department G, the start of the project for the construction of a new plant to refine quality and reduce water discharge into the sewerage system (Zero Liquid Discharge project), as well as the installation of a new spray-drying system.

During the year, inspections and audits were carried out by Regulators and customers, including the closure of the preliminary investigations concerning the five-year Safety Report of companies exposed to the “Risk of Significant Accident” under Legislative Decree no. 105/2015.

Finally, the inspection by AIFA in week No. 18/2022 is worth mentioning.

The year 2022 saw the succession of many steps attributable to the chapter on the “monitoring and management of fluorinated compounds in water”, characterised by the gradual increase in barrier wells and culminating in the approval of the FIS project to upgrade the MiSO (Operational Safety Plan ex Legislative Decree 152/06) at the Conference of Services (6/04/2022).



Lonigo

The trend in injury rates showed an improvement in the frequency index and a slight increase in the severity index (from 0.07 to 0.10), largely due to a single accident with an exceptionally long prognosis.

After a 2021 that had seen demand for the site's traditional products in decline, 2022 marked a significant and partly extraordinary "rebound", which, on several occasions, put pressure on the production structure and its increased workforce, made up of newly-educated and trained workers.

The production of the budgeted quantities was effectively achieved despite some critical issues associated, in the first half of the year, with difficulties in procuring certain raw materials and, in the second half of the year, with the management of the new staff hired to ensure the sharp increase in demand recorded during the year. In 2022, the site was able to manufacture 912 tonnes of finished product, up by 18% from the 770 tonnes produced in 2021, particularly on 5 generic products.

Labour absorption was very high (91%) and direct recruitment of personnel (23 operators) took place in the second half of the year, even in consideration of the forecasts of a further increase in absorption for 2023.

The year 2022 was a good year in terms of the value of service KPIs such as OTIF and PA (Planning Adherence), although the latter was somewhat down on 2021, due to the aforementioned tensions in production. Furthermore, the quality KPIs (complaints and rejections) were very good, similar to those of 2021.

The possibility of disposing of organic waste from other FIS sites, which was gained in 2021, allowed for a considerable reduction in gas consumption (with a volume of -11% compared to 2021), despite an increase in the quantity of products spilled (+10%) and the number of batches run (+7%), thus contributing to an improvement in environmental sustainability KPIs.

Facility expenses were in line with the budget, but significantly higher than 2021, due almost exclusively to the increase in the prices of utilities (electricity and methane gas). Charges for services and packaging also showed an increase consistently with the higher number of processing orders executed and inflation-related increases in the cost of materials.

On the subject of new products, mention should be made of the completion of the validation of two important active ingredients for the animal health business. In the course of 2022, bids were successful for the synthesis of important intermediates to be realised in terms of production at the department 3C, area for human use; these are significant quantities of product to be manufactured starting from 2023 and continuing during 2024 for major historical and newly-acquired FIS customers.

Investments saw a sharp increase in the past year and are certainly worth mentioning:

- the fitting out of the Department 3C, "west" area;
- the start of the revamping project of Department 3A, renamed 3D, with the emptying and demolition in the north area;
- the laying of foundations for the construction of the new waste-to-energy plant to be built using BAT (Best Available Techniques) policies;
- the execution of preparatory activities for the installation of a tri-generator, such as the one that has already been in operation for some time at Montecchio (construction of the concrete slab and ancillary works).

Finally, new processing operations were largely supported, even with complex and specific implementations, such as the new hydrogenation plant and the drying plant suitable for OEB3 on an industrial scale.

Finally, we must note:

- the performance of the inspection, in October, for the general overhaul of the site and activation of the department 3C, including for human use, on the part of AIFA, which ended with a positive outcome;
- the meetings with the Regional Technical Committee for the inspections envisaged by the Safety Manage-

ment System according to Legislative Decree no. 105, the final outcome of which is to be considered positive, since the main requirements concern the replacement of the foamers of the fire-fighting system and the time schedule of anti-seismic upgrading works.



With seven accidents and one commuting accident, the frequency rates remained substantially stable in 2022, while the severity rate worsened compared to the previous year (0.35 vs. 0.26), largely due to a single accident with a rather long prognosis.

In line with the industrial plan, 2022 was for Termoli the year to strengthen some production operations already well underway and the commercial start-up of others validated in previous years; this actually led to a considerable increase in the production volumes of finished products, with a total of 669 tonnes, equal to + 67% compared to the previous year.

The budgeted quantities were essentially observed, except for one product, for which there was a reduction of over 30% due to the delay caused by the need to repeat the validation of the second drying line, which was repeated successfully and then allowed production to run smoothly in the second dryer as well.

Labour absorption was 84.7% on an annual basis, with high peaks between April and July (an average of 93.4%) and in the last quarter (almost 100%), so much so that the site had to resort to the support of operators from the Montecchio site in order to meet the high production rates.

As far as the main KPIs are concerned, the PA (Planning Adherence) recorded positive values and a definite increase in the last quarter, while the OTIF recorded more than good values (91%) and significantly better than in the previous year.

Facility expenses were below budget, and among the initiatives that enabled the result to be achieved was the sludge centrifuge project, which resulted in a net saving of more than €160 thousand.

As a result of the investments completed in 2022, twelve NARs (Non-Aggravation of Risk) were submitted to the Regional Technical Committee pursuant to Legislative Decree no. 105/2015. Among the main ones are the automated warehouse, new equipment at Department B and the new Finishing department. Also worth mentioning is the substantial work carried out on the biological tower of the wastewater treatment plant, which made it possible to recover treatment efficiency and containment of energy costs related to air compressors. The Final Inspection Report, as per Article 27 of Legislative Decree no. 105/2015, dated 29 September 2021, provided for only one requirement (wind sleeve arrangement) and twelve recommendations. Requirements and recommendations were complied with on time and described during the Regional Technical Committee's meeting held on 9 June 2022.

Finally, it should be noted that on 14 and 15 December there was the annual inspection visit on the part of ARPA (Regional Environmental Protection Agency), whose final report did not state any request nor the need for new assessments, given that "no irregularities have emerged due to the breach of the requirements imposed under the provisions of Integrated Environmental Authorisations, nor of the specific sector regulations".



## Industrial relations

The year 2022 was characterised by a systematization of the labour relations plan, and in the first instance with the trade union representatives present in the Company: due to the complex history of relations with workers' representatives, there was widespread awareness of the need to share a common method and time schedule. In particular, this occurred during an initial meeting between Company management and the Union Representatives (RSU) in February last year, at which the parties precisely scheduled any subsequent meeting on a monthly basis so as to maintain a constant level of discussion and updating on common issues and topics on Company life.

In continuity with the post-Covid-19 “new normal” phase, meetings were held regularly to monitor, maintain and, if necessary, update the provisions of the Shared Protocol for the management of the risk of contagion, with a view to uniformity of action among the three FIS sites.

An “interim agreement” was signed in 2022 too with the RSUs of the three facilities for the relevant year in order to renew a new second-level contract for the three-year period from 2023 to 2025. In the 2022 agreement, with regard to the **production bonus**, the parameters and conditions for its award were confirmed,

including compliance by December of the year 2022 as a necessary condition for access to the payment of the bonus, in relation to the share of the Company's results of operations.

In addition, a welfare platform was activated for all employees, with an initial contribution from the Company for each worker.

In the area of second-level bargaining, the architecture of the relevant agreement was designed at the end of the year, to be renewed by the first half of 2023, following negotiations and the restatement of the objectives regarding the production bonus.

The Business Observatory played an important role in the negotiations with the Trade Unions, especially given the critical issues under discussion, in continuity with what had been performed in the previous two-year period.

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



## Human Resources

In 2022, the state of health emergency was gradually reduced, recording only a few peaks (April and July), manifesting itself with a few isolated cases that were easily monitored and that did not lead to any critical situation in the performance of activities. All HR personnel continued to monitor and safeguard employee health on an ongoing basis, maintaining in place well-established tools such as the contact tracing process and active communication on the appropriate prevention methods set out in the Company safety protocol. Smart working was further defined and regulated under individual contracts in a structured and differentiated way for employees according to a specific functional and operational approach. This constitutes an additional element of attractiveness for staff who, having a wide geographic range, are better able to reconcile work, travel and private life for a better work-life-balance. 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, and especially as a result of the application of the new three-level evaluation system – skills, performance and potential. Finally, the Talent Program was started in partnership with CUOA. The programme, which has a time horizon of 12 months, is a pilot project that aims to support talents identified by different Company departments with a dedicated and accelerated training process.

### Headcount and personnel expenses

The headcount was 1,988 FTE at the end of the year, up compared to the previous year (1,920 FTE). Actual figures matched the budget: we must note the increased placement of temporary workers to ensure continuity in supply chains and production in relation to unforeseen peaks and to make up for continuing difficulties in logistics flow, caused by the well-known geopolitical events. The placement of temporary workers includes systematic training in health and safety, quality, GMP regulations, and production process technologies.

It should be noted that, despite the improvement in the state of Covid-19 emergency, the absenteeism rate due to sickness remained high on average: this phenomenon, combined with increased production demand not anticipated in the planning at the beginning of the year, caused the failure to achieve the budget target of using up roughly 15% of remaining vacation leave deriving from the previous decade.

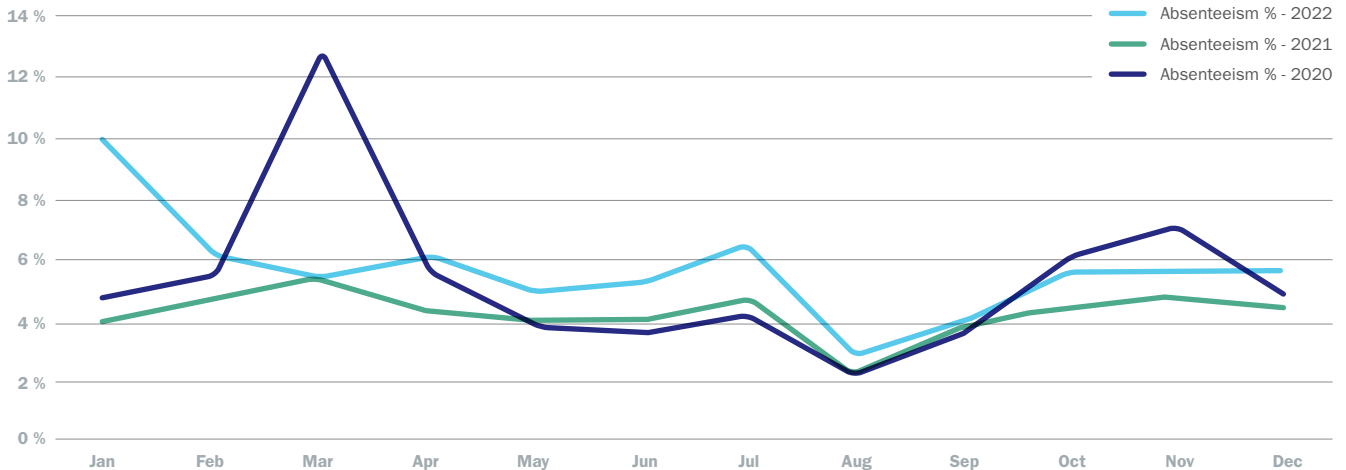
With regard to the impact of overtime on personnel expenses, there are no particular periods to report: it was always well below the set target of 1% on workable hours.

## Absenteeism

The above chart shows absenteeism trends in 2022 compared with the two previous periods: the lines and peaks coincide with the waves of the pandemic and ep-

idemic, even more evident looking at 2020. In December 2021, there was an upturn resulting in the surge in January 2022, with a curve comparable to the peak recorded in March 2020.

Absenteeism 2020 / 2022



## Employee turnover

The departure rate was 6.39% in 2022, higher than in 2021 (4.81%), although the figure was affected by the widespread uncertainty during the pandemic.

In any case, the 2022 departure rate was more than offset by the new hire rate of 6.39%, partly due to the talent acquisition process. Indeed, the personnel selection and recruitment process continued to use the set of tests implemented in 2021 to improve the talent screening and assessment phase. A more structured and sophisticated platform was designed in the last quarter of the year to develop this crucial area for the Company in terms of both talent attraction and talent retention, through a set of specifically calibrated and fine-tuned tools in the process of being implemented (Talent Program, strengthening relations with Universities and Schools, upgrading the welfare platform, Open day and Recruiting day).

## Training

Training and educational sessions were delivered after checking the training requirements during the first two months of the year, which were necessary to maintain core competencies and to prepare staff skills for the implementation of the business plan. In addition, the results that emerged from staff performance appraisals were used in order to design and plan training accordingly. Despite the fact that the critical issues of the pandemic have partially receded, and despite the fact that the level of attention was kept high on the basic methods of prevention of contagion as set out in the Company safety protocol, it was still possible to renew licenses and qualifications (forklifts, first aid, i.e.) and proceed

with new appointments (supervisors, toxic gases). In this regard, all teams for first aid, firefighting, supervisors, electrical work, etc., were reviewed by assigning new appointments and structuring a specific tool for verifying staff qualifications that can be easily consulted to improve management and safety at the Company sites.

Furthermore, the Risk Assessment Document was renewed in 2022 for the three facilities, which required massive training on the entire FIS population to update their knowledge on risks and countermeasures adopted for each site. In addition, the regulatory updates concerning amendments to Legislative Decree no. 81/2008 and the impact on safety management across the organisation also required refresher training for the Employer, Managers and Supervisors. On the regulation front, the issue mentioned in Legislative Decree no. 231/2001 was developed with regard to the appropriate conduct to be adopted for an administrative liability management system.

There was also no shortage of content related to the area of sustainability, for which specific sessions were held for the Company's front lines as key drivers for the population.

During the year, the usual sessions were delivered to new hires with an optimisation of enrolment timing by managing the safety training required by the law in person on the one hand and developing self-training content for the remaining topics on the other. Further innovations for newly hired high-level staff (senior & executive managers) are peer-to-peer inductions to improve understanding of functions, processes and contribute to initial knowledge of the working team.

There was, of course, no shortage of technical training delivered to personnel, on the occasion of specific refresher and training courses, including for laboratory staff, language training and focused programmes.

In addition to technical training, a number of individual coaching sessions were activated, which were aimed at supporting personal skills, developing virtuous and adaptive behaviours, and providing tools to tap one's potential.

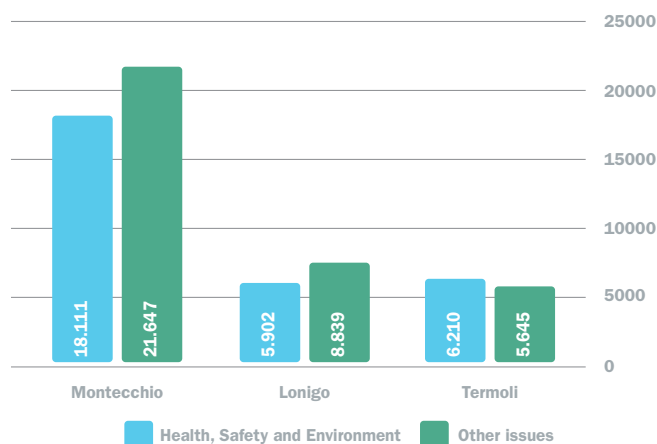
Finally, at the end of the year, a structured training course on the "Talent Program" was put in place for some young talents at FIS in order to provide general management knowledge with an interdisciplinary approach by effectively training organisational and interpersonal skills.

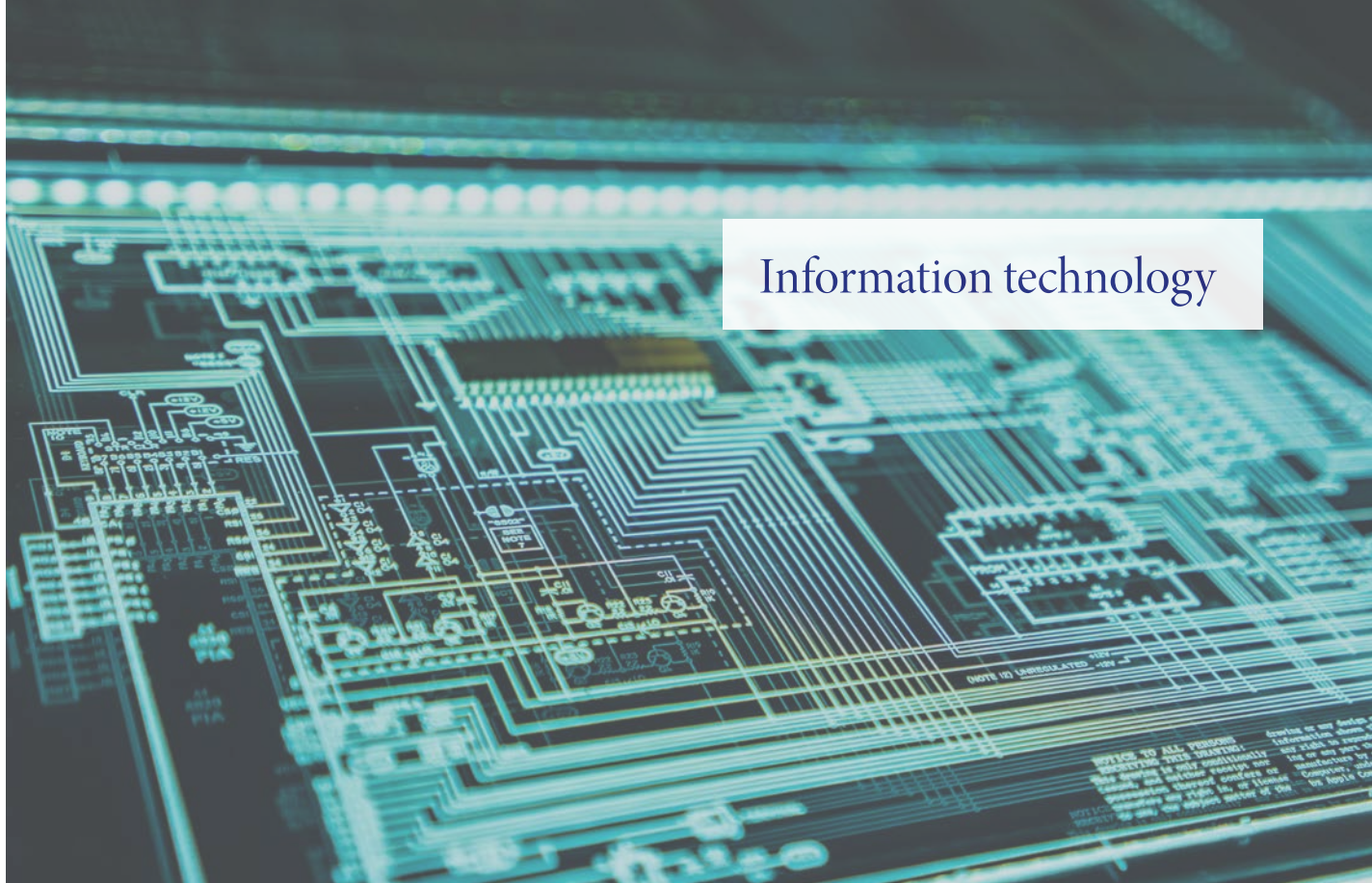
With regard to personnel development, the Company continued to map potential in 2022 in order to best place resources within either the production and specialist units and in managerial positions. A mapping of psycho-aptitude, potential, and motivational characteristics is an effective tool for retention and proactive management of resources. 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. During the year, a comprehensive and structured journey carried out in collaboration with management departments led to the development of a new corporate competency pattern that well interprets the corporate values of FIS.

Hence, a new 2023 performance appraisal system that is more meritocratic and objective, as well as functional for the development of potential, performance and for the preparation of solid succession plans.

As is customary, 2022 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 then took place regarding chemical-technical hard skills (e.g., Quality by Design; troubleshooting – Headspace), finance upskills (updates on accounting standards, ROI), Supply chain staff certifications (Certified in Planning and Inventory Management), Legal Affairs (Advanced Course in Industrial Property Management) and Industrial Operations (Sustainability Transition Management). Individual coaching and master's courses (PM) were also activated with a view to skill enhancement and future career development. A total of 66,354 hours of training were provided at the three facilities, equivalent to four days of annual training per capita, with an increase of 30% in delivering training compared to 2021.

Training delivered in 2022





## Information technology

During 2022, 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.

Based on the Corporate Strategy, the IT function integrated in a considerable way the IT strategy aimed at technological evolution and digital transformation during 2022. The evaluation of strategic partners for the evolution, identification of innovative technologies to be introduced across the Company, design of the future application landscape, and activities to support the NRRP plan, allowed the project and technology initiatives to be implemented to be realised in a roadmap of five years.

The unit also reinforced particular initiatives to guarantee business continuity and the safety of Company data.

### Cybersecurity

The security awareness training programme continued throughout 2022 via online training in cybersecurity delivered to all personnel operating with IT tools.

The IT organisation has appointed a dedicated cybersecurity manager with five years' experience already gained in other companies.

The function increased the ability to identify and contain threats through the implementation of a new Endpoint Security Solution integrated with the SOC (Security Operation Center) service.

In order to increase protection on mobile devices, a new Apple/Microsoft management system was implemented during the year, which enhances the security of Company smartphones through modern MDM (Mobile Device Management).

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 additions to the Master Service Agreements. With the twofold objective of increasing cybersecurity and gaining a competitive advantage, FIS has embarked on a path to ISO27001 certification, which will be completed in the first quarter of 2023.

### Projects

During the winter shutdown, enrolment of the WMS (Warehouse Management System) was completed in January. With the go-live on the Montecchio site, the work of standardisation was completed on all facilities that now operate on a single system.

Again in the Industrial Operation area, the collaboration with the DIT (Technological Innovation Department) function has enabled the implementation of some innovative solutions at pilot project level, such as the extension of the ERP system for Tracking Packages on Board Machine (TCBM) aimed at improving Right First Time (a full roll-out occurred at the Termoli site), the ERM (Enterprise Recipe Management) for the introduction of a new solution for writing and configuring MBRs (Master Batch Records), and the assessment carried out in the area of asset management for the preparation of a

plan aimed at the full governance of the entire life cycle of the Company's assets in Operations.

Work continued on the Ground Zero project in collaboration with the Administration, Finance and Control team, which saw the upgrade of the management system to support Finance processes, such as:

- CapEx: for integrated management of investment planning and calculation of operational amortisation and depreciation;
- Financial Planning: for long-term cash flow planning in support of budget economic planning;
- Costing (Variances): for revising the costing model in order to ensure a robust database for analysing and understanding industrial variances.

In the final part of the year, the IT department helped support the change in the inventory valuation method from weighted average cost to FIFO while analysing application requirements and constraints and supporting the implementation of the calculation algorithm in the reperformance of years 2020 to 2022.

Supply chain was a key business area to which the IT function provided support during the year.

Specifically, the contribution brought to the "Inventory Reduction" project enabled the introduction of new dimensions of analysis and evaluation metrics for inventory value control, identifying specific and/or cross-function actions aimed at reducing the average value and the period of coverage. In order to ensure better inventory forecasting, the upgrade of the MRP system was completed, which now allows for accurate requirement forecasting, estimation of representative capabilities (man and machine), and application of basic simulation scenarios to meet market needs.

The purchasing flow underwent a strong technological review, with the introduction of "Smart Approval" – digitisation of the process to approve purchase orders – and the extension of the SRM (Supplier Relationship Management) system to implement order collaboration. This is a shared platform with FIS suppliers for procurement sharing and real-time transposition of changes in supplies, which constitutes an important innovation in the face of the significant impact on logistics caused by recent geopolitical events.

In continuity with the established programme, the first phase of upgrading the S&OP process was completed

by introducing a Sales & Operational planning module across the Company on the platform that is also used for the Finance management part (Anaplan). The work carried out at the level of optimisation of the S&OP cycle allowed the adoption of a standard solution for the integration of demand and supply plans, the centralisation of sales forecast scenarios in a single repository and the collaboration in the operation of preparing the monthly S&OP cycles.

The Quality area saw the continuation of the "Upgrade of system the release to support QC" programme, i.e., the upgrade of the version of the Chromatographic system in the Quality Control area to ensure business continuity, and to enable the use of next-generation analytical instrumentation. During 2022, the upgrade was completed for the R&D part at the Termoli and Lonigo sites, while in 2023 it is planned to be completed at the Montecchio site with back-integration evaluation for the extension of the Empower system in the Lonigo QC as well.

In the Infrastructure area, a major technology refresh was completed with regard to the server infrastructure supporting the IT systems, which is required to boost the Company's growth and in anticipation of the implementation of the projects planned in 2023.

A cloud infrastructure was also set up with a view to using a hybrid architecture in order to take advantage of opportunities arising, for example, from machine learning, artificial intelligence and big data platforms and to support scenarios of any possible urgent demand for additional resources.

In the first half of 2022, work proceeded with the qualification of the Montecchio IT infrastructure, which will be completed with Termoli and Lonigo in 2023.

## Structure

During 2022, the IT organisation saw the strengthening of some areas with the appointment of a new IT staff member as information security specialist to support activities aimed at increasing the levels of information security, and to the path to ISO 27001 certification, as well as of the IT project manager to support the technology evolution roadmap set out in the IT strategy.



## Internal Control System & Internal Audit

### 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 (now Head of Internal Audit) and set up an Internal Auditing 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 has adopted 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 respective nature, frequency and potential impact, risks are managed by constantly combining mitigating/protective actions and interventions, 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 (ICS) 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,
- compliance with Company policies, plans and 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 the Organisational Model 231 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.

In this regard, FIS has created a lean control structure. Alongside its sophisticated line control system involving all unit managers and personnel as a whole, 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.

## Risk management process

Risk management consists of a continuous and recurring process, spread throughout the organisation, which involves the systematic and repeated identification, assessment, treatment, and monitoring of risks.

### Identification

The identification of any possible existing risk, in relation to the stated strategic objectives, is carried out periodically, in line with the time horizon of the corporate strategic plan, or whenever internal or external environmental factors make it necessary.

FIS's risk catalogue (risk model) underwent a complete revision during 2022 with a view to integrating sustainability, business and compliance issues.

In this regard, FIS's risk model provides for 42 risks, divided into 5 macro-categories, of which 7 with ESG (Environmental, Social and Governance) value, which have been identified and assessed in terms of probability and impact on the part of FIS's middle and top management.

It should be noted, in fact, that during 2022, FIS conducted an enterprise risk mapping process, delving into the business context in which the organisation operates, through analysis of the business and the Company (strategic guidelines, financial statements, sustainability report), aimed at defining a risk model derived from the one typical for the chemical-pharmaceutical sector and customised on FIS, focused on identifying and managing risks in a standardised way across the Company.

The risk management process is carried out through a continuous approach that involves various organisational structures with different roles and responsibilities.

Internal Audit is not in charge of managing specific risks, which is left to management, but is responsible for implementing an integrated risk management process and providing support, at a high level, in disseminating a risk culture.

The management is responsible for implementing an enterprise risk mapping within the business processes under its competence, identifying, assessing and managing risks that might have an impact on the stated objectives.

In this regard, it should be noted that, during 2022, interviews were conducted with the heads of all major Company functions, as well as with the insurance broker and members of the Supervisory body, in order to identify, map and prioritise the risks to which the organisation appears to be exposed. The interviewees were subsequently involved in the back-office for final validation of the work performed and the formalised risk sheets. The evidence gathered during the interviews was used to formalise the risk sheets, in which all es-

sentential information was reported, including the control actions in place (safeguards), with an assessment of the relative level of monitoring, and those that have been planned/considered (mitigation actions). Finally, the identified risks, divided into top risk (high severity) and non-top risk, were described through the use of heat map and further representations according to the profile of risk, with details by value driver, business process and risk model.

### **Assessment**

Each identified risk has been assessed according to the parameters of probability of occurrence over the plan horizon and related impact. The impact assessment has been structured into three types:

- economic-financial (quantitative) impact defined on the basis of the impact on EBITDA over the plan horizon and shared with the Chief Financial Officer;
- reputational impact scale;
- ESG impact scale defined on the basis of the FIS materiality matrix.

As part of the assessment, each risk owner has identified the main prevention/mitigation safeguards in place and assessed their related level of adequacy. The combination of probability of occurrence and impact have determined the risk rating, enabling the comparison of the risks being assessed and the description of FIS's overall exposure, so as to identify priorities for action for subsequent strategies of response to risk.

### **Risk response**

The risk management strategy has been defined on the basis of risk assessment. The risk owner, for the risks under their responsibility, is responsible for preparing response plans to those that are identified as top risks. At this stage, if the need exists, the risk owner is urged to identify and plan specific prevention/mitigation actions in addition to existing ones in order to bring risks back within a level that is regarded as acceptable.

### **Monitoring**

The internal and external environment is subject to possible changes, and therefore periodic monitoring of the risk portfolio is necessary to assess its dynamics and to verify the operational effectiveness of preset response strategies. The activity of monitoring risks and their management is developed, at least annually, through the repetition of the phases described above and, during the year, with specific verification activities and/or analysis, on:

- existence, traceability and mitigation capacity of the risk of the controls declared to be in place during risk assessment;
- additional controls to be adopted and related status of implementation;

- any changes in the risk profile as a result of macro-changes in the scenario.

### **Reporting**

After the process of evaluating and consolidating the results is completed, appropriate reporting is prepared and addressed to the various stakeholders of Internal Control System, Chief Executive Officer, Board of Directors, Board of statutory auditors, Supervisory body, and Audit & Controls Committee (A&CC).

The results of the process are used:

- by the Corporate Bodies about the identification of the main business risks, as well as the reasonable assurance that they are managed in accordance with the limits set for value creation;
- by the Board of Directors;
- by Internal Audit as information elements aimed at preparing specific risk-based audit plans.

### **Internal Auditing**

The Internal Auditing Department'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.

With regard to internal control work, the Internal Auditing Department, 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 Head of Internal Audit is not in charge of any operating units and does not report to any head of function. 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, thus 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 Department completed an integrated mapping of business risks in 2022. The results will then be used to develop a specific audit plan, to be carried out during 2023, for areas at greater risk. 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 the audit plan for 2023, to be submitted to the Audit & Controls Committee and the Board of statutory auditors for approval and then a consequent plan of action shall be agreed with the Directors.

Targeted assessments were already carried out for specific Company areas during 2022. The results (remarks) have been made available and the related corrective actions are in the process of being adopted.

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

In this regard, with a view to greater effectiveness and efficiency in the management of the audit process and follow-up on corrective actions, the Company has selected, after careful and thorough analysis, an audit program, documentation and follow-up management tool developed by a leading industry player, which is being adopted during the 2023 financial year.

Assessments of the Internal Control System deriving from these checks are 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 Affairs Department.

## **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.

Eighty-one product quality and safety inspections or audits were carried out at the production facilities in 2022.

Specifically, these include:

- 81 by Company customers, of which:
  - 43 at the Montecchio Maggiore facility;
  - 25 at the Lonigo facility;
  - 13 at the Termoli facility;
- 6 paper-based checks, of which:
  - 4 at the Montecchio Maggiore facility;
  - 2 at the Lonigo facility;
- 16 carried out remotely, of which:
  - 8 at the Montecchio Maggiore facility;
  - 3 at the Lonigo facility;
  - 5 at the Termoli facility;
- 1 ISO 9001 inspection carried out at the 3 facilities;
- 1 carried out by ruling authorities (AIFA);
- 1 self-inspection carried out at Company facilities (an internal audit from site QA and corporate QA is conducted at each site on an annual basis).

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. Forty-four audits were carried out at suppliers in 2022.

#### **Legality, integrity and prevention of corruption**

FIS believes that success can only be sustained with responsible and ethical business management; the Company's actions are always carried out with integrity, honesty and passion and are based on mutual trust so that growth is also guided by the principle of shared value.

FIS conducts its business in compliance with the law, Company rules and professional ethics. In this regard, the business strategy is mainly divided into the following areas:

- organisational model 231;
- letter of attestation;
- anticorruption and Whistleblowing Policy;
- policy on gifts, hospitality and entertainment;
- staff training and awareness;
- MAR - Market Abuse Regulation.

#### **Organisational, management and control model in accordance with Legislative Decree no. 231/2001**

The Company has adopted its own organisational, management and control model in accordance with Legislative Decree no. 231/2001 (Organisational Model), the latest version of which, approved by the Board of Directors on 23 July 2020, consists of a general part, in which the principles, functions and essential components of the Organisational Model are described, and special parts, which are structured as follows:

- descriptive part of the organisational, management and control manual;
- text of Legislative Decree no. 231/2001, as amended and supplemented;

- list of predicate offences for liability under Legislative Decree no. 231/2001;
- system of sanctions;
- identification and assessment of risks 231/2001;
- code of conduct 231/2001;
- preventive protocols 231/2001;
- procedure for information flows and reports to the supervisory body (with related annex).

The Head of Internal Audit is, at present, a member of the supervisory body of FIS, with appointment by resolution of the Board of Directors' meeting held on 27 July 2022.

Therefore, the current members of the Supervisory Body are as follows:

- Martina Caron, Esq., external member and chairman;
- Giulio Perdoncin, external member;
- Stefano Fulgi, internal member.

Members will hold office for the three-year period from 2021 to 2023, and then until 31 December 2023.

#### **Letter of Attestation**

As from the 2022 financial year, FIS has introduced a new attestation process involving the CEO, Prevention and Protection Service Managers, and the entire first line management.

Specifically, the latter are required to sign, on an annual basis, a letter of attestation to guarantee the decision-making process taken in their department, as well as the reporting of any cases of violation and fraud.

#### **Anticorruption and Whistleblowing Policy**

In view of the broad geographic context in which it operates, the Company has adopted several internal regulatory instruments aimed at identifying and enforcing an anti-corruption policy that sets out expectations for the conduct of business.

A special role is played by the Supervisory body, whose work contemplates the periodic collection of sensitive information in order to identify potentially risky behaviour, with reference to corruption offences against both Italian and foreign Public Authorities and private individuals. The organisational, management and control model under Legislative Decree no. 231/2001 and the Company's regulatory framework are subject to a continuous updating process in order to adapt them to organisational and legislative changes and to adequately respond to any possible risk of commission of crimes. Among the corruption risk prevention tools, the Company has adopted a new system for reporting violations to Internal Audit and the Supervisory body (whistleblowing), which allows employees and third parties to report issues related to non-compliance with the requirements of the Code of Conduct, the Organisational Model, Company procedures, or in any case with the provisions of law.

Since December 2022, a new IT whistleblowing system has been operational, which uses an independent platform for sending reports and constitutes an evolution in terms of suitability in order to ensure the confidentiality of sources and information reported (as required by Law no.179 of 30 November 2017).

### **Policy on gifts, hospitality and entertainment**

During 2022 FIS adopted a new policy on gifts, hospitality and entertainment. FIS requires its employees to operate with continued honesty and integrity. The Company acknowledges that the giving and acceptance of gifts, hospitality and entertainment may occur in the course of customary business practices and recognises that such practices may vary in a significant manner depending on the geographic area in which FIS operates. However, regardless of local laws and customs, certain gifts, hospitality and entertainment may be construed as actions put in place or accepted by FIS for the purpose of exerting undue influence or may indicate the presence of a conflict of interest. Under certain circumstances the offering and/or receiving of gifts, hospitality and entertainment may be regarded as an act of bribery/inducement and thus be illegal and detrimental to the reputation of FIS, such that the individuals involved and the Company could be criminally prosecuted.

FIS and its employees are, therefore, strictly prohibited from giving, promising, offering, requesting or receiving any gifts, hospitality and entertainment whose nature or value may be deemed even potentially excessive or unusual. This principle is intended to ensure that no gift, hospitality or entertainment received or bestowed in a legitimate manner can be considered to be a bribe or inducement designed to create an improper business advantage for FIS. FIS's policy on gifts, hospitality and entertainment sets out the basic principles that FIS employees are expected to abide by if, in the course of their duties, they are found to be giving or receiving gifts, acts of hospitality or entertainment of various kinds, and also provides guidelines for conduct and identifies the responsibilities of each of them.

### **Staff training & awareness**

In 2022, the Company conducted a training course on the compliance with Italian Law no. 231 to all of its employees, making use of the IT platform, with a final test. In addition, specific face-to-face training was provided to the Company's managers, with related final test, using the support of a third-party criminal lawyer.

### **MAR – Market Abuse Regulation**

Procedures related to market abuse regulations aim to protect the transparency and integrity of financial markets. On 10 February 2022, the Company issued and placed a bond called "€350,000,000 5.625% Sustainability-Linked Senior Secured Notes due 2027" with institutional investors on the international market in order to refinance and rationalise the financial structure of the Company and some of its subsidiaries, the raising of financial resources necessary to be able to meet working capital requirements and business development.

The Bonds are listed, since the date of issue, on the multilateral trading facility or "MTF" called "Euro MTF Market" managed by the Luxembourg Stock Exchange and, therefore, the Company – as an issuer having financial instruments listed on an MTF – is required (in the same way as the issuers with financial instruments listed on regulated markets) to comply with the EU regulations on market abuse laid down in Regulation (EU) No. 596/2014 (market abuse regulation or "MAR").

In this regard, with a view to the continuous improvement and strengthening of the Company's internal compliance safeguards and in order to ensure exact compliance with the aforementioned regulatory framework, FIS has been working closely with its legal advisors in order to formalise and implement some measures suitable to ensure, also for future years, full compliance with the obligations set forth in the current regulations; these include, in particular, the obligation to publicly disclose inside (price sensitive) information relating to the Company and the bonds, the obligation to establish and maintain lists of persons with access to such inside information of the Company ("Insider Register"), the obligations to publicly disclose transactions involving the Bonds carried out by persons who perform administrative, control and management functions of the Company ("Relevant Persons") and persons closely associated with them ("internal dealing") and the prohibition for Relevant Persons to carry out transactions in the Company's financial instruments during the 30 days preceding the announcement of an interim financial report or an annual report that the Company is required to make public pursuant to applicable legislative regulations ("closed periods").

As part of this compliance work, the Company has prepared, with the support of its legal counsels, an internal procedure for the management and handling of inside information and for the public disclosure of documents and information, as well as a procedure on internal dealing, which have been approved by the Company's Board of Directors.

Finally, FIS has appointed a third-party provider to maintain and update the Insider Register that has been established by the Company.

## Cybersecurity

The Company's focus on cybersecurity has progressively intensified in response to the increasing complexity and frequency with which cyber attacks are being conducted against companies of strategic value at National and International level and the evolving regulatory framework.

The sophistication of cyber threats, made possible by the increasingly aggressive operations of organised international groups, necessitates the adaptation of corporate defenses and processes for safeguarding IT assets on an ongoing basis, as an additional element in protecting the Company's industrial know-how and market competitiveness. A mature approach to the regulations on cybersecurity is also essential to support the Company's strategic development as it is characterised by increasing technological complexity.

For these reasons, further impetus was given to the development of FIS cybersecurity in 2022 through:

- actions aimed at achieving UNI EN ISO 27001 certification;
- a pervasive technology upgrade program;
- cyber-risk assessment on the IT infrastructure, in agreement with Internal Audit and the insurance broker;
- cyber-risk assessment on the OT infrastructure of production facilities;
- creation of a committee related to distributed control system (DCS) and automation aimed at monitoring emerging risks and ensuring actions and ongoing interventions necessary to reduce risks resulting from technological obsolescence;
- conducting annual disaster recovery tests, both in IT and OT.

## Business continuity

Among the expected consequences of climate change are more frequent extreme weather events. These phenomena, which are no longer isolated, could compromise business operations by causing disruptions and damage to strategic assets (including supply chain activities), affecting product delivery dates, and resulting in possible penalties to be charged to FIS.

The existence of the possibility of occurrence of events that may cause business disruption, the present complexity of the business that requires adequate technological and operational support, not least the aspects related to the events that have occurred in recent years, have given a decisive contribution to starting a process of verification and adjustment of existing countermeasures in the area of business continuity. Indeed, FIS's business success also depends on maintaining its critical Company activities and essential functions used to deliver key products and services.

In this regard, business continuity is part of the Company's overall security policy and takes account of existing vulnerabilities and preventive measures put in place to ensure the achievement of business objectives. Specifically, the role of business continuity is to make provision for organisational safeguards, human resources, communication facilities and technological infrastructures aimed at minimising the damage resulting from any possible disastrous events, while ensuring the resumption of processes within the set timeframe and coordinating activities until full functionality is restored. With the support of Internal Audit, FIS is engaged in the development of a structured Business Continuity Management (BCM) process to ensure business continuity of essential processes. The document has been developed in line with the requirements of the UNI EN ISO 22301:2019 standard recognised as that for the certification of Business Continuity Management Systems. Among the actions identified and taken with reference to the supply chain, the Company has adopted activities to identify and analyse new, potential and alternative suppliers focused on critical areas. In addition, a Crisis Committee has been established, which meets periodically, is composed of the Company's senior management and is chaired by the CEO, to discuss extensively events and/or occurrences that might have an impact on business continuity and identify any appropriate action to be taken.

## Social media

Communication is key to creating culture and awareness in all areas and building a bond of trust with stakeholders, both external and internal, in addition to constituting a stimulus for discussion and engagement with its stakeholders.

FIS encourages its employees to use social media in a conscious manner, in compliance with the Code of Ethics and, in general, using common sense to exploit its potential but, at the same time, limit its risks.

During 2022 FIS has, therefore, adopted the new social media policy, the main objective of which is to protect all interlocutors and stakeholders, with the understanding that there is no separation between public and private in the use of the web.

## Investor relations

Due to the issuance of the bonds and in line with market best practices, the Company has deemed it appropriate to appoint a professionally qualified person to manage relations with shareholders and investors (the "Investor Relator") in the person of the Chief Financial Officer, Manuel Barreca.

## 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.



## Financial management

The year 2022 was characterised, in the first months of the year, by the finalisation of a process of revision of the Company's debt structure, which had been started in October of the previous year. In fact, in the face of a five-year Strategic Plan approved by the Board of Directors, and characterised by a growth phase based on a major investment program in terms of value and complexity, it became clear that there was a need to shift to sources of finance with a profile that is more appropriate to what are typical returns on investment in the sector in the case of construction of new green field departments, or in any case in the case of projects involving significant portions of the plant. Such returns require a number of years covering design, execution, qualification and entry into full operation, and consequently, a type of finance with a medium- to long-term profile, and repayment at maturity.

Therefore, the strategic finance choice was to pay off the previous bank debt with semi-annual instalments, with covenants based on financial parameters (NFP/EBITDA), replacing and supplementing it by value with a 5.5-year bullet profile bond issue. In this way, the cash flows generated by the Company can be used to serve business and industrial growth, and not debt service, except for the share of interest.

Upon the conclusion of a process that involved not only the Company, but also financial and legal advisors, two leading international banks and three rating agencies, a €350 million senior secured sustainability-linked bond was placed on the market on 10 February 2022; at the same time FIS also signed a €50 million revolving financing (RCF) agreement. 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.

Despite the fact that the financial market was beginning to show the first signs of difficulty, the collection (book) of requests for investments on the part of leading international investors came close to €500 million. At the end of the primary market placement process, the amount of €350 million was subscribed by about 40 international and domestic institutional investors, and the fixed rate was set at 5.625%. The duration of the facility was set at 5.5 years, due 10 August 2027. On the other hand, the cost of the revolving credit facility is equal to EURIBOR + variable spread depending on the NFP/EBITDA ratio if used. The spread paid in 2022 was 3%, while the final rate approached the fixed rate of the bond towards the end of the year as a result of a gradual rise in interest rates. Finally, it should be

mentioned that only in case of the use of the RCF for more than 40% of the total value (i.e., €20 million), a springing covenant is applied, which the Company has to comply with, equal to a NFP/EBITDA ratio < 7x.

This instrument is linked to three sustainability KPIs, which again underscore the Company's long-standing focus on ESG issues. Specifically, the KPIs selected under this framework pertain to scope 1 & scope 2 GHG emissions, reduction in the use of water, and process waste management. The Company has set ambitious targets for improvements in all three of these areas, the KPIs of which will be verified periodically by a third-party Company, which will certify the performance of the KPIs in relation to the stated targets.

This instrument has been listed, since the date of issue, on the multilateral trading facility or "MTF" known as the "Euro MTF Market" managed by the Luxembourg Stock Exchange; therefore, the Company – as an issuer with financial instruments listed on an MTF – is required (in the same way as issuers with financial instruments listed on regulated markets) to comply with the EU regulations on market abuse laid down in Regulation (EU) No. 596/2014 (market abuse regulation or "MAR"). In addition, the Company appointed the Chief Financial Officer as the reference manager for investor relations activities as well during a Board of Directors' meeting following the pricing of the instrument.

Strategic Plan forecasts called for a poor use of the €50 million RCF line linked to the bond. However, the changed macroeconomic conditions related to the conflict between Russia and Ukraine, with the resulting sharply upward trend in supply costs of natural gas and electricity, have temporarily adversely affected the Company's net financial position. The buffer guaranteed by the revolving credit facility has therefore been useful to cover working capital peaks linked not only to the seasonality of the Company's business, but also and especially the increase in the aforementioned costs. This situation partially receded in the second half of the year, thanks to the effects, temporally shifted a few months ahead of utility price increases, of cost pass-through to customers, as well as thanks to energy bonuses received by the Company.

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 2022.

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.

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 three-year period (2021-2023). Specifically, the project covers Reporting, Budgeting & Forecasting, Costing, Financial Planning and Cash Flows, Inventory and Investment management, also to support Company Departments. 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 CEO along with the members of the operating team and the CFO.

## Financial and operating results

| Reclassified profit and loss statement - €'000  | 2022           | 2021           |
|---|----------------|----------------|
| Production revenues                             | 818,019        | 618,419        |
| Production costs                                | (596,068)      | (412,818)      |
| <b>Added value</b>                              | <b>221,951</b> | <b>205,601</b> |
| Personnel expenses                              | (128,154)      | (124,617)      |
| <b>EBITDA [gross operating profit]</b>          | <b>93,797</b>  | <b>80,894</b>  |
| Amortisation, depreciation and provisions       | (65,330)       | (64,738)       |
| <b>EBIT [operating profit]</b>                  | <b>28,467</b>  | <b>16,246</b>  |
| Net financial charges                           | (35,106)       | (12,372)       |
| Adjustments to financial assets and liabilities | -              | 77             |
| <b>Pre-tax profit</b>                           | <b>(6,639)</b> | <b>3,951</b>   |
| Income taxes                                    | 9,551          | 3,664          |
| <b>PROFIT FOR THE YEAR</b>                      | <b>2,911</b>   | <b>7,615</b>   |

The Company's gross operating profit and operating profit are improved compared to the revised budget, approved by the Board of Directors, in the first months of 2022, which revised the targets initially set and then readjusted to the changed macroeconomic environment conditions. 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, thanks to the management of the existing product portfolio and the commercial development of new molecules, as well as thanks to the cost passthrough process shared with the Company's customers to cover the increase in costs of production factors, natural gas and electricity first and foremost. Revenues from sales of top line products increased by roughly €112 million, up by 20% compared to the previous year, which must be added to the growth of 14% recorded in 2021 compared to 2020. This positive trend was contributed to by both the custom and the generics segment. Custom products saw growth driven by the commercial development of three new molecules and continued management of the existing product portfolio; to this must be added the effect of price increases to cover higher costs in the procurement of production factors. In contrast, generics saw growth strongly based on price increases, which added to a rebound in volumes after two years of stagnation, affected by the pandemic emergency. Revenues from R&D services, concerning optimising synthesis processes and large-scale commercial production, came to roughly €16 million at 31 December 2022, down compared to the previous year.

As at the date of preparation of these financial statements, the pipeline showed a significant number of projects, which had been gained in the second half of the year.

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 (+€7 million on 2021), as well as to an increase in other revenues, this being an item that mainly includes the energy bonuses accrued in 2022. Finally, this positive change was also the result of an increase in the value of inventories of finished products, which are strategically planned to support the commercial development of three new custom molecules.

Production costs increased by approximately €187 million, slightly less than the increase in the production revenues. The rise in production costs reflects both higher purchases of direct and indirect production materials, due to higher production volumes, and an overall hike in market prices, as was the case in the previous financial year. In addition to what has just been described, costs of natural gas and electricity increased very significantly during 2022 from about €16 million in 2021 to about €59 million in 2022, as repeatedly mentioned. This increase was only partly offset by passing on costs to customers and the positive effect of the energy bonus, thus impacting EBITDA for the period. Finally, inventories of raw materials also affected this trend in production costs, although it should be mentioned that customers financed the increase in safety stock they themselves had requested during the year.

Personnel expenses increased during the year (+€3.5 million), chiefly due to the larger workforce which rose from 1,920 at 31 December 2021 to 1,988 at 31 December 2022. This was due to the hiring of new direct and indirect employees linked to the need to increase direct labour against higher production volumes developed during the year. In addition, the increase in expenses was also due to the planned contractual and merit-based raises.

However, gross operating profit, albeit impacted in percentage terms by increased procurement costs that were not fully passed on to customers during the year, recorded a significant increase of roughly €13 million on 2021, from about €81 million in 2021 to about €94 million in 2022. 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 energy, the reversals of which, where possible, had been agreed with customers. Despite an unprecedented inflationary trend in recent decades, the focus on cost efficiency and process effectiveness has enabled FIS to increase EBITDA in absolute terms, thereby offsetting some non-recurring and non-repeatable costs incurred below the line. Operating profit shows a delta in absolute value substantially in line with that of EBITDA, against an amortisation and depreciation charge similar to that of the previous year. It should be mentioned that the result in terms of EBIT is adversely affected by the amortisation and depreciation charge related to the revaluation of fixed assets completed in 2020, which were subject to amortisation and depreciation in 2021 (more than €5 million).

Net financial charges are not comparable with those posted in the previous year. In fact, the new financial structure implemented to support growth plans includes the aforementioned bond instrument, which, due to its being subject to bullet payment, shows costs in terms of fixed interest rate guaranteed to investors, which is far higher than that of a bank loan. Against total financial expenses of about €33.5 million, the interest related to the new bond issue amounts to about €18 million on the 11 months accrued in 2022, in addition, of course, to the interest accrued during January in relation to the previous finance instruments (syndicated loan and private placement). Interest remains unchanged in relation to the mandatory convertible bond issue subscribed by the shareholders of the holding Company, Nine Trees Group S.p.A. in 2019. On the other hand, of significant importance are some non-recurring costs incurred during 2022, and not repeatable in the future, related to penalties for the settlement of previous finance instruments, in particular the two private placements outstanding until 10 February 2022; these non-recurring costs amounted to approximately €5.8 million.

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 income of €10,861 thousand from the domestic tax consolidation scheme in 2022.

| <i>Reclassified balance sheet - €'000</i>  | 2022           | 2021           |
|--|----------------|----------------|
| Net working capital                        | 274,571        | 207,337        |
| Tangible fixed assets                      | 332,765        | 339,447        |
| Intangible fixed assets                    | 21,660         | 23,111         |
| Financial fixed assets                     | 3,233          | 4,518          |
| Provisions and other non-current payables  | (6,226)        | (40,444)       |
| <b>Net invested capital</b>                | <b>626,003</b> | <b>533,970</b> |
| Net short-term financial position (debt)   | (6,250)        | 25,180         |
| Net medium to long-term financial position | 340,051        | 211,718        |
| Mandatory convertible bonds                | 52,306         | 51,925         |
| Net equity                                 | 239,896        | 245,147        |
| <b>Sources of funds</b>                    | <b>626,003</b> | <b>533,970</b> |

The **net invested capital** increased on the previous year end, mainly driven by the rise in net working capital. Inventory increased by roughly €65 million (+22% on 2021) due to higher prices of raw materials and, above all, of utilities, measured according to the new FIFO method, as described in more detail in the Notes to the Financial Statements, and to the Company's need to prepare for the expected surge in production in 2023, and finally against a higher safety stock of raw materials to support production continuity in a phase, such as the one characterising the first months of 2022, of high uncertainty on the supply chain. As a result, trade payables and trade receivables also rose on the previous year end, due to increased purchases made in preparation for 2023 production and higher turnover levels, respectively.

The rise in net invested capital was only 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, compared to the value of investments for the year.

The **Sources of funds**, thanks to the issuance and placement of the €350 million senior secured sustainability-linked bond, have shifted to a longer-term horizon. Indeed, this instrument has a duration of 5.5 years, while the RCF line matures 6 months earlier than the main instrument. Relationships with major banks are maintained, and indeed remain very important, but these are focused on more operational management and working capital trends rather than on activities of a financial nature.

The Company's **net equity** remains solid despite a decrease from the previous year, due to a resolution and subsequent distribution of an extraordinary dividend (dividend recap) planned at the time of the bond issue. During the year, the Company drew down part of the committed revolving credit facility for an amount that was higher on average than the amount drew down in 2021 in order to better manage working capital fluctuations, as well as the time mismatch between the phases of price increases for natural gas and electricity, compared with the time when they began to pass on these costs to customers, rather than offsetting income from energy bonuses in payments of contributions.

Finally, liquid funds at year end were substantially in line with those recorded in the previous year (€68 million over €75 million in 2021), despite a year characterised by severe strains on cash generation due to the exponential increase in energy costs incurred especially in the middle two quarters of the year. It is worth noting the great usefulness of the flexibility ensured by the €50 million RCF line, which allowed the Company to pass through the middle months of the year, pending the positive financial effects of cost pass-through activities and the energy bonus. FIS continued to take action in 2022 to optimise working capital, in order to improve cash generation, through effective collection management processes, including resort to factoring and reverse factoring arrangements.

| <i>Reclassified balance sheet - €'000</i> | 2022             | 2021             |
|---|------------------|------------------|
| <b>Opening net financial debt</b>         | <b>(236,899)</b> | <b>(216,318)</b> |
| Operating cash flow                       | 91,861           | 79,651           |
| Decrease in working capital               | (72,291)         | (29,834)         |
| Decrease in net investments               | (59,047)         | (49,763)         |
| Decrease in financing activities          | (57,425)         | (20,635)         |
| <b>Total changes</b>                      | <b>(96,902)</b>  | <b>(20,581)</b>  |
| <b>Closing net financial debt</b>         | <b>(333,801)</b> | <b>(236,899)</b> |
| <b>NFP/EBITDA</b>                         | <b>3.56</b>      | <b>2.93</b>      |

Operating cash flow amounts to approximately €92 million, higher by roughly €12 million than 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 inflows for the issuance of the new listed bond (approximately €347.5 million, net), which were used to pay off the debt for the previous sources of financing, namely

the remaining amount from the syndicated loan (approximately €190 million), as well as the two private placements, with related penalties (approximately €107.5 million). Also included in this item is the distribution of the aforementioned extraordinary dividend, as well as the use of the RCF line connected to the bond.

The Company continued to focus on managing Net Financial Debt in 2022. Based on the gross operating profit for the year, equal to €93,797 thousand, it brought the (reported) NPF/EBITDA KPI, considering the NFP as per the indenture contract of the bond, and then including amortised cost, up to 3.66x, which was slightly higher than that envisaged in the Plan for 2022 (3.5x).

## 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.

|   | 2022  | 2021  |
|---|-------|-------|
| ROE (net profit/net equity)                 | 1.2%  | 3.1%  |
| ROI (operating profit/net invested capital) | 4.6%  | 3.0%  |
| ROS (operating profit/net revenues)         | 4.2%  | 2.9%  |
| Gross operating profit/revenues             | 14.0% | 14.4% |

## 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 li-

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

|   | 2022     | 2021      |
|---|----------|-----------|
| Treasury margin                         | (80,346) | (114,404) |
| Quick ratio                             | 0.76     | 0.66      |
| Current assets less current liabilities | 280,820  | 182,157   |
| Current ratio                           | 1.84     | 1.55      |

### 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.

|                | 2022 | 2021 |
|----------------|------|------|
| Gearing ratio  | 3.05 | 2.60 |
| Leverage ratio | 0.24 | 0.67 |

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.

|  | 2022 | 2021 |
|--|------|------|
| Net Financial Position (NFP)* / EBITDA | 3.66 | n.a. |
| Net Financial Position (NFP) / EBITDA  | 3.56 | 2.93 |
| EBIT / Financial expense               | 0.81 | 1.31 |

(\*) NFP from treasury, including amortised cost

### 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).

|  | 2022      | 2021      |
|--|-----------|-----------|
| Own funds less fixed assets                                    | (117,763) | (121,931) |
| Own funds to fixed assets ratio                                | 0.67      | 0.67      |
| (Own funds plus non-current liabilities) less fixed assets     | 280,820   | 182,157   |
| (Own funds plus non-current liabilities) to fixed assets ratio | 1.79      | 1.50      |

## Outlook



As described earlier, the ongoing pandemic, although showing an improvement, weakened the stability of the supply chain, with raw materials costs and utilities beginning to shoot up. 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.

From the perspective of procurement processes, derisking activities should mitigate risks of possible shortages of raw materials. Nevertheless, the supply chain situation appears to be improving compared to the past two financial years. Also with regard to costs of natural gas and electricity, the present situation seems to be better than in the middle months of 2022; and, furthermore, the Company has implemented gradual fixing policies in purchase prices of utilities, taking advantage of the most favourable market moments, including in relation to the budgeted costs. Obviously, there is still the risk that the continuing conflict between Russia and Ukraine could result in potential supply shortages, which could result in risks of production disruption.

Finally, worth mentioning is the execution of two new separate supply contracts, with two different suppliers, for the procurement of natural gas and electricity.

To ensure production continuity internally and for its customers even should geopolitical tensions continue, the Company decided, in 2023 too, 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.

It should be also recalled that the conflict between Russia and Ukraine could lead to restrictions with regard to distribution logistics, thus causing potential delays and/or increased costs in the Company’s procurement processes. At present, the related effects are not significant and cannot be estimated.

Finally, with regard to the impact on business and its continuity, 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.

During 2022, the Company successfully finalised the completion of its management team, which saw the appointment of professionals with extensive experience in the industry. The year 2023 will be a year focused on certain key issues, which are the pillars of planned growth.

A dedicated focus on top line development, with underlying growth that is also financially sustainable, and balanced in terms of mix and diversification in customer, product, and therapeutic areas will certainly come from the new sales organisation, which now has two departments reporting to the CEO, one dedicated to custom products and the other to generics and veterinary products.

In support of the development of the top product line, there will be the project work in R&D, which saw a rather significant pipeline of projects as early as at the beginning of the year, as well as the start of some key projects for the development of new technologies and new competencies, such as flow chemistry.

2023 will also be a year dedicated to the development and refinement of strategically important processes and tools, especially in Supply Chain, Operations, and Quality, as well as to the completion of strategic projects started during the ending financial year.

All the projects and activities mentioned in the previous two paragraphs have as a common and indispensable element a continuous investment in the development of FIS people; for this purpose, in 2023 we will see the first results of fundamental activities developed in Human Resources, but pervasive throughout the Company, aimed at enhancing the value of human capital, one of the founding values of FIS.

FIS' attention to ESG issues remains strong, with dedicated activities and investments, not only as it pertains to KPIs related to the sustainability-linked bond. These include the investment project on "Zero Liquid Discharge," which is expected to be completed during 2023.

Finally, during 2023 too, the Company's efforts will be aimed, as anticipated, at ensuring sustainable growth also from the point of view of economic and financial results, with a particular focus on cash generation and working capital management, in order to guarantee the Company the results envisaged under the Strategic Plan. This also includes the work that commenced on 19 July 2021, with the submission of the application for the benefits of the NRRP (National Recovery and Resilience Plan), which will hopefully be implemented as from 2023.

## 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 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 raw 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 2022. 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.

FIS 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 a high-yield sustainability-linked bond, 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 arising from operations.

### 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 outstanding loans and borrowings, including short-term advances, variable-rate medium-term bank financing and a high-yield sustainability-linked bond, only partially expose FIS to the risk that future hikes in interest rates could significantly increase its financial charges, since the main debt instrument (high-yield sustainability-linked bond) is at fixed rate (5.625%) throughout its maturity (August 2027).

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, 17 April 2023

Chairman of the Board of Directors  
Ferrari Giampaolo







# FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## Profit and loss statement

€'000

|   | 31.12.2022       | 31.12.2021       | Variation        |
|---|------------------|------------------|------------------|
| <b>A) PRODUCTION REVENUES</b>   |                  |                  |                  |
| Turnover from sales and services                                      | 672,481          | 562,077          | 110,404          |
| Change in work in progress, semi-finished products and finished goods | 59,544           | 860              | 58,684           |
| Contract work in progress   | (142)            | (1,679)          | 1,537            |
| Internal work capitalised   | 52,645           | 45,416           | 7,229            |
| Other revenues and income   | 33,491           | 11,745           | 21,746           |
| <b>TOTALE VALORE DELLA PRODUZIONE</b>                                 | <b>818,019</b>   | <b>618,419</b>   | <b>199,600</b>   |
| <b>B) PRODUCTION COST</b>   |                  |                  |                  |
| Raw material, consumables, supplies and goods                         | (437,825)        | (364,773)        | (73,052)         |
| Services  | (155,271)        | (98,051)         | (57,220)         |
| Use of third party assets   | (2,012)          | (1,477)          | (535)            |
| Personnel expenses  |                  |                  |                  |
| Wages and salaries  | (89,623)         | (87,991)         | (1,632)          |
| Social security contributions   | (28,637)         | (28,240)         | (397)            |
| Employees' leaving contributions                                      | (6,366)          | (6,033)          | (333)            |
| Other costs   | (3,528)          | (2,354)          | (1,174)          |
|   | (128,154)        | (124,617)        | (3,537)          |
| Amortisation and depreciation   |                  |                  |                  |
| Amortisation of intangible fixed assets                               | (6,661)          | (6,422)          | (239)            |
| Depreciation of tangible fixed assets                                 | (58,670)         | (58,316)         | (354)            |
|   | (65,331)         | (64,738)         | (593)            |
| Change in raw materials, consumables, supplies and goods              | 4,108            | 56,177           | (52,069)         |
| Other operating costs   | (5,067)          | (4,694)          | (373)            |
| <b>TOTAL PRODUCTION COST</b>  | <b>(789,552)</b> | <b>(602,173)</b> | <b>(187,379)</b> |
| <b>( A - B ) OPERATING PROFIT</b>                                     | <b>28,467</b>    | <b>16,246</b>    | <b>12,221</b>    |

| €'000     |  | 31.12.2022      | 31.12.2021      | Variation       |
|-----------|--|-----------------|-----------------|-----------------|
| <b>C)</b> | <b>FINANCIAL INCOME AND CHARGES</b>                    |                 |                 |                 |
|           | <b>Other financial income</b>                          |                 |                 |                 |
|           | Income other than the foregoing                        | 30              | 61              | (31)            |
|           |  | 30              | 61              | (31)            |
|           | <b>Interest and other financial charges</b>            |                 |                 |                 |
|           | Financial charges to subsidiaries of parents           | (110)           | (149)           | 39              |
|           | Other interest expense                                 | (33,409)        | (11,698)        | (21,711)        |
|           |  | (33,519)        | (11,846)        | (21,673)        |
|           | Net exchange rate losses                               | (1,617)         | (587)           | (1,030)         |
|           | <b>NET FINANCIAL CHARGES</b>                           | <b>(35,106)</b> | <b>(12,372)</b> | <b>(22,734)</b> |
| <b>D)</b> | <b>ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES</b> |                 |                 |                 |
|           | Revaluation of derivatives                             |                 | 77              | (77)            |
|           | <b>TOTAL ADJUSTMENTS</b>                               |                 | <b>77</b>       | <b>(77)</b>     |
|           | <b>PRE-TAX PROFIT (A-B +/-C +/-D )</b>                 | <b>(6,639)</b>  | <b>3,951</b>    | <b>(10,590)</b> |
|           | <b>Income taxes</b>                                    |                 |                 |                 |
|           | Current taxes  | (1,231)         | (1,068)         | (163)           |
|           | Taxes relative to prior years                          | 18              |                 | 18              |
|           | Change in deferred tax assets and liabilities          | (354)           | (394)           | 40              |
|           | Income from domestic tax consolidation scheme          | 11,117          | 5,126           | 5,991           |
|           | <b>Total income taxes</b>                              | <b>9,550</b>    | <b>3,664</b>    | <b>5,886</b>    |
|           | <b>NET PROFIT FOR THE YEAR</b>                         | <b>2,911</b>    | <b>7,615</b>    | <b>(4,704)</b>  |

## Balance sheet

ASSETS €'000

|  | 31.12.2022     | 31.12.2021     | Variation      |
|--|----------------|----------------|----------------|
| <b>B) FIXED ASSETS</b>                               |                |                |                |
| <b>I. Intangible fixed assets</b>                    |                |                |                |
| Start-up and capital costs                           | 628            | 393            | 235            |
| Industrial patents and intellectual property rights  | 5,231          | 6,564          | (1,333)        |
| Concessions, licenses, trademarks and similar rights | 4,501          | 1,261          | 3,240          |
| Goodwill   | 11,301         | 14,812         | (3,511)        |
| Other  |                | 81             | (81)           |
| Assets under development and payments on account     | 4,959          | 6,946          | (1,987)        |
|  | 26,620         | 30,057         | (3,437)        |
| <b>II. Tangible fixed assets</b>                     |                |                |                |
| Land and buildings                                   | 102,776        | 105,481        | (2,705)        |
| Plant and machinery                                  | 159,318        | 170,870        | (11,552)       |
| Industrial and commercial equipment                  | 719            | 514            | 205            |
| Other assets   | 7,971          | 10,236         | (2,265)        |
| Assets under construction and payments on account    | 57,021         | 45,400         | 11,621         |
|  | 327,805        | 332,501        | (4,696)        |
| <b>III. Financial fixed assets</b>                   |                |                |                |
| Investments in subsidiaries                          | 1,985          | 40             | 1,945          |
| Investments in other companies                       | 4              | 4              |                |
|  | 1,989          | 44             | 1,945          |
| <b>TOTAL FIXED ASSETS</b>                            | <b>356,414</b> | <b>362,603</b> | <b>(6,189)</b> |
| <b>C) CUURENT ASSETS</b>                             |                |                |                |
| <b>I. Inventory</b>                                  |                |                |                |
| Raw material, consumables and supplies               | 125,434        | 121,326        | 4,108          |
| Work in progress and semi-finished products          | 133,287        | 101,463        | 31,824         |
| Contract work in progress                            | 838            | 979            | (141)          |
| Finished goods                                       | 91,391         | 63,671         | 27,720         |
| Payments on account                                  | 10,217         | 9,122          | 1,095          |
|  | 361,167        | 296,561        | 64,606         |
| <b>II. Receivables</b>                               |                |                |                |
| Trade receivables                                    | 120,501        | 102,476        | 18,025         |
| From subsidiaries                                    | 254            |                | 254            |
| From parents   | 32,302         | 21,270         | 11,032         |
| From subsidiaries of parents                         | 2,143          | 2,512          | (369)          |
| Tax receivables                                      |                |                |                |
| - Due within one year                                | 11,936         | 4,069          | 7,867          |
| - Due after one year                                 | 1,244          | 4,082          | (2,838)        |
| Deferred tax assets                                  | 8,020          | 8,264          | (244)          |
| From others  |                |                |                |
| - Due within one year                                | 7,189          | 5,297          | 1,892          |
| - Due after one year                                 | 2,134          | 392            | 1,742          |
|  | 185,723        | 148,362        | 37,361         |
| <b>IV. Liquid funds</b>                              |                |                |                |
| Bank and postal accounts                             | 67,923         | 74,756         | (6,833)        |
| Cash-in-hand and cash equivalents                    | 15             | 14             | 1              |
|  | 67,938         | 74,770         | (6,832)        |
| <b>TOTAL CURRENT ASSETS</b>                          | <b>614,828</b> | <b>519,692</b> | <b>95,136</b>  |
| <b>D) PREPAYMENTS AND ACCRUED INCOME</b>             |                |                |                |
| Prepayments and accrued income                       | 634            | 1,109          | (475)          |
| <b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>          | <b>634</b>     | <b>1,109</b>   | <b>(475)</b>   |
| <b>TOTAL ASSETS</b>                                  | <b>971,876</b> | <b>883,404</b> | <b>88,472</b>  |

| <b>Equity and liabilities</b> €'000 |   | 31.12.2021     | 31.12.2020     | Variation      |
|-------------------------------------|---|----------------|----------------|----------------|
| <b>A)</b>                           | <b>NET EQUITY</b>                                 |                |                |                |
|                                     | I. Share capital                                  | 10,000         | 10,000         |                |
|                                     | III. Revaluation reserves                         | 94,801         | 94,801         |                |
|                                     | IV. Legal reserve                                 | 2,395          | 2,395          |                |
|                                     | - Undistributed net profit reserve                | 30,898         | 43,782         | (12,884)       |
|                                     | - Extraordinary reserve                           | 93,002         | 81,002         | 12,000         |
|                                     | - 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            | 460            |                |
|                                     | VII. Hedging reserve                              | -              | (338)          | 338            |
|                                     | IX. Net profit for the year                       | 2,911          | 7,615          | (4,704)        |
|                                     | <b>TOTAL NET EQUITY</b>                           | <b>239,896</b> | <b>245,146</b> | <b>(5,250)</b> |
| <b>B)</b>                           | <b>PROVISIONS FOR RISKS AND CHARGES</b>           |                |                |                |
|                                     | Pension and similar provisions                    | 441            | 291            | 150            |
|                                     | Tax provision, including deferred tax liabilities | 656            | 440            | 216            |
|                                     | Hedging provision                                 |                | 445            | (445)          |
|                                     | <b>TOTAL PROVISION FOR RISKS AND CHARGES</b>      | <b>1,097</b>   | <b>1,176</b>   | <b>(79)</b>    |
| <b>C)</b>                           | <b>EMPLOYEES' LEAVING ENTITLEMENT</b>             | 4,735          | 4,800          | (65)           |
| <b>D)</b>                           | <b>PAYABLES</b>                                   |                |                |                |
|                                     | Bond  |                |                |                |
|                                     | - Due after one year                              | 340,051        | 98,881         | 241,170        |
|                                     |   | 340,051        | 98,881         | 241,170        |
|                                     | Convertible bonds                                 | 52,306         | 51,925         | 381            |
|                                     | Bank loan and borrowings                          |                |                |                |
|                                     | - Due within one year                             | 57,065         | 86,454         | (29,389)       |
|                                     | - Due after one year                              | -              | 112,837        | (112,837)      |
|                                     |   | 57,065         | 199,291        | (142,226)      |
|                                     | Loans and borrowing from other financial backers  | 4,623          | 13,496         | (8,873)        |
|                                     | Payments on account                               | 31,089         | 25,052         | 6,037          |
|                                     | Trade payables                                    | 171,917        | 155,752        | 16,165         |
|                                     | Payables to subsidiaries                          | 1,051          | 157            | 894            |
|                                     | Payables to parents                               |                |                |                |
|                                     | - Due within one year                             | 8,274          | 1,075          | 7,199          |
|                                     | - Due after one year                              |                | 31,000         | (31,000)       |
|                                     |   | 8,274          | 32,075         | (23,801)       |
|                                     | Payables to subsidiaries of parents               |                |                |                |
|                                     | - Due within one year                             | 5,090          | 6,906          | (1,816)        |
|                                     | - Due after one year                              |                | 2,956          | (2,956)        |
|                                     |   | 5,090          | 9,862          | (4,772)        |
|                                     | Tax payables                                      | 4,823          | 3,023          | 1,800          |
|                                     | Social security charges payable                   |                |                |                |
|                                     | - Due within one year                             | 10,981         | 11,031         | (50)           |
|                                     | - Due after one year                              | 393            | 513            | (120)          |
|                                     |   | 11,374         | 11,544         | (170)          |
|                                     | Other payables                                    |                |                |                |
|                                     | - Due within one year                             | 19,850         | 22,668         | (2,818)        |
|                                     | - Due after one year                              |                |                |                |
|                                     |   | 19,850         | 22,668         | (2,818)        |
|                                     | <b>TOTAL PAYABLES</b>                             | <b>707,513</b> | <b>623,726</b> | <b>83,787</b>  |
| <b>E)</b>                           | <b>ACCRUED EXPENSES AND DEFERRED INCOME</b>       |                |                |                |
|                                     | - Accrued expenses and deferred income            | 18,635         | 8,556          | 10,079         |
|                                     | <b>TOTAL ACCRUED EXPENSES AND DEFERRED INCOME</b> | <b>18,635</b>  | <b>8,556</b>   | <b>10,079</b>  |
|                                     | <b>TOTAL LIABILITIES</b>                          | <b>971,876</b> | <b>883,404</b> | <b>88,472</b>  |

## Cash Flow Statement

€'000

|   | 31.12.2022     | 31.12.2021    |
|---|----------------|---------------|
| Net profit for the year   | 2,911          | 7,615         |
| Income taxes  | (9,551)        | (3,664)       |
| Interest expenses (income)  | 33,520         | 12,372        |
| Capital gains on disposals of assets                                | (95)           |               |
| <b>1. Profit before taxes, interest, dividends and gains/losses</b> | <b>26,785</b>  | <b>16,323</b> |
| <b>Adjustments for non-monetary items</b>                           |                |               |
| Accruals to provisions  | 6,457          | 6,628         |
| Amortisation and depreciation                                       | 65,330         | 64,738        |
| Adjustments to financial assets and liabilities                     |                | (77)          |
| Total adjustments for non-monetary items                            | 71,787         | 71,289        |
| <b>2. Cash-flows before changes in net working capital</b>          | <b>98,572</b>  | <b>87,612</b> |
| <b>Changes in net working capital</b>                               |                |               |
| Decrease/(increase) in inventory                                    | (64,606)       | (55,140)      |
| Decrease/(increase) in trade receivables                            | (18,025)       | (18,560)      |
| Increase/(decrease) in trade payables                               | 16,165         | 48,252        |
| Decrease/(increase) in prepayments and accrued income               | 475            | (745)         |
| Increase/(decrease) in accrued expenses and deferred income         | 10,079         | 6,389         |
| Other changes in net working capital: assets                        | (8,123)        | (5,256)       |
| Other changes in net working capital: liabilities                   | (8,257)        | (4,773)       |
| Total changes in net working capital                                | (72,292)       | (29,833)      |
| <b>3. Cash flows after other adjustments</b>                        | <b>26,280</b>  | <b>57,779</b> |
| <b>Other adjustments</b>  |                |               |
| Interest paid   | (18,769)       | (11,142)      |
| Utilisation of provisions   | (6,711)        | (7,961)       |
| Total other adjustments   | (25,480)       | (19,103)      |
| <b>4. Cash flows after other adjustments</b>                        | <b>800</b>     | <b>38,676</b> |
| <b>Investing activities</b>   |                |               |
| Tangible fixed assets   | (54,037)       | (41,366)      |
| Intangible fixed assets   | (3,223)        | (8,397)       |
| Disinvestments  | 158            |               |
| Financial fixed assets  | (1,945)        |               |
| Cash flows used in investing activities                             | (59,047)       | (49,763)      |
| <b>Financing activities</b>   |                |               |
| <b>Third party funds</b>  |                |               |
| Increase (decrease) in short-term bank loans and borrowings         | (29,388)       | 26,979        |
| Increase in financing   | 350,000        | 30,000        |
| Decrease in financing   | (236,037)      | (27,020)      |
| Dividends and interim dividends paid                                | (33,160)       |               |
| Cash flows from (used in) financing activities                      | 51,415         | 29,959        |
| <b>TOTAL CASH FLOWS</b>   | <b>(6,832)</b> | <b>18,872</b> |
| OPENING LIQUID FUNDS  | 74,770         | 55,898        |
| CLOSING LIQUID FUNDS  | 67,938         | 74,770        |
| <b>CHANGES IN LIQUID FUNDS</b>                                      | <b>(6,832)</b> | <b>18,872</b> |





A photograph of an industrial facility at night. The scene is dominated by a complex network of large, metallic pipes and conduits, some of which are illuminated by bright lights, creating a strong contrast with the dark background. In the upper left, a large, cylindrical storage tank is visible. The background shows a dark sky with distant city lights and the silhouettes of other industrial buildings. The overall atmosphere is industrial and somewhat mysterious due to the low light.

# NOTES TO THE FINANCIAL STATEMENTS

---

# NOTES TO THE FINANCIAL STATEMENTS

## Company information

|   |   |
|---|---|
| Name  | F.I.S. – Fabbrica Italiana Sintetici S.p.A.     |
| Registered office                                   | VIALE MILANO 26, 36075 MONTECCHIO MAGGIORE (VI) |
| 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 Shareholders,

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 at 31 December 2021. 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, as well as 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, except as specified below.

During the year, the Board of Directors considered it appropriate to revise the calculation method for the valuation of inventories by switching from the Weighted Average Cost to FIFO, which was deemed more appropriate to provide a true and fair view of the Company's financial position, results of operations and cash flows in a period such as the current one characterised by a significant increase in the costs to purchase raw materials and energy. This made it necessary to apply the exception to the accounting policies provided for in Article 2423, paragraph 5, of the Italian Civil Code.

At the same time, certain values relating to precious metals in inventory were restated, as were the provisions for write-downs of inventories, including in light of the new valuation method adopted.

As at 31 December 2021, the effects of the changes described above on profits and equity were as follows:

| €'000   | Profits/(losses) for 2021 | Net equity at 31.12.2021 |
|---|---------------------------|--------------------------|
| Original values from the previous year                  | 10,566                    | 248,978                  |
| Increase in the value of inventory due to shift to FIFO | 4,303                     | 14,483                   |
| Restatement of provisions for inventory write-down      | 3,329                     | (7,592)                  |
| Resetting the value of some precious metals             | (8,096)                   | (12,206)                 |
| Tax effect  | (2,487)                   | 1,483                    |
| Variations  | (2,951)                   | (3,832)                  |
| Restated values from previous year                      | 7,615                     | 245,146                  |

It was therefore necessary to proceed as required by the Italian Accounting Standard Setter principle OIC 29, namely, by retroactively applying the change in methodology and the changes made by applying, for comparative purposes only, the restatement of the effects that would have occurred in the comparative financial statements as if the new methodology or the changes made had always been applied. Therefore, for comparative purposes only, the Company has adjusted the opening balances of equity for the previous year and the comparative figures for the previous year.

As required by the Italian Accounting Standard Setter principle OIC 29, the effects of what is described above on the previous year's Balance Sheet, Profit and Loss Statement, and Cash Flow Statement items are listed below.

| <b>BALANCE SHEET</b>                           | 31.12.2021     | VARIATION      | 31.12.2021<br>RESTATED |
|--|----------------|----------------|------------------------|
| <b>B) FIXED ASSETS</b>                         |                |                |                        |
| I. Intangible fixed assets                     | 30,057         |                | 30,057                 |
| II. Tangible fixed assets                      | 332,501        |                | 332,501                |
| III. Financial fixed assets                    | 44             |                | 44                     |
| <b>TOTAL FIXED ASSETS</b>                      | <b>362,603</b> |                | <b>362,603</b>         |
| <b>C) CURRENT ASSETS</b>                       |                |                |                        |
| I. Inventory                                   | 301,876        | (5,315)        | 296,561                |
| II. Receivables                                | 147,086        | 1,276          | 148,362                |
| IV. Liquid funds                               | 74,770         |                | 74,770                 |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>523,732</b> | <b>(4,039)</b> | <b>519,692</b>         |
| <b>D) PREPAYMENTS AND ACCRUED INCOME</b>       | <b>1,109</b>   |                | <b>1,109</b>           |
| <b>TOTAL ASSETS</b>                            | <b>887,443</b> | <b>(4,039)</b> | <b>883,404</b>         |
| <b>A) NET EQUITY</b>                           |                |                |                        |
| I. Share capital                               | 10,000         |                | 10,000                 |
| III. Revaluation reserves                      | 94,801         |                | 94,801                 |
| IV. Legal reserve                              | 2,395          |                | 2,395                  |
| VI. Other reserves                             | 131,554        | (881)          | 130,674                |
| VII. Hedging reserve                           | (338)          |                | (338)                  |
| IX. Net profit for the year                    | 10,566         | (2,951)        | 7,615                  |
| <b>TOTAL NET EQUITY</b>                        | <b>248,978</b> | <b>(3,832)</b> | <b>245,146</b>         |
| <b>B) PROVISIONS FOR RISKS AND CHARGES</b>     | <b>1,176</b>   |                | <b>1,176</b>           |
| <b>C) EMPLOYEES' LEAVING ENTITLEMENT</b>       | <b>4,800</b>   |                | <b>4,800</b>           |
| <b>D) PAYABLES</b>                             | <b>623,934</b> | <b>(207)</b>   | <b>623,727</b>         |
| <b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b> | <b>8,556</b>   |                | <b>8,556</b>           |
| <b>TOTAL LIABILITIES</b>                       | <b>887,443</b> | <b>(4,039)</b> | <b>883,404</b>         |

| <b>PROFIT AND LOSS STATEMENT</b>                   | 31.12.2021    | VARIATION      | 31.12.2021<br>RESTATED |
|--|---------------|----------------|------------------------|
| A) PRODUCTION REVENUES                             | 614,164       | 4,255          | 618,419                |
| B) PRODUCTION COST                                 | (597,454)     | (4,719)        | (602,173)              |
| <b>(A - B) OPERATING PROFIT</b>                    | <b>16,710</b> | <b>(464)</b>   | <b>16,246</b>          |
| C) FINANCIAL INCOME AND CHARGES                    | (12,372)      |                | (12,372)               |
| D) ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES | 77            |                | 77                     |
| <b>PRE-TAX PROFIT (A- B+/-C +/- D)</b>             | <b>4,415</b>  | <b>(464)</b>   | <b>3,951</b>           |
| INCOME TAXES                                       | 6,152         | (2,487)        | 3,664                  |
| <b>NET PROFIT FOR THE YEAR</b>                     | <b>10,566</b> | <b>(2,951)</b> | <b>7,615</b>           |

| <b>CASH FLOW STATEMENT</b>  | 31.12.2021    | VARIATION    | 31.12.2021<br>RESTATED |
|---|---------------|--------------|------------------------|
| Net profit for the year   | 10,566        | (2,951)      | 7,615                  |
| Income taxes  | (6,152)       | 2,488        | (3,664)                |
| Interest expenses (income)  | 12,372        |              | 12,372                 |
| <b>1. Profit before taxes, interest, dividends and gains/losses</b> | <b>16,787</b> | <b>(464)</b> | <b>16,323</b>          |
| Adjustments for non-monetary items                                  |               |              |                        |
| Total adjustments for non-monetary items                            | 71,289        |              | 71,289                 |
| <b>2. Cash flows before changes in net working capital</b>          | <b>88,076</b> | <b>(464)</b> | <b>87,612</b>          |
| Changes in net working capital                                      |               |              |                        |
| Total changes in net working capital                                | (30,298)      | 465          | (29,833)               |
| <b>3. Cash flows after changes in net working capital</b>           | <b>57,778</b> | <b>1</b>     | <b>57,779</b>          |
| Other adjustments   |               |              |                        |
| Total other adjustments   | (19,102)      | (1)          | (19,103)               |
| <b>4. Cash flows after other adjustments</b>                        | <b>38,676</b> |              | <b>38,676</b>          |
| Investing activities  |               |              |                        |
| Cash flows used in investing activities                             | (49,763)      |              | (49,763)               |
| Financing activities  |               |              |                        |
| Cash flows used in financing activities                             | 29,959        |              | 29,959                 |
| <b>TOTAL CASH FLOWS</b>   | <b>18,872</b> |              | <b>18,872</b>          |
| OPENING LIQUID FUNDS  | 55,898        |              | 55,898                 |
| CLOSING LIQUID FUNDS  | 74,770        |              | 74,770                 |
| CHANGES IN LIQUID FUNDS   | 18,872        |              | 18,872                 |

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.

### **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.

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, while amortisation of costs of licenses for the use of software programs takes place over 3 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.

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

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 November 1992) for Group IX, Species 9 (Pharmaceutical, chemical-pharmaceutical and related production) to define its depreciation pattern and rates. These maximum 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             | 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 financial 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 method adopted to determine the cost of fungible assets as from the current year is FIFO (First In First Out).

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.

Contract work in progress concerning research and development costs carried out on third-party projects is measured according to the method of cost incurred.

### **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 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 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, which 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 estimate 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 hedging 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**

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-à-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 in the Profit and Loss Statement.

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/receivable to/from the tax consolidator/parent Nine Trees Group S.p.A. 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, result of operations and cash flow.

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 shareholders' meeting 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

## A) SUBSCRIBED CAPITAL UNPAID

No receivables from shareholders are recognised for payments due as at the reporting date.

## B) FIXED ASSETS

### I. Intangible fixed assets

Intangible fixed assets amount to €26,620 thousand (€30,057 thousand in the previous year).

The table below shows the breakdown and changes of each caption during the year.

### Changes in intangible fixed assets

| €'000                    | Start-up and capital costs | Patents, intellectual property rights and know-how | Concessions, licenses, trademarks and similar rights | Goodwill | Other assets | Assets under development and payments on account | Total    |
|--------------------------|----------------------------|--|--|----------|--------------|--|----------|
| Opening balance          |                            |  |  |          |              |  |          |
| Cost                     | 818                        | 20,618   | 11,104   | 35,113   | 1,294        | 6,946  | 75,893   |
| Accumulated amortisation | (425)                      | (14,054)   | (9,843)  | (20,301) | (1,213)      |  | (45,836) |
| Carrying amount          | 393                        | 6,564  | 1,261  | 14,812   | 81           | 6,946  | 30,057   |
| Variations               |                            |  |  |          |              |  |          |
| Increases                | 417                        | 50   | 728  |          |              | 2,028  | 3,223    |
| Amortisation             | (182)                      | (1,383)  | (1,504)  | (3,511)  | (81)         |  | (6,661)  |
| Reclassification         |                            |  | 4,015  |          |              | (4,015)  |          |
| Total variations         | 235                        | (1,333)  | 3,239  | (3,511)  | (81)         | (1,987)  | (3,438)  |
| Closing balance          |                            |  |  |          |              |  |          |
| Cost                     | 1,235                      | 20,668   | 15,847   | 35,113   | 1,294        | 4,959  | 79,116   |
| Accumulated amortisation | (607)                      | (15,437)   | (11,346)   | (23,812) | (1,294)      |  | (52,496) |
| Carrying amount          | 628                        | 5,231  | 4,501  | 11,301   |              | 4,959  | 26,620   |

Start-up and capital costs, amounting to €628 thousand at 31 December 2022 (€393 thousand at 31 December 2021), include the capitalised costs of a new project, 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 €5,231 thousand at 31 December 2022 (€6,564 thousand at 31 December 2021).

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 particu-

lar 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 €4,501 thousand at 31 December 2022 (€1,261 thousand at 31 December 2021), include the cost of programme licences, amortised systematically over three years. It should be noted that the "Warehouse Management System" project was completed during the year, whereby the Company equipped itself with an automated system for the physical management of stock. The capitalised value is equal to €4,479 thousand and, unlike other software, is amortised over 10 years.

Goodwill, amounting to €11,301 thousand at 31 December 2022 (€14,812 thousand at 31 December 2021), 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.

Other assets, the book value of which was nil at 31 December 2022 since it had been amortised in full, while it amounted to €81 thousand at 31 December 2021, include the borrowing costs for financing taken out in previous years and paid off during the year. 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

Tangible fixed assets amounted to €327,805 thousand (€332,501 thousand in the previous year). The table below shows the breakdown and changes of each caption during the year.

### Changes in tangible fixed assets

|                                      | Land and buildings | Plant and machinery | Industrial and commercial equipment | Other assets | Assets under construction and payments on account | Total     |
|--------------------------------------|--------------------|---------------------|-------------------------------------|--------------|---|-----------|
| €'000                                |                    |                     |                                     |              |   |           |
| Opening balance                      |                    |                     |                                     |              |   |           |
| Cost                                 | 173,060            | 632,948             | 13,380                              | 64,485       | 45,400  | 929,273   |
| Accumulated depreciation             | (67,579)           | (462,078)           | (12,866)                            | (54,249)     |   | (596,772) |
| Carrying amount                      | 105,481            | 170,870             | 514                                 | 10,236       | 45,400  | 332,501   |
| Variations                           |                    |                     |                                     |              |   |           |
| Increases                            | 1,594              | 10,315              | 666                                 | 1,374        | 38,473  | 52,422    |
| Reclassifications                    | 2,732              | 25,003              |                                     | 731          | (28,467)  | (1)       |
| Variation in payments on account     |                    |                     |                                     |              | 1,614   | 1,614     |
| Disposals                            |                    |                     | (27)                                | (741)        |   | (768)     |
| Disposals – accumulated depreciation |                    |                     | 27                                  | 678          |   | 705       |
| Depreciation                         | (7,031)            | (46,871)            | (460)                               | (4,308)      |   | (58,670)  |
| Total variations                     | (2,705)            | (11,553)            | 206                                 | (2,266)      | 11,620  | (4,698)   |
| Closing balance                      |                    |                     |                                     |              |   |           |
| Cost                                 | 177,386            | 668,266             | 14,018                              | 65,849       | 57,021  | 982,540   |
| Accumulated depreciation             | (74,610)           | (508,948)           | (13,299)                            | (57,878)     |   | (654,735) |
| Carrying amount                      | 102,776            | 159,318             | 719                                 | 7,971        | 57,021  | 327,805   |

Land and buildings, amounting to €102,776 thousand at 31 December 2022 (€105,481 thousand at 31 December 2021), comprise all industrial and office buildings at Lonigo and Termoli, as well as the headquarters at Montecchio Maggiore.

Plant and machinery amounted to €159,318 thousand at 31 December 2022 (€170,870 thousand at 31 December 2021). 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 amounted to €720 thousand at 31 December 2022 (€514 thousand at 31 December 2021).

Other assets amounted to €7,971 thousand at 31 December 2022 (€10,236 thousand at 31 December 2021).

Assets under construction and payments on account amounted to €57,021 thousand at 31 December 2022 (€45,400 thousand at 31 December 2021).

The following additional information is provided below.

### **Breakdown of “Other tangible fixed assets”**

This item is broken down as follows:

| Description                    | Opening balance | Variations | Closing balance |
|--------------------------------|-----------------|------------|-----------------|
| Office furniture and equipment | 540             | (107)      | 433             |
| Electronic office equipment    | 9,695           | (2,158)    | 7,537           |
| Cars                           | 1               |            | 1               |
| Total                          | 10,236          | (2,265)    | 7,971           |

#### **Assets acquired free of charge and by way of exchange**

No capital assets were acquired free of charge or by way of exchange.

#### **Assets for which public grants were received (accounted for using the direct method)**

No public grants were accounted for by direct allocation to historical purchase cost.

#### **Revaluation of tangible fixed assets**

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 thousand 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 accordance with the Italian Accounting Standard Setter principle OIC 29, paragraph 40, the application of this method entailed an update of the residual useful life of the assets subject to revaluation, as a result of the information gathered in the meantime compared to the assumptions on which initial estimates were based.

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          |
|--|-----------------|----------------|---------------|----------------|----------------|----------------|-----------------------|--------------|-----------------------|----------------|
| 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          |
| <b>Total</b>                             | <b>257,160</b>  | <b>60</b>      | <b>430</b>    | <b>427</b>     | <b>30,953</b>  | <b>14,902</b>  | <b>15,159</b>         | <b>5,837</b> | <b>40,500</b>         | <b>108,268</b> |

In accordance with the Italian Accounting Standard Setter principle OIC 29, the Company assesses whether there is evidence of any permanent impairment loss of fixed assets at each reporting date.

The Company has carried out the impairment test by considering the entire organisation as a single

cash-generating unit. The net invested capital at 31 December 2022 has been compared with the prospective cash flows arising from the five-year plan prepared by the Company management. No evidence of any possible permanent impairment loss emerged from this exercise.

## I. Financial fixed assets

Financial fixed assets amounted to €1,989 thousand at 31 December 2022 (€44 thousand at 31 December 2021). During the year the Company acquired from parent Nine Trees Group S.p.A. the entire stake held in sister Company F.I.S. North America Inc.

### Changes in equity investments

| €'000           | Investments in subsidiaries | % held | Investments in other companies | Total Investments |
|-----------------|-----------------------------|--------|--------------------------------|-------------------|
| Opening balance |                             |        |                                |                   |
| Cost            | 40                          | 100%   | 4                              | 44                |
| Variations      |                             |        |                                |                   |
| Increases       | 1,945                       | 100%   | 0                              | 1,945             |
| Carrying amount | 1,985                       |        | 4                              | 1,989             |

### Breakdown of investments in subsidiaries

| € | Name                      | Foreign country            | Capital in Euros | Profit (loss) for the year in Euros | Net equity in Euros | Quota held in Euros | % held | Carrying amount  |
|---|---------------------------|----------------------------|------------------|-------------------------------------|---------------------|---------------------|--------|------------------|
|   | F.I.S. North America Inc. | United States - New Jersey | 94               | 176.464                             | 778.690             | 94                  | 100    | 1.945.302        |
|   | FIS Japan KK              | Japan                      | 35.547           | (26.132)                            | 275.289             | 35.547              | 100    | 39.642           |
|   | <b>Totale</b>             |                            |                  |                                     |                     |                     |        | <b>1.984.944</b> |

The investment in subsidiary F.I.S. North America Inc. is stated at a higher purchase value than equity, as it takes account of the higher value paid at the time of the acquisition that took place during the current financial year.

However, the subsidiary's ability to achieve positive future results of operations ensures that the value of the investment is recorded at purchase cost.

Breakdown of investments in other companies.

| €                       | 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

Current inventory amounts to €361,167 thousand (€296,561 thousand in the previous year).

At year end, inventory may be analysed as follows:

| €'000                                       | 31.12.2022 | 31.12.2021 | Variazioni |
|---|------------|------------|------------|
| Raw materials, consumables and supplies     | 125,434    | 121,326    | 4,108      |
| Work in progress and semi-finished products | 133,287    | 101,463    | 31,824     |
| Contract work in progress                   | 838        | 979        | (141)      |
| Finished goods                              | 91,391     | 63,671     | 27,720     |
| Payments on account                         | 10,217     | 9,122      | 1,095      |
| Total                                       | 361,167    | 296,561    | 64,606     |

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

The main impact on production intermediates and finished products is attributable to the growth trend in the cost of utilities, which has an effect on the entire production process across the Company. In addition, the increase is also a result of both higher prices for certain raw materials and solvents, and the safety stock operation required by major customers, aimed at ensuring continuity of supply in case of any potential critical issues affecting supply chain as result of the geopolitical situation between Russia and Ukraine.

The integrated management of planning demand and production allowed the Company to counteract inventory increases linked to the actual cost, managing and improving its turnover of finished goods, work in progress and semi-finished products.

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 method to calculate the provision for inventory write-down takes account of both inventory turnover and ad-hoc write-down rates which reflect the ageing of inventory and its possibility of use/sale, and net realisable value based on market trend.

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 | (7,716)       | (4,346)                | (7,293)        | (655)           | (20,010) |
| Accruals        | (367)         |                        |                |                 | (367)    |
| Releases        |               | 1,218                  | 361            |                 | 1,579    |
| Utilisations    | 32            |                        | 918            |                 | 950      |
| Total           | (8,051)       | (3,128)                | (6,014)        | (655)           | (17,848) |

## Receivables

Current receivables amounted to €185,723 thousand (€148,362 thousand in the previous year).

### 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                                     | 31.12.2022 | 31.12.2021 | Variation |
|---|------------|------------|-----------|
| Italian customers                         | 10,434     | 7,782      | 2,652     |
| Foreign customers                         | 112,598    | 97,254     | 15,344    |
| Invoices to be issued – Italian customers | 147        | 231        | (84)      |
| Invoices to be issued – foreign customers | 2,192      | 2,069      | 123       |
| Credit notes to be issued                 | (2,516)    | (4,425)    | 1,909     |
| Net exchange rate gains (losses)          | (1,848)    | 80         | (1,928)   |
| (Provision for bad debts)                 | (506)      | (515)      | 9         |
| Total                                     | 120,501    | 102,476    | 18,025    |

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.

Invoices to be issued are in line with the previous year, while credit notes to be issued are down as most of the trade agreements were finalised before the reporting date of these financial statements.

In November and December 2022 the Company assigned trade receivables of USD17,488 thousand and €29,390 thousand to factoring companies without recourse.

Changes in the provision for bad debts are as follows:

| €'000           | 31.12.2022 | 31.12.2021 | Variation |
|-----------------|------------|------------|-----------|
| Opening balance | (515)      | (940)      | 425       |
| Utilisations    | 9          |            | 9         |
| Releases        |            | 425        | (425)     |
| Accruals        |            |            |           |
| Closing balance | (506)      | (515)      | 9         |

The provision for bad debts outstanding at 31 December 2022 appears to be adequate and therefore no further allocation was set aside during the year.

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   | 31.12.2022 | 31.12.2021 | Variation |
|---|------------|------------|-----------|
| Receivables for the domestic tax consolidation scheme | 32,296     | 21,178     | 11,118    |
| Receivables for services provided                     | 6          | 92         | (86)      |
| Total   | 32,302     | 21,270     | 11,032    |

Receivables from the parent Company derive from the transfer of past tax losses and from the taxable loss for the current year.

The assessment of the recoverability of these amounts is made based on the taxable income forecasts of all companies participating in the tax consolidation scheme.

### **Receivables from subsidiaries of parents**

| €'000                                    | 31.12.2022 | 31.12.2021 | Variation |
|--|------------|------------|-----------|
| Receivables from subsidiaries of parents | 2,143      | 2,512      | (369)     |

The balance at 31 December 2022 mainly refers to invoices issued to the Canadian related Company Delmar Chemicals Inc. for charge-backs of services and sundry materials (€ 2,037 thousand).

### **Receivables from subsidiaries**

| €'000                         | 31.12.2022 | 31.12.2021 | Variation |
|-------------------------------|------------|------------|-----------|
| Receivables from subsidiaries | 254        |            | 254       |

### **Tax receivables**

This caption comprises:

| €'000                                      | 31.12.2022 | 31.12.2021 | Variation |
|--|------------|------------|-----------|
| IRES on IRAP reimbursement                 | 32         | 32         |           |
| Tax credits for energy-intensive companies | 4,506      |            | 4,506     |
| Tax credits on investments                 | 5,736      | 4,082      | 1,654     |
| Other                                      | 548        | 501        | 47        |
| VAT  | 2,358      | 3,536      | (1,178)   |
| Total                                      | 13,180     | 8,151      | 5,029     |

Other receivables from tax office mainly consist of tax credits for R&D work.

## Deferred tax assets

Deferred tax assets of €8,020 thousand in caption CII 4-ter show a decrease of €244 thousand and are recognised on negative temporary differences. They are analysed in the table required by article 2427.14 of the Italian Civil Code.

### Breakdown of deferred tax assets and liabilities

| DESCRIPTION OF TEMPORARY DIFFERENCES                               | 2021                  |              |            |              | Decreases 2022        |                  | Increases 2022       |              |                   | 2022                  |              |            |              |                    |
|--|-----------------------|--------------|------------|--------------|-----------------------|------------------|----------------------|--------------|-------------------|-----------------------|--------------|------------|--------------|--------------------|
|  | Temporary differences | IRES 24.00%  | IRAP 3.90% | Total taxes  | Temporary differences | Total tax effect | Temporary difference | IRES 24.00%  | IRAP effect 3.90% | Temporary differences | IRES 24.00%  | IRAP 3.90% | Total taxes  | Effect through P&L |
| <b>DEFERRED TAX ASSETS</b>   |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| <b>Excesses accruals</b>   |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Write-downs of inventory   | 20,010                | 4,802        |            | 4,802        | 20,010                | 4,802            | 17,848               | 4,283        |                   | 17,848                | 4,283        |            | 4,283        | (519)              |
| - Costs and charges deductible in future                           |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Goodwill - PHF   | 7,319                 | 1,756        |            | 2,042        |                       |                  | 1,220                | 293          | 48                | 8,538                 | 2,049        | 333        | 2,382        | 340                |
| - Goodwill - ZACH  | 1,704                 | 409          |            | 475          |                       |                  | 341                  | 82           | 13                | 2,045                 | 491          | 80         | 571          | 95                 |
| - Statutory tax difference - depreciation of buildings former zach | 1,415                 | 340          |            | 340          |                       |                  | 2                    |              |                   | 1,417                 | 340          |            | 340          |                    |
| - Unpaid membership fees   | 13                    | 3            |            | 3            | 13                    | 3                |                      |              |                   |                       |              |            |              | (3)                |
| - Unrealised exchange Rate losses                                  | 1,089                 | 261          |            | 261          | 1,089                 | 261              | 1,848                | 444          |                   | 1,848                 | 444          |            | 444          | 182                |
|  | 31,550                | 7,572        |            | 7,924        | 21,112                | 5,067            | 21,258               | 5,102        | 61                | 31,696                | 7,607        | 413        | 8,020        | 96                 |
| <b>Effect through NE</b>   |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Fair value losses on derivatives                                 | 1,416                 | 340          |            | 340          | 1,416                 | 340              |                      |              |                   |                       |              |            |              | (340)              |
| <b>Total deferred tax assets (A)</b>                               | <b>32,966</b>         | <b>7,912</b> |            | <b>8,264</b> | <b>22,528</b>         | <b>5,407</b>     | <b>21,258</b>        | <b>5,102</b> | <b>61</b>         | <b>31,696</b>         | <b>7,607</b> | <b>413</b> | <b>8,020</b> | <b>(244)</b>       |
| <b>DEFERRED TAX LIABILITIES</b>                                    |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Income taxes in the future                                       |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Unrealised exchange rate gains                                   | 85                    | 20           |            | (20)         | 85                    | 20               | 2,010                | 482          |                   | 2,010                 | 482          |            | (482)        | (462)              |
| - Cost items deducted off the books                                |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Accelerated amortisation and depreciation                        | 474                   | 114          |            | (114)        | 49                    | 12               |                      |              |                   | 425                   | 102          |            | (102)        | 12                 |
| - Bad debts  | 299                   | 72           |            | (72)         |                       |                  |                      |              |                   | 299                   | 72           |            | (72)         |                    |
|  | 858                   | 206          |            | (206)        | 134                   | 32               | 2,010                | 482          |                   | 2,734                 | 656          |            | (656)        | (450)              |
| <b>Effect through NE</b>   |                       |              |            |              |                       |                  |                      |              |                   |                       |              |            |              |                    |
| - Fair value losses on derivatives                                 | 971                   | 233          |            | (233)        | 971                   | 233              |                      |              |                   |                       |              |            |              | 233                |
| <b>Total deferred tax liabilities (B)</b>                          | <b>1,829</b>          | <b>439</b>   |            | <b>(439)</b> | <b>1,105</b>          | <b>265</b>       | <b>2,010</b>         | <b>482</b>   |                   | <b>2,734</b>          | <b>656</b>   |            | <b>(656)</b> | <b>217</b>         |

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 at 31 December 2022 as follows:

| €'000                 | 31.12.2022   | 31.12.2021   | Variation    |
|-----------------------|--------------|--------------|--------------|
| Advances to employees | 2,662        | 3,394        | (732)        |
| Guarantee deposits    | 4,651        | 186          | 4,465        |
| Sundry receivables    | 2,010        | 2,109        | (99)         |
| <b>Total</b>          | <b>9,323</b> | <b>5,689</b> | <b>3,634</b> |

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. Conversely, the increase in "guarantee deposits" is mainly due to the payment of a deposit against a new electricity supply contract.

### **Receivables – Breakdown by due date**

The breakdown of receivables by due date, as per article 2427.1.6 of the Italian Civil Code is reported below.

#### **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                        | 102,476         | 18,025        | 120,501         | 120,501             |                    |                      |
| Receivables from subsidiaries            |                 | 254           | 254             | 254                 |                    |                      |
| Receivables from parents                 | 21,270          | 11,032        | 32,302          | 32,302              |                    |                      |
| Receivables from subsidiaries of parents | 2,512           | (369)         | 2,143           | 2,143               |                    |                      |
| Tax receivables                          | 8,151           | 5,029         | 13,180          | 11,936              | 1,244              |                      |
| Deferred tax assets                      | 8,264           | (244)         | 8,020           | 8,020               |                    |                      |
| Receivables from others                  | 5,689           | 3,634         | 9,323           | 7,189               | 2,134              | 1,553                |
| <b>Total</b>                             | <b>148,362</b>  | <b>37,361</b> | <b>185,723</b>  | <b>182,345</b>      | <b>3,378</b>       | <b>1,553</b>         |

## Receivables – Breakdown 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  | EU     | Non-EU | 31.12.2022 |
|--|--------|--------|--------|------------|
| Trade receivables                        | 10,338 | 40,624 | 69,539 | 120,501    |
| Receivables from subsidiaries            |        |        | 254    | 254        |
| Receivables from parents                 | 32,302 |        |        | 32,302     |
| Receivables from subsidiaries of parents | 106    |        | 2,037  | 2,143      |
| Tax receivables                          | 13,180 |        |        | 13,180     |
| Deferred tax assets                      | 8,020  |        |        | 8,020      |
| Receivables from others                  | 9,323  |        |        | 9,323      |
| Total                                    | 73,269 | 40,624 | 71,830 | 185,723    |

## II. Liquid funds

Finally, liquid funds at year end were substantially in line with those recorded in the previous year (€68 million over €75 million in 2021), despite a year characterised by severe strains on cash generation due to the exponential increase in energy costs incurred especially in the middle two quarters of the year. It is worth noting the great usefulness of the flexibility ensured by the €50 million RCF line, which allowed the Company

to pass through the middle months of the year, pending the positive financial effects of cost pass-through activities and the energy bonus. FIS continued to take action in 2022 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          | 74,756          | (6,833)    | 67,923          |
| Cash-in-hand and cash equivalents | 14              | 1          | 15              |
| Total                             | 74,770          | (6,832)    | 67,938          |

Cash and cash equivalents are deposited with major Italian banks. The following is a detailed list of the main institutions:

| BANKS                    | RATING |
|--------------------------|--------|
| Intesa Sanpaolo          | BBB    |
| Unicredit                | BBB    |
| BNL - BNP Paribas        | A-     |
| Banco BPM                | BBB-   |
| Illimity Bank            | BB-    |
| Banca IFIS               | BB+    |
| Banca delle terre Venete | BB     |

## D) PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income amount to €634 thousand (€1,109 thousand in the previous year).

The tables below show the changes and related breakdown of this caption.

### **Breakdown of changes in prepayments and accrued income**

| €'000           | Prepayments |
|-----------------|-------------|
| Opening balance | 1,109       |
| Variations      | (475)       |
| Closing balance | 634         |

### **Breakdown of prepayments and accrued income by nature**

#### **Prepayments**

| €'000                       | 31.12.2022 |
|-----------------------------|------------|
| - on studies and consulting | 1          |
| - on maintenance            | 42         |
| - on databases              | 74         |
|                             | 117        |

#### **Long-term prepayments**

| €'000           | 31.12.2022 |
|-----------------|------------|
| - on insurance  | 3          |
| - on bank costs | 514        |
|                 | 517        |

Long-term deferrals mainly relate to a fee on a revolving credit line with a term until 2027.

# BALANCE SHEET – LIABILITIES

## A) NET EQUITY

At the end of the year, Net Equity amounted to €239,896 thousand (€245,146 thousand in the previous year).

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

### I. Share capital

The share capital of €10,000,000 was unchanged at 31 December 2022 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 remained unchanged on the previous year end. The last increase was reported in 2021 following the revaluation of assets made by the Company, 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).

### 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: €30,896,847
- extraordinary reserve: €93,002,237;
- reserve for unrealised exchange rate gains: it remained unchanged;
- 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. Hedging reserve

As required by OIC 32 (Derivatives), caption A) VII “Hedging reserve” includes the fair value gains and losses on hedging derivatives. It should be noted that there was no hedging contract in place at 31 December 2022.

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

| €'000             | 31.12.2022 |
|-------------------|------------|
| Opening balance   | (338)      |
| Variations        |            |
| Fair value losses | 445        |
| Tax effect        | (107)      |
| Total             | 0          |

### 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. No transactions are planned for these reserves as well, which could result in taxation.

### 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 (ref. 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 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 profit reserve | 26,319          | 17,463                   |           |           |                  |            | 43,782          |
| Convertible bonds reserve        | 1,969           |                          |           |           |                  |            | 1,969           |
| Sundry other reserves            | 1,045           |                          |           |           |                  |            | 1,045           |
| Dividend payouts                 |                 | 460                      |           |           |                  |            | 460             |
| Total other reserves             | 112,750         | 17,923                   |           |           |                  |            | 130,673         |
| Hedging reserve                  | (732)           |                          | 518       | (124)     |                  |            | (338)           |
| Net profit for the year          | 17,923          | (17,923)                 |           |           |                  | 7,615      | 7,615           |
| Total net equity                 | 237,137         |                          | 518       | (124)     |                  | 7,615      | 245,146         |

As already noted in the previous paragraphs, there was a change in the valuation criteria for stock inventories during the year. In order to make the items in the financial statements comparable with the amount of the cor-

responding items in the previous year, a restatement of the previous year's values was made, which resulted in a change in equity and the result for the year reported in the table of changes during 2021.

## Variations 2022

| €'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          |                          | 12,000    |           |                  |            | 93,002          |
| Negative goodwill                          | 2,415           |                          |           |           |                  |            | 2,415           |
| Undistributed net profit reserve           | 43,782          |                          | 7,615     |           | (20,500)         |            | 30,898          |
| 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                       | 130,673         |                          | 19,615    |           | (20,500)         |            | 129,789         |
| Hedging reserve                            | (338)           |                          | 445       | (107)     |                  |            |                 |
| Net profit for the year                    | 7,615           | (7,615)                  |           |           |                  | 2,911      | 2,911           |
| Total net equity                           | 245,146         | (7,615)                  | 20,060    | (107)     | (20,500)         | 2,911      | 239,896         |

It should be noted that on 11 January 2022 the shareholders' meeting resolved to distribute a dividend of €20.5 million in favour of the shareholder Nine Trees Group S.p.A., which shall be drawn from available reserves, using in particular the undistributed net profits reserve. At the same time, the extraordinary reserve was increased by €12 million following the parent Company's waiver of overdue dividend receivable relating to the years 2017 and 2018.

With regard to convertible bonds referred to the "reserve for derivatives" stated in Equity, reference should be made to the information provided in the paragraph on payables.

## 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          | 30,898  | A-B-C        | 30,898            |                           | 30,898                | 20,500                      |
| Extraordinary reserve                      | 93,002  | A-B-C        | 93,002            |                           | 93,002                |                             |
| Negative goodwill                          | 2,415   | A-B-C        | 2,415             |                           | 2,415                 |                             |
| Convertible bonds reserve                  | 1,969   |              |                   | 1,969                     |                       |                             |
| Hedging reserve                            |         |              |                   |                           |                       |                             |
| Reserve for state and regional aid         | 1,045   | A-B-C        | 1,045             |                           | 1,045                 |                             |
| Reserve for unrealised exchange rate gains | 460     |              |                   | 460                       |                       |                             |
| Net profit for the year                    | 2,911   |              | 10,566            |                           | 10,566                |                             |
| Total at 31 December 2021                  | 239,896 |              | 232,727           | 4,824                     | 232,727               | 20,500                      |

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

## B) PROVISIONS FOR RISKS AND CHARGES

These are stated among liabilities for a total amount of €1,098 thousand (€1,176 thousand in the previous year).

### Changes in provisions for risks and charges

| €'000   | 31.12.2021 | Variations | 31.12.2022 |
|---|------------|------------|------------|
| Provision for Lonigo integration costs            | 291        | 150        | 441        |
| Tax provision, including deferred tax liabilities | 440        | 217        | 657        |
| Hedging provision                                 | 445        | (445)      |            |
| Total   | 1,176      | (78)       | 1,098      |

At 31 December 2022, this caption comprises:

| €'000   | 31.12.2021 | Accruals | Utilisations | 31.12.2022 |
|---|------------|----------|--------------|------------|
| Pension and similar provisions                    | 291        | 220      | (70)         | 441        |
| Tax provision, including deferred tax liabilities | 440        | 557      | (340)        | 657        |
| Hedging provision                                 | 445        |          | (445)        |            |
| Total   | 1,176      | 777      | (855)        | 1,098      |

#### 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.

More information about this caption is available in the note to income taxes in the profit and loss statement. For more details on the breakdown and changes of this item, reference should be made to the table reported in the paragraph on deferred tax assets.

#### 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.

#### Hedging provision

At 31 December 2022, no hedging derivatives, nor derivatives covering interest rate or exchange risks, were in place and, therefore, the related provision for risks was released, which had been set aside during the previous year.

Changes in the provision are shown below:

| €'000             | 31.12.2021 | Accruals | Utilisations | 31.12.2022 |
|-------------------|------------|----------|--------------|------------|
| Hedging provision | 445        |          | (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

| €'000                          | 31.12.2021 | Accruals | Utilisations | 31.12.2022 |
|--------------------------------|------------|----------|--------------|------------|
| Employees' leaving entitlement | 4,800      | 6,236    | (6,301)      | 4,735      |

The caption is substantially unchanged from the previous year end.

## D) PAYABLES

These are stated among liabilities for a total amount of €707,513 thousand (€623,726 thousand in the previous year).

This caption may be analysed as follows:

| €'000   | due within one year | due after one year | 31.12.2022 | 31.12.2021 | Variation |
|---|---------------------|--------------------|------------|------------|-----------|
| Long-term bonds                                   |                     | 340,051            | 340,051    | 98,881     | 241,170   |
| Convertible bonds                                 |                     | 52,306             | 52,306     | 51,925     | 381       |
| Short-term bank loans and borrowings              | 57,065              |                    | 57,065     | 86,454     | (29,389)  |
| Medium/long-term bank loans and borrowings        |                     |                    |            | 112,837    | (112,837) |
| Loans and borrowings from other financial backers | 4,623               |                    | 4,623      | 13,496     | (8,873)   |
| Payments on account                               | 31,089              |                    | 31,089     | 25,052     | 6,037     |
| Trade payables                                    | 171,917             |                    | 171,917    | 155,752    | 16,165    |
| Payables to subsidiaries                          | 1,051               |                    | 1,051      | 157        | 894       |
| Payables to parents                               | 8,274               |                    | 8,274      | 32,075     | (23,801)  |
| Payables to subsidiaries of parents               | 5,090               |                    | 5,090      | 9,862      | (4,772)   |
| Tax payables                                      | 4,823               |                    | 4,823      | 3,023      | 1,800     |
| Social security charges payables                  | 10,981              | 393                | 11,374     | 11,544     | (170)     |
| Other payables                                    | 19,850              |                    | 19,850     | 22,668     | (2,818)   |
| Total   | 314,763             | 392,750            | 707,513    | 623,726    | 83,787    |

Bonds, banks loans and borrowings and payables to parents have been classified as short or long term, depending on their due dates. During the year the Company completed the issue of bonds in order to, among other things, repay bank borrowings at 31 December 2021. The early repayment of the loans resulted in the application of a penalty of €5,758 thousand on the part of the subscribers of the two private placements, which is stated among "C17D Interest and other financial charges".

Specifically, the value of the bonds therefore includes the issue of the above-mentioned sustainability-linked senior secured loan with a nominal value of €350 million, which was taken out on 10 February 2022 by major international institutional investors, valued according to the amortised cost method. At the same time, FIS also entered into a €50 million revolving credit facility (RCF) agreement. 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. At the end of the primary market placement process, the amount of €350 million was subscribed by about 40 international and domestic institutional investors, and the fixed rate was set at 5.625%. The duration of the facility was set at 5.5 years, due 10 August 2027. On the other hand, the cost of the revolving credit facility is equal to EURIBOR + variable spread depending on the NFP/EBITDA ratio if used. The spread paid in 2022 was 3%, while the final rate approached the fixed rate of the bond towards the

end of the year as a result of a gradual rise in interest rates. Finally, it should be mentioned that only in case of the use of the RCF for more than 40% of the total value (i.e., €20 million), a springing covenant is applied, which the Company has to comply with, equal to a NFP/EBITDA ratio < 7x.

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, extended to 2030). The interest rate was 2% at 31 December 2022. 5,310 bonds were issued at a nominal price of €10,000. On the maturity date of the aforementioned bonds, or in the event of early conversion, the increase in share capital will be €10 for each bond converted up to a maximum of €53,100.

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:

- €40,000 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;
- €65 thousand related to other loans and borrowings.

No bank loans and borrowings due after one year are in place.

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 2023. These advances are also related to the financial coverage of extra safety stock requested from the Company to ensure continuity of supply in a critical phase of the related chain.

Trade payables increased by roughly €16 million on 31 December 2021 due to both higher purchases made at year end in preparation for the considerable production planned for early 2023, and against a widespread rise in electricity and gas supply costs, partially offset by the payment of energy bonuses.

Payables to parents at year end mostly consisted of residual dividends not yet distributed to the parent. The issue of the sustainability-linked bond provided for, among others, a dividend recap to the parent, amounting to €40 million, of which an amount of €6.8 million is still to be paid out.

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 €2,955,666 at the reporting date.

Finally, other payables mainly comprise amounts due to personnel, as detailed in the table below:

| €'000   | 31.12.2021    | Variation      | 31.12.2022    |
|---|---------------|----------------|---------------|
| Salaries  | 6,640         | (1,957)        | 4,683         |
| Deductions from salaries  | 55            | (21)           | 34            |
| Employees on account of 14-month salary   | 2,467         | 99             | 2,566         |
| Performance and MBO bonuses   | 8,408         | (413)          | 7,995         |
| Employees on account of holidays – reduced working hours – individual account and leaving entitlement | 3,977         | (324)          | 3,653         |
| Pension funds   | 64            | 1              | 65            |
| Industry Association on account of contributions  | 13            | (13)           |               |
| Directors on account of fees  | 38            | (30)           | 8             |
| Payables to Airon   | 662           |                | 662           |
| Other payables  | 345           | (162)          | 183           |
| <b>Total</b>  | <b>22,669</b> | <b>(2,820)</b> | <b>19,849</b> |

### **Payables – Breakdown by due date**

Pursuant to Article 2427.1.6 of the Italian Civil Code a breakdown of 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                                   | 98,881          | 241,170       | 340,051         |                     | 340,051            |                      |
| Convertible bonds                                 | 51,925          | 381           | 52,306          |                     | 52,306             |                      |
| Short-term bank loans and borrowings              | 86,454          | (29,389)      | 57,065          | 57,065              |                    |                      |
| Medium/long-term bank loans and borrowings        | 112,837         | (112,837)     |                 |                     |                    |                      |
| Loans and borrowings from other financial backers | 13,496          | (8,873)       | 4,623           | 4,623               |                    |                      |
| Payments on account                               | 25,052          | 6,037         | 31,089          | 31,089              |                    |                      |
| Trade payables                                    | 155,752         | 16,165        | 171,917         | 171,917             |                    |                      |
| Payables to subsidiaries                          | 157             | 894           | 1,051           | 1,051               |                    |                      |
| Payables to parents                               | 32,075          | (23,801)      | 8,274           | 8,274               |                    |                      |
| Payables to subsidiaries of parents               | 9,862           | (4,772)       | 5,090           | 5,090               |                    |                      |
| Tax payables                                      | 3,023           | 1,800         | 4,823           | 4,823               |                    |                      |
| Social security charges payables                  | 11,544          | (170)         | 11,374          | 10,981              | 393                | 118                  |
| Other payables                                    | 22,668          | (2,818)       | 19,850          | 19,850              |                    |                      |
| <b>Total</b>                                      | <b>623,726</b>  | <b>83,787</b> | <b>707,513</b>  | <b>314,763</b>      | <b>392,750</b>     | <b>118</b>           |

### **Payables – Breakdown by geographical segment**

Pursuant to Article 2427.1.6 of the Italian Civil Code a breakdown of the payables by geographical segment is as follows:

#### **Breakdown of payables by geographical segment**

| €'000   | Italy   | EU      | Non-EU | Total   |
|---|---------|---------|--------|---------|
| Long-term bonds                                   |         | 340,051 |        | 340,051 |
| Convertible bonds                                 | 52,306  |         |        | 52,306  |
| Short-term bank loans and borrowings              | 57,065  |         |        | 57,065  |
| Medium/long-term bank loans and borrowings        |         |         |        |         |
| Loans and borrowings from other financial backers | 4,623   |         |        | 4,623   |
| Payments on account                               |         | 107     | 30,982 | 31,089  |
| Trade payables                                    | 139,621 | 8,557   | 23,739 | 171,917 |
| Payables to subsidiaries                          |         |         | 1,051  | 1,051   |
| Payables to parents                               | 8,274   |         |        | 8,274   |
| Payables to subsidiaries of parents               |         |         | 5,090  | 5,090   |
| Tax payables                                      | 4,823   |         |        | 4,823   |
| Social security charges payables                  | 11,374  |         |        | 11,374  |
| Other payables                                    | 19,850  |         |        | 19,850  |
| Total   | 531,282 | 10,822  | 81,831 | 707,513 |

#### **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 table below provides a breakdown of unsecured payables:

| €'000   | Unsecured payables 2022 |
|---|-------------------------|
| Long-term bonds                                   | 340,051                 |
| Convertible bonds                                 | 52,306                  |
| Short-term bank loans and borrowings              | 57,065                  |
| Medium/long-term bank loans and borrowings        |                         |
| Loans and borrowings from other financial backers | 4,623                   |
| Payments on account                               | 31,089                  |
| Trade payables                                    | 171,917                 |
| Payables to subsidiaries                          | 1,051                   |
| Payables to parents                               | 8,274                   |
| Payables to subsidiaries of parents               | 5,090                   |
| Tax payables                                      | 4,823                   |
| Social security charges payables                  | 11,374                  |
| Other payables                                    | 19,850                  |
| Total   | 707,513                 |

## E) ACCRUED EXPENSES AND DEFERRED INCOME

These are stated among liabilities for a total amount of €18,634 thousand (€8,892 thousand in 2021). The changes in this caption compared to the previous year and related breakdown are shown in the tables below.

### **Breakdown of changes in accrued expenses and deferred income**

| €'000           | Accrued expenses | Deferred income | Total  |
|-----------------|------------------|-----------------|--------|
| Opening balance | 1,519            | 7,036           | 8,555  |
| Variations      | 7,374            | 2,706           | 10,080 |
| Closing balance | 8,893            | 9,742           | 18,635 |

### **Breakdown of accrued expenses and deferred income by nature**

#### **Accrued expenses**

| €'000                           | 31.12.2022 |
|---------------------------------|------------|
| - on interest expenses on bonds | 8,648      |
| - on bank interest expenses     | 83         |
| - on other financial charges    | 162        |
|                                 | 8,893      |

#### **Deferred income**

| €'000                            | 31.12.2022 |
|----------------------------------|------------|
| - on tax credits for investments | 5,706      |
| - on charge-back for engineering | 4,036      |
|                                  | 9,742      |

# PROFIT AND LOSS STATEMENT

## A) PRODUCTION REVENUES

Production revenues amount to €816,959 thousand in 2022 (€614,671 thousand at 31 December 2021). The following tables provide a breakdown of the cap-

tions, changes during the year and specific information for each year. Further details and descriptions of each caption are provided below.

| €'000   | 31.12.2022     | 31.12.2021     | Variation      |
|---|----------------|----------------|----------------|
| Turnover from sales and services                                      | 672,481        | 562,077        | 110,404        |
| Change in work in progress, semi-finished products and finished goods | 59,544         | 860            | 58,684         |
| Contract work in progress   | (142)          | (1,679)        | 1,537          |
| Internal work capitalised   | 52,645         | 45,416         | 7,229          |
| Other revenue and income  | 33,491         | 11,745         | 21,746         |
| <b>Total</b>  | <b>818,019</b> | <b>618,419</b> | <b>199,600</b> |

### Turnover from sales and services

| €'000                           | 31.12.2022     | 31.12.2021     | Variation      |
|---------------------------------|----------------|----------------|----------------|
| Turnover from sales of products | 656,650        | 544,164        | 112,486        |
| Turnover from R&D services      | 15,831         | 17,912         | (2,081)        |
| <b>Total</b>                    | <b>672,481</b> | <b>562,077</b> | <b>110,404</b> |

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.

Turnover from sales and services amounted to €672,581 thousand and €562,077 thousand at 31 December 2022 and 31 December 2021, respectively. Turnover from sales of goods amounted to €656,750 thousand and €544,164 thousand at 31 December 2022 and 2021, respectively. Turnover from services amounted to €15,831 thousand and €17,912 thousand at 31 December 2022 and 2021, respectively.

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.

The Company recorded new growth in its custom business in 2022, despite the unfavourable context of cost inflation, particularly in raw materials and utilities. Thanks to well-established partnerships, it was possible to pass on a good portion of these costs to the market while honouring 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. 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. The positive effect on flu product volumes continued, both due to the effect of the Covid-19 pandemic that is still present in several countries not fully covered by an effective vaccine, and the extraordinary peaks of influenza reached in other countries (including Italy) during 2022, which had been protected by the same anti-Covid-19 measures until the previous year.

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.

Revenues from R&D services, concerning optimising synthesis processes and large-scale commercial production, came to roughly €16 million at 31 December 2022, down compared to the previous year. As at the date of preparation of these financial statements, the

pipeline showed a significant number of projects, which had been gained in the second half of the year. The award of projects of increasing chemical complexity and in differentiated therapeutic areas bears witness

to 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           | 31.12.2022     | 31.12.2021     | Variation      |
|-----------------|----------------|----------------|----------------|
| Italy           | 76,938         | 54,562         | 22,376         |
| EU countries    | 378,124        | 345,668        | 32,456         |
| North America   | 117,805        | 84,775         | 33,030         |
| South America   | 6,881          | 6,861          | 20             |
| Asia            | 91,350         | 68,257         | 23,093         |
| Other countries | 1,383          | 1,953          | (570)          |
| <b>Total</b>    | <b>672,481</b> | <b>562,077</b> | <b>110,404</b> |

The increase in revenues from products and services in 2022 is chiefly due to rising turnover from North America, European Union and Asia countries and, finally, 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.

The sharp increase in the above-mentioned inventories is related to the Company's need to cope with production in 2023, which is expected to increase significantly.

### **Internal work capitalised**

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

| €'000                                   | 31.12.2022    | 31.12.2021    | Variation    |
|---|---------------|---------------|--------------|
| Labour (included in personnel expenses) | 3,584         |               | 886          |
| Materials (included in purchases)       | 32,102        | 26,458        | 5,644        |
| Subcontracting (included in services)   | 16,959        | 16,260        | 699          |
| <b>Total</b>                            | <b>52,645</b> | <b>45,416</b> | <b>7,229</b> |

The directors' report provides more details about the investments made in 2022.

### **Other revenues and income**

| €'000                        | 31.12.2022    | 31.12.2021    | Variation     |
|------------------------------|---------------|---------------|---------------|
| Other revenues from services | 6,498         | 1,940         | 4,558         |
| Resale of materials          | 5,343         | 3,977         | 1,366         |
| Reimbursement from customers | 1,208         | 2,936         | (1,728)       |
| Tax benefits                 | 14,695        | 974           | 13,721        |
| Other                        | 5,747         | 1,918         | 3,829         |
| <b>Total</b>                 | <b>33,491</b> | <b>11,745</b> | <b>21,746</b> |

This caption showed an increase of €21,746 thousand. The most significant change is due to the benefits for tax credits; the caption includes, among others, bonuses for tax credits obtained for offsetting higher costs resulting from the increase in the prices of electricity and gas.

There was also a significant increase in “other revenues from services”, mainly due to an increase in the charge-back to customers for various kinds of services.

Finally, it must be noted that the Company received public grants during the year, as required by Law no. 124/2017 on transparency about public aid. In this regard, the following detailed information is provided:

| Paying entity                                      | Grant date | Measurement  | Instrument                             | Amount       |
|--|------------|--|--|--------------|
| INPS   | 25.11.22   | Exemption from the payment of social security contributions for new hires/transformations to permanent employment contracts in the 2-year period 2021 – 2022 (Art. 1, paragraphs 10-15, of Law 178/2020) | Tax concession or tax exemption        | 80,358.65    |
| AVEPA Agenzia Veneta per i pagamenti               | 27.06.22   | National State Aid Framework Scheme - COVID 19 (Arts. 54-61 of Relaunch DL, as amended by Art. 62 of DL 104/2020)  | Subsidy / grant on account of interest | 25,083.96    |
| INPS   | 23.02.22   | Contribution relief for employment in disadvantaged areas – Relief from social security contributions in Southern Italy (Art. 27 of Decree Law 104/2020)   | Tax concession or tax exemption        | 265,085.42   |
| Cassa per i Servizi Energetici e Ambientali (CSEA) | 03.02.22   | Concessions for electricity-intensive enterprises  | Tax concession or tax exemption        | 2,234,518.16 |

## B) PRODUCTION COST

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

| €'000   | 31.12.2022 | 31.12.2021 | Variation |
|---|------------|------------|-----------|
| Raw materials, consumables and supplies           | 437,825    | 364,772    | 73,053    |
| Services  | 155,271    | 98,051     | 57,220    |
| Use of third party assets                         | 2,012      | 1,477      | 535       |
| Wages and salaries                                | 89,623     | 87,991     | 1,632     |
| Social security contributions                     | 28,637     | 28,240     | 397       |
| Employees' leaving entitlement                    | 6,366      | 6,033      | 333       |
| Other costs                                       | 3,528      | 2,354      | 1,174     |
| Amortisation of intangible fixed assets           | 6,661      | 6,422      | 239       |
| Depreciation of tangible fixed assets             | 58,670     | 58,316     | 354       |
| Change in raw materials, consumables and supplies | (4,108)    | (56,177)   | 52,069    |
| Other operating costs                             | 5,067      | 4,694      | 373       |
| Total   | 789,552    | 602,173    | 187,379   |

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 rise in these costs is mainly attributable to higher raw materials prices, as well as more purchases made during the year as a

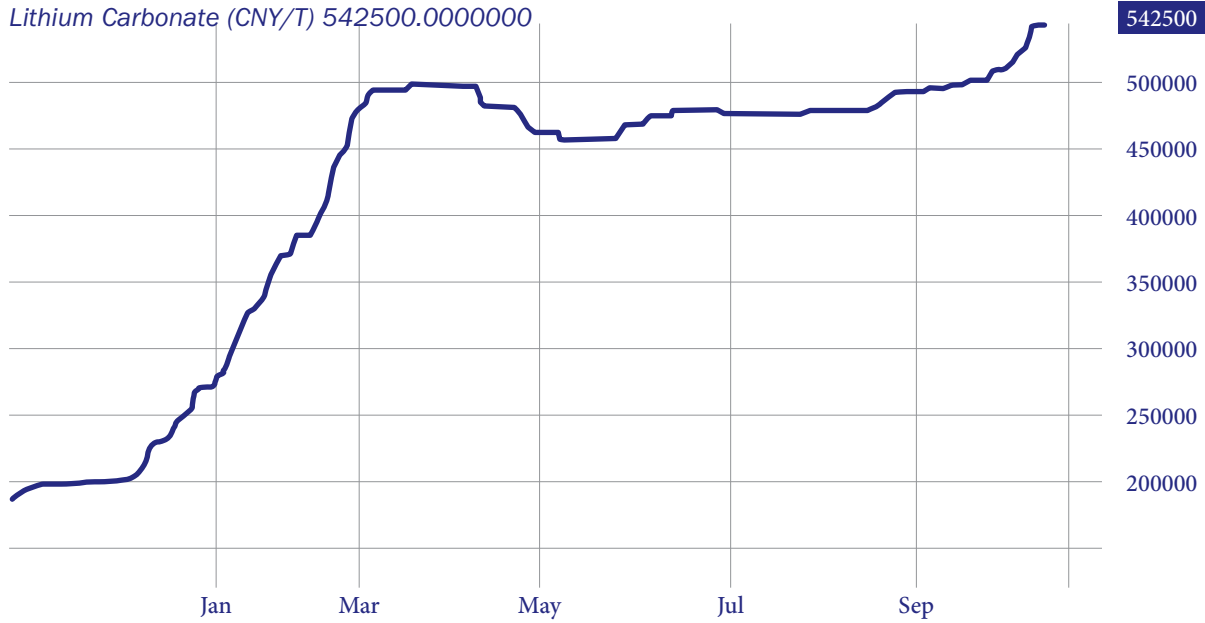
result of increased production and relevant sales. The increase in costs of raw materials depends, in turn, on the geopolitical situation between Russia and Ukraine, which has led to a shortage of basic raw materials (e.g. lithium and potassium derivatives), and on the ris-

ing cost of utilities, which has adversely affected the trends in prices throughout the entire market of solvents, raw materials and supplies.

Finally, the Company's increased investment projects also led to a rise in these costs. The trends in the prices of certain raw materials are reported below.

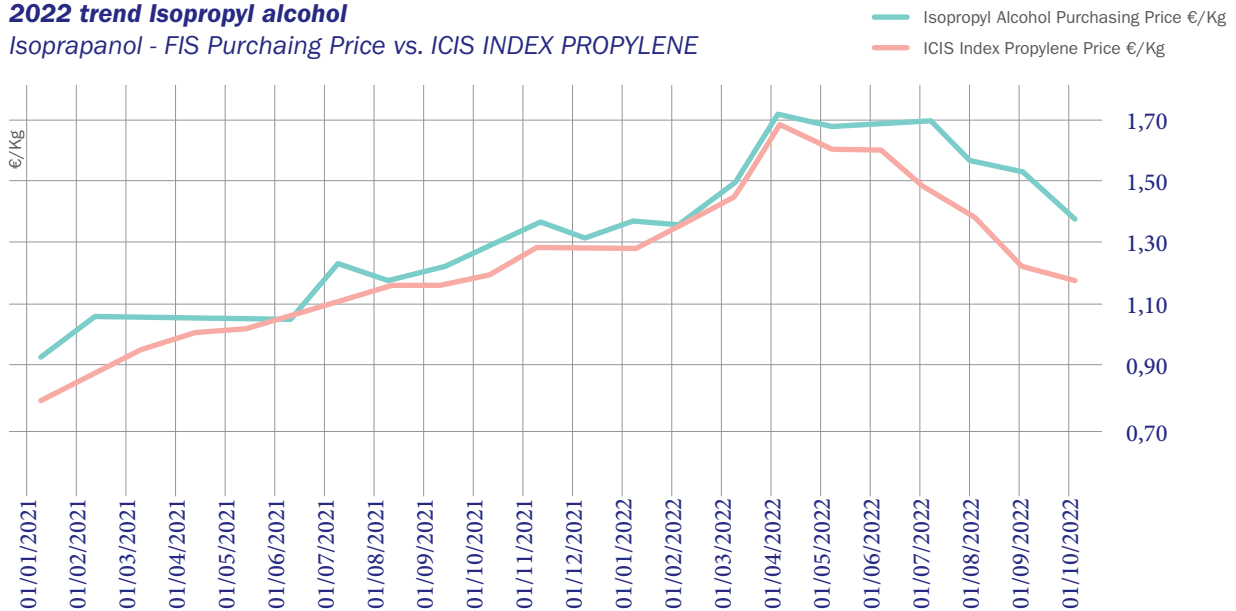
**2022 trend Lithium Carbonate**

Lithium Carbonate (CNY/T) 542500.0000000



**2022 trend Isopropyl alcohol**

Isoprapanol - FIS Purchaing Price vs. ICIS INDEX PROPYLENE



## Services

Expenses for services are stated among production cost in the profit and loss statement for a total amount of €155,271 thousand (€98,051 thousand in 2021).

The breakdown of each caption may be analysed as follows:

| €'000                                   | 31.12.2022     | 31.12.2021    | Variation     |
|---|----------------|---------------|---------------|
| Assembly                                | 16,569         | 16,401        | 168           |
| Utilities                               | 57,974         | 14,297        | 43,677        |
| Ecological costs                        | 11,959         | 11,040        | 919           |
| Maintenance                             | 11,870         | 10,364        | 1,506         |
| Other services                          | 15,429         | 13,425        | 2,004         |
| Consultancy                             | 8,553          | 6,864         | 1,689         |
| Transport                               | 14,623         | 8,878         | 5,745         |
| Fees                                    | 3,736          | 3,363         | 373           |
| Insurance                               | 3,486          | 3,078         | 408           |
| Civil works                             | 3,782          | 3,062         | 720           |
| Canteen                                 | 1,758          | 1,658         | 100           |
| Secondment of personnel                 | 1,725          | 1,400         | 325           |
| Cleaning                                | 1,065          | 1,299         | (234)         |
| Outsourcing services                    | 842            | 778           | 64            |
| Directors' and statutory auditors' fees | 962            | 842           | 120           |
| CO <sub>2</sub> quotas                  | 558            | 1,045         | (487)         |
| Training                                | 380            | 258           | 122           |
| <b>Total</b>                            | <b>155,271</b> | <b>98,051</b> | <b>57,220</b> |

Services increased by approximately €57 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.

During 2022 costs of natural gas and electricity showed a very significant increase (from approximately €14 million in 2021 to roughly €58 million in 2022), as repeatedly mentioned. This increase was only partly offset by passing on costs to customers and the positive effect of the energy bonus, thus impacting EBITDA for the period.

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 made recourse 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 CO<sub>2</sub> quotas, mainly a result of the price effect, as the quantities purchased remained in line with the previous year.

### **Personnel expenses**

During 2022 the Company's workforce rose from 1,920 at the end of 2020 to 1,988 at the end of 2021. This was the main factor in the increase in personnel expenses (from €124.6 million to €128.2 million). In addition to the rise in employee numbers, the €3.5 million increase in expenses was also due to the planned contractual and merit-based raises.

### **Amortisation, depreciation and write-downs**

Tables providing a breakdown of amortisation and depreciation are included in the notes to fixed assets. Their value remained almost unchanged compared to the previous year.

### **Other operating costs**

Other operating costs are stated among production cost in the profit and loss statement for a total amount of €5,067 thousand (€4,694 thousand in 2021).

This caption may be analysed as follows:

| €'000                                      | 31.12.2021   | 31.12.2020   | Variation  |
|--|--------------|--------------|------------|
| Stamp duty                                 | 36           | 44           | (8)        |
| Waste disposal tax                         | 41           | 38           | 3          |
| Other taxes and duties                     | 265          | 327          | (62)       |
| IMU (local property tax)                   | 642          | 619          | 23         |
| Government concession tax                  | 1            | 1            |            |
| Motor tax                                  | 1            | 1            | (0)        |
| Non-deductible taxes and duties            | 1            |              | 1          |
| Databases                                  | 646          | 451          | 195        |
| Sundry costs                               | 17           | 8            | 9          |
| Membership fees                            | 260          | 233          | 27         |
| Magazines, books and publications          | 14           | 34           | (20)       |
| Donations                                  | 69           | 51           | 19         |
| Renewal of annual payments and licenses    | 211          | 208          | 3          |
| Ordinary losses                            |              | 37           | (37)       |
| Charities                                  |              | 7            | (7)        |
| Penalties for breach of contract           | 884          | 408          | 476        |
| Settlement agreements                      | 2            | 95           | (93)       |
| Discounts and rebates not deductible in A1 | 139          |              | 139        |
| Prior year losses                          | 1,838        | 2,133        | (295)      |
| <b>Total</b>                               | <b>5,067</b> | <b>4,694</b> | <b>373</b> |

## C) FINANCIAL INCOME AND CHARGES

### **Other financial income**

This caption may be analysed as follows:

| €'000                                 | 31.12.2022 | 31.12.2021 | Variation |
|---------------------------------------|------------|------------|-----------|
| Bank interest income                  | 12         | 1          | 11        |
| Interest income on loans to employees |            | 60         | (60)      |
| Interest income to the Tax Office     | 18         |            | 18        |
| Total                                 | 30         | 61         | (31)      |

### **Interest and other financial charges**

Interest and other financial charges stated in caption "C 17" are broken down as follows:

| €'000  | 31.12.2022 | 31.12.2021 | Variation |
|--|------------|------------|-----------|
| Interest on medium to long-term transactions     | 2,654      | 5,407      | (2,753)   |
| Interest on short-term bank loans and borrowings | 2,120      | 815        | 1,305     |
| Interest on payables to subsidiaries of parents  | 110        | 149        | (39)      |
| Interest on bonds                                | 20,603     | 3,085      | 17,518    |
| Interest on convertible bonds                    | 1,443      | 1,433      | 10        |
| Penalty on early repayment of loans              | 5,758      |            | 5,758     |
| Other  | 831        | 957        | (126)     |
| Total  | 33,519     | 11,846     | 21,673    |

Interest on medium-term transactions showed a considerable decrease on the previous year following the early repayment of the medium/long-term syndicated loan.

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.

Interest on bonds showed a significant increase on the previous year following the issue of the new bond of €350 million, as extensively described in the previous paragraphs.

As already noted in the previous paragraphs, the early repayment of the loans resulted in the application of a penalty of €5,758 thousand on the part of the subscribers of the two private placements.

### **Exchange rate gains and losses**

The table below provides a breakdown of this caption:

| €'000                           | 31.12.2022 | 31.12.2021 | Variation |
|---------------------------------|------------|------------|-----------|
| Realised exchange rate gains    | 13,283     | 8,255      | 5,028     |
| Realised exchange rate losses   | (15,062)   | (7,837)    | (7,225)   |
| Unrealised exchange rate gains  | 2,010      | 85         | 1,925     |
| Unrealised exchange rate losses | (1,848)    | (1,089)    | (759)     |
| Total                           | (1,617)    | (587)      | (1,030)   |

The overall result of foreign exchange operations was in line with the financial year with a higher loss compared to the previous year.

## **D) ADJUSTMENTS TO FINANCIAL ASSETS**

As at 31 December 2022 no non-hedging derivative contracts were in place, which entailed the recognition of fair value in the caption of “Adjustments to financial assets” in the profit and loss statement.

### **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 2022 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 2022 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 |           |          |              |
|--|-----------|----------|--------------|
| €'000  |           |          |              |
| <b>IRES</b>  |           |          |              |
| Pre-tax profit   |           | (6,639)  |              |
| <b>Theoretical IRES</b>  |           |          | <b>0</b>     |
| Temporary difference deductible in subsequent years:                     |           |          |              |
| write-downs of inventory   |           | 5,943    |              |
| income support provision   |           |          |              |
| Temporary differences taxable in subsequent years                        |           | (162)    |              |
| Prior year temporary differences   |           | (42)     |              |
| Reversal of prior year temporary differences                             |           |          |              |
| utilisation of taxed provisions  |           |          |              |
| write-downs of inventory   | (8,105)   |          |              |
| other costs  | (1,017)   |          |              |
|  |           | (9,122)  |              |
| Permanent differences  |           |          |              |
| taxes relative to prior years, IMU (local property tax)                  |           |          |              |
| tax benefits and hyper depreciation                                      | (36,995)  |          |              |
| IRAP tax deduction   | (390)     |          |              |
| transport costs  | 236       |          |              |
| deduction on transfer to supplementary pension plans                     | (232)     |          |              |
| other non-deductible costs   | 2,147     |          |              |
|  |           | (35,234) |              |
| Profit taxable for IRES purpose  |           | (45,256) |              |
| deduction of ACE (aid for economic growth) 3%                            |           |          |              |
| <b>Current tax - IRES</b>  |           |          | <b>0</b>     |
| <b>IRAP</b>  |           |          |              |
| Operating profit   | 156,620   |          |              |
| Net variations not deductible for IRAP purpose                           | (126,612) |          |              |
| <b>PROFIT TAXABLE FOR IRAP PURPOSE</b>                                   |           | 30,009   |              |
| IRAP expense (3.90% for Veneto region)                                   |           | 950      |              |
| IRAP expense (4.97% for Molise region)                                   |           | 281      |              |
| Theoretical IRAP (3.90% and 4.97%)                                       |           |          | 1,231        |
| <b>Current tax - IRAP</b>  |           |          | <b>1,231</b> |
| <b>DEFERRED TAX ASSETS AND LIABILITIES</b>                               |           |          |              |
| <b>Deferred tax assets:</b>  |           |          |              |
| Deferred tax assets related to prior years                               |           | 8,264    |              |
| Change in the reserve for derivatives (not recognised in profit or loss) |           | (340)    |              |
| Variations   |           | 96       |              |
| Deferred tax assets at 31 December 2022                                  |           | 8,020    |              |
| <b>Change in deferred tax assets</b>                                     |           |          | <b>(244)</b> |
| <b>Deferred tax liabilities</b>  |           |          |              |
| Deferred tax liabilities related to previous years                       |           | 439      |              |
| Change in the reserve for derivatives (not recognised in profit or loss) |           | (233)    |              |
| Variations   |           | 450      |              |
| Deferred tax liabilities at 31 December 2022                             |           | 656      |              |
| <b>Change in deferred tax liabilities</b>                                |           |          | <b>217</b>   |
| <b>Total theoretical IRES and IRAP</b>                                   |           |          | <b>1,231</b> |
| <b>Total income taxes for 2022</b>                                       |           |          | <b>556</b>   |
| Taxes relative to prior years  |           |          | (18)         |
| Adjustments for domestic tax consolidation scheme 2021                   |           |          | 256          |
| Income from the domestic tax consolidation scheme                        |           |          | 10,861       |
| <b>Total income recognised in profit or loss</b>                         |           |          | <b>9,551</b> |

Finally, it is informed that a tax audit is being conducted by the Revenue Agency, Regional Large Taxpayers Directorate Office, on direct taxes related to the year 2019 (subsequently extended to 2016).

From the talks held with the inspectors, it emerges that the audit focused on the tax benefits obtained by the company in the period, arising from tax credits on research and development, Industry 4.0 concession and super depreciation and Patent Box.

On the basis of the information in their possession, the Directors have evaluated the possible objections that were raised and consider that the behavior they adopted was fully legitimate, including on the basis of the advice received from their tax advisors.

Therefore, they have not deemed it appropriate to set aside any provision for risks and charges for contingent tax liabilities that might be assessed, considering the related risk as not probable at the current stage of the dispute.

## Workforce

The information on workforce is reported below as per article 2427.1.15 of the Italian Civil Code:

| Position of employees | Average number |
|-----------------------|----------------|
| Managers              | 31             |
| Middle managers       | 207            |
| White collars         | 708            |
| Blue collars          | 966            |
| Total                 | 1,912          |

## 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: €851,500

Statutory auditors: €59,500

## 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: €55,000.

## 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.

| Delegated entity               | Type    | Risk  | Amount    | Start date | Repayment date         |
|--------------------------------|---------|---|-----------|------------|------------------------|
| Zurich                         | Deposit | Vicenza provincial authorities - Storage of waste   | 55,777    | 28.12.1999 | 30.04.2023             |
| Coface                         | Deposit | Vicenza custom authorities, electricity duty  | 7,320     | 16.09.2016 | 16.09.2023             |
| Coface                         | Deposit | Montecchio's integrated environmental authorisation to the Vicenza provincial authorities | 775,000   | 07.07.2015 | 31.12.2023             |
| Coface                         | Surety  | Lonigo waste-to-energy plant  | 841,740   | 15.12.2021 | 15.11.2027             |
| Cassa di risparmio Veneto      | Surety  | Vicenza provincial authorities - Storage of waste   | 12,240    | 2006       | without repayment date |
| Cassa di risparmio Veneto      | Surety  | Molise region   | 8,745     | 2006       | without repayment date |
| Liberty Mutul Insurance Europe | Surety  | New Viale Europa car park   | 68,200    | 03.03.2021 | 03.03.2023             |
| Coface                         | Surety  | Vicenza customs authorities or customs duty   | 6,494,960 | 09.03.2021 | 28.06.2023             |

## Post-balance sheet events

As described earlier, the ongoing pandemic, although showing an improvement, weakened the stability of the supply chain, with raw materials costs and utilities beginning to shoot up. 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. From the perspective of procurement processes, derisking activities should mitigate risks of possible shortages of raw materials. Nevertheless, the supply chain situation appears to be improving compared to the past two financial years. Also with regard to costs of natural gas and electricity, the present situation seems to be better than in the middle months of 2022; furthermore, the Company has implemented gradual fixing policies in purchase prices of utilities, taking advantage of the most favourable market moments, including in relation to the budgeted costs. Obviously, there is still the risk that the continuing conflict between Russia and Ukraine could result in potential supply shortages, which could result in risks of production disruption. Finally, worth mentioning is the execution of two new separate supply contracts, with two different suppliers, for the procurement of natural gas and electricity.

To ensure production continuity internally and for its customers even should geopolitical tensions continue, the Company decided, in 2023 too, 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.

It should be also recalled that the conflict between Russia and Ukraine could lead to restrictions with regard to distribution logistics, thus causing potential delays and/or increased costs in the Company's procurement processes. At present, the related effects are not significant and cannot be estimated.

Finally, with regard to the impact on business and its continuity, 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.

During 2022, the Company successfully finalised the completion of its management team, which saw the appointment of professionals with extensive experience in the industry. The year 2023 will be a year focused on certain key issues, which are the pillars of planned growth.

A dedicated focus on top line development, with underlying growth that is also financially sustainable, and balanced in terms of mix and diversification in customer, product, and therapeutic areas will certainly come from the new sales organisation, which now has two departments reporting to the CEO, one dedicated to custom products and the other to generics and veterinary products.

In support of the development of the top product line, there will be the project work in R&D, which saw a rather significant pipeline of projects as early as at the beginning of the year, as well as the start of some key projects for the development of new technologies and new competencies, such as flow chemistry.

2023 will also be a year dedicated to the development and refinement of strategically important processes and tools, especially in Supply Chain, Operations, and Quality, as well as to the completion of strategic projects started during the ending financial year.

All the projects and activities mentioned in the previous two paragraphs have as a common and indispensable element a continuous investment in the development of FIS people; for this purpose, in 2023 we will see the first results of fundamental activities developed in Human Resources, but pervasive throughout the Company, aimed at enhancing the value of human capital, one of the founding values of FIS.

FIS' attention to ESG issues remains strong, with dedicated activities and investments, not only as it pertains to KPIs related to the sustainability-linked bond. These include the investment project on "Zero Liquid Discharge," which is expected to be completed during 2023.

Finally, during 2023 too, the Company's efforts will be aimed, as anticipated, at ensuring sustainable growth also from the point of view of economic and financial results, with a particular focus on cash generation and working capital management, in order to guarantee the Company the results envisaged under the Strategic Plan. This also includes the work that commenced on 19 July 2021, with the submission of the application for the benefits of the NRRP (National Recovery and Resilience Plan), which will hopefully be implemented as from 2023.



***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

|   | 31.12.2021 | 31.12.2020 |
|---|------------|------------|
| B) Fixed assets                         | 263,293    | 265,586    |
| C) Current assets                       | 58,772     | 53,539     |
| D) Prepayments and accrued income       | 91         | 38         |
| Total assets                            | 322,156    | 319,163    |
| A) Net equity                           |            |            |
| Share capital                           | 5,063      | 5,063      |
| Reserves                                | 201,347    | 201,347    |
| Undistributed net gains/losses          | (2,597)    |            |
| Net profit (loss) for the year          | (4,593)    | (2,597)    |
| Total net equity                        | 199,220    | 203,813    |
| B) Provisions for risks and charges     | 942        | 846        |
| C) Employees' leaving entitlement       | 38         | 71         |
| D) Payables                             | 121,896    | 114,381    |
| E) Accrued expenses and deferred income | 60         | 52         |
| Total liabilities                       | 322,156    | 319,163    |

## Key figures from the parent's profit and loss statement

€'000

|                                    | 31,12,2021 | 31,12,2020 |
|------------------------------------|------------|------------|
| A) Production revenues             | 2,697      | 2,852      |
| B) Production cost                 | (4,485)    | (5,318)    |
| C) Net financial income (charges)  | (53)       | (820)      |
| D) Adjustments to financial assets | (3,090)    |            |
| Income taxes                       | 338        | 690        |
| Net profit (loss) for the year     | (4,593)    | (2,597)    |

### Allocation of net profit for the year

Pursuant to article 2427.1.22-septies of the Italian Civil Code, it is proposed that the net profit for the year of €2,911,493.65 is allocated as follows:

- €2,000,000 to be distributed as dividends to shareholder Nine Trees Group S.p.A.;
- the remaining amount to be taken to the undistributed net profits reserve.

It is also proposed to allocate the non-distributable reserve pursuant to Article 2426/8-bis of the Italian Civil Code, corresponding to the net positive balance of the valuation at current exchange rates of monetary assets and liabilities in foreign currencies of previous years, to retained earnings reserve in the amount of €297,977.35, as profit that has been now realised.

### 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 CO<sub>2</sub> 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 2022 were equal to no. 17,843, the market value of which was equal to €1,427 thousand at the reporting date.

**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<br>of parents | Subsidiaries | Total related<br>parties | Total carrying<br>amount | % impact |
|-------------------------------------|--------|----------------------------|--------------|--------------------------|--------------------------|----------|
| <b>Assets and liabilities</b>       |        |                            |              |                          |                          |          |
| Advances                            |        | 9,842                      |              | 9,842                    | 10,217                   | 96,3%    |
| Trade receivables                   |        | 2,143                      | 254          | 2,397                    | 122,880                  | 2,0%     |
| Trade payables                      |        | 2,042                      | 1,051        | 3,093                    | 206,100                  | 1,5%     |
| Other receivables                   | 32,302 |                            |              | 32,302                   | 67,825                   | 47,6%    |
| Other payables                      | 8,274  | 3,048                      |              | 11,321                   | 47,368                   | 23,9%    |
| <b>Revenues and costs</b>           |        |                            |              |                          |                          |          |
| Revenues                            |        | 191                        |              | 191                      | 672,481                  |          |
| Other revenues and income           | 264    | 101                        | 254          | 619                      | 33,491                   | 1,8%     |
| Purchases                           |        | 6,017                      |              | 6,017                    | 437,825                  | 1,4%     |
| Services                            | 2,476  | 10,939                     | 2,356        | 15,771                   | 155,271                  | 10,2%    |
| <b>Financial income and charges</b> |        |                            |              |                          |                          |          |
| Financial income                    |        |                            |              |                          |                          |          |
| Financial charges                   |        | 110                        |              | 110                      | 33,519                   | 0,3%     |

**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, 17 April 2023

Chairman of the Board of Directors  
Ferrari Giampaolo









***Independent auditor's report***

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010*

***F.I.S. Fabbrica Italiana Sintetici SpA***

***Financial statements as of 31 December 2022***



## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010*

To the sole shareholder of  
F.I.S. Fabbrica Italiana Sintetici SpA

---

### **Report on the Audit of the Financial Statements**

---

#### **Opinion**

We have audited the financial statements of F.I.S. Fabbrica Italiana Sintetici SpA (the Company), which comprise the balance sheet as of 31 December 2022, the profit and loss statement and the cash flow statement for the year then ended and related notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2022, and of the result of its operations and cash flows for the year then ended in compliance with the Italian laws governing the criteria for 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of matter**

Without modifying our opinion, we draw attention to paragraph "Basis of preparation" of the notes to the financial statements which describes the decision made by the Company's management to revise in the current year the valuation method for inventories by switching from the Weighted Average Cost to FIFO, the effects of which are provided accordingly.

---

#### **PricewaterhouseCoopers SpA**

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

[www.pwc.com/it](http://www.pwc.com/it)



### ***Other Matters***

#### Comparative Data

The Company's financial statements for the year ended 31 December 2021 were audited by another auditor which issued an unqualified report thereon on 29 March 2022. Paragraph "Basis of preparation" of the notes to the financial statements sets out the effects of the restatement of certain comparative data related to the previous year, compared to the previously presented figures, following the revision of the calculation method for the valuation of inventories which switched from the Weighted Average Cost to FIFO, and the restatement of certain values relating to precious metals in inventory, as well as the restatement of the provisions for write-downs of inventories, including in light of the new valuation method adopted.

#### Direction and Coordination

The Company, as required by law, has included in the notes to the financial statements the key figures of the latest financial statements of the entity which directs and coordinates its activities. Our opinion on the financial statements of F.I.S. Fabbrica Italiana Sintetici SpA does not extend to those figures.

### ***Responsibilities of the Directors and the Board of Statutory Auditors 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 laws governing the criteria for their preparation and, in the terms prescribed by 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, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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;
- We obtained 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;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated 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 communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.



---

## ***Report on Compliance with other Laws and Regulations***

---

### ***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10***

The directors of F.I.S. Fabbrica Italiana Sintetici SpA are responsible for preparing a report on operations of F.I.S. Fabbrica Italiana Sintetici SpA as of 31 December 2022, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of F.I.S. Fabbrica Italiana Sintetici SpA as of 31 December 2022 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of F.I.S. Fabbrica Italiana Sintetici SpA as of 31 December 2022 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Verona, 14 April 2023

PricewaterhouseCoopers SpA

*Signed by*

Massimo Dal Lago  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers.*









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

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

**Montecchio site & Headquarters**

Viale Milano, 26  
36075 Montecchio Maggiore (VI) — Italy  
Ph. +39 0444 708011  
Fax +39 0444 698094

**Termoli site**

Via Massimo D'Antona, 13  
86039 Termoli (CB) — Italy  
Ph. +39 0875 75351  
Fax +39 0875 751827

**Lonigo site**

Via Dovaro, snc  
36045 Lonigo (VI) — Italy  
Ph. +39 0444 433111  
Fax +39 0444 831192